

INTERIM REPORT

2002/2003

LUNG CHEONG



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”) is pleased to announce the unaudited consolidated results of the Company and its subsidiaries (the “Group”) for the six months ended 30th September 2002 together with comparative figures for the corresponding period of last year as follows:

INTERIM DIVIDEND

The Directors have resolved to declare an interim dividend of HK0.25 cent (2001: HK0.25 cent) per ordinary share in respect of the six months ended 30th September 2002 to shareholders whose names appear on the Register of Members of the Company at the close of business on 13th January 2003. The interim dividend will be paid on or before 23rd January 2003.

CLOSURE OF REGISTER OF MEMBERS

The Register of Members of the Company will be closed from 14th January 2003 to 17th January 2003 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 on or before 4:00 p.m. on 13th January 2003 (address at 5th Floor, Wing On Centre, 111 Connaught Road Central, Hong Kong on or before Friday, 10th January 2003 and at Ground Floor, Bank of East Asia Harbour View Centre, 56 Gloucester Road, Wanchai, Hong Kong with effect from Monday, 13th January 2003).

BUSINESS REVIEW

With the solid foundation laid by its OEM and ODM business, the diversification strategies pursued by the Group in recent years has driven its transformation from OEM and ODM manufacturer into a major all round entertainment company, engaging in the design, development, manufacturing, marketing and distribution of OBM products.

This proactive business strategy, particularly after the acquisition of Kid Galaxy Inc. (“Kid Galaxy”), has helped the Group drive its overall business performance into achieving stable growth in both turnover and profit for the first half of the financial year 2002/03, despite the unfavourable global economic climate. During the first half, the Group recorded an increase in turnover to approximately HK\$358 million, up 4.8% from the last corresponding period. Profit attributable to the shareholders grew 5.1% to approximately HK\$22 million for the period under review, compared with HK\$21 million in the previous corresponding period.

The strategic investment into Kid Galaxy in early 2002 has taken Lung Cheong to new business horizons. The Group has expanded its private brand product range and established a foothold in the specialty toy and gift market. In addition to its existing range of characters, a new series of major sports licensed Bendos have been successfully introduced to the North American markets. Coupled with Lung Cheong’s established engineering and manufacturing capabilities as well as Kid Galaxy’s design and marketing expertise, the Group has been able to strengthen the Bendos brand and produce more creative products. Apart from Bendos, the Group has also developed another private branded radio control car, the KG Racer Automites, creating different models, which were well received in the market. More than two hundred thousand units were sold since its launch in January this year. Utilizing the production capacity of the Group’s Indonesian plant, the two new OBM products contributed partly to higher sales for the Group.

The ongoing commitment to the development of OEM and ODM business has received strong support from its customers, in view of its continuous efforts to strengthen close working relationship with these renowned toy companies and with its commitment to manufacture quality products. During the period under review, the sales performance of radio control and wireless toys such as cars, boats, trains and planes persisted. A number of new radio control toys were also launched with very positive market responses.

Standard Tooling and Products Co. Limited (“STP”) continued to play an important role in the Group’s growth. Capitalizing on its strong design and engineering capabilities and the Group’s established wireless technology, a number of innovative and marketable ODM products such as mini trains and mini formula one racing cars were introduced during the period under review. Additionally, a more sophisticated version of its ODM baby monitors was introduced into the European market and the U.S.

In view of the satisfactory contribution derived from providing moulding services for customers, the Group has increased its investment into newer and technological advanced equipment to strengthen its moulding capabilities, stabilize income stream and meet the needs of customers. The initial response from major customers to this enhanced service has been highly encouraging. With the widening of the customer base, further revenue are expected in this category in the next half-year.

PROSPECTS

The encouraging progress in all aspects of the Group’s business in the first half of the year has proven the efficiency of its diversification strategy. The satisfactory performance of its own brand products is driving the Group to utilize its capabilities to produce more creative and marketable products.

Recent signing of a loan agreement for the amount of HK\$200 million offered by 11 banks, including Standard Chartered Bank as the Mandated Arranger of the loan facility, has strengthened the Group’s ability to push its strategies forward. With these financing, the Group is able to take advantage of business opportunities more actively. In addition, on 3rd December 2002 the Group completed the acquisition of the remaining 40% interest in Kid Galaxy with internally generated fundings.

