

1. Principal accounting policies

The principal accounting policies adopted in the preparation of these accounts are set out below:

(a) Basis of preparation

The accounts have been prepared under the historical cost convention as modified by the revaluation of leasehold land and buildings, in accordance with accounting principles generally accepted in Hong Kong and comply with accounting standards issued by the Hong Kong Society of Accountants.

(b) Consolidation

The consolidated accounts include the accounts of the Company and its subsidiaries made up to 31 March. The results of subsidiaries acquired or disposed of during the year are included in the consolidated profit and loss account from the effective date of acquisition or up to the effective date of disposal, as appropriate.

All significant intercompany transactions and balances within the Group are eliminated on consolidation.

Subsidiaries established in Mainland China adopt 31 December as their accounting year end pursuant to the local regulations. Accordingly, the management accounts of these subsidiaries as at and for the twelve months ended 31 March have been incorporated in the group accounts after making adjustments as the Directors consider appropriate for compliance with accounting principles generally accepted in Hong Kong.

The gain or loss on the disposal of a subsidiary represents the difference between the proceeds of the sale and the Group's share of its net assets together with any goodwill or capital reserve which was not previously charged or recognised in the consolidated profit and loss account.

Minority interests represent the interests of outside shareholders in the operating results and net assets of subsidiaries.



1. Principal accounting policies *(continued)*

(b) Consolidation *(continued)*

In the Company's balance sheet the investments in subsidiaries are stated at cost less provision, if necessary, for diminution in value other than temporary in nature. The results of subsidiaries are accounted for by the Company on the basis of dividends received and receivable.

Goodwill arising on consolidation represents the excess of the purchase consideration over the fair value of the net assets of subsidiaries acquired. Discount arising on consolidation represents the excess of fair value of the net assets of subsidiaries acquired over the purchase consideration. Any goodwill or discount arising on consolidation is charged or credited, as appropriate, directly to reserves.

(c) Property, plant and equipment

Leasehold land and buildings are stated at revalued amounts, being their fair values at the date of revaluation less any subsequent accumulated depreciation. Fair value is determined by the Directors based on independent valuations which are performed every three years. The valuations are on an open market basis related to individual properties and separate values are not attributed to land and buildings. In the intervening years, the Directors review the carrying value of the leasehold land and buildings and adjustment is made where there has been a material change. Increases in valuation are credited to the property revaluation reserve. Decreases in valuation are first offset against increases on earlier valuations in respect of the same property and are thereafter debited to operating profit. Any subsequent increases are credited to operating profit up to the amount previously debited. Upon the disposal of a property, the relevant portion of the realised revaluation reserve in respect of previous valuations is transferred from the property revaluation reserve to retained profits and is shown as a movement in reserves.

The carrying value of leasehold land is depreciated on a straight-line basis over the unexpired period of the leases. The carrying value of leasehold buildings is depreciated on a straight-line basis over the unexpired periods of the leases or their expected useful lives of 50 years to the Group, whichever is shorter.

1. Principal accounting policies *(continued)*

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

Other tangible fixed assets are stated at cost less accumulated depreciation, and are depreciated at rates sufficient to write off their cost over their estimated useful lives on a straight-line basis. The principal annual rates are as follows:

Leasehold improvements	2 – 5%
Plant and machinery	20%
Furniture, fixtures and equipment	20%
Motor vehicles	20%
Moulds	20%

Major costs incurred in restoring fixed assets to their normal working condition are charged to the profit and loss account. Improvements are capitalised and depreciated over their expected useful lives to the Group.

The carrying amounts of fixed assets are reviewed regularly to assess whether their recoverable amounts have declined below their carrying amounts. Expected future cash flows have not been discounted in determining the recoverable amount.

The gain or loss on disposal of a fixed asset is the difference between the net sale proceeds and the carrying amount of the relevant asset, and is recognised in the profit and loss account. Any revaluation reserve balance remaining attributable to the relevant asset is transferred to retained profits and is shown as a movement in reserves.

(d) Assets under leases

(i) Finance leases

Leases that substantially transfer to the Group all the rewards and risks of ownership of assets, other than legal title, are accounted for as finance leases. At the inception of a finance lease, the fair value of the asset is recorded together with the obligation, excluding the interest element, to pay future rentals.

Payments to the lessor are treated as consisting of capital and interest elements. Finance charges are debited to the profit and loss account in proportion to the capital balances outstanding.

Assets held under finance leases are depreciated over the shorter of their estimated useful lives or lease periods.



1. Principal accounting policies *(continued)*

(d) **Assets under leases** *(continued)*

(ii) *Operating leases*

Leases where substantially all the rewards and risks of ownership of assets remain with the leasing company are accounted for as operating leases. Rentals applicable to such operating leases are charged to the profit and loss account on a straight-line basis over the lease terms.

(e) **Other investments**

Other investments represent club memberships and are stated at cost less any provision made to the extent that the Directors consider significant permanent diminution in value has taken place.

