



# NIKKO ELECTRONICS BHD.

(Company No. 174076-U)

(Incorporated in Malaysia under the Companies Act, 1965)

## ANNUAL REPORT 2002



# NIKKO



# CONTENTS

|   |    |
|---|----|
| Notice of Annual General Meeting .....                        | 2  |
| Statement Accompanying Notice of Annual General Meeting ..... | 6  |
| Corporate Information .....                                   | 7  |
| Chairman's Statement .....                                    | 8  |
| Profile of Directors .....                                    | 12 |
| Statement on Corporate Governance .....                       | 18 |
| Directors' Responsibility Statement .....                     | 23 |
| Statement on Internal Control .....                           | 24 |
| Audit Committee Report .....                                  | 26 |
| Other KLSE Information .....                                  | 30 |
| Five Year Financial Summary .....                             | 32 |
| List of Properties .....                                      | 34 |
| Financial Statements .....                                    | 35 |
| Analysis of Shareholdings .....                               | 70 |
| Proxy Form  |    |



# NOTICE OF ANNUAL GENERAL MEETING

**NOTICE IS HEREBY GIVEN THAT** the Fifteenth Annual General Meeting of Nikko Electronics Bhd. will be held at The Garden Ballroom, Mezzanine Floor, Hotel Melia Kuala Lumpur, No.16 Jalan Imbi, 55100 Kuala Lumpur on Friday, 27<sup>th</sup> June 2003 at 10.00 a.m. for the following businesses:

## A G E N D A

### ORDINARY BUSINESS

- |  |                     |
|--|---------------------|
| 1. To receive and adopt the Audited Financial Statements for the year ended 31 <sup>st</sup> December 2002 together with the Directors' and Auditors' Reports thereon. | <b>Resolution 1</b> |
| 2. To approve the payment of a first and final tax exempt dividend of 6 sen per ordinary share for the year ended 31 <sup>st</sup> December 2002.                      | <b>Resolution 2</b> |
| 3. To approve the payment of Directors' fees for the year ended 31 <sup>st</sup> December 2002.  | <b>Resolution 3</b> |
| 4. To re-elect the following Directors retiring by rotation pursuant to Article 63(2) of the Company's Articles of Association:  |                     |
| i) Mr. Kenichi Hattori   | <b>Resolution 4</b> |
| ii) Dato' Zulkifli bin Abdul Rahman  | <b>Resolution 5</b> |
| iii) Mr. Gong Wooi Teik  | <b>Resolution 6</b> |
| iv) Mr. Tan Gnear Eng  | <b>Resolution 7</b> |
| 5. To re-appoint Messrs PricewaterhouseCoopers as Auditors of the Company and to authorise the Directors to fix their remuneration.                                    | <b>Resolution 8</b> |

### SPECIAL BUSINESS

To consider and, if thought fit, to pass with or without modifications the following Ordinary Resolutions:

- |   |                     |
|---|---------------------|
| 6. <b>Authority to Allot and Issue Shares pursuant to Section 132D of the Companies Act, 1965</b> | <b>Resolution 9</b> |
|---|---------------------|

"THAT pursuant to Section 132D of the Companies Act, 1965 and subject to the approval of the relevant authorities, the Directors be and are hereby authorised and empowered to issue shares in the Company from time to time and upon such terms and conditions and for such purposes as the Directors may, in their absolute discretion, deem fit provided that the aggregate number of shares issued pursuant to this resolution does not exceed 10% of the issued share capital of the Company for the time being and that the Directors be also empowered to obtain approval for the listing of and quotation for the additional shares so issued on the Kuala Lumpur Stock Exchange and that such authority shall continue in force until the conclusion of the next annual general meeting of the Company or after the date on which the approval was given or the expiration of the period within which the next annual general meeting after that date is required by law to be held, whichever is the earlier, unless previously revoked or varied by the Company in general meeting."

## NOTICE OF ANNUAL GENERAL MEETING (CONTINUED)

### 7. Proposed Renewal of Authorisation for the Company to Purchase Such Number of Its Own Shares on the Kuala Lumpur Stock Exchange Representing Up to a Maximum of 10% of the Issued and Paid-up Share Capital of the Company ("Proposed Renewal of Share Buy-Back Authority") Resolution 10

"THAT, subject to the Companies Act, 1965 ("the Act"), rules, regulations and orders made pursuant to the Act, provisions of the Company's Memorandum of Association and Articles of Association and the listing requirements of the Kuala Lumpur Stock Exchange ("KLSE") and any other relevant authority for the time being in force or as may be amended from time to time, the Directors of the Company be and are hereby authorised to make purchases of ordinary shares of RM1.00 each in the Company's issued and paid-up share capital through the KLSE subject further to the following:

- i) the maximum number of ordinary shares of RM1.00 each ("Nikko Shares") which may be purchased and/or held by the Company shall be equivalent to 10% of the issued and paid-up share capital for the time being of the Company after taking into consideration the ordinary shares already purchased and are held as treasury shares by the Company;
- ii) the maximum funds to be allocated by the Company for the purpose of purchasing the Nikko Shares shall not exceed the total retained profits and share premium account of the Company based on the audited financial statements for the financial year ended 31 December 2002 of RM43.485 million and RM17.356 million respectively;
- iii) the authority conferred by this resolution will commence immediately upon passing of this ordinary resolution and shall continue in force until:
  - (a) the conclusion of the next annual general meeting of the Company following the forthcoming annual general meeting at which such resolution was passed, at which time it shall lapse unless by ordinary resolution passed at the meeting, the authority is renewed, either unconditionally or subject to conditions; or
  - (b) the expiration of the period within which the next annual general meeting after that date is required by law to be held; or
  - (c) revoked or varied by ordinary resolution passed by the shareholders of the Company in general meeting,whichever occurs first;
- iv) upon completion of the purchase(s) of Nikko Shares by the Company, the Directors of the Company be and are hereby authorised to deal with the Nikko Shares in the following manner:
  - (a) cancel the Nikko Shares so purchased; or
  - (b) retain the Nikko Shares so purchased as treasury shares; or
  - (c) retain part of the Nikko Shares so purchased as treasury shares and cancel the remaining; or
  - (d) in any other manner prescribed by the Act, rules, regulations and orders made pursuant to the Act and the requirements of the KLSE and any other relevant authority for the time being in force.

The Nikko's shares so retained as treasury shares may be distributed as dividends to shareholders, and/or resold on the KLSE, and /or subsequently cancelled.

AND FURTHER THAT, the Directors of Nikko be and are hereby authorised to take all such steps necessary or expedient to implement or to effect the purchase(s) of the Nikko Shares."

**8. Proposed Renewal of Shareholders' Mandate and New Shareholders' Mandate for Recurrent Related Party Transactions of a Revenue or Trading Nature in the Ordinary Course of Business which are necessary for the Nikko Group's Day-To-Day Operations Relating to Nikko Co. Ltd ("Proposed Shareholders' Mandate Relating to Nikko Japan")**

**Resolution 11**

"THAT, pursuant to paragraph 10.09 of the Kuala Lumpur Stock Exchange listing requirements, a mandate be and is hereby granted to allow recurrent related party transactions of a revenue or trading nature which are necessary for the day-to-day operations of the Company and its subsidiary, entered or to be entered into by the Company and its subsidiary, details of which are set out in Section 2.2.1 (i) of the Circular to Shareholders dated 5<sup>th</sup> June 2003, provided that such transactions are in the ordinary course of business and are undertaken on arm's length basis and on normal commercial terms, which are on terms not more favourable to the related party than those generally available to the public and not to the detriment of the minority shareholders, AND THAT such mandate shall continue in force until:

- i) the conclusion of the next annual general meeting of the Company following the forthcoming annual general meeting at which such mandate was passed at which time it will lapse, unless by a resolution passed at the meeting, the mandate is renewed;
- ii) the expiration of the period within which the next annual general meeting after the date it is required to be held pursuant to Section 143(1) of the Companies Act, 1965 (the "Act") (but shall not extend to such extension as may be allowed pursuant to Section 143(2) of the Act); or
- iii) revoked or varied by resolution passed by the shareholders of the Company in general meeting;

whichever is the earlier;

AND FURTHER THAT, the Directors and/or any of them be and are hereby authorised to complete and do all such acts and things (including executing such documents as may be required) to give effect to the transactions contemplated and/or authorised by this resolution."

**9. Proposed Renewal of Shareholders' Mandate for Recurrent Related Party Transactions of a Revenue or Trading Nature in the Ordinary Course of Business which are necessary for the Nikko Group's Day-To-Day Operations Relating to Nics Engineering Ltd ("Proposed Shareholders' Mandate Relating to Nics")**

**Resolution 12**

"THAT, pursuant to paragraph 10.09 of the Kuala Lumpur Stock Exchange listing requirements, a mandate be and is hereby granted to allow recurrent related party transactions of a revenue or trading nature which are necessary for the day-to-day operations of the Company and its subsidiary, entered or to be entered into by the Company and its subsidiary, details of which are set out in Section 2.2.1 (ii) of the Circular to Shareholders dated 5<sup>th</sup> June 2003, provided that such transactions are in the ordinary course of business and are undertaken on arm's length basis and on normal commercial terms, which are on terms not more favourable to the related party than those generally available to the public and not to the detriment of the minority shareholders, AND THAT such mandate shall continue in force until:

- i) the conclusion of the next annual general meeting of the Company following the forthcoming annual general meeting at which such mandate was passed at which time it will lapse, unless by a resolution passed at the meeting, the mandate is renewed;
- ii) the expiration of the period within which the next annual general meeting after the date it is required to be held pursuant to Section 143(1) of the Companies Act, 1965 (the "Act") (but shall not extend to such extension as may be allowed pursuant to Section 143(2) of the Act); or
- iii) revoked or varied by resolution passed by the shareholders of the Company in general meeting;

whichever is the earlier;

## NOTICE OF ANNUAL GENERAL MEETING (CONTINUED)

AND FURTHER THAT, the Directors and/or any of them be and are hereby authorised to complete and do all such acts and things (including executing such documents as may be required) to give effect to the transactions contemplated and/or authorised by this resolution."

10. To transact any other ordinary business of which due notice shall have been given in accordance with the Companies Act, 1965.

### NOTICE OF DIVIDEND ENTITLEMENT AND PAYMENT

**NOTICE IS ALSO HEREBY GIVEN THAT** the proposed first and final tax exempt dividend of 6 sen per ordinary share in respect of the financial year ended 31<sup>st</sup> December 2002, if approved, will be paid on 25<sup>th</sup> July 2003 to depositors registered in the Record of Depositors at the close of business on 11<sup>th</sup> July 2003.

A depositor shall qualify for the entitlement to the dividend only in respect of:

- a) shares transferred into the Depositor's Securities Account before 4.00 p.m. on 11<sup>th</sup> July 2003 in respect of ordinary transfers; and
- b) shares bought on the Kuala Lumpur Stock Exchange on a cum entitlement basis according to the rules of Kuala Lumpur Stock Exchange.

BY ORDER OF THE BOARD

CHIN YUET SIN (LS No. 1799)  
CHIN OOI WEE (LS No. 6616)  
Company Secretaries

Kuala Lumpur  
5<sup>th</sup> June 2003

### NOTES:

1. A member entitled to attend and vote at the meeting is entitled to appoint a proxy to attend and vote in his stead. A proxy may but need not be a member of the Company and paragraphs (a), (b), (c) and (d) of Section 149(1) of the Act shall not apply.
2. The instrument appointing a proxy must be deposited at the Company's Registered Office at Suites 7.21 & 7.22, 7th Floor, Imbi Plaza, Jalan Imbi, 55100 Kuala Lumpur not less than 48 hours before the time fixed for holding the meeting, or any adjournment thereof.
3. The instrument appointing a proxy shall be in writing under the hand of the appointor or of his attorney duly authorised in writing or, if the appointor is a corporation, either under seal or under the hand of an officer or attorney duly authorised.

### EXPLANATORY NOTES ON SPECIAL BUSINESS:

**(i) Ordinary Resolution No. 9, item 6**

The Ordinary Resolution No. 9 proposed under item 6, if passed, will give powers to the Directors to allot and issue shares up to a maximum of 10% of the issued share capital of the Company for the time being for such purposes as the Directors consider would be in the interest of the Company.

**(ii) Ordinary Resolution No. 10, item 7, Ordinary Resolution No. 11, item 8 and Ordinary Resolution No. 12, item 9**

For further information on Special Business Ordinary Resolution No. 10, Ordinary Resolution No. 11 and Ordinary Resolution No. 12, please refer to the Circular to Shareholders dated 5<sup>th</sup> June 2003 in relation to the Proposed Renewal of Share Buy-Back Authority, Proposed Shareholders' Mandate Relating to Nikko Co. Ltd and Proposed Shareholders' Mandate Relating to Nics Engineering Ltd, accompanying the Company's Annual Report 2002.

### CONTENTS OF STATEMENT ACCOMPANYING NOTICE OF ANNUAL GENERAL MEETING:

The statement accompanying this Notice of Annual General Meeting is contained on page 6 of the Annual Report.

# STATEMENT ACCOMPANYING NOTICE OF ANNUAL GENERAL MEETING

## 1 DIRECTORS WHO ARE STANDING FOR RE-ELECTION

The Directors who are standing for re-election at the forthcoming Fifteenth Annual General Meeting are as follows:

- i) Kenichi Hattori
- ii) Dato' Zulkifli bin Abdul Rahman
- iii) Gong Wooi Teik
- iv) Tan Gnear Eng

Further details of the above Directors are set out in the Profile of the Board of Directors on pages 12 to 17 of this Annual Report.

## 2 DETAILS OF DIRECTORS' ATTENDANCE AT BOARD MEETINGS

The details are set out in the Statement on Corporate Governance section on page 19 of this Annual Report.

## 3 DATE, TIME AND PLACE OF THE BOARD MEETINGS

| Place   | Date       | Time       |
|---|------------|------------|
| Rose Room (Mezzanine Floor), Hotel Melia Kuala Lumpur<br>No.16, Jalan Imbi, 55100 Kuala Lumpur    | 14/01/2002 | 2.00 p.m.  |
| Rose Room (Mezzanine Floor), Hotel Melia Kuala Lumpur<br>No.16, Jalan Imbi, 55100 Kuala Lumpur    | 26/02/2002 | 10.00 a.m. |
| Rose Room (Mezzanine Floor), Hotel Melia Kuala Lumpur<br>No.16, Jalan Imbi, 55100 Kuala Lumpur    | 26/04/2002 | 10.00 a.m. |
| Mutiara Room (BW Floor), Hotel Melia Kuala Lumpur<br>No. 16, Jalan Imbi, 55100 Kuala Lumpur       | 17/05/2002 | 10.00 a.m. |
| Mutiara Room (BW Floor), Hotel Melia Kuala Lumpur<br>No. 16, Jalan Imbi, 55100 Kuala Lumpur       | 27/08/2002 | 10.00 a.m. |
| Orchid Room (Mezzanine Floor), Hotel Melia Kuala Lumpur<br>No. 16, Jalan Imbi, 55100 Kuala Lumpur | 12/09/2002 | 10.00 a.m. |
| Hotel Fairlane Kuala Lumpur, Mawar Room, Level 2<br>Jalan Walter Grenier, 55100 Kuala Lumpur      | 22/11/2002 | 10.00 a.m. |
| Hotel Fairlane Kuala Lumpur, Mawar Room, Level 2<br>Jalan Walter Grenier, 55100 Kuala Lumpur      | 10/12/2002 | 10.00 a.m. |

# CORPORATE INFORMATION

## BOARD OF DIRECTORS

### *Executive Chairman*

Kenichi Hattori

### *Independent Non-Executive*

#### *Deputy Chairman*

Dato' Zulkifli bin Abdul Rahman

### *Managing Director*

Lim Chiang Hang

### *Executive Directors*

Toyotoshi Yamada

Chan Foong Siew

### *Non-Independent Non-Executive Directors*

Minoru Yamashita

Motoharu Ban

Nik Abdul Hamid Shukri bin Nik Abdullah

### *Independent Non-Executive Directors*

Gong Wooi Teik

Tan Gnear Eng

Low Thiam Hoe

Yap Kok Ching

## AUDIT COMMITTEE

### *Chairman*

Gong Wooi Teik

### *Members*

Lim Chiang Hang

Tan Gnear Eng

Low Thiam Hoe

## NOMINATION COMMITTEE

### *Chairman*

Low Thiam Hoe

### *Members*

Gong Wooi Teik

Tan Gnear Eng

Nik Abdul Hamid Shukri bin Nik Abdullah

## REMUNERATION COMMITTEE

### *Chairman*

Nik Abdul Hamid Shukri bin Nik Abdullah

### *Members*

Gong Wooi Teik

Tan Gnear Eng

Low Thiam Hoe

## COMPANY SECRETARIES

Chin Yuet Sin (LS No. 1799)

Chin Ooi Wee (LS No. 6616)

## REGISTERED OFFICE

Suites 7.21 & 7.22

7<sup>th</sup> Floor, Imbi Plaza

Jalan Imbi

55100 Kuala Lumpur

Tel: (03) 2142 3584

Fax: (03) 2142 0327

## REGISTRARS

Malaysian Share Registration Services Sdn. Bhd.

7<sup>th</sup> Floor, Exchange Square

Bukit Kewangan

50200 Kuala Lumpur

Tel: (03) 2026 8099

Fax: (03) 2026 3736

## AUDITORS

PricewaterhouseCoopers

4<sup>th</sup> Floor, Wisma Penang Garden

Jalan Sultan Ahmad Shah

10050 Pulau Pinang

## STOCK EXCHANGE LISTING

Main Board of the Kuala Lumpur Stock Exchange

## PRINCIPAL BANKERS

Bank Islam Malaysia Berhad

Bumiputra-Commerce Bank Berhad

Malayan Banking Berhad

Standard Chartered Bank Malaysia Berhad

United Overseas Bank (Malaysia) Bhd





**T**he year 2002 started with anticipation that the worst was over for the global economies after the September 11 terrorist attacks in 2001. Businesses all over the world, including Nikko Electronics Bhd., were hopeful as the positive sentiment generated from the commitment in the United States to overcome recession was contagious worldwide. However, further terrorist attacks closer to home in the tourist hotspot of Bali in the later half of 2002 resulted in a less than satisfactory regional economic recovery. Such global events have affected the performance of the Group, whose businesses are driven by exports of its products.

On behalf of the Board of Directors of Nikko Electronics Bhd., I am pleased to present the Annual Report and Financial Statements of the Group and the Company for the year ended 31<sup>st</sup> December 2002.



## PERFORMANCE REVIEW

The Group recorded a loss before taxation of RM935,000 for the year ended 31<sup>st</sup> December 2002 compared to a profit before taxation of RM3.08 million in the previous year. However, the Group recorded a net profit after taxation of RM545,000 mainly due to an adjustment for overprovision of taxation in prior years as a result of additional claims for reinvestment allowances approved by the Inland Revenue Board subsequent to the financial year under review.

The loss before taxation corresponded to only less than 3% decrease in turnover from RM210.16 million to RM204.10 million in the financial year under review. The effect of the insignificant decrease in turnover was multiplied by the effects of lower average selling price to erode the bottom line. Lower prices were adopted in response to keen market competition from lower cost manufacturers now entering the market through their operations in countries such as China.

In the year 2000, the Group ventured into research and development (R&D) on several information technology (IT) related items to introduce products which would add to the Group's core product offering of radio-controlled toys. This venture failed to achieve the market response that was anticipated due to the worldwide economic slump and the lack of consumer confidence in any new products which were IT-labelled. Nevertheless, the technology which was being developed complements the current technology used in the production of the Group's radio-controlled toys. Following this, there is stronger determination by Management to lead the Group in concentrating on its core businesses going forward.

## CHAIRMAN'S STATEMENT (CONTINUED)

### DIVIDENDS

In spite of the lower net profit after taxation, the Board of Directors is recommending a first and final tax exempt dividend of 6 sen per ordinary share subject to the approval of shareholders at the forthcoming Annual General Meeting. The Group has sufficient cash reserves to maintain approximately the same quantum of dividends paid out in the previous year, which amounted to RM5.94 million. This is evident of the Group's resolve to ensure that they have the interests of the shareholders at heart.

### OPERATIONS REVIEW

The Group embarked on aggressive initiatives targeted towards enhancing the efficiency of its operations. Such measures included the reduction of advertising expenses until such a time when a recovery sign was detected in consumer confidence. Prices of inputs and raw materials used in production, which were beyond the control of the Group, increased slightly and thus, affected the gross profit margin of the Group. However, the Group mitigated the impact of price increases through vigorous cost cutting measures to lower other operating expenses.

The Group is resolute in retaining its position as the leader in the radio-controlled toys retail market, especially in defending its market share of 50% in Europe and 30% in the United States. The crowd seen at the Nikko's booth in recent major world toy fairs held in Nuremberg, Paris, London and New York once again surpassed the Group's expectations of interest-level in radio-controlled toys.

### FUTURE PROSPECTS

The remaining year of 2003 is still unclear with the health of major world economies being inflicted with the economically damaging-effects of SARS (Severe Acute Respiratory Syndrome) coupled with the uncertain aftermath of the war in Iraq. As I am writing this statement, a number of SARS-affected countries have revised their GDP projections for the year 2003 downwards to reflect the impact of this epidemic. However, the Group has armed itself with strong strategies for artillery to refine its business model such as fresh marketing efforts to renew the Nikko presence in the market. The aim is to springboard the Group back on the profit-making track and Management is quietly confident of the Group's performance for the year 2003, backed by the established brand of Nikko known for its innovative and durable toys.

### DIRECTORATE

In the financial year under review, Mr. Minoru Yamashita retired on 18<sup>th</sup> November 2002 from his position of Executive Chairman. He was the co-founder of the Nikko brand name and saw the inception of the Company on the shores of Malaysia. Unfortunately, he had to make the difficult decision to retire due to ill health. Nonetheless, he retains his position as a Non-Executive Director in order to provide continued advice in the direction of the Group. On behalf of the Board, I would like to express our sincerest appreciation for his guidance and leadership of the Group. I would like to thank the Board for their trust and confidence in appointing myself to the post of Executive Chairman as replacement for Mr. Minoru Yamashita.

