

## Report of the Directors

The directors of the Company have pleasure in presenting their annual report together with the audited financial statements of the Company for the year ended 31st December, 2005.

### PRINCIPAL ACTIVITIES

The Company is an investment holding company.

The principal activities of its subsidiaries are the manufacture and distribution of gifts, novelties items and infant and pre-school children toys. The analysis of the principal activities and geographical locations of the operations of the Company and its subsidiaries during the financial year are set out in note 19 to the financial statements.

### MAJOR CUSTOMERS AND SUPPLIERS

The five largest customers of the Group together accounted for approximately 87.3% of the Group's turnover, with the largest customer accounted for approximately 71.0%. The aggregate purchases attributable to the Group's five largest suppliers were less than 30% of total purchases of the Group.

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 these customers or suppliers.

### RESULTS AND APPROPRIATIONS

The results of the Group for the year ended 31st December, 2005 are set out in the consolidated income statement on page 33.

An interim dividend of HK8 cents per share and a special dividend of HK3 cents per share, amounting to approximately HK\$46,778,000 and HK\$17,542,000 respectively, were paid and declared to the shareholders during the year respectively.

The directors now recommend the payment of a final dividend of HK9 cents per share, amounting to approximately HK\$51,732,000, to the shareholders on the register of members on 25th April, 2006 and the retention of the remaining profit in the Company for the year, amounting to HK\$103,204,000.

### PROPERTY, PLANT AND EQUIPMENT

During the year, the Group spent approximately HK\$28,161,000 on plant and equipment and HK\$5,375,000 on properties to expand and upgrade its production capacity. Through acquisition of subsidiaries, the Group acquired property, plant and machinery at a cost of approximately HK\$48,234,000. Certain of the Group's property, plant and equipment were revalued at 31st December, 2005, the revaluation resulted in a surplus and a deficit amounting to approximately HK\$26,788,000 and HK\$804,000 respectively, which has been credited directly to the other asset revaluation reserve and debited directly to the income statement respectively.

Details of these and other movements during the year in the property, plant and equipment of the Group are set out in note 16 to the financial statements.

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### SHARE CAPITAL

Details of the share capital of the Company during the year are set out in note 25 to the financial statements.

### PURCHASE, SALE OR REDEMPTION OF SECURITIES

During the year, neither the Company nor any of its subsidiaries purchased, sold or redeemed any of the Company's shares.

### RESERVES

Movements in the reserves of the Group during the year are set out in the consolidated statement of changes in equity on page 35.

Reserves of the Company as at 31st December, 2005 available for distribution, calculated under the Companies Act 1981 of Bermuda (as amended), amounted to HK\$158,597,000 (2004: HK\$155,383,000).

The Company's reserves available for distribution to the shareholders as at the balance sheet date are set out as follows:

	2005 HK\$'000	2004 HK\$'000
Contributed surplus	3,661	3,661
Retained profits	154,936	151,722
	<b>158,597</b>	155,383

The contributed surplus of the Company represents the difference between the nominal amount of the share capital issued by the Company and the book value of the underlying consolidated net tangible assets of subsidiaries acquired as a result of a group reorganisation.

Under the Companies Act 1981 of Bermuda (as amended), the contributed surplus account of the Company is available for distribution. However, the Company cannot declare or pay a dividend, or make a distribution out of contributed surplus if:

- (a) it is, or would after the payment be, unable to pay its liabilities as they become due; or
- (b) the realisable value of its assets would thereby be less than the aggregate of its liabilities and its issued share capital and share premium accounts.

### 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.

## Report of the Directors

### MANAGEMENT CONTRACTS

During the year, no contracts concerning the management and administration of the whole or any substantial part of the business of the Company were entered or existed.

### FIVE-YEAR FINANCIAL SUMMARY

A summary of the results and of the assets and liabilities of the Group for the last five financial years is set out on page 74.

