



Report of the Directors

The Directors submit their report together with the audited accounts for the year ended 31 March 2003.

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 31.

Preference dividends of HK\$517,000 and HK\$173,000 were paid on 20 September 2002 and 30 January 2003 respectively. The Directors have declared an interim dividend of HK0.25 cents per ordinary share, totalling HK\$1,036,000, which was paid on 23 January 2003.

The Directors recommend the payment of a final dividend of HK0.75 cents per ordinary share, totalling HK\$3,108,000. Based on this recommendation, the final preference share dividend will amount to HK\$520,000.

RESERVES

Movements in other reserves and retained profits of the Group and of the Company during the year are set out in Notes 21 and 22 to the accounts respectively.

DONATIONS

Donations made by the Group during the year amounted to HK\$46,120.

FIXED ASSETS

Details of the movements in fixed assets of the Group are set out in Note 13 to the accounts.

INFORMATION ON SUBSIDIARIES

Particulars of the subsidiaries are set out in Note 14 to the accounts.

SHARE CAPITAL

Details of the movements in share capital of the Company are set out in Note 20 to the accounts.



Report of the Directors

FIVE YEAR FINANCIAL SUMMARY

The following is a summary of the consolidated results, assets and liabilities of the Group for each of the five years ended 31 March 2003, 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 three years ended 31 March 2001 have been restated to conform to the changed policy.

	2003 HK\$'000	2002 HK\$'000	2001 HK\$'000 Restated	2000 HK\$'000 Restated	1999 HK\$'000 Restated
Turnover	716,714	657,433	646,840	660,015	554,478
Profit before taxation	38,617	31,911	27,222	30,706	18,178
Taxation	(6,074)	(700)	(4,357)	(4,090)	(811)
Profit after taxation	32,543	31,211	22,865	26,616	17,367
Minority interests	–	–	–	–	–
Profit attributable to shareholders	32,543	31,211	22,865	26,616	17,367
Total assets	789,531	695,083	610,471	518,598	462,923
Total liabilities	(430,917)	(359,577)	(307,977)	(226,867)	(240,600)
Minority interests	–	(4,644)	–	–	–
Net assets	358,614	330,862	302,494	291,731	222,323

Report of the Directors

DISTRIBUTABLE RESERVES

At 31 March 2003, the reserves of the Company available for distribution amounted to HK\$189,381,000 (2002: HK\$181,426,000). 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 "Old 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.

On 3 September 2002, the shareholders of the Company approved the termination of the Old Scheme and the adoption of a new scheme ("2002 Scheme") as a result of the amendments of Chapter 17 of the Rules Governing the Listing of Securities on The Stock Exchange of Hong Kong Limited (the "Listing Rules"). Upon the termination of the Old Scheme, no further options can be granted thereunder but in all other respects, the provisions of the Old Scheme shall remain in force and all share options granted prior to such termination shall continue to be valid and exercisable in accordance therewith.



Report of the Directors

SHARE OPTION SCHEME (continued)

Details of the 2002 Scheme are as follows:

(1) Purpose

To recognise the contribution of employees, suppliers, consultants, agents and advisers of the Group.

(2) Eligible persons

Full-time employees of the Group (including Directors of the Company and its subsidiaries) and suppliers, consultants, agents and advisers who have contributed or will contribute to the Group.

(3) Maximum number of shares

The maximum number of shares available for issue under the 2002 Scheme is 28,940,000, representing approximately 7% of the issued share capital of the Company as at the date of this report.

(4) Maximum entitlement of each eligible person

Unless approved by shareholders, the total number of shares issued and to be issued upon exercise of the share options granted to each eligible person in any 12-months period must not exceed 1% of the shares of the Company in issue.

(5) Time of exercise of option

An option may be exercised during the periods to be determined and notified by the Directors of the Company to the grantees at the time of making offers to grant share options to them provided that such periods shall not exceed the period of ten years from the date of grant.

(6) Acceptance of offers

Offers for the grant of share options must be accepted within twenty eight days, inclusive of the dates on which the offers are made. Offers for grant of share options have to be accepted together with remittance in favour of the Company of HK\$1.00.

