



The Directors submit their report together with the audited accounts for the year ended 31 March 2001.

### **Principal activities and geographical analysis of operations**

The Company continues to be an investment holding company. The principal activities of its subsidiaries are the development, engineering, manufacture and sales of toys and moulds.

An analysis of the Group's turnover and contribution to operating profit for the year by principal activity and market is set out in note 2 to the accounts.

### **Results and appropriations**

The results for the year are set out in the consolidated profit and loss account on page 29.

Preference dividends of HK\$698,000 and HK\$695,000 were paid on 16 October 2000 and 10 April 2001 respectively. The Directors have declared an interim dividend of HK0.5 cent per ordinary share, totalling HK\$2,069,000, which was paid on 12 January 2001.

The Directors recommend the payment of a final dividend of HK0.25 cent per ordinary share, totalling HK\$1,035,000. The dividend recommended is in line with an undertaking to distribute not more than 20% of profit attributable to shareholders pursuant to the terms and conditions of the transferable term loan agreement dated 26 June 2001.

### **Reserves**

Movements in the reserves of the Group and the Company during the year are set out in note 20 to the accounts.

### **Donations**

Donations made by the Group during the year amounted to HK\$66,000.

### **Fixed assets**

Details of the movements in fixed assets are set out in note 11 to the accounts.



## Information on subsidiaries

Details of the principal subsidiaries are set out in note 12 to the accounts.

## Share capital

Details of the movements in share capital and share options of the Company are set out in notes 18 and 19 to the accounts respectively.

## Five year financial summary

The following table summarises the results, assets and liabilities of the Group for each of the last five financial years:

	2001	2000	1999	1998	1997
	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000
Turnover*	<b>646,840</b>	660,015	554,478	695,705	607,623
Profit before taxation	<b>27,222</b>	30,706	18,178	69,575	56,753
Taxation	<b>(4,357)</b>	(4,090)	(811)	(9,452)	(7,904)
Profit after taxation	<b>22,865</b>	26,616	17,367	60,123	48,849
Minority interests	-	-	-	1,908	(733)
Profit attributable to shareholders	<b>22,865</b>	26,616	17,367	62,031	48,116
Total assets	<b>610,471</b>	518,598	462,923	466,149	386,981
Total liabilities including minority interests	<b>(309,012)</b>	(228,936)	(241,841)	(258,604)	(271,180)
Net assets	<b>301,459</b>	289,662	221,082	207,545	115,801



The results, assets and liabilities of the Group for each of the two years ended 31 March 1998 have been prepared based on the audited accounts of the companies comprising the Group and after appropriate adjustments and reclassification, as if the group structure at 31 March 1998 had been in existence throughout the years concerned.

\* Adjusted for the change in turnover classification with respect to mould income as disclosed in note 2 to the accounts.

### **Distributable reserves**

As at 31 March 2001, the reserves of the Company available for distribution, net of proposed dividends in respect of the preference and ordinary shares for the year ended 31 March 2001, amounted to HK\$182,511,000. These were represented by share premium and retained profits of the Company. Under the Companies Law (Revised) Chapter 22 of the Cayman Islands, share premium of the Company is available for paying distributions and dividends to shareholders subject to the provisions of its Memorandum and Articles of Association and provided that immediately following the distributions or dividend payments, the Company is able to pay its debts as they fall due in the ordinary course of business.

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### **Purchase, sale or redemption of shares**

The Company has not redeemed any of its shares during the year. Neither the Company nor any of its subsidiaries has purchased or sold any of the Company's shares during the year.



## Directors

The Directors during the year were:

Mr LEUNG Lun

Mr LEUNG Chung Ming

Mr ZHONG Bing Quan

Ms CHENG Yun Tai

Mr WONG Tze On, Andy

The Hon., Mr LAU Wong Fat, G.B.S., J.P. \*

Mr WONG Lam, O.B.E., J.P. \*

Mr YE Tian Liu \*

Mr John Hamilton McLEAN +

\* Independent Non-executive Directors

+ Non-executive Directors

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Mr LEUNG Chung Ming, being the Managing Director of the Company, is not subject to rotation pursuant to Article 116 of the Company's Articles of Association. Mr LEUNG Lun and The Hon., Mr LAU Wong Fat, G.B.S., J.P., retire in accordance with Articles 90 and 116 of the Company's Articles of Association but, being eligible, offer themselves for re-election at the forthcoming Annual General Meeting.