(f) **Inventories**

Inventories comprise stocks and work in progress and are stated at the lower of cost and net realisable value. Cost, calculated on a first-in first-out basis, comprises raw materials, direct labour and an appropriate proportion of production expenditures.

Net realisable value is determined on the basis of anticipated sales proceeds less estimated selling expenses and, where appropriate, the cost of conversion from their existing state to a finished condition.

(g) **Accounts receivable**

Provision is made against accounts receivable to the extent they are considered to be doubtful. Accounts receivable in the balance sheet are stated net of such provision.

(h) **Deferred taxation**

Deferred taxation is accounted for at the current taxation rate in respect of timing differences between profit as computed for taxation purposes and profit as stated in the accounts to the extent that a liability or an asset is expected to be payable or recoverable in the foreseeable future.

(i) **Translation of foreign currencies**

Transactions in foreign currencies are translated at exchange rates ruling at the transaction dates. Monetary assets and liabilities expressed in foreign currencies at the balance sheet date are translated at rates of exchange ruling at the balance sheet date. Exchange differences arising in these cases are dealt with in the profit and loss account.

1. Principal accounting policies *(continued)*

(i) Translation of foreign currencies *(continued)*

Upon the disposal of a foreign subsidiary, the relevant portion of the cumulative exchange differences realised is taken to the profit and loss account as part of the gain and loss on disposal.

The accounts of subsidiaries expressed in foreign currencies are translated at the rates of exchange ruling at the balance sheet date. Exchange differences are dealt with as a movement in reserves.

(j) Revenue recognition

Revenue from the sale of goods is recognised on the transfer of risks and rewards of ownership, which generally coincides with the time when the goods are delivered to customers and the title has passed.

Mould income arising from the manufacturing of moulds for customers is recognised upon the completion of the production and delivery of moulds.

Interest income is recognised on a time proportion basis, taking into account the principal amounts outstanding and the interest rates applicable.

(k) Retirement benefit costs

The Group has two provident fund scheme arrangements: (a) defined contribution retirement scheme, as defined in the Occupational Retirement Schemes Ordinance (the "ORSO Scheme") and (b) mandatory provident fund scheme, as defined in the Mandatory Provident Fund Schemes Ordinance (the "MPF Scheme" and the "MPF Ordinance"). The assets of the two schemes are held separately from those of the Group in independently administered funds.

The Group's contributions to the ORSO Scheme are expensed as incurred and are reduced by contributions forfeited by those employees who leave the scheme prior to vesting fully in the contributions.

The Group's contributions to the MPF Scheme are expensed as incurred.



2. Revenues and turnover

The Group is principally engaged in the development, engineering, manufacture and sale of toys and moulds.

During the current year the Group acquired a subsidiary which is principally engaged in the manufacture and sale of moulds. Revenue from the manufacture and sale of moulds is included as part of the Group's turnover. In previous years net income arising from the manufacture and sale of moulds was reported as part of the Group's other revenues. The effect of this change in classification in respect of 2000 is that turnover and cost of sales have been increased by HK\$21,479,000 and HK\$15,628,000 respectively and other revenues have been reduced by HK\$5,851,000.

Revenues recognised during the year are as follows:

	2001 HK\$'000	2000 HK\$'000
Turnover		
Sale of goods	602,756	638,536
Mould income	44,084	21,479
	646,840	660,015
Other revenues		
Interest income	1,709	1,357
Others	1,876	-
	3,585	1,357
Total revenues	650,425	661,372

2. Revenues and turnover *(continued)*

An analysis of the Group's turnover and contribution to operating profit for the year by principal activity and market is as follows:

	Turnover		Operating profit	
	2001	2000	2001	2000
	HK\$'000	HK\$'000	HK\$'000	HK\$'000
Principal activities:				
Radio control toys	293,125	325,142	18,566	26,380
Electronic and plastic toys	238,217	155,673	19,468	8,865
Interactive products	52,474	104,502	2,327	8,019
Consumer and electronic products	18,941	53,219	2,500	4,387
Engineering and moulding	44,083	21,479	2,444	1,060
	646,840	660,015	45,305	48,711

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	Turnover	
	2001	2000
	HK\$'000	HK\$'000
Principal markets:		
United States of America	221,682	343,916
Europe	187,731	114,076
Japan	112,733	86,931
China	45,264	20,674
Others	79,430	94,418
	646,840	660,015

No analysis of contribution to operating profit by market has been prepared as no contribution to operating profit from any of the above markets is substantially out of line with the normal ratio of profit to turnover.



3. Operating profit

The operating profit is stated after crediting and charging the following:

	2001 HK\$'000	2000 HK\$'000
Crediting		
Net exchange gains	<u>3,481</u>	<u>1,256</u>
Charging		
Auditors' remuneration	737	703
Depreciation of owned fixed assets	39,385	32,938
Depreciation of fixed assets under finance leases	1,889	4,948
Staff costs (inclusive of directors' remuneration – Note 9)	78,793	82,556
Operating lease rentals in respect of land and buildings	<u>6,119</u>	<u>7,221</u>

4. Finance costs

	2001 HK\$'000	2000 HK\$'000
Interest on loans from banks and financial institutions and overdrafts	17,561	17,163
Interest elements of finance leases	522	606
Interest on other payables wholly repayable within five years	-	236
	<u>18,083</u>	<u>18,005</u>

5. Taxation

Hong Kong profits tax has been provided at the rate of 16% (2000: 16%) on the estimated assessable profit for the year. Taxation on profits of Mainland China subsidiaries has been calculated on the estimated assessable profit for the year at the rates of taxation as applicable to the local subsidiaries.

