

# INTERIM REPORT

2001/2002



**LUNG CHEONG INTERNATIONAL HOLDINGS LIMITED**

(Incorporated in the Cayman Islands with limited liability)

The board of directors (the "Directors") of Lung Cheong International Holdings Limited (the "Company") and its subsidiaries (the "Group") is pleased to present the Group's interim results and condensed financial statements for the six months ended 30th September, 2001. The consolidated results, consolidated cash flow statement and consolidated statement of recognised gains and losses of the Group for the six months ended 30th September, 2001, and the consolidated balance sheet as at 30th September, 2001 of the Group, all of which are unaudited and condensed, along with selected explanatory notes, are set out below:

The unaudited Interim Report has been reviewed by the audit committee.

### **INTERIM DIVIDEND**

The Directors have resolved to declare an interim dividend of HK0.25 cent (2000: HK0.5 cent) per share in respect of the six months ended 30th September, 2001 to shareholders whose names appear on the Register of Members of the Company at the close of business on 21st December, 2001. The interim dividend will be paid on or before 4th January, 2002.

### **CLOSURE OF REGISTER OF MEMBERS**

The Register of Members of the Company will be closed from 24th December, 2001 to 28th December, 2001 both days inclusive, during which period no transfer of shares will be effected. In order to qualify for the interim dividend, all transfer of shares, accompanied by the relevant share certificates, must be lodged with the Hong Kong branch of the Company's share registrars, Abacus Share Registrars Limited at 5/F, Wing On Centre, 111 Connaught Road, Central, Hong Kong by no later than 4:00 p.m. on 21st December, 2001.

### **BUSINESS REVIEW**

For the six months ended September 30, 2001, the Group's turnover amounted to HK\$341.1 million against HK\$338.1 million in the previous corresponding period. Profit attributable to shareholders was HK\$20.5 million recording a 1.9% increase, compared to previous corresponding period's HK\$20.2 million. Basic earnings per share were 4.79 cents, rising by 1.9% compared to 4.70 cents in the same period last year.

During the period under review, the Group has continued to maximize efforts to enhance the development of its OEM and ODM businesses and maintain close relationships with its major customers. As a result, stable income has been generated despite unfavourable economic conditions in the U.S.. The slight increment in turnover was mainly due to the cautious ordering strategies adopted by customers. Commitment to develop innovative toys and expansion of the Mainland market also contributed to the half-year result.

The Group's ODM business has been operating satisfactorily since its acquisition of Standard Tooling and Products Co. Limited ("STP") last year. With STP's creative design, research and development "R&D" and tooling capabilities, a number of new products, including radio control bicycle, boats, cars and planes have been developed and launched with overwhelming response. In addition, STP continued to cooperate with inventors in the U.S., Europe and Japan. The close relationship with foreign inventors has proven to be a success for the Group with increasing overseas customers for such kind of innovative products.



Radio control and wireless toys continued to be the major contributor to the Group's turnover. Innovative ODM radio control toys have been developed and received strong response. The Group's ongoing commitment to expanding STP's facilities which has been greatly reinforced by its enhanced engineering capability. This is demonstrated by its contribution to an award winning product – radio control "Tony Hawk Skateboard" which recently took the top honours in the reputable FamilyFun Magazine's annual "Toy of the Year" competition. In addition, the Group successfully produced a new series of hobby-grade transmitters for top-notch radio control hobby company.

The sale of licensed products went well beyond expectations in the toy segment. The first Japanese licensed transforming figures "Hikarian" continued to sell well, supported by the cross-country TV broadcasts of the "Hikarian" cartoon series on the Mainland. In view of the success of "Hikarian", another transforming figure "Mado King Granzort" was launched in the Mainland market in May this year. Coinciding with its cartoon broadcasts on TV in China's major cities, such as Guangzhou, Nanjing, Beijing, Shanghai and Wuhan, the sale of the "Mado King Granzort" products have been greatly boosted with nearly half a million "Mado King Granzort" figures sold since launch.

The sale of the Group's ODM digital cameras recorded steady growth. Faced with intensifying competition, and with over 2 years of experience and technology on developing digital cameras, new models were developed and exported to Europe and Japan, and were successfully introduced into the U.S. market with positive response. To tap the tremendous demand, the Group is committed to designing and producing more refined models.

The Group has been exploring various channels to enhance the promotion of its corporate brand and licensed products in the Mainland market. In July 2001, the Group opened its first specialty retail outlet in Guangzhou and has received warm response.

