

## 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 2005.

### 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 2005 and the state of affairs of the Company and the Group at that date are set out in this annual report on pages 31 to 89.

The directors recommend the payment of a final dividend of HK0.5 cent per ordinary share in respect of the year to shareholders on the register of members on 15 June 2006. This recommendation has been incorporated in the financial statements as an allocation of retained profits within the equity section of the balance sheets.

### Closure of register of members

The register of members of the Company will be closed from Monday, 12 June 2006 to Thursday, 15 June 2006 (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 entitlement to the proposed final dividend and for attending the annual general meeting ("AGM") of the Company to be held on Thursday, 15 June 2006, 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 26/F, Tesbury Centre, 28 Queen's Road East, Hong Kong, for registration not later than 4:30 pm on Friday, 9 June 2006.

### Summary financial information

A summary of the published results and assets and liabilities of the Group for the last five financial years, as extracted from the audited financial statements and restated/reclassified as appropriate, is set out on page 90 of this annual report. This summary does not form part of the audited financial statements.

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### Property, plant and equipment

Details of movements in the property, plant and equipment 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 or warrants during the year 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 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

During the year, the Company repurchased certain of its shares on The Stock Exchange of Hong Kong Limited (the "Stock Exchange"). Further details of these transactions are set out in note 27 to the financial statements.

### 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 statement of changes in equity, respectively.

### Distributable reserves

Company's contributed surplus is distributable to shareholders in accordance with the Bermuda Companies Act 1981 of Bermuda. At 31 December 2005, the Company's reserves available for cash distribution and/or distribution in specie amounted to approximately HK\$153,455,000 (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\$20,912,000 may be distributed in the form of fully paid bonus shares.

### Charitable contributions

During the year, the Group made charitable contributions totaling HK\$134,000.

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### 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 54%. 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:

|                                  |                             |
|----------------------------------|-----------------------------|
| Ms. Cheung Yan, Priscilla        | (appointed on 28 June 2005) |
| Ms. Cheung Man, Catherine        |                             |
| Mr. Kung Ka Pang                 |                             |
| Mr. Hui Kwok Chu                 |                             |
| Mr. Cheung Wang                  | (appointed on 28 June 2005) |
| Mr. Cheung Po Lun ("Mr. Cheung") | (resigned on 28 June 2005)  |

#### Independent non-executive directors:

|                   |                             |
|-------------------|-----------------------------|
| Mr. Lam Yu Lung   |                             |
| Mr. Wong Yam Fung |                             |
| Mr. Lam Chin Fung | (appointed on 27 June 2005) |
| Mr. Yeung Po Chin | (resigned on 20 June 2005)  |

Subsequent to the balance sheet date, on 20 March 2006, Mr. Wong Yam Fung has resigned and Mr. Tse Wei Kin has been appointed as an independent non-executive director of the Company.

In accordance with clause 86(2) of the Company's bye-laws, Ms. Cheung Yan, Priscilla, Mr. Cheung Wang, Mr. Lam Chin Fung and Mr. Tse Wei Kin, the newly appointed directors of the Company, will retire at the Company's forthcoming AGM. In addition, pursuant to clause 87 of the Company's bye-laws and for the purpose of complying with the code provision A.4.2 of the Code on Corporate Governance Practices (the "CG Code") set out in Appendix 14 to the Rules Governing the Listing of Securities on the Stock Exchange (the "Listing Rules"), Ms. Cheung Man, Catherine and Mr. Hui Kwok Chu will also retire. All the above retiring directors, except Mr. Cheung Wang, being eligible, will offer themselves for re-election at the forthcoming AGM.

## Report of the Directors

### 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

On 21 February 2005, Ms. Cheung Man, Catherine, Mr. Kung Ka Pang and Mr. Hui Kwok Chu entered into new directors' service contracts with the Company which ratified that the term of their offices commenced on 5 February 2005 with an initial term of 2 years, unless terminated by either party giving not less than three months' prior notice in writing.

On 5 July 2005, Ms. Cheung Yan, Priscilla and Mr. Cheung Wang entered into directors' service contracts with the Company which ratified that the term of their offices commenced on 28 June 2005 with an initial term of 2 years, unless terminated by either party giving not less than three months' prior notice in writing.

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 Board of the Company with reference to directors' duties, responsibilities and performance and the results of the Group.

### 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.

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### Directors' interests and short positions in shares and underlying shares

At 31 December 2005, 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 Listing Rules (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 Wang  | Beneficial owner | 8,000                                | 0.002%   |

#### 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 Wang  | Beneficial owner | 2,800 (Note)                  | 0.0006%  |

Note: Each warrant entitles the holder thereof to exercise the subscription right represented thereby, to subscribe for one ordinary share of the Company at the subscription price of HK\$0.70 (subject to adjustment).

Save as disclosed above, as at 31 December 2005, 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 a 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.

