

# Report of the Directors

The directors herein present their report and the audited financial statements of the Company and the Group for the year ended 31 March 2001.

## PRINCIPAL ACTIVITIES

The principal activity of the Company is investment holding. The principal activities of the subsidiaries consisted of the design, manufacture and sale of toys, and the manufacture and sale of electrical household appliances and motors. There were no significant changes in the principal activities of the Group during the year.

## SEGMENTAL INFORMATION

An analysis of the Group's turnover and contribution to profit after finance costs by principal activity and geographical area of operations is set out in note 3 to the financial statements.

## RESULTS AND DIVIDENDS

The Group's profit for the year ended 31 March 2001 and the state of affairs of the Company and of the Group at that date are set out in the financial statements on pages 19 to 54.

An interim dividend of HK2.5 cents per ordinary share was paid to shareholders on 18 January 2001. The directors recommend the payment of a final dividend of HK7 cents per share in respect of the year to the shareholders on the register of members on 24 August 2001. This recommendation has been incorporated in the financial statements.



## SUMMARY FINANCIAL INFORMATION (continued)

### Notes:

1. The summary of the combined results for each of the two years ended 31 March 1998 includes the results of the Company and its subsidiaries as if the current structure of the Group had been in existence throughout the two years ended 31 March 1998.
2. The consolidated balance sheet as at 31 March 1997 is extracted from the published pro forma financial statements for the year ended 31 March 1997, prepared on the basis as if the Group had been in existence for that year.

## FIXED ASSETS

Details of movements in the fixed assets of the Group are set out in note 11 to the financial statements.

## SUBSIDIARIES AND ASSOCIATES

Particulars of the Company's principal subsidiaries and associates are set out in notes 12 and 13, respectively, to the financial statements.

## BORROWINGS

Particulars of the borrowings of the Group are set out in note 20 to the financial statements.

## SHARE CAPITAL AND SHARE OPTIONS

Details of movements in the Company's share capital and share options during the year, together with the reasons therefor, are set out in note 22 to the financial statements.

## RESERVES

Details of movements in the reserves of the Company and of the Group during the year are set out in note 23 to the financial statements.

## PRE-EMPTIVE RIGHTS

There are no provisions for pre-emptive rights under the bye-laws of the Company or the laws of Bermuda which would oblige the Company to offer new shares on a pro rata basis to existing shareholders.

## DISTRIBUTABLE RESERVES

As at 31 March 2001, the Company's reserves available for cash distribution and/or distribution in specie, comprising the contributed surplus and retained profits, amounted to HK\$123,545,000. Under the Companies Act 1981 of Bermuda, the Company's contributed surplus of HK\$104,750,000 may be distributed under certain circumstances. In addition, the Company's share premium account with a balance of HK\$88,310,000 may be distributed in the form of fully paid bonus shares.

## PENSION COSTS

The pension contributions made by the Group during the year amounted to HK\$1,067,000 and were in respect of the employees of the Group in Hong Kong who were members of either a defined contribution scheme or the Mandatory Provident Fund. There were no forfeited contributions during the year. At 31 March 2001, no material forfeited contributions were available to reduce the Group's contribution to the pension scheme in future years.

## MAJOR CUSTOMERS AND SUPPLIERS

During the year under review, sales to the five largest customers accounted for 68% of the total sales for the year and sales to the largest customer included therein amounted to 43%.

The purchases attributable to the Group's five largest suppliers accounted for less than 30% of the total purchases of the Group for the year.

As far as the directors are aware, neither the directors, their associates (as defined in the Rules Governing the Listing of Securities on The Stock Exchange of Hong Kong Limited (the "Listing Rules")), nor those shareholders which, to the knowledge of the directors, own more than 5% of the Company's issued share capital, had any beneficial interest in the Group's major customers and suppliers.