## PROSPECTS

Based on its successful experiences in the ODM business and licensed products, the Group will continue to strengthen its capabilities in R&D and look for licensed products with great potential.

The success of the ODM business is supported by STP's capabilities in R&D as well as its sophisticated wireless knowhow. The Group is thus committed to strengthening its development capabilities and leveraging its wireless technologies to launch more innovative and marketable products.

To cope with future business development, the Group was granted a three-year HK\$150 million transferable loan in June this year. Part of the proceeds were used to lower short-term borrowings. The Group is actively looking for suitable alliances and potential investments that will bring synergistic benefits to the Group.

The terrorist attacks of September 11 in the U.S. have not posed any immediate adverse effects on orders to date. However, the Group believes that Christmas will be a major indicator for coming market sentiment. Regardless of the global economic downturn and the September 11 attacks, the Group has taken unprecedented action and prudent control measures to optimize efficiency. The centralization of operations in Fucheng and Guancheng in Dongguan is expected to be completed by the end of December, lowering the production costs and enhancing its competitive edge.

Many of the Group's products have received unexpected encouraging response. Moreover, the Group's U.S.-based customers have intensified the promotions of their products through advertising as spending on toys is expected to heighten with more Americans remaining at home in the forthcoming Christmas and New Year period. In view of the close relationships with major U.S. customers, the Group is confident that STP can expand its product range to satisfy different customers' needs, opening up more new income streams. In fact, the Group expects to be comparatively less affected as it has achieved growing performance in other markets, Mainland China in particular. It will increase resources into developing this market.

China's accession to the World Trade Organization will provide emerging opportunities for business growth on the Mainland. The Group is optimistic of its market development and will focus its efforts and resources to expand the Mainland market. It is aiming to achieve better penetration for its products in the Mainland through actively establishing different sales channels such as the specialty retail outlets. The Group is confident that China market will play an increasingly important part in the Group's turnover for the remaining part of the year. The sale of "Hikarian" and "Mado King Granzort" products are also expected to increase during the forthcoming festive seasons.

The continuing success of these new licensed products is encouraging the Group to place a greater focus on this segment. The Group will design and develop more products, such as train-related toys. To accelerate the market penetration in the PRC, the Group will continue to strengthen and improve the management of retail outlets to enhance cost effectiveness. More specialty retail outlets will be launched in shopping malls, with high pedestrian traffic, in major cities such as Shanghai and Beijing. A number of potential licensed products are under negotiation in order to sustain the growth of the Mainland sector.

Overall, with sufficient funding on hand, the Group will continue to pursue its business strategies to expand its market reach for existing and emerging products. The Group is committed to strengthening the capability of STP and looking for more licensed products. The Group will also maintain close relationships with its existing major customers and look for suitable strategic partners. The sluggish market condition provides tremendous opportunities to negotiate with potential partners. Additionally, the Group will keep abreast of market conditions in the development of its existing businesses with the ultimate goal of maximizing benefits for the Group and its shareholders.

#### **LIQUIDITY AND CAPITAL RESOURCES**

As at 30th September, 2001, net current assets of the Group was approximately HK\$241 million (31st March, 2001: HK\$59 million). On 26th June, 2001, the Group entered into a transferable term loan agreement whereby an aggregate amount of HK\$150 million was granted to the Group by a group of banks. The long-term liabilities to shareholders' funds ratio was 52.6% (31st March, 2001: 8.3%). The current assets comprised inventories of approximately HK\$166 million and trade receivables of HK\$125 million, and bank balances and cash of approximately HK\$66 million. The balances of the inventories and trade receivables as at that date are in line with the seasonal factor of the Group's business operations. As at the same date, the Group had total assets of HK\$674 million which were financed by current liabilities of approximately 180 million, long-term liabilities of approximately HK\$171 million and shareholders' funds of HK\$323 million.

## EMPLOYEE SCHEMES

As at 30th September, 2001, the Group had 6,449 employees. 76, 6,077 and 296 employees were based in Hong Kong, Dongguan factories and Indonesia factory respectively. The number of workers employed by the Group varies from time to time depending on production needs and are remunerated based on industry practice.

The Group operates different remuneration schemes for different employees. Apart from pension funds and year-end bonuses, in-house training programmes are offered. Details of share option schemes were disclosed in the 2000/2001 annual report.

