

The Directors submit their report together with the audited financial statements for the year ended 31 March 2007.

### **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 and segment information is set out in Note 5 to the financial statements.

### **RESULTS AND APPROPRIATIONS**

The results of the Group for the year are set out in the consolidated income statement on page 38.

The Directors do not recommend the payment of final dividend for the year ended 31 March 2007 (2006: Nil).

The Directors feel that it would not be prudent to recommend any cash dividend in view of the negative result for the year ended 31 March 2007 (2006: Nil).

The Board proposed to issue bonus shares to all shareholders whose names appear in the register of members of the Company on 27 August 2007 on the basis of two bonus shares, credited as fully paid, for every one existing share held, by way of capitalization of sum standing to the credit of the Company's share premium account subject to shareholders' approval in the next annual general meeting.

### **RESERVES**

Movements in the reserves of the Group and of the Company during the year are set out in Note 32 to the financial statements.

### **DONATIONS**

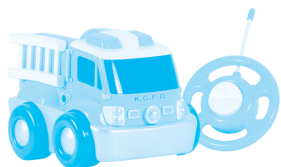
Charitable and other donations made by the Group during the year amounted to HK\$30,000.

### **PROPERTY, PLANT AND EQUIPMENT**

Details of the movements in property, plant and equipment are set out in Note 18 to the financial statements.

### **INFORMATION ON SUBSIDIARIES**

Particulars of the subsidiaries are set out in Note 19 to the financial statements.



## 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 2007.

|                                 | <b>2007</b><br><b>HK\$'000</b> | 2006<br>HK\$'000 | 2005<br>HK\$'000 | 2004<br>HK\$'000 | 2003<br>HK\$'000 |
|---------------------------------|--------------------------------|------------------|------------------|------------------|------------------|
| Turnover                        | <b>704,815</b>                 | 750,620          | 774,710          | 743,918          | 716,714          |
| (Loss)/profit before income tax | <b>(36,497)</b>                | 15,244           | 24,337           | 45,506           | 38,617           |
| Income tax (charge)/credit      | <b>(779)</b>                   | 565              | (4,172)          | (8,649)          | (7,498)          |
| (Loss)/profit for the year      | <b>(37,276)</b>                | 15,809           | 20,165           | 36,857           | 31,119           |
| Attributable to:                |                                |                  |                  |                  |                  |
| Equity holders of the Company   | <b>(37,219)</b>                | 16,673           | 20,165           | 36,857           | 31,119           |
| Minority interest               | <b>(57)</b>                    | (864)            | —                | —                | —                |
|                                 | <b>(37,276)</b>                | 15,809           | 20,165           | 36,857           | 31,119           |
| Total assets                    | <b>1,037,119</b>               | 1,024,987        | 1,020,770        | 851,791          | 792,573          |
| Total liabilities               | <b>575,861</b>                 | 586,481          | 605,190          | 462,094          | 436,621          |
| Total equity                    | <b>461,258</b>                 | 438,506          | 415,580          | 389,697          | 355,952          |

## DISTRIBUTABLE RESERVES

At 31 March 2007, the reserves of the Company available for distribution amounted to HK\$161,204,000 (2006: HK\$185,914,000). These were represented by share premium and retained profits of the Company. Under the Companies Law, Chapter 22 (Law 3 of 1961, as consolidated and revised) 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

Neither the Company, nor any of its subsidiaries purchased, redeemed 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 (each a "Share") 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 termination of the Old Scheme, no further options can be granted thereunder and all Share Options granted prior to such termination had lapsed on or before 30 September 2005.

Details of the 2002 Scheme are as follows:

### (1) Purpose

To recognize 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

As at 31 March 2007 the maximum number of Shares that may be allotted and issued upon exercise in full of all Share Options available for issue under the 2002 Scheme is 28,940,000, representing approximately 4% of the issued share capital of the Company as at 31 March 2007.

The maximum number of shares to be issued upon the exercise of all outstanding options granted and yet to be exercised under the 2002 Scheme and any other share option scheme of the Group must not in aggregate exceed 30 per cent. of the issued share capital of the Company from time to time. The total number of shares which may be issued upon exercise of all options (excluding, for this purpose, options which have lapsed in accordance with the terms of the 2002 Scheme and any other share option scheme of the Group) to be granted under the 2002 Scheme and any other share option scheme of the Group must not in aggregate exceed 10 per cent. of the Shares in issue on the day of adoption of the 2002 Scheme (namely, 3 September 2002). Subject to specific approval of the shareholders of the Company, the 10 per cent. limit may be refreshed with reference to the date of such specific approval of the shareholders of the Company.