Biographical details of Directors and senior management are set out as follows:

### Executive Directors

**Mr LEUNG Lun**, aged 51, is the Chairman of the Company and the founder of the Group. Mr Leung is responsible for the overall corporate policy and development strategy as well as overseeing the Group's overall management. He has over 30 years of experience in the toys manufacturing industry. Mr Leung is a member of the committee of the Chinese People's Political Consultative Conference of JiangXi Province. He is also a standing member of the committee of the Chinese People's Political Consultative Conference of Dongguan City. He was named an honourable citizen of Dongguan City by the local authority in 1996 for his contribution to the City.

**Mr LEUNG Chung Ming**, aged 41, is the Managing Director of the Company. He is the brother of Mr Leung Lun. He joined the Group in November 1979 and is responsible for the strategic planning, sales and marketing. He is also in charge of the Group's Original Design Manufacturing ("ODM") products development. He is currently a vice president of The Toys Manufacturers' Association of Hong Kong and Guangdong Toy Association. Mr CM Leung is also a Hong Kong district special member of the People's Republic of China United Youth Association as well as a director of Hong Kong United Youth Association.

**Mr ZHONG Bing Quan**, aged 49, is one of the founders of LC Toys in September 1989. He is responsible for formulation of the sales and marketing strategic planning for the Mainland China market. Mr Zhong is also responsible for liaison with the Mainland China local authorities. He has been the general manager of Dongguan City Supply, Marketing and Trading Company since 1979.

**Ms CHENG Yun Tai**, aged 46, is responsible for overseeing the financial control of the Group's operations in Mainland China. She is also responsible for liaising with the Mainland China local authorities. Ms Cheng is also the deputy manager of Dongguan City Supply, Marketing and Trading Company. She has been a director of a subsidiary of the Company since March 1995.

**Mr WONG Tze On, Andy**, aged 34, is responsible for the formulation of the corporate strategy and financial planning of the Group. He is also responsible for new capital ventures and project development of the Group. Mr Wong holds a Business degree in Accounting from the Curtin University of Technology, Western Australia. He joined the Group in June 1993. He is a member of the Australian Society of Certified Practising Accountants. Mr Wong was appointed as a Director in August 1997.

#### **Independent Non-executive Directors**

**The Hon., Mr LAU Wong Fat**, G.B.S., J.P., aged 64, is the chairman of Wing Tung Yick Holdings Limited, a company engaged in real estate development. Mr Lau is a member of the Hong Kong Special Administrative Region Legislative Council and the National Committee of the Chinese People's Political Consultative Conference, the chairman of the Tuen Mun District Council and the New Territories Heung Yee Kuk. He was appointed as an independent Non-executive Director of the Company in August 1997. Mr Lau is also a member of the Audit Committee of the Company.



**Mr WONG Lam**, O.B.E., J.P., aged 82, is a former member of Hong Kong Legislative Council. He is currently standing committee member of the Chinese People's Political Consultative Conference of Dongguan City. Mr Wong was appointed as an independent Non-executive Director and a member of the Audit Committee of the Company in November 1999.

**Mr YE Tian Liu**, aged 55, was appointed as an independent Non-executive Director and Chairman of the Audit Committee of the Company in November 1999. Mr Ye holds a Master's degree in Business Administration. He was formally an executive director of a locally listed company for over 10 years. He has extensive experiences on China trade and investment.

## Non-executive Director

**Mr John Hamilton McLEAN**, aged 47, joined Citigroup in 1989. Mr McLean is a senior executive of Citigroup's Asia Pacific Division and was the chief executive of Citicorp Capital Asia Limited ("CCAL") and the executive chairman of Citicorp China Investment Management Limited ("CCIML"). Mr McLean has over 25 years of experience in banking, finance, restructuring and direct investments, having worked in San Francisco, Toronto, London, Singapore and Hong Kong. He has served or continues to serve as a board director for various public and private companies in North America, United Kingdom, Europe and Asia. Mr McLean graduated in 1975 from Durham College in Canada in Business Administration. Mr McLean was appointed as a Non-executive Director in December 1999. He is also a member of the Audit Committee of the Company.

## Senior management

**Mr SETO Sai Cheong Paul**, aged 39, is the director of Accounting. He is a member of the Hong Kong Society of Accountants and The Association of Chartered Certified Accountants and has over 17 years of experience in accounting and taxation. He is responsible for the overall finance, accounting and taxation functions of the Group. He joined the Group in December 2000.