Bendos brand popularity and creativity have helped to extend their reach. Recently, Bendos animal range commenced sales in the world famous Disney theme parks in the U.S. They are expected to become available at other theme parks in other countries in future. Following the release of its recently licensed National Hockey Leagues (NHL) series, the new sports licensed figures for Major League Baseball (MLB) and Major League Soccer (MLS), two major professional sports leagues in the U.S., will soon be launched in the market, further enhancing the Group’s penetration into the sports world.

In view of its popularity in the U.S., Japan, U.K., and Australia, the Group plans to launch the Bendos brand and build its presence in the Asian and European markets. Recently, the Group entered the specialty toy and gift market in Hong Kong with the establishment its retail outlets in high end department and gift stores such as Seibu and Kalm’s, marking the start of the distribution of its private brand products locally. The Group will expand the Bendos brand and produce more creative series that suit local market tastes and various marketing and promotional programs are planned to boost sales and promote the brand. The Group will continue to seek suitable outlets to extend its local distribution network in Hong Kong.

Following the success of its licensed “Hikarian” and “Mado King Granzort” products in the China market, the Group launched another new licensed product “Super Armored Cop” in China’s major cities in June this year. To boost sales, the Group adopted a new promotion strategy, publishing “Super Armored Cop” comics in major teen magazines to coincide with the release of the products. Sale performance is expected to heighten in the next half of the year due to seasonal factors where the peak season falls at the Chinese New Year.

Looking ahead, the Group will continue to enhance its R&D capabilities to introduce more innovative ideas, in view of the encouraging performance of its ODM products, and pursue the reach of its own brand products. With sufficient funding in place, the Group will implement these strategic plans to maximize the returns for the Group and value for the shareholders.

LIQUIDITY AND CAPITAL RESOURCES

As at 30th September 2002, net current assets of the Group were approximately HK\$147 million (31st March 2002: HK\$164 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 consortium of banks. The long-term borrowings to shareholders’ funds ratio was 26.3% (31st March 2002: 42.9%). The current assets comprised inventories of approximately HK\$177 million and trade receivables of HK\$124 million, and bank balances and cash of approximately HK\$51 million. The balances of 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\$718 million which were financed by current liabilities of approximately HK\$264 million, long-term liabilities of approximately HK\$93 million, minority interests of HK\$9 million and shareholders’ funds of HK\$352 million. The Group has no significant exposure to foreign exchange fluctuation.

DESCRIPTION OF CHANGES IN PREFERENCE SHARES

Certain rights attached to the existing preference shares have been amended according to the special resolution passed in the extraordinary general meeting held on 3rd September 2002. The rights amended included the right to receive dividends, redemption rights, conversion and pre-emptive rights. Details of the amendments were disclosed in the 2001/2002 annual report.

EMPLOYEE SCHEMES

As at 30th September 2002, the Group had approximately 6,687 employees. Approximately 69, 6,181, 426 and 11 employees were based in Hong Kong, Dongguan factories, Indonesia factory and the U.S. office 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 2001/2002 annual report.

SHARE OPTIONS

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 3rd September 2002, the shareholders of the Company approved the termination of the Share Option Scheme and the adoption of a new scheme (the “2002 Scheme”). Despite the fact that no further options may be granted under the Share Option Scheme, all other provisions of this scheme will remain in force to govern the exercise of all the options previously granted.

Details of the share options granted under the Share Option Scheme and remaining outstanding as at 30th September 2002 are as follows:

	Options held at 1 April 2002	Options granted during period	Options exercised during period	Options cancelled during period	Options held at 30 September 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	2,100,000	-	200,000 ¹	-	1,900,000	0.675	14 March 2000	1 October 2000	30 September 2005
Total	12,100,000	-	200,000	-	11,900,000				

Note 1: During the period ended 30th September 2002, 200,000 shares options were exercised by certain employees at HK\$0.675 per ordinary share. The closing price of the share immediately before the date on which the options were exercised was HK\$0.84.

