

REPORT OF THE DIRECTORS

The directors present their report and the audited financial statements of the Company and of the Group for the year ended 31 March 2003.

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.

Results and dividends

The Group's profit for the year ended 31 March 2003 and the state of affairs of the Company and of the Group at that date are set out in the financial statements on pages 17 to 55.

An interim dividend of HK2.5 cents per ordinary share was paid to shareholders on 15 January 2003. The directors recommend the payment of a final dividend of HK5 cents per ordinary share in respect of the year, to shareholders on the register of members on 25 August 2003. This recommendation has been incorporated in the financial statements as an allocation of retained profits within the capital and reserves section of the balance sheet.

Summary financial information

The following is a summary of the consolidated results and assets, liabilities and minority interests of the Group for the last five financial years, as extracted from the published audited financial statements of the Group.

RESULTS	Year ended 31 March				
	2003 HK\$'000	2002 HK\$'000	2001 HK\$'000	2000 HK\$'000	1999 HK\$'000
TURNOVER	<u>794,209</u>	<u>785,804</u>	<u>811,561</u>	<u>529,957</u>	<u>427,922</u>
PROFIT AFTER FINANCE COSTS	<u>84,432</u>	<u>119,850</u>	<u>103,663</u>	<u>95,719</u>	<u>66,879</u>
Share of profits less losses of associates	<u>(2,028)</u>	<u>(1,336)</u>	<u>(3,000)</u>	<u>(509)</u>	<u>136</u>
PROFIT BEFORE TAX	<u>82,404</u>	<u>118,514</u>	<u>100,663</u>	<u>95,210</u>	<u>67,015</u>
Tax	<u>(6,837)</u>	<u>(9,309)</u>	<u>(6,904)</u>	<u>(8,829)</u>	<u>(5,383)</u>
PROFIT BEFORE MINORITY INTERESTS	<u>75,567</u>	<u>109,205</u>	<u>93,759</u>	<u>86,381</u>	<u>61,632</u>
Minority interests	<u>(4,124)</u>	<u>(11,171)</u>	<u>(9,067)</u>	<u>(122)</u>	<u>103</u>
NET PROFIT FROM ORDINARY ACTIVITIES ATTRIBUTABLE TO SHAREHOLDERS	<u>71,443</u>	<u>98,034</u>	<u>84,692</u>	<u>86,259</u>	<u>61,735</u>

Summary financial information (continued)

ASSETS, LIABILITIES AND MINORITY INTERESTS	31 March				
	2003 HK\$'000	2002 HK\$'000	2001 HK\$'000	2000 HK\$'000	1999 HK\$'000
NON-CURRENT ASSETS	335,426	290,354	284,843	212,449	170,226
CURRENT ASSETS	315,841	311,523	286,415	270,739	225,682
TOTAL ASSETS	651,267	601,877	571,258	483,188	395,908
CURRENT LIABILITIES	(113,858)	(90,957)	(123,855)	(105,046)	(86,538)
NON-CURRENT LIABILITIES	(7,737)	(6,997)	(10,160)	(2,793)	(1,903)
TOTAL LIABILITIES	(121,595)	(97,954)	(134,015)	(107,839)	(88,441)
MINORITY INTERESTS	(10,340)	(28,855)	(17,928)	(7,626)	–
NET ASSETS	519,332	475,068	419,315	367,723	307,467

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 notes 24 and 25 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 26 to the financial statements and in the consolidated statement of changes in equity, respectively.

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 2003, the Company's reserves available for cash distribution and/or distribution in specie, comprising the contributed surplus and retained profits, amounted to HK\$144,963,000, of which HK\$20,241,000 has been proposed as a final dividend for the year. 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\$104,441,000 may be distributed in the form of fully paid bonus shares.



Major customers and suppliers

During the year under review, sales to the Group's five largest customers accounted for 56% of the total sales for the year and sales to the largest customer included therein amounted to 31%.

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	
Chan Tak Yin	
Wong Kin Chung	
Chui Pak Shing	(appointed on 22 April 2002)
Fan Sau Leung	(appointed on 17 October 2002)
Cheng Chor Chiu	(resigned on 15 July 2002)
Cheng Chor Yip	(resigned on 28 February 2003)

Independent non-executive directors

Chung Chi Ping, Roy
Lam Shuet Ching, Gloria

In accordance with clause 87(1) of the Company's bye-laws, Wong Kin Chung and Fan Sau Leung will retire by rotation and, being eligible, will offer themselves for re-election at the forthcoming annual general meeting.



Directors' service contracts

Cheng Chor Kit and Wong Kin Chung entered into service contracts with the Company for terms of three years commencing from 1 April 1997, which have been renewed automatically 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, Chui Pak Shing and Fan Sau Leung entered into service contracts with the Company for terms of three years commencing from 15 December 2001, 22 April 2002 and 17 October 2002, respectively, renewable automatically every three years 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 of compensation, other than statutory compensation.