The amount of taxation charged to the consolidated profit and loss account represents:

	2001	2000
	HK\$'000	HK\$'000
Hong Kong profits tax		
– current	1,461	2,028
– overprovision in prior years	–	(326)
– deferred taxation (Note 21(c))	361	749
Mainland China income tax	2,535	1,639
	4,357	4,090

6. Profit attributable to shareholders

The profit attributable to shareholders is dealt with in the accounts of the Company to the extent of HK\$5,687,000 (2000 HK\$8,645,000), including dividend from a subsidiary of HK\$5,000,000 (2000: HK\$6,000,000).

7. Dividends

	2001	2000
	HK\$'000	HK\$'000
Preference shares, paid on 16 October 2000, of HK\$17,463 (2000: HK\$6,925) per share	698	277
Preference shares, paid after the balance sheet date on 10 April 2001, of HK\$17,367 (2000: HK\$17,400) per share	695	696
Interim, paid on 12 January 2001, of HK0.5 cent (2000: HK0.5 cent) per ordinary share	2,069	2,069
Final, proposed, of HK0.25 cent (2000: HK0.5 cent) per ordinary share	1,035	2,069
	4,497	5,111



8. Earnings per share

The calculation of basic earnings per share is based on the Group's profit attributable to shareholders of HK\$22,865,000 (2000: HK\$26,616,000) less dividends related to preference shares of HK\$1,393,000 (2000: HK\$973,000). The calculation of diluted earnings per share is based on the Group's profit attributable to shareholders of HK\$22,865,000 (2000: HK\$26,616,000).

The basic earnings per share is based on the weighted average number of 413,800,000 (2000: 403,984,000) ordinary shares in issue during the year. The diluted earnings per share is based on 413,800,000 (2000: 403,984,000) ordinary shares which is the weighted average number of ordinary shares in issue during the year plus (a) the weighted average number of 68,800,000 (2000: 47,500,000) ordinary shares deemed to be issued at a consideration of HK\$0.45 per ordinary share assuming all outstanding preference shares had been converted, and (b) the weighted average number of 802,000 (2000: nil) ordinary shares deemed to be issued at no consideration if all outstanding share options have been exercised. In 2000 the outstanding share options were not included in the calculation of the diluted earnings per share as the exercise of these share options at the time would have an anti-dilutive effect.

9. Directors' and senior management's emoluments

(a) Directors' emoluments

The aggregate amounts of emoluments payable to the Directors of the Company during the year are as follows:

	2001 HK\$'000	2000 HK\$'000
Fees	240	300
Other emoluments:		
Basic salaries, housing allowances, other allowances and benefits in kind	5,270	5,386
Discretionary bonuses	610	610
Provident fund scheme contributions for Directors	46	30
	<u>6,166</u>	<u>6,326</u>

Directors' fees disclosed above include HK\$180,000 (2000: HK\$240,000) payable to the Independent Non-executive Directors.

9. Directors' and senior management's emoluments (continued)

(a) Directors' emoluments (continued)

No Directors have waived their emoluments in respect of the years ended 31 March 2001 and 2000.

During the year none of the Directors of the Company was granted, under the share option scheme (the "Share Option Scheme") approved by the shareholders of the Company on 8 September 1997, options (the "Share Options") to subscribe for ordinary shares in the Company. In year 2000 the Company granted Share Options to all Executive Directors to acquire in aggregate 10,000,000 ordinary shares in the Company at an exercise price of HK\$0.675 per ordinary share. The Share Options are exercisable at any time during the period from 1 October 2000 to 30 September 2005, whilst a maximum of 20% of the Share Options granted can be exercised annually.

During the years ended 31 March 2001 and 2000 no Share Options had been exercised by the Directors.

The emoluments of the Directors fell within the bands as set out below. The emoluments represent the amount paid to or receivable by the Directors of the Company in the respective financial years and do not include the benefits derived or to be derived from the Share Options granted under the Share Option Scheme.

