

Directors' Report

The directors present their annual report and the audited financial statements for the year ended 31st March, 2002.

PRINCIPAL ACTIVITIES

The Company is an investment holding company. The Group is engaged in the manufacture and sales of snap off blade cutters and electronic consumer products, which include toys and home appliances.

RESULTS

The results of the Group for the year ended 31st March, 2002 are set out in the consolidated income statement on page 24.

FINANCIAL SUMMARY

A summary of the results, assets and liabilities of the Group for the past five financial years is set out on page 74.

SHARE CAPITAL

Details of the movements in share capital of the Company during the year are set out in note 25 to the financial statements.

RESERVES

Details of the movements in reserves of the Group and the Company during the year are set out in note 27 to the financial statements.

INVESTMENT PROPERTIES AND PROPERTY, PLANT AND EQUIPMENT

The Group's investment properties and land and buildings were revalued at 31st March, 2002. These and other movements in investment properties and property, plant and equipment of the Group during the year are set out in notes 13 and 14 to the financial statements respectively.

Directors' Report

DIRECTORS AND DIRECTORS' SERVICE CONTRACTS

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

Executive directors:

Chong Sing Yuen (*Chairman*)

Sun Tak Yan, Desmond

Chong Chun Man

Chu Kiu Fat

Wong Siu Keung, Joe

Chong Chun Kwok, Piggy

Non-executive directors:

Chu Bu Yang, Alexander

Chin Pak Hing (resigned on 26th March, 2002)

Chong Chun Hing

Independent non-executive directors:

Wong, Bingley

Ma Wah Yan

In accordance with Clauses 87(1) and 87(2) of the Company's Bye-laws, Messrs. Sun Tak Yan, Desmond, Chong Chun Man and Chu Kiu Fat retire and, being eligible, offer themselves for re-election.

Mr. Chong Sing Yuen has entered into a service agreement with the Company for a term of five years commencing on 1st September, 1999 and shall continue thereafter unless and until terminated by either party giving to the other party three years' notice in writing to determine the same.

The term of office of each of the remaining non-executive and independent non-executive directors is the period up to his retirement as required by the Company's Bye-laws.

None of the directors being 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 Group within one year without compensation, other than statutory compensation.

Directors' Report

DIRECTORS' INTERESTS IN SECURITIES

As at 31st March, 2002, the interests of directors in the shares of the Company as recorded in the register maintained by the Company pursuant to Section 29 of Hong Kong's Securities (Disclosure of Interests) Ordinance (the "SDI Ordinance") were as follows:

Name of director	Number of ordinary shares held			
	Personal interest	Family interest	Corporate interest	Other interest
Chong Sing Yuen	25,850,000	1,200,000 <i>(Note a)</i>	1,612,731,047 <i>(Note b)</i>	–
Chong Chun Man	1,830,000	–	–	–
Chu Kiu Fat	1,040,000	–	–	–

Note:

- a. Ms. Cheng Man Shan, the spouse of Mr. Chong Sing Yuen, beneficially owns 1,200,000 shares in the Company.
- b. Greatest Win Investment Limited, which beneficially owns 412,731,047 shares in the Company, and Twin Base Limited ("Twin Base"), which beneficially owns 1,200,000,000 shares in the Company, are companies in which Mr. Chong Sing Yuen has a controlling interest.

Save as disclosed above and other than certain nominee shares in subsidiaries held by Mr. Chong Sing Yuen in trust for the Group, none of the directors nor any of their associates had any interest as at 31st March, 2002 in the securities of the Company or any of its associated corporations as defined in the SDI Ordinance.

Directors' Report

SHARE OPTIONS

Under the terms of the share option scheme (the "Scheme"), which became effective on 10th September, 1992 and will expire on 10th September, 2002, for the primary purpose of providing incentives to directors or full time employees of the Company or any subsidiaries of the Company (collectively referred to as the "Eligible Person(s)") the board of directors of the Company may for a notional consideration grant options to Eligible Persons 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 quoted on The Stock Exchange of Hong Kong Limited (the "Stock Exchange") on the five trading days immediately preceding the date of grant of the options. Options granted under the Scheme must be taken up within 28 days from the date of grant and are deemed to be accepted by the Eligible Persons when the duplicate offer document is signed by the Eligible Persons together with payment of HK\$1 per option granted (the "Acceptance Conditions"). Options granted may be exercised at any time from the date when the Acceptance Conditions are complied with by the Eligible Persons ("Date of Acceptance") to the tenth anniversary of the Date of Acceptance or 10th September, 2002, whichever is earlier.

At 31st March, 2002, the number of shares in respect of which options had been granted under the Scheme was 400,073,000, representing 8.8% of the shares of the Company in issue at that date. The total number of shares in respect of which options may be granted under the Scheme is not permitted to exceed 10% of the shares of the Company in issue (excluding the aggregate number of shares which have been duly allotted and issued pursuant to the Scheme) at any point in time. The number of shares in respect of which options may be granted to any Eligible Person is not permitted to exceed 25% of the maximum aggregate number of shares of the Company for the time being issued and issuable under the Scheme.

