

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 2004.

Principal activities

The principal activity of the Company is investment holding. Details of the principal activities of the subsidiaries are set out in note 15 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 2004 and the state of affairs of the Company and the Group at that date are set out in this annual report on pages 21 to 59.

An interim dividend of HK1 cent per ordinary share was paid on 5 November 2004. The directors 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, 23 May 2005 to Friday, 27 May 2005 (both dates inclusive), during which 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 ("AGM") of the Company to be held on Friday, 27 May 2005, 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, 20 May 2005.

Use of proceeds from the Company's initial public offering and placing of shares

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 and from the issue of 48,000,000 shares in 2003, after deduction of related issuance expenses, amounted to approximately HK\$36,000,000 and HK\$26,000,000 respectively. As at 31 December 2004, all these proceeds had been applied in accordance with the proposed applications set out in the Prospectus and the Company's announcement dated 28 May 2003.

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 60 of this annual report. This summary does not form part of the audited financial statements.

Report of the Directors

Fixed assets

Details of movements in the fixed assets of the Group during the year are set out in note 14 to the financial statements.

Share capital, share options and warrants

There were no movements in the Company's share capital, share options and warrants during the year, details of which are set out in note 25 to the financial statements.

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 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 26 to the financial statements and in the consolidated summary statement of changes in equity on page 23 of this annual report.

Distributable reserves

The Company's contributed surplus is distributable to shareholders in accordance with the Bermuda Companies Act 1981. At 31 December 2004, the Company's reserves available for cash distribution and/or distribution in specie amounted to approximately HK\$153,407,000 (inclusive of the Company's contributed surplus) as computed in accordance with accounting principles generally accepted in Hong Kong. In addition, the Company's share premium account in the amount of HK\$21,440,000 (2003: HK\$21,440,000) may be distributed in the form of fully paid bonus shares.

Charitable contributions

During the year, the Group made charitable contributions totalling HK\$44,297 (2003: HK\$17,000).

Report of the Directors

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 44%. Purchases from the Group's five largest suppliers accounted for 27% 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:

Mr. Cheung Po Lun ("Mr. Cheung")

Ms. Cheung Man, Catherine

Mr. Hui Kwok Chu

Mr. Kung Ka Pang

Independent non-executive directors:

Mr. Yeung Po Chin

Mr. Wong Yam Fung

Mr. Lam Yu Lung (appointed on 17 September 2004)

In accordance with clause 86(2) of the Company's bye-laws, Mr. Lam Yu Lung, who was appointed by the board of directors of the Company during the year, will retire at the Company's forthcoming AGM to be held on 27 May 2005. In addition, pursuant to clause 87(1) of the Company's bye-laws, Mr. Wong Yam Fung, the existing director of the Company, will retire as director of the Company by rotation at the forthcoming AGM. The above retiring directors, being eligible, will offer themselves for re-election at the forthcoming 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 8 to 9 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.

Report of the Directors

Directors' service contracts (continued)

On 21 February 2005, each of the executive directors has entered into a new service contract with the Company for an initial term of two years commencing from 5 February 2005, unless terminated by three months notice in writing served by either party on the other.

Apart from the foregoing, no director proposed for re-election at the forthcoming 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' remuneration

The directors' fees are subject to shareholders' approval at general meetings. Other emoluments are determined by the Company's board of directors with reference to directors' duties, responsibilities and performance and the results of the Group.

Directors' interests in contracts

Save for transactions disclosed in note 30 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 2004, 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 in the Rules Governing the Listing of Securities on the Stock Exchange (the "Model Code"), were as follows:

Long position 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%

Report of the Directors

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

Long position 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 by Great Victory International Inc. ("GVII"), a controlled corporation of Mr. Cheung pursuant to SFO.

Long/Short positions in shares of the 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%

Report of the Directors

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

(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		Percentage of the respective classes of issued share capital of Pearl Delta
				interested in Pearl Delta	Notes	
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%

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 two 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 complying with the then minimum company membership requirement.

Save as disclosed above, as at 31 December 2004, 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 or underlying shares or debentures of the Company or any associated corporations (within the meaning of Part XV of the SFO) or any 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.

Report of the Directors

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.

