

# CHAIRMAN'S STATEMENT

On behalf of the board of directors (the "Board") of Rockapetta Holdings Limited (the "Company"), I would like to present the annual report of the Company for the year ended 31st December 2000.

The Group achieved a turnover of HK\$134 million and a loss of HK\$45 million during the financial year 2000.

The unsatisfactory results of year 2000 were mainly caused by significant provisions made to properties and stocks, increase in plastic and paper material prices and drop in demand for the Group's old OEM (Original Equipment Manufacturing) toy items, while a majority of new OEM toy items developed in 2000 were scheduled for sale only in 2001.

The Group's management has been identified areas that needed to be improved and has already implemented certain measures since second half of 2000. Following are measures/targets that the Group shall focus on the current and coming years.

## **TOY BUSINESS DEVELOPMENT**

- Broaden OEM Customer Base

In the past, the Group's toy businesses were largely from two major OEM customers. Since second half of 2000, the Group has been strengthening the project sales team to secure more OEM customers. In 2001, the Group has already secured two new OEM customers and five more are in negotiations.

The Group is targeting to diversify the customer base so as to avoid over reliance on the demand of any single OEM customer's toy items.

- Product Development

Although the Group's toy products are not fashionable items, they still have limited life cycle normally ranging from 2 to 5 years. In view of the reduction in demand of the Group's old OEM toy items, since second half of 2000, the Group has been strengthening its product development team and engineering team to work closer with OEM customers in order to cope with the increasing demand for new product development from existing and new OEM customers. New products developed in second half of 2000 are scheduled to be launched in 2001.

Based on latest development the Group will have not less than 15 new light and sound OEM items, five new series of motorized ride-on and scooter OEM items and five new musical movement OEM toy items to be launched into the market in 2001. The type and number of new items to be launched in 2001 is considered to be significant compared to that of the recent years.

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- Musical Movement Manufacturing

The Group has accumulated 10 year experiences in the manufacturing of musical movements using a state-of-the-art Japanese technology. In the past, musical movements manufactured by the Group were primarily used as components for the Group's musical toy items.

There is less competition in the area of musical movement manufacturing since it requires years of experience in order for the manufacturer to be able to fully master the production technology. It is the Group's intention to fully capitalize on the strength in this area by enhancing the production capacities and strengthening the marketing of musical movement components to other manufacturers in coming years.

- The PRC Toy Market

While turnover for the PRC market remains small compared to that of the OEM market, it is a market with a great deal of potential particularly after China's joining the W.T.O. The Group's management is paying much attention to the opportunities that may arise in this market and is now taking cautious but firm and progressive actions to strengthen the PRC sales through the existing over 100 distribution channels in major cities of China.

### **OPERATIONAL EFFICIENCY**

While the Group's toy business has an edge on the hardware and software available to it (such as its sizable fully vertical-integrated toy manufacturing facilities and an experienced management team), the Group's management is fully aware of the competition facing a toy manufacturer. Competitive pricing is always a key, although not the dominated factor, in securing orders from customers.

It is the Group's target, and as a matter of a continuous effort, to further streamline the toy operations in order to achieve a more cost effective operation.

Simply cutting overhead will not be the only solution. In 2001, the Group began to use a new material resources planning computer software system to manage the order processing, purchasing, material control, resources utilization and production control functions. This fully integrated system shall provide management with information and analysis on a timely basis to facilitate the management's control over the entire production operations.

It is the target of the Group that through the introduction of an effective control system, it will bring down the Group's cost and inventory levels.

## **OTHER OPPORTUNITIES**

While the Group does not have a firm plan and target, the Group's management shall continue to review opportunities available to it for diversification. To capitalize on my experience in investment banking, a corporate finance team led by myself has been set up to deal with such opportunities that would bring value to the Group if so arise.

It is the mission of the Board to create long term value for the Group and its shareholders. With the above measures, we hope that the Group will have an overall improvement in the operations in coming years although some benefits might not necessarily be fully reflected in current year of 2001 as some of the measures might take longer time to be implemented.

Lastly, I would like to take this opportunity to express my sincere thanks to the members of the board for their leadership, to all the staff members for their commitment and the continuous support of the shareholders towards the Company.

**Chan Sheung Wai**

*Chairman*

Hong Kong, 23rd April 2001