

Management Discussion and Analysis 管理層討論及分析

Dear Shareholders,

On behalf of the board, I am pleased to announce the Group's annual results for the year ended 31 December 2002.

Financial Review

During the year under review, the Group recorded turnover of HK\$910,370,000, up 20.4% from HK\$756,049,000 last year. Profit attributable to shareholders increased 15.2% from HK\$98,854,000 last year to HK\$113,891,000. These encouraging results were attributable to our disciplined cost control policies, the economies of scale generated by eight of our plants located in the PRC, as well as our vertical integration which have successfully enhanced our productivity.

Dividend

The Board of Directors has recommended a final dividend of HK 6.4 cents per share (2001: HK 4.8 cents per share) to be paid on or before 31 May 2003, subject to shareholders' approval at the forthcoming annual general meeting to be held on 22 May 2003. Together with interim dividend of HK 2.4 cents per share, the total dividend for the year will be HK 8.8 cents, achieving a dividend yield of approximately 6.6% on the average closing price in the year 2002 of HK\$1.34 per share.

致各位股東：

本人謹代表董事會，欣然宣佈本集團截至二零零二年十二月三十一日止財政年度之業績。

財務回顧

在回顧年度內，本集團錄得營業額910,370,000港元，較上年度756,049,000港元增加20.4%。股東應佔溢利亦較去年所錄得之98,854,000港元上升15.2%至113,891,000港元。這些令人鼓舞的成績可歸功於我們嚴謹的成本控制措施，我們位於國內八個生產廠房所產生的規模效應，以及我們之垂直綜合生產流程所致，驅使本集團之生產能力獲得顯著的提升。

股息

董事會建議派發末期股息每股港幣6.4仙（2001年：每股港幣4.8仙），待即將於二零零三年五月二十二日舉行之股東週年大會通過後，於二零零三年五月三十一日或之前派發。連同中期股息每股港幣2.4仙計算，全年派息總額達每股港幣8.8仙，股息收益率相當於二零零二年度平均收市價每股1.34港元的6.6%。



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Business Review

The market in 2002 remained challenging. Despite the poor market sentiment, we have been focusing on our core business - plush stuffed toys which managed to report growth in both absolute amounts and in proportion to the Group's total turnover.

The plush stuffed toys business, the Group's core business, accounted for 93% of the Group's total turnover, compared to 91% of the combined turnover for the previous year (Note). Our steel and plastic toys accounted for 7% of the Group's total turnover. Being the largest plush stuffed toys manufacturer in the world, we have received stable as well as increasing orders from many well-known brand name retailers during the year under review. Leveraging this leadership in the plush stuffed toy industry and the quality of our products, we remained the preferred partners for some of the world's leading brands, including Warner Bros., Bandai Co Ltd, Disney, SEGA Corporation, Banpresto Co., Ltd, and mass market retailers, such as Costco Wholesale Corporation and Walmart. During the year under review, we further secured new distributors, such as Target, for our ODM products. We believe our strategic alliances with these sizable customers and distributors will help the Group to maintain stable orders and profits as well as secure additional orders.

Most of the Group's end products were delivered to North America which accounted for 49% of the Group's total turnover. The Group has put extra efforts into exploring this market, subsequently gaining substantial market share. We are actively looking for reliable and sizable marketing companies who are able to boost sales for the Group. We believe that we are on the right track to establishing our foothold in the US and are looking to other sizable marketing companies to provide additional revenue streams and marketing arms for the Group.

Committed to expanding our ODM business, we have rapidly been developing this business, which accounted for 12.5% of the Group's total turnover as compared to only 5% in the previous year. The success of our own brand product, Caltoy, was apparent with the enthusiastic response received from the market. Persistent orders have been secured from large-scale distributors and chain stores, such as Walmart, Costco and Target in the US to carry these products. Leveraging the

業務回顧

二零零二年乃充滿挑戰的一年。儘管市場氣氛疲弱，但由於我們致力發展其毛絨玩具之核心業務，故本集團之實際銷售及其所佔總營業額之比例均見增長。

毛絨玩具乃本集團之主要業務，佔本集團總營業額93%，去年則佔合併營業額91%（附註），而金屬及塑膠玩具佔本集團總營業額7%。作為全球規模最大的毛絨玩具生產商，我們於回顧年度內接獲眾多著名品牌零售商穩定及不斷增加的訂單。憑藉本集團於毛絨玩具業之領導地位及優質的產品質素，故本集團繼續成為世界知名品牌如華納兄弟、Bandai Co. Ltd、迪士尼、世嘉和Banpresto Co., Ltd.，以及大眾市場零售商如Costco Wholesale Corporation及Walmart等之最佳合作夥伴。於回顧年度內，我們獲新分銷商如Target銷售我們的ODM產品。我們相信透過與這些實力雄厚的客戶及分銷商組成策略聯盟，將有助本集團繼續獲得持續的訂單，確保利潤及能爭取更多額外訂單。