The above options granted are not recognised in the accounts until they are exercised. The Directors consider that it is not appropriate to value the share options on the ground that certain crucial factors for such valuations are variables which cannot be reasonably determined at this stage. Any valuation of the share options based on speculative assumptions in respect of such variables would not be meaningful and the results thereof may be misleading to the shareholders.

No share options have been granted by the Company under the 2002 Scheme during the period.

PURCHASE, SALE OR REDEMPTION OF SHARES

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

DIRECTORS' INTERESTS IN SECURITIES

As at 30th September 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 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	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 8th September 1997, details of which are set out in the previous part of this report.

Apart from the above, at no time during the period 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.

On 26th June 2001, the Company entered into a transferable term 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 Rules Governing the Listing of Securities on the Stock Exchange of Hong Kong) 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.

On 3rd December 2002, the Company entered into a facility agreement whereby a banking facility was granted to the Company by a consortium of banks. The facility imposes an obligation for the majority shareholders of the Company, Mr. Leung Lun and Mr. Leung Chung Ming to maintain at least 45% of the total issued share capital of the Company. Ceasing to hold at least 45% of the total issued share capital of the Company will constitute an event of default.

SUBSTANTIAL SHAREHOLDERS

At 30th September 2002 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.

CONNECTED TRANSACTION

Kid Galaxy Corporation (“Kid Galaxy”) is now a wholly-owned subsidiary of the Company. It and its subsidiaries are principally engaged in the trading of children’s bendable figures under the brand “Bendos” and accessories. Before it became a wholly-owned subsidiary of the Company on 3rd December 2002, Kid Galaxy was owned as to 60% by the Company and as to 40% by the vendor. The vendor was a passive investor with no representative on the board of Kid Galaxy. Kid Galaxy had, during the time as a non-wholly owned subsidiary of the Company, been run by the management of the Company and during which period, the working capital of Kid Galaxy was principally financed by advances from Lung Cheong Toys Limited (“LC Toys”), a wholly-owned subsidiary of the Company. LC Toys commenced extending advances to Kid Galaxy in February 2002. The vendor had not matched its contribution of the advances proportional to its equity interest in Kid Galaxy. The advances were extended by LC Toys on normal commercial terms, with interest charged at 10% per annum. For the periods from 19th June, 2001 (date of incorporation of Kid Galaxy) to 31st March 2002 and six months ended 30th September 2002, LC Toys had extended the following advances to Kid Galaxy for working capital purposes:

	30th September 2002 HK\$	31st March 2002 HK\$
Outstanding balance	<u>14,689,998</u>	<u>31,094,592</u>
Maximum advances during the period	<u>15,495,314</u>	<u>31,094,592</u>
Interest charged at 10% per annum during the period	<u>696,961</u>	<u>266,657</u>

Given that the advances bore interest at 10% per annum, which was determined after arm’s length negotiation between the parties, the Directors are of the view that the advances were made on normal commercial terms and were fair and reasonable.

AUDIT COMMITTEE

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 Audit Committee has reviewed with management the accounting principles and practices adopted by the Group and discussed internal control and financial reporting matters, including a review of the unaudited interim accounts for the six months ended 30th September 2002 approved by the Directors.

COMPLIANCE WITH THE CODE OF THE BEST PRACTICE OF THE LISTING RULES

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 Director this meets the same objective as the Code of Best Practice.

Except for the above, none of the Directors of the Company is aware of any information which would indicate that the Group is not, or was not, in compliance with the Code of Best Practice as set out in Appendix 14 of in the Listing Rules of The Stock Exchange of Hong Kong Limited at any time during the six months ended 30th September 2002.