Report of the Directors

SHARE OPTION SCHEME (continued)

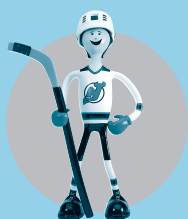
(7) Basis of determining the option exercise price

The subscription price for the shares under the 2002 Scheme shall be a price determined by the Directors at its discretion, provided that it shall not less than the higher of (i) the closing price of the shares stated in the daily quotation sheets issued by The Stock Exchange of Hong Kong Limited ("Stock Exchange") on the date of grant and (ii) the average closing price of the shares stated in the Stock Exchange's daily quotation sheets for the five business days immediately preceding the date of grant of share options.

(8) The remaining life of the 2002 Scheme

The 2002 Scheme will be terminated at the close of business of the Company on 3 September, 2012, being a date which falls ten years after the date of adoption of the 2002 Scheme.

No options have been granted under the 2002 Scheme.



Report of the Directors

SHARE OPTION SCHEME (continued)

Details of the share options outstanding as at 31 March 2003 which have been granted under the Old Scheme are as follows:

	Options held at 1 April 2002	Options granted during year	Options exercised during year	Options cancelled during the year	Options held at 31 March 2003	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				

Notes:

1. Exercise date was 28 May 2002. At the date before the options were exercised, the market value per share was HK\$0.84.
2. The above options granted are not recognised in the accounts until they are exercised. Rule 17.08 of the Listing Rules stipulates that the listed issuer is encouraged to disclose in its annual report the value of share options granted to the participants. The Directors consider it inappropriate to value the share options as a number of factors critical for the valuation cannot be determined accurately. Any valuation of the share options based on various speculative assumptions would be meaningless and could be misleading to the shareholders.

AMENDMENT TO THE RIGHTS ATTACHED TO THE EXISTING PREFERENCE SHARES

On 18 July 2002, the Company and the holder of all the Company's existing preference shares agreed to amend certain rights attached to the preference shares. Details of the amendments are set out in Note 20(c) to the accounts.

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.* (resigned on 8 January 2003)
Mr WONG Lam, O.B.E., J.P.*
Mr YE Tian Liu*
Mr KO Peter, Ping Wah* (appointed on 10 January 2003)

* Independent 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. Mr ZHONG Bing Quan, Mr YE Tian Liu and Mr KO Peter, Ping Wah 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.

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

Executive Directors

Mr LEUNG Lun, aged 53, 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 Jiang Xi 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. He is also a member of the Hong Kong Trade Development Council Toys Advisory committee.

Mr LEUNG Chung Ming, aged 43, 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 strategic planning, sales and marketing of the Group. He is also in charge of the Group's ODM products development of the Group. He is currently a vice president of The Toys Manufacturer's Association of Hong Kong, Guangdong Toy Association and executive director of China 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. He is also a member of the committee of the Chinese People's Political Consultative Conference of Guizhou Province and 2002 Young Industrialist of Hong Kong.



Report of the Directors

DIRECTORS (continued)

Executive Directors (continued)

Mr ZHONG Bing Quan, aged 51, is one of the founders of Lung Cheong Toys Limited (“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 local authorities in Mainland China. He has been general manager of Dongguan City Supply, Marketing and Trading Company since 1979.

Ms CHENG Yun Tai, aged 48, is responsible for overseeing the financial control of the Group’s operations in Mainland China. She is also responsible for liaising with local authorities in Mainland China. Ms Cheng is also 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 36, 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.

Independent Non-executive Directors

The Hon, Mr LAU Wong Fat, G.B.S., J.P., aged 66, is 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, 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 resigned from directorship in January 2003.

Mr YE Tian Liu, aged 57, 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 in China trade and investment.

Mr WONG Lam, O.B.E., J.P., aged 84, is a former member of Hong Kong Legislative Council. He is currently a 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 KO Peter, Ping Wah, aged 54, was appointed as an Independent Non-executive Director of the Company in Jan 2003. Mr Ko holds a master’s degree of science in business administration from the University of Bath, England and bachelor’s degree in law (Chinese Law) from the University of Beijing, China. He was formally an Auditor of ISO900 and QS900 for over 6 years and a management consultant of a local company for over 14 years. He is also appointed a part-time tutor of the Chinese University of Hong Kong and other universities/colleges for over 24 years.