本集團大部份的產品主要銷往北美洲市場，佔本集團總營業額49%。因此，本集團致力開拓北美洲市場，藉此擴大市場佔有率。此外，我們亦積極物色信譽超著及規模龐大的市場推廣公司，從而提升本集團之銷售額。我們相信開拓美國市場乃正確之發展方向，並會繼續尋求其他合適的市場推廣公司，為本集團開拓新收入來源及作為本集團市場推廣之途徑。

本集團一直致力發展我們的ODM業務，我們並迅速拓展此業務。此業務佔本集團總營業額的比重由去年5%攀升至今年12.5%。此可由我們自有品牌產品「Caltoy」於市場所獲得的熱烈反應可見一斑。本集團亦獲得美國大型分銷商及連鎖店如Walmart、Costco及Target之持續訂單。我

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quality as well as the appealing design of our products, we secured many new ODM clients, including Sears, TRU.com and Lilian Vernon. Research and development is a crucial factor for our continued success.

For the year ended 31 December 2002, production capacity at our eight plants, which are strategically located in Shenzhen, Shanghai and near Suzhou area, were being run at over 90% level. With the economies of scale generated, we benefited from strong bargaining power in the procurement of bulk raw materials and from the PRC's low production costs. During our peak season last year, we have subcontracted part of our production which successfully provided flexibility to the Group and improved the margin. However, meeting the stringent quality control of the Group and safety requirements of the industry are the prime concerns of our internal quality control team.

The new dyeing facility, which was established in the latter half of year 2001 and was fully operated in the year under review, has made a significant contribution to the efficiency of our vertical integration. This has not only enhanced the Group's production process but also guaranteed the quality of the products. This ongoing vertical integration continues to allow us to flexibly allocate and commit resources among our various production bases enabling the mass manufacturing of products, the meeting of tight delivery schedules and shortening of production lead times, while also maximizing economies of scale.

Prospects

Looking to the future, the Group is committed to further expanding the ODM business. In view of the rapid expansion of our Caltoy business, our target is to expand its contribution in the range from 30% to 35% of our total turnover within 3 to 4 years. We aim to achieve this end by focusing on our design & product development and sales & marketing capacities both internally and externally. We will be allocating additional designers on the development of ODM products from our existing force and expanding our global footprint through the further acquisition of marketing companies.

With regard to our OEM business, we are currently negotiating with a top entertainment character license company to market and sell plush stuffed toys under their character brands directly to retailers in

們憑藉產品質素優越，再加上精美設計，我們接獲眾多ODM業務新客戶之訂單，當中包括Sears、TRU.com及Lilian Vernon。研究及產品開發乃我們致勝之道。

截至二零零二年十二月三十一日止，我們八個策略性地分佈於深圳、上海及毗鄰蘇州地區之生產廠房產量逾九成。透過其所產生之經濟效益，我們得以透過大規模原料採購而享有強大的議價能力，以及享受國內低生產成本之優勢。我們於去年生產高峰期將部份生產外判，藉以提高本集團營運的靈活性及提升邊際利潤。然而，本集團內部品質控制隊伍仍以符合嚴謹的品質控制和行內安全標準為首要注意事項。

於二零零一年下半年度竣工及於回顧年度中作全面投產的新漂染設施，大大提升了我們垂直綜合生產程序之效能。這不單改善本集團之生產程序，同時亦能確保產品質素。此垂直綜合生產使我們能靈活地分配資源予各廠房，亦容許我們作大量投產，以應付緊湊的付運時間及縮短生產時間，從而提升經濟效益。

展望

展望未來，本集團致力進一步拓展ODM業務。有見我們Caltoy業務急速發展，我們期望在三至四年內把其對我們總營業額貢獻提升至30%至35%，希望透過致力發展內部之設計和產品開發以及對外之銷售和市場推廣能力以達至此目標。我們將會從現有的設計隊伍調派更多設計師至發展ODM業務產品，同時亦會透過進一步收購市場推廣公司以拓展全球市場之覆蓋。

在OEM業務方面，我們現正與一著名的角色造型特許商洽談有關市場推廣，及其角色品牌之產品直接銷售毛絨玩具予美國

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the US and it is in the final stage of the negotiation. We expected that this cooperation can further consolidate the Group's revenue sources while also providing a stepping stone for us to tap into the character license business.

To cater for increasing orders, we established an additional new production premises opposite to our existing facility in Fuyong, Shenzhen, the PRC. Covering total floor area of 20,000 square meters, this new four-storey plant's production capacity in Shenzhen is expected to be increased by 23% with total production growing to 43,400,000 pieces per year.