### DIRECTORS

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

#### Executive directors:

Cheng Yung Pun (Chairman)  
Yu Sui Chuen  
Cheng Wing See, Nathalie

#### Independent non-executive directors:

Loke Yu alias Loke Hoi Lam  
Mak Shiu Chung, Godfrey  
Wan Hing Pui

### DIRECTORS' SERVICE CONTRACTS

In accordance with the clause 99 of the Bye-laws of the Company, Mr. Cheng Yung Pun and Mr. 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 independent non-executive director is the period up to his retirement by rotation in accordance with the Company's Bye-laws.

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.

The Company has received from each of the independent non-executive directors, an annual confirmation of his independence pursuant to Rule 3.13 of the Rules Governing the Listing of Securities on The Stock Exchange of Hong Kong Limited (the "Stock Exchange") (the "Listing Rules"). The Company considers all of the independent non-executive directors are independent.

## Report of the Directors

### DIRECTORS'/CONTROLLING SHAREHOLDERS' INTERESTS IN CONTRACTS OF SIGNIFICANCE

Details of related party transactions during the year are set out in note 32 to the financial statements.

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 or a controlling shareholder of the Company had a material interest, whether directly or indirectly in any contract, subsisted at the end of the year or at any time during the year.

### DIRECTORS' INTERESTS IN COMPETING BUSINESS

None of the directors have any interests in competing business to the Group.

### DIRECTORS' AND CHIEF EXECUTIVES' INTERESTS AND SHORT POSITIONS IN SHARES, UNDERLYING SHARES AND DEBENTURES

As at 31st December, 2005, the interests and short positions of the directors and chief executives and their respective associates in the shares, underlying shares and debentures of the Company and its associated corporations (within the meaning of Part XV of the Securities and Futures Ordinance ("SFO")) as recorded in the register maintained by the Company pursuant to Section 352 of the SFO, or which were otherwise required to be notified to the Company and the Stock Exchange, pursuant to the Model Code for Securities Transactions by Directors of the Listing Companies were as follows:

#### Long Positions in Ordinary Shares of the Company

##### Ordinary Shares of HK\$0.10 each of the Company

Name of director	Nature of interests	Number of issued ordinary shares held	Percentage of the issued share capital of the Company
Cheng Yung Pun	Corporate interest (Note)	405,826,800	69.41%
Yu Sui Chuen	Personal interest	604,000	0.10%
Cheng Wing See, Nathalie	Personal interest	700,000	0.12%

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 Yung Pun.

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### Long Positions in Underlying Shares of the Company

#### Share Option

Name of director/ chief executive	Outstanding at beginning of year	Number of underlying shares attached to the share options			Exercise price HK\$	Exercise period
		Granted during year	Exercised during year	Outstanding at end of year		
Yu Sui Chuen	–	2,922,000 (Note 1)	–	2,922,000	2.34	27th January, 2006 to 26th January, 2009
Michael Adam Greenberg	–	5,846,000 (Note 2)	–	5,846,000	2.34	27th January, 2006 to 26th January, 2009
<b>Total</b>	–	<b>8,768,000</b>	–	<b>8,768,000</b>		

Notes:

- (1) Mr. Yu, a director of the Company, has beneficial interests in 2,922,000 underlying shares (representing 0.5% of issued share capital of the Company) in respect of share options granted to him on 27th October, 2005 pursuant to the Company's share option scheme.
- (2) Mr. Greenberg, a chief executive officer of the Company, has beneficial interests in 5,846,000 underlying shares (representing 1.0% of issued share capital of the Company) in respect of share options granted to him on 27th October, 2005 pursuant to the Company's share option scheme.

The closing price of the Company's shares immediately before 27th October, 2005, the date of grant of the 2005 options, was HK\$2.325.

Particulars of the Company's share option scheme are set out in note 33 to the financial statements.

Other than as disclosed above, none of the directors, chief executives nor their respective associates had any interests or short positions in any shares, underlying shares or debentures of the Company or any of its associated corporations as at 31st December, 2005.

