

## REPORT OF THE DIRECTORS

The directors present their annual report and the audited financial statements for the year ended 31 December 2001.

### PRINCIPAL ACTIVITIES

The Company acts as an investment holding company. The Group is principally engaged in the design, manufacture, sale and distribution of baby products, mainly musical toys and components, plastic and electronic toys, ride-on cars and motorised toy vehicles.

An analysis of the Group's turnover by geographical markets are set out in note 3 to the financial statements.

### MAJOR CUSTOMERS AND SUPPLIERS

For the year ended 31 December 2001, the five largest customers of the Group accounted for approximately 95.7% by value of the group's turnover and the five largest suppliers accounted for approximately 24.9% by value of the group's total purchases. The largest customer of the group accounted for approximately 60.0% by value of the Group's turnover and the largest supplier accounted for approximately 13.8% by value of the Group's total purchases.

Save as disclosed in the section headed connected transactions below, none of the directors, their associates or any shareholders which, to the knowledge of the directors owned more than 5% of the company's share capital, had any interest in the five largest customers or suppliers.

### RESULTS

The results of the Group for the year ended 31 December 2001 are set out in the consolidated income statement on page 21. No dividends were paid during the year.

### RESERVES

Movements in the reserves of the Group and the Company during the year are set out in note 28 to the financial statements.

### FINANCIAL SUMMARY

A summary of the results and of the assets and liabilities of the Group for the past five financial periods is set out on page 54.

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### PROPERTY, PLANT AND EQUIPMENT

During the year, the Group incurred HK\$1,855,000 in the expansion cost of its factory in the People's Republic of China and acquired moulds and plant and machinery amounting to HK\$3,321,000 and HK\$285,000, respectively, to upgrade its production facilities.

Details of movements in the property, plant and equipment of the Group and the Company during the year are set out in note 14 to the financial statements.

### SUBSIDIARIES AND ASSOCIATES

Details of the Company's subsidiaries and the Group's associates at 31 December 2001 are set out in notes 15 and 16 to the financial statements, respectively.

### SHARE CAPITAL AND SHARE OPTIONS

Details of the share capital and share options of the Company are set out in notes 26 and 27 to the financial statements, respectively.

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

### CONVERTIBLE NOTES

Details of the Company's convertible notes are set out in note 24 to the financial statements.

### BORROWINGS

Details of the bank borrowings, loans from a director, other loans and obligations under finance leases and hire purchase contracts of the group are set out in note 19 and 20 to the financial statements, respectively.

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### DIRECTORS

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

#### **Executive directors:**

Chan Sheung Wai	
Yiu Kui Leung	(resigned on 28/12/2001)
Ma Tak Lun	(appointed on 23/4/2001; resigned on 21/5/2001 and reappointed on 16/7/2001)
Kwok Chin Wing	(resigned on 11/4/2001)
Foo Yong Yow	(appointed on 17/1/2002)
Chan Lay Hoon	(appointed on 28/1/2002)

#### **Independent non-executive directors:**

Heng Kwo Seng	(resigned on 5/3/2002)
Au-Yong Shong, Samuel	(resigned on 5/3/2002)
Ho Tat Kin	(appointed on 5/3/2002)
Lam Lee G.	(appointed on 5/3/2002)

In accordance with clause 99 and clause 119 of the Company's Bye-Laws, Messrs. Ma Tak Lun, Foo Yong Yow, Chan Lay Hoon, Ho Tat Kin and Lam Lee G. retire by rotation and, being eligible, offer themselves for re-election. All other remaining directors continue in office.

The terms of office of independent non-executive directors are subject to retirement by rotation in accordance with the company's Bye-Laws.

None of the directors proposed for re-election at the forthcoming annual general meeting has a service contract which is not determinable by the Group within one year without payment of compensation (other than statutory compensation).