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 25 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 and other persons' interests and short positions in shares and underlying shares

At 31 December 2004, the following interests of 5% or more of the shares and underlying shares of the Company which 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%
The Prudential Assurance Company Limited (Hong Kong Branch)	Long	Beneficial owner	Ordinary shares	22,656,000		5.06%

Report of the Directors

Substantial shareholders' interests and other persons' interests and short positions in shares and underlying shares (continued)

Notes:

1. 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".
2. 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.
3. 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, as at 31 December 2004, 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.

Connected transactions

During the year the Group had the following connected transactions, certain details of which are disclosed in compliance with the requirements of Chapter 14A of the Rules Governing the Listing of Securities on the Stock Exchange (the "Listing Rules").

- (1) 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.
- (2) A tenancy agreement dated 10 July 2002 whereby Flat A on 7th Floor of Block 4, Beverly Villas, 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. The tenancy agreement expired and has been extended for two years from 1 July 2004.

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.

The independent non-executive directors of the Company have reviewed the connected transactions set out above and have confirmed that these connected transactions have been entered into (i) in the ordinary and usual course of business of the Group, (ii) on normal commercial terms or on terms no less favourable to the Group than terms available from independent third parties; and (iii) in accordance with the relevant agreements governing them on terms that are fair and reasonable and in the interests of the shareholders of the Company as a whole.

Report of the Directors

Disclosures pursuant to Rules 13.20, 13.21 and 13.22 of the Listing Rules

In accordance with the disclosure requirements of Rules 13.20 of the Listing Rules, the following disclosures are included in respect of advances to entities. As at 31 December 2004, the Group had provided advances to two of its trade debtors amounting, in aggregate, to HK\$54 million which individually exceeded 8% of the market capitalisation of the Company. The balances represented trade receivables from the sales of goods to these two customers at the balance sheet date, which are interest-free. The Group normally allows credit terms ranging from 14 to 60 days to these customers.

In accordance with the disclosure requirements of Rules 13.21 of the Listing Rules, the following disclosures are included in respect of one of the Company's loan agreements, which contains covenants requiring performance obligations of the controlling shareholder of the Company. Pursuant to a loan agreement dated 28 October 2004 between the Company and BNP Paribas Hong Kong Branch relating to a four-year loan facility of HK\$35 million and a one-year loan facility of HK\$20 million, a termination event will arise if Mr. Cheung, the Company's controlling shareholder, ceases to own beneficially, directly or indirectly, at least 51% of the shares in the Company's issued capital.

As at 31 December 2004, the issued share capital of the Company comprised 448,002,000 shares. Based on the average closing price of the Company's shares of HK\$0.3 per share by reference to the Stock Exchange's daily quotation sheets for the trading days from 23 December 2004 to 30 December 2004 (both dates inclusive), being the five business days immediately preceding 31 December 2004, the total market capitalisation of the Company was approximately HK\$135 million as at 31 December 2004.

Sufficiency of public float

Based on information that is publicly available to the Company and within the knowledge of the directors, at least 25% of the Company's total issued share capital was held by the public as at the date of this report.

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 in force prior to the accounting period commencing on 1 January 2005, throughout the accounting period covered by the annual report except that the non-executive directors of the Company were not appointed for specific terms as required by paragraph 7 of the Code, but were subject to retirement by rotation and re-election at the AGM of the Company in accordance with the Company's bye-laws.

Code of Conduct for Securities Transactions by Directors of the Company

The Company had adopted its code of conduct regarding directors' securities transactions on terms no less exacting than the required standard set out in the Model Code as then in force, and after having made specific enquiry to all directors of the Company, the directors of the Company are satisfied that the required standard set out in the Model Code and its code of conduct regarding directors' securities transactions has been fully complied with throughout the accounting period covered by the annual report.

Report of the Directors

Audit committee

The Company has an audit committee (the "Committee") which was established in compliance with Rule 3.21 of the Listing Rules for the purposes of reviewing and providing supervision over the Group's financial reporting process and internal control system. The Committee comprises the three independent non-executive directors of the Company as set out above. The Group's financial statements as at and for the year ended 31 December 2004 and the Company's balance sheet as at 31 December 2004 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.

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

14 April 2005