



REPORT OF THE DIRECTORS

The Directors submit their report together with the audited accounts for the year ended 31 March 2002.

Principal activities and geographical analysis of operations

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

An analysis of the Group's turnover, revenue and segmental information is set out in Note 2 to the accounts.

Results and appropriations

The results of the Group for the year are set out in the consolidated profit and loss account on page 35.

Preference dividends of HK\$698,000 and HK\$695,000 were paid on 28 September 2001 and 22 April 2002 respectively. The Directors have declared an interim dividend of HK0.25 cents per ordinary share, totalling HK\$1,035,000, which was paid on 4 January 2002.

The Directors recommend the payment of a final dividend of HK0.5 cents per ordinary share, totalling HK\$2,072,000.

Reserves

Movements in the reserves of the Group and of 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\$10,000.

Fixed assets

Details of the movements in fixed assets are set out in Note 12 to the accounts.

Information on subsidiaries

Particulars of the subsidiaries are set out in Note 13 to the accounts.

Share capital

Details of the movements in share capital of the Company are set out in Note 19 to the accounts.



Five year financial summary

The following is a summary of the consolidated results, assets and liabilities of the Group for each of the last five years ended 31 March 2002, based on the audited accounts of the Group and restated for the adoption of Statement of Standard Accounting Practice ("SSAP") 9 (revised) - "Events after the balance sheet date" which is effective for accounting periods commencing on or after 1 January 2001.

In accordance with SSAP 9 (revised), the Group no longer recognises 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 comparatives presented for each of the four years ended 31 March 2001 have been restated to conform to the changed policy.

	2002	2001	2000	1999	1998
	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000
		Restated	Restated	Restated	Restated
Turnover	657,433	646,840	660,015	554,478	695,705
Profit before taxation	31,911	27,222	30,706	18,178	69,575
Taxation	(700)	(4,357)	(4,090)	(811)	(9,452)
Profit after taxation	31,211	22,865	26,616	17,367	60,123
Minority interests	-	-	-	-	1,908
Profit attributable to shareholders	31,211	22,865	26,616	17,367	62,031
Total assets	695,083	610,471	518,598	462,923	466,149
Total liabilities plus minority interests	(364,221)	(307,977)	(226,867)	(240,600)	(246,064)
Net assets	330,862	302,494	291,731	222,323	220,085

The results, assets and liabilities of the Group for the year 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 year concerned.

Distributable reserves

At 31 March 2002, the reserves of the Company available for distribution amounted to HK\$181,426,000 (2001: HK\$178,546,000, as restated). 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.

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.

Share Option Scheme

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.

Details of the Share Option Scheme are as follows:

(1) Purpose

As incentives or rewards for the contribution or potential contribution to the Group from the selected eligible persons.

(2) Eligible persons

Employees of any subsidiaries of the Group, including any executive directors of any subsidiaries of the Group.

(3) Maximum number of shares

The maximum number of shares available for issue is 27,920,000, representing approximately 6.7% of the issued share capital of the Company as at the date of this report.

(4) Maximum entitlement of each eligible person

The maximum number of shares issued and to be issued upon exercise of option granted to any one employee shall not result in the total number of shares already issued and issuable to him under the Share Option Scheme exceeding 25% of the aggregate number of Shares for the time being issued and issuable under the Share Option Scheme.



Share Option Scheme (continued)

(5) Time of exercise of option

An option may be exercised in accordance with the terms of the Share Option Scheme at any time during the five year period commencing one month after the date on which the option is accepted and expiring on the last day of the five year period or the last day of the period beginning on the date of adoption of the Share Option Scheme and expiring on the tenth anniversary thereof (both dates inclusive), whichever is the earlier.

(6) Acceptance of offers

An offer for the grant of options must be accepted within 30 days inclusive of the day on which such offer was made. The amount payable on acceptance of the offer for the grant of an option is HK\$1.00.

(7) Basis of determining the option exercise price

The subscription price for the shares under the Share Option Scheme shall be a price determined at the discretion of the directors and notified to an employee and shall not be less than 80% of the average closing price of the shares as stated in the daily quotation sheets issued by The Stock Exchange of Hong Kong Limited ("Stock Exchange") for the five trading days immediately preceding the date of offer of the option or the nominal value of the shares, whichever is the higher.