We are taking prudent approaches in evaluating the investment or acquisition of the spinning mill. We believe this will further enhance the vertical integration of our production process, benefiting us with further cost reductions.

Despite the uncertainty in the globe, we still expect a mild growth of the toy industry as plush stuffed toys have always been good company to children and adult. Benefiting from our solid foundations and aim to expand our marketing and design capabilities, we aim to expand our market share by enhancing our competitiveness within the industry. Our plans to acquire marketing companies to boost sales in the US

零售商之事宜，並已進入最後之磋商階段。我們預期此合作將能進一步鞏固本集團之收入來源，並為我們於角色造型業務拓展之重要基石。

為應付不斷增加的訂單，我們已增建另一位於現時中國深圳福永廠房對面的生產基地。此建築面積達20,000平方米，樓高四層之新生產基地將能提升本集團總生產量達23%，每年生產總量將因此而增加至43,400,000件。

我們現正採取審慎態度，以對投資或收購紡織廠作評估，我們相信此能進一步優化我們垂直綜合生產程序，亦更能享受成本效益。

縱然環球經濟不景，我們仍預期玩具業能有溫和的增長，此乃由於毛絨玩具一直為兒童和成人之良伴。憑藉我們穩健的基礎及拓展市場推廣和設計之能力，我們希望透過提升競爭力以擴展本集團的市場佔有率。我們將會繼續透過收購市場推廣公司

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and Europe still continue. We expected we can benefit from the contribution of these plans ahead, penetrating global markets to further strengthen our leading position in the plush stuffed toy empire around the world.

Liquidity and Financial Resources

Our liquidity and financial resources position continued to be strong. The Group's cash and bank deposits as at 31 December 2002 amounted to HK\$320.1 million (2001: HK\$126.1 million). Included in the Group's cash and bank deposits held in foreign currencies other than the United States dollars are EUR1,242,000, JPY354,968,000 and RMB3,271,000. During the year, we obtained additional import and export banking facilities of HK\$48.8 million and a long-term Japanese yen loan of HK\$33.1 million which matures in September 2004. These facilities are secured by bank deposits of HK\$82.0 million. As at 31 December 2002, the Group's unsecured bank loans repayable within one year and overdrafts amounted to an aggregate amount of HK\$8.0 million (2001: Nil). As at 31 December 2002, the Group's gearing ratio was 7.9% (2001: Nil), calculated on the basis of the Group's borrowings over shareholders' funds.

以刺激歐美之銷售。預期這些未來計劃將有助我們進軍全球市場，以進一步鞏固我們於世界毛絨玩具王國之翹楚地位。

流動資金及財務資源

我們之流動資金及財務資源狀況仍然強勁。本集團於二零零二年十二月三十一日之現金及銀行存款為320,100,000港元(二零零一年: 126,100,000港元)。本集團以外幣持有之現金及銀行存款(不包括美元)包括1,242,000歐羅、354,968,000日圓及3,271,000元人民幣。本年內，我們獲得額外進出口銀行信貸48,800,000港元，另有將於二零零四年九月到期之長期日圓貸款33,100,000港元，而上述信貸及貸款以82,000,000港元銀行存款作抵押。於二零零二年十二月三十一日，本集團之無抵押即期銀行貸款及透支為8,000,000港元(二零零一年: 無)，須於一年內償還。於二零零二年十二月三十一日，本集團之負債資本比率(按本集團之借貸除以股東資金計算)為7.9%(二零零一年: 無)。



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Use of Proceeds from Capital Raising

The Group raised approximately HK\$175 million, net of related expenses, from the new issue and placing of 162,500,000 new shares of the Company at HK\$1.2 per share in February 2002. The Company's shares were successfully listed on The Stock Exchange of Hong Kong Limited ("SEHK") on 7 February 2002. The directors have applied the net proceeds as to approximately HK\$4.68 million for expansion of marketing in the US market by acquiring 36% equity interest in an associate which is engaged in the marketing of the plush stuffed toys in the US market; and approximately HK\$11.20 million as general working capital of the Group. The remaining net proceeds from the new issue and the placing are currently placed on principal guaranteed high yield deposits with financial institutions and/or licensed banks in Hong Kong.

The Company is actively seeking investing opportunities in the area of spinning of yarns; expansion of marketing in US, Japan and Europe markets; acquisition of character licence business and developing research and development capabilities.

Financial Risk Management

The Group has made use of certain financial derivative products, such as dual currency option deposits, and borrowed a long term Japanese Yen loan to hedge against its foreign currency accounts receivable and enhance the yield on its surplus cash.

