



NOTES TO THE ACCOUNTS

5 Taxation

Hong Kong profits tax has been provided at the rate of 16% (2001: 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:

	2002 HK\$'000	2001 HK\$'000
Hong Kong profits tax		
– current	1,710	1,461
– underprovision in prior years	75	–
– deferred taxation (Note 22(c))	(743)	361
Mainland China income tax		
– current	2,466	2,535
– overprovision in prior years (Note)	(2,808)	–
	<u>700</u>	<u>4,357</u>

Note: One of the Group's subsidiaries in Mainland China is qualified as an export-oriented enterprise for the years 1999 to 2000. Accordingly, it has been granted a reduction in its applicable Foreign Enterprise Income Tax rate for the two years. The tax provision in excess of the amount payable for those years as calculated under the reduced rate has been written back to the current year's profit and loss account.

6 Profit attributable to shareholders

The profit attributable to shareholders is dealt with in the accounts of the Company to the extent of HK\$6,113,000 (2001: HK\$6,687,000, as restated), including dividend from a subsidiary of HK\$5,000,000 (2001: HK\$6,000,000, as restated).

7 Dividends

	2002 HK\$'000	2001 HK\$'000
Paid on 28 September 2001, of HK\$17,463 (2001: HK\$17,463) per preference share	698	698
Payable of HK\$17,367 (2001: HK\$17,367) per preference share	695	695
Interim, paid on 4 January 2002, of HK0.25 cents (2001: HK0.5 cents) per ordinary share	1,035	2,069
Final, proposed, of HK0.5 cents (2001: HK0.25 cents) per ordinary share (Note (b))	<u>2,072</u>	<u>1,035</u>
	<u><u>4,500</u></u>	<u><u>4,497</u></u>

Notes:

- (a) The previously recorded final ordinary share dividends proposed and declared after the balance sheet date but accrued in the accounts for the years ended 31 March 2000 and 2001 were HK\$2,069,000 and HK\$1,035,000 respectively. Under the Group's new accounting policy as described in Note 1(r), these have been written back against opening retained profits at 1 April 2000 and 2001 in Note 21 and are now charged in the period in which they were proposed.
- (b) At a meeting held on 22 July 2002, the directors declared a final dividend of HK0.5 cents per ordinary share. This proposed dividend is not reflected as a dividend payable in these accounts, but will be reflected as an appropriation of retained profits for the year ending 31 March 2003.



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8 Earnings per share

The calculation of basic earnings per share is based on the Group's profit attributable to shareholders of HK\$31,211,000 (2001: HK\$22,865,000) less dividends related to preference shares of HK\$1,393,000 (2001: HK\$1,393,000). The calculation of diluted earnings per share is based on the Group's profit attributable to shareholders of HK\$31,211,000 (2001: HK\$22,865,000).

The basic earnings per share is based on the weighted average number of 414,133,000 (2001: 413,800,000) ordinary shares in issue during the year. The diluted earnings per share is based on 414,133,000 (2001: 413,800,000) 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 (2001: 68,800,000) 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 nil (2001: 802,000) ordinary shares deemed to be issued at no consideration if all outstanding share options have been exercised. In 2002, 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:

	2002 HK\$'000	2001 HK\$'000
Fees	180	240
Other emoluments:		
Basic salaries, housing allowances, other allowances and benefits in kind	5,450	5,270
Discretionary bonuses	640	610
Provident fund scheme contributions for Directors	80	46
	<u>6,350</u>	<u>6,166</u>

Directors' fees disclosed above include HK\$180,000 (2001: HK\$180,000) payable to the Independent Non-executive Directors.

No Directors have waived their emoluments in respect of the years ended 31 March 2002 and 2001.

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

(a) Directors' emoluments (continued)

During the years ended 31 March 2002 and 2001 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.

During the years ended 31 March 2002 and 2001 no Share Options have 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.