## REPORT OF THE DIRECTORS

### DIRECTORS' INTERESTS IN SECURITIES

#### (i) Shares

At 31 December 2001, the interests of the directors and their associates in the share capital of the Company as recorded in the register maintained by the Company pursuant to Section 29 of the Securities (Disclosure of Interests) Ordinance ("SDI Ordinance") were as follows:

Name of directors	Number of ordinary shares held	
	Personal interests	Other interests
Chan Sheung Wai ( <i>Note</i> )	—	60,000,000
Ma Tak Lun	600,000	—

*Note:* The shares of the Company are held by MCC814 (Holdings) Limited, a company which is beneficially owned by Mr. Chan Sheung Wai.

#### (ii) Options

The directors had personal interest in share options to subscribe for shares in the Company granted under the Company's share option scheme as follows:

Name of directors	Date of grant	Exercise price HK\$	Number of share options				
			Outstanding as at 1/1/2001	Lapsed/ cancelled during the year	Granted during the year	Exercised during the year	Outstanding as at 31/12/2001
Yiu Kui Leung (resigned on 28/12/2001)	14/3/1995	0.62	1,400,000	1,400,000	—	—	—
	5/9/1995	0.61	600,000	600,000	—	—	—
	26/1/2000	0.17	2,000,000	2,000,000	—	—	—
	26/1/2000 ( <i>note</i> )	0.17	1,500,000	1,500,000	—	—	—
	17/8/2001 ( <i>note</i> )	0.17	—	—	600,000	600,000	—
Ma Tak Lun	17/8/2001	0.17	—	—	600,000	600,000	—

*Note:* These options were granted to the spouse of Mr. Yiu Kui Leung.

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### DIRECTORS' INTERESTS IN SECURITIES *(Continued)*

#### **(ii) Options** *(Continued)*

Details of the Company's share option scheme are set out in note 27 to the financial statements.

Other than the foregoing and certain nominee shares in subsidiaries held by directors in trust for the company, at 31 December 2001, none of the directors, or their associates, had any interests in any securities of the company or any of its associated corporations as defined in the SDI Ordinance, and none of the directors, or 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 during the year.

### DIRECTORS' RIGHTS TO ACQUIRE SHARES OR DEBENTURES

Save as disclosed above, at no time during the year was the Company or its 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.

### DIRECTORS' INTERESTS IN CONTRACTS OF SIGNIFICANCE AND CONNECTED TRANSACTIONS

Total loans from Mr. Kwok Chin Wing, who retired as director on 11 April 2001, outstanding as at 31 December 2001 amounted to HK\$44,500,000. The loans bear interest at prime rate. Interest payable by the group on the loans for the period of which Mr. Kwok Chin Wing was a director amounted to HK\$1,033,253.

Other than disclosed above, no contract of significance to which the Company or any of its subsidiaries was a party and in which a director of the Company had a material interest, whether directly or indirectly, subsisted at the end of the year or at any time during the year.

### SUBSTANTIAL SHAREHOLDERS

As at 31 December 2001, the Company has not been notified under Section 16(1) of the SDI Ordinance of any other interests representing 10% or more of the Company's issued share capital as at 31 December 2001.

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### AUDIT COMMITTEE

The written terms of reference which describe the authority and duties of the Audit Committee were prepared and adopted with reference to "A Guide for The Formation of An Audit Committee" published by the Hong Kong Society of Accountants.

The Audit Committee provides an important link between the Board and the Company's auditors in matters coming within the scope of the Group audit. It also reviews the effectiveness both of the external and internal audit and of internal controls and risk evaluation. The Committee comprises two independent non-executive directors, namely Dr. Ho Tat Kin and Mr. Lam Lee G.

### 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.

### COMPLIANCE WITH CODE OF BEST PRACTICE

The company has complied throughout the year ended 31 December 2001 with the Code of Best Practice as set out in Appendix 14 of the Listing Rules.

### AUDITORS

During the year, Charles Chan, Ip & Fung CPA Ltd. were appointed as the Company's auditors in place of the retiring auditors, Messrs Deloitte Touche Tomatsu. Apart from the aforementioned, there have been no other changes of the Company's auditors in the past three years.

A resolution will be submitted to the annual general meeting to re-appoint Charles Chan, Ip & Fung CPA Ltd., Certified Public Accountants as auditors of the Company.

On behalf of the board

*Chairman*

**Chan Sheung Wai**

Hong Kong, 22nd April, 2002