**Mr NG Ki Yin, Simon**, age 47, is the director of Operations of the Group's Guancheng factory. He holds a Bachelor of Science degree in Business Management. Mr Ng has over 19 years of experience in manufacturing resources planning and system management. He joined the Group in June 1994. He is responsible for managing the human resources, sourcing, material planning and IT functions of the Group. Mr Ng is directly in charge of the administration of the Guancheng factory.

**Mr YIM To**, aged 48, is the director of Operations of the Group's Fucheng factory. He has over 23 years of production and management experience in the toys industry. He joined the Group in July 1995. He is responsible for the overall manufacturing functions of the Group. Mr Yim is directly in charge of the administration and production management of the Fucheng factory.

**Mr KWOK Chu Hung**, aged 43, is the director of Quality Assurance and Manufacturing Support. He holds a Bachelor of Science degree in Electronic Engineering and has over 19 years of experience in quality control of electronics. He joined the Group in April 1995. He is responsible for the quality assurance functions of the Group including maintenance of ISO9001 system, and implementation of quality advancement procedures. Mr Kwok is also responsible for the production engineering functions of the Group.

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### Directors' service contracts

Each of the Executive Directors has entered into a service agreement with the Company for an initial fixed term of three years commencing from 1 September 1997 and shall continue thereafter unless and until terminated by either the Company or the Director giving to the other party not less than six months' notice in writing to determine the same. Under the agreements, the Executive Directors will receive a fixed monthly salary. Some of the Executive Directors will also receive a year end bonus and a discretionary bonus under the agreements.

Apart from the above, none of the Directors who are proposed for re-election at the forthcoming annual general meeting has a service contract with the Company which is not determinable within one year without payment of compensation, other than statutory compensation.



## Directors' interests in contracts

No contracts of significance in relation to the Company's business to which the Company, or its holding companies or its subsidiaries was a party, and in which a Director had a material interest, whether directly or indirectly, subsisted at the end of the year or at any time during the year.

## Particulars of shares held by Directors, Chief Executives and Associates

As at 31 March 2001, the Directors, Chief Executives and their Associates had the following interests in the share capital of the Company or any of its associated corporations (within the meaning of the Securities (Disclosure of Interests) Ordinance (the "SDI Ordinance") which require disclosure pursuant to Section 28 of the SDI Ordinance or the Model Code for Securities Transactions by Directors of Listed Companies (the "Model Code") or as recorded in the register maintained pursuant to Section 29 of the SDI Ordinance:

Name	Type of interest	Number of ordinary shares
Mr Leung Lun	Corporate	279,300,000
Mr Leung Chung Ming	Corporate	279,300,000

**Note:** 279,300,000 ordinary shares in the Company were owned by Lung Cheong Investment Limited ("LC Investment") which is wholly owned by Rare Diamond Limited. Rare Diamond Limited is beneficially owned as to 70% by Mr Leung Lun and 30% by Mr Leung Chung Ming respectively. Accordingly, Mr Leung Lun and Mr Leung Chung Ming are taken to be interested in those ordinary shares.

Save as disclosed above, no Directors, Chief Executives and their Associates have any beneficial or non-beneficial interests in the share capital of the Company and associated corporations required to be disclosed pursuant to the SDI Ordinance or the Model Code.

The Company entered into a loan agreement (please refer to Post balance sheet date event section for details) which imposes an obligation for the controlling shareholders of the Company, Mr Leung Lun and Mr Leung Chung Ming and their respective family members/associates (as defined under the Listing Rules) to maintain in aggregate at least 51% of the total issued voting share capital of the Company as at the date of the Loan Agreement and from time to time when the Loan remains outstanding.





## Directors' and Chief Executives' rights to acquire shares or debentures

On 8 September 1997, a share option scheme (the "Share Option Scheme") was approved by the shareholders of the Company under which its Directors may, at their discretion, invite employees of the Group including any Executive Directors to take up options (the "Share Options") to subscribe for ordinary shares of HK\$0.1 each in the Company subject to the terms and conditions stipulated therein.

On 14 March 2000, the Company granted Share Options to the following Directors to acquire ordinary shares in the Company at an exercise price of HK\$0.675 per share:

Name of Directors	Number of Share Options granted
Mr LEUNG Lun	2,000,000
Mr LEUNG Chung Ming	2,000,000
Mr ZHONG Bing Quan	2,000,000
Ms CHENG Yun Tai	2,000,000
Mr WONG Tze On, Andy	2,000,000

The Share Options are exercisable from 1 October 2000 to 30 September 2005, whilst a maximum of 20% of the options granted can be exercised annually. During the current year, there were no movements with respect to the afore-mentioned Share Options.