### DIRECTORS' RIGHTS TO ACQUIRE SHARES AND DEBENTURES

Other than as disclosed in the section "Directors' and Chief Executives' Interests and Short Positions in Shares, Underlying Shares and Debentures", at no time during the year was the Company, its holding company, or any of its subsidiaries or fellow 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, and neither the directors nor the chief executive, nor any of 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.

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### SUBSTANTIAL SHAREHOLDERS

As at 31st December, 2005, the register of substantial shareholders maintained by the Company pursuant to Section 336 of the SFO shows that the following shareholders had notified the Company of relevant interests in the issued share capital of the Company were as follows:

#### Long Positions in Ordinary Shares of the Company

##### Ordinary Shares of HK\$0.10 each of the Company

Name of shareholder	Capacity	Number of issued ordinary shares held	Percentage of the issued share capital of the Company
Suncorp (Note 1)	Beneficial owner	405,826,800	69.41%
Veer Palthe Voûte NV	Beneficial owner	29,882,000	5.11%
Dresdner Bank Aktiengesellschaft (Note 2)	Interest held by controlled corporations	29,882,000	5.11%
Allianz Aktiengesellschaft (Note 3)	Interest held by controlled corporations	29,882,000	5.11%

Notes:

- (1) Suncorp is wholly owned by Mr. Cheng Yung Pun, director of the Company.
- (2) The Shares are held by Veer Palthe Voûte NV, which is through Dresdner Bank Luxembourg S.A., 100% held by Dresdner Bank Aktiengesellschaft.
- (3) The Shares are held by Veer Palthe Voûte NV, which is through Dresdner Bank Luxembourg S.A., 100% held by Dresdner Bank Aktiengesellschaft, which in turn is, through Allianz Finanzbeteiligungs GmbH, 81.10% held by Allianz Aktiengesellschaft.

Other than as disclosed above, the Company has not been notified of any other relevant interests or short positions in the issued share capital of the Company as at 31st December, 2005.

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### SHARE OPTION SCHEME

The share option scheme of the Company was adopted on 17th December, 2002 (the "Scheme") to comply with the new requirements of Chapter 17 of the Listing Rules effected on 1st September, 2001. The key terms of the Scheme are summarised herein below:

- (i) The purpose of the Scheme is to enable the Company to grant options to selected participants as incentives or rewards for their contribution to the Company and/or the subsidiaries (as defined in the Scheme);
- (ii) The participants of the Scheme include any full-time employee, executives or officers, directors of the Company or any of the subsidiaries and any suppliers, consultants, agents or advisers who have contributed to the Group;
- (iii) The total number of shares available for issue under the Scheme is 23,504,000 which represents 4.09% of the existing issued share capital of the Company (being adjusted for the effects on the Company's purchase of its own shares in January 2006) as at the date of this annual report;
- (iv) The total number of shares in respect of which options may be granted under the Scheme is not permitted to exceed 10% of the shares of the Company at the date of adoption of the Scheme, unless approval from the Company's shareholders has been obtained. The number of shares which may be issued upon exercise of all outstanding options granted and yet to be exercised under the Scheme and any other share option schemes of the Company must not exceed 30% of the shares in issue from time to time;
- (v) Unless approved by shareholders in general meeting, no participants shall be granted an option if the total number of shares issued and to be issued upon exercise of the options granted and to be granted to such participant in any 12-month period up to the date of the latest grant would exceed 1% of the issued share capital of the Company from time to time. Options granted to a substantial shareholders or an independent non-executive director in excess of 0.1% of the Company's share capital in issue for the time being and with a value in excess of HK\$5 million must be approved in advance by the Company's shareholders;
- (vi) An option may be exercised in accordance with the terms of the Scheme at any time during a period to be notified by the Board to each grantee. Unless otherwise determined by the Board at its sole discretion, there is no requirement of a minimum period for which an option must be held or a performance target which must be achieved before an option can be exercised;
- (vii) A non-refundable remittance of HK\$1 by way of consideration for the grant of an option is required to be paid by each grantee upon acceptance of the option;

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### SHARE OPTION SCHEME (Continued)

