

# 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 2004.

## PRINCIPAL ACTIVITIES

The principal activity of the Company is investment holding. The principal activities of the subsidiaries during the year 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 2004 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 56.

An interim dividend of HK2 cents per ordinary share was paid to shareholders on 15 January 2004. The directors recommend the payment of a final dividend of HK1 cent per ordinary share in respect of the year, to shareholders on the register of members on 23 August 2004. 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				
	2004 HK\$'000	2003 HK\$'000	2002 HK\$'000	2001 HK\$'000	2000 HK\$'000
<b>TURNOVER</b>	<b>624,665</b>	794,209	785,804	811,561	529,957
<b>PROFIT AFTER FINANCE COSTS</b>	<b>26,084</b>	84,432	119,850	103,663	95,719
Share of profits less losses of associates	<b>6,772</b>	(2,028)	(1,336)	(3,000)	(509)
<b>PROFIT BEFORE TAX</b>	<b>32,856</b>	82,404	118,514	100,663	95,210
Tax	<b>(3,517)</b>	(6,837)	(9,309)	(6,904)	(8,829)
<b>PROFIT BEFORE MINORITY INTERESTS</b>	<b>29,339</b>	75,567	109,205	93,759	86,381
Minority interests	<b>(4,507)</b>	(4,124)	(11,171)	(9,067)	(122)
<b>NET PROFIT FROM ORDINARY ACTIVITIES ATTRIBUTABLE TO SHAREHOLDERS</b>	<b>24,832</b>	71,443	98,034	84,692	86,259

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## SUMMARY FINANCIAL INFORMATION (continued)

ASSETS, LIABILITIES AND MINORITY INTERESTS	2004 HK\$'000	31 March			
		2003 HK\$'000 (Restated)	2002 HK\$'000 (Restated)	2001 HK\$'000 (Restated)	2000 HK\$'000 (Restated)
NON-CURRENT ASSETS	383,114	335,426	290,354	284,843	212,449
CURRENT ASSETS	273,846	315,841	311,523	286,415	270,739
TOTAL ASSETS	656,960	651,267	601,877	571,258	483,188
CURRENT LIABILITIES	(119,069)	(113,858)	(90,957)	(123,855)	(105,046)
NON-CURRENT LIABILITIES	(27,174)	(16,724)	(15,595)	(19,598)	(11,908)
TOTAL LIABILITIES	(146,243)	(130,582)	(106,552)	(143,453)	(116,954)
MINORITY INTERESTS	(12,419)	(10,340)	(28,855)	(17,928)	(7,626)
NET ASSETS	498,298	510,345	466,470	409,877	358,608

## 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

There were no movements in either the Company's authorised or issued share capital during the year. Details of the share capital and movements in share options of the Company during the year, together with the reasons therefor, are set out in notes 24 and 25 to the financial statements, respectively.

## 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 2004, the Company's reserves available for cash distribution and/or distribution in specie, comprising the contributed surplus and retained profits, amounted to HK\$126,168,000, of which HK\$4,048,000 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.

# Report of the Directors

## MAJOR CUSTOMERS AND SUPPLIERS

During the year under review, sales to the Group's five largest customers accounted for 48% of the total sales for the year and sales to the largest customer included therein amounted to 24%.

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 best 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  
Chui Pak Shing  
Fan Sau Leung  
Wong Kin Chung

### Independent non-executive directors

Chung Chi Ping, Roy  
Lam Shuet Ching, Gloria

In accordance with clause 87(1) of the Company's bye-laws, Chung Chi Ping, Roy will retire by rotation and, being eligible, will offer himself 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 have 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.