### APPRECIATION

I take this opportunity to thank fellow Directors, Management and staff for their conscientious effort, dedication and commitment to Nikko. Last but not least, I would like to say 'thank you' to our valued business associates, customers, suppliers, financiers and dealers as well as shareholders for their continued support and confidence in us.

### KENICHI HATTORI

Executive Chairman

23<sup>rd</sup> April 2003

**T**ahun 2002 bermula dengan jangkaan bahawa keadaan paling buruk ekonomi global telah berlalu selepas serangan pengganas 11 September 2001. Perniagaan di seluruh dunia, termasuk Nikko Electronics Bhd., menaruh harapan apabila sentimen positif timbul daripada komitmen di Amerika Syarikat untuk mengatasi kemelesetan mula memberi kesan di seluruh dunia. Walau bagaimanapun, serangan pengganas di Bali, pada lewat pertengahan tahun 2002 telah mengakibatkan pemulihan ekonomi serantau kurang memuaskan. Peristiwa global sedemikian telah mempengaruhi prestasi Kumpulan, yang mana perniagaannya didorong oleh eksport produknya.

Bagi pihak Lembaga Pengarah Nikko Electronics Bhd., saya dengan sukacitanya membentangkan Laporan Tahunan dan Penyata Kewangan Kumpulan dan Syarikat bagi tahun berakhir 31 Disember 2002.

### **TINJAUAN PRESTASI**

Kumpulan telah mencatatkan kerugian sebelum cukai sebanyak RM935,000 bagi tahun berakhir 31 Disember 2002 berbanding keuntungan sebelum cukai sebanyak RM3.08 juta pada tahun sebelumnya. Walau bagaimanapun, Kumpulan mencatatkan keuntungan bersih selepas cukai sebanyak RM545,000, sebahagian besarnya kerana pelarasan lebihan peruntukan percukaian di tahun-tahun sebelumnya hasil daripada tuntutan tambahan elaun pelaburan semula yang diluluskan oleh Lembaga Hasil Dalam Negeri dalam tahun kewangan yang dilaporkan.

Kerugian sebelum cukai menunjukkan kemerosotan kurang daripada 3% dari jumlah perolehan daripada RM210.16 juta kepada RM204.10 juta dalam tahun kewangan yang dilaporkan. Kesan daripada kemerosotan perolehan tersebut ditambah lagi oleh kesan harga jualan purata lebih rendah yang telah menghakis prestasi Kumpulan. Harga lebih rendah digunakan sebagai respons kepada persaingan pasaran yang sengit daripada pengilang barang kos rendah yang kini meresapi pasaran melalui operasi mereka di negara-negara seperti China.

Pada tahun 2000, Kumpulan merintis usaha-usaha penyelidikan dan pembangunan (R&D) bagi beberapa barang berkaitan teknologi maklumat (IT) untuk memperkenalkan produk yang akan menambah kepada tawaran produk teras Kumpulan yang berbentuk alat mainan kawalan radio. Usaha ini gagal mencapai sambutan pasaran yang dijangka disebabkan kemelut ekonomi seluruh dunia dan kekurangan keyakinan pengguna terhadap produk baru yang berlabel IT. Walaupun demikian, teknologi yang sedang dibangunkan melengkapi teknologi semasa yang diguna dalam pengeluaran alat mainan kawalan radio Kumpulan. Berikutan ini, pihak Pengurusan kini lebih berazam untuk memimpin Kumpulan menumpukan perhatian dalam perniagaan terasnya di masa hadapan.

### **DIVIDEN**

Meskipun untung bersih selepas cukai adalah lebih rendah, Lembaga Pengarah mencadangkan dividen yang pertama dan terakhir dikecualikan cukai sebanyak 6 sen bagi setiap syer biasa tertakluk kepada kelulusan pemegang saham di Mesyuarat Agung Tahunan yang akan datang. Kumpulan mempunyai rizab tunai yang mencukupi untuk mengekalkan jumlah dividen yang sama seperti yang dibayar pada tahun yang lepas, berjumlah RM5.94 juta. Cadangan ini dengan jelas menunjukkan keazaman Kumpulan untuk memastikan kepentingan para pemegang saham sentiasa menjadi keutamaan.

## PENYATA PENERUSI (SAMBUNGAN)

### LAPORAN OPERASI

Kumpulan telah mengambil inisiatif agresif untuk meningkatkan kecekapan operasinya. Langkah-langkah tersebut termasuk mengurangkan perbelanjaan pengiklanan sehingga tanda pemulihan dalam keyakinan pelanggan dapat dikesan. Harga input dan bahan mentah yang digunakan dalam pengeluaran, yang di luar kawalan Kumpulan meningkat sedikit dan oleh itu, telah menjejaskan margin untung kasar Kumpulan. Walau bagaimanapun, Kumpulan telah mengurangkan kesan peningkatan harga melalui langkah-langkah tegas pengurangan kos untuk merendahkan lain-lain perbelanjaan operasi.

Kumpulan berazam untuk mengekalkan kedudukannya sebagai pemimpin dalam pasaran runcit alat mainan kawalan radio, terutamanya dalam usaha mempertahankan bahagian pasarannya sebanyak 50% di Eropah dan 30% di Amerika Syarikat. Kumpulan orang ramai yang dapat disaksikan di kaunter Nikko di pameran alat mainan dunia yang utama yang diadakan baru-baru ini di Nuremberg, Paris, London dan New York sekali lagi melebihi jangkaan Kumpulan terhadap tahap minat dalam alat mainan kawalan radio.

### PROSPEK MASA DEPAN

Setengah tahun kedua 2003 masih tidak jelas dengan suasana ekonomi dunia utama masih terjejas akibat kesan dari SARS (Sindrom Pernafasan Akut) ditambah lagi dengan ketidakpastian akibat peperangan di Iraq. Semasa saya sedang menulis penyata ini, beberapa negara yang dijangkiti SARS telah mengubah turutan KDNK mereka untuk tahun 2003 untuk mencerminkan kesan wabak ini. Walau bagaimanapun, Kumpulan telah melengkapkan diri dengan strategi yang kukuh untuk memperbaiki lagi model perniagaannya seperti usaha pemasaran yang baru untuk memperbaharui kehadiran Nikko dalam pasaran. Matlamatnya adalah untuk melonjakkan Kumpulan kembali ke landasan meraih keuntungan dan pihak Pengurusan yakin dengan tahap prestasi Kumpulan bagi tahun 2003, disokong oleh jenama mantap Nikko yang terkenal dengan alat mainannya yang inovatif dan tahan lama.

### LEMBAGA PENGARAH

Dalam tahun kewangan yang dilaporkan, Encik Minoru Yamashita bersara pada 18 November 2002 daripada jawatan Pengerusi Eksekutif. Beliau merupakan pengasas bersama jenama Nikko dan telah bersama mengalami detik permulaan syarikat bertapak di Malaysia. Dukacitanya, beliau terpaksa membuat keputusan sukar untuk bersara kerana kesihatan beliau yang kurang baik. Walau bagaimanapun, beliau mengekalkan jawatan sebagai Pengarah Bukan Eksekutif untuk terus memberi nasihat mengenai arah tuju Kumpulan. Bagi pihak Lembaga, saya ingin merakamkan setulus penghargaan kami di atas segala bimbingan dan kepimpinan beliau. Saya ingin mengucapkan terima kasih kepada Lembaga di atas kepercayaan dan keyakinan mereka melantik saya untuk memegang jawatan Pengerusi Eksekutif sebagai pengganti kepada Encik Minoru Yamashita.

### PENGHARGAAN

Saya ingin mengambil kesempatan ini untuk mengucapkan terima kasih kepada semua Pengarah, pihak Pengurusan dan kakitangan di atas kegigihan, dedikasi dan komitmen terhadap Nikko. Akhir sekali, saya ingin mengucapkan 'terima kasih' kepada semua rakan perniagaan, pelanggan, pembekal, jurubank, pendedar dan juga para pemegang saham yang dihargai di atas kerana sokongan berterusan dan keyakinan mereka terhadap kami.

### KENICHI HATTORI

Pengerusi Eksekutif

23<sup>rd</sup> April 2003

# PROFILE OF DIRECTORS

## KENICHI HATTORI

◀◀◀ *Executive Chairman*  
*Japanese – aged 45*



Kenichi Hattori graduated from Tokyo Teikyo Private High School in 1976.

He started his career as a Manager with Nikko Co. Ltd. (“Nikko Japan”) in 1980. In 1984, he was appointed the Manager of Nikko Japan before taking on the position of Marketing Manager with Nikko Electronics Toy Pte. Ltd. (incorporated in Singapore) in 1986.

He was appointed to the Board as Non-Executive Director on 1<sup>st</sup> March 1994. His position was later redesignated to that of an Executive Director in charge of Marketing on 16<sup>th</sup> April 2001. On 22<sup>nd</sup> November 2002, Mr. Hattori was appointed to the post of Executive Chairman by the Board of Directors to replace Mr. Minoru Yamashita upon his resignation.

At present, Mr. Hattori also sits on the Boards of a number of Nikko Japan Group of companies, namely Nikko Japan, Nikko Tec International Limited (incorporated in Hong Kong), a wholly owned subsidiary of Nikko Japan, Nikko Europe B.V. and Meccano S.N., a company incorporated in France. Mr. Hattori holds a 13.6% equity interest in Nikko Japan. He also holds direct and indirect interests in various companies within the Nikko Japan Group of companies.

Kenichi Hattori is also a director and shareholder of Nikko Electronic Holdings Sdn. Bhd., which in turn is a major shareholder of Nikko Electronics Bhd.

## DATO’ ZULKIFLI BIN ABDUL RAHMAN

▶▶▶ *Independent Non-Executive Deputy Chairman*  
*Malaysian – aged 67*

Dato’ Zulkifli bin Abdul Rahman graduated from the Indonesian Armed Forces Staff and Command School, Limbang, Bandung, Indonesia (1977). He served with the Royal Malaysian Police for 37 years and his last post was Director of Special Branch before his retirement on 31<sup>st</sup> December 1993. At present, he also sits on the Board of Padini Holdings Berhad.

He was appointed to the Board of Nikko on 23<sup>rd</sup> August 1996 as a Non-Executive Director and subsequently as a Non-Independent Non-Executive Deputy Chairman on 19<sup>th</sup> May 2000. His position has since been redesignated to that of an Independent Non-Executive Deputy Chairman on 26<sup>th</sup> February 2003.



## PROFILE OF DIRECTORS (CONTINUED)



### LIM CHIANG HANG



*Managing Director*

*Malaysian – aged 53*

Lim Chiang Hang graduated with a Bachelor of Economics from Chiba University, Japan in 1977.

He started his career in 1977 with Matsushita Precision Motors Pte. Ltd. in Singapore as an Accountant before being promoted to Personnel Manager in 1978. Following that, Mr. Lim was with Nikko Electronics Toy Pte. Ltd. (incorporated in Singapore) in a number of positions from 1979 to 1989. He also served as a Managing Director with Nics Engineering Ltd., the joint venture company set up by certain shareholders of Nikko Co. Ltd. in Hong Kong, and as a General Manager with Dongguan Rixing Electronics Toys Co. Ltd., the joint venture company set up between Dongguan-Shi Fenggang Jiye Fazhang Gongsi and Royal World International Limited in China.

He was appointed as General Manager and a Director of Nikko in September 1989 and May 1996 respectively. His position was redesignated to Managing Director on 1<sup>st</sup> October 1999. He was also appointed as a member of the Audit Committee of the Company on 7<sup>th</sup> December 1999.

Presently, Mr. Lim is also a director of Nikko Electronic Holdings Sdn. Bhd. and several other private companies.

### TOYOTOSHI YAMADA

*Executive Director*

*Japanese – aged 56*

Toyotoshi Yamada graduated from Nagoya Kogakuin College in Japan majoring in Basic Electronic Communication in March 1965.

He started his career as an Engineering Assistant in Sanwa Electronic Instrument Co. Ltd. in 1965. Later, he served as Production Manager with Kyushu Sanwa Electronics Co. Ltd. and Managing Director with Res Pte. Ltd. (Singapore), both of which are subsidiaries of Sanwa Electronic Instrument Co. Ltd. In April 2000, he commenced employment with Nikko as a Factory Manager.

He was appointed to the Board of Nikko on 16<sup>th</sup> April 2001 as a General Manager cum Executive Director in charge of production.



## PROFILE OF DIRECTORS (CONTINUED)

### CHAN FOONG SIEW

◀◀◀ *Executive Director*  
*Malaysian – aged 54*



Chan Foong Siew holds a Master of Business Administration from University of Portsmouth, United Kingdom and is a Fellow member of the Association of Chartered Certified Accountants of the United Kingdom. She is also a Member of the Malaysian Institute of Accountants.

She commenced her career in a local accounting firm in 1970 where she stayed until 1978. During the course of her studies in the United Kingdom which began in 1979, she worked as an Audit and Accounts Senior with Dearden Farrow, a chartered accounting firm, from 1980 to 1981, and as an accountant with the Freshwater Group of Companies dealing in property investment from 1982 to 1983. Upon returning to Malaysia in 1984, she worked for Coopers & Lybrand (now known as PricewaterhouseCoopers), a public accounting firm in Kuala Lumpur as an Audit and Account Supervisor until 1988. Thereafter, she was the financial controller with Formula Electronics Sdn. Bhd. for seven (7) years until July 1995. Subsequently, Ms. Chan joined Nikko in August 1995 as Senior Manager of Finance and since January 1999, she was also Senior Manager of Human Resources, Administration and Electronic Data Processing.

She was appointed to the Board of Nikko on 16<sup>th</sup> April 2001 as an Executive Director in charge of Finance, Human Resources, Administration and Management Information Systems.

### NIK ABDUL HAMID SHUKRI BIN NIK ABDULLAH

▶▶▶ *Non-Independent Non-Executive Director*  
*Malaysian – aged 36*

Nik Abdul Hamid Shukri bin Nik Abdullah graduated from The Nottingham Trent University in 1989 and was admitted as a Certified Accounting Technician of the Association of Chartered Certified Accountants, United Kingdom.

He began his career in 1991 with Mercantile Insurance Sdn. Bhd., a general insurance company before moving to City Paging Sdn. Bhd., a telecommunications company as Head of the Finance Division. In 1993, he joined Rashid Hussain Berhad and served in various positions within the Rashid Hussain Berhad Group of companies for about ten years until January 2003. He subsequently joined Arah Rintis Sdn. Bhd., a private investment holding company as General Manager-Finance where he currently serves.

He was appointed to the Board of Nikko on 8<sup>th</sup> October 1999 as a Non-Independent Non-Executive Director. He also serves as the Chairman of the Remuneration Committee and is a member of the Nomination Committee of the Company.



## PROFILE OF DIRECTORS (CONTINUED)

### MOTOHARU BAN

◀◀◀ *Non-Independent Non-Executive Director*  
*Japanese – aged 47*



Motoharu Ban graduated from Keio University, Tokyo, Japan majoring in Economics in 1978.

He started his career since graduation with The Fuji Bank, Ltd. of Japan where he served for more than twenty (20) years. Mr. Ban currently holds the positions of President and Chief Executive Officer of Nikko Co. Ltd. ("Nikko Japan"). He is also the Bio Business Adviser to Columbia University, New York and is one of the advisory staff of Otaru University of Commerce, Center for Business Creation.

He was appointed to the Board of Nikko on 26<sup>th</sup> February 2002 as a Non-Independent Non-Executive Director. Mr. Ban also sits on the Board of a number of Nikko Japan Group of companies, namely Nikko Tec International Limited (incorporated in Hong Kong), a wholly-owned subsidiary of Nikko Japan, Nikko America, Nics Engineering Ltd., Nikko (Asia) Toy Pte. Ltd., Nikko Sverige AS, Nikko Scandinavia AS (formerly known as Nikko Norge AS) and Meccano S.N., a company incorporated in France.

### MINORU YAMASHITA

◀◀◀ *Non-Independent Non-Executive Director*  
*Japanese – aged 67*

Minoru Yamashita graduated from Tokyo Touritsu Honjyou Technical High School in 1956.

He was one of the two founders of Nikko Co. Ltd. ("Nikko Japan"), a company incorporated in Japan in year 1958 and acted as President for the Nikko Japan Group of companies from 1993 to 2002.

He was appointed to the Board as an Executive Director and the Executive Chairman on 8<sup>th</sup> October 1988 and 1<sup>st</sup> October 1999 respectively to which he served until 22<sup>nd</sup> November 2002 when he resigned as Executive Chairman due to ill health. His position is redesignated to that of a Non-Independent Non-Executive Director.

He has direct and indirect interests in various companies within the Nikko Japan Group of companies.

Minoru Yamashita is also a substantial shareholder of Nikko Electronic Holdings Sdn. Bhd., which in turn is a major shareholder of Nikko Electronics Bhd.





## PROFILE OF DIRECTORS (CONTINUED)



### GONG WOUI TEIK



*Independent Non-Executive Director*

*Malaysian – aged 52*

Gong Wooi Teik is a Fellow member of both the Institute of Chartered Accountants of England and Wales and the Malaysian Institute of Taxation and a member of the Malaysian Institute of Accountants. He was articled to a firm of Chartered Accountants in United Kingdom and qualified in 1976.

He returned to Malaysia in early 1977 and worked for two (2) of the big four (4) Chartered Accounting firms before he started his own accounting practice in 1980. The practice is now known as GEP Associates which is a member firm of AGN International. Presently, Mr. Gong is the managing partner of GEP Associates and also a director of Supermax Corporation Berhad, a public listed company.

He was appointed to the Board of Nikko on 2<sup>nd</sup> December 1999 as an Independent Non-Executive Director. He is also the Chairman of the Audit Committee and a member of both the Nomination and Remuneration Committee of the Company.

### LOW THIAM HOE

*Independent Non-Executive Director*

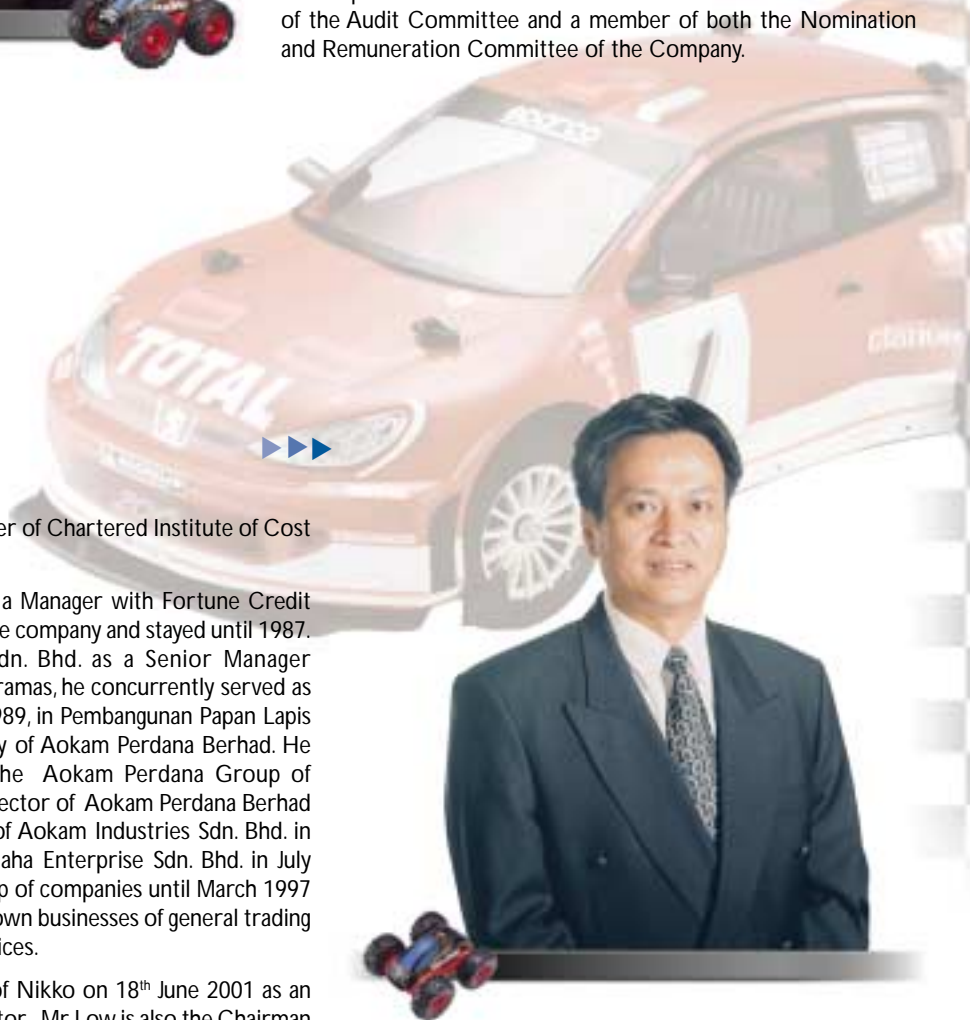
*Malaysian – aged 46*



Low Thiam Hoe is a Fellow Member of Chartered Institute of Cost & Management Accountants.

He started his career in 1983 as a Manager with Fortune Credit Leasing Sdn. Bhd., a licensed finance company and stayed until 1987. In 1988, he joined Petramas Sdn. Bhd. as a Senior Manager until 1991. During his time at Petramas, he concurrently served as Senior Manager, from February 1989, in Pembangunan Papan Lapis Sdn. Bhd., a fully owned subsidiary of Aokam Perdana Berhad. He then extended his services in the Aokam Perdana Group of companies and was appointed Director of Aokam Perdana Berhad in July 1991, Executive Director of Aokam Industries Sdn. Bhd. in July 1994 and Director of Paramaha Enterprise Sdn. Bhd. in July 1994. He served the Aokam Group of companies until March 1997 and has since been engaged in his own businesses of general trading and provision of consultancy services.

