

Report of the Directors

The Directors submit their report together with the audited accounts for the year ended 31 March 2005.

Principal Activities and Geographical Analysis of Operations

The principal activity of the Company is investment holding. The principal activities of its subsidiaries are the manufacture and sale of toys and moulds.

An analysis of the Group's turnover, revenue and segment 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.

The Directors have declared an interim dividend of HK0.50 cents per ordinary share, totalling HK\$2,419,000, which was paid on 21 December 2004. The Directors recommended the payment of a final dividend of HK0.50 cents per ordinary share, totalling HK\$2,419,000.

Reserves

Movements in the reserves during the year are set out in Note 23 to the accounts.

Donations

Donations made by the Group during the year amounted to HK\$100,000.

Fixed Assets

Details of the movements in fixed assets 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.

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 2005, based on the audited accounts of the Group and restated for the adoption of the revised Statement of Standard Accounting Practice No.12 – "Income Taxes" ("revised SSAP 12") which is effective for accounting periods commencing on or after 1 January 2003.

Report of the Directors

In accordance with the revised SSAP 12, deferred taxation is provided in full, using the liability method, on temporary differences arising between the tax bases of assets and liabilities and their carrying amounts in the accounts. This change in accounting policy has been applied retrospectively so that the comparatives presented for each of the three years ended 31 March 2001, 2002 and 2003 have been restated to conform to the changed policy.

| | 2005 HK\$'000 | 2004 HK\$'000 | 2003 HK\$'000 Restated | 2002 HK\$'000 Restated | 2001 HK\$'000 Restated |
|-------------------------------------|--------------------------------|------------------|------------------------------|------------------------------|------------------------------|
| Turnover | 774,710 | 743,918 | 716,714 | 657,433 | 646,840 |
| Profit before taxation | 24,452 | 45,506 | 38,617 | 31,911 | 27,222 |
| Taxation | (4,172) | (8,649) | (7,498) | (1,112) | (4,937) |
| Profit attributable to shareholders | 20,280 | 36,857 | 31,119 | 30,799 | 22,285 |
| Total assets | 1,011,437 | 851,791 | 792,573 | 697,873 | 613,157 |
| Total liabilities | (604,011) | (462,094) | (436,621) | (368,469) | (311,951) |
| Net assets | 407,426 | 389,697 | 355,952 | 329,404 | 301,206 |

Distributable Reserves

As at 31 March 2005, the reserves of the Company available for distribution amounted to HK\$167,117,000 (2004: HK\$218,374,000). 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.

Report of the Directors

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 share option scheme of the Listing of Securities on The Stock Exchange of Hong Kong Limited (the "Listing Rules"). Upon 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.

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), 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 6% 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.

(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.

Report of the Directors

(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 since it is established in 2002.

Details of the share options outstanding as at 31 March 2005 which have been granted under the Old Scheme are as follows:

| | Options held at 1 April 2004 | Options granted during the year | Options exercised during the year | Options cancelled during the year | Options held at 31 March 2005 | 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 | 800,000 | - | - | - | 800,000 | 0.675 | 14 March 2000 | 1 October 2000 | 30 September 2005 |
| Total | 10,800,000 | - | - | - | 10,800,000 | | | | |

Note: 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.

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

Mr WONG Lam, O.B.E., J.P. #

Mr YE Tian Liu #

Mr KO Peter, Ping Wah *

Mr LAI Yun Hung # (appointed on 30 September 2004)

* Non-executive directors

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. Ms. Cheng Yun Tai, Mr. Wong Tze On, Andy and Mr. Lai Yun Hung, 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 56, 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 40 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, a standing member of the Committee of the Chinese People's Political Consultative Conference of Dongguan City. He is also an Honourable President of Dongguan Toys Association of China and Vice President of Hong Kong Economic & Trade Association. 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 45, is the Managing Director of the Group. He is the brother of Mr Leung Lun. He joined the Group in November 1979 and is responsible for strategic planning, OEM sales and marketing functions of the Group. He is also in charge of the Group's ODM product development. He is currently a vice president of The Toys Manufacturers' Association of Hong Kong. Mr Leung is the President of Dongguan Toys Association of China and 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

Mr ZHONG Bing Quan, aged 53, 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 the local authorities in Mainland China. He has been the general manager of Dongguan City Supply, Marketing and Trading Company since 1979.

Ms CHENG Yun Tai, aged 50, is responsible for overseeing the financial control of the Group's operations in Mainland China. She is also responsible for liaising with the local authorities in Mainland China. 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 38, is responsible for the formulation of corporate strategies 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.