(8) The remaining life of the Share Option Scheme

The Share Option Scheme shall be valid for ten years from the date of adoption of 8 September 1997.

An extraordinary general meeting will be convened on 3 September 2002 and an ordinary resolution will be proposed to approve and adopt a new Share Option Scheme. It is proposed that subject to the approval of the Shareholders, the existing Share Option Scheme will be terminated and the new Share Option Scheme will be adopted and come into effect. Upon termination of the existing Share Option Scheme, no further Options can be granted thereunder but in all other respects, the provisions of the existing Share Option Scheme shall remain in force and all Share Options granted prior to such termination shall continue to be valid and exercisable in accordance therewith.

Share Option Scheme (continued)

Details of the share options outstanding as at 31 March 2002 which have been granted under the Share Option Scheme are as follows:

	Options held at 1 April 2001	Options granted during year	Options exercised during year	Options cancelled during the year	Options held at 31 March 2002	Exercise price HK\$	Grant date	Exercisable from	Exercisable until
Mr. LEUNG Lun	2,000,000	-	-	-	2,000,000	0.675	14 March 2000	1 October 2000	30 September 2005
Mr. LEUNG Chung Ming	2,000,000	-	-	-	2,000,000	0.675	14 March 2000	1 October 2000	30 September 2005
Mr. ZHONG Bing Quan	2,000,000	-	-	-	2,000,000	0.675	14 March 2000	1 October 2000	30 September 2005
Ms. CHENG Yun Tai	2,000,000	-	-	-	2,000,000	0.675	14 March 2000	1 October 2000	30 September 2005
Mr. WONG Tze On, Andy	2,000,000	-	-	-	2,000,000	0.675	14 March 2000	1 October 2000	30 September 2005
Continuous contract employees	3,500,000	-	400,000 ¹	1,000,000	2,100,000	0.675	14 March 2000	1 October 2000	30 September 2005
Total	13,500,000	-	400,000	1,000,000	12,100,000				

Notes:

1. Exercise date was 15 June 2001. At the date before the options were exercised, the market value per share was HK\$0.8.



REPORT OF THE DIRECTORS

AMENDMENT TO THE RIGHTS ATTACHED TO THE EXISTING PREFERENCE SHARES AND THE ARTICLES OF ASSOCIATION

On 18 July 2002, the Directors announced that the holder of all the existing preference shares in the Company had consented to the amendment of certain rights attached to the preference shares. The preference shares carried fixed dividend of 4.5% per annum and additional dividend calculated with reference to the dividend yield of the ordinary shares. The preference shares were convertible into ordinary shares and if they were not converted or redeemed previously, they would be redeemed by the Company at a premium on the maturity date, which was set on 20 July 2002. On 18 July 2002, none of the preference shares had been redeemed or converted into ordinary shares.

The details of the amendments are as follows:

(1) Amendments to the rights attached to the existing preference shares

(i) Term

The maturity date of the preference shares was set on 20 July 2002 (being the third anniversary of the date of issue). Pursuant to the consent, the preference shares will no longer have a maturity date. Accordingly, unless previously converted or redeemed, the preference shares will remain as equity capital of the Company in their existing form.

(ii) Dividend

The preference shares carried a fixed cumulative cash dividend at the rate of 4.5% per annum plus additional accumulated cash dividend calculated with reference to the dividend yield of the ordinary shares.

Under the consent, holders of the preference shares will receive dividend equivalent to that for the ordinary shares, which amount shall be determined by the number of ordinary shares issuable on conversion of the preference shares and the amount of dividend payable for one ordinary share.

(iii) Redemption

Redemption rights

The preference shares should, unless previously converted or redeemed, be redeemed on the maturity date at the aggregate principal amount of the preference shares with a premium of 15% per annum (compounded annually) for the period commencing on the issue date and ending on the maturity date.