	2002	2001
Nil - HK\$1,000,000	5	7
HK\$1,000,001 - HK\$1,500,000	1	–
HK\$2,000,001 - HK\$2,500,000	2	2
	<u>8</u>	<u>9</u>

(b) Five highest paid individuals

The five individuals whose emoluments were the highest in the Group for the year include three (2001: three) Directors whose emoluments are disclosed in the analysis presented above. The emoluments payable to the remaining two (2001: two) individuals during the year are as follows:

	2002 HK\$'000	2001 HK\$'000
Basic salaries, housing allowances, other allowances and benefits in kind	1,420	1,313
Discretionary bonuses	–	210
Provident fund scheme contributions	64	63
	<u>1,484</u>	<u>1,586</u>



NOTES TO THE ACCOUNTS

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

(b) Five highest paid individuals (continued)

During the years ended 31 March 2002 and 2001 none of the two individuals was granted Share Options to acquire ordinary shares in the Company.

During the years ended 31 March 2002, a total of 400,000 options (2001: Nil) were exercised by afore-mentioned two highest paid individuals.

The emoluments of the afore-mentioned two (2001: 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 2002 and 2001 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 2002 was HK\$445,000 (2001: HK\$345,000).

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 2002 was HK\$230,000 (2001: HK\$420,000).

11 Goodwill

On 23 January 2002, the Group acquired the business of KG Liquidation Corporation (formerly known as Kid Galaxy, Inc.) for a total cash consideration of HK\$24,698,000 to expand its product and geographical coverage. In connection with this acquisition the Group has acquired from the vendor who is a third party certain of its assets and liabilities with a fair value of HK\$1,161,000 (Note 23(b)). In accordance with the Group's accounting policy, the goodwill of HK\$23,537,000 arising from this acquisition is amortised using the straight-line method over its estimated useful life on 15 years.

	Group	
	2002 HK\$'000	2001 HK\$'000
At 1 April	–	–
Additions	23,537	–
Amortisation charges	(392)	–
At 31 March	23,145	–
Representing:		
Cost	23,537	–
Accumulated amortisation charges	(392)	–
Net book amount	23,145	–



NOTES TO THE ACCOUNTS

12 Fixed assets – Group

	Leasehold land and buildings HK\$'000	Leasehold improve- ments HK\$'000	Plant and machinery HK\$'000	Furniture, fixtures and equipment HK\$'000	Motor vehicles HK\$'000	Moulds HK\$'000	Total HK\$'000
Cost or valuation							
At 1 April 2001	116,939	74,541	135,324	18,880	4,958	70,420	421,062
Additions, at cost	1,111	8,061	4,862	6,770	289	35,399	56,492
Additions, at cost, pursuant to acquisition of a business	–	–	–	301	–	809	1,110
Disposals	–	–	(17,486)	(111)	(3)	(1,235)	(18,835)
Exchange adjustment	257	–	335	20	7	–	619
At 31 March 2002	118,307	82,602	123,035	25,860	5,251	105,393	460,448
At cost	31,407	82,602	123,035	25,860	5,251	105,393	373,548
At 2001 professional valuation	86,900	–	–	–	–	–	86,900
	118,307	82,602	123,035	25,860	5,251	105,393	460,448
Accumulated depreciation							
At 1 April 2001	–	12,958	92,010	13,610	4,011	31,252	153,841
Charge for the year	3,018	4,151	18,484	2,397	378	15,487	43,915
Disposals	–	–	(17,486)	(105)	(3)	(1,235)	(18,829)
Exchange adjustment	45	–	44	21	6	–	116
At 31 March 2002	3,063	17,109	93,052	15,923	4,392	45,504	179,043
Net book value							
At 31 March 2002	115,244	65,493	29,983	9,937	859	59,889	281,405
At 31 March 2001	116,939	61,583	43,314	5,270	947	39,168	267,221