Directors' rights to acquire shares

Save as disclosed in the share option scheme disclosures in note 25 to the financial statements, 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, or any of its holding companies, subsidiaries and fellow subsidiaries a party to any arrangement to enable the directors to acquire such rights in any other body corporate.



Share option scheme

Due to the adoption of Statement of Standard Accounting Practice No. 34 "Employee benefits" during the year, the detailed disclosures relating to the Company's share option scheme are set out in note 25 to the financial statements.

Directors' interests in shares

At 31 March 2003, 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 (note 1)	–	269,676,000 (note 2)
Wong Kin Chung	3,050,000	–

Notes:

- (1) These shares, amounting to around 66.62% of the total issued share capital of the Company, are held by Resplendent Global Limited ("Resplendent"), a company incorporated in the British Virgin Islands. Padora Global Inc. ("Padora") and Shannon Global Limited ("Shannon") are the beneficial owners of approximately 74.3% and 25.7%, respectively, of the issued share capital of Resplendent. Padora is a company incorporated in the British Virgin Islands and is wholly-owned by Polo Asset Holdings Limited, which is ultimately owned by the trustees of a discretionary trust established by Cheng Chor Kit for his family. Shannon is a company incorporated in the British Virgin Islands which is owned by Cheng Chor Chiu, Cheng Chor Yip and Cheng Chor Kei, the brothers of Cheng Chor Kit, in the ratios of approximately 57.75%, 21.125% and 21.125%, respectively.

Pursuant to two share transfer agreements dated 25 July 2002 and 2 June 2003 entered into between Shannon, Padora, Cheng Chor Chiu, Cheng Chor Yip, Cheng Chor Kei and Cheng Chor Kit whereby Shannon agreed to transfer a total of 40.5% interests in Resplendent to Padora in different phases and the transfers will complete not later than 2 December 2004. As at 31 March 2003, 14.8% interests in Resplendent had been transferred.

Subsequent to the balance sheet date on 2 June 2003, 4.3% interest in Resplendent has transferred from Shannon to Padora. Accordingly, the interest of Padora and Shannon in Resplendent has increased to 78.6% and reduced to 21.4%, respectively.

- (2) Subsequent to the balance sheet date on 11 June 2003, Resplendent has disposed 4,000,000 shares of the Company in the stock market. After the disposal of these 4,000,000 shares, the number of ordinary issued shares held by Resplendent is reduced to 265,676,000.

Directors' interests in shares (continued)

The directors' interests in the Company's share options are disclosed in note 25 to the financial statements.

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 51, 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 (the "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.

Chan Tak Yin, aged 42, 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 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.

Biographical details in respect of directors and senior management staff (continued)

Executive directors (continued)

Chui Pak Shing, ASCPA, AHKSA, MBA, aged 35, 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.

Fan Sau Leung, Tony, MSc (IM), BBA, IENG, aged 53, is an executive 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 29 years of experience in the design engineering field and marketing management. He was appointed as an executive director of the Company on 17 October 2002.



Wong Kin Chung, aged 57, 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.

Independent non-executive directors

Chung Chi Ping, Roy, MSc, aged 51, is the managing director and co-founder of Techtronic Industries Company Limited. He holds a Master of Science degree in Engineering Business Management from the University of Warwick. He is responsible for corporate and business management of the Group. The winner of the Young Industrialists Award of HK 1997, Council Deputy Chairman 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.

Lam Shuet Ching, Gloria, aged 39, is a solicitor practising in Hong Kong and is a partner of Sidley Austin, Brown & Wood, a law firm in Hong Kong.

Biographical details in respect of directors and senior management staff (continued)

Senior management staff

Yuen Wai Kwong, aged 51, is the head of operations of the toy division of the Company. He graduated from Hong Kong Polytechnic in 1975 and has more than 28 years experience in the toy industry. Before he joined the Group in April 2003, he had worked as senior executive in several major local and multinational toy manufacturing and marketing companies.

Wang Shiu Kee, Joseph, aged 44, is the general manager in the Shaoguan area and is responsible for the overall production in Shaoguan, PRC. He holds a bachelor's degree in commerce from St. Mary's University, Canada and has more than 20 years of experience in the trading and manufacturing industries. He joined the Group in 1991.

Wan Kwok Sun, aged 53, is the head of engineering department in the Shaoguan area and is responsible for the project development of the toy division in Shaoguan, PRC. He joined the Group in 1987 and has more than 30 years' experience in mechanical engineering, mould design and injection moulding operations.

Poon Wing Shun, Wilson, aged 46, is the senior quality assurance manager of the Company. He joined the Group in 1996 and has more than 26 years' experience in quality control.

Chan Ho Man, Daniel, FCCA, AHKSA, aged 48, 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 2003, other than 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.

Connected transactions

Details of the connected transactions are set out in note 27 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 accounting period covered by the annual report, except that the independent non-executive directors of the Company are not appointed for specific term but 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 2003 amounted to HK\$250,000.

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 2003.

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
21 July 2003