Apart from the above, at no time during the year was the Company, its holding companies or its subsidiaries a party to any arrangements to enable the Directors, Chief Executives and their Associates to acquire benefits by means of the acquisition of shares in, or debentures of, the Company or any other body corporate.

## Substantial shareholders

At 31 March 2001 the register of substantial shareholders maintained under Section 16(1) of the SDI Ordinance shows that the Company had not been notified of any substantial shareholders' interests, being 10% or more of the Company's issued share capital, other than those of the Directors, Chief Executives and their Associates as disclosed above.



## Pre-emptive rights

In the event that the Company issues, otherwise than pursuant to the Share Option Scheme, for cash consideration any new shares or securities (including options and warrants) in the Company convertible into ordinary shares (the "New Issue Securities"), the holders of preference shares in the Company (the "Preference Shares") are entitled to subscribe, or procure subscribers to subscribe, for all or part of the New Issue Securities. Any New Issue Securities not subscribed for by the holders of Preference Shares may be subscribed for by the holders of ordinary shares in the Company upon terms and conditions no more favourable than those offered to the holder of Preference Shares.

## Management contracts

Other than the contracts of service with the Directors or any persons engaged in the full-time employment of the Group, no contracts concerning the management and administration of the whole or any substantial part of the business of the Group were entered into or existed during the year.

## Connected transactions

As at 31 March 2001, a wholly-owned subsidiary of the Company, Lung Cheong Toys Limited ("LC Toys"), had long-term loans and deferred trading balances amounted in aggregate to HK\$60,648,000, plus accrued interest, due by PT. Lung Cheong Brothers Industrial ("PTLC"), a 60% owned subsidiary of LC Toys. The balance of the 40% interest in PTLC is owned by independent third parties who are not connected with the Directors, Chief Executives or substantial shareholders of the Company and its subsidiaries, other than PTLC, or any of their respective associates. The long-term loans were advanced to finance the set up of the production facilities of PTLC. The amounts are unsecured, bearing interest at the rate of 10% per annum and have no fixed repayment terms. LC Toys does not intend to demand repayment of the advances in the foreseeable future.

The Directors, including the Non-executive Directors, are of the opinion that the above transaction was entered into on normal commercial terms which are fair and reasonable.



## Major customers and suppliers

The percentage of sales and purchases attributable to the Group's largest customers and suppliers are as follows:

	2001	2000
	%	%
Sales		
– the largest customer	<b>34</b>	46
– five largest customers combined	<b>72</b>	74
Purchases		
– the largest supplier	<b>22</b>	35
– five largest suppliers combined	<b>39</b>	49

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No Directors or their Associates and no shareholders (which to the knowledge of the Directors own more than 5% of the Company's share capital) had an interest in the major suppliers or customers noted above.

## Audit committee

Pursuant to the Listing Rules, an audit committee, comprising four Non-executive Directors, namely Mr YE Tian Liu, Mr John Hamilton McLEAN, The Hon., Mr LAU Wong Fat, G.B.S., J.P. and Mr WONG Lam, O.B.E., J.P., was established on 14 March 2000.

By reference to "A Guide for the Formation of An Audit Committee" published by the Hong Kong Society of Accountants, written terms of reference which describe the authority and duties of the audit committee were prepared and adopted by the Board of the Company on the same date. The principal activities of the Audit Committee include the review and supervision of the Group's financial reporting process and internal controls.



## Compliance with the Code of Best Practice of the Listing Rules

The Code of Best Practice has been complied with by the Company during the year ended 31 March 2001 except that Non-executive Directors are not appointed for a specific term as recommended under paragraph 7 of Appendix 14 of the Listing Rules. They are subject to retirement by rotation and re-election at the Annual General Meeting in accordance with the Articles of Association of the Company. In the opinion of the Directors this meets the same objective as the Code of Best Practice.

## Post balance sheet date events

On 26 June 2001, the Company entered into a transferable term loan agreement (the "Loan Agreement") whereby a banking facility in an aggregate amount of HK\$150,000,000 was granted to the Company by a group of banks (the "Loan") and the Loan will mature on 25 June 2004.

## Auditors

The accounts have been audited by PricewaterhouseCoopers who retire and, being eligible, offer themselves for re-appointment.

On behalf of the Board

A handwritten signature in black ink, appearing to be 'Lun', written over a horizontal line.

**Leung Lun**

*Chairman*

Hong Kong, 17 July 2001