## 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 period.

## PARTICULARS OF SHARES HELD BY DIRECTORS, CHIEF EXECUTIVES AND ASSOCIATES

As at 30th September, 2001, the Directors, Chief Executives and their Associates had the following interests in the share capital of the Company 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 of Securities Transactions by Directors of Listed Companies (the "Model Code") or as recorded in the register maintained pursuant to Section 29 to the SDI Ordinance.

Name	Type of interest	Number of ordinary shares
Mr. LEUNG Lun	Corporate	279,300,000
Mr. LEUNG Chung Ming	Other	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 or 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 Liquidity and Capital Resources) 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 8th 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 share of HK\$0.1 each in the Company subject to the terms and conditions stipulated therein.

On 14th March, 2000, the Company granted Share Options to the following Directors to acquire ordinary shares of HK\$0.1 each 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 1st October, 2000 to 30th September, 2005, whilst 20% of the options granted can be exercised annually. As at 30th September, 2001 none of the share options granted had been exercised.

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 or their Associates to acquire benefits by means of the acquire benefits by means of the acquisition of shares in, or debentures of, the Company or any other body corporate.

## SUBSTANTIAL SHAREHOLDERS

At 30th September, 2001 the register of substantial shareholders maintained under Section 16(1) of the SDI Ordinance show that the Company had not been notified of any substantial shareholders' interest, 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.

## AUDIT COMMITTEE

Pursuant to the Listing Rules, an audit committee, comprising three Non-executive Directors, namely Mr. YE Tian Liu, Mr. Wong Lam, O.B.E., J.P., The Hon, LAU Wong Fat, G.B.S., J.P., was established on 14th 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 THE BEST PRACTICE OF THE LISTING RULES**

The Code of Best Practice has been complied with by the Company during the six months ended 30th September, 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.

**CONDENSED CONSOLIDATED PROFIT AND LOSS ACCOUNT**

FOR THE SIX MONTHS ENDED 30TH SEPTEMBER, 2001

	Note	Unaudited Six months ended 30th September,	
		2001 HK\$'000	2000 HK\$'000
Turnover	2	341,105	338,063
Cost of sales		(248,830)	(247,979)
Gross profit		92,275	90,084
Other revenues		4,397	5,010
Selling expenses		(7,269)	(7,956)
Administrative expenses		(54,552)	(54,344)
Operating profit	3	34,851	32,794
Finance costs	4	(10,103)	(8,507)
Profit before taxation		24,748	24,287
Taxation	5	(4,207)	(4,129)
Profit attributable to shareholders		<u>20,541</u>	<u>20,158</u>
Dividends	6	<u>1,730</u>	<u>2,765</u>
Earnings per share			
– Basic	7	<u>4.79 cents</u>	<u>4.70 cents</u>
– Diluted	7	<u>4.25 cents</u>	<u>4.15 cents</u>

**CONDENSED CONSOLIDATED BALANCE SHEET**

AS AT 30TH SEPTEMBER, 2001

		<b>Unaudited</b>	Audited
		<b>30th September,</b>	31st March,
		<b>2001</b>	2001
	<i>Note</i>	<b>HK\$'000</b>	<b>HK\$'000</b>
Fixed assets		<b>250,249</b>	267,221
Other investments		<b>2,474</b>	2,474
Current assets			
Inventories		<b>165,814</b>	146,578
Trade receivables	8	<b>124,938</b>	81,269
Other receivables, deposits and prepayments		<b>62,292</b>	36,739
Tax recoverable		<b>1,930</b>	1,441
Pledged bank deposits		<b>–</b>	15,000
Bank balances and cash		<b>65,907</b>	59,749
		<b>420,881</b>	340,776
Current liabilities			
Trade payables and deposits received	9	<b>60,245</b>	47,501
Other payables and accrued charges		<b>9,317</b>	45,510
Trust receipt loans		<b>45,175</b>	137,676
Current portion of long-term liabilities	13	<b>55,195</b>	44,950
Taxation		<b>10,332</b>	6,534
		<b>180,264</b>	282,171
Net current assets		<b>240,617</b>	58,605
Total assets less current liabilities		<b>493,340</b>	328,300
Financed by:			
Share capital	10	<b>72,380</b>	72,340
Other reserves	11	<b>80,080</b>	78,868
Retained profits	12	<b>170,792</b>	151,981
Shareholders' funds		<b>323,252</b>	303,189
Long-term liabilities	13	<b>170,088</b>	25,111
		<b>493,340</b>	328,300