**SHARE OPTION SCHEME** *(Continued)***(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-month 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 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 be 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 (the "Stock Exchange") on the date of grant; (ii) the average closing price of the shares stated in the Stock Exchange's daily quotation sheets for the five trading days immediately preceding the date of grant of share options; and (iii) the nominal value of the Shares

**(8) The remaining life of the 2002 Scheme**

The 2002 Scheme will remain in force until 3 September 2012, being the date which falls ten years after the date of adoption of the 2002 Scheme.

No options have been granted under the 2002 Scheme.



## DIRECTORS

The Directors during the year were:

Mr Leung Lun  
Mr Leung Chung Ming  
Mr Zhong Bingquan  
Ms Cheng Yun Tai  
Mr Wong, Andy Tze On  
Mr Wong Lam, O.B.E., J.P. #  
Mr Ye Tian Liu #  
Mr Ko Peter, Ping Wah <sup>1</sup>  
Mr Lai Yun Hung #

<sup>1</sup> *Non-executive directors*

# *Independent non-executive directors*

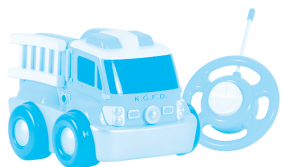
In accordance with Article 116 of the Company's articles of association, the Directors who are to retire by rotation at the forthcoming annual general meeting are Mr Leung Lun, Ms Cheng Yun Tai and Mr Wong Lam, O.B.E., J.P.. All the retiring directors, being eligible, offer themselves for re-election as Directors at the forthcoming Annual General Meeting.

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

### Executive Directors

Mr Leung Lun, aged 58, is the Chairman of the Company and the founder of the Group. He is the elder brother of Mr Leung Chung Ming, the Group's managing director. 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 director of the Chinese Overseas Friendship Association, a member of the committee of the Chinese People's Political Consultative Conference of Jiang Xi Province and 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, chairman of Hong Kong Kowloon City Industry and Commerce Association 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 47, is the Managing Director of the Company. He is the brother of Mr Leung Lun. He joined the Group in November 1979 and is responsible for the strategic planning, ODM marketing and development functions of the Group. He is also in charge of the Group's OEM sales. He is currently a vice president of China Toy Association and The Toys Manufacturer's Association of Hong Kong 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.



**DIRECTORS** *(Continued)***Executive Directors** *(Continued)*

Mr Zhong Bingquan, aged 55, is one of the founders of Lung Cheong Toys Limited ("LC Toys") in September 1989. He is responsible for formulation of strategies and planning for the Mainland China production facilities. Mr Zhong is also responsible for liaison with local authorities in Mainland China. He is also general manager of Dongguan City Supply, Marketing and Trading Company since 1979.

Ms Cheng Yun Tai, aged 52, is responsible for overseeing the external relationship management of the Group's operations in Mainland China. She is also responsible for liaising with local authorities in Mainland China. Ms Cheng is in charge of liaison with local tax, commerce and foreign economic bureaus. She has been a director of a subsidiary of the Company since March 1995.

Mr Wong, Andy Tze On, aged 40, is responsible for the formulation of the corporate strategy, new business ventures and financial planning of the Group. He is also responsible for financier and investor relationship management as well as corporate communication 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 Directors**

Mr Ko Peter, Ping Wah, aged 58, has been appointed as a director since January 2003. He is now our non-executive Director. Mr Ko holds a master's degree of science in business administration from the University of Bath, England and 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-timer tutor of universities in Hong Kong and overseas for many years.

**Independent Non-executive Directors**

Mr Wong Lam, O.B.E., JP., aged 88, 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 in November 1999. He is also an independent non-executive director of Yangtzekiang Garment Limited and YGM Trading Limited, both companies' shares are listed on the Stock Exchange of Hong Kong Limited (the "Stock Exchange").

Mr Ye Tian Liu, aged 61, was appointed as an independent non-executive director 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.



