

# REPORT OF THE DIRECTORS

The directors have pleasure in submitting their annual report together with the audited financial statements for the year ended 31st December 2002.

## PRINCIPAL ACTIVITIES

The principal activity of the Company is investment holding. The principal activities of the Company's principal subsidiaries are shown in note 15 to the financial statements.

The Group's turnover and operating profit were derived principally from the design, manufacture and sales of toys. An analysis of the Group's turnover by products and geographical location is set out in note 4 to the financial statements.

## RESULTS AND APPROPRIATIONS

The results of the Group for the year ended 31st December 2002 and the state of the Company's and the Group's affairs as at that date are set out in the financial statements on pages 17 to 47.

During the year, the Company paid an interim dividend of Hong Kong 5 cents per share, totalled approximately HK\$18,416,000, to shareholders. The directors recommend the payment of a final dividend of Hong Kong 10 cents per share and a special cash dividend of Hong Kong 5 cents per share in respect of the year ended 31st December 2002.

## SHARE CAPITAL

During the year, the Company issued 7,040,000 shares at a price of HK\$1.3636 per share, giving a total cash consideration of approximately HK\$9,600,000 pursuant to the exercise of share options previously granted to a director of the Company.

Details of movements in the Company's share capital during the year are set out in note 21 to the financial statements.

## PURCHASE, SALE OR REDEMPTION OF LISTED SECURITIES

During the year, the Company repurchased 476,000 of its own shares on The Stock Exchange of Hong Kong Limited (the "Stock Exchange"). Details of the repurchases are set out in note 21 to the financial statements.

Except as aforementioned, neither the Company nor any of its subsidiaries has purchased, sold or redeemed any of the Company's securities during the year.

## SHARE OPTION SCHEME

The Company's Share Option Scheme (the "Scheme") was adopted pursuant to a resolution passed on 21st December 1995 for the primary purpose of providing incentives to directors and eligible employees, and will expire on 20th December 2005. Under the Scheme, the board of directors of the Company may offer to any directors (excluding non-executive directors) or full time employees of the Company, or any of its subsidiaries, options to subscribe for shares in the Company at a price equal to the higher of the nominal value of the shares and 80% of the average of the closing prices of the shares on the Stock Exchange on the five trading days immediately preceding the date of the grant of the options, subject to a maximum of 10% of the issued share capital of the Company from time to time. The number of shares in respect of which options may be granted to any individual in any one year is not permitted to exceed 2.5% of the shares of the Company in issue at any point in time. No consideration is payable on the grant of any option.

Options granted must be taken up within 21 days from the date of the offer at no consideration on acceptance. An option may be exercised as specified by the directors, which shall not be more than a certain period from the date of grant.

## REPORT OF THE DIRECTORS (Cont'd)

On 11th August 1997, options for 6,400,000 shares were granted at no consideration to Mr. Yip Yun Kuen, a director of the Company, under the Scheme which were exercisable during the period from 11th August 1997 to 10th August 2007 at the price of HK\$1.50 per share. The exercise price and the number of shares under the options granted had subsequently been adjusted to HK\$1.3636 per share and 7,040,000 shares respectively in May 2001 as a result of the bonus issue of shares. These options were exercised in full during the year. The weight average closing price of the Company's shares immediately before the date on which the options were exercised was HK\$1.30.

During the year, options to subscribe for a total of 5,100,000 shares in the Company, which are exercisable during the period from 1st January 2004 to 31st December 2013, at an exercise price of HK\$1.10 per share were granted under the Scheme at no consideration to certain directors of the Company and employees of the Group. The closing price of share immediately before the date of grant was HK\$1.30.

The Company has obtained approval from the Stock Exchange in respect of the options to subscribe for 5,100,000 shares granted during the year. At date of annual report, the number of shares in respect of which options had been granted and remained outstanding under the Scheme was 5,000,000, representing approximately 1.4% of the shares of the Company in issue at that date. As a result of the amendments made to Chapter 17 "Share Option Schemes" of the Rules Governing the Listing of Securities on the Stock Exchange, no further options may be granted on the terms stipulated under the Scheme.