AMENDMENT TO THE RIGHTS ATTACHED TO THE EXISTING PREFERENCE SHARES AND THE ARTICLES OF ASSOCIATION (continued)

Pursuant to the consent, the Company is not obliged to redeem, but has the right to do so on terms as follows:

- the Company shall have the right to redeem all or part of the outstanding preference shares in principal amount of US\$500,000 or multiples thereof by serving a notice on the holder of the preference shares;
- the amount payable on redemption of the preference shares shall be an amount equal to the aggregate principal amount of such preference shares with a premium of 15% per annum (compounded annually) over the principal amount of such preference shares for the period commencing on the issue date and ending on the date of the amendment (the "Amendment Date") (the "Accumulated Sum") together with a premium of (i) 7.5% on the Accumulated Sum if the redemption date shall be a date on or before the first anniversary of the Amendment Date; or (ii) 15% on the Accumulated Sum if the redemption date shall be a date after the first anniversary of the Amendment Date; and
- if the Company serves the redemption notice on a holder of the preference shares, that holder of the preference shares may within a period of 7 days after the said notice is served, choose to convert such number of preference shares intended to be redeemed by the Company into ordinary shares.

Early redemption events

The holder of the preference shares had the right to require the Company to redeem all but not part of the preference shares in the event of the occurrence of certain early redemption events. Such early redemption events include:

- (a) the majority shareholders' direct and indirect aggregate shareholding in the Company falling below 51%;
- (b) either Mr. Leung Lun or Mr. Leung Chung Ming (both are executive Directors) ceasing to be a Director;
- (c) any material adverse change in the business of the Group;
- (d) any liabilities of any of the majority shareholders or the Company or any member of the Group or any guarantor of any obligations of any such company which are material to the Group taken as a whole are not paid or repaid on the due date or, if payable or repayable on call or demand, are not paid or repaid when called or demanded before the stated date of maturity;



REPORT OF THE DIRECTORS

AMENDMENT TO THE RIGHTS ATTACHED TO THE EXISTING PREFERENCE SHARES AND THE ARTICLES OF ASSOCIATION (continued)

or if any facility or commitment which is material to the Group taken as a whole is withdrawn, suspended or cancelled by reason of default of the person concerned;

- (e) the delisting of the shares on the Stock Exchange or a suspension of trading in the shares on the Stock Exchange for a period of six consecutive weeks or more;
- (f) the Company defaulting on any of its obligations in respect of the rights attached to the preference shares which is not remedied within five business days after such an event has occurred;
- (g) the Company and/or any other member of the Group becoming insolvent or unable to pay its debts as they fall due, appointing receiver for all or substantial part of its assets, entering or proposing to enter into any composition with creditors other than for a group reorganisation purpose while the Company is solvent or a winding-up or bankruptcy petition which would materially and adversely affect the financial position of the Group;
- (h) any material breach of the obligations of the Company under the preference shares agreement dated 31 May 1999 ("Preference Shares Agreement"); and
- (i) the aggregate value of all actual or contingent liabilities of the Company (including any contingent liability to redeem the preference shares) at any time exceeding 90% of the aggregate value of all assets of the Company.

Pursuant to the consent, holders of the preference shares will no longer have the right to request for early redemption for occurrence of events described in items (c) or (i) above. Event in item (h) above will be amended to the effect that the holder of the preference shares will be entitled to request early redemption if there is any material breach of the obligations of the Company (other than the warranties) under the Preference Shares Agreement as long as the name of the holder of the existing preference shares appears in the register of holders of preference shares maintained by the Company as the sole holder of the outstanding preference shares in issue from time to time.

- (iv) **Conversion**
The preference shares carry the right to convert into ordinary shares at the initial conversion price of HK\$0.45 per share, subject to adjustment. Prior to the amendments, the Company had the right to convert all the preference shares into

AMENDMENT TO THE RIGHTS ATTACHED TO THE EXISTING PREFERENCE SHARES AND THE ARTICLES OF ASSOCIATION (continued)

ordinary shares if the weighted average price of the daily weighted average traded price (excluding cross trades) of one ordinary share on the Stock Exchange for any period of thirty consecutive dealing days becomes or is equal HK\$0.675 or higher (subject to adjustments).

Pursuant to the consent, the Company will no longer have the right to convert the preference shares. Accordingly, conversion of the preference shares, if any, will be at the discretion of the holder of the preference shares only.

(v) Pre-emptive rights

The Company has granted to holders of preference shares pre-emptive rights such that, if the Company issue for cash consideration any new ordinary shares or any securities convertible into new ordinary shares, otherwise than pursuant to the Company's Share Option Scheme, the holders of the preference shares would have the right to subscribe for all or such part, of the relevant new ordinary shares or securities of the Company.

Under the consent, the pre-emptive rights as mentioned in the paragraph above will be granted only up to the third anniversary of the Amendment Date.