## DIRECTORS *(Continued)*

### Independent Non-executive Directors *(Continued)*

Mr Lai Yun Hung, aged 55, 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 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 an independent non-executive director in September 2004. He is also an independent non-executive director of Chi Cheung Investment Company, Limited, whose shares are listed on the Stock Exchange.

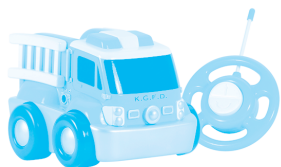
### Company Secretary

Mr Mak Yee Chuen, Vincent, aged 50, 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 is now the principal of Vincent Mak & Co., Solicitors.

### Senior Management

Mr Leung Yuk Hung, Paul, aged 32, is the associate director responsible for the management of the Group's information technology infrastructure. He is also 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 Systems Auditor (CISA). He joined the Group in March 2003.

Mr Kwok Chu Hung, aged 49, was appointed the director of operation and general manager in charge of the Group's Dongguan production facilities since December 2006. He acquired a postgraduate master of business study in City University of Hong Kong and bachelor of science degree in electronic engineering and has over 25 years of experience in quality control of electronics. He first joined the Group in April 1995. He is responsible for the daily operation in term of production, product development, engineering, human resources, sourcing, material planning, quality assurance, manufacturing support and logistic functions of the Group.



**DIRECTORS** *(Continued)***Senior Management** *(Continued)*

Mr Ng Ki Yin, Simon, aged 53, is the director of operation, in charge of the Group's Indonesian production facilities. He holds a bachelor of science degree in business management. He joined the Group in June 1994. Mr Ng is responsible for managing the operation in term of sales and marketing, production, human resources, sourcing, material planning and logistic functions of the Group's sole South East Asia facility. 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 45, 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 23 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 Oravec, Bruce, aged 64, is a director of Kid Galaxy Inc. since 2002. His career in the toys industry began in 1980 in Milton Bradley Company as its Senior Legal Counsel. In 1985, he joined Kenner-Parker Toys, Inc. as its Senior Vice President, General Counsel and Secretary. In 1990, he became Senior Vice President, General Counsel and Secretary of Fisher-Price, Inc. In 1996 Mr Oravec founded a per-school toy company, WB&N, Inc. He currently provides business consultation services for toys industry executives and is on the Board of Directors of the ToyTown Museum of East Aurora, New York. Mr Oravec hold a bachelor's degree from the University of Michigan and bachelor of laws (LL.B) from Harvard Law School.

**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 has a service contract with the Company which is not terminable within one year without payment of compensation, other than statutory compensation.





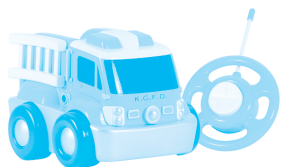
### DIRECTORS' INTERESTS IN CONTRACTS

Prior to 14 March 2007, Fericle Holdings Limited ("Fericle"), a subsidiary of the Group, maintained separate insurance contracts for each of Mr. Leung Lun, Mr. Leung Chung Ming and Mr. Wong, Andy Tze On, all of whom are 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.

Lung Cheong (BVI) Holdings Limited, a wholly owned subsidiary of the Company, entered into an agreement on 14 March 2007 for the disposal to Lung Cheong Investment Limited of the entire issued share capital of Fericle, a wholly owned subsidiary of Lung Cheong (BVI) Limited for the consideration of HK\$362,233 in cash and the benefit of shareholder's loan advanced to Fericle for the consideration equal in amount to the loan as at the completion date. Lung Cheong Investment Limited is the controlling shareholder of the Company and is wholly owned by a company beneficially owned by Messrs. Leung Lun and Leung Chung Ming, both are directors of the Company. The above details are also set out in the announcement of the Company dated 16 March 2007.

On 30 January 2007, an aggregate of 241,866,666 ordinary shares of HK\$0.1 each were allotted and issued by way of rights issue at a price of HK\$0.2 per share. The Group raised approximately HK\$47,093,000, net of related expenses from rights issue. Lung Cheong Investment Limited had taken up 202,374,080 shares out of the 241,866,666 shares. Lung Cheong Investment Limited is the controlling shareholder of the Company and is wholly owned by a company beneficially owned by Messrs. Leung Lun and Leung Chung Ming, both are directors of the Company. The above details are also set out in the announcement of the Company dated 29 January 2007.