The following table discloses details of options outstanding under the Company's share option scheme and movements during the year:

	Option type	Outstanding at beginning of the year	Granted during the year	Exercised during the year	Lapsed during the year	Outstanding at end of the year
<b>Directors</b>						
Mr. Yip Yun Kuen	1997	7,040,000	—	(7,040,000)	—	—
	2002	—	300,000	—	—	300,000
Mr. Chan Shun Po	2002	—	300,000	—	—	300,000
Mr. Yip Yun Tim	2002	—	300,000	—	—	300,000
Mr. Chan Hon Biu, Alvin	2002	—	200,000	—	—	200,000
Mr. Shiu Chun Yuen	2002	—	200,000	—	—	200,000
Total Directors		<u>7,040,000</u>	<u>1,300,000</u>	<u>(7,040,000)</u>	<u>—</u>	<u>1,300,000</u>
<b>Employees</b>	2002	—	3,800,000	—	(100,000)	3,700,000
Total Employees		<u>—</u>	<u>3,800,000</u>	<u>—</u>	<u>(100,000)</u>	<u>3,700,000</u>
Total		<u>7,040,000</u>	<u>5,100,000</u>	<u>(7,040,000)</u>	<u>(100,000)</u>	<u>5,000,000</u>

Save as aforementioned, no options under the Scheme were granted, exercised, cancelled or lapsed during the year.

At the date of approval of these financial statements, the issued share capital of the Company comprised 368,000,782 fully paid shares of HK\$0.10 each and with share options to subscribe for 5,000,000 ordinary shares outstanding. The granting of options in future will be determined in accordance with the Listing Rules and shareholders' approval where applicable.

## REPORT OF THE DIRECTORS (Cont'd)

The calculation of the value of the options granted requires the input of highly subjective assumptions, including the volatility of share price. Because the share options are not assignable and that changes in subjective assumptions can materially affect the value of options, in the directors' opinion, the value so calculated does not necessarily provide a reliable and meaningful information to shareholders. Accordingly, the value of options granted is not disclosed.

### RESERVES

Movements in the reserves of the Group and the Company during the year are set out in note 22 to the financial statements.

### PRE-EMPTIVE RIGHTS

There is no provision for pre-emptive rights under the Company's bye-laws although there is no statutory restriction against such rights under the laws in Bermuda.

### PROPERTY, PLANT AND EQUIPMENT AND INVESTMENT PROPERTIES

Details of movements in the property, plant and equipment and investment properties of the Group during the year are set out in notes 13 and 14 to the financial statements respectively.

### BORROWINGS AND INTEREST CAPITALISED

Borrowings repayable on demand or within one year are classified under current liabilities. No interest was capitalised by the Group during the year.

### PRINCIPAL SUBSIDIARIES

Details of the Company's principal subsidiaries at 31st December 2002 are set out in note 15 to the financial statements.

### FINANCIAL SUMMARY

A five year financial summary is shown on page 48.

### DIRECTORS

The directors of the Company during the financial year 2002 and up to the date of this report were:—

Mr. Yip Yun Kuen

Mr. Yip Yun Tim

Mr. Chan Shun Po

Mr. Chan Hon Biu, Alvin

Mr. Shiu Chun Yuen

Ms. Chan Pik Ha\*

Mr. Xin Shu Lin\*

Mr. Yeung Wai Kin\*

Mr. Man Mo Leung#

Dr. Cheung Siu Wing# (*resigned on 1st January 2002*)

Mr. Yap Alfred Donald# (*appointed on 1st January 2002*)

\* *Non-executive directors*

# *Independent non-executive directors*

## REPORT OF THE DIRECTORS (Cont'd)

The term of office for each non-executive director is the period up to his/her retirement by rotation in accordance with the Company's bye-laws.

In accordance with the Company's bye-laws, Mr. Yip Yun Tim, Ms. Chan Pik Ha and Mr. Xin Shu Lin shall retire at the forthcoming Annual General Meeting and, being eligible, offer themselves for re-election.

### DIRECTORS' INTERESTS IN SHARES AND RIGHTS TO SUBSCRIBE FOR SHARES

At 31st December 2002, the beneficial interests of the directors of the Company and their associates in the shares of the Company and its associated corporations within the meaning of the Securities (Disclosure of Interests) Ordinance (the "SDI Ordinance") as recorded in the register maintained under Section 29 of the SDI Ordinance, and their interests in the share options of the Company at that date, were as follows: —

#### Number of ordinary shares of HK\$0.10 each in the Company

	Personal interests	Family interests	Corporate interests	Total (after elimination of duplication)
Mr. Yip Yun Kuen	30,564,600	140,360,220	133,925,220	170,924,820 (Note)
Ms. Chan Pik Ha	6,435,000	164,489,820	133,925,220	170,924,820 (Note)
Mr. Chan Shun Po	4,720,320	—	—	4,720,320
Mr. Yip Yun Tim	1,100,000	—	—	1,100,000
Mr. Shiu Chun Yuen	3,300,000	110,000	—	3,410,000

Note: Extrad Assets Limited, a company owned by Mr. Yip Yun Kuen and his spouse, Ms. Chan Pik Ha, was beneficially interested in 133,925,220 ordinary shares of the Company.