**CONDENSED CONSOLIDATED CASH FLOW STATEMENT**

FOR THE SIX MONTHS ENDED 30TH SEPTEMBER, 2001

	<b>Unaudited</b>	
	<b>Six months ended</b>	
	<b>30th September,</b>	
	<b>2001</b>	<b>2000</b>
	<b>HK\$'000</b>	<b>HK\$'000</b>
Net cash (outflow)/inflow from operating activities	<u>(57,017)</u>	<u>1,757</u>
Net cash outflow from returns on investment and servicing of finance	<u>(10,697)</u>	<u>(9,544)</u>
Total taxation paid	<u>(409)</u>	<u>(3,293)</u>
Net cash outflow from investing activities	<u>(1,596)</u>	<u>(2,065)</u>
Net cash (outflow) before financing	<u>(69,719)</u>	<u>(13,145)</u>
Net cash inflow/(outflow) from financing	<u>155,492</u>	<u>(5,174)</u>
Increase/(decrease) in cash and cash equivalents	<b>85,773</b>	<b>(18,319)</b>
Cash and cash equivalents at 1st April	<b>(66,023)</b>	<b>(47,502)</b>
Effect of foreign exchange rate changes	<u>982</u>	<u>1,535</u>
Cash and cash equivalents at 30th September	<u><b>20,732</b></u>	<u><b>(64,286)</b></u>
Analysis of cash and cash equivalents		
Pledged bank deposits	–	15,000
Bank balance and cash	<b>65,907</b>	39,358
Bank overdraft	–	–
Trust receipt loans	<u>(45,175)</u>	<u>(118,644)</u>
	<u><b>20,732</b></u>	<u><b>(64,286)</b></u>

## CONDENSED CONSOLIDATED STATEMENT OF RECOGNISED GAINS AND LOSSES

	Unaudited Six months ended 30th September,	
	2001 HK\$'000	2000 HK\$'000
Exchange difference arising from translation of accounts of overseas and Mainland China subsidiaries not recognised in the profit and loss account	982	1,535
Profit attributable to shareholders	<u>20,541</u>	<u>20,158</u>
Total recognised gains	<u><u>21,523</u></u>	<u><u>21,693</u></u>

## NOTES TO THE CONDENSED INTERIM ACCOUNTS

## 1. Principal accounting policies

These unaudited consolidated condensed interim financial statements are prepared in accordance with Hong Kong Statement of Standard Accounting Practice ("SSAP") 25. Interim financial reporting, issued by the Hong Kong Society of Accountants. These condensed interim financial statements should be read in conjunction with the 2000/01 annual financial statements.

The accounting policies and methods of computation used in the preparation of these condensed interim financial statements are consistent with those used in the annual financial statements for the year ended 31st March, 2001 except that the Group has changed certain of its accounting policies following its adoption of the following SSAP issued by the Hong Kong Society of Accountants which are effective for accounting periods commencing on or after 1st January, 2001:

SSAP 9 (revised):	Events after the balance sheet date
SSAP 14 (revised):	Leases (effective for periods commencing on or after 1st July, 2000)
SSAP 26:	Segment reporting
SSAP 28:	Provisions, contingent liabilities and contingent assets
SSAP 29:	Intangible assets
SSAP 30:	Business combinations
SSAP 31:	Impairment of assets
SSAP 32:	Consolidated financial statements and accounting for investment in subsidiaries

The significant changes in the Group's accounting policies resulting from the adoption of these new policies are set out below:

## (a) SSAP 9 (revised): Events after the balance sheet date

In accordance with the SSAP 9 (revised), the Group no longer recognizes dividends proposed or declared after the balance sheet date as a liability at the balance sheet date. This change in accounting policy has been applied retrospectively so that the comparative figures presented have been restated to conform to the changed policy.

This adjustment has resulted in a decrease in current liabilities at 31st March, 2001 by HK\$1.7 million for the provision of the proposed dividends that is no longer required.

Changes to headings used in the previously reported 31st March, 2001 balance sheet and profit and loss account relating to dividends and profit for the year retained have also been made to reflect the changes resulting from SSAP 9 (revised).

(b) *SSAP 14 (revised): Leases*

In note 15 to these condensed interim accounts, the Group has disclosed its total future aggregate minimum lease payments under non-cancellable operating leases in accordance with revised SSAP 14. In the annual report for the year ended 31st March, 2001, the Group had disclosed the commitments to make payments in the next twelve months under operating leases. Comparative figures have also been restated.