# Report of the Directors

## DIRECTORS' INTERESTS AND SHORT POSITIONS IN SHARES AND UNDERLYING SHARES

At 31 March 2004, the interests and short positions of the directors and chief executive of the Company in the shares, underlying shares and debentures of the Company and its associated corporations (within the meaning of Part XV of the Securities and Futures Ordinance (the "SFO")), as recorded in the register required to be kept by the Company pursuant to Section 352 of the SFO, or as otherwise notified to the Company and The Stock Exchange of Hong Kong Limited (the "Stock Exchange") pursuant to the Model Code for Securities Transactions by Directors of Listed Companies, were as follows:

### (A) Shares

Name of director	Long position/ short position	Capacity	No. of shares	Percentage of the Company's issued share capital
Cheng Chor Kit	Long position	Founder of a trust	265,676,000 (Note)	65.63%
Wong Kin Chung	Long position	Beneficial owner	3,050,000	0.75%

Note: These shares, amounting to around 65.63% 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 91.5% and 8.5%, 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, three 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, Shannon agreed to transfer a total of 40.5% of its then total interests in Resplendent to Padora in different phases and the transfers of the total 40.5% interests will complete not later than 2 December 2004. Up to 31 March 2004, Shannon has transferred a total of 32% of its interests in Resplendent to Padora.

Subsequent to the balance sheet date, on 2 June 2004, the transfer of a further 4.3% interest in Resplendent from Shannon to Padora was completed pursuant to the aforesaid agreement dated 2 June 2003. Accordingly, the interests of Padora and Shannon in Resplendent have increased to 95.8% and reduced to 4.2%, respectively.

# Report of the Directors

## DIRECTORS' INTERESTS AND SHORT POSITIONS IN SHARES AND UNDERLYING SHARES (continued)

### (B) Underlying Shares

Name of director	Long position/ short position	Capacity	No. of share option granted	No. of underlying shares in respect of share option held and approximately percentage of shareholding	Date of shares option granted	Exercise period	Exercise price per share
Cheng Chor Kit	Long position	Beneficial owner	2,000,000	2,000,000 (0.49%)	14/11/2003	14/11/2006- 13/11/2013	HK\$1.592
Chan Tak Yin	Long position	Beneficial owner	726,000	726,000 (0.18%)	14/11/2003	14/11/2006- 13/11/2013	HK\$1.592
Chui Pak Shing	Long position	Beneficial owner	422,000	422,000 (0.10%)	14/11/2003	14/11/2006- 13/11/2013	HK\$1.592
Fan Sau Leung	Long position	Beneficial owner	392,000	392,000 (0.097%)	14/11/2003	14/11/2006- 13/11/2013	HK\$1.592
Wong Kin Chung	Long position	Beneficial owner	312,000	312,000 (0.078%)	14/11/2003	14/11/2006- 13/11/2013	HK\$1.592

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

Save as disclosed above, none of the directors and chief executive had registered an interest or short position in the shares, underlying shares or debentures of the Company or any of its associated corporations that was required to be recorded pursuant to Section 352 of the SFO, or as otherwise notified to the Company and the Stock Exchange pursuant to the Model Code for Securities Transactions by Directors of Listed Companies.

### 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 minor children, 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.

# Report of the Directors

## SHARE OPTION SCHEME

Concerning the share options granted during the year to the directors, substantial shareholders, employees, suppliers and others, as detailed in note 25, the directors do not consider it appropriate to disclose a theoretical value of the options granted, because in the absence of a readily available market value for share options on the ordinary shares of the Company, the directors were unable to arrive at an accurate assessment of the value of the share options.

## 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 52, is the Chairman of the Company. He is the founder of the Group and is responsible for the Group's overall operations 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 43, 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 the overall management responsibility.

Chui Pak Shing, ASCPA, AHKSA, CPA, aged 36, 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 United Kingdom.

Fan Sau Leung, Tony, MSc (IM), BBA, IENG, aged 54, 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.

Wong Kin Chung, aged 58, is an executive director of the Company. He joined the Group in 1982 and is responsible for the overall operations in Shenzhen, the PRC. He has more than 20 years of experience in the toy industry.