## DIRECTORS

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

### Executive directors

Cheng Chor Kit  
Cheng Chor Chiu  
Cheng Chor Yip  
Wong Kin Chung

### Independent non-executive directors

Chung Chi Ping, Roy  
Lam Shuet Ching, Gloria

In accordance with clause 87(1) of the Company's bye-laws, Lam Shuet Ching, Gloria will retire by rotation and, being eligible, will offer herself for re-election at the forthcoming annual general meeting.

## REMUNERATION OF DIRECTORS AND HIGHEST PAID INDIVIDUALS

Details of the directors' remuneration and that of the highest paid individuals in the Group are set out in note 5 to the financial statements.

# Report of the Directors

## DIRECTORS' SERVICE CONTRACTS

All the executive directors entered into service contracts with the Company for terms of three years commencing from 1 April 1997, which have been renewed automatically for successive terms of one year subject to termination by either party giving not less than six months' notice in writing to the other party.

Apart from the foregoing, no director proposed for re-election at the forthcoming annual general meeting has a service contract with the Company which is not determinable by the Company within one year without payment other than statutory compensation.

## DIRECTORS' RIGHTS TO ACQUIRE SHARES

Under the share option scheme adopted by the Company on 8 April 1997, the board of directors of the Company may, at their discretion, grant options to employees of the Group, including executive directors, to subscribe for shares in the Company. Details of the share option scheme are set out in note 22 to the financial statements.

There were no new share options granted to directors during the year. None of the share options granted to directors in prior years were exercised during the year. The details of share options granted to directors which remained outstanding as at 31 March 2001 were as follows:

Directors	Date of share options granted	Number of share options outstanding as at 31 March 2001	Exercise period	Exercise price per share HK\$
Cheng Chor Kit	7/7/1997	6,000,000	7/7/1997-7/4/2007	0.8700
	6/11/1998	1,500,000	6/11/1998-5/11/2008	0.3032
Cheng Chor Chiu	7/7/1997	4,500,000	7/7/1997-7/4/2007	0.8700
	6/11/1998	1,000,000	6/11/1998-5/11/2008	0.3032
Cheng Chor Yip	7/7/1997	3,000,000	7/7/1997-7/4/2007	0.8700
	6/11/1998	1,000,000	6/11/1998-5/11/2008	0.3032
Wong Kin Chung	7/7/1997	1,500,000	7/7/1997-7/4/2007	0.8700

In addition, 200,000 share options were granted to Tsang Yuk Wan, the spouse of Cheng Chor Kit, on 6 November 1998, which remained outstanding as at 31 March 2001.

Apart from the foregoing, at no time during the year was the Company or any of its holding companies, subsidiaries and fellow subsidiaries a party to any arrangement to enable the Company's directors, their respective spouse, or children under 18 years of age to acquire benefits by means of the acquisition of shares in or debentures of the Company or any other body corporate.

## DIRECTORS' INTERESTS IN SHARE CAPITAL

The interests of the directors and their associates in the share capital of the Company and its associated corporations, as required to be recorded in the Register of Directors' Interests maintained pursuant to Section 29 of the Securities (Disclosure of Interests) Ordinance (the "SDI Ordinance"), at the balance sheet date are set out below:

Director	Number of issued ordinary shares of HK\$0.10 each in the Company	
	Personal interests	Corporate interests
Cheng Chor Kit ( <i>note</i> )	–	269,676,000
Cheng Chor Chiu ( <i>note</i> )	–	269,676,000
Cheng Chor Yip ( <i>note</i> )	–	269,676,000
Wong Kin Chung	3,050,000	–

Note: These shares are held by Resplendent Global Limited, a company incorporated in the British Virgin Islands. Padora Global Inc. and Shannon Global Limited are the beneficial owners of approximately 59.5% and 40.5%, respectively, of the issued share capital of Resplendent Global Limited. Padora Global Inc. is a company incorporated in the British Virgin Islands and is wholly-owned by Cheng Chor Kit. Shannon Global Limited is a company incorporated in the British Virgin Islands which is owned by Cheng Chor Chiu, Cheng Chor Yip and Cheng Chor Kei, a brother of Cheng Chor Kit, Cheng Chor Yip and Cheng Chor Chiu, in the ratios of approximately 57.75%, 21.125% and 21.125%, respectively.

