

## REPORT OF DIRECTORS

The directors herein present their report and the audited financial statements of the Company and of the Group for the year ended 31 March 2002.

### 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, motors and electrical household appliances. There were no significant changes in the principal activities of the Group during the year.

### SEGMENT INFORMATION

An analysis of the Group's turnover and contribution to results by principal activity and geographical area of operations for the year ended 31 March 2002 is set out in note 4 to the financial statements.

### RESULTS AND DIVIDENDS

The Group's profit for the year ended 31 March 2002 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 58.

An interim dividend of HK3 cents per ordinary share was paid to shareholders on 18 January 2002. 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 20 August 2002. This recommendation has been incorporated in the financial statements as an allocation of retained profits within capital and reserves in the balance sheet. Further details of this accounting treatment are set out in note 11 to the financial statements.



## SUMMARY FINANCIAL INFORMATION

The following is a summary of the combined/consolidated results and assets and liabilities of the Group prepared on the basis set out in the note below. The amounts for each year in the five year summary have been adjusted for the effects of the retrospective changes in accounting policy affecting dividends, as detailed in note 2 to the financial statements.

RESULTS	Year ended 31 March				
	2002 HK\$'000	2001 HK\$'000	2000 HK\$'000	1999 HK\$'000	1998 HK\$'000
TURNOVER	<u>785,804</u>	<u>811,561</u>	<u>529,957</u>	<u>427,922</u>	<u>328,603</u>
PROFIT AFTER FINANCE COSTS	119,850	103,663	95,719	66,879	85,515
Share of profits less losses of associates	<u>(1,336)</u>	<u>(3,000)</u>	<u>(509)</u>	<u>136</u>	<u>(78)</u>
PROFIT BEFORE TAX	118,514	100,663	95,210	67,015	85,437
Tax	<u>(9,309)</u>	<u>(6,904)</u>	<u>(8,829)</u>	<u>(5,383)</u>	<u>(4,276)</u>
PROFIT BEFORE MINORITY INTERESTS	109,205	93,759	86,381	61,632	81,161
Minority interests	<u>(11,171)</u>	<u>(9,067)</u>	<u>(122)</u>	<u>103</u>	<u>(204)</u>
NET PROFIT FROM ORDINARY ACTIVITIES ATTRIBUTABLE TO SHAREHOLDERS	<u>98,034</u>	<u>84,692</u>	<u>86,259</u>	<u>61,735</u>	<u>80,957</u>

## SUMMARY FINANCIAL INFORMATION (continued)

ASSETS AND LIABILITIES	2002 HK\$'000	2001 HK\$'000 (restated)	31 March 2000	1999	1998
			HK\$'000 (restated)	HK\$'000 (restated)	HK\$'000 (restated)
NON-CURRENT ASSETS	290,354	284,843	212,449	170,226	166,758
CURRENT ASSETS	311,523	286,415	270,739	225,682	177,543
TOTAL ASSETS	601,877	571,258	483,188	395,908	344,301
CURRENT LIABILITIES	(90,957)	(123,855)	(105,046)	(86,538)	(59,177)
NON-CURRENT LIABILITIES	(6,997)	(10,160)	(2,793)	(1,903)	(1,903)
TOTAL LIABILITIES	(97,954)	(134,015)	(107,839)	(88,441)	(61,080)
MINORITY INTERESTS	(28,855)	(17,928)	(7,626)	–	(372)
NET ASSETS	475,068	419,315	367,723	307,467	282,849

Note: The summary of the combined results for the year 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 year ended 31 March 1998.

## FIXED ASSETS

Details of movements in the fixed assets of the Group are set out in note 13 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 23 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 24 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 2002, the Company's reserves available for cash distribution and/or distribution in specie, comprising the contributed surplus and retained profits, amounted to HK\$152,759,000. 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\$88,330,000 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\$1,276,000 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 material forfeited contributions during the year. At 31 March 2002, 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 58% of the total sales for the year and sales to the largest customer included therein amounted to 30%.

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 were:

### Executive directors

Cheng Chor Kit  
Cheng Chor Chiu  
Chan Tak Yin (appointed on 14 December 2001)  
Cheng Chor Yip  
Wong Kin Chung

### Independent non-executive directors

Chung Chi Ping, Roy  
Lam Shuet Ching, Gloria

Subsequent to the balance sheet date, on 22 April 2002, Chui Pak Shing, was appointed as an executive director of the Company and Cheng Chor Chiu resigned as an executive director of the Company on 15 July 2002.