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

### Independent non-executive directors

Chung Chi Ping, Roy, MSc, aged 52, is the co-founder and managing director of Techtronic Industries Company Limited. He is responsible for the corporate and business management of the Group. He holds a Master of Science degree in Engineering Business Management from the University of Warwick. He won the 1997 HK Young Industrialists Award, and is currently the Deputy Council Chairman of Hong Kong Polytechnic University, the Deputy Chairman of the Federation of Hong Kong Industries, a Member of the Advisory Board for Lingnan University's Faculty of Business, Director of the HK Safety Institute Ltd & the HK Standards & Testing Centre Ltd, Director of HK Applied Science and Technology Research Institute Co. Ltd (ASTRI), the Vice-Chairman of the Governing Board of the Dongguan City Association of Enterprises with Foreign Investment.

Lam Shuet Ching, Gloria, aged 40, is a solicitor practising in Hong Kong and is a partner of Sidley Austin, Brown & Wood, a law firm in Hong Kong.

### Senior management staff

Yuen Wai Kwong, aged 52, 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 a senior executive in several major local and multinational toy manufacturing and marketing companies.

Wang Shiu Kee, Joseph, aged 45, is the general manager of the Company's operations in the Shaoguan area and is responsible for the Company's overall production in Shaoguan, the 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 54, is the head of the engineering department in the Shaoguan area and is responsible for the project development of the Company's toy division in Shaoguan, the PRC. He joined the Group in 1987 and has more than 30 years' experience in mechanical engineering, mould design and injection moulding operations.

Chan Ho Man, Daniel, FCCA, AHKSA, aged 49, 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.

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## SUBSTANTIAL SHAREHOLDERS' AND OTHER PERSONS' INTERESTS IN SHARES AND UNDERLYING SHARES

At 31 March 2004, the following interests of 5% or more of the issued share capital and share options of the Company were recorded in the register of interests required to be kept by the Company pursuant to Section 336 of the SFO:

Name	Capacity and nature of interest	Number of ordinary shares held	Percentage of the Company's issued share capital	Number of share options held
Cheng Chor Kit (Note)	Through a controlled corporation	265,676,000	65.63	2,000,000

Note: These shares were held through Resplendent.

This shareholding is duplicated in the section headed "Directors' interests and short positions in shares and underlying shares" disclosed above.

The details of the share options outstanding during the year are separately disclosed in note 25 to the financial statements.

Save as disclosed above, no person, other than Cheng Chor Kit, whose interests are set out in the section "Directors' interests and short positions in shares and underlying shares" above, had registered an interest or short position in the shares or underlying shares of the Company that was required to be recorded pursuant to Section 336 of the SFO.

## DISCLOSURE PURSUANT TO RULE 13.22 OF THE LISTING RULES

At 31 March 2004, the Group had advanced a total of HK\$18,228,000 (the "Loan") to Full Summit Development Limited ("Full Summit"), an associate of the Group, and provided a guarantee (the "Guarantee") of HK\$35,000,000 to a bank for facilities granted to Full Summit and Concord Modern International Technology Limited ("CMIT"), both are the associates of the Group. The total amount of the Loan and Guarantee of HK\$53,228,000 exceeds 8% of one or more of the percentage ratios as set out in Rule 14.04(9) of the Listing Rules, thus giving rise to a disclosure obligation under Rule 13.22 of the Listing Rules. Accordingly, a combined balance sheet of Full Summit and CMIT with major financial assistance from the Group and the Group's attributable interest in these associates are presented below:

	Combined balance sheet HK\$'000
Non-current assets	34,430
Current assets	14,064
Current liabilities	(5,651)
Non-current liabilities	(36,445)
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	6,398
	<hr/>
Group's attributable interests	3,199
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# Report of the Directors

## 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 of the Group 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 complied with the Code of Best Practice (the "Code") as set out in Appendix 14 of the Listing Rules throughout the year covered by the annual report, except that the independent non-executive directors are not appointed for specific terms as required by paragraph 7 of the Code, 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 2004 amounted to HK\$200,000.

## AUDIT COMMITTEE

The Company established an audit committee (the "Committee") in 1999 in compliance with the requirements of the Code 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 controls of the Group. The Committee comprises the two independent non-executive directors. The work of the Committee has covered the full financial year ended 31 March 2004.

## 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  
23 July 2004