He was appointed to the Board of Nikko on 18<sup>th</sup> June 2001 as an Independent Non-Executive Director. Mr. Low is also the Chairman of the Nomination Committee and a member of both the Audit and Remuneration Committee of the Company.



## PROFILE OF DIRECTORS (CONTINUED)



### TAN GNEAR ENG

◀◀◀ *Independent Non-Executive Director*  
*Malaysian – aged 54*

Tan Gnear Eng graduated from Chuo University, Japan in 1974 with a Bachelor of Commerce.

Since graduating, he has been involved in his own family business. He is currently the Managing Director of Kai Sik Latex Products Sdn. Bhd., a partner of Kee Neng Woodworking Factory and holds directorships in several other private limited companies, namely Kai Sik Towa Rubber Products Sdn. Bhd., Kai Sik Trading Co. Sdn. Bhd., Tan Kok Keat & Sons Sdn. Bhd. and Chuan Huat Rubber Plantations Sdn. Bhd.

He was appointed to the Board of Nikko on 2<sup>nd</sup> December 1999 as an Independent Non-Executive Director and is also a member of the Audit, Nomination and Remuneration Committee of the Company.

### YAP KOK CHING

▶▶▶ *Independent Non-Executive Director*  
*Malaysian – aged 46*

Yap Kok Ching graduated from University of Melbourne, Australia with a Bachelor of Commerce majoring in Accounting and Economics. He is a member of the Malaysian Institute of Accountants and a Fellow member of the Association of Certified Practising Accountants in Australia.

He started as an Accountant in 1982 with Clipper Express Co. in Melbourne, Australia where he stayed until 1985 before moving to the position of a Regional Accountant with ANL Shipping Agencies in Melbourne, Australia. In 1988, he left ANL to join Steeves Lumley Limited in Melbourne, Australia as a Group Accountant and stayed until December 1995 before returning to Malaysia. In July 1996, he took up the position of Financial Controller with Tamadam Bonded Warehouse Berhad in which he served until November 2001 when he joined Otto Industrial Pte. Ltd. in Singapore as Financial Controller. In June 2002, he was transferred back to Malaysia to serve in a related company, Perdana ParkCity Sdn. Bhd., where he stayed until March 2003. He is now a freelance business management consultant.

He was appointed to the Board of Nikko on 22<sup>nd</sup> March 2002 as an Independent Non-Executive Director.



#### ADDITIONAL INFORMATION ON DIRECTORS

##### **Conflict of Interest and Family Relationships with any Director and/or Major Shareholder**

Other than Directors' interests disclosed in the Directors' Report on page 37 and details on recurrent related party transactions disclosed in Note 24 to the Financial Statements, none of the Directors have any conflict of interest with the Group. None of the directors has family relationships with any other directors.

##### **Convictions for offences (within past 10 years, other than traffic offences)**

None of the directors has any convictions for offences other than traffic offences.

##### **Details of Directors' attendance at Board Meetings**

The details of Directors' attendance at Board Meetings during the financial year ended 31st December 2002 are presented in the Statement on Corporate Governance section on page 18 of this Annual Report.

##### **Securities held in the Company and its subsidiary**

The details are disclosed in the Directors' Report on page 37 of this Annual Report.

# STATEMENT ON CORPORATE GOVERNANCE

The Board of Directors is committed to ensuring the highest standards of corporate governance are practised throughout the Group as a fundamental part of discharging its responsibilities to protect and enhance shareholder value and the financial performance of the Group. The Board fully supports the recommendations of the Malaysian Code on Corporate Governance (MCCG).

The Group has applied the Principles of the Code and the Best Practices in Corporate Governance as set out in Part 2 of the MCCG.

## 1 BOARD OF DIRECTORS

### 1.1 Composition and Board balance

The Board of Directors (Board) comprises four (4) Executive Directors and eight (8) Non-Executive Directors as of 22<sup>nd</sup> November 2002, who are categorised as follows:

| Category                                | No. of directors | Percentage  |
|---|------------------|-------------|
| Executive Directors                     | 4                | 33%         |
| Independent non-executive Directors     | 5                | 42%         |
| Non-independent non-executive Directors | 3                | 25%         |
| <b>Total</b>                            | <b>12</b>        | <b>100%</b> |

The profiles of the members of the Board are set out on pages 12 to 17 of this Annual Report.

### 1.2 Responsibilities

The Board has identified its principal responsibilities as to:

- review and adopt strategic plans and budgets for the Group;
- monitor and evaluate the conduct and performance of the Group;
- review the adequacy and integrity of the Group's internal control system and management information system;
- ensure operations and systems are in compliance with applicable rules, regulations and guidelines;
- identify and assess main risks and ensure the implementation of an appropriate system to minimise and manage those risks; and
- ensure accurate and timely dissemination of information to the shareholders.

### 1.3 Executive Chairman and Managing Director

There is a clear division of responsibilities between the Executive Chairman and the Managing Director. The Executive Chairman heads the Board and leads the planning of policies at the Board level, while the Managing Director is responsible for the implementation of the policies and the decision making.

### 1.4 Appointments to the Board

The appointment of any additional Director is made as and when it is deemed necessary by the Board, with due consideration given to the mix of expertise and experience required for discharging its duties and responsibilities effectively. The Board is assisted in this regard by the Nomination Committee, details of which are set out on page 22.

### 1.5 Retirement and re-election of Directors

In accordance with the Company's Articles of Association, one-third of the Directors shall retire from office at each Annual General Meeting and all Directors shall retire from office at least once in every three (3) years by rotation and they may offer themselves for re-election.

## STATEMENT ON CORPORATE GOVERNANCE (CONTINUED)

### 1.6 Board meetings

The Board meets every quarter and additional meetings are held as and when necessary. The Board met for a total of eight (8) times during the financial year ended 31<sup>st</sup> December, 2002. All Directors fulfilled the Kuala Lumpur Stock Exchange (KLSE) requirement in relation to their attendance at Board meetings. Details of Board members' attendance at Board meetings held for the financial year and the last AGM are as follows:

| Directors                               | Last Annual General Meeting | Board Meetings |          |                          |
|---|-----------------------------|----------------|----------|--------------------------|
|   |                             | Held           | Attended | Percentage of Attendance |
| Kenichi Hattori                         | ✓                           | 8              | 5        | 62.5%                    |
| Dato' Zulkifli bin Abdul Rahman         | ✓                           | 8              | 7        | 87.5%                    |
| Lim Chiang Hang                         | ✓                           | 8              | 8        | 100.0%                   |
| Chan Foong Siew                         | ✓                           | 8              | 8        | 100.0%                   |
| Toyotoshi Yamada                        | ✓                           | 8              | 8        | 100.0%                   |
| Minoru Yamashita                        | ✓                           | 8              | 5        | 62.5%                    |
| Gong Wooi Teik                          | ✓                           | 8              | 8        | 100.0%                   |
| Nik Abdul Hamid Shukri bin Nik Abdullah | ✓                           | 8              | 8        | 100.0%                   |
| Low Thiam Hoe                           | ✓                           | 8              | 6        | 75.0%                    |
| Tan Gnear Eng                           | ✓                           | 8              | 7        | 87.5%                    |
| Motoharu Ban <sup>@</sup>               | ✓                           | 6              | 4        | 66.7%                    |
| Yap Kok Ching <sup>#</sup>              | ✓                           | 6              | 6        | 100.0%                   |

<sup>@</sup> appointed on 26<sup>th</sup> February 2002

<sup>#</sup> appointed on 22<sup>nd</sup> March 2002

### 1.7 Supply and quality of information

Members of the Board have access to information on a timely basis to enable them to discharge their duties and responsibilities.

Directors are each provided with Notices of Board meetings and Board papers for each agenda item in advance of each meeting to ensure that Directors have ample time to study them to be prepared for discussion. The Board papers provide updates on business, operational and corporate developments and other useful information to ensure Directors' understanding. Board reports are also prepared on an ad hoc basis for projects and/or issues specifically identified by the Board when they require more information to be satisfied with their level of understanding and to keep up-to-date with current business environment.

Any new requirements and/or amendments to regulations as issued by regulatory bodies, such as the KLSE and Securities Commission, are circulated for the attention of Directors.

### 1.8 Access to information and advice

Directors have access to the advice and services of the Company Secretaries who are responsible for ensuring that Board procedures are followed and applicable rules and regulations are complied with. Any additional information requested by Directors is readily available. Minutes of all meetings are maintained as a record of proceedings carried out.

## STATEMENT ON CORPORATE GOVERNANCE (CONTINUED)

The Group also retains the services of an external Corporate Adviser and legal counsel. In addition, Directors may seek independent professional advice at the Group's expense in furtherance of their duties. Directors may also consult with the Executive Chairman and other Board members prior to seeking any independent professional advice.

### 1.9 Training

All the Directors of the Company have completed the Mandatory Accreditation Programme as required in the guidelines issued by KLSE. The directors will continue to undergo relevant training programmes to enhance their knowledge in new laws, regulations and changing commercial risks.

## 2 DIRECTORS' REMUNERATION

### 2.1 Level, make-up and procedure for determination

The remuneration of Directors is determined at levels which enable the Company to attract, motivate and retain Directors with the relevant experience and expertise needed to run the Company effectively and successfully. The Company's remuneration scheme for Directors is linked to their performance, service seniority, experience and scope of responsibilities.

Details of the Remuneration Committee are set out on page 21 of this Annual Report.

### 2.2 Details of Directors' remuneration

The aggregate remuneration of directors for the financial year ended 31<sup>st</sup> December 2002 is as follows:

| Components         | Executive Directors* | Non-executive Directors | Total     |
|--------------------|----------------------|-------------------------|-----------|
|                    | RM                   | RM                      | RM        |
| Fees               | –                    | 210,000                 | 210,000   |
| Salaries           | 1,970,000            | –                       | 1,970,000 |
| Bonus & allowances | 229,603              | –                       | 229,603   |

\* includes Mr. Minoru Yamashita who resigned on 22<sup>nd</sup> November 2002 as Executive Chairman.

The number of directors of the Company whose remuneration and fees for the financial year ended 31<sup>st</sup> December 2002 fall in the respective bands is as follows:

| Range of remuneration (RM) | Executive Directors* | Non-executive Directors | Total No. |
|----------------------------|----------------------|-------------------------|-----------|
| Below 50,000               | –                    | 7                       | 7         |
| 300,001 – 350,000          | 2                    | –                       | 2         |
| 350,001 – 400,000          | 1                    | –                       | 1         |
| 500,001 – 550,000          | 1                    | –                       | 1         |
| 600,001 – 650,000          | 1                    | –                       | 1         |

\* includes Mr. Minoru Yamashita who resigned on 22<sup>nd</sup> November 2002 as Executive Chairman.

## STATEMENT ON CORPORATE GOVERNANCE (CONTINUED)

### 3 INVESTORS RELATIONS AND SHAREHOLDER COMMUNICATION

#### 3.1 Relations with shareholders

The Company values its dialogue with its shareholders and is committed to ongoing communication across its entire shareholder base, whether institutional investors, private or employee shareholders. This is achieved through quarterly and annual reports and announcements, which are available via the Company's link on the KLSE website.

#### 3.2 Annual general meeting

At each annual general meeting (AGM), the Board presents the financial results of the Group and encourages shareholders to participate in the question-and-answer session and to give comments and suggestions which will be noted by the Board for consideration.

Copies of the Annual Report and Notice of the AGM are sent to all shareholders at least twenty-one (21) days before the AGM. The Notice of the AGM is also published in widely circulated newspapers.

Each item of special business included in the Notice of the meeting will be accompanied by a full explanation of the effects of a proposed resolution.

### 4 ACCOUNTABILITY AND AUDIT

#### 4.1 Financial reporting

The Directors are aware of their responsibilities to present a balanced and understandable assessment of the Group's financial position and prospect by means of annual financial statements, quarterly reports to shareholders and other price sensitive public reports. The Audit Committee also assists the Board in ensuring the accuracy and adequacy of financial information by reviewing the financial statements and recommending any further information for disclosure.

#### 4.2 Internal Control

The Group's Statement on Internal Control is set out on pages 24 and 25 of this Annual Report.

#### 4.3 Relationship with the external auditors

The Company and Audit Committee maintain a relationship with the external auditors as described on page 27.

### 5 THE BOARD COMMITTEES

Each Committee is authorised and empowered by the Board to act within its Terms of Reference, to obtain the resources which it requires including but not limited to obtaining advice from expert advisers, both internal and external, and to have full and unrestricted access to information to enable the Committee to fulfill its objectives. Each and every member of the Committee shall be vested with such power and authority, specific or general, or as may from time to time be decided upon by the Board.

#### 5.1 Remuneration Committee

The Remuneration Committee which was established on 27<sup>th</sup> August 2001 comprises the following members:

|   |  |
|---|--|
| Nik Abdul Hamid Shukri bin Nik Abdullah | (Chairman, Non-Independent Non-Executive Director) |
| Gong Wooi Teik                          | (Independent Non-Executive Director)               |
| Tan Gnear Eng                           | (Independent Non-Executive Director)               |
| Low Thiam Hoe                           | (Independent Non-Executive Director)               |

## STATEMENT ON CORPORATE GOVERNANCE (CONTINUED)

| Category                               | No. of Directors | Percentage  |
|--|------------------|-------------|
| Independent Non-Executive Directors    | 3                | 75%         |
| Non-Independent Non-Executive Director | 1                | 25%         |
| <b>Total</b>                           | <b>4</b>         | <b>100%</b> |

The objective of the Remuneration Committee is to assist the Board of Directors of the Company in discharging its responsibilities in ensuring that the Company's Executive Directors are fairly rewarded for their individual contributions to the Company's overall performance and the levels of remuneration are sufficient to attract and retain the outstanding Executive Directors to manage the Company successfully.

The committee members met twice during the year on 8<sup>th</sup> March 2002 and 23<sup>rd</sup> April 2002. Both meetings recorded a 100% attendance by its members.

### 5.2 Nomination Committee

The Nomination Committee which was established on 27<sup>th</sup> August 2001 comprises the following members:

|   |  |
|---|--|
| Low Thiam Hoe                           | (Chairman, Independent Non-Executive Director) |
| Gong Wooi Teik                          | (Independent Non-Executive Director)           |
| Tan Gnear Eng                           | (Independent Non-Executive Director)           |
| Nik Abdul Hamid Shukri bin Nik Abdullah | (Non-Independent Non-Executive Director)       |

| Category                               | No. of Directors | Percentage  |
|--|------------------|-------------|
| Independent Non-Executive Directors    | 3                | 75%         |
| Non-Independent Non-Executive Director | 1                | 25%         |
| <b>Total</b>                           | <b>4</b>         | <b>100%</b> |

The objectives of the Nomination Committee are to:

- assist the Board of the Company in assessing existing directors and identifying, nominating and orientating new directors to enhance corporate governance;
- assist the Board in ensuring that appointments are made on merit against an agreed specification;
- assist the Board in identifying and reviewing on an annual basis the required mix of skills, experience and other qualities, including core competencies which non-executive directors should bring to the Board and which the Board requires for it to function completely and efficiently; and
- examine the size of the Board with a view to determining its impact of the number upon its effectiveness.

The committee members met twice during the year on 25<sup>th</sup> February 2002 and 8<sup>th</sup> March 2002. Both meetings recorded a 100% attendance by its members.

### 5.3 Audit Committee

The report of the Audit Committee is set out on pages 26 to 29.

## DIRECTORS' RESPONSIBILITY STATEMENT

Directors are required by Companies Act, 1965 to prepare financial statements for each financial year, which give a true and fair view of the state of affairs of the Group and of the Company at the end of the financial year and of the results of the Group and Company for the financial year then ended.

In preparing the financial statements for the financial year ended 31<sup>st</sup> December 2002, the Directors have:

- adopted suitable accounting policies and applied them consistently;
- made estimates and judgements that are prudent and reasonable;
- ensured that applicable accounting standards have been followed, subject to any material departure disclosed and explained in the financial statements; and
- prepared the financial statements on a going-concern basis.

The Directors are responsible for keeping proper accounting records which disclose, with reasonable accuracy, the financial position of the Group and of the Company. The Directors are also responsible for taking necessary and reasonable steps to safeguard the assets of the Group and the Company and to prevent and detect fraud and other irregularities.





# STATEMENT ON INTERNAL CONTROL

## 1 INTRODUCTION

The Malaysian Code on Corporate Governance requires listed companies to maintain a sound system of internal control to safeguard shareholders' investments and the Group's assets. The Kuala Lumpur Stock Exchange's ('KLSE') Revamped Listing Requirements require directors of listed companies to include a statement in annual reports on the state of their internal controls. The KLSE's Statement on Internal Control: Guidance for Directors of Public Listed Companies ('Guidance') provides guidance for compliance with these requirements. The Board of Directors of Nikko Electronics Bhd. is pleased to present the Internal Control Statement, which was prepared in accordance with the Guidance.

## 2 BOARD RESPONSIBILITY

The Board acknowledges its overall responsibility for the internal control system to cover the financial, compliance and operational controls of the Group. The Board also recognises its responsibility for reviewing the adequacy and integrity of the system of internal control to safeguard shareholders' investments and the Group's assets. However, it should be noted that such a system is designed to manage rather than eliminate the risk of failure to achieve business objectives and can only provide reasonable and not absolute assurance against material misstatement or loss.

## 3 KEY PROCESSES

The Board confirms that there was an ongoing process for identifying, evaluating and managing significant risks of the Company for the financial year under review. This commitment has culminated in the formation of an Internal Audit Department in June 2002, which has since been undertaking the review of the effectiveness of the Group's system of internal control.

The Group's key internal control processes include the following:

- There is a clear organisational structure with well-defined lines of responsibility and delegation of authority to ensure proper identification of accountabilities and segregation of duties which are communicated to all levels of the organisation.
- There are set authorisation levels strictly adhered to by the Executive Directors for any item of capital expenditure by the Group.
- There are standard operating policies and procedures which are set out and communicated to all levels of the organisation.
- The Internal Audit Department is independent of the activities it audits and it reports to the Audit Committee on the results of review activities undertaken of internal controls in the business processes. The Internal Audit Department performs its review through regular internal audit visits and review of procedures and operations.
- The management submits quarterly management reports and rolling quarterly budgets projected for the financial year ahead for review and approval by the Board. These are measured against results of previous periods and prior year corresponding period to ensure that all issues are identified in a timely manner.
- The Executive Directors maintain a 'close-to-operations' attitude with managerial staff which provide an ideal platform for timely identification and management of those identified risks in the business operations.
- Through delegation of job responsibilities to and constant communication with key management personnel who are responsible for the daily operations, the Executive Directors are able to make reasonable assessment about the operations of the Group.

## STATEMENT ON INTERNAL CONTROL (CONTINUED)

- The Group has a framework for recruitment activities to maintain a capable workforce. Ongoing training is also conducted to enhance the skill and knowledge of the workforce which aids in maintaining a risk conscious culture within the organisation.
- The Group also has in place monitoring control functions through the retention of services of external professional bodies which assist management in ensuring compliance with requirements of regulatory bodies.
- Certain internal policies of the Group such as segregation of duties and formalised written standard operating procedures are not implemented by the subsidiary company, Nikko Electronics Hong Kong Limited (NEHK) due to its small size and its operations which are principally trading in nature. NEHK also does not have an Internal Audit Department and its system of internal control is very much dependent upon the close involvement of the Directors and upon the regular visits conducted by the Directors of the holding company to ensure that the operations of the subsidiary are properly carried out.

There were no significant problems disclosed in this annual report with material internal control aspects.

# AUDIT COMMITTEE REPORT

## 1 MEMBERS

The Audit Committee comprises the following members:

|                 |  |
|-----------------|--|
| Gong Wooi Teik  | (Chairman, Independent Non-Executive Director) |
| Tan Gnear Eng   | (Independent Non-Executive Director)           |
| Low Thiam Hoe   | (Independent Non-Executive Director)           |
| Lim Chiang Hang | (Managing Director)                            |

| Category                            | No. of Directors | Percentage  |
|-------------------------------------|------------------|-------------|
| Independent Non-Executive Directors | 3                | 75%         |
| Executive Director                  | 1                | 25%         |
| <b>Total</b>                        | <b>4</b>         | <b>100%</b> |

## 2 TERMS OF REFERENCE

### 2.1 Membership

The Committee shall be appointed by the Board from amongst the Directors of the Company and shall consist of not less than three (3) members with a majority of non-executive Directors. The Chairman of the Committee shall be a non-executive Director elected by the members of the Committee.

Further, at least one member of the Committee:

- i) must be a member of the Malaysian Institute of Accountants; or
- ii) if he/she is not a member of the Malaysian Institute of Accountants, he/she must have at least three (3) years' working experience and:
  - he/she must have passed the examinations specified in Part I of the 1<sup>st</sup> Schedule of the Accountants Act, 1967; or
  - he/she must be a member of one of the associates of accountants specified in Part II of the 1<sup>st</sup> Schedule of the Accountants Act, 1967.

In the event of any vacancy in the Audit Committee resulting in the non-compliance of the above requirements, the Board must fill the vacancy within three (3) months.

No alternate director shall be appointed as a member of the Audit Committee.

### 2.2 Authority

As empowered by the Board, the Audit Committee shall:

- i) have authority to investigate any matter within its term of reference;
- ii) have the resources which are required to perform its duties;
- iii) have full and unrestricted access to any information, records, properties and personnel of the Company and of the Group;
- iv) have direct communication channels with the external auditors and person(s) carrying out the internal audit function or activity;
- v) be able to obtain independent professional or other advice; and
- vi) be able to convene meetings with external auditors, excluding the attendance of the executive members of the Audit Committee, whenever deemed necessary.

