

Report of the Directors

The directors of the Company (the “Directors”) hereby submit their annual report together with the audited financial statements for the year ended 31st December, 2001.

PRINCIPAL ACTIVITIES

The principal activity of the Company is investment holding.

The principal activities of its subsidiaries are the manufacture and sale of plastic, electronic and stuffed toys and model trains, property investment, investment holding and trading.

The analysis of the principal activities and geographical locations of the operations of the Company and its subsidiaries during the financial year are set out in Note 10 on the financial statements.

SUBSIDIARIES

Particulars of the Company’s major subsidiaries at 31st December, 2001 are set out on pages 72 and 73.

DIVIDEND

The Directors do not recommend the payment of a dividend for the year ended 31st December, 2001.

FINANCIAL STATEMENTS

The loss of the Group for the year ended 31st December, 2001 and the state of affairs of the Group and of the Company at that date are set out in the financial statements on pages 23 to 73.

Movements in reserves during the year are set out in Note 26 on the financial statements.

FIVE YEAR SUMMARY

A summary of the results of the Group for the last five financial years is set out on pages 75 and 76.

Report of the Directors *(Continued)*

MAJOR SUPPLIERS AND CUSTOMERS

The percentages of purchases and sales attributable to the Group's largest suppliers and customers are as follows:

	2001	2000
	%	%
Purchases		
— the largest supplier	11	9
— five largest suppliers combined	32	22
Sales		
— the largest customer	19	9
— five largest customers combined	32	24

Except as disclosed under "Directors' Interests in Contracts" below, none of the directors, their associates or shareholders (which to the knowledge of the directors own more than 5% of the Company's share capital) were interested at any time in the year in the above suppliers or customers.

DONATIONS

Donations made by the Group during the year amounted to HK\$146,000 (2000: HK\$88,000).

FIXED ASSETS

Movements in fixed assets during the year are set out in Note 11 on the financial statements .

PROPERTIES

Particulars of the major properties of the Group are shown on page 74 of the annual report.

BANK LOANS AND OVERDRAFTS AND OTHER BORROWINGS

Particulars of bank loans and overdrafts and other borrowings of the Group at 31st December, 2001 are set out in Notes 22 and 23 on the financial statements.

Report of the Directors *(Continued)*

SHARE CAPITAL AND SHARE OPTIONS

Movements in share capital during the year and share options outstanding are set out in Note 25 on the financial statements.

Shares were issued during the year as a result of the exercise of share options.

DIRECTORS

The Board of Directors during the financial year were:

Executive Directors:

Kenneth Ting Woo-shou

William Li Kai-wan

Benjamin Chung Yuk-ming *(Resigned on 1st February, 2001)*

Non-Executive Directors:

Dennis Ting Hok-shou

Liu Chee-ming

Moses Cheng Mo-Chi

In accordance with clause 189(ix) of the Company's Bye-laws, Mr. Liu Chee-ming shall retire by rotation at the forthcoming Annual General Meeting and, being eligible, offers himself for re-election.

PROFILES OF DIRECTORS AND SENIOR MANAGEMENT

Non-Executive Chairman

Dr. Dennis Ting Hok-shou, OBE, JP, aged 68, has been the Chairman of the Company since its incorporation in 1989. He has been a director of Kader Industrial Company Limited since 1961.

Dr. Ting has served a number of trade organisations and public committees. At present, he is the President of the Hong Kong Plastics Manufacturers' Association, the Honorary President of the Federation of Hong Kong Industries and the Chairman of the Board of Trustees of Hong Kong Shue Yan College. Dr. Ting is also a member of the Jiangsu Provincial Committee of the Chinese People's Political Consultative Conference.

Dr. Ting is a director of H.C. Ting's Holdings Limited which is a substantial shareholder of the Company. He is a brother of Mr. Kenneth Ting Woo-shou.