	2001	2000
Nil – HK\$1,000,000	7	9
HK\$1,000,001 – HK\$1,500,000	-	-
HK\$2,000,001 – HK\$2,500,000	2	2
	9	11



9. Directors' and senior management's emoluments
(continued)

(b) Five highest paid individuals

The five individuals whose emoluments were the highest in the Group for the year include three (2000: three) Directors whose emoluments are disclosed in the analysis presented above. The emoluments payable to the remaining two (2000: two) individuals during the year are as follows:

	2001	2000
	HK\$'000	HK\$'000
Basic salaries, housing allowances, other allowances and benefits in kind	1,313	1,272
Discretionary bonuses	210	212
Provident fund scheme contributions	63	64
	1,586	1,548

During the year none of the two individuals was granted Share Options to acquire ordinary shares in the Company. In year 2000 the Company granted Share Options to the then two highest paid individuals, who were not Directors, to acquire in aggregate 1,000,000 ordinary shares in the Company at an exercise price of HK\$0.675 per ordinary share. The Share Options are exercisable at any time during the period from 1 October 2000 to 30 September 2005, whilst a maximum of 20% of the Share Options granted can be exercised annually.

During the years ended 31 March 2001 and 2000 no options had been exercised by the afore-mentioned two highest paid individuals.

The emoluments of the afore-mentioned two (2000: two) highest paid individuals fell within the band of Nil to HK\$1,000,000 for both years. The emoluments represent the amount paid to or receivable by the individuals in the respective financial years and do not include the benefits derived or to be derived from the Share Options granted under the Share Option Scheme.

10. Provident fund scheme arrangements

The Group has two provident fund scheme arrangements: (a) the ORSO Scheme and (b) the MPF Scheme.

The ORSO Scheme has been granted an exemption from registration for MPF purposes. Under the ORSO Scheme, contributions of both the employers and employees are calculated at 5% of the monthly salary of the employees. The employees are entitled to all the employers' contributions after 10 years of completed service, or at a reduced scale after completion of 3 to 9 years' service. The forfeited contributions are to be used to reduce the employers' contributions. At 31 March 2001 and 2000 no forfeited contributions is available to offset future employers' contributions to the ORSO Scheme. The unvested benefits so utilised under the ORSO Scheme during the year ended 31 March 2001 was HK\$345,000 (2000: \$351,000).

Under the MPF Scheme, contributions amounting to 5% of the employee's relevant income, as defined in the MPF Ordinance, up to a maximum of HK\$1,000 are respectively made by the Group and the employee. The contributions are fully and immediately vested in the employee as accrued benefits once they are paid to the approved trustee of the MPF Scheme.

The total amount of retirement benefit costs charged to the Group's profit and loss account for the year ended 31 March 2001 was HK\$420,000 (2000: HK\$458,000).



11. Fixed assets – Group

	Leasehold land and buildings	Leasehold improvements	Plant and machinery	Furniture, fixtures and equipment	Motor vehicles	Moulds	Total
	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000
Cost or valuation							
At 1 April 2000	90,075	70,769	115,850	17,675	5,063	70,857	370,289
Additions, at cost	30,440	3,772	7,871	1,225	469	-	43,777
Acquisition of a subsidiary	-	492	14,133	408	-	-	15,033
Disposals	-	(492)	(1,389)	(353)	(548)	(437)	(3,219)
Exchange adjustment	(994)	-	(1,141)	(75)	(26)	-	(2,236)
Adjustment on revaluation	(2,582)	-	-	-	-	-	(2,582)
	<u>116,939</u>	<u>74,541</u>	<u>135,324</u>	<u>18,880</u>	<u>4,958</u>	<u>70,420</u>	<u>421,062</u>
At 31 March 2001	116,939	74,541	135,324	18,880	4,958	70,420	421,062
At cost	30,039	74,541	135,324	18,880	4,958	70,420	334,162
At 2001 professional valuation	86,900	-	-	-	-	-	86,900
	<u>116,939</u>	<u>74,541</u>	<u>135,324</u>	<u>18,880</u>	<u>4,958</u>	<u>70,420</u>	<u>421,062</u>
Accumulated depreciation							
At 1 April 2000	8,707	9,370	71,624	11,629	4,152	17,441	122,923
Charge for the year	1,802	3,588	18,996	2,213	427	14,248	41,274
Acquisition of a subsidiary	-	123	2,930	179	-	-	3,232
Disposals	-	(123)	(1,389)	(339)	(548)	(437)	(2,836)
Exchange adjustment	(154)	-	(151)	(72)	(20)	-	(397)
Adjustment on revaluation	(10,355)	-	-	-	-	-	(10,355)
	<u>-</u>	<u>12,958</u>	<u>92,010</u>	<u>13,610</u>	<u>4,011</u>	<u>31,252</u>	<u>153,841</u>
At 31 March 2001	-	12,958	92,010	13,610	4,011	31,252	153,841
Net book value							
At 31 March 2001	<u>116,939</u>	<u>61,583</u>	<u>43,314</u>	<u>5,270</u>	<u>947</u>	<u>39,168</u>	<u>267,221</u>
At 31 March 2000	<u>81,368</u>	<u>61,399</u>	<u>44,226</u>	<u>6,046</u>	<u>911</u>	<u>53,416</u>	<u>247,366</u>

11. Fixed assets – Group (continued)

The Group's interests in leasehold land and buildings at their net book values are as follows:

	Group	
	2001	2000
	HK\$'000	HK\$'000
(a) In Hong Kong, held on leases of between 10 and 50 years	25,623	26,216
(b) Outside Hong Kong, held on leases of between 10 and 50 years	91,316	55,152
	116,939	81,368

Included in the leasehold land and buildings at 31 March 2001 are certain factory premises acquired in March 2001 and a residential property, which was acquired as quarters for business use during the year and had not been put to use at the balance sheet date. The Group is in the process of obtaining the relevant real estate title certificates and land use right certificates for these properties and expects that these will be forthcoming within a period of two years from the balance sheet date, and has included these properties in the above table under item (b). At 31 March 2001, these properties were stated at cost. The other leasehold land and buildings were respectively revalued at 31 March 2001 by RHL Appraisal Ltd. and Satyatama Graha Tara, independent firms of professional valuers, on the basis of their open market value in existing use.