### 2.3 Duties and responsibilities

The duties of the Committee shall be:

- a) to review the quarterly and annual financial statements before approval by the Board, focusing particularly on:
  - changes in accounting policies and practices;
  - implementation of major accounting policy changes;
  - significant and unusual events; and
  - compliance with accounting standards and other statutory requirements.
- b) to review with external auditors:
  - their audit plan, encompassing the nature and scope of the audit before the commencement of the audit;
  - their evaluation of the system of internal controls;
  - their audit report;
  - their audit findings; and
  - the assistance given by the employees of the Company to the external auditors.
- c) to review adequacy of the scope, functions and resources of the internal audit functions and that it has the necessary authority to carry out its work;
- d) to review the internal audit programme, processes, the results of the internal audit programme, processes or investigation undertaken and whether or not action is taken on the recommendations of the internal audit function;
- e) to review any related party transaction and conflict of interest situation that may arise within the Company or Group, including any transaction, procedure or course of conduct that raises questions of management integrity;
- f) to review any letter of resignation from the external auditors of the Company;
- g) to review whether there is reason (supported by grounds) to believe that the Company's external auditors are not suitable for re-appointment;
- h) to make recommendations to the Board on the appointment and remuneration of the external auditors; and
- i) to carry out any additional duties which may arise from time to time as prescribed by the Board.

### 2.4 Meetings

Meetings shall be held not less than three (3) times a year and such additional meetings as the Chairman may decide to fulfill its duties. The external auditors may request a meeting if they consider this necessary. The Committee may invite any persons to be in attendance to assist in its deliberations.

The Committee may require any employee and/or the external auditors to attend meetings. If necessary, the Committee shall meet with the external auditors without any executive Director present.

A quorum shall be two (2) members who shall be non-executive Directors.

The Company Secretary shall be the Secretary of the Audit Committee.

## AUDIT COMMITTEE REPORT (CONTINUED)

### 3 NUMBER OF MEETINGS AND DETAILS OF ATTENDANCE

The Committee members met five (5) times during the financial year ended 31<sup>st</sup> December 2002. Details of attendance are as follows:

| Members of the Audit Committee | 1 <sup>st</sup> Audit Committee Meeting<br>25/02/02 | 2 <sup>nd</sup> Audit Committee Meeting<br>23/04/02 | 3 <sup>rd</sup> Audit Committee Meeting<br>16/05/02 | 4 <sup>th</sup> Audit Committee Meeting<br>26/08/02 | 5 <sup>th</sup> Audit Committee Meeting<br>21/11/02 |
|--------------------------------|---|---|---|---|---|
| Gong Wooi Teik                 | ✓   | ✓   | ✓   | ✓   | ✓   |
| Tan Gnear Eng                  | ✓   | ✓   | ✓   | ✓   | ✓   |
| Lim Chiang Hang                | ✓   | ✓   | ✓   | ✓   | ✓   |
| Low Thiam Hoe                  | ✓   | ✓   | ✗   | ✓   | ✗   |

The meetings were appropriately structured through the use of agendas, which were distributed to members with sufficient notification.

The Company Secretary was in attendance as secretary of the Committee in all meetings. Representatives of the external auditors, Messrs PricewaterhouseCoopers as well as the Executive Director of Finance and Administration, company legal adviser and corporate adviser also attended the meetings, where appropriate, upon invitation.

### 4 SUMMARY OF ACTIVITIES

A summary of the activities performed by the Audit Committee during the financial year ended 31<sup>st</sup> December 2002 were as follows:

- reviewed the quarterly results of the Group and the recommendation of the same to the Board for approval;
- discussed the audit plan with external auditors before commencement of their audit of the accounts of the Company for the year ended 31<sup>st</sup> December 2002;
- reviewed and discussed with the external auditors on the audited financial statements for the year ended 31<sup>st</sup> December 2002 and the audit findings and recommendation of the same to the Board for their attention;
- reviewed the authorisation limits for capital expenditure of the Company;
- reviewed the operations of the subsidiary company as part of an in-depth study on the viability of the businesses undertaken by the subsidiary;
- spearheaded the setting up of the Internal Audit Department and subsequently reviewed internal audit findings and recommendations for improvements in the system of internal control;
- reviewed financial forecasts prepared on a quarterly basis for the Company and the subsidiary company to ensure that any issues are addressed on a timely basis;
- reviewed the viability of IT related projects and ensured that all issues were raised to the Board of Directors for their attention and ultimate decision-making;
- enquired with Management on the variance between the unaudited and audited results of the Group to gain a thorough understanding of the adjustments resulting in the variance;
- reviewed the contents of the draft Annual Report prior to recommendation of the same to the Board of Directors for their approval; and
- reviewed the related party transactions entered into by the Group and the procedures established to ensure that the transactions were not more favourable to the related parties than those generally available to other customers and were not detrimental to the minority shareholders.

## AUDIT COMMITTEE REPORT (CONTINUED)

### 5 INTERNAL AUDIT FUNCTION

The Company established an Internal Audit Department (IAD) to assist the Board in monitoring and managing risks and internal controls, and to assist the Audit Committee in discharging its duties and responsibilities. The function of the IAD is to provide the Audit Committee with independent and objective reports on the state of internal controls and the compliance with policies and procedures of the Company. It is also responsible for providing independent assessments for adequate, efficient and effective internal control systems in anticipating potential risk exposures over key business processes.

During the financial year under review, the IAD prepared an internal audit plan to document and verify all processes that comprised the main business cycles of the Company. Recommendations for improvements to improve internal controls by the IAD were reviewed by the Audit Committee for implementation in relevant departments. There were no internal control weaknesses which resulted in any material losses, contingencies or uncertainties that would require disclosure in the Company's Annual Report.

## OTHER KLSE INFORMATION

In compliance with the KLSE Listing Requirements, the following information is provided:

### 1 MATERIAL CONTRACTS

There were no material contracts entered into by the Company and its subsidiary during the financial year.

### 2 SHARE BUY-BACK

There was a share buy-back of 36,000 shares which amounted to RM56,743 during the financial year. Details of the shares repurchased during the financial year are set out in Note 13: Share Capital on page 57 of this Annual Report.

### 3 OPTIONS, WARRANTS OR CONVERTIBLE SECURITIES

No options, warrants or convertible securities were issued by the Company during the financial year.

### 4 AMERICAN DEPOSITORY RECEIPT ("ADR") / GLOBAL DEPOSITOR RECEIPT ("GDR")

The Company did not sponsor any ADR or GDR programmes during the financial year.

### 5 SANCTIONS/PENALTIES

There was no material sanctions/penalties imposed on the Company and its subsidiary company, Directors or Management by the relevant regulatory bodies during the financial year.

### 6 NON-AUDIT FEES

The amount of non-audit fees paid to the external auditors by the Group for the financial year amounted to RM25,600 (2001: RM21,400).

### 7 VARIATION IN RESULTS

There was a variation in the audited results of the Group compared to the unaudited results announced to the KLSE on 28<sup>th</sup> February 2003. The reconciliation and explanation is provided below:

| Description                               | Note | Audited<br>RM '000 | Unaudited<br>RM '000 | Variance<br>RM '000 |
|---|------|--------------------|----------------------|---------------------|
| Consolidated profit before taxation       | 1    | (935)              | 736                  | (1,671)             |
| Provision for taxation                    | 2    | 1,480              | (55)                 | 1,535               |
| <b>Consolidated profit after taxation</b> |      | <b>545</b>         | <b>681</b>           | <b>(136)</b>        |

## OTHER KLSE INFORMATION (CONTINUED)

Variance is represented by:

| Note | Explanation  | RM '000     | RM '000             |
|------|--|-------------|---------------------|
| 1    | Audit adjustment to write-off development costs  | (1,651)     |                     |
|      | Net effect of various audit adjustments to profit before taxation in the financial statements of the subsidiary company  | <u>(20)</u> | (1,671)             |
| 2    | Reversal of deferred taxation not provided for   | 481         |                     |
|      | Audit adjustment for overprovision of Malaysian taxation in respect of additional claims for reinvestment allowances in prior years subsequently confirmed by the Inland Revenue Board | 1,067       |                     |
|      | Audit adjustment for underprovision of Malaysian taxation for the current year   | <u>(13)</u> | 1,535               |
|      | <b>Reduction in unaudited consolidated profit after taxation</b>   |             | <b><u>(136)</u></b> |

### 8 PROFIT GUARANTEE

There were no profit guarantees given by the Company during the financial year.

### 9 REVALUATION POLICY

Except for leasehold land and factory buildings which were revalued at an interval of at least once in every five (5) years, the Group does not have a revaluation policy.

### 10 RECURRENT RELATED PARTY TRANSACTIONS ("RRPT") OF REVENUE NATURE

The details are set out in Note 24: Significant Related Party Balances and Transactions on pages 61 to 64 of this Annual Report.



## FIVE YEAR FINANCIAL SUMMARY

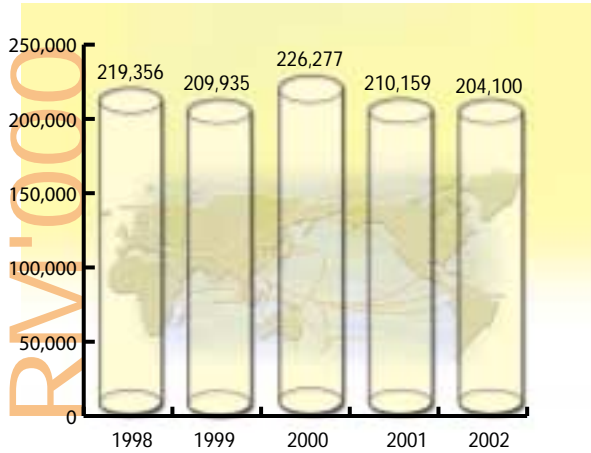
| Year ended 31 <sup>st</sup> December                    | 1998<br>RM'000 | 1999<br>RM'000 | 2000<br>RM'000 | 2001<br>RM'000 | 2002<br>RM'000 |
|---|----------------|----------------|----------------|----------------|----------------|
| Revenue   | 219,356        | 209,935        | 226,277        | 210,159        | <b>204,100</b> |
| Profit/(Loss) before taxation                           | 19,802         | 19,420         | 26,385         | 3,076          | <b>(935)</b>   |
| Profit after taxation                                   | 17,093         | 19,022         | 24,004         | 2,886          | <b>545</b>     |
| Dividends:  |                |                |                |                |                |
| Gross rate (%)  | 6              | 6              | 6              | 6              | <b>6</b>       |
| Amount ( <i>net of taxation</i> )                       | 3,000          | 4,440          | 5,940          | 5,940          | <b>5,938</b>   |
| Total assets employed                                   | 233,323        | 209,952        | 228,963        | 201,007        | <b>209,456</b> |
| Shareholders' equity                                    | 96,278         | 143,990        | 167,984        | 164,935        | <b>159,479</b> |
| Net tangible assets                                     | 96,278         | 143,990        | 167,984        | 160,846        | <b>159,086</b> |
| Net tangible assets per ordinary share (RM)             | 1.93           | 1.45           | 1.70           | 1.62           | <b>1.61</b>    |
| Net earnings per share ( <i>sen</i> )                   | 23.10          | 25.61          | 24.25          | 2.92           | <b>0.55</b>    |
| Number of ordinary shares issued and fully paid ('000)  | 50,000         | 99,000         | 99,000         | 99,000         | <b>99,000</b>  |
| Treasury shares ('000)                                  | 0              | 0              | 0              | 0              | <b>36</b>      |
| Weighted average number of shares of RM1.00 each ('000) | 74,000         | 74,274         | 99,000         | 99,000         | <b>98,999</b>  |

### Notes:

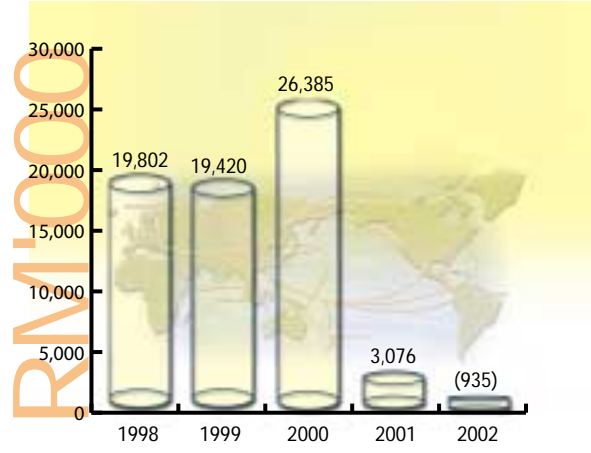
1. The financial results for the year 1998 relate to those of the Company only.
2. There were no exceptional or extraordinary items in respect of the above financial years.
3. The weighted average number of shares has been adjusted for bonus issues in 1999.
4. Shareholders' equity, net tangible assets and net tangible assets per ordinary share have been restated in 1998 to 2001 due to the adoption of MASB 19 'Events After the Balance Sheet Date' accounted for retrospectively.

# FIVE YEAR FINANCIAL SUMMARY (CONTINUED)

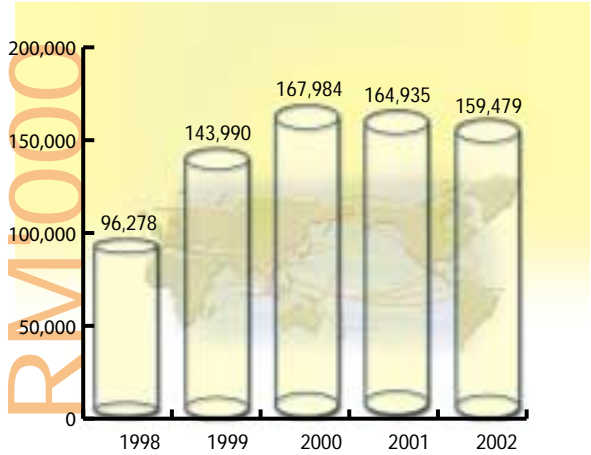
**TURNOVER**



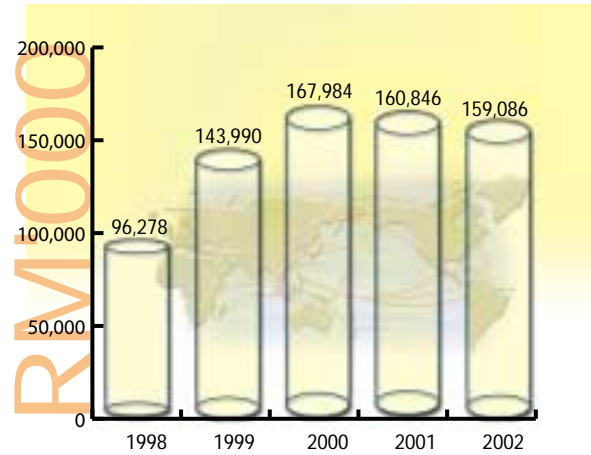
**PROFIT/(LOSS) BEFORE TAXATION**



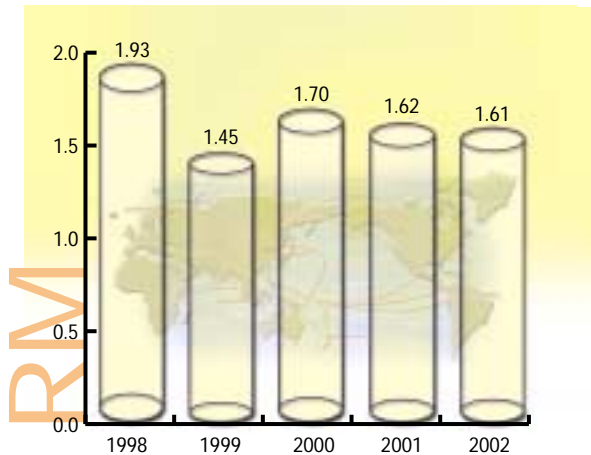
**SHAREHOLDERS' EQUITY**



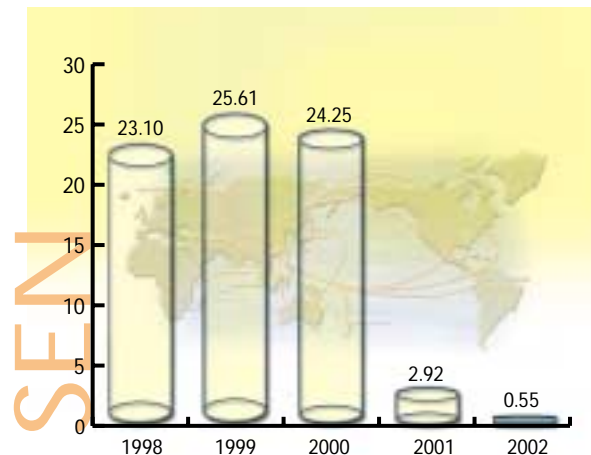
**NET TANGIBLE ASSETS**



**NET TANGIBLE ASSETS PER ORDINARY SHARE (RM)**



**NET EARNINGS PER SHARE (SEN)**



# LIST OF PROPERTIES

| Location  | Description                         | Tenure                              | Land area<br>(sq metres) | Built-up<br>area<br>(sq metres) | Age of<br>Building<br>(years) | NBV of<br>Land as at<br>31.12.2002<br>(RM'000) | NBV of<br>Buildings<br>as at<br>31.12.2002<br>(RM'000) |
|---|-------------------------------------|-------------------------------------|--------------------------|---------------------------------|-------------------------------|--|--|
| Lot P.T. No. 2706<br>(Plot 497)<br>Prai Free Trade Zone<br>Prai Industrial Estate<br>13600 Prai<br>Penang<br>(Date of last revaluation: 23/06/1999) | Factory,<br>warehouse<br>and office | Leasehold<br>expiring<br>19/04/2049 | 32,973                   | 24,739                          | 14                            | 5,627  | 19,467   |
| Lot 7293<br>Kawasan Perusahaan 1<br>Parit Buntar<br>Industrial Estate<br>34200 Parit Buntar<br>Perak<br>(Date of last revaluation: 23/06/1999)      | Factory,<br>warehouse<br>and office | Leasehold<br>expiring<br>02/09/2050 | 21,399                   | 16,411                          | 10                            | 1,480  | 11,701   |

Revaluation of the leasehold land and factory buildings will be conducted at an interval of at least once in every five years.



◀ Lot P.T. No. 2706 (Plot 497)  
Prai Free Trade Zone  
Prai Industrial Estate  
13600 Prai  
Penang

Lot 7293 ▶  
Kawasan Perusahaan 1  
Parit Buntar Industrial Estate  
34200 Parit Buntar  
Perak

# FINANCIAL STATEMENTS

|   |    |
|---|----|
| Directors' Report .....                           | 36 |
| Balance Sheets .....                              | 39 |
| Income Statements .....                           | 40 |
| Consolidated Statement of Changes in Equity ..... | 41 |
| Company Statement of Changes in Equity .....      | 42 |
| Cash Flow Statements .....                        | 43 |
| Notes to the Financial Statements .....           | 45 |
| Statement by Directors .....                      | 68 |
| Statutory Declaration .....                       | 68 |
| Report of the Auditors .....                      | 69 |

**MILKMO**

Citroen Xsara WRC – Partner of Citroen



Peugeot 206 WRC – Partner of Peugeot





**NIKKO**



## DIRECTORS' REPORT

The directors have pleasure in submitting their report together with the audited financial statements of the Group and of the Company for the financial year ended 31 December 2002.

### PRINCIPAL ACTIVITIES

The principal activities of the Company consist of the manufacture and sales of radio controlled toys. The principal activities of the subsidiary company consist of trading in radio controlled toys, electronic and toy related products. There has been no significant change in the principal activities of the Company or its subsidiary company during the financial year.

### FINANCIAL RESULTS

|                       | <b>Group</b>  | <b>Company</b> |
|-----------------------|---------------|----------------|
|                       | <b>RM'000</b> | <b>RM'000</b>  |
| Profit after taxation | <u>545</u>    | <u>2,421</u>   |

### DIVIDENDS

The dividends paid or declared by the Company since 31 December 2001 are as follows:

In respect of the financial year ended 31 December 2001, as shown in the directors' report of that financial year, a first and final dividend of 6 sen per share on 99,000,000 shares, tax exempt, amounting to RM5,940,000 was paid on 3 July 2002.

The directors now recommend the payment of a first and final dividend of 6 sen per share, tax exempt, amounting to RM5,937,840 in respect of the financial year ended 31 December 2002 subject to the approval of members at the forthcoming Annual General Meeting of the Company.

### RESERVES AND PROVISIONS

There were no material transfers to or from reserves and provisions during the financial year other than as disclosed in the financial statements.

### SHARES REPURCHASED

During the financial year, the Company repurchased 36,000 of its issued shares from the open market to enhance the value of the Company and in the best interests of the Company and its shareholders as disclosed in Note 13 to the financial statements.

### DIRECTORS

The directors who have held office since the date of the last report are:

Kenichi Hattori  
Minoru Yamashita  
Dato' Zulkifli bin Abdul Rahman  
Lim Chiang Hang  
Toyotoshi Yamada  
Chan Foong Siew  
Nik Abdul Hamid Shukri bin Nik Abdullah  
Gong Wooi Teik  
Tan Gnear Eng  
Low Thiam Hoe  
Motoharu Ban  
Yap Kok Ching



## DIRECTORS' REPORT (CONTINUED)

In accordance with Article 63(2) of the Company's Articles of Association, Kenichi Hattori, Dato' Zulkifli bin Abdul Rahman, Gong Wooi Teik and Tan Gnear Eng retire at the forthcoming Annual General Meeting and, being eligible, offer themselves for re-election.

### DIRECTORS' BENEFITS

During and at the end of the financial year, no arrangement subsisted to which the Company is a party, with the object or objects of enabling directors of the Company to acquire benefits by means of the acquisition of shares in or debentures of the Company or any other body corporate.

Since the end of the previous financial year, no director has received or become entitled to receive a benefit (other than benefits disclosed as directors' remuneration in Note 18 to the financial statements) by reason of a contract made by the Company or a related corporation with the director or with a firm of which he is a member, or with a company in which he has a substantial financial interest other than benefits that may be deemed to have arisen in relation to transactions entered into in the ordinary course of business as disclosed in Note 24 to the financial statements.