Save as mentioned above, no contracts of significance in relation to the Company's business to which the Company, any of its holding companies or 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

Apart from the options granted under the Old Scheme, at no time during the year was the Company, any of its holding companies or 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 Term and Revolving facilities agreement entered into by the Company and a group of financial institutions on 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.

As at 31 March 2007, the interests and short positions of each Director and chief executive of the Company in the shares, underlying shares or old ventures 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 pursuant to the Model Code for Securities Transactions by Directors of Listed Issuers contained in the Listing Rules were as follows:

| Name             | Name of company                | Capacity                                    | Number and class of securities (Note 1)                           | Percentage on the issued share capital of the same class of securities |
|------------------|--------------------------------|---|---|--|
| Leung Lun        | The Company                    | Interest of controlled corporation (Note 2) | 481,816,080 ordinary shares of HK\$0.10 each (each a "Share") (L) | 66.4%  |
|                  | Lung Cheong Investment Limited | Interest of controlled corporation (Note 2) | 1,000 ordinary shares of US\$1.00 each (each a "share") (L)       | 100%   |
|                  | Rare Diamond Limited           | Beneficial interest                         | 70 ordinary shares of US\$1.00 each (each a "share") (L)          | 100%   |
| Leung Chung Ming | The Company                    | Interest of controlled corporation (Note 2) | 481,816,080 Shares(L)   | 66.4%  |
|                  | Lung Cheong Investment Limited | Interest of controlled corporation (Note 2) | 1,000 ordinary shares of US\$1.00 each (each a "share") (L)       | 100%   |
|                  | Rare Diamond Limited           | Beneficial interest                         | 30 ordinary shares of US\$1.00 each (each a "share") (L)          | 100%   |

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.



## SUBSTANTIAL SHAREHOLDERS

As at 31 March 2007, 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 of HK\$0.10 each (Note 1) | Capacity                           | Approximate percentage of interest |
|--------------------------------|---|------------------------------------|------------------------------------|
| Lung Cheong Investment Limited | 481,816,080 (L)                                     | Beneficial owner                   | 66.4%                              |
| Rare Diamond Limited           | 481,816,080 (L) (Note 2)                            | Interest of controlled corporation | 66.4%                              |
| Mr Chan Wing Sun               | 43,970,000  | Beneficial owner                   | 6.1%                               |

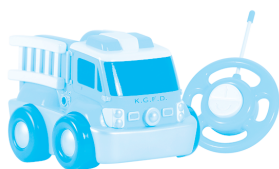
Notes:

- 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. Rare Diamond Limited is beneficially owned as to 70% by Mr Leung Lun and 30% by Mr Leung Chung Ming.

## PRE-EMPTIVE RIGHTS

In the event that the Company issues, otherwise than pursuant to the Old Scheme and the 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 holders 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 holders 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 2007, 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 3-month HIBOR per annum (2006: 3-month HIBOR 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:

- (1) in the ordinary and usual course of business of the Group;
- (2) on normal commercial terms; and
- (3) in accordance with the relevant agreement governing the transaction on terms that are fair and reasonable and in the interests of the shareholders of the Company listed issuer as a whole.



## MAJOR CUSTOMERS AND SUPPLIERS

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

|                                   | <b>2007</b> | 2006 |
|-----------------------------------|-------------|------|
|                                   | <b>%</b>    | %    |
| Sales                             |             |      |
| — the largest customer            | <b>19</b>   | 17   |
| — five largest customers combined | <b>65</b>   | 68   |
| Purchases                         |             |      |
| — the largest supplier            | <b>8</b>    | 8    |
| — five largest suppliers combined | <b>29</b>   | 27   |

No directors or their associates (as defined in the Listing Rules) 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 by the Company 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 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 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.

## 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 to meet the minimum level as prescribed in the Listing Rules.



**AUDITOR**

Messrs. PricewaterhouseCoopers resigned as auditor of the Company with effect from on 13 June 2007 and Horwath Hong Kong CPA Limited was then appointed as auditor of the Company with effect from 15 June 2007. The financial statements have been audited by Horwath Hong Kong CPA Limited, whose term of appointment will end at the conclusion of the forthcoming Annual General Meeting and being eligible, offer themselves for re-appointment. A resolution will be submitted to the forthcoming Annual General Meeting to re-appoint Horwath Hong Kong CPA Limited as auditor of the Company.

On behalf of the Board



**Leung Lun**

*Chairman*

23 July 2007