(c) *SSAP 26: Segment reporting*

In note 2 to these condensed interim financial statements the Group has disclosed segment revenue and results as defined under SSAP 26. In accordance with the Group's internal financial reporting, the Group has determined that business segments be presented as the primary reporting format and geographical as the secondary reporting format. Comparative information has been given.

## 2. Turnover and segmental information

The Group is principally engaged in the development, engineering, manufacture and sale of toys ("toys segment") and moulds ("mould segment"). The toys segment accounts for more than 90% of the total turnover.

During the second half of 2000/2001 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.

An analysis of the Group's turnover and contribution to the operating profit by business segments is as follows:

	Unaudited Six months ended 30th September		Contribution to Operating profit	
	2001 HK\$'000	2000 HK\$'000	2001 HK\$'000	2000 HK\$'000
	<b>Turnover</b>			
Toys segment	658,320	633,307	45,993	40,321
Mould segment	31,622	6,451	1,787	432
Less: Inter-segment sales	(348,837)	(301,695)	(17,326)	(12,969)
	<u>341,105</u>	<u>338,063</u>	<u>30,454</u>	<u>27,784</u>
Other revenue			<u>4,397</u>	<u>5,010</u>
Operating profit			<u>34,851</u>	<u>32,794</u>

The geographical segments of the Group's turnover and contribution to the operating profit is as follows:

	Unaudited Six months ended 30th September		Contribution to Operating profit	
	Turnover			
	2001 HK\$'000	2000 HK\$'000	2001 HK\$'000	2000 HK\$'000
United States of America	155,115	148,748	14,356	12,275
Europe	80,416	98,038	7,216	8,099
Japan	48,159	47,329	4,179	3,790
China	8,286	10,142	1,133	1,111
Other	49,129	33,806	3,570	2,509
	<u>341,105</u>	<u>338,063</u>	<u>30,454</u>	<u>27,784</u>
Other revenue			<u>4,397</u>	<u>5,010</u>
Operating profit			<u>34,851</u>	<u>32,794</u>

### 3. Operating profit

Operating profit is stated after charging the following:

	Unaudited Six months ended 30th September,	
	2001 HK\$'000	2000 HK\$'000
Depreciation of owned fixed assets	20,573	18,341
Depreciation of fixed assets under finance leases	<u>1,083</u>	<u>2,038</u>

### 4. Finance costs

	Unaudited Six months ended 30th September,	
	2001 HK\$'000	2000 HK\$'000
Interest on loans from banks and financial institutions and overdrafts	9,390	8,185
Interest elements of finance leases	<u>713</u>	<u>322</u>
	<u>10,103</u>	<u>8,507</u>

## 5. Taxation

	Unaudited Six months ended 30th September,	
	2001 HK\$'000	2000 HK\$'000
Hong Kong profits tax	1,252	1,239
Mainland China income tax	2,955	2,890
	<u>4,207</u>	<u>4,129</u>

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

## 6. Dividends

	Six months ended 30th September,	
	2001 HK\$'000	2000 HK\$'000
Preference shares, paid, of HK\$17,367 (2000: HK\$17,400) per share	695	696
2000/2001 final dividend, paid, of HK0.25 cent (2000: HK0.5 cent) per ordinary share (note (i))	<u>1,035</u>	<u>2,069</u>
	<u>1,730</u>	<u>2,765</u>
<b>Proposed interim dividend</b>		
Preference share, of HK\$17,500 (2001: HK\$17,450) per share	700	698
2001/2002 interim dividend, of HK0.25 cent (2001: HK0.5 cent) per ordinary share (note (ii))	<u>1,035</u>	<u>2,069</u>
	<u>1,735</u>	<u>2,767</u>
	<u>3,465</u>	<u>5,532</u>

*Note (i):* The previously recorded final dividends proposed and declared after the balance sheet date but accrued in the accounts for the years ended 31st March, 2000 and 2001 were HK\$2.8 million and HK\$1.7 million respectively. Under the Group's new accounting policy as described in note 1(a), these have been written back to the opening reserves as at 1st April, 2000 and 2001 in note 12 and are now charged in the period in which they were proposed.

