



CHAIRMAN'S STATEMENT

FINANCIAL REVIEW

The audited consolidated results of the Group for the year ended 31st December, 2002 have achieved strong growth in both sales volume and profitability. The Group turnover was HK\$395,644,000 (2001: HK\$195,039,000), representing an increase of 103%. Profit attributable to shareholders was HK\$101,939,000 (2001: HK\$35,675,000), representing an increase of 186%. The Group attributes its growth mainly through proactive marketing efforts, the continued success of its customers in the United States, and the contribution from the manufacturing subsidiary in the Socialist Republic of Vietnam ("Vietnam"), which the Group acquired in 2002.

BUSINESS REVIEW

During the year under review, the Group remained very focused on its core business, concentrating its effort on consolidating and maintaining its market position in its major markets mainly the United States. Against a background of dismal market sentiments especially after the traumatic events of September 2001 in the United States, the Group attained targeted turnover with steady growth for the year of 2002.

Material acquisition

On 5th November, 2001, the Group entered into an agreement with Mr. Cheng Yung Pun ("Mr. Cheng"), the chairman and the controlling shareholder of the Company, pursuant to which the Group acquired from Mr. Cheng the entire issued share capital of Keyhinge Holdings Limited, whose principal business is soft and hard toys manufacturing and whose major asset is a manufacturing plant located in Vietnam, for a consideration of HK\$26 million. The acquisition was approved by the independent shareholders of the Company on 18th January, 2002. As a result of this acquisition, the Group has expanded its production capacity, thus reducing the cost of production and enhancing profitability.

Development in the People's Republic of China ("PRC")

The PRC continues to show consistent outstanding GDP growth of around 7% amidst very sluggish economies in Europe and the United States. Building on its excellent business relationship and experience in the PRC, the Group continues to explore the market for proprietary-designed toy and gift products and to seek new business opportunities. However, we are aware of the fact that this market presents many pitfalls concerning copyrights. The launching of new products or the release of product information calls for careful planning and coordination.

Operation

The Group was able to achieve a satisfactory gross margin despite pressure brought to bear by rising oil prices leading to high cost for raw materials. This was possible through consistent cost efficiency measures in areas of procurement, inventory control, engineering and production.



CHAIRMAN'S STATEMENT

BUSINESS REVIEW *(Continued)*

Expansion of production capacity

Whilst the operating results in the first half of 2002 were encouraging, the Group continued to adhere to a prudent expansion program of its core business, by exercising stringent control to keep unwarranted expenses at bay. The Group's second plant in Vietnam is nearing completion. The new facilities will augment overall production and warehousing capacity by about 12%. Our customers have shown keen interest in our new facilities and we are confident that more business will be generated by those new facilities.

Chinese name and share option scheme

In December 2002, the shareholders of the Company passed the resolutions in respect of the adoption of the Chinese name “美力時集團有限公司” for registration in Hong Kong, the termination of the Existing Share Option Scheme and the adoption of the New Share Option Scheme.

LIQUIDITY AND FINANCIAL RESOURCES

The Group continued to pursue a policy of financial prudence resulting in a positive cash flow. At 31st December, 2002, the Group had total assets of HK\$265,992,000 (2001: HK\$177,861,000), total liabilities of HK\$100,220,000 (2001: HK\$107,148,000), and the shareholders' equity of HK\$165,772,000 (2001: HK\$70,713,000). The net assets of the Group continued to improve from HK\$70,713,000 as at 31st December, 2001 to HK\$165,772,000 as at 31st December, 2002.

As at 31st December, 2002, the Group maintained a solid financial position with cash and bank balance of HK\$50,327,000.

The majority of the Group's sales and purchases are denominated in United States dollar and Hong Kong dollar, while some are denominated in Renminbi and Vietnamese Dong. The Group does not foresee any substantial risk exposure to the United States dollar as long as the Hong Kong dollar is pegged to the United States dollar.

The gearing ratio (total debt/total shareholders' fund and convertible loan stock) as at 31st December, 2002 was 13.8% (2001: 38.3%).

In January and July 2002 respectively, the holder of the convertible loan stock of the Company exercised its right of conversion to convert HK\$7,700,000 and HK\$10,100,000 convertible loan stock into 178,000,000 ordinary shares in the Company, resulted in an increase in shareholders' equity of HK\$17,800,000 and a decrease in the Group's financial cost of approximately HK\$1 million in the year.

In November 2002, the Group was granted a banking facility of HK\$24,000,000 secured by corporate guarantees given by the Company and pledged by certain land and property from one of its subsidiaries. The facility was not utilized.



CHAIRMAN'S STATEMENT

PROSPECTS

The global economy continues to be overshadowed by the imminent military conflict in the Middle East, rising energy and material costs, over-capacity and subdued demand in many lines of businesses. However, the Group remains focused on its core business which has been built on a solid foundation. So far all indicators are positive as far as maintaining current order volumes is concerned but we will actively seek expansion through diversification and acquisition.

The Group has identified a niche market for a new product for which design the Group has taken to prototyping and patent-pending stage.

The Group has also diversified into a new business field – printing of promotional materials and inserts. This vertical integration of the manufacturing process is complementary to our toy making business and has been positively endorsed by our major customers.

After a series of research works, the Group has targeted certain businesses for acquisition, with a view to adding shareholders' value. The objectives of such acquisitions are also to augment our customer base and product type and to achieve economy of scale.

HUMAN RESOURCES

As at 31st December, 2002, the Group had approximately a total of 8,800 (2001: 4,800) employees in Hong Kong, PRC and Vietnam. The Group provides employees with competitive remuneration packages commensurate to the level of pay and market trend in comparable businesses. A mandatory provident fund scheme and share option scheme are in place.

ACKNOWLEDGEMENTS

On behalf of the Board, I would like to extend my deepest gratitude to my fellow directors and colleagues for their dedication towards the achievement of the Group throughout the year. I would also like to take this opportunity to express my appreciation to all our shareholders for their continuous support to the Group.

Cheng Yung Pun

Chairman

Hong Kong, 13th March, 2003