The use of financial derivative products is strictly monitored to limit the exposure to fluctuations in the relevant foreign currencies. The Group will continue its prudent financial policy by maintaining a low gearing ratio and excluding equity related investments from the portfolio of financial products. Sufficient cash will be maintained at all times to cover all expected cash requirements. In addition, most of the high yield deposits have short maturity periods. This provides the Group with the flexibility to embark on its acquisition and/or capital expenditure plans once the opportunities arise. The Group is constantly reviewing its exposure to foreign currencies in respect of the financial products of the Group as well as its trade receivables and will endeavor to maintain the risk at an acceptable level.

籌集資金所得款項之用途

本集團於二零零二年二月按每股1.2港元之價格發行及配售162,500,000股新股份，扣除有關開支後，本集團共籌得約175,000,000港元。本公司之股份已於二零零二年二月七日成功在香港聯合交易所（「聯交所」）上市。董事已動用所得款項淨額中約4,680,000港元，透過收購一間於美國市場從事毛絨玩具市場推廣業務之聯營公司的36%股本權益，從而拓展於美國市場之市場推廣能力。另外約11,200,000港元則作為本集團一般營運資金。新股發行及配售所得款項淨額之餘額現按保本高息存款之方式，存於香港財務機構及／或持牌銀行。

事實上，本公司現正物色紡紗方面之投資機會；拓展美國、日本及歐洲市場之推廣能力；收購角色特許使用權業務，以及發展研究及開發能力。

財務風險管理

本集團已運用若干金融衍生產品（如雙重貨幣期貨合約）及借入長期日圓貸款，就外幣應收賬款進行對沖，並藉此提高所持現金盈餘之回報率。

本集團嚴格監察金融衍生工具之運用，以減低因相關外幣匯率出現波動而承受之風險。本集團將繼續採取保守之財務政策，維持較低的負債比率，以及避免投資於涉及股本的金融產品。本集團時刻保持充裕現金，以應付一切預計現金之需求。此外，大部份高息存款之到期日均較短，令本集團得以靈活地掌握機會，展開收購及／或涉及資本開支的計劃。本集團經常檢討金融產品及貿易應收賬款所涉及之外匯風險及致力將該等風險維持於可接受水平。

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Reward for Employees

As at 31 December 2002, we employed approximately 11,000 employees in Hong Kong, mainland China and USA. We treasure people as valuable human resources and recognize the importance of attracting and retaining quality staff for our continuous success. For the first time, we recruited graduates from well-known universities in the PRC during the year. These new recruits have since utilized their capabilities in their respective areas. The success has motivated the Group to embrace the concept of recruiting additional skilled staff with comparatively lower costs from within the PRC in the future. This will further reduce manufacturing costs while increasing our competitiveness into the future. The strong morale among the staff led to high efficiencies, which further reinforced the confidence of the Board's decision to have adopted this strategic direction. Staff bonus and share options are awarded basing on individual performance and job nature.

僱員報酬

於二零零二年十二月三十一日，我們於香港、中國內地及美國僱用約11,000名僱員。我們認為人才乃寶貴資源，並且了解到吸納與挽留優秀人員為維持成功之關鍵。我們於本年度首次招聘中國著名大學畢業生，彼等在各自之崗位發揮所長。上述政策相當成功，加強本集團之信心，日後會在中國以較低之成本招聘更多熟練人員，將會進一步節省生產成本，同時提高我們競爭力以邁向未來。僱員士氣高昂，有助提高效率，更加強董事會相信採取上述策略方向正確。僱員會基於個別工作表現及工作性質可獲花紅及購股權。



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Appreciation

Finally, I would like to take this opportunity to express my appreciation to the management and the staff of the Group for their wholehearted commitment and dedicated performances which have been so central to the successful development of the Group. I also wish to extend my sincere thanks to our business associates, customers, suppliers and shareholders for their continuous cooperation and support.

Chul Hong **Min**
Director

Hong Kong, 8 April 2003

Note: Pursuant to the group reorganization completed in December 2001, the Company acquired J.Y. Toys Co., Limited which is engaged in the trading and manufacture of steel and plastic toys. For analysis purpose, the Group turnover for the year ended 31 December 2001 includes that of J.Y. Toys Co., Limited although it did not become a subsidiary of the Company until 31 December 2001.

致意

最後，本人謹藉此機會對各管理層及本集團全體員工全心全意的承諾及忠誠服務深表謝意，這乃本集團發展成功的主要關鍵。此外，亦謹此感謝我們之業務夥伴、客戶、供應商及股東們一直以來的合作和支持。

閔詰泓
董事

香港，二零零三年四月八日

附註：根據於二零零一年十二月完成之業務重組，本公司收購從事金屬及塑膠玩具貿易及製造之香港正潤玩具有限公司。儘管該公司於二零零一年十二月三十一日方成為本公司之附屬公司，為便於分析，本集團截至二零零一年十二月三十一日止年度之總營業額亦已包括香港正潤玩具有限公司之營業額。