On behalf of the Board

Leung Lun

Chairman

17th December 2002

CONDENSED CONSOLIDATED PROFIT AND LOSS ACCOUNT
FOR THE SIX MONTHS ENDED 30TH SEPTEMBER 2002

		Unaudited	
		Six months ended	
		30th September	
	<i>Notes</i>	2002	2001
		HK\$'000	HK\$'000
Turnover	2	357,508	341,105
Cost of sales		(270,219)	(260,489)
Gross profit		87,289	80,616
Other revenues	2	573	4,397
Selling expenses		(9,809)	(7,269)
Administrative expenses		(46,610)	(42,893)
Operating profit	3	31,443	34,851
Finance costs	4	(7,007)	(10,103)
Profit before taxation		24,436	24,748
Taxation	5	(2,852)	(4,207)
Profit attributable to shareholders		21,584	20,541
Dividends	6	1,726	1,733
Earnings per share			
– Basic	7	5.04 cents	4.79 cents
– Diluted	7	4.46 cents	4.25 cents

CONDENSED CONSOLIDATED BALANCE SHEET
AS AT 30TH SEPTEMBER 2002

		Unaudited 30th September	Audited 31st March
	<i>Notes</i>	2002 <i>HK\$'000</i>	2002 <i>HK\$'000</i>
Goodwill	8	22,360	23,145
Fixed assets	9	274,964	281,405
Other investments		10,117	10,117
Current assets			
Inventories		177,297	183,334
Trade receivables	10	123,541	106,132
Other receivables, deposits and prepayments		56,603	19,508
Taxation recoverable		2,777	2,692
Bank balances and cash		50,944	68,750
		411,162	380,416
Current liabilities			
Trade payables and deposits received	11	49,034	51,366
Other payables and accrued charges		11,569	38,724
Trust receipt loans, secured		85,742	42,206
Short-term bank loans, secured		-	13,000
Current portion of long-term liabilities	13	110,291	66,340
Taxation payable		7,667	5,237
		264,303	216,873
Net current assets		146,859	163,543
Total assets less current liabilities		454,300	478,210
Financed by:			
Share capital	12	72,400	72,380
Reserves		84,087	82,371
Retained profits			
Proposed dividends		1,209	2,072
Other		193,895	174,039
Shareholders' funds		351,591	330,862
Minority interests		9,288	4,644
Long-term liabilities	13	93,421	142,704
		454,300	478,210

CONDENSED CONSOLIDATED CASH FLOW STATEMENT
FOR THE SIX MONTHS ENDED 30TH SEPTEMBER 2002

	Unaudited	
	Six months ended	
	30th September	
	2002	2001
	HK\$'000	HK\$'000
Net cash outflow from operating activities	(29,550)	(66,392)
Net cash outflow from investing activities	(16,666)	(3,327)
Net cash (outflow)/inflow from financing activities	(3,142)	155,492
(Decrease)/increase in cash and cash equivalents	(49,358)	85,773
Cash and cash equivalents at 1st April	13,544	(66,023)
Effect of foreign exchange rate changes	1,016	982
Cash and cash equivalents at 30th September	(34,798)	20,732
Analysis of cash and cash equivalents		
Bank balances and cash	50,944	65,907
Trust receipt loans	(85,742)	(45,175)
	(34,798)	20,732

CONDENSED CONSOLIDATED STATEMENT OF CHANGES IN EQUITY
FOR THE SIX MONTHS ENDED 30TH SEPTEMBER 2002

	Unaudited						
	Share capital HK\$'000	Share premium HK\$'000	Exchange fluctuation reserve HK\$'000	Capital reserve (Note 14) HK\$'000	Property revaluation reserve HK\$'000	Retained profits HK\$'000	Total HK\$'000
At 1st April 2002	72,380	88,825	(48,783)	25,061	17,268	176,111	330,862
Exchange difference arising from translation of accounts of overseas subsidiaries not recognised in the profit and loss account	-	-	1,601	-	-	-	1,601
Exercise of options	20	115	-	-	-	-	135
Profit for the period	-	-	-	-	-	21,584	21,584
Dividends	-	-	-	-	-	(2,591)	(2,591)
At 30th September 2002	<u>72,400</u>	<u>88,940</u>	<u>(47,182)</u>	<u>25,061</u>	<u>17,268</u>	<u>195,104</u>	<u>351,591</u>
	Unaudited						
	Share capital HK\$'000	Share premium HK\$'000	Exchange fluctuation reserve HK\$'000	Capital reserve HK\$'000	Property revaluation reserve HK\$'000	Retained profits HK\$'000	Total HK\$'000
At 1st April 2001, as previously reported	72,340	88,595	(49,133)	22,138	17,268	150,251	301,459
Effect of adopting SSAP 9 (revised)	-	-	-	-	-	1,730	1,730
At 1st April 2001, as restated	72,340	88,595	(49,133)	22,138	17,268	151,981	303,189
Exchange difference arising from translation of accounts of overseas subsidiaries not recognised in the profit and loss account	-	-	982	-	-	-	982
Exercise of share option	40	230	-	-	-	-	270
Dividends	-	-	-	-	-	(1,730)	(1,730)
Profit for the period	-	-	-	-	-	20,541	20,541
At 30th September 2001	<u>72,380</u>	<u>88,825</u>	<u>(48,151)</u>	<u>22,138</u>	<u>17,268</u>	<u>170,792</u>	<u>323,252</u>