Save for the amendments, all other existing rights attached to the preference shares shall continue in full force and effect.

The consent is subject to:

- (i) approval of the amendments by the Stock Exchange;
 - (ii) the granting of listing of, and permission to deal in, the ordinary shares issuable on conversion of the preference shares after the amendments by the Stock Exchange; and
 - (iii) ratification by the independent shareholders at a general meeting of the Company of the amendments and the amendment of the articles of association of the Company to approve the amendments.
- (2) Amendments to the articles of association
- Amendment of the articles of association of the Company, which has defined the rights and restrictions attached to the preference shares, is required to approve the amendments to the rights attached to the existing preference shares. Resolution to approve amendments to the articles of association in relation to the amendments will also be proposed.

REPORT OF THE DIRECTORS



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⁺ (resigned on 27 July 2001)

* Independent Non-executive Directors

⁺ Non-executive Directors

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. Ms Cheng Yun Tai and Mr Wong Tze On, Andy 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.

Directors (continued)

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

Executive Directors

Mr LEUNG Lun, aged 52, 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 42, 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 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 China Children and Teenagers' Fund.

Mr ZHONG Bing Quan, aged 50, 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 47, 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 general 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 35, 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.



Directors (continued)

Independent Non-executive Directors

The Hon., Mr LAU Wong Fat, G.B.S., J.P., aged 65, 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 83, 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 56, 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.

Directors (continued)

Senior management

Mr SETO Sai Cheong Paul, aged 40, is the chief accountant. He is member of the Hong Kong Society of Accountants, The Association of Chartered Certified Accountants and The Taxation Institute of Hong Kong and has over 18 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 49, is the director of Logistic of the Group. He holds a Bachelor of Science degree in Business Management. Mr Ng has over 20 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 YIM To, aged 49, is the director of Production of the Group. He has over 24 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 production management of the Dongguan factories.

Mr KWOK Chu Hung, aged 44, is the director of Quality Assurance and Manufacturing Support. He holds a Bachelor of Science degree in Electronic Engineering and has over 20 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.

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. Certain 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.



REPORT OF THE DIRECTORS

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.

Directors' interests in equity securities

At 31 March 2002, the Directors, Chief Executives and their Associates had the following interests in the share capital and share options 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.

Share options are granted to Directors under the Share Option Scheme approved by the shareholders of the Company on 8 September 1997. Please refer to pages 18 to 20 for details.

Apart from the Share Option Scheme, 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.

Save as disclosed above, at no time during the year, the Directors, Chief Executives (including their spouse and children under 18 years of age) had any beneficial or non-beneficial interests in, or had been granted, or exercised, any rights to subscribe for shares of the Company and its associated corporations.

Directors' interests in equity securities (continued)

On 26 June 2001 the Company entered into a transferable term loan agreement (the "Loan Agreement") 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.

Substantial shareholders

At 31 March 2002 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 of 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 (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.

Subject to ratification by the independent shareholders at an extraordinary general meeting of the Company, the Company and the holder of all the existing issued preference shares in the Company agreed on 18 July 2002 that the afore-mentioned pre-emptive rights will be granted only up to 20 July 2005.

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.



REPORT OF THE DIRECTORS

Connected transactions

At 31 March 2002, 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:

	2002	2001
	%	%
Sales		
– the largest customer	22	34
– five largest customers combined	72	72
Purchases		
– the largest supplier	15	22
– five largest suppliers combined	32	39

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 was established on 14 March 2000. The Committee comprises three Independent Non-executive Directors, namely Mr YE Tian Liu, Mr LAU Wong Fat, G.B.S., J.P. and Mr WONG Lam, O.B.E., J.P.,

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 2002 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 Event

On 18 July 2002 the Directors announced that the holder of all the existing preference shares in the Company had consented to the amendment of certain rights attached to the preference shares. The consent is subject to (i) the approval of the amendments by the Stock Exchange; (ii) the granting of listing of, and permission to deal in, the shares issuable on conversion of the preference shares after the amendments by the Stock Exchange; and (iii) ratification by the independent shareholders at an extraordinary general meeting of the Company of the amendments and the amendment of the articles of association of the Company to approve the amendments.

Details of the amendments are set out on pages 21 to 24.



REPORT OF THE DIRECTORS

Auditors

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

On behalf of the Board

Leung Lun
Chairman

Hong Kong, 22 July 2002