### DIRECTORS' INTERESTS IN SHARES

According to the register of directors' shareholdings, the interests of directors in office at the end of the financial year in shares in the Company are as follows:

|   | Number of ordinary shares of RM1.00 each |        |      |                  |
|---|--|--------|------|------------------|
|   | At<br>1-1-2002                           | Bought | Sold | At<br>31-12-2002 |
| <b>Nikko Electronics Bhd</b>            |  |        |      |                  |
| Kenichi Hattori                         | 10,000                                   | 0      | 0    | 10,000           |
| Minoru Yamashita                        | 90,000                                   | 0      | 0    | 90,000           |
| Dato' Zulkifli bin Abdul Rahman         | 6,000                                    | 0      | 0    | 6,000            |
| Lim Chiang Hang                         | 30,000                                   | 0      | 0    | 30,000           |
| Chan Foong Siew                         | 15,000                                   | 0      | 0    | 15,000           |
| Nik Abdul Hamid Shukri bin Nik Abdullah | 5,000                                    | 0      | 0    | 5,000            |
| Gong Wooi Teik                          | 10,000                                   | 0      | 0    | 10,000           |
| Tan Gnear Eng                           | 10,000                                   | 0      | 0    | 10,000           |

### Held by a company in which directors are deemed to have interests

|                  |            |   |             |            |
|------------------|------------|---|-------------|------------|
| Kenichi Hattori  | 49,600,000 | 0 | (5,000,000) | 44,600,000 |
| Minoru Yamashita | 49,600,000 | 0 | (5,000,000) | 44,600,000 |

No other directors in office at the end of the financial year held any interest in shares in the Company or its related corporations.

### STATUTORY INFORMATION ON THE FINANCIAL STATEMENTS

Before the financial statements were made out, the directors took reasonable steps:

- (a) to ascertain that action had been taken in relation to the writing off of bad debts and the making of allowance for doubtful debts and satisfied themselves that all known bad debts had been written off and that adequate allowance had been made for doubtful debts; and



**NIKKO**



## **DIRECTORS' REPORT (CONTINUED)**

- (b) to ensure that any current assets, other than debts, which were unlikely to realise in the ordinary course of business their values as shown in the accounting records of the Group and the Company had been written down to an amount which they might be expected so to realise.

At the date of this report, the directors are not aware of any circumstances:

- (a) which would render the amounts written off for bad debts or the amount of the allowance for doubtful debts in the financial statements of the Group and the Company inadequate to any substantial extent; or
- (b) which would render the values attributed to current assets in the financial statements of the Group and the Company misleading; or
- (c) which have arisen which render adherence to the existing method of valuation of assets or liabilities of the Group and the Company misleading or inappropriate.

No contingent or other liability has become enforceable or is likely to become enforceable within the period of twelve months after the end of the financial year which, in the opinion of the directors, will or may substantially affect the ability of the Group or the Company to meet their obligations when they fall due.

At the date of this report, there does not exist:

- (a) any charge on the assets of the Group and the Company which has arisen since the end of the financial year which secures the liability of any other person; or
- (b) any contingent liability of the Group and the Company which has arisen since the end of the financial year.

### **OTHER STATUTORY INFORMATION**

At the date of this report, the directors are not aware of any circumstances not otherwise dealt with in this report or the financial statements which would render any amount stated in the financial statements misleading.

In the opinion of the directors,

- (a) the results of the operations of the Group and the Company during the financial year were not substantially affected by any item, transaction or event of a material and unusual nature; and
- (b) there has not arisen in the interval between the end of the financial year and the date of this report any item, transaction or event of a material and unusual nature likely to affect substantially the results of the operations of the Group or the Company for the financial year in which this report is made.

### **AUDITORS**

The auditors, PricewaterhouseCoopers, have expressed their willingness to continue in office.

In accordance with a resolution of the Board of Directors dated 23 April 2003.

**KENICHI HATTORI**  
DIRECTOR

**LIM CHIANG HANG**  
DIRECTOR

Kuala Lumpur

**BALANCE SHEETS AS AT 31 DECEMBER 2002**


|                                    | Note | Group          |                | Company        |                |
|------------------------------------|------|----------------|----------------|----------------|----------------|
|                                    |      | 2002<br>RM'000 | 2001<br>RM'000 | 2002<br>RM'000 | 2001<br>RM'000 |
| <b>NON-CURRENT ASSETS</b>          |      |                |                |                |                |
| Property, plant and equipment      | 5    | <b>73,084</b>  | 77,361         | <b>72,691</b>  | 76,838         |
| Development costs                  | 6    | <b>393</b>     | 4,089          | <b>393</b>     | 2,055          |
| Subsidiary company                 | 7    | <b>0</b>       | 0              | <b>640</b>     | 640            |
|                                    |      | <b>73,477</b>  | 81,450         | <b>73,724</b>  | 79,533         |
| <b>CURRENT ASSETS</b>              |      |                |                |                |                |
| Inventories                        | 8    | <b>42,795</b>  | 45,160         | <b>42,094</b>  | 43,524         |
| Receivables                        | 9    | <b>40,331</b>  | 41,354         | <b>40,147</b>  | 45,810         |
| Deposits, cash and bank balances   | 10   | <b>52,853</b>  | 33,043         | <b>52,195</b>  | 32,855         |
|                                    |      | <b>135,979</b> | 119,557        | <b>134,436</b> | 122,189        |
| <b>LESS: CURRENT LIABILITIES</b>   |      |                |                |                |                |
| Payables                           | 11   | <b>22,074</b>  | 11,074         | <b>18,048</b>  | 10,939         |
| Bank borrowings (unsecured)        | 12   | <b>20,429</b>  | 15,093         | <b>20,429</b>  | 15,093         |
| Dividend payable                   |      | <b>35</b>      | 21             | <b>35</b>      | 21             |
| Taxation                           |      | <b>1,889</b>   | 3,853          | <b>1,889</b>   | 3,853          |
|                                    |      | <b>44,427</b>  | 30,041         | <b>40,401</b>  | 29,906         |
| <b>NET CURRENT ASSETS</b>          |      | <b>91,552</b>  | 89,516         | <b>94,035</b>  | 92,283         |
| <b>LESS: NON-CURRENT LIABILITY</b> |      |                |                |                |                |
| Deferred taxation                  | 15   | <b>5,550</b>   | 6,031          | <b>5,550</b>   | 6,031          |
|                                    |      | <b>159,479</b> | 164,935        | <b>162,209</b> | 165,785        |
| <b>CAPITAL AND RESERVES</b>        |      |                |                |                |                |
| Share capital                      |      | <b>99,000</b>  | 99,000         | <b>99,000</b>  | 99,000         |
| Share premium                      |      | <b>17,356</b>  | 17,356         | <b>17,356</b>  | 17,356         |
| Revaluation reserve                |      | <b>2,425</b>   | 2,425          | <b>2,425</b>   | 2,425          |
| Exchange fluctuation reserve       |      | <b>329</b>     | 333            | <b>0</b>       | 0              |
| Retained profits                   |      | <b>40,426</b>  | 45,821         | <b>43,485</b>  | 47,004         |
| Treasury shares, at cost           |      | <b>(57)</b>    | 0              | <b>(57)</b>    | 0              |
| <b>Shareholders' equity</b>        |      | <b>159,479</b> | 164,935        | <b>162,209</b> | 165,785        |

The notes on pages 45 to 67 form part of these financial statements



**NIKKO**

# INCOME STATEMENTS

**FOR THE FINANCIAL YEAR ENDED 31 DECEMBER 2002**

|   | Note | Group            |                | Company          |                |
|---|------|------------------|----------------|------------------|----------------|
|   |      | 2002<br>RM'000   | 2001<br>RM'000 | 2002<br>RM'000   | 2001<br>RM'000 |
| REVENUE – Sales of goods                                  |      | <b>204,100</b>   | 210,159        | <b>198,476</b>   | 208,015        |
| COST OF SALES   |      | <b>(171,913)</b> | (175,044)      | <b>(168,055)</b> | (173,100)      |
| GROSS PROFIT  |      | <b>32,187</b>    | 35,115         | <b>30,421</b>    | 34,915         |
| Other operating income                                    |      | <b>2,719</b>     | 1,336          | <b>2,703</b>     | 1,312          |
| Distribution costs  |      | <b>(16,086)</b>  | (17,268)       | <b>(16,046)</b>  | (17,171)       |
| Administrative expenses                                   |      | <b>(12,577)</b>  | (11,688)       | <b>(10,993)</b>  | (10,320)       |
| Other operating expenses                                  | 16   | <b>(6,406)</b>   | (3,439)        | <b>(4,372)</b>   | (2,422)        |
| (LOSS)/PROFIT FROM OPERATING ACTIVITIES                   | 17   | <b>(163)</b>     | 4,056          | <b>1,713</b>     | 6,314          |
| FINANCE COSTS   | 19   | <b>(772)</b>     | (980)          | <b>(772)</b>     | (980)          |
| (LOSS)/PROFIT FROM ORDINARY ACTIVITIES<br>BEFORE TAXATION |      | <b>(935)</b>     | 3,076          | <b>941</b>       | 5,334          |
| TAXATION  | 20   | <b>1,480</b>     | (190)          | <b>1,480</b>     | (190)          |
| NET PROFIT FOR THE FINANCIAL YEAR                         |      | <b>545</b>       | 2,886          | <b>2,421</b>     | 5,144          |
| EARNINGS PER SHARE  | 21   | <b>0.55 sen</b>  | 2.92 sen       |                  |                |

*The notes on pages 45 to 67 form part of these financial statements*



## CONSOLIDATED STATEMENT OF CHANGES IN EQUITY

FOR THE FINANCIAL YEAR ENDED 31 DECEMBER 2002

| Group   | Note | Issued and fully paid<br>ordinary shares of<br>RMI each |                            | Treasury<br>shares<br>RM'000 | Non-<br>distri-<br>butable | Distri-<br>butable            | Total          |
|---|------|---|----------------------------|------------------------------|----------------------------|-------------------------------|----------------|
|   |      | Number<br>of shares<br>'000                             | Nominal<br>value<br>RM'000 |                              | Reserves<br>RM'000         | Retained<br>profits<br>RM'000 |                |
| At 1 January 2001   |      |   |                            |                              |                            |                               |                |
| – as previously reported  |      | 99,000  | 99,000                     | 0                            | 20,109                     | 42,935                        | 162,044        |
| – prior year adjustment   | 25   | 0   | 0                          | 0                            | 0                          | 5,940                         | 5,940          |
| – as restated   |      | 99,000  | 99,000                     | 0                            | 20,109                     | 48,875                        | 167,984        |
| Net loss not recognised in<br>income statement arising<br>on translation of net<br>assets of subsidiary company |      |   |                            |                              |                            |                               |                |
|   |      | 0   | 0                          | 0                            | 5                          | 0                             | 5              |
| Net profit for the financial year   |      |   |                            |                              |                            |                               |                |
|   |      | 0   | 0                          | 0                            | 0                          | 2,886                         | 2,886          |
| Dividend in respect of the<br>financial year ended 2000   |      |   |                            |                              |                            |                               |                |
|   |      | 0   | 0                          | 0                            | 0                          | (5,940)                       | (5,940)        |
| <b>At 31 December 2001</b>  |      |   |                            |                              |                            |                               |                |
|   |      | <b>99,000</b>   | <b>99,000</b>              | <b>0</b>                     | <b>20,114</b>              | <b>45,821</b>                 | <b>164,935</b> |
| At 1 January 2002   |      |   |                            |                              |                            |                               |                |
| – as previously reported  |      | 99,000  | 99,000                     | 0                            | 20,114                     | 39,881                        | 158,995        |
| – prior year adjustment   | 25   | 0   | 0                          | 0                            | 0                          | 5,940                         | 5,940          |
| – as restated   |      | 99,000  | 99,000                     | 0                            | 20,114                     | 45,821                        | 164,935        |
| Shares repurchased held<br>as treasury shares at cost   |      |   |                            |                              |                            |                               |                |
|   |      | (36)  | 0                          | (57)                         | 0                          | 0                             | (57)           |
| Net gain not recognised in<br>income statement arising<br>on translation of net<br>assets of subsidiary company |      |   |                            |                              |                            |                               |                |
|   |      | 0   | 0                          | 0                            | (4)                        | 0                             | (4)            |
| Net profit for the financial year   |      |   |                            |                              |                            |                               |                |
|   |      | 0   | 0                          | 0                            | 0                          | 545                           | 545            |
| Dividend in respect of the<br>financial year ended 2001   |      |   |                            |                              |                            |                               |                |
|   |      | 0   | 0                          | 0                            | 0                          | (5,940)                       | (5,940)        |
| <b>At 31 December 2002</b>  |      |   |                            |                              |                            |                               |                |
|   |      | <b>98,964</b>   | <b>99,000</b>              | <b>(57)</b>                  | <b>20,110</b>              | <b>40,426</b>                 | <b>159,479</b> |

The notes on pages 45 to 67 form part of these financial statements

**NIKKO**

# COMPANY STATEMENT OF CHANGES IN EQUITY

**FOR THE FINANCIAL YEAR ENDED 31 DECEMBER 2002**

| Company  | Note | Issued and fully paid ordinary shares of RM1 each |                         | Treasury shares<br>RM'000 | Non-distributable  | Distributable              | Total          |
|--|------|---|-------------------------|---------------------------|--------------------|----------------------------|----------------|
|  |      | Number of shares<br>'000                          | Nominal value<br>RM'000 |                           | Reserves<br>RM'000 | Retained profits<br>RM'000 |                |
| At 1 January 2001                                    |      |   |                         |                           |                    |                            |                |
| – as previously reported                             |      | 99,000  | 99,000                  | 0                         | 19,781             | 41,860                     | 160,641        |
| – prior year adjustment                              | 25   | 0   | 0                       | 0                         | 0                  | 5,940                      | 5,940          |
| – as restated  |      | 99,000  | 99,000                  | 0                         | 19,781             | 47,800                     | 166,581        |
| Net profit for the financial year                    |      | 0   | 0                       | 0                         | 0                  | 5,144                      | 5,144          |
| Dividend in respect of the financial year ended 2000 |      | 0   | 0                       | 0                         | 0                  | (5,940)                    | (5,940)        |
| At 31 December 2001                                  |      | 99,000  | 99,000                  | 0                         | 19,781             | 47,004                     | 165,785        |
| At 1 January 2002                                    |      |   |                         |                           |                    |                            |                |
| – as previously reported                             |      | 99,000  | 99,000                  | 0                         | 19,781             | 41,064                     | 159,845        |
| – prior year adjustment                              | 25   | 0   | 0                       | 0                         | 0                  | 5,940                      | 5,940          |
| – as restated  |      | 99,000  | 99,000                  | 0                         | 19,781             | 47,004                     | 165,785        |
| Shares repurchased held as treasury shares at cost   |      | (36)  | 0                       | (57)                      | 0                  | 0                          | (57)           |
| Net profit for the financial year                    |      | 0   | 0                       | 0                         | 0                  | 2,421                      | 2,421          |
| Dividend in respect of the financial year ended 2001 |      | 0   | 0                       | 0                         | 0                  | (5,940)                    | (5,940)        |
| At 31 December 2002                                  |      | <b>98,964</b>                                     | <b>99,000</b>           | <b>(57)</b>               | <b>19,781</b>      | <b>43,485</b>              | <b>162,209</b> |

*The notes on pages 45 to 67 form part of these financial statements*



# CASH FLOW STATEMENTS

FOR THE FINANCIAL YEAR ENDED 31 DECEMBER 2002

|   | Group          |                 | Company        |                |
|---|----------------|-----------------|----------------|----------------|
|   | 2002           | 2001            | 2002           | 2001           |
|   | RM'000         | RM'000          | RM'000         | RM'000         |
| <b>OPERATING CASH FLOWS</b>                           |                |                 |                |                |
| Net profit for the financial year                     | 545            | 2,886           | 2,421          | 5,144          |
| Adjustments for:                                      |                |                 |                |                |
| Depreciation  | 12,698         | 12,531          | 12,608         | 12,439         |
| Net gain on disposal of property, plant and equipment | (68)           | (161)           | (83)           | (161)          |
| Development costs                                     |                |                 |                |                |
| – Amortisation  | 2,045          | 2,044           | 1,028          | 1,027          |
| – Write-off   | 1,651          | 0               | 634            | 0              |
| Interest expense                                      | 772            | 980             | 772            | 980            |
| Interest income                                       | (326)          | (643)           | (325)          | (643)          |
| Unrealised net foreign exchange (gain)/loss           | (1,803)        | 7               | (1,803)        | 7              |
| Taxation  | (1,480)        | 190             | (1,480)        | 190            |
|   | <b>14,034</b>  | <b>17,834</b>   | <b>13,772</b>  | <b>18,983</b>  |
| Changes in working capital:                           |                |                 |                |                |
| Inventories   | 2,365          | 7,306           | 1,430          | 8,942          |
| Receivables   | 895            | 28,863          | 5,539          | 22,654         |
| Payables  | 11,119         | (22,271)        | 7,228          | (22,402)       |
|   | <b>28,413</b>  | <b>31,732</b>   | <b>27,969</b>  | <b>28,177</b>  |
| Interest paid   | (858)          | (980)           | (858)          | (980)          |
| Tax paid  | (668)          | (752)           | (668)          | (736)          |
| Net operating cash flow                               | <b>26,887</b>  | <b>30,000</b>   | <b>26,443</b>  | <b>26,461</b>  |
| <b>INVESTING CASH FLOWS</b>                           |                |                 |                |                |
| Interest received                                     | 326            | 643             | 325            | 643            |
| Development costs paid                                | 0              | (6,133)         | 0              | (3,082)        |
| Purchase of property, plant and equipment             | (8,512)        | (7,702)         | (8,510)        | (7,087)        |
| Proceeds from sale of property, plant and equipment   | 159            | 172             | 132            | 172            |
| Net investing cash flow                               | <b>(8,027)</b> | <b>(13,020)</b> | <b>(8,053)</b> | <b>(9,354)</b> |

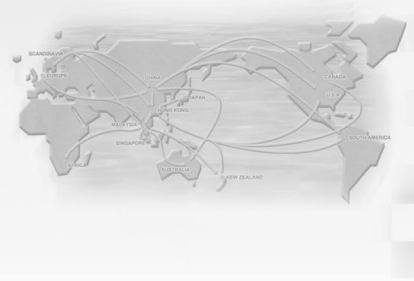
The notes on pages 45 to 67 form part of these financial statements

**NIKKO**

# CASH FLOW STATEMENTS

FOR THE FINANCIAL YEAR ENDED 31 DECEMBER 2002 (CONTINUED)

|   | Group          |                | Company        |                |
|---|----------------|----------------|----------------|----------------|
|   | 2002<br>RM'000 | 2001<br>RM'000 | 2002<br>RM'000 | 2001<br>RM'000 |
| <b>FINANCING CASH FLOWS</b>   |                |                |                |                |
| Revolving credits utilised  | 0              | 8,000          | 0              | 8,000          |
| Payment of revolving credits  | (2,000)        | (6,000)        | (2,000)        | (6,000)        |
| Net change in other borrowings  | 7,190          | (4,431)        | 7,190          | (4,431)        |
| Dividend paid   | (5,926)        | (5,919)        | (5,926)        | (5,919)        |
| Shares repurchased  | (57)           | 0              | (57)           | 0              |
| Net financing cash flow   | <b>(793)</b>   | <b>(8,350)</b> | <b>(793)</b>   | <b>(8,350)</b> |
| <b>NET CHANGE IN CASH AND CASH EQUIVALENTS</b>                          | <b>18,067</b>  | <b>8,630</b>   | <b>17,597</b>  | <b>8,757</b>   |
| <b>CASH AND CASH EQUIVALENTS AT BEGINNING OF THE FINANCIAL YEAR</b>     | <b>32,996</b>  | <b>24,391</b>  | <b>32,808</b>  | <b>24,076</b>  |
| <b>EFFECTS OF CHANGES IN EXCHANGE RATE</b>                              | <b>1,597</b>   | <b>(25)</b>    | <b>1,597</b>   | <b>(25)</b>    |
| <b>CASH AND CASH EQUIVALENTS AT END OF THE FINANCIAL YEAR (NOTE 23)</b> | <b>52,660</b>  | <b>32,996</b>  | <b>52,002</b>  | <b>32,808</b>  |



# NOTES TO THE FINANCIAL STATEMENTS

## I. GENERAL INFORMATION

The principal activities of the Company are the manufacture and sales of radio controlled toys and those of its subsidiary company are set out in Note 7 to the financial statements.

The number of employees of the Group and Company at the end of the financial year was 1,670 (2001: 1,871) and 1,667 (2001: 1,867) respectively.

The Company is a public limited liability company, incorporated and domiciled in Malaysia and listed on the Main Board of the Kuala Lumpur Stock Exchange.

The addresses of the Company's registered office and principal places of business are as follows:

### Registered office:

Suites 7.21 & 7.22  
7<sup>th</sup> Floor, Imbi Plaza  
Jalan Imbi  
55100 Kuala Lumpur

### Principal places of business:

Plot 497 Prai Free Trade Zone  
Prai Industrial Estate  
13600 Prai  
Penang

Lot 7293 Lorong Perusahaan I  
Parit Buntar Industrial Estate  
34200 Parit Buntar  
Perak

## 2. BASIS OF PREPARATION OF FINANCIAL STATEMENTS

The financial statements of the Group and the Company have been prepared under the historical cost convention (as modified for the revaluation of certain land and buildings) unless otherwise indicated in the summary of significant accounting policies as shown in Note 3 to the financial statements.

The financial statements comply with the applicable approved accounting standards in Malaysia and the provisions of the Companies Act, 1965.

The new applicable approved accounting standards adopted in these financial statements are as follows:

### (a) Retrospective application

The following new MASB Standards that have been applied retrospectively:

- MASB Standard 19: "Events After Balance Sheet Date"
- MASB Standard 20: "Provisions, Contingent Liabilities and Contingent Assets"
- MASB Standard 22: "Segmental Reporting"

With the exception of MASB Standard 19 (See note 25), there were no changes in accounting policies that affected the results for the financial year and retained profits at the beginning of the financial year as a result of the adoption of the above standards in these financial statements.



# NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

## 2. BASIS OF PREPARATION OF FINANCIAL STATEMENTS (CONTINUED)

### (b) Prospective application from 1 January 2002

The following new MASB Standards that have been applied prospectively:

- MASB Standard 21: "Business Combinations"
- MASB Standard 23: "Impairment of Assets"
- MASB Standard 24: "Financial Instruments: Disclosure and Presentation"

The Group has taken the exemption from having to apply MASB Standard 21 retrospectively. Accordingly, business combinations entered into prior to 1 January 2002 have not been restated to comply with this standard.

For the financial instruments, comparative figures were not disclosed upon first application of MASB Standard 24, as permitted by the standard.

## 3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

All significant accounting policies set out below are consistent with those applied in the previous financial year.

### (a) Basis of consolidation

The consolidated financial statements include the financial statements of the Company and its subsidiary company made up to the end of the financial year. A subsidiary company is a company in which the Group has power to exercise control over the financial and operating policies so as to obtain benefits from its activities. Subsidiaries are consolidated from the date on which control is transferred to the Group and are no longer consolidated from the date that control ceases.

The results of a subsidiary company acquired or disposed of during the financial year are included in the consolidated financial statements from the effective date of acquisition or up to the date of its disposal. The subsidiary company is consolidated using the acquisition method of accounting.

All inter-company transactions and balances have been eliminated and the consolidated financial statements reflect external transactions only.

### (b) Investment in subsidiary company

Investment in a subsidiary company is stated at cost. When an indication of impairment exists, the carrying amount of the investment is assessed and written down immediately to its recoverable amount.

### (c) Property, plant and equipment

Property, plant and equipment are stated at cost or directors' valuation based on independent professional valuers' reports less accumulated depreciation.

Leasehold land is amortised on the straight line basis over the period of the respective leases, both of which are sixty years. Construction in progress is not depreciated. All other property, plant and equipment are depreciated over their estimated useful lives on the straight line basis at the following principal annual rates:

|                                 |              |
|---------------------------------|--------------|
| Factory buildings               | 2.08% – 2.5% |
| Plant and machinery             | 15%          |
| Factory equipment and furniture | 15%          |
| Furniture and fittings          | 15%          |
| Office equipment                | 15%          |
| Motor vehicles                  | 20%          |



# NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

## 3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

### (c) Property, plant and equipment (continued)

Revaluation of the leasehold land and factory buildings will be conducted at an interval of at least once in every five years.

Increase in the carrying amount arising from revaluations is credited to the revaluation reserve. Decreases that offset previous increases of the same assets are charged against the revaluation reserve. All other decreases are charged to income statement.

Gains and losses on disposals are determined by comparing proceeds with carrying amounts and are included in the income statement. On disposal of revalued assets, amounts in the revaluation reserve relating to those assets are transferred to retained earnings.

Where an indication of impairment exists, the carrying amount of the asset is assessed and written down to its recoverable amount.

### (d) Deferred taxation

Deferred taxation is provided using the liability method on all timing differences except where no liability is expected to arise in the foreseeable future. Future tax benefits arising from these timing differences are not recognised unless their realisation is beyond reasonable doubt.

### (e) Inventories

Inventories are stated at the lower of cost and net realisable value determined principally on the "first-in, first-out" basis. In arriving at net realisable value, due allowance has been made for obsolete, deteriorated, damaged and slow-moving items. Inventories of work in progress and finished goods consist of direct materials, direct labour and an appropriate proportion of factory overheads.

### (f) Receivables

Known bad debts are written off and specific allowance is made for any considered to be doubtful of collection.

### (g) Provisions

Provisions are recognised when there is a present legal or constructive obligation as a result of past events, when it is probable that an outflow of resources will be required to settle the obligation and when a reliable estimate of the amount can be made.

### (h) Foreign currencies

Monetary assets and liabilities in foreign currencies at balance sheet date are translated into Ringgit Malaysia at the exchange rates ruling at that date. Transactions in foreign currencies during the financial year have been translated into Ringgit Malaysia at the exchange rates prevailing at the date of the transactions. Exchange differences arising from translation of foreign currency amounts have been dealt with through the income statement.

The principal closing rates used in translation of foreign currency amounts are as follows:

| Foreign currency       | At 31-12-2002<br>RM | At 31-12-2001<br>RM |
|------------------------|---------------------|---------------------|
| 1 United States Dollar | 3.8000              | 3.8000              |
| 1 Euro Dollar          | 3.9805              | 3.3645              |
| 1 Singapore Dollar     | 2.1915              | 2.0565              |
| 1 Hong Kong Dollar     | 0.4873              | 0.4874              |
| 100 Japanese Yen       | 3.2100              | 2.9000              |





## NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

### 3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

#### (h) Foreign currencies (continued)

The Group's foreign entities are those operations that are not an integral part of the operations of the Company. Income statements of foreign entities are translated into Ringgit Malaysia at average rates for the financial year and the balance sheet is translated at the exchange rates ruling at the balance sheet date. Exchange differences arising from the retranslation of net investment in foreign entities are dealt with through the exchange fluctuation reserve.

#### (i) Capitalisation of finance costs

Costs incurred in connection with financing the construction and installation of property, plant and equipment are capitalised until the property, plant and equipment are ready for their intended use.

#### (j) Operating leases

Operating lease rentals are charged to the income statement in the financial year they become payable.

#### (k) Cash and cash equivalents

Cash and cash equivalents comprise cash in hand, bank balances, demand deposits, bank overdrafts and short term, highly liquid investments that are readily convertible to known amounts of cash and which are subject to an insignificant risk of changes in value.

#### (l) Revenue recognition

Sales are recognised upon delivery of products, net of discounts, returns inwards and sales proceeds held in trust.

Interest income is recognised on an accrual basis determined by the principal outstanding and rate applicable.

#### (m) Research and development

Research and development expenditure is recognised as an expense except that costs incurred on development projects are recognised as development assets (intangible assets) to the extent that such expenditure is expected to generate future economic benefits. Development assets are written off when the criteria for recognition of development costs as an asset cease to be met. Other development expenditure is recognised as an expense when incurred. Development costs previously recognised as an expense are not recognised as an asset in a subsequent period.

Development costs that have been capitalised are amortised from the commencement of the commercial production of the product to which they relate on a straight line basis over the period of their expected benefit, but not exceeding 5 years. When an indication of impairment exists, the carrying amount of development costs is assessed and written down immediately to its recoverable amount.

#### (n) Financial instruments

##### (i) Financial instruments recognised on the balance sheet

The particular recognition method adopted for financial instruments recognised on the balance sheet is disclosed in the individual policy statements associated with each item.

##### (ii) Fair value estimation for disclosure purposes

The carrying amounts of financial assets and liabilities with a maturity of less than one year are assumed to approximate their fair values.



## NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

### 3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

#### (o) Shares repurchased

Shares repurchased are accounted for using the treasury stock method. The shares repurchased are held as treasury shares at cost and set off against shareholders' equity until they are cancelled. Where such shares are subsequently sold or reissued, any consideration received is included in the shareholders' equity.

### 4. FINANCIAL RISK MANAGEMENT OBJECTIVES AND POLICIES

Exposure to credit, interest rate and foreign currency risks arises in the normal course of the Group's business. The Group's overall financial risk management objective is to ensure that the Group's assets are safeguarded and that the Group creates value for its shareholders. The Group has established processes to monitor the risks on an ongoing basis.

#### Credit risk

Management has a credit policy in place and the exposure to credit risk is being monitored regularly. A large portion of the sales of the Group is on letter of credit, document against payment and document against acceptance terms. These terms generally do not expose the Group to great credit risk. As for the other minority customers, the Group seeks to manage the credit risk by setting credit limits and taking action to ensure prompt payment. Furthermore, the credit worthiness of each potential new customer is evaluated carefully before orders are accepted.

At balance sheet date, there were no significant concentrations of credit risk. The maximum exposure to credit risk is represented by the carrying amount of the financial assets.

#### Interest rate risk

The Group's earnings and operating cash flows are substantially independent of changes in market interest rates. Interest rate exposure only arises from the Group's short term bank borrowings, which are closely monitored and controlled.

#### Foreign currency risk

The Group does not have material exposure to foreign currency risk as approximately 90% of the Group's sales are in United States Dollars. The Ringgit Malaysia remains pegged against the United States Dollar.



## NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

## 5. PROPERTY, PLANT AND EQUIPMENT

| Group                           | Opening<br>net book value<br>RM'000 | Additions<br>RM'000 | Disposals<br>RM'000 | Depreciation<br>charge<br>RM'000 | Closing net<br>book value<br>RM'000 |
|---------------------------------|-------------------------------------|---------------------|---------------------|----------------------------------|-------------------------------------|
| <b>2002</b>                     |                                     |                     |                     |                                  |                                     |
| <b>At valuation</b>             |                                     |                     |                     |                                  |                                     |
| Short leasehold land            | 7,263                               | 0                   | 0                   | (156)                            | 7,107                               |
| Factory buildings               | 31,550                              | 0                   | 0                   | (738)                            | 30,812                              |
| <b>At cost</b>                  |                                     |                     |                     |                                  |                                     |
| Factory buildings               | 364                                 | 0                   | 0                   | (8)                              | 356                                 |
| Plant and machinery             | 8,852                               | 1,259               | (42)                | (3,222)                          | 6,847                               |
| Factory equipment and furniture | 27,066                              | 7,012               | (49)                | (7,969)                          | 26,060                              |
| Furniture and fittings          | 268                                 | 0                   | 0                   | (60)                             | 208                                 |
| Office equipment                | 1,288                               | 130                 | 0                   | (318)                            | 1,100                               |
| Motor vehicles                  | 710                                 | 111                 | 0                   | (227)                            | 594                                 |
|                                 | <b>77,361</b>                       | <b>8,512</b>        | <b>(91)</b>         | <b>(12,698)</b>                  | <b>73,084</b>                       |

| Group                           | Cost /<br>Valuation<br>RM'000 | Accumulated<br>depreciation<br>RM'000 | Net book<br>value<br>RM'000 |
|---------------------------------|-------------------------------|---------------------------------------|-----------------------------|
| <b>2002</b>                     |                               |                                       |                             |
| <b>At valuation</b>             |                               |                                       |                             |
| Short leasehold land            | 7,650                         | (543)                                 | 7,107                       |
| Factory buildings               | 33,359                        | (2,547)                               | 30,812                      |
| <b>At cost</b>                  |                               |                                       |                             |
| Factory buildings               | 379                           | (23)                                  | 356                         |
| Plant and machinery             | 34,650                        | (27,803)                              | 6,847                       |
| Factory equipment and furniture | 81,799                        | (55,739)                              | 26,060                      |
| Furniture and fittings          | 579                           | (371)                                 | 208                         |
| Office equipment                | 3,223                         | (2,123)                               | 1,100                       |
| Motor vehicles                  | 1,760                         | (1,166)                               | 594                         |
|                                 | <b>163,399</b>                | <b>(90,315)</b>                       | <b>73,084</b>               |



## NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

### 5. PROPERTY, PLANT AND EQUIPMENT (CONTINUED)

#### Group

| 2001                            | Cost /<br>Valuation<br>RM'000 | Accumulated<br>depreciation<br>RM'000 | Net book<br>value<br>RM'000 |
|---------------------------------|-------------------------------|---------------------------------------|-----------------------------|
| <b>At valuation</b>             |                               |                                       |                             |
| Short leasehold land            | 7,650                         | (387)                                 | 7,263                       |
| Factory buildings               | 33,359                        | (1,809)                               | 31,550                      |
| <b>At cost</b>                  |                               |                                       |                             |
| Factory buildings               | 379                           | (15)                                  | 364                         |
| Plant and machinery             | 33,447                        | (24,595)                              | 8,852                       |
| Factory equipment and furniture | 74,876                        | (47,810)                              | 27,066                      |
| Furniture and fittings          | 579                           | (311)                                 | 268                         |
| Office equipment                | 3,101                         | (1,813)                               | 1,288                       |
| Motor vehicles                  | 1,767                         | (1,057)                               | 710                         |
|                                 | <u>155,158</u>                | <u>(77,797)</u>                       | <u>77,361</u>               |

#### Company

| 2002                            | Opening<br>net book value<br>RM'000 | Additions<br>RM'000 | Disposals<br>RM'000 | Depreciation<br>charge<br>RM'000 | Closing net<br>book value<br>RM'000 |
|---------------------------------|-------------------------------------|---------------------|---------------------|----------------------------------|-------------------------------------|
| <b>At valuation</b>             |                                     |                     |                     |                                  |                                     |
| Short leasehold land            | 7,263                               | 0                   | 0                   | (156)                            | 7,107                               |
| Factory buildings               | 31,550                              | 0                   | 0                   | (738)                            | 30,812                              |
| <b>At cost</b>                  |                                     |                     |                     |                                  |                                     |
| Factory buildings               | 364                                 | 0                   | 0                   | (8)                              | 356                                 |
| Plant and machinery             | 8,522                               | 1,260               | 0                   | (3,166)                          | 6,616                               |
| Factory equipment and furniture | 27,066                              | 7,012               | (49)                | (7,969)                          | 26,060                              |
| Furniture and fittings          | 78                                  | 0                   | 0                   | (27)                             | 51                                  |
| Office equipment                | 1,285                               | 127                 | 0                   | (317)                            | 1,095                               |
| Motor vehicles                  | 710                                 | 111                 | 0                   | (227)                            | 594                                 |
|                                 | <u>76,838</u>                       | <u>8,510</u>        | <u>(49)</u>         | <u>(12,608)</u>                  | <u>72,691</u>                       |

**NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)****5. PROPERTY, PLANT AND EQUIPMENT (CONTINUED)****Company**

| <b>2002</b>                     | <b>Cost /<br/>Valuation<br/>RM'000</b> | <b>Accumulated<br/>depreciation<br/>RM'000</b> | <b>Net book<br/>value<br/>RM'000</b> |
|---------------------------------|--|--|--------------------------------------|
| <b>At valuation</b>             |  |  |                                      |
| Short leasehold land            | 7,650                                  | (543)  | 7,107                                |
| Factory buildings               | 33,359                                 | (2,547)  | 30,812                               |
| <b>At cost</b>                  |  |  |                                      |
| Factory buildings               | 379                                    | (23)   | 356                                  |
| Plant and machinery             | 34,319                                 | (27,703)                                       | 6,616                                |
| Factory equipment and furniture | 81,799                                 | (55,739)                                       | 26,060                               |
| Furniture and fittings          | 356                                    | (305)  | 51                                   |
| Office equipment                | 3,216                                  | (2,121)  | 1,095                                |
| Motor vehicles                  | 1,760                                  | (1,166)  | 594                                  |
|                                 | <b>162,838</b>                         | <b>(90,147)</b>                                | <b>72,691</b>                        |

**Company**

| <b>2001</b>                     | <b>Cost /<br/>Valuation<br/>RM'000</b> | <b>Accumulated<br/>depreciation<br/>RM'000</b> | <b>Net book<br/>value<br/>RM'000</b> |
|---------------------------------|--|--|--------------------------------------|
| <b>At valuation</b>             |  |  |                                      |
| Short leasehold land            | 7,650                                  | (387)  | 7,263                                |
| Factory buildings               | 33,359                                 | (1,809)  | 31,550                               |
| <b>At cost</b>                  |  |  |                                      |
| Factory buildings               | 379                                    | (15)   | 364                                  |
| Plant and machinery             | 33,059                                 | (24,537)                                       | 8,522                                |
| Factory equipment and furniture | 74,876                                 | (47,810)                                       | 27,066                               |
| Furniture and fittings          | 356                                    | (278)  | 78                                   |
| Office equipment                | 3,097                                  | (1,812)  | 1,285                                |
| Motor vehicles                  | 1,767                                  | (1,057)  | 710                                  |
|                                 | <b>154,543</b>                         | <b>(77,705)</b>                                | <b>76,838</b>                        |



## NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

### 5. PROPERTY, PLANT AND EQUIPMENT (CONTINUED)

The Company's leasehold land and factory buildings were revalued by the directors in 1999 based on valuation carried out by a firm of professional valuers using the comparison method on an existing use basis.

The net book values of the revalued leasehold land and factory buildings, had these assets been carried at historical cost less accumulated depreciation as at the end of the financial year are as follows:

|                      | Group and Company |               |
|----------------------|-------------------|---------------|
|                      | 2002              | 2001          |
|                      | RM'000            | RM'000        |
| Short leasehold land | 1,478             | 1,510         |
| Factory buildings    | 34,617            | 35,436        |
|                      | <b>36,095</b>     | <b>36,946</b> |

### 6. DEVELOPMENT COSTS

|                          | Group      |              | Company    |              |
|--------------------------|------------|--------------|------------|--------------|
|                          | 2002       | 2001         | 2002       | 2001         |
|                          | RM'000     | RM'000       | RM'000     | RM'000       |
| Net book value           |            |              |            |              |
| As at 1 January          | 4,089      | 0            | 2,055      | 0            |
| Additions                | 0          | 6,133        | 0          | 3,082        |
| Amortisation charge      | (2,045)    | (2,044)      | (1,028)    | (1,027)      |
| Write-off                | (1,651)    | 0            | (634)      | 0            |
| As at 31 December        | <b>393</b> | <b>4,089</b> | <b>393</b> | <b>2,055</b> |
| As at 31 December        |            |              |            |              |
| Cost                     | 4,482      | 6,133        | 2,448      | 3,082        |
| Accumulated amortisation | (4,089)    | (2,044)      | (2,055)    | (1,027)      |
|                          | <b>393</b> | <b>4,089</b> | <b>393</b> | <b>2,055</b> |

Development costs principally comprise development expenditure on major projects carried out by a third party where it is reasonably anticipated that the costs will be recovered through future commercial activity. Development costs in respect of current major projects are amortised on a straight line basis over their estimated useful lives of 3 years. The balance of unamortised development costs is written off when the criteria for recognition of development costs as an asset cease to be met.

**NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)****7. SUBSIDIARY COMPANY**

|                          | <b>Company</b> |               |
|--------------------------|----------------|---------------|
|                          | <b>2002</b>    | <b>2001</b>   |
|                          | <b>RM'000</b>  | <b>RM'000</b> |
| Unquoted shares, at cost | <b>640</b>     | <b>640</b>    |

Details of the subsidiary company which is incorporated in Hong Kong are as follows:

| <b>Name of subsidiary company</b>   | <b>Equity holdings</b> |             | <b>Principal activities</b>  |
|-------------------------------------|------------------------|-------------|--|
|                                     | <b>2002</b>            | <b>2001</b> |  |
| Nikko Electronics Hong Kong Limited | <b>100%</b>            | <b>100%</b> | Trading in radio controlled toys, electronic and toy related products. |

The subsidiary company is audited by a firm other than PricewaterhouseCoopers, Malaysia.

**8. INVENTORIES**

|                         | <b>Group</b>  |               | <b>Company</b> |               |
|-------------------------|---------------|---------------|----------------|---------------|
|                         | <b>2002</b>   | <b>2001</b>   | <b>2002</b>    | <b>2001</b>   |
|                         | <b>RM'000</b> | <b>RM'000</b> | <b>RM'000</b>  | <b>RM'000</b> |
| At cost:                |               |               |                |               |
| Raw materials and parts | <b>15,643</b> | 13,471        | <b>14,951</b>  | 11,838        |
| Work in progress        | <b>24,815</b> | 29,233        | <b>24,815</b>  | 29,233        |
| Finished goods          | <b>1,321</b>  | 1,298         | <b>1,312</b>   | 1,295         |
| Packing materials       | <b>1,016</b>  | 1,158         | <b>1,016</b>   | 1,158         |
|                         | <b>42,795</b> | 45,160        | <b>42,094</b>  | 43,524        |

**9. RECEIVABLES**

|  | <b>Group</b>  |               | <b>Company</b> |               |
|--|---------------|---------------|----------------|---------------|
|  | <b>2002</b>   | <b>2001</b>   | <b>2002</b>    | <b>2001</b>   |
|  | <b>RM'000</b> | <b>RM'000</b> | <b>RM'000</b>  | <b>RM'000</b> |
| Trade receivables                                  |               |               |                |               |
| – related parties                                  | <b>31,186</b> | 36,281        | <b>24,958</b>  | 35,994        |
| – non-related parties                              | <b>7,779</b>  | 2,800         | <b>7,774</b>   | 2,763         |
| Amount due from the subsidiary company (non-trade) | <b>0</b>      | 0             | <b>6,114</b>   | 4,861         |
| Other receivables                                  |               |               |                |               |
| – related parties                                  | <b>505</b>    | 1,165         | <b>505</b>     | 1,165         |
| – non-related parties                              | <b>17</b>     | 14            | <b>17</b>      | 14            |
| Deposits   | <b>227</b>    | 270           | <b>170</b>     | 197           |
| Prepayments  | <b>379</b>    | 289           | <b>379</b>     | 289           |
| Tax recoverable                                    | <b>238</b>    | 535           | <b>230</b>     | 527           |
|  | <b>40,331</b> | 41,354        | <b>40,147</b>  | 45,810        |



## NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

### 9. RECEIVABLES (CONTINUED)

Credit terms of the trade receivables range from 30 days to 60 days.

The currency exposure profile of receivables, other than prepayments and tax recoverable is as follows:

|                  | <b>Group</b>  | <b>Company</b> |
|------------------|---------------|----------------|
|                  | <b>2002</b>   | <b>2002</b>    |
|                  | <b>RM'000</b> | <b>RM'000</b>  |
| Ringgit Malaysia | 186           | 186            |
| US Dollar        | 37,852        | 37,733         |
| Euro Dollar      | 1,555         | 1,555          |
| Others           | 121           | 64             |
|                  | <b>39,714</b> | <b>39,538</b>  |

Credit risk

A large portion of the sales of the Group is on letter of credit, document against payment and document against acceptance terms, hence the Group is not exposed to great credit risk.