Report of the Directors *(Continued)*

PROFILES DIRECTORS AND SENIOR MANAGEMENT *(Continued)*

Executive Directors

Mr. Kenneth Ting Woo-shou, JP, aged 59, has been the Managing Director and Chief Executive Officer of the Company since its incorporation in 1989. He has been a director of Kader Industrial Company Limited since 1971 and was appointed the Chairman in 1993. He is responsible for the overall policy and development of the Group.

Mr. Ting currently serves as the Legislative Councilor represents the Federation of Hong Kong Industries of the HKSAR, the Deputy Chairman of the Federation of Hong Kong Industries, the President of the Hong Kong Plastics Manufacturers' Association, the Chairman of the Vocational Training Council - Plastics Training Board and the Honorary President of the Toys Manufacturers' Association of Hong Kong Limited. He is also a Director and Executive Committee Member of the Hong Kong Plastics Technology Centre and a member of the Hong Kong Trade Development Council and The Council of The Hong Kong Polytechnic University.

He also serves as a member of a number of other trade organisations and public committees such as the Chinese Manufacturers' Association of Hong Kong and the Hong Kong General Chamber of Commerce. He was also a member of the Selection Committee of the Hong Kong Special Administrative Region and an Advisor of Hong Kong District Affairs to the Liaison Office of the Central People's Government in the Hong Kong Special Administrative Region.

Mr. Ting is a director of H.C. Ting's Holdings Limited which is a substantial shareholder of the Company. He is a brother of Dr. Dennis Ting Hok-shou.

Mr. William Li Kai-wan, aged 39, is a Fellow Member of the Chartered Association of Certified Accountants and a member of the Hong Kong Society of Accountants. Mr. Li was appointed to the Board in 1994 and is responsible for strategic planning and investments of the Group.

Mr. Benjamin Chung Yuk-ming (Resigned on 1st February, 2001), aged 54, holds a Master's Degree in Business Administration. Mr. Chung joined the Group in 1988 and was appointed to the Board in 1994. Mr. Chung was responsible for the general management of the Group.

Report of the Directors *(Continued)*

PROFILES DIRECTORS AND SENIOR MANAGEMENT *(Continued)*

Non-Executive Directors

Mr. Liu Chee-ming, aged 51, has been a non-executive director since June 1998. Mr. Liu is the Managing Director of Platinum Securities Company Limited. Prior to setting up Platinum, Mr. Liu was a member of the Executive Committee of Jardine Fleming Holdings Limited where he had worked for 19 years. He was the head of Corporate Finance Division between 1992 to 1996.

Mr. Liu was also a Governor of the Singapore International School between 1991 to 1994 and has been a member of the Takeovers Appeal Committee and Takeovers Panel of the Securities and Futures Commission since May 1995.

Mr. Moses Cheng Mo-chi, JP, aged 52, has been a non-executive director since March 1999. Mr. Cheng is a senior partner of Messrs. P.C. Woo & Co., a firm of solicitors and notaries in Hong Kong. Mr. Cheng was a member of the Legislative Council of Hong Kong between 1991 and 1995. He is currently the Chairman of the Hong Kong Institute of Directors, the Board of Education and the Committee on the Promotion of Civic Education. He also serves on the boards of many other listed companies as independent non-executive director.

DIRECTORS' SERVICE CONTRACTS

None of the directors proposed for election at the forthcoming Annual General Meeting has an unexpired service contract with the Company or any of its subsidiaries which is not determinable by the employing company within one year without payment of compensation, other than normal statutory obligations.