- (viii) The subscription price payable upon exercising any particular option granted under the Scheme is determined based on a formula:  $P = N \times E_p$ , where "P" is the subscription price; "N" is the number of shares to be subscribed; and "E<sub>p</sub>" is the exercise price of the highest of (a) the nominal value of a share in the Company on the date of grant; (b) the official closing price of shares of the Company as stated in the daily quotation sheets of the Stock Exchange on the date of grant; and (c) the average of the official closing price of shares of the Company as stated in the daily quotation sheets of the Stock Exchange for the five business days immediately preceding the date of grant and as adjusted pursuant to the clauses of the Scheme; and
- (ix) The life of the Scheme is until the tenth anniversary of the adoption date of the Scheme.

Particulars of the Company's share option scheme are set out in note 33 to the financial statements.

During the year ended 31st December, 2005, 8,768,000 underlying shares in respect of the share options granted to Mr. Yu Sui Chuen and Mr. Michael Adam Greenberg as disclosed in the Section "Directors' and Chief Executives' Interests and Short Positions in Shares, Underlying Shares and Debentures" are not exercised, cancelled or lapsed.

As at 31st December, 2005, the total number of shares available for issue under the Company's share option scheme was 23,504,000 shares which represented 4.02% of the issued share capital of the Company.

### EMOLUMENT POLICY

A Remuneration Committee is set up for reviewing the Group's emolument policy and structure for all remuneration of the directors and senior management of the Group, having regard to the Group's operating results, individual performance and comparable market statistics.

The Company has adopted a share option scheme as incentive to directors and eligible employees, details of the scheme is set out as "Share Option Scheme" above.

### COMPLIANCE OF THE CODE ON CORPORATE GOVERNANCE PRACTICES

As stated in the Company's interim report for the six months ended 30th June, 2005, the Board had adopted its own code on corporate governance in which incorporates all code provisions in the Code on Corporate Governance Practices as set out in Appendix 14 of the Listing Rules (the "Code"). The Board had also reviewed and proposed the amendments to the Company's Bye-laws. At the annual general meeting of the Company held on 20th April, 2005, a special resolution was passed to amend the Company's Bye-laws so that every director, including those appointed for a specific term should be subject to retirement by rotation at least once every three years in compliance with the code provision A.4.2. In compliance with the code provision A.2.1, a chief executive officer was appointed and this role is performed by a separate individual other than the chairman of the Company.



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### COMPLIANCE OF THE CODE ON CORPORATE GOVERNANCE PRACTICES (Continued)

None of the directors of the Company is aware of information that would reasonably indicate the Company is not or was not for any part of the year under review, in compliance with the Code except the deviation from the code provision A.4.1 that none of the existing non-executive directors of the Company is appointed for a specific term. However, as all the directors of the Company (executive and independent non-executive) are subject to retirement provision under the Company's Bye-laws, the Company considers that sufficient measures have been taken to ensure that the Company's corporate governance practices are no less exacting than those in the Code.

### SUFFICIENCY OF PUBLIC FLOAT

The Company has maintained a sufficient public float throughout the year ended 31st December, 2005.

### POST BALANCE SHEET EVENT

Details of a significant event occurring after the balance sheet date are set out in note 35 to the financial statements.

### OTHER REQUIRED DISCLOSURE PURSUANT TO RULE 13.18 OF THE LISTING RULES

One of the Group's banking facilities made with a bank on 21st December, 2005 in an aggregate amount of HK\$35,000,000 (the "facility") will expire on 30th November, 2006. Throughout the term of the facility, Mr. Cheng Yung Pun, the controlling shareholder of the Company, is required to retain his control over the Company not less than 51% of the Company's issued share capital.

### AUDITORS

The financial statements have been audited by Messrs. Deloitte Touche Tohmatsu who retire and, being eligible, offer themselves for re-appointment at the forthcoming annual general meeting.

By order of the Board  
**Cheng Yung Pun**  
*Chairman*

Hong Kong, 16th March, 2006