### 10. DEPOSITS, CASH AND BANK BALANCES

|                               | <b>Group</b>  |               | <b>Company</b> |               |
|-------------------------------|---------------|---------------|----------------|---------------|
|                               | <b>2002</b>   | 2001          | <b>2002</b>    | 2001          |
|                               | <b>RM'000</b> | RM'000        | <b>RM'000</b>  | RM'000        |
| Deposits with a licensed bank | 13,996        | 1,645         | 13,996         | 1,645         |
| Cash and bank balances        | 38,857        | 31,398        | 38,199         | 31,210        |
|                               | <b>52,853</b> | <b>33,043</b> | <b>52,195</b>  | <b>32,855</b> |

The currency exposure profile of deposits, cash and bank balances is as follows:

|                  | <b>Group</b>  | <b>Company</b> |
|------------------|---------------|----------------|
|                  | <b>2002</b>   | <b>2002</b>    |
|                  | <b>RM'000</b> | <b>RM'000</b>  |
| Ringgit Malaysia | 2,912         | 2,912          |
| US Dollar        | 36,758        | 36,240         |
| Euro Dollar      | 13,043        | 13,043         |
| Others           | 140           | 0              |
|                  | <b>52,853</b> | <b>52,195</b>  |

The effective interest rates of the deposits as at balance sheet date are as follows:

|  | <b>Group</b>     |      | <b>Company</b>   |      |
|--|------------------|------|------------------|------|
|  | <b>2002</b>      | 2001 | <b>2002</b>      | 2001 |
|  | %                | %    | %                | %    |
|  | <b>1.10–2.25</b> | 1.70 | <b>1.10–2.25</b> | 1.70 |

Deposits of the Group and Company have a weighted average maturity of 3 days (2001: 1 day). Bank balances are deposits held at call with banks.





## NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

### 11. PAYABLES

|                       | Group          |                | Company        |                |
|-----------------------|----------------|----------------|----------------|----------------|
|                       | 2002<br>RM'000 | 2001<br>RM'000 | 2002<br>RM'000 | 2001<br>RM'000 |
| Trade payables        |                |                |                |                |
| – related parties     | 4,510          | 68             | 512            | 31             |
| – non-related parties | 6,239          | 2,887          | 6,236          | 2,887          |
| Other payables        |                |                |                |                |
| – related parties     | 6,983          | 3,477          | 6,981          | 3,477          |
| – non-related parties | 1,735          | 1,617          | 1,740          | 1,617          |
| Other accruals        | 2,607          | 3,025          | 2,579          | 2,927          |
|                       | <b>22,074</b>  | <b>11,074</b>  | <b>18,048</b>  | <b>10,939</b>  |

Credit terms of the trade payables range from 30 days to 60 days.

The currency exposure profile of payables, other than withholding tax payable is as follows:

|                  | Group<br>2002<br>RM'000 | Company<br>2002<br>RM'000 |
|------------------|-------------------------|---------------------------|
| Ringgit Malaysia | 7,601                   | 7,601                     |
| US Dollar        | 12,723                  | 8,723                     |
| Euro Dollar      | 392                     | 392                       |
| Japanese Yen     | 680                     | 679                       |
| Hong Kong Dollar | 325                     | 300                       |
| Singapore Dollar | 350                     | 350                       |
|                  | <b>22,071</b>           | <b>18,045</b>             |

### 12. BANK BORROWINGS (UNSECURED)

|                      | Group          |                | Company        |                |
|----------------------|----------------|----------------|----------------|----------------|
|                      | 2002<br>RM'000 | 2001<br>RM'000 | 2002<br>RM'000 | 2001<br>RM'000 |
| Bankers' acceptances | 20,236         | 13,046         | 20,236         | 13,046         |
| Revolving credit     | 0              | 2,000          | 0              | 2,000          |
| Bank overdrafts      | 193            | 47             | 193            | 47             |
|                      | <b>20,429</b>  | <b>15,093</b>  | <b>20,429</b>  | <b>15,093</b>  |

Bank borrowings bear interest at rates ranging from 2.55% to 6.90% (2001: 3.20% to 7.60%) per annum. Bankers' acceptances of the Group and Company have weighted average maturity of 55 days. (2001: 50 days).



# NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

## 13. SHARE CAPITAL

|                             | <b>Company</b> |               |
|-----------------------------|----------------|---------------|
|                             | <b>2002</b>    | <b>2001</b>   |
|                             | <b>RM'000</b>  | <b>RM'000</b> |
| Authorised:                 |                |               |
| Ordinary shares of RM1 each | <b>500,000</b> | 100,000       |

### Shares repurchased

The shareholders of the Company have during an Annual General Meeting held on 25 June 2002, renewed the approval for the Company to buy back its own shares of up to ten per centum (10%) of the total issued and paid-up share capital of the Company, in accordance with Section 67A of the Companies Act, 1965. During the financial year, the Company repurchased 36,000 ordinary shares of RM1 each from the open market at an average price of RM1.57 per share, to enhance the value of the Company and in the best interests of the Company and its shareholders. The repurchase transactions were financed by internally generated funds. The shares repurchased are being held as treasury shares in accordance with Section 67A of the Companies Act, 1965.

Details of the shares repurchased are as follows:

|   | <b>Number<br/>of shares<br/>'000</b> | <b>Highest<br/>Price<br/>RM</b> | <b>Lowest<br/>Price<br/>RM</b> | <b>Average<br/>Price<br/>RM</b> | <b>Value of<br/>shares<br/>RM'000</b> |
|---|--------------------------------------|---------------------------------|--------------------------------|---------------------------------|---------------------------------------|
| <b>Shares repurchased, held as treasury shares:</b> |                                      |                                 |                                |                                 |                                       |
| 11 December 2002                                    | 5                                    | 1.59                            | 1.59                           | 1.59                            | 8                                     |
| 13 December 2002                                    | 8                                    | 1.57                            | 1.53                           | 1.55                            | 12                                    |
| 18 December 2002                                    | 8                                    | 1.57                            | 1.54                           | 1.56                            | 13                                    |
| 23 December 2002                                    | 5                                    | 1.56                            | 1.54                           | 1.55                            | 8                                     |
| 26 December 2002                                    | 10                                   | 1.57                            | 1.54                           | 1.56                            | 16                                    |
|   | <u>36</u>                            |                                 |                                |                                 | <u>57</u>                             |

## 14. RETAINED PROFITS

The Company has sufficient tax exempt income and tax credit to frank the payment of dividends out of its entire retained profits, subject to confirmation by the Inland Revenue Board.



# NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

## 15. DEFERRED TAXATION

|                                | <b>Group and Company</b> |        |
|--------------------------------|--------------------------|--------|
|                                | <b>2002</b>              | 2001   |
|                                | <b>RM'000</b>            | RM'000 |
| As at 1 January                | <b>6,031</b>             | 6,000  |
| Transfer from income statement | <b>(481)</b>             | 31     |
| As at 31 December              | <b>5,550</b>             | 6,031  |

The tax effect in respect of the surplus arising on revaluation of the Company's leasehold land and factory buildings is not disclosed as there is no foreseeable intention to dispose of these properties. Provision has been made for all other material timing differences.

## 16. OTHER OPERATING EXPENSES

|                                   | <b>Group</b>  |        | <b>Company</b> |        |
|-----------------------------------|---------------|--------|----------------|--------|
|                                   | <b>2002</b>   | 2001   | <b>2002</b>    | 2001   |
|                                   | <b>RM'000</b> | RM'000 | <b>RM'000</b>  | RM'000 |
| Other operating expenses include: |               |        |                |        |
| Development costs                 |               |        |                |        |
| – Amortisation                    | <b>2,045</b>  | 2,044  | <b>1,028</b>   | 1,027  |
| – Write-off                       | <b>1,651</b>  | 0      | <b>634</b>     | 0      |
| Research and development expenses | <b>1,997</b>  | 798    | <b>1,997</b>   | 798    |



## NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

### 17. (LOSS)/PROFIT FROM OPERATING ACTIVITIES

|   | Group          |                | Company        |                |
|---|----------------|----------------|----------------|----------------|
|   | 2002<br>RM'000 | 2001<br>RM'000 | 2002<br>RM'000 | 2001<br>RM'000 |
| (Loss)/Profit from operating activities is arrived at after charging: |                |                |                |                |
| Depreciation of property, plant and equipment                         | <b>12,698</b>  | 12,531         | <b>12,608</b>  | 12,439         |
| Staff costs   | <b>28,258</b>  | 28,588         | <b>27,544</b>  | 28,017         |
| Cost of contract workers  | <b>397</b>     | 504            | <b>397</b>     | 504            |
| Rental expenses   |                |                |                |                |
| – office equipment  | <b>110</b>     | 167            | <b>110</b>     | 167            |
| – office premises   | <b>114</b>     | 157            | <b>0</b>       | 0              |
| Auditors' remuneration  |                |                |                |                |
| – audit fees  | <b>73</b>      | 72             | <b>65</b>      | 65             |
| – non-audit fees  | <b>26</b>      | 21             | <b>26</b>      | 21             |
| Net foreign exchange loss   |                |                |                |                |
| – unrealised  | <b>0</b>       | 7              | <b>0</b>       | 7              |
| and after crediting:  |                |                |                |                |
| Net foreign exchange gain   |                |                |                |                |
| – realised  | <b>45</b>      | 103            | <b>45</b>      | 103            |
| – unrealised  | <b>1,803</b>   | 0              | <b>1,803</b>   | 0              |
| Net gain on disposal of property, plant and equipment                 | <b>68</b>      | 161            | <b>83</b>      | 161            |
| Interest income   | <b>326</b>     | 643            | <b>325</b>     | 643            |

### 18. DIRECTORS' REMUNERATION

|   | Group          |                | Company        |                |
|---|----------------|----------------|----------------|----------------|
|   | 2002<br>RM'000 | 2001<br>RM'000 | 2002<br>RM'000 | 2001<br>RM'000 |
| Fees  | <b>210</b>     | 150            | <b>210</b>     | 150            |
| Other emoluments (included in staff costs in Note 17) | <b>2,346</b>   | 1,814          | <b>2,199</b>   | 1,655          |
|   | <b>2,556</b>   | 1,964          | <b>2,409</b>   | 1,805          |

### 19. FINANCE COSTS

|                      | Group and Company |                |
|----------------------|-------------------|----------------|
|                      | 2002<br>RM'000    | 2001<br>RM'000 |
| Interest expense:    |                   |                |
| – bankers acceptance | <b>685</b>        | 702            |
| – revolving credits  | <b>45</b>         | 154            |
| – bank overdrafts    | <b>42</b>         | 124            |
|                      | <b>772</b>        | 980            |

**NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)****20. TAXATION**

|   | Group          |                | Company        |                |
|---|----------------|----------------|----------------|----------------|
|   | 2002<br>RM'000 | 2001<br>RM'000 | 2002<br>RM'000 | 2001<br>RM'000 |
| Malaysian:  |                |                |                |                |
| Current taxation  | (68)           | (104)          | (68)           | (104)          |
| Deferred taxation   | 481            | (31)           | 481            | (31)           |
|   | <b>413</b>     | <b>(135)</b>   | <b>413</b>     | <b>(135)</b>   |
| Malaysian taxation overprovided /<br>(underprovided) in prior financial years | 1,067          | (55)           | 1,067          | (55)           |
|   | <b>1,480</b>   | <b>(190)</b>   | <b>1,480</b>   | <b>(190)</b>   |

The Company has a tax credit for the current financial year due to the benefit of double deduction tax incentives.

Subject to agreement by the Inland Revenue Board, the Company has at 31 December 2002 reinvestment allowances amounting to approximately RM18,395,000 (2001: RM13,740,000) in respect of which the future tax benefit has not been recognised in the financial statements.

**21. EARNINGS PER SHARE**

The earnings per share of the Group is calculated by dividing the net profit for the financial year by the weighted average number of ordinary shares in issue during the financial year.

|  | Group       |             |
|--|-------------|-------------|
|  | 2002        | 2001        |
| Net profit for the financial year (RM'000)                 | 545         | 2,886       |
| Weighted average number of ordinary shares in issue ('000) | 98,999      | 99,000      |
| Earnings per share (sen)                                   | <b>0.55</b> | <b>2.92</b> |

**22. DIVIDEND**

Dividend proposed in respect of the financial year ended 31 December 2002 is as follows:

|  | Group and Company |                |
|--|-------------------|----------------|
|  | 2002<br>RM'000    | 2001<br>RM'000 |
| Proposed first and final dividend of 6 sen (2001: 6 sen) per share, tax exempt | <b>5,938</b>      | <b>5,940</b>   |

At the forthcoming Annual General Meeting of the Company, a first and final dividend of 6 sen per share, tax exempt amounting to RM5,937,840 in respect of the financial year ended 31 December 2002 will be proposed for the shareholders' approval. The financial statements for the current financial year do not reflect this proposed dividend, which will be accounted for in the shareholders' equity as an appropriation of retained profits in the financial year ending 31 December 2003. This represents a change in accounting treatment from that of prior financial years as explained in Note 25.



## NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

### 23. CASH AND CASH EQUIVALENTS

Cash and cash equivalents comprise:

|                               | Group          |                | Company        |                |
|-------------------------------|----------------|----------------|----------------|----------------|
|                               | 2002<br>RM'000 | 2001<br>RM'000 | 2002<br>RM'000 | 2001<br>RM'000 |
| Deposits with a licensed bank | 13,996         | 1,645          | 13,996         | 1,645          |
| Cash and bank balances        | 38,857         | 31,398         | 38,199         | 31,210         |
| Bank overdrafts               | (193)          | (47)           | (193)          | (47)           |
|                               | <b>52,660</b>  | <b>32,996</b>  | <b>52,002</b>  | <b>32,808</b>  |

### 24. SIGNIFICANT RELATED PARTY BALANCES AND TRANSACTIONS

(a) Related parties and relationship

The related parties and their relationship with the Group and Company are as follows:

Companies in which directors have direct and indirect interests:

- Nikko Electronic Holdings Sdn. Bhd.\*
- Dongguan Rixing Electronic Toys Co. Ltd.\*
- Maxwood Technology Ltd.
- Nikko America Inc.\*
- Nikko (Asia) Toy Pte. Ltd.
- Nikko Benelux BV
- Nikko Co., Ltd.\*
- Nikko Deutschland GmbH\*
- Nikko Electronic Toys Pte. Ltd.\*
- Nics Engineering Ltd.\*
- Nikko Europe BV\*
- Nikko France SA
- Nikko Scandinavia AS\*
- Nikko Sverige AB\*
- Nikko Tec International Ltd.\*
- Nipco Toys Ltd.\*
- Nikko UK Limited
- Rising Sun Toys Sdn. Bhd.

\* Companies in which certain directors of the Company also have directorships.

**NIKKO**

## NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

### 24. SIGNIFICANT RELATED PARTY BALANCES AND TRANSACTIONS (CONTINUED)

#### (b) Significant related party balances

|                                |                                 | Group        |        | Company      |        |
|--------------------------------|---------------------------------|--------------|--------|--------------|--------|
|                                |                                 | 2002         | 2001   | 2002         | 2001   |
|                                |                                 | RM'000       | RM'000 | RM'000       | RM'000 |
| Included in other receivables: |                                 |              |        |              |        |
| Nikko France SA                | Expenses paid on behalf         | <b>367</b>   | 811    | <b>367</b>   | 811    |
| Included in other payables:    |                                 |              |        |              |        |
| Nikko Co., Ltd.                | Sales commissions and royalties | <b>1,579</b> | 1,517  | <b>1,579</b> | 1,517  |
| Nikko America Inc.             | Sales proceeds held in trust    | <b>1,805</b> | 241    | <b>1,805</b> | 241    |
| Nikko UK Limited               | Sales proceeds held in trust    | <b>151</b>   | 707    | <b>151</b>   | 707    |
| Nikko France SA                | Sales proceeds held in trust    | <b>2,913</b> | 654    | <b>2,913</b> | 654    |

#### (c) Significant related party transactions

|                                |  | Group         |        | Company       |        |
|--------------------------------|--|---------------|--------|---------------|--------|
|                                |  | 2002          | 2001   | 2002          | 2001   |
|                                |  | RM'000        | RM'000 | RM'000        | RM'000 |
| <b>Sales of finished goods</b> |  |               |        |               |        |
| Nikko Co., Ltd.                |  | <b>34,695</b> | 33,057 | <b>29,072</b> | 31,296 |
| Nikko Europe BV                |  | <b>14,748</b> | 14,228 | <b>14,748</b> | 14,228 |
| Nikko America Inc.             |  | <b>44,591</b> | 40,668 | <b>44,591</b> | 40,668 |
| Nikko Scandinavia AS           |  | <b>3,788</b>  | 2,532  | <b>3,788</b>  | 2,532  |
| Nikko Tec International Ltd.   |  | <b>4,181</b>  | 4,771  | <b>4,181</b>  | 4,574  |
| Maxwood Technology Ltd.        |  | <b>424</b>    | 438    | <b>417</b>    | 0      |



## NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

### 24. SIGNIFICANT RELATED PARTY BALANCES AND TRANSACTIONS (CONTINUED)

(c) Significant related party transactions (continued)

|  | Group          |                | Company        |                |
|--|----------------|----------------|----------------|----------------|
|  | 2002<br>RM'000 | 2001<br>RM'000 | 2002<br>RM'000 | 2001<br>RM'000 |
| <b>Sales of components and parts</b>                 |                |                |                |                |
| Nikko Electronics Hong Kong Limited                  | 0              | 0              | 108            | 546            |
| <b>Goods returned outwards</b>                       |                |                |                |                |
| Maxwood Technology Ltd.                              | 882            | 0              | 0              | 0              |
| <b>Sales commissions paid and payable</b>            |                |                |                |                |
| Nikko Co., Ltd.                                      | 7,517          | 6,981          | 7,517          | 6,981          |
| <b>Royalties paid and payable</b>                    |                |                |                |                |
| Nikko Co., Ltd.                                      | 2,505          | 3,178          | 2,505          | 3,178          |
| <b>Purchases of raw materials</b>                    |                |                |                |                |
| Nikko Co., Ltd.                                      | 1,085          | 970            | 1,085          | 970            |
| Nics Engineering Limited                             | 27,861         | 18,234         | 23,858         | 18,234         |
| Maxwood Technology Ltd.                              | 0              | 2,907          | 0              | 0              |
| <b>Purchases of plant and equipment</b>              |                |                |                |                |
| Nikko Co., Ltd.                                      | 2,586          | 2,789          | 2,586          | 2,789          |
| Nics Engineering Limited                             | 0              | 423            | 0              | 423            |
| <b>Purchases of components and parts</b>             |                |                |                |                |
| Nikko Electronics Hong Kong Limited                  | 0              | 0              | 227            | 550            |
| <b>Sales proceeds held in trust paid and payable</b> |                |                |                |                |
| Nikko America Inc.                                   | 10,255         | 14,333         | 10,255         | 14,333         |
| Nikko Europe BV                                      | 1,787          | 998            | 1,787          | 998            |
| Nikko France SA                                      | 6,178          | 3,625          | 6,178          | 3,625          |
| Nikko UK Limited                                     | 2,226          | 1,840          | 2,226          | 1,840          |
| Nikko Scandinavia AS                                 | 433            | 154            | 433            | 154            |
| <b>Advertising expenses paid and payable</b>         |                |                |                |                |
| Nikko France SA                                      | 195            | 3,666          | 195            | 3,666          |
| <b>Development costs paid</b>                        |                |                |                |                |
| Maxwood Technology Ltd.                              | 0              | 2,850          | 0              | 0              |
| <b>Consultancy fee paid and payable</b>              |                |                |                |                |
| Nikko Co., Ltd.                                      | 398            | 0              | 0              | 0              |



**NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)****24. SIGNIFICANT RELATED PARTY BALANCES AND TRANSACTIONS (CONTINUED)**

## (c) Significant related party transactions (continued)

Sales commissions are based on 4.5% of total net sales by the Company, excluding sales to Nikko Co., Ltd. and Nikko Tec International Ltd.

Royalties paid and payable to Nikko Co., Ltd. are based on 1.5% of total net sales of the Company.

Sales proceeds held in trust represent the amounts in excess of the Company's selling prices obtained by the distributors and are due to the distributors.

Development costs paid to Maxwood Technology Ltd. are in accordance with the terms and conditions in an agreement entered into between the Company and Maxwood Technology Ltd.

The other transactions as shown above were based on terms and conditions negotiated between the Company and the related parties.

**25. PRIOR YEAR ADJUSTMENTS**

In previous financial years, dividends were accrued as liabilities when proposed by the directors. The Group and Company have now changed this accounting policy to recognise dividends in retained profits in the period in which the obligation to pay is established in accordance with MASB Standard 19 'Events After The Balance Sheet Date'. Therefore, final dividends are now accrued as a liability after approval by shareholders at the Annual General Meeting.

The change in accounting policy has been accounted for retrospectively. The effects of the change on the Group's and Company's financial statements are as follows:

|                     | As previously<br>reported<br>RM'000 | Effect of change<br>in policy<br>RM'000 | As<br>restated<br>RM'000 |
|---------------------|-------------------------------------|---|--------------------------|
| <b>Group</b>        |                                     |   |                          |
| At 1 January 2001   |                                     |   |                          |
| – retained profits  | 42,935                              | 5,940                                   | 48,875                   |
| At 1 January 2002   |                                     |   |                          |
| – retained profits  | <b>39,881</b>                       | <b>5,940</b>                            | <b>45,821</b>            |
| – proposed dividend | <b>5,940</b>                        | <b>(5,940)</b>                          | <b>0</b>                 |
| <b>Company</b>      |                                     |   |                          |
| At 1 January 2001   |                                     |   |                          |
| – retained profits  | 41,860                              | 5,940                                   | 47,800                   |
| At 1 January 2002   |                                     |   |                          |
| – retained profits  | <b>41,064</b>                       | <b>5,940</b>                            | <b>47,004</b>            |
| – proposed dividend | <b>5,940</b>                        | <b>(5,940)</b>                          | <b>0</b>                 |



## NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

### 26. OPERATING LEASE COMMITMENTS

Commitments for operating leases payable in future financial years are as follows:

|   | Group          |                | Company        |                |
|---|----------------|----------------|----------------|----------------|
|   | 2002<br>RM'000 | 2001<br>RM'000 | 2002<br>RM'000 | 2001<br>RM'000 |
| Not later than one year                           | 125            | 235            | 0              | 0              |
| Later than one year and not later than five years | 12             | 78             | 0              | 0              |
|   | <b>137</b>     | <b>313</b>     | <b>0</b>       | <b>0</b>       |

### 27. GROUP SEGMENTAL INFORMATION

The group is organised into 2 main business segments:

- Manufacture and sales of radio controlled toys
- Trading in radio controlled toys, electronic and toy related products

Inter-segment sales comprise sales of radio controlled toys and component parts from the manufacturing segment to the trading segment.