*Note (ii):* At the board meeting held on 27th November, 2001, the directors declared an interim dividend of HK0.25 cent per ordinary share. This proposed interim dividend is not reflected as dividend payable in these condensed interim financial statements, but will be reflected as an appropriation of retained profits for the year ending 31st March, 2002.



**7. Earnings per share**

The calculation of basic earnings per share is based on the Group's profit attributable to shareholders of HK\$20,541,000 (2000: HK\$20,158,000) less preference dividends of HK\$695,000 (2000: HK\$696,000). The calculation of diluted earnings per share for the period ended 30th September, 2001 is based on the Group's profit attributable to shareholders of HK\$20,541,000 (2000: HK\$20,158,000).

The basic earnings per share is based on the weighted average number of 414,066,667 (2000: 413,800,000) ordinary shares in issue during the period. The diluted earnings per share for the period ended 30th September, 2001 is based on 414,066,667 (2000: 413,800,000) ordinary shares which is the weighted average number of ordinary shares in issue during the period plus the weighted average number of 68,800,000 potential ordinary shares deemed to be issued assuming all outstanding preference shares had been converted at a consideration of HK\$0.45 per ordinary share and the weighted average number of 133,000 ordinary shares deemed to be issued at no consideration if all outstanding share options have been exercised.

**8. Trade receivables**

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.

	Current HK\$'000	31-60 days HK\$'000	61-90 days HK\$'000	Over 90 days HK\$'000	Total HK\$'000
As at 30th September, 2001	<u>81,205</u>	<u>29,180</u>	<u>7,180</u>	<u>7,373</u>	<u>124,938</u>
As at 31st March, 2001	<u>42,447</u>	<u>23,851</u>	<u>3,864</u>	<u>11,107</u>	<u>81,269</u>

**9. Trade payables and deposits received**

	Unaudited 30th September, 2001 HK\$'000	Audited 31st March, 2000 HK\$'000
Trade payable (Note)	59,787	45,610
Deposits received	<u>458</u>	<u>1,891</u>
	<u>60,245</u>	<u>47,501</u>

Note: The aging analysis of trade payables was as follow:

	Current HK\$'000	31-60 days HK\$'000	61-90 days HK\$'000	Over 90 days HK\$'000	Total HK\$'000
As at 30th September, 2001	<u>43,311</u>	<u>11,826</u>	<u>3,192</u>	<u>1,458</u>	<u>59,787</u>
As at 31st March, 2001	<u>20,000</u>	<u>11,647</u>	<u>5,111</u>	<u>8,852</u>	<u>45,610</u>

## 10. Share capital

	Authorised			
	4.5% convertible cumulative redeemable preference shares of US\$100,000 each		Ordinary shares of HK\$0.10 each	
	<i>No. of shares</i>	<i>US\$'000</i>	<i>No. of shares (thousands)</i>	<i>HK\$'000</i>
At the beginning and the end of the period /year	<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	
	<i>No. of shares</i>	<i>HK\$'000 (equivalent)</i>	<i>No. of shares (thousands)</i>	<i>HK\$'000</i>
As 31st March, 2000/2001	40	30,960	413,800	41,380
Exercise of share options (note (a))	<u>–</u>	<u>–</u>	<u>400</u>	<u>40</u>
As 30th September, 2001	<u>40</u>	<u>30,960</u>	<u>414,200</u>	<u>41,420</u>

## Notes:

- (a) At 29th May 2001, 400,000 share options were exercised at HK\$0.675 per ordinary share. There is no movement in the share capital in the corresponding period in last year.

## 11. Reserves

	<b>Unaudited 30th September, 2001 HK\$'000</b>	Audited 31st March, 2001 HK\$'000
<b>Share premium</b>		
At 1st April, 2001/1st April, 2000	<b>88,595</b>	88,595
Surplus arising on issue of shares	<b>230</b>	–
	<hr/>	<hr/>
At 30th September, 2001/31st March, 2001	<b>88,825</b>	88,595
	<hr/>	<hr/>
<b>Property revaluation reserve</b>		
At 31st March, 2001 and 30th September, 2001	<b>17,268</b>	5,861
Surplus on revaluation	–	11,407
	<hr/>	<hr/>
	<b>17,268</b>	17,268
	<hr/>	<hr/>
<b>Exchange fluctuation reserve</b>		
At 1st April, 2001/1st April, 2000	<b>(49,133)</b>	(46,045)
Exchange difference arising from consolidation	<b>982</b>	(3,088)
	<hr/>	<hr/>
At 30th September, 2001/31st March, 2001	<b>(48,151)</b>	(49,133)
	<hr/>	<hr/>
<b>Capital reserve</b>		
At 1st April, 2001/1st April, 2000	<b>22,138</b>	20,618
Transfer from retained profits	–	1,520
	<hr/>	<hr/>
At 30th September, 2001/31st March, 2001	<b>22,138</b>	22,138
	<hr/>	<hr/>
	<b>80,080</b>	78,868
	<hr/> <hr/>	<hr/> <hr/>