NOTES TO THE CONDENSED INTERIM ACCOUNTS

1. PRINCIPAL ACCOUNTING POLICIES

These unaudited condensed consolidated interim accounts have been prepared in accordance with Hong Kong Statement of Standard Accounting Practice (“SSAP”) No. 25, “Interim Financial Reporting”, issued by the Hong Kong Society of Accountants (“HKSA”).

These condensed accounts should be read in conjunction with the audited accounts for the year ended 31st March 2002.

The accounting policies and methods of computation used in the preparation of these condensed accounts are consistent with those used in the annual accounts for the year ended 31st March 2002. The Group has presented its cash flow statement with effect from 1st April 2002 based on SSAP 15 (revised): “Cash flow statements” issued by the HKSA which is effective for accounting periods commencing on or after 1st January 2002. The comparative figures have been reclassified accordingly. In addition, the following SSAPs issued by the HKSA became effective for accounting periods commencing on or after 1st January 2002 are applicable to the Group:

SSAP 1 (revised)	:	Presentation of financial statements
SSAP 11 (revised)	:	Foreign currency translation
SSAP 25 (revised)	:	Interim financial reporting
SSAP 34	:	Employee benefits

The adoption of the above SSAPs has no material effect on the Group’s prior year interim accounts.

2. TURNOVER, REVENUE AND SEGMENTAL INFORMATION

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

Revenues recognised during the periods are as follows:

	Unaudited Six months ended 30th September	
	2002 HK\$’000	2001 HK\$’000
Turnover		
Sale of goods	344,115	325,663
Mould income	13,393	15,442
	357,508	341,105
Other revenues		
Interest income	255	1,137
Other	318	3,260
	573	4,397
Total revenues	358,081	345,502

Primary reporting format – business segments

The Group's turnover and results are substantially derived from the manufacturing of toys. Accordingly, no analysis by business segment is presented.

Secondary reporting format – geographical segments

	Turnover Unaudited Six months ended 30th September	
	2002 HK\$'000	2001 HK\$'000
United States	139,686	155,115
Europe	88,593	80,416
Japan	68,802	48,159
Mainland China	15,057	8,286
Other	45,370	49,129
	<u>357,508</u>	<u>341,105</u>

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

Sales are based on the country in which the customers are located.

3. OPERATING PROFIT

Operating profit is stated after charging the following:

	Unaudited Six months ended 30th September	
	2002 HK\$'000	2001 HK\$'000
Depreciation of owned fixed assets	23,143	20,573
Depreciation of fixed assets under finance leases	200	1,083
Amortisation of goodwill (included in administrative expenses)	785	–
	<u>785</u>	<u>–</u>

4. FINANCE COSTS

	Unaudited Six months ended 30th September	
	2002 HK\$'000	2001 HK\$'000
Interest on loans from banks and financial institutions and overdrafts	6,560	9,390
Interest elements of finance leases	447	713
	<u>7,007</u>	<u>10,103</u>

5. TAXATION

	Unaudited Six months ended 30th September	
	2002 HK\$'000	2001 HK\$'000
Hong Kong profits tax	1,870	1,252
Mainland China income tax	982	2,955
	<u>2,852</u>	<u>4,207</u>

Hong Kong profits tax has been provided at the rate of 16% (2001: 16%) on the estimated assessable profit for the period. Taxation on profits of Mainland China subsidiaries has been calculated on the estimated assessable profit for the period at the rates of taxation as applicable to the local subsidiaries.