Non-executive Director

Mr KO, Peter Ping Wah, aged 56, has been appointed as our company director since January 2003. He is now our non-executive director and a member of the Audit Committee of the Company. Mr. Ko holds a Master Degree of Science in business administration from the University of Bath, England, Bachelor Degree of Law (Chinese Law) from the University of Beijing, China and Higher Diploma in Mechanical Engineering from Hong Kong Polytechnic University. He has been registered Lead Auditor & Tutor of ISO9000 for 10 years and Quality Management Consultant and Trainer for 14 years. He is appointed as part time tutor of Universities in Hong Kong and overseas for many years.

Independent Non-executive Directors

Mr WONG Lam, O.B.E., J.P., aged 86, is a former member of Hong Kong Legislative Council and former 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 59, 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 several years. He has extensive experiences in China trade and investment.

Report of the Directors

Mr LAI Yun Hung, aged 53, is a partner of Lai & Wong, Certified Public Accountants. He has over 25 years of working experience in audit and tax advice in audit firms, with audit exposure in listed and unlisted companies engaging in various industries including banks, financial institutions, manufacturing and trading companies, travel agencies and solicitors firms. Mr. Lai is an associate member of the Institute of Chartered Accountants in England and Wales (ACA), a fellow member of the Association of Chartered Certified Accountants (FCCA) in the United Kingdom and a fellow member of the Hong Kong Institute of Certified Public Accountants (FCPA (Practising)) in Hong Kong. Mr. Lai was appointed as Independent Non-executive Director and a member of the Audit Committee of the Company in September 2004.

Company Secretary

Mr MAK Yee Chuen, Vincent, aged 48, 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 a fellow member of the Hong Kong Institute of Certified Public Accountants and The Association of Chartered Certified Accountants. He was the founder and partner of Vincent Mak & Company, Certified Public Accountants in 1987. He became the principal of Vincent Mak & Co., Solicitors in 2002.

Senior Management

Mr NG Ki Yin, Simon, aged 51, is the Director in charge of the Group's Dongguan operations. He holds a bachelor of science degree in business management. He joined the Group in June 1994. Mr. Ng is responsible for the daily operations in term of production, human resources, sourcing, material planning and IT functions of the Dongguan factories. He has over 20 years of experience in manufacturing resources, planning and system management both in overseas corporates and PRC companies.

Mr SETO Sai Cheong, Paul, aged 43, is the Group's Chief Accountant. He is a member of the Hong Kong Institute of Certified Public Accountants, The Association of Chartered Certified Accountants and The Taxation Institute of Hong Kong and has over 21 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 TONG Yong Yu, Tony, aged 54, Director of Quality Assurance and Production Engineering of the Group. He earns his Bachelor Degree in Mechanical Engineering and Master Degree in Procurement Management from University of Taiwan and UK respectively. Mr Tong have strong technical, and business background and equipped with valuable experience from his 20 years service in electronic and toy industries. He joined the Group in 2003.

Mr LEUNG Yuk Hung, Paul, aged 30, is the Associate Director responsible for the management of the Group's information technology infrastructure. He is responsible for the development of new business ventures. Mr. Leung is the son of the Group's Chairman. He holds a bachelor of engineering (I.T.) degree and a bachelor of commerce (accounting and finance) degree from the University of Western Australia. He is also a Certified Information System Auditor (CISA). He joined the Group in March 2003.

Report of the Directors

Mr COLEBURN, Will, aged 50, Vice President of Kid Galaxy, Inc. is responsible for sales, marketing and OBM functions of the Group in North America. He joined the Group in April 2004. His experience spans 20 years in the toy, game and arts and crafts industries. He was Director, Marketing at Parker Brothers where he managed some of the industry's best known brands, including Monopoly, Clue, Sorry, Trivial Pursuit and Nerf. He was Senior Vice President at both Koh-I-Noor/Grumbacher fine arts and Wrights crafts. He holds a Bachelor of Art from Ohio Wesleyan University and an Master of Business Administration from Boston College.

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.

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. 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.

Report of the Directors

Directors' Interests in Equity Securities

As at 31 March 2005, the interests and short positions of each Director in the shares or underlying shares of the Company and its associated corporations (within the meaning of Part XV of the Securities and Futures Ordinance (Chapter 571 of Laws of Hong Kong) ("SFO")) as recorded in the register required to be kept under section 352 of the SFO or as otherwise notified to the Company and The Stock Exchange of Hong Kong Limited ("Stock Exchange") pursuant to the Model Code for Securities Transactions by Directors of Listed Companies contained in the Listing Rules were as follows:

| Name | Name of company | Capacity | Number and class of securities <i>(note 1)</i> |
|-------------------|--------------------------------|--|---|
| Leung Lun | The Company | Interest of controlled corporation <i>(note 2)</i> | 279,442,000 ordinary shares (L) |
| | The Company | Beneficial interest | 2,000,000 ordinary shares (L) <i>(note 3)</i> |
| | Lung Cheong Investment Limited | Interest of controlled corporation <i>(note 2)</i> | 1,000 ordinary shares (L) |
| | Rare Diamond Limited | Beneficial interest | 70 ordinary shares (L) |
| Leung Chung Ming | The Company | Interest of controlled corporation <i>(note 2)</i> | 279,442,000 ordinary shares (L) |
| | The Company | Beneficial interest | 2,000,000 ordinary shares (L) <i>(note 3)</i> |
| | Lung Cheong Investment Limited | Interest of controlled corporation <i>(note 2)</i> | 1,000 ordinary shares (L) |
| | Rare Diamond Limited | Beneficial interest | 30 ordinary shares (L) |
| Zhong Bing Quan | The Company | Beneficial interest | 2,000,000 ordinary shares (L) <i>(note 3)</i> |
| Cheng Yun Tai | The Company | Beneficial interest | 2,000,000 ordinary shares (L) <i>(note 3)</i> |
| Wong Tze On, Andy | The Company | Beneficial interest | 2,000,000 ordinary shares (L) <i>(note 3)</i> |

Notes:

- The letter "L" represents the Director's interests in the shares and underlying shares of the Company.
- These shares were held by Lung Cheong Investment Limited, a company 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.

Report of the Directors

3. These shares were the respective number of shares which would be allotted and issued upon exercise in full of the options granted to each of Mr. Leung Lun, Mr. Leung Chung Ming, Mr. Zhong Bing Quan, Ms. Cheng Yun Tai and Mr. Wong Tze On, Andy under the share option scheme of the Company.

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.

Pursuant to the two Term and Revolving facilities agreements entered into by the Company and a group of financial institutions on 3 December 2002 amounting to HK\$200 million and 7 December 2004 amounting to HK\$300 million, 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

As at 31 March 2005, the following persons, other than a director or chief executive of the Company, had an interest in the shares and underlying shares of the Company as recorded in the register required to be kept under section 336 of the SFO:

| Name of shareholder | Number of ordinary shares (note 1) | Capacity | Approximate percentage of interest |
|--------------------------------|---------------------------------------|------------------------------------|------------------------------------|
| Lung Cheong Investment Limited | 279,442,000 (L) | Beneficial owner | 57.76% |
| Rare Diamond Limited | 279,442,000 (L) (note 2) | Interest of controlled corporation | 57.76% |

Notes:

- The letter "L" represents the entity's interests in the shares.
- These Shares were registered in the name of Lung Cheong Investment Limited, the entire issued share capital of which was owned by Rare Diamond Limited.

Disclosure of Trade Receivables Pursuant to Chapter 13 of the Listing Rules

As at 31 March 2005, there were 483,733,333 shares of Company in issue. Based on the average closing price of the Company's shares of HK\$0.50 as stated in the Stock Exchange's daily quotation sheets for the trading days from 22 March 2005 to 30 March 2005 (both days inclusive), being the five business days immediately preceding 31 March 2005, the total market capitalization of the Company was approximately HK\$241.9 million as at 31 March 2005.

Report of the Directors

As at 31 March 2005, trade receivables from Radioshack Global Sourcing (HK) Limited amounted to approximately HK\$51.7 million which equals to approximately 21.37 per cent of the Company's total market capitalization as stated above. Under Chapter 13 of the Listing Rules, the Company's general disclosure obligation of certain particulars of the trade receivables as prescribed under Rule 13.15 arose.

The trade receivables, which are unsecured, interest free and with payment terms of 60 days, resulted from the sales of toys by the Group.

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.

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 2005, 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 3% per annum and have no fixed repayment terms. LC Toys considers the uncertainties on the repayment of the advances and makes the full provision for the whole balance.

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:

| | 2005 % | 2004 % |
|-----------------------------------|------------------|-----------|
| Sales | | |
| – the largest customer | 19 | 25 |
| – five largest customers combined | 76 | 74 |
| Purchases | | |
| – the largest supplier | 5 | 7 |
| – five largest suppliers combined | 20 | 21 |

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 WONG Lam, O.B.E., J.P. and Mr LAI Yun Hung (newly appointed in September 2004) and a non-executive director, namely Mr KO Peter, Ping Wah.

By reference to "A Guide for the Formation of An Audit Committee" published by the Hong Kong Institute of Certified Public 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 since the date of establishment. 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 2005 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.

Report of the Directors

Independence of Independent Non-Executive Directors

The Company has received from each independent Non-Executive Director an annual confirmation of his independence pursuant to Rule 3.13 of the Listing Rules. The Company considers that all of the Independent Non-Executive Directors are independent.

Sufficiency of Public Float

Based on information that is publicly available to the Company and within the knowledge of its directors as at the latest practicable date prior to the issue of this report, the public float of the shares of the Company is sufficient.

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, 27 July 2005