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### 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 shareholder 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 27 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 2005, 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 |
|---|---------------------|-------------------------|--------------------|---------------------------------|-------|--|
| Mr. Cheung  | Long                | Interest in corporation | Ordinary shares    | 300,000,000                     | 1     | 67.35%   |
| Mr. Cheung  | Long                | Interest in corporation | Warrants           | 30,000,000                      | 1 & 4 | 6.73%  |
| Great Victory International Inc. ("GVII")                   | Long                | Beneficial owner        | Ordinary shares    | 300,000,000                     | 1     | 67.35%   |
| GVII  | Long                | Beneficial owner        | Warrants           | 30,000,000                      | 1 & 4 | 6.73%  |
| Ms. Fung Wai Chi, Philomena ("Ms. Fung")                    | Long                | Interest of spouse      | Ordinary shares    | 300,000,000                     | 2     | 67.35%   |
| Ms. Fung  | Long                | Interest of spouse      | Warrants           | 30,000,000                      | 2 & 4 | 6.73%  |
| Prudential Asset Management (Hong Kong) Limited ("PAML")    | Long                | Investment manager      | Ordinary shares    | 39,672,000                      | 3     | 8.90%  |
| Prudential Corporation Holdings Limited ("PCHL")            | Long                | Interest in corporation | Ordinary shares    | 39,672,000                      | 3     | 8.90%  |
| Prudential PLC ("PP")                                       | Long                | Interest in corporation | Ordinary shares    | 39,672,000                      | 3     | 8.90%  |
| The Prudential Assurance Company Limited (Hong Kong Branch) | Long                | Beneficial owner        | Ordinary shares    | 22,656,000                      |       | 5.08%  |

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

*Notes:*

1. 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 GVII, a controlled corporation of Mr. Cheung pursuant to the SFO.
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 ordinary shares of the Company in which PAML was interested.
4. Each warrant entitles the holder thereof to exercise the subscription right represented thereby, to subscribe for one ordinary share of the Company at the subscription price of HK\$0.70 (subject to adjustment).

Save as disclosed above, as at 31 December 2005, no person 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 and continuing connected transactions, certain details of which are disclosed in compliance with the requirements of Chapter 14A of the Listing Rules.

- (1) A tenancy agreement dated 16 December 2003 whereby Flat C on the 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 24 July 2004 whereby Flat A on the 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 2004 at a monthly rental of HK\$36,000, exclusive of rates and other charges. Upon the resignation of Mr. Cheung as chairman of the Group on 28 June 2005, the tenancy agreement was terminated.
- (3) In order to ensure a smooth handover of Mr. Cheung's responsibilities after his resignation on 28 June 2005, Mr. Cheung had been working as a consultant in July 2005 and consultancy fee of HK\$143,000 had been paid to him.
- (4) During the year, Mr. Cheung had advanced a loan to the Group amounting to HK\$3,500,000, which was unsecured and interest-bearing at 1% below the Hong Kong dollar prime rate per annum. Interest expenses of HK\$70,000 had been paid to Mr. Cheung and the loan was fully repaid during the year ended 31 December 2005.

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### Connected transactions (continued)

- (5) A tenancy agreement dated 30 July 2005 whereby a room on Flat B, 8/F, Wing Wong Commercial Building, Nos. 557-559 Nathan Road, Kowloon, Hong Kong with an aggregate gross floor area of approximately 193 square feet was leased to a related company, of which Mr. Cheung has beneficial interests, by Sewco Toys for a term of one year which commenced on 1 August 2005 at a monthly rental of HK\$4,000, exclusive of rates and other charges. The terms of the lease were determined between the parties involved with reference to the then prevailing market conditions.

The residential premises listed above continue to be used by the directors of the Company as their residential quarters, except for the premises used by Mr. Cheung. 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.

### Disclosures pursuant to Rules 13.20 of the Listing Rules

In accordance with the disclosure requirements of Rule 13.20 of the Listing Rules, the following disclosures are included in respect of advances to an entity. As at 31 December 2005, the Group provided advances to a trade debtor amounting to HK\$14 million which exceeded 8% of the market capitalisation of the Company. The balance represented trade receivables from sales of goods to this customer at the balance sheet date, which is interest-free. The Group normally allows credit terms of 30 days to this customer.

As at 31 December 2005, the issued share capital of the Company comprised 445,430,000 shares. Based on the average closing price of the Company's shares of HK\$0.30 per share by reference to the Stock Exchange's daily quotation sheets for the trading days from 22 December 2005 to 30 December 2005 (both dates inclusive), being the five business days immediately preceding 31 December 2005, the total market capitalisation of the Company was approximately HK\$134 million as at 31 December 2005.

Subsequent to the balance sheet date, on 1 March 2006, the Listing Rules were amended such that any trade receivable (other than as a result of the provision of financial assistance) arose in the ordinary and usual course of business of the listed issuer and on normal commercial terms, shall not be regarded as an advance to an entity. Under this new provision, the trade receivable as stated above does not arouse a general disclosure obligation of the Company.



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### 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.

### Post balance sheet event

Details of the significant post balance sheet event of the Group are set out in note 34 to the financial statements.

### 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 Yan, Priscilla**

*Chairman*

Hong Kong

13 April 2006