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SHARE OPTIONS (Continued)

Details of the movements in the Company's share options granted to the directors of the Company and employees of the Group during the year are as follows:

	Option type (Note 1)	Number of share options				Outstanding at 31st March, 2002	Price of Company's shares (Note 2)	
		Outstanding at 1st April, 2001	Granted during the year	Lapsed during the year	Exercised during the year		For options granted	For options exercised
Directors								
Chong Sing Yuen	1999	50,000,000	-	-	-	50,000,000	-	-
	2001	-	27,000,000	-	-	27,000,000	0.039	-
Sun Tak Yan, Desmond	1999	20,000,000	-	-	-	20,000,000	-	-
	2000	50,000,000	-	-	1,400,000	48,600,000	-	0.031
	2001	-	6,000,000	-	-	6,000,000	0.039	-
Chong Chun Kwok, Piggy	2001	-	6,000,000	-	-	6,000,000	0.039	-
Chong Chun Man	2000	8,500,000	-	-	-	8,500,000	-	-
	2001	-	7,000,000	-	-	7,000,000	0.039	-
Chu Kiu Fat	2000	7,500,000	-	-	-	7,500,000	-	-
	2001	-	6,000,000	-	-	6,000,000	0.039	-
Wong Siu Keung, Joe	2000	10,000,000	-	-	-	10,000,000	-	-
	2001	-	6,000,000	-	-	6,000,000	0.039	-
Chu Bu Yang, Alexander	2001	-	6,000,000	-	-	6,000,000	0.039	-
Chin Pak Hing	2001	-	6,000,000	-	6,000,000	-	0.039	0.031
Chong Chun Hing	2001	-	6,000,000	-	-	6,000,000	0.039	-
Wong, Bingley	2001	-	6,000,000	-	-	6,000,000	0.039	-
Ma Wah Yan	2001	-	6,000,000	-	-	6,000,000	0.039	-
		<u>146,000,000</u>	<u>88,000,000</u>	<u>-</u>	<u>7,400,000</u>	<u>226,600,000</u>		
Employees								
Cheng Man Shan*	2001	-	1,150,000	-	-	1,150,000	0.039	-
Other employees	1999	910,000	-	910,000	-	-	-	-
	2001	-	10,000,000	-	1,000,000	9,000,000	0.039	0.035
		<u>910,000</u>	<u>11,150,000</u>	<u>910,000</u>	<u>1,000,000</u>	<u>10,150,000</u>		
Total		<u>146,910,000</u>	<u>99,150,000</u>	<u>910,000</u>	<u>8,400,000</u>	<u>236,750,000</u>		

* Spouse of Mr. Chong Sing Yuen

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SHARE OPTIONS (Continued)

Notes:

1. Details of the options are as follows:

Option type	Date of grant	Exercisable period	Exercise price HK\$
1999	25th June, 1999	25th June, 1999 to 10th September, 2002	0.050
2000	25th November, 2000	25th November, 2000 to 10th September, 2002	0.027
2001	18th June, 2001	18th June, 2001 to 10th September, 2002	0.027

2. The price of the Company's shares disclosed for options granted during the year is the closing price quoted on the Stock Exchange on the trading day immediately prior to the date of grant of the respective options. The price of the Company's shares disclosed for options exercised during the year is the average closing price quoted on the Stock Exchange on the five trading days immediately prior to the date of exercise of the respective options.
3. No options granted were cancelled during the year.

During the year, the Company granted options to subscribe for 99,150,000 Company's shares of HK\$0.01 each.

The fair value of the options granted during the year measured as at 18th June, 2001, the date of grant, totalled approximately HK\$1,072,000. The following significant assumptions were used to derive the fair values using the Black-Scholes option pricing model:

- an expected volatility of 52%;
- no annual dividends distributed out of earnings; and
- the estimated expected life of options granted is 1.25 years. The corresponding 2-year Hong Kong Exchange Fund Notes interest rate at the date the option was granted was 4.5% per annum.

Directors' Report

SHARE OPTIONS (Continued)

For the purposes of the calculation of fair value, the number of options granted in the current year has been reduced to reflect historical experience of forfeitures of 1.9% of options granted.

The Black-Scholes option pricing model requires the input of highly subjective assumptions, including the volatility of share price. Because changes in subjective input assumptions can materially affect the fair value estimate, in the directors' opinion, the existing model does not necessarily provide a reliable single measure of the fair value of the share options.

No charge is recognised in the income statement in respect of the value of options granted during the year.

DIRECTORS' RIGHTS TO ACQUIRE SHARES OR DEBENTURES

Save as disclosed above under the paragraph headed "Share options", at no time during the year was the Company or any of its subsidiary a party to any arrangements to enable the directors of the Company to acquire benefits by means of the acquisition of shares in, or debt securities (including debentures) of, the Company or any other body corporate. Similarly, none of the spouses or children under the age of 18 of the directors had any rights to subscribe for securities of the Company or exercised any such rights during the year.