With respect to the other leasehold land and buildings that were revalued at 31 March 2001, their carrying amount would have been HK\$79,096,000 (2000: HK\$81,348,000) had they been stated at cost less accumulated depreciation.

At 31 March 2001, the net book value of fixed assets held by the Group under finance leases amounted to HK\$6,403,000 (2000: HK\$9,823,000).

At 31 March 2001, certain leasehold land and buildings and plant and machinery of the Group with an aggregate carrying value of HK\$72,900,000 (2000: HK\$61,124,000) and HK\$10,662,000 (2000: Nil) respectively were pledged to certain banks to secure general banking facilities granted to the Group (Note 24).



12. Investments in subsidiaries

	Company	
	2001	2000
	HK\$'000	HK\$'000
Unlisted investments, at cost	115,801	115,801
Due from a subsidiary (note (a))	135,288	133,477
	<u>251,089</u>	<u>249,278</u>

- (a) The amount due from a subsidiary is unsecured, interest-free and will not be demanded for repayment within the next twelve months from 31 March 2001.

12. Investments in subsidiaries *(continued)*

(b) Details of the subsidiaries of the Company as at 31 March 2001 are as follows:

Name of company	Country/place of incorporation/operations	Particulars of issued share capital/registered capital	Effective percentage holding	Nature of business
Shares held directly:				
Lung Cheong (BVI) Holdings Limited	British Virgin Islands	Ordinary US\$130,660	100	Investment holding
Shares held indirectly:				
Dongguan Lung Cheong Plastic Products Co., Ltd.	Mainland China	HK\$6,500,000	100	Manufacture and trading of toys
Dongguan Lung Cheong Toys Co., Ltd.	Mainland China	HK\$124,030,000	100	Manufacture of toys
Dongguan Standard Tooling and Products Co., Ltd.	Mainland China	HK\$7,700,000	100	Manufacture of moulds
LC Technology Limited *	Hong Kong	Ordinary HK\$10,000	100	Trading of consumer electronics and interactive products
Lung Cheong Group Limited *	Hong Kong	Deferred HK\$10,000 Ordinary HK\$2	100	Trading of toys
Lung Cheong Resources Limited	Hong Kong	Ordinary HK\$10,000	100	Manufacture of toys
Lung Cheong Overseas Corporation	British Virgin Islands	Ordinary US\$50,000	100	Trading of toys
Lung Cheong Toys Limited	Hong Kong	Deferred HK\$1,000,000 Ordinary HK\$2	100	Trading of toys
PT. Lung Cheong Brothers Industrial *	Republic of Indonesia	Rupiah 5,728,000,000	60	Manufacture and sale of electronic products and toys
Standard Tooling and Products Co. Limited *	Hong Kong	Ordinary HK\$3,000,000	100	Engineering services and mould trading

* Subsidiaries not audited by PricewaterhouseCoopers. The aggregate net assets of subsidiaries not audited by PricewaterhouseCoopers amounted to approximately 17.1% of the Group's net assets.



13. Other investments

Other investments represent club memberships. In previous years certain club memberships were included as part of the Group's other receivables, deposits and prepayments. These other club memberships are now reclassified and included as part of other investments. Comparative figures have been adjusted accordingly.

14. Inventories

	Group	
	2001	2000
	HK\$'000	HK\$'000
At cost		
Raw materials	77,453	79,025
Work-in-progress	39,610	21,771
Finished goods	29,515	26,882
	146,578	127,678

15. Trade receivables

At 31 March 2001, the ageing analysis of the trade receivables was as follows:

	Group	
	2001	2000
	HK\$'000	HK\$'000
Current	42,447	35,552
31 – 60 days	23,851	6,765
61 – 90 days	3,864	2,832
Over 90 days	11,107	4,043
	81,269	49,192

The Group's sales are on letter of credit or open account terms, of which the settlement is generally expected to be within 30 to 90 days of the date of sale.

16. Other receivables, deposits and prepayments

Included in the Group's other receivables, deposits and prepayments at 31 March 2001 is an advance of approximately of HK\$9,346,000 to a third party entity. The advance is unsecured and interest bearing at the rate of 6.35% per annum. Subsequent to the balance sheet date, the amount of the advance together with the accrued interest has been settled in full to the Group.