The family interests and corporate interests of Mr. Yip Yun Kuen and Ms. Chan Pik Ha included the ordinary shares held by Extrad Assets Limited.

The total interests of 170,924,820 ordinary shares of Mr. Yip Yun Kuen and Ms. Chan Pik Ha are arrived at after taking into account of the 133,925,220 shares held by Extrad Assets Limited, 6,435,000 shares held by Ms. Chan Pik Ha and 30,564,600 shares held by Mr. Yip Yun Kuen.

Mr. Yip Yun Kuen and his spouse, Ms. Chan Pik Ha, together controlled more than one-third of the issued shares of the Company. Accordingly they are deemed to have interests in the share capitals of the subsidiaries and other associated corporations of the Company.

Save as disclosed above and for shares in certain subsidiaries held by directors in trust for their immediate holding companies, at 31st December 2002, none of the directors and chief executives of the Company, or any of their associates, had any interests in the equity or debt securities of the Company or any of its associated corporations as defined in the SDI Ordinance, and none of the directors and chief executives of the Company, 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.

# REPORT OF THE DIRECTORS (Cont'd)

## DIRECTORS' INTERESTS IN CONTRACTS OF SIGNIFICANCE

No contracts 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.

## ARRANGEMENTS TO ACQUIRE SHARES OR DEBENTURES

At no time during the year was the Company or any of 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.

## MANAGEMENT AND SERVICE CONTRACTS

No contracts of significance concerning the management or administration of the whole or any substantial part of any business of the Company were entered into or existed during the year.

No director proposed for re-election at the forthcoming annual general meeting has a service contract with the Company or any of its subsidiaries which is not determinable by the employing company within one year without the payment of compensation (other than statutory compensation).

## RETIREMENT SCHEMES

The Group has established and registered a defined contribution retirement scheme for its Hong Kong employees under the Occupational Retirement Scheme Ordinance. The Group and its employees are each required to make contributions to the scheme calculated at 5 per cent of individual employees' monthly basic salaries. The employees are entitled to the whole of the employer's contributions and accrued interests thereon after completion of 10 years of service, or at a reduced scale after completion of 3 to 9 years' service.

The Group's contributions made to employees who have left the Group's employment prior to being vested fully with such contributions are forfeited in accordance with the terms of the scheme and can be used by the Group to reduce the ongoing level of contributions. No forfeited contributions were utilized in this manner during the year. As at 31st December 2002, there were no forfeited contributions available to offset future employer's contributions to the scheme.

From 1st December 2000 onwards, the Group added a Mandatory Provident Fund ("MPF") Scheme in accordance with MPF legislation. The contributions borne by the Group and the employees are calculated at 5 per cent on salaries and wages.

The assets of both schemes are held and managed by independent trustees.

The Group's retirement scheme contributions charged to the income statement for the year amounted to approximately HK\$2,305,000.

# REPORT OF THE DIRECTORS (Cont'd)

## SUBSTANTIAL SHAREHOLDERS

At 31st December 2002, the following shareholders were interested in 10 per cent. or more of the issued share capital of the Company according to the register of interests required to be kept by the Company under Section 16(1) of the SDI Ordinance:—

Name	Number of shares	Percentage of holding
Extrad Assets Limited	133,925,220	36.36%
Walbeck International Limited *	92,532,352	25.12%

\* Walbeck International Limited is a subsidiary of First Shanghai Investments Limited, a company listed on the Stock Exchange.

Other than as disclosed above, the Company has not been notified of any other interests representing 10% or more of the Company's issued share capital as at 31st December 2002.

## CORPORATE GOVERNANCE

The Company has complied throughout the year ended 31st December 2002 with the Code of Best Practice, as set out in Appendix 14 of the Rules Governing the Listing of Securities on the Stock Exchange except that the non-executive directors were not appointed for a specific term but are subject to retirement by rotation in annual general meetings of the Company in accordance with the bye-laws of the Company.

## AUDITORS

The financial statements of the Company for the preceding three years were audited by Deloitte Touche Tohmatsu. A resolution will be submitted to the forthcoming annual general meeting to re-appoint Deloitte Touche Tohmatsu as auditors of the Company.

On behalf of the board

**Yip Yun Kuen**

*Chairman*

Hong Kong, 11th April 2003