

# Managing Director



Mr. Leung Chung Ming,  
Managing Director

### Markets

During the year under review, the Group achieved significant sales performance, especially in the U.S., while sales in Europe continued to record steady performance.

With the strategic acquisition of KG in the U.S., sales in the market increased markedly by 28% from HK\$290 million to HK\$373 million, representing approximately 50% of the Group's total turnover (2003: 40%), demonstrating the increasing importance of the U.S. market. Leveraging KG's established and new distribution channels including specialty toy stores, gift shops, sports and hardware outlets and amusement parks, the Group successfully and effectively expanded its business into the huge U.S. market.

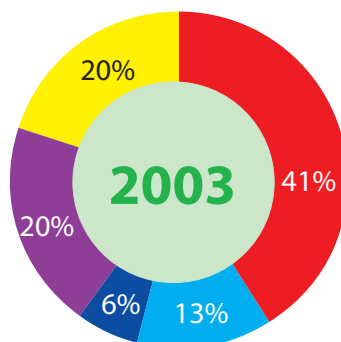
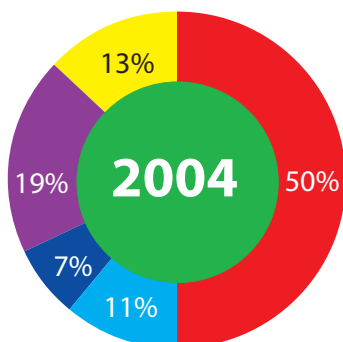
Sales performance in Europe saw steady performance, achieving sales of HK\$138 million, which constituted 19% (2003: 20%) of the Group's total turnover. With the significant increase in sales to the U.S, sales contribution from Japan experienced a decline to 13% (2003: 20%). This also represents a weakness in the Japanese toy market.

As for sales to Mainland China and in Hong Kong, the Group's performance had been stable. They contributed 7% (2003: 6%) and 6% (2003: 8%) of the Group's total turnover respectively. With the introduction of licensed toys associated with TV broadcast of animation by the Group and the launch of "Bendos" at a prime retail outlet in Beijing in March 2004, sales contribution from Mainland China gradually picked up. The market is expected to emerge as an increasingly important sales base for the Group.

### Radio Control Toys

The radio control and wireless toys segment remained as the major source of revenue for the Group and experienced further growth. During the year under review, sales contribution from this product category amounted to approximately 60% of the total turnover as compared with 54% last year. The Group's "sea", "land" and "air" R/C toys continued to achieve remarkable performance. Newly developed R/C toys in conjunction with major movie release also received warm market response. With the strong support of STP's design and engineering capabilities, the Group successfully introduced a number of new products to the markets for leading R/C toy customers in the U.S..

Besides, the Group's OBM KG Racer also recorded satisfactory results. Under the KG Racer brand, new brands were introduced to the market, namely Backyard R/C, R/C Zamboni, Bullpen R/C and R/C Golf Car, which achieved higher profit margin for the Group. With the strategic positioning of KG in the U.S., the Group has been able to expand sales channels to major retail chains and specialized retail outlets in the U.S., thus increasing its market presence in this geographic segment.



## Electronic and Plastic Toys

This segment accounted for 29% of the total turnover, representing a slight decrease from the previous year (2003: 35%).

With the continuous technical support of STP in product design, moulding and engineering, the Group received orders from a couple of leading pre-school electronic product customers from the U.S. and Japan. They were among the Group's top 5 customers during the year. The Group's ability to produce quality that meets the strict requirements of the customers in this market further enhances its capabilities in this segment.



Besides distribution of the licensed Bendos sports figures based on the National Hockey League ("NHL"), the Group also successfully acquired a couple more licenses with the Major League Baseball ("MLB") and the Major League Soccer ("MLS") for Bendos. The Group currently distributes in more than 2,000 outlets in the U.S., including specialty toy stores, gift shops, sports and hardware outlets and amusement parks. New brands, namely Topshots and Mighty Magz, were also launched during the year. As for the Mainland market that promises immense market opportunities, the Bendos brand was also introduced to a prime retail outlet in Beijing in March, 2004.

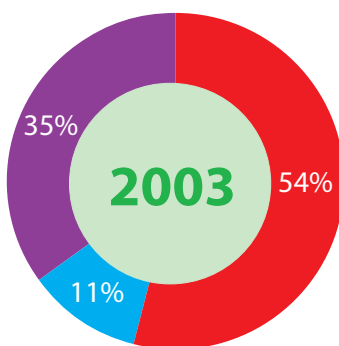
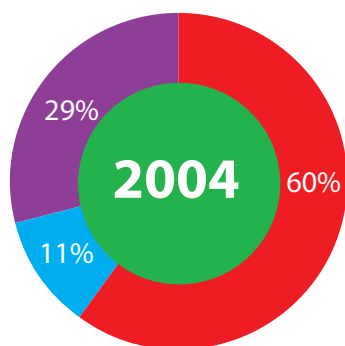
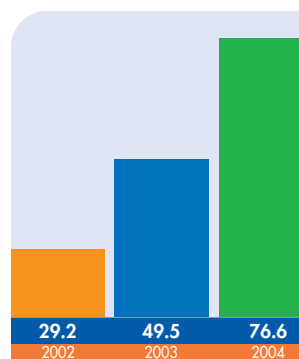


## Consumer Electronics and Interactive Products

Sales contribution from this product segment remained steady at 11% of the total turnover (2003: 11%). Baby monitors, digital cameras and interactive pet toys continued to contribute strongly to this segment. During the year, the Group successfully

produced a wider range of high-end hobbyist radio controller which met with the stringent requirements and quality standards of a worldwide renowned hobby company, thus securing substantial orders.

**Sales Growth of LC Tech**  
For the year ended March 31  
(HK\$mil)



With STP's strong support in design and engineering and LC Tech's alternate sales channels, the Group continued to expand further in its non-toy business segment.

### Major Customers

Devoted to strengthening relationship with its major OEM customers, the Group works closely with Futaba, Mattel, Newell Rubbermaid and other leading toy companies. Capitalizing on its ability to produce quality products and deliver them in a timely manner, the Group has been able to maintain a long-term and stable relationship with all its major customers. During the year under review, sales to its 5 major customers accounted for 74% of the total turnover, compared with 76% in the previous year.

### Employee Schemes

As at 31 March 2004, the Group had approximately 6,400 employees with 55, 6,100, 235 and 10 employees based in its Hong Kong headquarter, the factories in Dongguan, the PRC and Indonesia, and the office in the U.S. respectively. The number of people employed by the Group varies from time to time, depending on production needs, and staff are remunerated based on industry practices.

The Group offers different remuneration schemes for different employees. Apart from pension funds and year-end bonuses, in-house training programmes are offered. Details of share option schemes granted to the Group's employees are set out on pages 19 to 20.

### Appreciation

On behalf of the management, I would like to take this opportunity to extend my sincere gratitude to our long-term customers, licensors and business partners for their continued and loyal support over the past year. I would also like to extend my appreciation to the management and staff for their hard work and dedication, which has been instrumental to the achievement of good results by the Group.



**Leung Chung Ming**  
*Managing Director*

22 July 2004