SUBSTANTIAL SHAREHOLDERS

As at 31st March, 2002, the register of substantial shareholders maintained by the Company pursuant to Section 16(1) of the SDI Ordinance showed that, other than the interests disclosed under the paragraph headed "Directors' interests in securities", the Company had not been notified of any other interests as at 31st March, 2002 representing 10% or more of the issued share capital of the Company.

Directors' Report

DIRECTORS' INTERESTS IN CONTRACTS AND CONNECTED TRANSACTIONS

During the year, the Group had the following transactions with Twin Base, a company in which a controlling shareholder and director of the Company, Mr. Chong Sing Yuen, has a beneficial interest:

a. Rentals paid on land and buildings

During the year, the Group paid rentals of approximately HK\$406,000 to Twin Base for land and buildings. The rentals were charged in accordance with the tenancy agreements and the prevailing rent approximate to the open market rate estimated by the directors when the tenancy agreements were contracted.

b. During the year, the Group paid rentals of approximately HK\$277,000 to Twin Base for a motor vehicle. The rentals were charged in accordance with a motor vehicle rental agreement and the prevailing rent approximate to the open market rate estimated by the directors when the motor vehicle rental agreement was contracted.

c. Pursuant to an agreement (the "Cutter Business Agreement") dated 19th September, 2000 entered into amongst the Company, Twin Base and Mr. Chong Sing Yuen, the Company acquired from Twin Base the business for the manufacture and sales of snap off blade cutters (the "Cutter Business"). Under the terms of the Cutter Business Agreement, Twin Base guaranteed the audited profit after taxation but before extraordinary items (the "Audited Profit") of the Cutter Business for the year ended 31st December, 2001 would not be less than HK\$10,000,000 (the "Guaranteed Profit"). In the event that the Audited Profit of the Cutter Business for the year ended 31st December, 2001 fell short of the Guaranteed Profit, Twin Base was required to compensate for the liquidated damages. The Audited Profit for the year ended 31st December, 2001 was HK\$12,211,000 which was not less than HK\$10,000,000. Accordingly, Twin Base was not required to compensate for any liquidated damages to the Company under the Cutter Business Agreement.

d. During the year, Twin Base advanced approximately HK\$5,778,000 to the Group. The advance was unsecured, interest-free and was repayable on demand. The balance outstanding as at 31st March, 2002 of approximately HK\$5,346,000 was fully repaid in April, 2002.

e. As at 31st March, 2002, Twin Base had pledged certain of its property interests to a bank to secure the credit facilities to the extent of HK\$5,400,000 granted to the Group.

Directors' Report

DIRECTORS' INTERESTS IN CONTRACTS AND CONNECTED TRANSACTIONS (Continued)

As at 31st March, 2002, Mr. Chong Sing Yuen has given a joint and several guarantee together with a subsidiary to a financial institution to secure the credit facilities to the extent of HK\$2,000,000 granted to the Company.

During the year, the Group paid product design service fees of approximately HK\$53,000, and sold finished goods of approximately HK\$9,000, to RC Lab Ltd., a company in which a non-executive director of the Company, Mr. Chong Chun Hing, has a beneficial interest.

In addition, during the year, the Group paid legal and professional fees of approximately HK\$20,000 for services rendered by a firm of solicitors, P.H. Chin & Company, in which a director of the Company, Mr. Chin Pak Hing, is the sole proprietor of the firm.

In the opinion of the directors who do not have any interest in the above transactions, the above transactions were carried out on normal commercial terms, in the ordinary and usual course of business of the Group, on terms that are fair and reasonable so far as the shareholders of the Company are concerned.

Save as disclosed above:

- i. no other contracts of significance subsisted at any time during the year to which the Company or any of its subsidiary was a party and in which a director of the Company had a material interest, whether directly or indirectly; and
- ii. there were no other transactions which need to be disclosed as connected transactions in accordance with the requirements of the Rules Governing the Listing of Securities on the Stock Exchange (the "Listing Rules").

MAJOR CUSTOMERS AND SUPPLIERS

During the year, the aggregate sales attributable to the Group's five largest customers were approximately 57% of the Group's total sales of which the Group's largest customer were approximately 19% of the Group's total sales.

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

None of the directors, their associates or any shareholders which, to the knowledge of the directors, owned more than 5% of the Company's issued share capital had any interest in the share capital of any of the Group's five largest customers.

Directors' Report

COMPLIANCE WITH CODE OF BEST PRACTICE

The Company has complied throughout the year ended 31st March, 2002 with the Code of Best Practice as set out in Appendix 14 of the Listing Rules.

PURCHASE, SALE OR REDEMPTION OF THE COMPANY'S LISTED SECURITIES

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

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.

POST BALANCE SHEET EVENT

Details of a significant post balance sheet event with a connected party are set out in note 38 to the financial statements.

AUDITORS

The financial statements were audited by Messrs. Deloitte Touche Tohmatsu. A resolution for the appointment of Messrs. Ernst & Young as the Company's auditors for the ensuing year is to be proposed at the forthcoming annual general meeting.

On behalf of the Board

CHONG SING YUEN

CHAIRMAN

Hong Kong, 19th July, 2002