12 Fixed assets – Group (continued)

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

	Group	
	2002 HK\$'000	2001 HK\$'000
(a) In Hong Kong, held on leases of between 10 and 50 years	20,286	25,623
(b) Outside Hong Kong, held on leases of between 10 and 50 years	94,958	91,316
	115,244	116,939

Included in the leasehold land and buildings at 31 March 2002 are certain factory premises and a residential property acquired at an aggregate consideration of HK\$30,039,000 in March 2001. The Group is in the process of obtaining the relevant real estate title certificates and land use right certificates from the relevant authorities for these properties and expects that these will be forthcoming within a period of two years from 31 March 2001, and has included these properties in the above table under item (b). At 31 March 2002, these properties were stated at cost less accumulated depreciation. 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\$76,879,000 (2001: HK\$79,096,000) had they been stated at cost less accumulated depreciation.

At 31 March 2002, the net book value of fixed assets held by the Group under finance leases amounted to HK\$4,468,000 (2001: HK\$6,403,000).

At 31 March 2002, a leasehold commercial building in Hong Kong, plant and machinery and motor vehicle of the Group with an aggregate carrying value of HK\$15,190,000 (2001: HK\$72,900,000), HK\$5,594,000 (2001: HK\$10,662,000) and HK\$368,000 (2001: Nil) respectively were pledged to certain banks to secure general banking facilities granted to the Group (Note 25).



NOTES TO THE ACCOUNTS

13 Investments in subsidiaries

	Company	
	2002 HK\$'000	2001 HK\$'000
Unlisted investments, at cost	115,801	115,801
Due from a subsidiary (Note (a))	286,394	135,288
	402,195	251,089

(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 2002.

(b) Details of the subsidiaries of the Company as at 31 March 2002 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/investments 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

13 Investments in subsidiaries (continued)

Name of company	Country/place of incorporation/ operations	Particulars of issued share capital/ registered capital	Effective percentage holding	Nature of business
Shares/investments held indirectly: (continued)				
Lung Cheong Resources Limited	Hong Kong	Ordinary HK\$10,000	100	Trading 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 of toys
Standard Tooling and Products Co., Limited *	Hong Kong	Ordinary HK\$3,000,000	100	Engineering services and mould trading
Fericle Holdings Limited *	British Virgin Islands	Ordinary US\$1	100	Investment holding
Kid Galaxy Corporation *	British Virgin Islands	Ordinary US\$10	60	Trading of toys
Kid Galaxy Inc. *	United States	Ordinary US\$100,010	60	Trading of toys
Statcard Entertainment (Asia Pacific) Ltd. *	British Virgin Islands	Ordinary US\$1	100	Trading of on-line game
Favour Million Company Limited *	Hong Kong	Ordinary HK\$2	100	Investment holding

* Subsidiaries not audited by PricewaterhouseCoopers. The aggregate net assets of subsidiaries not audited by PricewaterhouseCoopers amounted to approximately 17.9% of the Group's net assets.

** These companies are wholly foreign-owned investment enterprises established in Mainland China.



NOTES TO THE ACCOUNTS

14 Other investments

	Group	
	2002 HK\$'000	2001 HK\$'000
As cost		
Unlisted shares, overseas	7,379	–
Club memberships	2,738	2,474
	<u>10,117</u>	<u>2,474</u>

15 Inventories

	Group	
	2002 HK\$'000	2001 HK\$'000
At cost		
Raw materials	105,459	77,453
Work-in-progress	40,505	39,610
Finished goods	37,370	29,515
	<u>183,334</u>	<u>146,578</u>

16 Trade receivables

At 31 March 2002, the ageing analysis of the trade receivables was as follows:

	Group	
	2002 HK\$'000	2001 HK\$'000
0-30 days	61,457	42,447
31-60 days	18,078	23,851
61-90 days	10,672	3,864
Over 90 days	15,925	11,107
	<u>106,132</u>	<u>81,269</u>

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.