Report of the Directors

DIRECTORS (continued)

Company Secretary

MR MAK Yee Chuen, Vincent, aged 45, was appointed as company secretary in July 2000. Mr Mak holds a master's degree of laws from The University of Hong Kong in 2001 and master's degree in business administration from The Hong Kong Polytechnic University in 1994. He is member of the Hong Kong Society of Accountants and The Association of Chartered Certified Accountants. He was co-founder and partner of Vincent Mak & Company, Certified Public Accountants in 1987 and principal of Vincent Mak & Co., Solicitors in 2002.

Senior management

Mr SETO Sai Cheong Paul, aged 41, is the chief accountant. He is a 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 overall finance, accounting and taxation functions of the Group. He joined the Group in December 2000.

Mr NG Ki Yin, Simon, aged 50, is the director of logistics 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 human resources, sourcing, material planning and IT functions of the Group.

Mr YIM To, aged 50, 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.

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 relevant Directors 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

During the year, Fericle Holdings Limited ("Fericle"), a subsidiary of the Group, purchased separate insurance contracts for each of Mr. Leung Lun, Mr. Leung Chung Ming and Mr. Wong Tze On, Andy, all are the Group's Executive Directors, with insured amounts of US\$10,000,000 (HK\$78,000,000), US\$10,000,000 (HK\$78,000,000) and US\$5,000,000 (HK\$39,000,000) respectively. Each of the insurance contracts will mature on the date when the insured reaches the age of 100 or death of the insured, whichever is earlier. Lump sum payments of US\$2,142,000 (HK\$16,708,000), US\$1,296,000 (HK\$10,112,000) and US\$315,000 (HK\$2,457,000), respectively, totalling US\$3,753,000 (HK\$29,277,000), which were financed by a bank loan, were paid during the year to the insurance company. For each of the insurance contracts, Fericle and the beneficiary of the insured is entitled to 50% of the insured amount but Fericle is wholly entitled to any cash surrender value attached to the relevant insurance contracts during the period of the life insurance.

Save as mentioned above, no contracts of significance in relation to the Company's business to which the Company, 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 2003, 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"), as recorded in the register maintained by the Company pursuant to Section 29 of the SDI Ordinance or as notified to the Company:

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.

Arrangement on share options granted to Directors are set out in the previous part of this report.

Apart from the share option schemes, 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.

Report of the Directors

DIRECTORS' INTERESTS IN EQUITY SECURITIES (continued)

Save as disclosed above, at no time during the year, were 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.

On 26 June 2001 the Company entered into a transferable term loan agreement ("First Syndication Loan") 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 so long as the loan remains outstanding.

Pursuant to another loan facility agreement ("Second Syndication Loan") entered into by the Company and a group of financial institutions on 3 December 2002, Mr Leung Lun and Mr Leung Chung Ming are required to jointly hold at least 45% of the issued share capital of the Company.

SUBSTANTIAL SHAREHOLDERS

At 31 March 2003 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 share holders' 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 Old Scheme and 2002 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 the Company's preference shares (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.

The Company and the holder of all the Company's existing issued preference shares agreed on 18 July 2002 and the independent shareholders ratified at the extraordinary general meeting of the Company on 3 September 2002 that the afore-mentioned pre-emptive rights be granted only up to 20 July 2005.



Report of the Directors

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.

CONNECTED TRANSACTIONS

At 31 March 2003, 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.

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 3 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 19 June 2001 (date of incorporation of Kid Galaxy) to 31 March 2002 and from 1 April 2002 to 3 December 2002, LC Toys had extended the following advances to Kid Galaxy for working capital purposes:

	3 December 2002 HK\$	31 March 2002 HK\$
Outstanding balance	–	31,094,592
Maximum advances during the period	13,142,700	31,094,592
Interest charged at 10% per annum during the period	898,517	266,657

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.

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.

Report of the Directors

MAJOR CUSTOMERS AND SUPPLIERS

The percentage of sales and purchases attributable to the Group's largest customers and suppliers are as follows:

	2003 %	2002 %
Sales		
– the largest customer	21	22
– five largest customers combined	76	72
Purchases		
– the largest supplier	12	15
– five largest suppliers combined	25	32

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 KO Peter, Ping Wah 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 2003 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 set out in the Code of Best Practice.

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 2003