The directors' interests in the Company's share options are disclosed above in the section "Directors' rights to acquire shares".

Save as disclosed above, none of the directors or their associates had any personal, family, corporate or other interest in the equity or debt securities of the Company or any of its associated corporations as defined in the SDI Ordinance.

## DIRECTORS' INTERESTS IN CONTRACTS

Except as disclosed in note 25 to the financial statements, no director had a beneficial interest, either directly or indirectly, in any contract of significance to the business of the Company to which the Company or any of its holding companies, subsidiaries and fellow subsidiaries was a party at the balance sheet date or at any time during the year.

In relation to the transactions between the Group and Standard Motor Company Limited and its subsidiaries during the year, the independent non-executive directors have reviewed these transactions and confirmed that:

- (i) they were entered into by the Group in the ordinary and usual course of business on normal commercial terms and on an arm's length basis; and
- (ii) they were entered into on terms that were fair and reasonable so far as the shareholders of the Company are concerned.

## BIOGRAPHICAL DETAILS IN RESPECT OF DIRECTORS AND SENIOR MANAGEMENT STAFF

### Executive directors

Mr. Cheng Chor Kit, aged 49, is the Chairman of the Company. He is one of the founders of the Group and is responsible for the Group's overall operation and strategic planning. He is a member of the Guangdong Provincial Committee of the Chinese People's Political Consultative Congress (中國人民政治協商會議廣東省委員會), a member of the Shaoguan, Guangdong Provincial Committee of the Chinese People's Political Consultative Congress (中國人民政治協商會議廣東省韶關委員會委員), and a member of the Standing Committee of Shixing, Shaoguan, The People's Republic of China ("PRC") (中華人民共和國韶關市始興縣政協常委). He has over 30 years' experience in the toy industry. He is the brother of Mr. Cheng Chor Chiu and Mr. Cheng Chor Yip.



Mr. Cheng Chor Chiu, aged 47, is the Deputy Chairman of the Company. He is one of the founders of the Group and is responsible for the overall operations and the engineering functions in the PRC. He has over 20 years' experience in the toy industry. He is the brother of Mr. Cheng Chor Kit and Mr. Cheng Chor Yip.

Mr. Cheng Chor Yip, aged 39, is an executive director of the Company and holds a master's degree in business administration from the University of East Asia of Macau. He joined the Group in 1989 and is responsible for the overall operations in Hong Kong, and the sales and marketing functions of the Group. He is the brother of Mr. Cheng Chor Kit and Mr. Cheng Chor Chiu.

Mr. Wong Kin Chung, aged 55, is an executive director of the Company. He joined the Group in 1982 and is responsible for the mould-making and moulding operations of the Group. He has more than 30 years of experience in the mould-making industry.

### Independent non-executive directors

Mr. Chung Chi Ping, Roy, MSc, aged 49, is the managing director of Techtronic Industries Company Ltd. He holds a Master of Science degree in Engineering Business Management from the University of Warwick, The winner of the Young Industrialists Award of HK 1997, Council Member of Hong Kong Polytechnic University, Member of the Advisory Board for the Faculty of Business of Lingnan College, Director of HK Paediatric Foundation of HK Paediatric Society, Director of the HK Safety Institute Ltd, Member of Design Council of the Federation of Hong Kong Industries, and the President of Hong Kong Electrical Appliances Manufacturers Association. He is also the chairman of the Group "Electrical & Optical Products" of Federation of Hong Kong Industries.

Ms. Lam Shuet Ching, Gloria, aged 37, is a solicitor practising in Hong Kong and is a consultant of Eric Ho & Co. in association with Sidley & Austin, a law firm in Hong Kong.