The directors are of the opinion that all inter-segment transactions have been entered into in the normal course of business and have been established on terms and conditions that are not materially different from that obtainable in transactions with unrelated parties.

#### Primary reporting format – business segments

|                       | 2002   |   |                 | 2001   |   |                 |
|-----------------------|--|---|-----------------|--|---|-----------------|
|                       | Manufacture and sales of radio controlled toys<br>RM'000 | Trading in radio controlled toys, electronic and toy related products<br>RM'000 | Total<br>RM'000 | Manufacture and sales of radio controlled toys<br>RM'000 | Trading in radio controlled toys, electronic and toy related products<br>RM'000 | Total<br>RM'000 |
| <b>Revenue</b>        |  |   |                 |  |   |                 |
| Total revenue         | 198,476  | 5,959   | 204,435         | 208,015  | 3,240   | 211,255         |
| Inter-segment revenue | (108)  | (227)   | (335)           | (546)  | (550)   | (1,096)         |
| External revenue      | 198,368  | 5,732   | 204,100         | 207,469  | 2,690   | 210,159         |

**NIKKO**

# NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

## 27. GROUP SEGMENTAL INFORMATION (CONTINUED)

### Primary reporting format – business segments (continued)

|   | 2002   |   |         | 2001   |   |         |
|---|--|---|---------|--|---|---------|
|   | Manufacture and sales of radio controlled toys | Trading in radio controlled toys, electronic and toy related products | Total   | Manufacture and sales of radio controlled toys | Trading in radio controlled toys, electronic and toy related products | Total   |
|   | RM'000   | RM'000  | RM'000  | RM'000   | RM'000  | RM'000  |
| <b>Results</b>  |  |   |         |  |   |         |
| Segment result (external)                               | 1,388  | (1,877)   | (489)   | 5,671  | (2,258)   | 3,413   |
| Unallocated income                                      |  |   | 326     |  |   | 643     |
| (Loss)/profit from operating activities                 |  |   | (163)   |  |   | 4,056   |
| Finance costs   |  |   | (772)   |  |   | (980)   |
| (Loss)/profit from operating activities before taxation |  |   | (935)   |  |   | 3,076   |
| Taxation  |  |   | 1,480   |  |   | (190)   |
| Net profit for the financial year                       |  |   | 545     |  |   | 2,886   |
| <b>Other information</b>                                |  |   |         |  |   |         |
| Segment assets  | 153,085  | 8,042   | 161,127 | 165,050  | 4,589   | 169,639 |
| Unallocated assets                                      |  |   | 48,329  |  |   | 31,368  |
| Total assets  |  |   | 209,456 |  |   | 201,007 |
| Segment liabilities                                     | 18,083   | 4,026   | 22,109  | 10,960   | 135   | 11,095  |
| Unallocated liabilities                                 |  |   | 27,868  |  |   | 24,977  |
| Total liabilities                                       |  |   | 49,977  |  |   | 36,072  |
| Capital expenditure                                     | 8,510  | 2   | 8,512   | 7,087  | 615   | 7,702   |
| Depreciation  | 12,608   | 90  | 12,698  | 12,439   | 92  | 12,531  |
| Non-cash expenses other than depreciation:              |  |   |         |  |   |         |
| Development costs                                       |  |   |         |  |   |         |
| – Amortisation  | 1,028  | 1,017   | 2,045   | 1,027  | 1,017   | 2,044   |
| – Write-off   | 634  | 1,017   | 1,651   | 0  | 0   | 0       |



## NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

### 27. GROUP SEGMENTAL INFORMATION (CONTINUED)

#### Secondary reporting format - geographical segments

The business segment comprising the manufacture and sales of radio controlled toys predominantly operates in Malaysia.

|                    | Revenue        |         | Total assets   |         | Capital expenditure |        |
|--------------------|----------------|---------|----------------|---------|---------------------|--------|
|                    | 2002           | 2001    | 2002           | 2001    | 2002                | 2001   |
|                    | RM'000         | RM'000  | RM'000         | RM'000  | RM'000              | RM'000 |
| Malaysia           | 4              | 86      | 153,085        | 165,050 | 8,510               | 7,087  |
| United States      | 60,692         | 70,829  | 0              | 0       | 0                   | 0      |
| France             | 41,305         | 44,252  | 0              | 0       | 0                   | 0      |
| Japan              | 35,029         | 36,308  | 0              | 0       | 0                   | 0      |
| United Kingdom     | 16,707         | 10,686  | 0              | 0       | 0                   | 0      |
| Netherlands        | 11,550         | 11,999  | 0              | 0       | 0                   | 0      |
| Italy              | 7,545          | 5,580   | 0              | 0       | 0                   | 0      |
| Germany            | 1,896          | 4,331   | 0              | 0       | 0                   | 0      |
| Norway             | 4,573          | 3,258   | 0              | 0       | 0                   | 0      |
| Hong Kong          | 4,075          | 4,572   | 8,042          | 4,589   | 2                   | 615    |
| Spain              | 3,322          | 7,224   | 0              | 0       | 0                   | 0      |
| Australia          | 2,673          | 1,833   | 0              | 0       | 0                   | 0      |
| Other countries    | 14,729         | 9,201   | 0              | 0       | 0                   | 0      |
|                    | <b>204,100</b> | 210,159 | <b>161,127</b> | 169,639 | <b>8,512</b>        | 7,702  |
| Unallocated assets |                |         | <b>48,329</b>  | 31,368  |                     |        |
|                    |                |         | <b>209,456</b> | 201,007 |                     |        |

### 28. FINANCIAL INSTRUMENTS

#### Fair value

The carrying amounts of financial assets and liabilities of the Group and Company at the balance sheet date approximated their fair values due to the short term nature of these financial assets and liabilities.



**NIKKO**

## **STATEMENT BY DIRECTORS**

**PURSUANT TO SECTION 169(15) OF THE COMPANIES ACT, 1965**



We, Kenichi Hattori and Lim Chiang Hang, two of the directors of Nikko Electronics Bhd., state that in the opinion of the directors, the financial statements set out on pages 39 to 67 are drawn up so as to give a true and fair view of the state of affairs of the Group and the Company as at 31 December 2002 and of the results and cash flows of the Group and the Company for the financial year ended on that date in accordance with the applicable approved accounting standards in Malaysia and the provisions of the Companies Act, 1965.

In accordance with a resolution of the Board of Directors dated 23 April 2003.

**KENICHI HATTORI**  
DIRECTOR

**LIM CHIANG HANG**  
DIRECTOR

Kuala Lumpur



**NIKKO**

## **STATUTORY DECLARATION**

**PURSUANT TO SECTION 169(16) OF THE COMPANIES ACT, 1965**



I, Chan Foong Siew, the director primarily responsible for the financial management of Nikko Electronics Bhd., do solemnly and sincerely declare that the financial statements set out on pages 39 to 67 are, in my opinion, correct and I make this solemn declaration conscientiously believing the same to be true and by virtue of the provisions of the Statutory Declarations Act, 1960.

**CHAN FOONG SIEW**  
DIRECTOR

Subscribed and solemnly declared before me by the abovenamed Chan Foong Siew at Kuala Lumpur in Malaysia on 23<sup>rd</sup> April 2003.

**ONG KAH CHONG**  
COMMISSIONER FOR OATHS



# **REPORT OF THE AUDITORS**

## **TO THE MEMBERS OF NIKKO ELECTRONICS BHD.**

**(Company No: 174076 U)**  
**(Incorporated in Malaysia)**

We have audited the financial statements set out on pages 39 to 67. These financial statements are the responsibility of the Company's directors. Our responsibility is to express an opinion on these financial statements based on our audit.

We conducted our audit in accordance with approved auditing standards in Malaysia. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by the directors, as well as evaluating the overall financial statement presentation. We believe that our audit provides a reasonable basis for our opinion.

In our opinion:

- (a) the financial statements have been prepared in accordance with the provisions of the Companies Act, 1965 and the applicable approved accounting standards in Malaysia so as to give a true and fair view of:
- (i) the matters required by Section 169 of the Companies Act, 1965 to be dealt with in the financial statements; and
  - (ii) the state of affairs of the Group and the Company as at 31 December 2002 and of the results and cash flows of the Group and the Company for the financial year ended on that date;

and

- (b) the accounting and other records and the registers required by the Act to be kept by the Company have been properly kept in accordance with the provisions of the Act.

The name of the subsidiary company of which we have not acted as auditors is indicated in note 7 to the financial statements. We have considered the financial statements of the subsidiary company and the auditors' report thereon.

We are satisfied that the financial statements of the subsidiary company that have been consolidated with the Company's financial statements are in form and content appropriate and proper for the purposes of the preparation of the consolidated financial statements and we have received satisfactory information and explanations required by us for those purposes.

The auditors' report on the financial statements of the subsidiary company was not subject to any qualification and did not include any comment made under subsection (3) of section 174 of the Act.

### **PRICEWATERHOUSECOOPERS**

[AF:1146]

Chartered Accountants

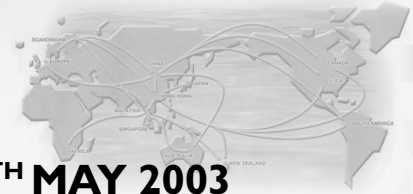
### **CHO CHOO MENG**

[2082/09/04 (J)]

Partner of the firm

Penang

23 April 2003

**NIKKO**

# ANALYSIS OF SHAREHOLDINGS AS AT 5<sup>TH</sup> MAY 2003

Authorised Share Capital : RM 500,000,000  
 Issued and Fully Paid-up Capital : RM 99,000,000  
 Class of Share : Ordinary Shares of RM1.00 each  
 Voting rights : One vote per RM1.00 share

## DISTRIBUTION OF SHAREHOLDINGS

| Size of Shareholding                     | Shareholders |                   | Shares held       |                           |
|--|--------------|-------------------|-------------------|---------------------------|
|  | Number       | % of shareholders | Number            | % of issued share capital |
| Less than 1,000                          | 13           | 0.19              | 1,000             | 0.00                      |
| 1,000 – 10,000                           | 6,577        | 95.33             | 14,008,000        | 14.15                     |
| 10,001 – 100,000                         | 288          | 4.17              | 7,889,000         | 7.97                      |
| 100,001 to less than 5% of issued shares | 15           | 0.22              | 8,295,000         | 8.38                      |
| 5% and above of issued shares            | 6            | 0.09              | 68,807,000        | 69.50                     |
| <b>Total</b>                             | <b>6,899</b> | <b>100.00</b>     | <b>99,000,000</b> | <b>100.00</b>             |

## DIRECTORS' INTEREST IN SHARES AS AT 5<sup>TH</sup> MAY 2003

| Name of Directors                       | Direct interests |             | Deemed interests |             |
|---|------------------|-------------|------------------|-------------|
|   | No. of shares    | % of shares | No. of shares    | % of shares |
| Kenichi Hattori                         | 10,000           | @           | #37,600,000      | 37.98       |
| Dato' Zulkifli bin Abdul Rahman         | 6,000            | @           | –                | –           |
| Lim Chiang Hang                         | 30,000           | @           | –                | –           |
| Chan Foong Siew                         | 15,000           | @           | –                | –           |
| Toyotoshi Yamada                        | –                | –           | –                | –           |
| Minoru Yamashita                        | 90,000           | @           | #37,600,000      | 37.98       |
| Nik Abdul Hamid Shukri bin Nik Abdullah | 5,000            | @           | ^2,000           | @           |
| Low Thiam Hoe                           | –                | –           | *1,000           | @           |
| Tan Gnear Eng                           | 10,000           | @           | –                | –           |
| Gong Wooi Teik                          | 10,000           | @           | –                | –           |
| Motoharu Ban                            | –                | –           | –                | –           |
| Yap Kok Ching                           | –                | –           | –                | –           |

Note:

@ Less than 0.1%

# By virtue of their substantial shareholdings in Nikko Electronic Holdings Sdn. Bhd.

\* By virtue of his wife, Ting Mee Chuo's shareholdings in the Company.



## ANALYSIS OF SHAREHOLDINGS AS AT 5<sup>TH</sup> MAY 2003 (CONTINUED)

### LIST OF THIRTY (30) LARGEST SHAREHOLDERS AS AT 5<sup>TH</sup> MAY 2003

| No. | Name of Shareholders   | Number of shares | %     |
|-----|--|------------------|-------|
| 1.  | CIMB NOMINEES (TEMPATAN) SDN BHD<br><i>(A/C for Nikko Electronic Holdings Sdn Bhd)</i>                                 | 21,290,000       | 21.51 |
| 2.  | NIKKO ELECTRONIC HOLDINGS SDN BHD  | 16,310,000       | 16.47 |
| 3.  | YANG KIM MOI   | 11,939,000       | 12.06 |
| 4.  | OH KIM SUN   | 6,815,000        | 6.88  |
| 5.  | LIM SAY CHONG  | 6,685,000        | 6.75  |
| 6.  | EMPLOYEES PROVIDENT FUND BOARD   | 5,768,000        | 5.83  |
| 7.  | AMANAH RAYA NOMINEES (TEMPATAN) SDN BHD<br><i>(Skim Amanah Saham Bumiputera)</i>                                       | 2,250,000        | 2.27  |
| 8.  | LEMBAGA TABUNG HAJI  | 1,382,000        | 1.40  |
| 9.  | TAKAFUL NASIONAL SDN BERHAD  | 1,211,000        | 1.22  |
| 10. | MALAYSIA NATIONAL INSURANCE BERHAD   | 1,048,000        | 1.06  |
| 11. | AMMB NOMINEES (TEMPATAN) SDN BHD<br><i>(Am Trustee Bhd for BHLB Pacific Dana Al-Ihsan)</i>                             | 677,000          | 0.68  |
| 12. | MAYBAN NOMINEES (TEMPATAN) SDN BHD<br><i>(Mayban Investment Management Sdn Bhd for Kumpulan Wang Simpanan Pekerja)</i> | 393,000          | 0.40  |
| 13. | NOR HAYATI BINTI ABD MALIK   | 214,000          | 0.22  |
| 14. | LOH KIAN CHONG   | 201,000          | 0.20  |
| 15. | PRB NOMINEES (TEMPATAN) SDN BHD<br><i>(Rubber Industry Smallholders Development Authority)</i>                         | 176,000          | 0.18  |
| 16. | MAYBAN FINANCE BERHAD<br><i>(A/C for Lim Wee Eng)</i>  | 170,000          | 0.17  |
| 17. | KUALA LUMPUR CITY NOMINEES (TEMPATAN) SDN BHD<br><i>(A/C for Ho Tau Tai)</i>   | 132,000          | 0.13  |
| 18. | HONG LEONG FINANCE BERHAD<br><i>(A/C for Chow Chin Aun)</i>  | 120,000          | 0.12  |
| 19. | LTG DEVELOPMENT SDN BHD  | 115,000          | 0.12  |
| 20. | ABDUL RAHMAN MOHD TAHER MOHD   | 105,000          | 0.11  |
| 21. | HDM NOMINEES (TEMPATAN) SDN BHD<br><i>(A/C for Leong Chong Tat)</i>  | 101,000          | 0.10  |
| 22. | LEE BAN KIM @ ROBERT LEE   | 100,000          | 0.10  |
| 23. | MOHD RAZALI BIN ABDUL RAHMAN   | 100,000          | 0.10  |
| 24. | SAHAMANN @ BASIR BIN ISMAIL  | 100,000          | 0.10  |





## ANALYSIS OF SHAREHOLDINGS AS AT 5<sup>TH</sup> MAY 2003 (CONTINUED)

### LIST OF THIRTY (30) LARGEST SHAREHOLDERS AS AT 5<sup>TH</sup> MAY 2003 (CONTINUED)

| No.          | Name of Shareholders  | Number of shares  | %            |
|--------------|---|-------------------|--------------|
| 25.          | TAN CHEN NEO @ TANG CHEN NEO  | 100,000           | 0.10         |
| 26.          | LIM TIOK HEONG  | 98,000            | 0.10         |
| 27.          | RHB CAPITAL NOMINEES (TEMPATAN) SDN BHD<br><i>(A/C for Choong Foong Ming)</i> | 96,000            | 0.10         |
| 28.          | TENGGU UZIR BIN TENGGU UBAIDILLAH   | 92,000            | 0.09         |
| 29.          | AMANAH RAYA NOMINEES (TEMPATAN) SDN BHD<br><i>(Amanah Saham Johor)</i>        | 90,000            | 0.09         |
| 30.          | MINORU YAMASHITA  | 90,000            | 0.09         |
| <b>Total</b> |   | <b>77,968,000</b> | <b>78.75</b> |

### LIST OF SUBSTANTIAL SHAREHOLDERS AS AT 5<sup>TH</sup> MAY 2003

| No. | Name of Shareholders   | Number of shares | %     |
|-----|--|------------------|-------|
| 1.  | CIMB NOMINEES (TEMPATAN) SDN BHD<br><i>(A/C for Nikko Electronic Holdings Sdn Bhd)</i> | 21,290,000       | 21.51 |
| 2.  | NIKKO ELECTRONIC HOLDINGS SDN BHD  | 16,310,000       | 16.47 |
| 3.  | YANG KIM MOI   | 11,939,000       | 12.06 |
| 4.  | OH KIM SUN   | 6,815,000        | 6.88  |
| 5.  | LIM SAY CHONG  | 6,685,000        | 6.75  |
| 6.  | EMPLOYEES PROVIDENT FUND BOARD   | 5,768,000        | 5.83  |



# NIKKO ELECTRONICS BHD.

(Company No. 174076-U)  
(Incorporated in Malaysia under the Companies Act, 1965)

|                    |
|--------------------|
| No. of shares held |
|                    |

## FORM OF PROXY

I/We, \_\_\_\_\_ NRIC/Passport No. \_\_\_\_\_  
(Full Name in Block Letters)

of \_\_\_\_\_  
(Full Address)

being a member/members of **NIKKO ELECTRONICS BHD.** hereby appoint \_\_\_\_\_

of \_\_\_\_\_ or failing him, \_\_\_\_\_ of

\_\_\_\_\_ or failing him, the CHAIRMAN OF THE MEETING as my/our proxy/proxies, to vote on my/our behalf at the Fifteenth Annual General Meeting of the Company to be held at The Garden Ballroom, Mezzanine Floor, Hotel Melia Kuala Lumpur on Friday, 27<sup>th</sup> June 2003 at 10.00 a.m. and at any adjournment thereof.

| No. | Resolutions   | * FOR | * AGAINST |
|-----|---|-------|-----------|
|     | <b>Ordinary Business</b>  |       |           |
| 1.  | To receive and adopt the Audited Financial Statements for the year ended 31 <sup>st</sup> December 2002 together with the Directors' and Auditors' Reports thereon. |       |           |
| 2.  | To approve payment of a first and final tax exempt dividend of 6 sen per ordinary share.  |       |           |
| 3.  | To approve the payment of Directors' fees.  |       |           |
| 4.  | To re-elect Mr. Kenichi Hattori as Director.  |       |           |
| 5.  | To re-elect Dato' Zulkifli bin Abdul Rahman as Director.  |       |           |
| 6.  | To re-elect Mr. Gong Wooi Teik as Director.   |       |           |
| 7.  | To re-elect Mr. Tan Gnear Eng as Director.  |       |           |
| 8.  | To re-appoint Messrs PricewaterhouseCoopers as Auditors of the Company and to authorise the Directors to fix their remuneration.                                    |       |           |
|     | <b>Special Business</b>   |       |           |
| 9.  | Authority to allot and issue shares.  |       |           |
| 10. | Proposed Renewal of Share Buy-Back Authority.   |       |           |
| 11. | Proposed Shareholders' Mandate Relating to Nikko Co. Ltd.   |       |           |
| 12. | Proposed Shareholders' Mandate Relating to Nics Engineering Ltd.  |       |           |

\* Please indicate with an "X" in the spaces provided above as to how you wish your votes to be cast. If no specific direction as to voting is given, the proxy will vote or abstain from voting at his/her discretion.

Dated this \_\_\_\_\_ day of June 2003

\_\_\_\_\_  
Signature / Common Seal of Shareholder

**Notes:**

- (1) A member entitled to attend and vote at the meeting is entitled to appoint a proxy to attend and vote in his stead. A proxy may but need not be a member of the Company and paragraphs (a), (b), (c) and (d) of Section 149(1) of the Act shall not apply.
- (2) The instrument appointing a proxy must be deposited at the Company's Registered Office at Suites 7.21 & 7.22, 7<sup>th</sup> Floor, Imbi Plaza, Jalan Imbi, 55100 Kuala Lumpur not less than 48 hours before the time fixed for holding the meeting, or any adjournment thereof.
- (3) The instrument appointing a proxy shall be in writing under the hand of the appointor or of his attorney duly authorised in writing or, if the appointor is a corporation, either under seal or under the hand of an officer or attorney duly authorised.

---

AFFIX  
STAMP  
HERE

The Company Secretary  
**NIKKO ELECTRONICS BHD.**  
Suites 7.21 & 7.22, 7th Floor,  
Imbi Plaza, Jalan Imbi,  
55100 Kuala Lumpur

---