6. DIVIDENDS

	Unaudited Six months ended 30th September	
	2002 HK\$'000	2001 HK\$'000
Preference dividends, paid, of HK\$12,928 (2001: HK\$17,463) per preference share	517	698
Preference dividends, declared after period end, of HK\$4,333 per preference share	173	–
Interim dividend, declared after period end, of HK0.25 cents (2001: HK0.25 cents) per ordinary share (<i>Note</i>)	<u>1,036</u>	<u>1,035</u>
	<u>1,726</u>	<u>1,733</u>

Note: At the board meeting held on 17th December 2002, the directors declared an interim dividend of HK0.25 cents per ordinary share. This proposed interim dividend is not reflected as a dividend payable in these condensed interim accounts, but will be reflected as an appropriation of retained profits for the year ending 31st March 2003.

7. EARNINGS PER SHARE

The calculation of basic earnings per share is based on the Group's profit attributable to shareholders of HK\$21,584,000 (2001: HK\$20,541,000) less preference dividends of HK\$690,000 (2001: HK\$695,000). The calculation of diluted earnings per share is based on the Group's profit attributable to shareholders of HK\$21,584,000 (2001: HK\$20,541,000).

The basic earnings per share is based on the weighted average number of 414,333,333 (2001: 414,066,667) ordinary shares in issue during the period. The diluted earnings per share is based on 414,333,333 (2001: 414,066,667) ordinary shares which is the weighted average number of ordinary shares in issue during the period plus the weighted average number of 69,333,333 (2001: 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 551,000 (2001: 133,000) ordinary shares deemed to be issued at no consideration if all outstanding share options have been exercised.

8. GOODWILL

	<i>HK\$'000</i>
At 1st April 2002	23,145
Amortisation charges for the period	<u>785</u>
At 30th September 2002	<u><u>22,360</u></u>

9. FIXED ASSETS

	<i>HK\$'000</i>
At 1st April 2002	281,405
Additions	19,616
Disposals	(3,298)
Depreciation	(23,343)
Exchange adjustment	<u>584</u>
At 30th September 2002	<u><u>274,964</u></u>

10. 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. The ageing analysis of trade receivables is as follows:

	0-30 days <i>HK\$'000</i>	31-60 days <i>HK\$'000</i>	61-90 days <i>HK\$'000</i>	Over 90 days <i>HK\$'000</i>	Total <i>HK\$'000</i>
As at 30th September 2002	<u>68,037</u>	<u>38,659</u>	<u>11,542</u>	<u>5,303</u>	<u>123,541</u>
As at 31st March 2002	<u>61,457</u>	<u>18,078</u>	<u>10,672</u>	<u>15,925</u>	<u>106,132</u>

11. TRADE PAYABLES AND DEPOSITS RECEIVED

	Unaudited 30th September 2002 <i>HK\$'000</i>	Audited 31st March 2002 <i>HK\$'000</i>
Trade payables (<i>Note</i>)	47,267	43,786
Deposits received	<u>1,767</u>	<u>7,580</u>
	<u>49,034</u>	<u>51,366</u>

Note: The ageing analysis of trade payables was as follows:

	0-30 days <i>HK\$'000</i>	31-60 days <i>HK\$'000</i>	61-90 days <i>HK\$'000</i>	Over 90 days <i>HK\$'000</i>	Total <i>HK\$'000</i>
As at 30th September 2002	<u>18,527</u>	<u>13,099</u>	<u>11,593</u>	<u>4,048</u>	<u>47,267</u>
As at 31st March 2002	<u>16,310</u>	<u>9,405</u>	<u>9,668</u>	<u>8,403</u>	<u>43,786</u>

12. SHARE CAPITAL

	Authorised			
	Convertible 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</i> <i>(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			
	Convertible 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>(equivalent)</i>	<i>No. of shares</i> <i>(thousands)</i>	<i>HK\$'000</i>
At 1st April 2001	40	30,960	413,800	41,380
Exercise of share options (<i>Note 1</i>)	–	–	400	40
At 30th September 2001/31st March 2002	<u>40</u>	<u>30,960</u>	<u>414,200</u>	<u>41,420</u>
At 1st April 2002	40	30,960	414,200	41,420
Exercise of share options (<i>Note 2</i>)	–	–	200	20
At 30th September 2002	<u>40</u>	<u>30,960</u>	<u>414,400</u>	<u>41,440</u>