Report of the Directors *(Continued)*

DIRECTORS' INTERESTS IN SHARES AND RIGHTS TO ACQUIRE SHARES

As at 31st December, 2001, the directors had the following beneficial interests in the share capital of the Company:

	Number of Ordinary Shares			
	Personal Interests	Family Interests	Corporate Interests	Share Options
Kenneth Ting Woo-shou	90,711,385	586,629	244,175,800 (i)	—
Dennis Ting Hok-shou	9,692,817	275,000	236,969,800 (i)	—
Benjamin Chung Yuk-ming	253,874	—	—	—
William Li Kai-wan	—	—	—	—
Liu Chee Ming	—	—	1,000,000	—
Moses Cheng Mo-chi	11,000	—	—	—

Notes:

- (i) Included in the corporate interests above were 209,671,000 shares of the Company held by its substantial shareholder, H.C. Ting's Holdings Limited, in which Messrs. Dennis Ting Hok-shou and Kenneth Ting Woo-shou together have a controlling interest.
- (ii) Apart from the above, no interests were held or deemed or taken (under the Securities (Disclosure of Interests) Ordinance ("SDI Ordinance")) to be held by any directors or chief executive of the Company or any of their spouses or children under eighteen years of age in any equity or debt securities of the Company or any of its associated companies (within the meaning of the SDI Ordinance) at 31st December, 2001, nor any rights or warrants to subscribe therefore.

Details of directors' interests under the Company's share option scheme are set out in the section "Share Option Scheme" below.

SHARE OPTION SCHEME

The Company has a share option scheme which was adopted on 29th June, 1990 whereby the directors of the Company are authorized, at their discretion, to invite employees of the Group, including directors of any company in the Group, to take up options to subscribe for shares of the Company. The exercise price of options was determined by the Board and was 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 of Hong Kong Limited for the five business days immediately preceding the date of the grant. The options vest after six months and are exercisable for a period of one year commencing six months after the date on which the option is granted.

Report of the Directors *(Continued)*

SHARE OPTION SCHEME *(Continued)*

The maximum number of shares in respect of which options may be granted under the share option scheme may not exceed 10% of the issued share capital of the Company as at the date of approval of the scheme, excluding any options lapsed in accordance with the terms of the scheme.

During the year ended 31st December, 2001, the directors and employees of the Company had the following interests in options to subscribe for shares of the Company granted at nominal consideration under the share option scheme of the Company. Each option gives the holder the right to subscribe for one share. There were no share options outstanding at 31st December, 2001.

The share option scheme expired on 29th June, 2000.

	No. of options outstanding at the beginning of the year	No. of options outstanding at the year end	Date granted	Period during which options exercisable	No. of shares acquired on exercise of options during the year	Price per share on exercise of options HK\$	Market value per share at date of grant of options HK\$	Market value per share on exercise of options HK\$
Directors								
Kenneth Ting Woo-shou	66,870	—	01/01/2000	1/7/2000 - 30/6/2001	66,870	0.17	0.218	0.229
Dennis Ting Hok-shou	37,972	—	01/01/2000	1/7/2000 - 30/6/2001	—	—	—	—
Benjamin Chung Yuk-ming	—	—	01/01/2000	1/7/2000 - 30/6/2001	—	—	—	—
William Li Kai-wan	150,558	—	01/01/2000	1/7/2000 - 30/6/2001	—	—	—	—
Employees	2,466,417	—	01/01/2000	1/7/2000 - 30/6/2001	264,608	0.17	0.218	0.226

Report of the Directors *(Continued)*

SHARE OPTION SCHEME *(Continued)*

Apart from the foregoing, there were no rights or warrants held as at 31st December, 2001, nor had there been any exercise of rights or warrants during the year under review, by any directors or chief executive of the Company or any of their spouses or children under eighteen years of age to subscribe for equity or debt securities of the Company.

Save as disclosed herein, at no time during the year was the Company or any of its subsidiaries a party to any arrangement 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.

SUBSTANTIAL SHAREHOLDER'S INTEREST

As at 31st December, 2001, the register kept by the Company under Section 16(1) of the SDI Ordinance showed that H.C. Ting's Holdings Limited had an interest in 209,671,000 shares of the Company, being 10% or more of the Company's issued share capital.