## **BIOGRAPHICAL DETAILS IN RESPECT OF DIRECTORS AND SENIOR MANAGEMENT STAFF** (continued)

### **Senior management staff**

Mr. Kong Chun Kwan, aged 45, is a director of Kin Yat Industrial Company Limited ("KYI"). He joined the Group in 1990 and is responsible for the Group's production. He has more than 20 years' experience in the electronics and manufacturing industry.

Mr. Wan Kwok Sun, aged 51, is the engineering director of KYI. He joined the Group in 1987 and has more than 30 years' experience in mould design and injection moulding operations.

Mr. Chui Pak Shing, Tommy, ASCPA, AHKSA, CPA, aged 33, is the financial controller of the Company. He joined the Group in 1997 and is responsible for overseeing all of the finance and accounting matters of the Group. He is a member of the Australian Society of Certified Practising Accountants, an associate member of the Hong Kong Society of Accountants and holds a master's degree in business administration from the University of Portsmouth, United Kingdom.

Mr. Fan Sau Leung, Tony, MSc (IM), BBA, IENG, aged 51, is the assistant director of the Company. He joined the Group in 1998 and is responsible for organising and managing the Group's engineering and marketing activities. He is an Incorporated Engineer of I.E.E. and holds BBA and MSc degrees in marketing. He has more than 28 years of experience in the design engineering field and marketing management.

Mr. Wang Shiu Kee, Joseph, aged 42, is the general manager of Newway Electrical Industries Limited and the senior marketing manager of KYI. Mr. Wang holds a bachelor's degree in commerce from St. Mary's University, Canada and has more than 19 years of experience in the trading, finance and manufacturing industries. He joined the Group in 1991.

Mr. Poon Wing Shun, Wilson, aged 44, is the senior quality assurance manager of the Company. He joined the Group in 1996 and has more than 25 years' experience in quality control.

Mr. Chan Ho Man, Daniel, FCCA, AHKSA, aged 46, is the company secretary of the Company. He joined the Group in 1996 and is responsible for overseeing all of the company secretarial matters of the Group. He is a fellow member of the Association of Chartered Certified Accountants and an associate member of the Hong Kong Society of Accountants.

### **Substantial shareholders**

At 31 March 2001, other than Resplendent Global Limited as set out in the section "Directors' interests in share capital" above, no person had registered an interest in 10% or more of the issued share capital of the Company in the register of interests that is required to be kept by the Company pursuant to Section 16(1) of the SDI Ordinance.

### **Purchase, redemption or sale of listed securities**

Neither the Company, nor any of its subsidiaries purchased, redeemed or sold any of the Company's listed securities during the year.



# Report of the Directors

## **Compliance with the Code of Best Practice**

In the opinion of the directors, the Company has complied with the Code of Best Practice as set out in Appendix 14 of the Listing Rules throughout the year covered by the annual report.

The independent non-executive directors are not appointed for a specific term as all of the directors, excluding the executive chairman, and without limitation to the non-executive directors, are subject to retirement by rotation and re-election at the annual general meeting in accordance with the bye-laws of the Company.

The total directors' fees paid to the independent non-executive directors of the Company for the year ended 31 March 2001 amounted to HK\$100,000.

## **Audit committee**

The Company established an Audit Committee (the "Committee") in 1999 in compliance with the requirements of the Code of Best Practice as set out in Appendix 14 of the Listing Rules. The Committee was established with written terms of reference, for the purpose of reviewing and providing supervision over the financial reporting process and internal control of the Group. The Committee comprises two independent non-executive directors. The work of the Committee has covered the full financial year ended 31 March 2001.

## **Auditors**

Ernst & Young retire and a resolution for their reappointment as auditors of the Company will be proposed at the forthcoming annual general meeting.

ON BEHALF OF THE BOARD

**Cheng Chor Kit**

*Chairman*

Hong Kong

20 July 2001