17. Trade payables and deposits received

	Group	
	2001	2000
	HK\$'000	HK\$'000
Trade payables (Note)	45,610	45,814
Deposits received	1,891	50
	<u>47,501</u>	<u>45,864</u>

Note: At 31 March 2001, the ageing analysis of the trade payables was as follows:

	Group	
	2001	2000
	HK\$'000	HK\$'000
Current	20,000	36,633
31 – 60 days	11,647	6,175
61 – 90 days	5,111	1,565
Over 90 days	8,852	1,441
	<u>45,610</u>	<u>45,814</u>



18. Share capital

	Authorised			
	4.5% convertible cumulative redeemable preference shares of US\$100,000 each		Ordinary shares of HK\$0.10 each	
	No. of shares	US\$'000	No. of shares (thousands)	HK\$'000
At 31 March 1999	-	-	1,000,000	100,000
Increase in authorised preference share capital	40	4,000	-	-
At 31 March 2000 and 2001	<u>40</u>	<u>4,000</u>	<u>1,000,000</u>	<u>100,000</u>

	Issued and fully paid			
	4.5% convertible cumulative redeemable preference shares of US\$100,000 each		Ordinary shares of HK\$0.10 each	
	No. of shares	HK\$'000 (equivalent)	No. of shares (thousands)	HK\$'000
At 31 March 1999	-	-	380,000	38,000
Issue of shares	40	30,960	33,800	3,380
At 31 March 2000 and 2001	<u>40</u>	<u>30,960</u>	<u>413,800</u>	<u>41,380</u>

There are no movements in the authorised, issued and fully paid share capital of the Company during the year. Details of the movements in share capital in 2000 are as follows:

Pursuant to the ordinary and special resolutions passed at an Extraordinary General Meeting of the shareholders of the Company held on 16 July 1999:

18. Share capital (continued)

- (i) Lung Cheong Investment Limited ("LC Investment"), the immediate holding company of the Company, placed an aggregate of 11,000,000 existing shares in the Company to two independent third parties at a price of HK\$0.45 per share. Following completion of the afore-mentioned placing, LC Investment subscribed for 33,800,000 new shares in the Company also at a price of HK\$0.45 per share. The new shares rank *pari passu* in all respects with the then issued shares of the Company. The share price of the Company was HK\$0.5 as at that date;
- (ii) The authorised share capital of the Company was increased from HK\$100,000,000 divided into 1,000,000,000 shares of HK\$0.10 each (the "Shares") to HK\$100,000,000 divided into 1,000,000,000 Shares and US\$4,000,000 divided into 40 shares of US\$100,000 each by the creation of 40 shares of US\$100,000 each;
- (iii) The Shares were redesignated as ordinary shares of the Company (the "Ordinary Shares") while the 40 shares of US\$100,000 each were redesignated as 40 convertible cumulative redeemable non-voting preference shares of US\$100,000 each (the "Preference Shares") of the Company;
- (iv) On 21 July 1999, the Preference Shares were issued at par for cash to a wholly-owned subsidiary of Citicorp Everbright China Fund Limited, which indirectly held 7.5% of the Company's share capital as at that date. The Preference Shares carry the same rights, other than the voting rights, as those of the Ordinary Shares and the additional rights which are generally summarised as follows:
 - (a) the Company will be entitled to convert all the outstanding Preference Shares into Ordinary Shares at a price of HK\$0.45 per Ordinary Share (the "Conversion Price") if during the period from 21 July 2000 to 20 July 2002 (the "Maturity Date") the weighted average of the daily weighted average traded price (excluding crossed-trades) of one Ordinary Share for any period of thirty consecutive dealing days is equal to or higher than HK\$0.675. The holder of the Preference Shares may require the Company to convert all or any parts of its Preference Shares into Ordinary Shares at the Conversion Price at any time during the period from 21 July 2000 to the Maturity Date;



18. Share capital (continued)

- (b) the holders of Preference Shares are entitled to a fixed cumulative cash dividend in priority to holders of Ordinary Shares at the rate of 4.5% per annum on par value of each Preference Share or dividend yield calculated based on the dividend entitled by each Ordinary Share divided by the Conversion Price, whichever is the higher, payable half yearly;
- (c) on a return of capital on a winding-up or otherwise of the Company, Preference Shares will rank in priority to any other class of shares in the capital of the Company and the assets of the Company available for distribution to its members will be applied first towards arrears or accruals of the fixed and additional dividends, if any, accruing on the Preference Shares before repaying the capital paid up on each Preference Share; and
- (d) unless previously converted or redeemed, on Maturity Date, all outstanding Preference Shares will be redeemed by the Company at the aggregate par value of such Preference Shares, the fixed dividend and, if any, the additional dividend accrued thereon which have not been paid, together with a premium at a rate of 15% per annum thereon compounded on an annual basis for the period from 21 July 1999 to the Maturity Date.

Further details of the rights of the Preference Shares have been set out in the Company's circular to the shareholders dated 22 June 1999.

The net proceeds of HK\$45,234,000 from the issue of shares have been utilised to pursue the Group's expansion in the original design manufacturing business and as general working capital purposes.