In accordance with clause 87(1) of the Company's bye-laws, Chan Tak Yin and Chui Pak Shing will retire by rotation and, being eligible, will offer themselves for re-election at the forthcoming annual general meeting.

### DIRECTORS' SERVICE CONTRACTS

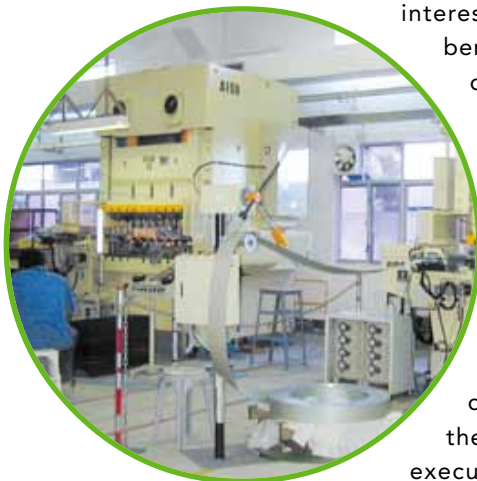
Except for Chan Tak Yin and Chui Pak Shing, all the executive directors entered into service contracts with the Company for terms of three years commencing from 1 April 1997, which have been renewed automatically in each year for successive terms of one year subject to termination by either party giving not less than six months' notice in writing to the other party. Chan Tak Yin and Chui Pak Shing have entered into service contracts with the Company for terms of three years commencing from 15 December 2001 and 22 April 2002, renewable automatically for successive terms of three years 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

Apart from as disclosed under the headings "Share option scheme" and "Directors' interests in shares" below, at no time during the year were rights to acquire benefits by means of the acquisition of shares in the Company granted to any director or their respective spouse or children under 18 years of age, or were any such rights exercised by them; or was the Company, its holding companies, or any of its subsidiaries or fellow subsidiaries a party to any arrangement to enable the directors to acquire such rights in any other body corporate.



## SHARE OPTION SCHEME

The Company operates a share option scheme (the "Scheme") for the purpose of providing incentives and rewards to eligible participants who contribute to the success of the Group's operations. Eligible participants of the Scheme included the Company's directors, including independent non-executive directors, and other employees of the Group. The Scheme became effective on 8 April 1997 and, unless otherwise cancelled or amended, will remain in force for a period of 10 years from that date.

The maximum number of unexercised share options currently permitted to be granted under the Scheme is an amount equivalent, upon their exercise, up to 10% of the shares of the Company in issue at any time. As at 31 March 2002, the number of shares issuable under share options granted under the Scheme was 28,460,000, which represented approximately 7.5% of the shares of the Company in issue as at that date. The maximum number of shares issuable under share options to each eligible participant in the Scheme is limited to 25% of the aggregate number of shares issuable under the Scheme.

The offer of a grant of share options may be accepted within 21 days from the date of the offer by the grantee. An option may be exercised under the Scheme at any time during a period not exceeding 10 years after the date when the option is granted and expiring on the last date of such period.

The exercise price of the share option is determinable by the directors at their discretion based on the higher of 80% of the average of the closing prices of the shares on The Stock Exchange of Hong Kong Limited for the five trading days immediately preceding the offer date, and the nominal value of the shares of the Company.

### SHARE OPTION SCHEME (continued)

There were no new share options granted to directors and employees during the year. None of the share options granted to directors in prior years were exercised during the year. A total of 100,000 share options granted to an employee were exercised during the year at an exercise price of HK\$0.3032, and 300,000 share options granted to an employee with an exercise price of HK\$0.3032 lapsed and were cancelled during the year. The details of share options granted to directors and employees which remained outstanding as at 31 March 2002 were as follows:

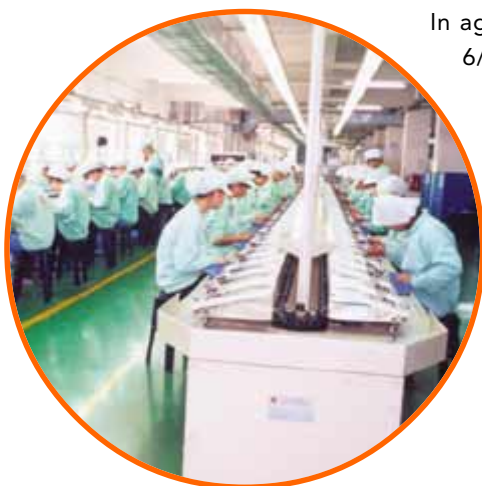
	Date of share options granted	Number of share options outstanding as at 31 March 2002	Exercise period	Exercise price per share HK\$
<b>Directors</b>				
Cheng Chor Kit	7/7/1997	6,000,000	7/7/1997–7/4/2007	0.8700
	6/11/1998	1,500,000	6/11/1998–5/11/2008	0.3032
Cheng Chor Chiu	7/7/1997	4,500,000	7/7/1997–7/4/2007	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

#### Other employees

In aggregate	7/7/1997	4,210,000	7/7/1997–7/4/2007	0.8700
	6/11/1998	5,750,000	6/11/1998–5/11/2008	0.3032

Included in the aggregate share options granted to other employees, 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 2002.

Summary details of the Company's share option scheme are also set out in note 23 to the financial statements.





## DIRECTORS' INTERESTS IN SHARES

At 31 March 2002, the interests of the directors and their associates in the share capital of the Company and its associated corporations, as recorded in the register maintained by the Company pursuant to Section 29 of the Securities (Disclosure of Interests) Ordinance (the "SDI Ordinance"), were as follows:

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 (amounting to around 71.13% of the total issued share capital of the Company), 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 ultimately owned by a discretionary trust, the objects of which include the family members of 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, 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 "Share option scheme".

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

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.



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

### Executive directors

Cheng Chor Kit, aged 50, 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 Cheng Chor Chiu and Cheng Chor Yip.

Cheng Chor Chiu, aged 48, 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 Cheng Chor Kit and Cheng Chor Yip. He resigned as an executive director of the Company on 15 July 2002.



Chan Tak Yin, aged 41, is an executive director of the Company. He graduated from the University of Hong Kong with a B.A. degree in 1984 and has extensive investment and corporate management experience. Prior to his joining to the Group in December 2001, he worked for several renowned financial institutions namely Sun Hung Kai Co., Standard Chartered Bank, Barclays Bank and BNP Paribas. He is now the managing director of the Company and has overall management responsibility.

Cheng Chor Yip, aged 40, 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 Cheng Chor Kit and Cheng Chor Chiu.

Chui Pak Shing, ASCPA, AHKSA, CPA, aged 34, is the finance director 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. He was appointed as an executive director of the Company on 22 April 2002.

Wong Kin Chung, aged 56, is an executive director of the Company. He joined the Group in 1982 and is responsible for the overall operations in Shenzhen, PRC. He has more than 20 years of experience in the toy industry.

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

### Independent non-executive directors

Chung Chi Ping, Roy, MSc, aged 50, is the managing director of Techtronic Industries Company Limited. He holds a Master of Science degree in Engineering Business Management from the University of Warwick. He is 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 University, Director of HK Paediatric Foundation of HK Paediatric Society, Director of the HK Safety Institute Ltd, Chairman of Group “Electrical & Optical Products” and Member of Design Council of the Federation of Hong Kong Industries. He is also the President of Hong Kong Electrical Appliances Manufacturers Association.

Lam Shuet Ching, Gloria, aged 38, is a solicitor practising in Hong Kong and is a senior consultant of Sidley Austin, Brown & Wood, a law firm in Hong Kong.

### Senior management staff

Wan Kwok Sun, aged 52, is the general manager in the Shaoguan area and is responsible for the overall production in Shaoguan, PRC. He joined the Group in 1987 and has more than 30 years’ experience in mould design and injection moulding operations.

Fan Sau Leung, Tony, MSc (IM), BBA, IENG, aged 52, 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.

Wang Shiu Kee, Joseph, aged 43, is the general manager of Newway Electrical Industries Limited. He 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.

Poon Wing Shun, Wilson, aged 45, 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.

Chan Ho Man, Daniel, FCCA, AHKSA, aged 47, 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 2002, other than Resplendent Global Limited as set out in the section “Directors’ interests in shares” 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.

### **POST BALANCE SHEET EVENTS**

Details of the significant post balance sheet events of the Group are set out in note 30 to the financial statements.

### **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 2002 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 2002.

### **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

15 July 2002