DIRECTORS' INTERESTS IN CONTRACTS

The Group has an interest in an associate, Allman Holdings Limited, and an investment, Squaw Creek Associates, in which Mr. Kenneth Ting Woo-shou has beneficial interests.

During the year, the Group had dealings in packaging printing with New Island Printing Company Limited ("New Island") which are carried out at arm's length and in the ordinary course of business of the Group. Mr. Kenneth Ting Woo-shou was interested in these transactions as a non-executive director and shareholder of New Island. Purchases from New Island during the year amounted to HK\$6,167,000 which accounted for approximately 3.7% of the Group's total purchases.

DIRECTORS' INTERESTS IN COMPETING BUSINESS(ES)

During the year and up to the date of this report, Messrs Kenneth Ting Woo-shou and Dennis Ting Hok-shou, Shareholders and Directors of the Company, are considered to have interests in Qualidux Industrial Co. Ltd., a company engaging in toys manufacturing long before the listing of the Company on The Stock Exchange of Hong Kong Limited, which competes or is likely to compete with the business of the Group pursuant to the Rules Governing the Listing of Securities on The Stock Exchange of Hong Kong Limited.

As the Board of Directors of the Company is independent from the boards of the abovementioned company and none of the above Directors can control the Board of the Company, the Group is capable of carrying on its business independently of, and at arms length from, the business of such company.

Report of the Directors *(Continued)*

DISCLOSURE UNDER PRACTICE NOTE 19

As at 31st December, 2001, the Group had provided certain financial assistance to affiliated companies which is disclosed below in accordance with Practice Note 19 of the Rules Governing the Listing of Securities on The Stock Exchange of Hong Kong Limited ("Listing Rules").

Advances to Affiliated Companies

As at 31st December, 2001, the Company advanced a total sum of HK\$151,671,000 to its affiliated companies, the details of which are as follows:—

Affiliated Companies	Interest Rate of Advances	Amount of Advances as at 31/12/2001 (HK\$'000)
Allman Holdings Limited and its subsidiary	Prime rate plus 1%	92,178
	Interest-free	46,211
Hip Wah Industrial (Development) Limited	Interest-free	7,458
Melville Street Trust Company Limited	Interest-free	5,824
		<u>151,671</u>

All the said advances were unsecured, repayable on demand and were funded by internal resources and/or bank borrowings and were made for the purpose of providing investment funds and/or working capital.

Set out below is a proforma combined balance sheet of the above affiliated companies as at 28th February, 2002 (being the latest practicable date for determining the relevant figures) required to be disclosed under Practice Note 19 of the Listing Rules:—

Proforma Combined Balance Sheet as at 28th February, 2002:—

	HK\$'000
Other investment	102,467
Net current assets	6,415
Shareholders' loans - long term	(112,414)
Deficiency in shareholders' funds	<u>(3,532)</u>

The aggregate of the Group's advances to affiliated companies as at 31st December, 2001 amounted to HK\$151,671,000 which represents approximately 31% of the Group's net assets as at 31st December, 2001.

Report of the Directors *(Continued)*

PURCHASE, SALE OR REDEMPTION OF SHARES

There has been no purchase, sale or redemption of the Company's shares by the Company or any of its subsidiaries during the year ended 31st December, 2001.

PRE-EMPTIVE RIGHTS

There is no provision for pre-emptive rights under the Company's Bye-laws or the laws in Bermuda.

CODE OF BEST PRACTICE

The Company has complied throughout the year with the Code of Best Practice as set out in Appendix 14 of the Rules Governing the Listing of Securities on The Stock Exchange of Hong Kong Limited except that independent non-executive directors are not appointed for a specific term as they are subject to retirement by rotation at Annual General Meetings in accordance with clause 189(ix) of the Company's Bye-laws.

AUDITORS

A resolution for the reappointment of KPMG as auditors of the Company is to be proposed at the forthcoming Annual General Meeting.

By Order of the Board
Kenneth Ting Woo-shou
Managing Director

Hong Kong, 19th April, 2002