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 holder of Preference Shares in the Company is 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 holder 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.

19. Share options

Under the Share Option Scheme approved by the shareholders of the Company on 8 September 1997, the Directors may, at their discretion, invite employees of the Group including any Executive Directors to take up options to subscribe for shares of HK\$0.1 each in the Company subject to the terms and conditions stipulated therein.

On 14 March 2000, the Company granted 13,500,000 Share Options to various executives. The holders of the Share Options are entitled to subscribe for ordinary shares of HK\$0.1 each in the Company at an exercise price of HK\$0.675 per ordinary share. The Share Options are exercisable at any time during the period from 1 October 2000 to 30 September 2005, whilst a maximum of 20% of the Share Options granted can be exercised annually.

During the year ended 31 March 2001 and 2000, none of the Share Options granted had been exercised. As at 31 March 2001 and 2000, all the 13,500,000 Share Options remained outstanding. Subsequent to the balance sheet date, 1,000,000 Share Options were cancelled upon the holders leaving the Group.



20. Reserves

	Group		Company	
	2001 HK\$'000	2000 HK\$'000	2001 HK\$'000	2000 HK\$'000
Share premium				
At 1 April	88,595	77,701	175,896	165,002
Surplus arising on issue of shares	-	10,894	-	10,894
At 31 March	88,595	88,595	175,896	175,896
Property revaluation reserve				
At 1 April	5,861	5,861	-	-
Surplus on revaluation	11,407	-	-	-
At 31 March	17,268	5,861	-	-
Exchange fluctuation reserve				
At 1 April	(46,045)	(47,886)	-	-
Exchange differences	(3,088)	1,841	-	-
At 31 March	(49,133)	(46,045)	-	-
Retained profits				
At 1 April	148,293	127,192	5,425	1,891
Profit for the year	22,865	26,616	5,687	8,645
Transfer to capital reserve	(1,520)	(404)	-	-
Dividends	(4,497)	(5,111)	(4,497)	(5,111)
Goodwill written off	(14,890)	-	-	-
At 31 March	150,251	148,293	6,615	5,425
Capital reserve (note (b))				
At 1 April	20,618	20,214	-	-
Transfer from retained profits	1,520	404	-	-
At 31 March	22,138	20,618	-	-
	229,119	217,322	182,511	181,321

20. Reserves (continued)

- (a) 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.
- (b) The capital reserve represents transfers made to the statutory reserve fund set up by subsidiaries, which are wholly foreign-owned investment enterprises in Mainland China, pursuant to the local regulations. According to the regulations, the reserve fund may be used for making up losses, if any, and increasing capital.

21. Long-term liabilities

	Group	
	2001	2000
	HK\$'000	HK\$'000
Loans from banks and financial institutions – secured (note (a))		
Wholly repayable within five years	52,935	38,624
Not wholly repayable within five years	11,053	6,353
	63,988	44,977
Obligations under finance leases wholly repayable within five years (note (b))	4,495	7,585
Deferred taxation (note (c))	1,578	1,217
	70,061	53,779
Current portion included in current liabilities	(44,950)	(37,091)
	25,111	16,688



21. Long-term liabilities (continued)

- (a) At 31 March 2001, the loans from banks and financial institutions were repayable as follows:

	Group	
	2001	2000
	HK\$'000	HK\$'000
Within one year	42,116	33,935
In the second year	7,654	987
In the third to fifth years inclusive	9,488	3,702
More than five years	4,730	6,353
	63,988	44,977

- (b) At 31 March 2001, the obligations under finance leases were repayable as follows:

	Group	
	2001	2000
	HK\$'000	HK\$'000
Within one year	2,834	3,156
In the second year	1,661	2,768
In the third to fifth years inclusive	-	1,661
	4,495	7,585

21. Long-term liabilities (continued)

(c) Deferred taxation

	Group	
	2001	2000
	HK\$'000	HK\$'000
At 1 April	1,217	468
Transfer from profit and loss account (note 5)	361	749
	<hr/>	<hr/>
At 31 March	1,578	1,217
	<hr/> <hr/>	<hr/> <hr/>
Provided in respect of:		
Accelerated depreciation allowances	1,578	1,217
	<hr/> <hr/>	<hr/> <hr/>

There was no material unprovided deferred taxation at 31 March 2001 and 2000.

No provision has been made for deferred tax liability in respect of timing differences relating to the surplus from the revaluation of certain leasehold land and buildings of the Group. The revaluation does not constitute a timing difference for taxation purposes because management of the Group intends to operate these properties on a long-term basis.