## 12. Retained profits

	<i>HK\$'000</i>
At April 1, 2000 as previously reported	148,293
Effect of adopting SSAP 9 (revised) ( <i>note 1 (a)</i> )	<u>2,765</u>
At 1st April, 2000 as restated	151,058
1999/2000 final dividend paid	(2,765)
Profit for the year – 2000/2001	22,865
Transfer to capital reserves	(1,520)
Goodwill written off	(14,890)
2000/2001 interim dividend paid ( <i>note 6</i> )	<u>(2,767)</u>
At 31st March, 2001 as restated	<u><u>151,981</u></u>
Representing:	
Retained profits	150,251
2000/2001 final dividends proposed ( <i>note 6</i> )	<u>1,730</u>
	<u><u>151,981</u></u>
At 1st April, 2001 as previously reported	150,251
Effect of adopting SSAP 9 (revised) ( <i>note 1(a)</i> )	<u>1,730</u>
At 1st April, 2001 as restated	151,981
2000/2001 final dividends paid ( <i>note 6</i> )	(1,730)
Profit for the period	<u>20,541</u>
At 30th September, 2001	<u><u>170,792</u></u>
Representing:	
Retained profits	169,057
2001/2002 interim dividend proposed ( <i>note 6</i> )	<u>1,735</u>
	<u><u>170,792</u></u>

## 13. Long-term liabilities

	Unaudited 30th September, 2001 HK\$'000	Audited 31st March, 2001 HK\$'000
Loans from banks and financial institutions-secured (note (a))		
Wholly repayable within five years	209,734	52,935
Not wholly repayable within five years	10,525	11,053
	<u>220,259</u>	<u>63,988</u>
Obligation under finance leases wholly repayable within five years (note (b))	3,446	4,495
Deferred taxation	1,578	1,578
	<u>225,283</u>	<u>70,061</u>
Current portion of long-term liabilities	(55,195)	(44,950)
	<u><u>170,088</u></u>	<u><u>25,111</u></u>

(a) The loans from banks and financial institutions were repayable as follows:

	Unaudited 30th September, 2001 HK\$'000	Audited 31st March, 2001 HK\$'000
Within one year	52,308	42,116
In the second year	75,656	7,654
In the third to fifth years inclusive	88,739	9,488
More than five years	3,556	4,730
	<u>220,259</u>	<u>63,988</u>

(b) The obligations under finance leases were repayable as follows:

	Unaudited 30th September, 2001 HK\$'000	Audited 31st March, 2001 HK\$'000
Within one year	2,887	2,834
In the second year	559	1,661
In the third to fifth years inclusive	-	-
	<u>3,446</u>	<u>4,495</u>



**14. Contingent liabilities**

As at 30th September, 2001, the Group had contingent liabilities not provided for in the accounts are as follows:

	<b>Unaudited 30th September, 2001 HK\$'000</b>	Audited 31st March, 2001 HK\$'000
Issued letters of credit	11,363	22,101
Factored trade receivables	-	1,576
Shipping guarantees	5,826	1,432
Bills discounted	-	1,990
	<u>17,189</u>	<u>27,099</u>

**15. Commitments**

As at 30th September, 2001, the Group had total future aggregate minimum lease payments under non-cancellable operating leases in respect of land and buildings as follows:

	<b>Unaudited 30th September, 2001 HK\$'000</b>	Restated 31st March, 2001 HK\$'000
- Within one year	275	332
- In the second to fifth years inclusive	1,891	1,729
- After the fifth year	1,809	2,130
	<u>3,975</u>	<u>4,191</u>

**16. Charges on group assets**

A property in Hong Kong with an aggregate carrying value of HK\$15,500,000 as at 30th September, 2001 (31st March, 2001 HK\$83,562,000) has been pledged to secure a mortgage loan of the Group by way of a fixed charge.

On behalf of the Board  
**Leung Lun**  
Chairman

27th November, 2001