Notes:

- During the period ended 30th September 2001/year ended 31st March 2002, 400,000 share options were exercised by certain employees at HK\$0.675 per ordinary share. The closing price of the shares immediately before the date on which the options were exercised was HK\$0.8.
- During the period ended 30th September 2002, 200,000 shares options were exercised by certain employees at HK\$0.675 per ordinary share. The closing price of the share immediately before the date on which the options were exercised was HK\$0.84.

13. LONG-TERM LIABILITIES

	Unaudited 30th September 2002 HK\$'000	Audited 31st March 2002 HK\$'000
Loans from banks and financial institutions-secured (<i>Note (a)</i>)		
Wholly repayable within five years	193,145	196,377
Not wholly repayable within five years	9,225	9,886
	202,370	206,263
Obligation under finance leases wholly repayable within five years (<i>Note (b)</i>)	506	1,946
Deferred taxation	836	835
	203,712	209,044
Current portion of long-term liabilities	(110,291)	(66,340)
	93,421	142,704

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

	Unaudited 30th September 2002 HK\$'000	Audited 31st March 2002 HK\$'000
Within one year	109,993	64,628
In the second year	85,857	96,824
In the third to fifth years inclusive	4,714	42,183
More than five years	1,806	2,628
	<u>202,370</u>	<u>206,263</u>

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

	Unaudited 30th September 2002 HK\$'000	Audited 31st March 2002 HK\$'000
Within one year	315	1,772
In the second year	67	67
In the third to fifth years inclusive	161	195
	<u>543</u>	<u>2,034</u>
Future finance charges on finance leases	(37)	(88)
	<u>506</u>	<u>1,946</u>

The present value of finance lease liabilities is as follows:

	Unaudited 30th September 2002 HK\$'000	Audited 31st March 2002 HK\$'000
Within one year	300	1,712
In the second year	56	55
In the third to fifth year inclusive	150	179
	<u>506</u>	<u>1,946</u>

14. CAPITAL RESERVE

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.

15. CONTINGENT LIABILITIES

At 30th September 2002, the Group had contingent liabilities not provided for in the accounts as follows:

	Unaudited 30th September 2002 HK\$'000	Audited 31st March 2002 HK\$'000
Issued letters of credit	13,712	35,753
Shipping guarantees	4,505	318
Bills discounted with recourse	691	–
	<u>18,908</u>	<u>36,071</u>

16. COMMITMENTS

At 30th September 2002, the Group had total future aggregate minimum lease payments under non-cancellable operating leases in respect of land and buildings as follows:

	Unaudited 30th September 2002 HK\$'000	Audited 31st March 2002 HK\$'000
Not later than one year	2,698	2,580
Later than one year and not later than five years	1,469	1,115
	<u>4,167</u>	<u>3,695</u>

17. CHARGES ON GROUP ASSETS

At 30th September 2002, a leasehold commercial building in Hong Kong, plant and machinery and a motor vehicle of the Group with an aggregate carrying value of HK\$15,035,000 (31st March 2002: HK\$15,190,000), HK\$3,060,000 (31st March 2002: HK\$5,594,000) and HK\$322,000 (31st March 2002: HK\$368,000), respectively were pledged to certain banks to secure general banking facilities granted to the Group.

18. SUBSEQUENT EVENTS

On 3rd December 2002, the Company entered into a facility agreement whereby a banking facility in an aggregate amount of HK\$200,000,000 was granted to the Company by a consortium of banks.

On 3rd December 2002, a wholly-owned subsidiary of the Company entered into an acquisition agreement for the acquisition of 40% equity interest in Kid Galaxy Corporation (“Kid Galaxy”) and the benefits of the loan for a total consideration of HK\$9,750,000. Kid Galaxy became a wholly-owned subsidiary of the Company after completion of the acquisition agreement.