22. Note to the consolidated cash flow statement

(a) Reconciliation of profit before taxation to net cash inflow from operating activities

	Group	
	2001	2000
	HK\$'000	HK\$'000
Profit before taxation	27,222	30,706
(Gain)/loss on disposal of fixed assets	(4)	18
Depreciation of owned fixed assets	39,385	32,938
Depreciation of fixed assets held under finance leases	1,889	4,948
Revaluation deficit on leasehold land and buildings not covered by previous surplus	3,634	–
Increase in inventories	(17,834)	(16,155)
(Increase)/decrease in trade receivables	(30,382)	9,497
Decrease/(increase) in other receivables, deposits and prepayments	2,950	(6,278)
Increase in trade payables and deposits received	1,637	9,825
Increase in other payables and accrued charges	15,402	2,617
Interest income	(1,709)	(1,357)
Interest expense	17,561	17,399
Interest element of finance leases	522	606
	<hr/>	<hr/>
Net cash inflow from operating activities	<u>60,273</u>	<u>84,764</u>

22. Note to the consolidated cash flow statement (continued)

(b) Purchase of a subsidiary

	Group 2001 HK\$'000
Net assets acquired	
Fixed assets	11,801
Inventories	1,066
Trade receivables	1,695
Other receivables, deposits and prepayments	549
Bank balances and cash	19
Other payables and accrued charges	(8,930)
Taxation	(540)
	5,660
Goodwill	14,890
	20,550
Satisfied by	
Cash	20,550

(c) Analysis of the net outflow in respect of the purchase of a subsidiary:

	Group 2001 HK\$'000
Cash consideration	20,550
Bank balances and cash in hand acquired	(19)
	20,531



22. Note to the consolidated cash flow statement
(continued)

(d) Analysis of changes in financing during the year – Group

	Loans from banks and financial institutions		Obligations under finance leases		Share capital (including share premium)	
	2001	2000	2001	2000	2001	2000
	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000
At 1 April	44,977	20,966	7,585	5,697	160,935	115,701
Issue of shares for cash	-	-	-	-	-	46,170
Issuing expenses	-	-	-	-	-	(936)
New bank loans raised	59,907	31,181	-	-	-	-
Repayment of loans borrowed from banks and financial institutions	(40,896)	(7,170)	-	-	-	-
Inception of finance leases	-	-	-	8,445	-	-
Payment of capital element of finance leases	-	-	(3,090)	(6,557)	-	-
Effect of foreign exchange rate changes	-	-	-	-	-	-
At 31 March	<u>63,988</u>	<u>44,977</u>	<u>4,495</u>	<u>7,585</u>	<u>160,935</u>	<u>160,935</u>

22. Note to the consolidated cash flow statement (continued)

(e) Analysis of cash and cash equivalents

	Group	
	2001	2000
	HK\$'000	HK\$'000
Pledged bank deposits	15,000	12,000
Bank balances and cash	59,749	40,748
Trust receipt loans	(137,676)	(100,250)
Less: Deposits with maturity more than three months from date of deposits	(3,096)	—
	(66,023)	(47,502)

Included in bank balances and cash of the Group as at 31 March 2001 were HK\$35,064,000 (2000:HK\$8,654,000) which were denominated in Renminbi.

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23. Contingent liabilities

At 31 March 2001, the Group had contingent liabilities not provided for in the accounts as follows:

	Group		Company	
	2001	2000	2001	2000
	HK\$'000	HK\$'000	HK\$'000	HK\$'000
Issued letters of credit	22,101	18,679	—	—
Factored trade receivables	1,576	3,689	—	—
Shipping guarantees	1,432	—	—	—
Bills discounted	1,990	—	—	—
Guarantees to banks for banking facilities granted to certain subsidiaries	—	—	391,320	115,729
	27,099	22,368	391,320	115,729

The Company did not have any significant contingent liabilities at 31 March 2001 and 2000.



24. Banking and other facilities

At 31 March 2001, the total amount of the Group's banking and other facilities utilised amounted to approximately HK\$182,901,000 (2000: HK\$145,227,000). The facilities are secured by:

- (a) certain leasehold land and buildings and plant and machinery (Note 11);
- (b) fixed deposits of HK\$15,000,000 (2000: HK\$12,000,000) of certain subsidiaries; and
- (c) corporate guarantees executed by the Company.

Subsequent to the balance sheet date, the creditor banks have agreed to release items (a) and (b) as collaterals for the banking and other facilities.

25. Commitments

At 31 March 2001, the Group had commitments under operating leases to make payments in the next year in respect of land and buildings as follows:

	Group	
	2001	2000
	HK\$'000	HK\$'000
Operating leases which expire:		
– within one year	332	1,881
– in the second to fifth years inclusive	1,729	248
– after five years	–	4,412
	2,061	6,541

The Company did not have any significant commitments at 31 March 2001 and 2000.

26. Subsequent events

Saved as disclosed elsewhere in these accounts, subsequent to the balance sheet date, the Company entered into a transferable term loan agreement under which an unsecured banking facility in an aggregate amount of HK\$150,000,000, bearing interest at floating rate, was granted to the Company by a group of banks. The full amount of the loan had been drawn down before the date of approval of these accounts.



27. Ultimate holding company

The Directors regard Rare Diamond Limited, a company incorporated in the British Virgin Islands, as being the ultimate holding company.

28. Approval of accounts

The accounts were approved by the Board of Directors on 17 July 2001.