1 Principal accounting policies

The principal accounting policies adopted in the preparation of these accounts are set out below:

(a) Basis of preparation

The accounts have been prepared in accordance with accounting principles generally accepted in Hong Kong and comply with accounting standards issued by the Hong Kong Society of Accountants ("HKSA"). They have been prepared under the historical cost convention as modified by the revaluation of leasehold land and buildings.

In the current year, the Group adopted the revised Statement of Standard Accounting Practice No. 12 "Income Taxes" ("revised SSAP 12") issued by the HKSA which is effective for accounting periods commencing on or after 1 January 2003.

The change to the Group's accounting policy and the effect of adopting this policy are set out in note k below.

(b) Consolidation

The consolidated accounts include the accounts of the Company and its subsidiaries made up to 31 March.

Subsidiaries are those entities in which the Group, directly or indirectly, controls more than one half of the voting power; has the power to govern the financial and operating policies; to appoint or remove the majority of the members of the Board of Directors; or to cast majority of votes at the meetings of the board of directors.

The results of subsidiaries acquired or disposed of during the year are included in the consolidated profit and loss account from the effective date of acquisition or up to the effective date of disposal, as appropriate.

All significant intercompany transactions and balances within the Group are eliminated on consolidation.

In the Company's balance sheet the investments in subsidiaries are stated at cost less provision for impairment losses. The results of subsidiaries are accounted for by the Company on the basis of dividends received and receivable.

1 Principal accounting policies (continued)

(c) Property, plant and equipment

(i) Leasehold land and buildings

Leasehold land and buildings are stated at fair value, which is determined by the Directors based on independent valuations which are performed every three years, plus subsequent capital expenditures at cost less subsequent accumulated depreciation and provision for impairment in value considered necessary by the Directors.

The professional valuation is performed every three years on an open market basis related to individual properties and separate values are not attributed to land and buildings. Increases in valuation are credited to the property revaluation reserve. Decreases in valuation are first offset against increases in earlier valuations in respect of the same property and are thereafter debited to operating profit. Any subsequent increases are credited to operating profit up to the amount previously debited. In the intervening years following a professional valuation, the Directors review the carrying value of the leasehold land and buildings and adjustments is made where there has been a material change.

Upon disposal of a property, the relevant portion of the realised revaluation reserve in respect of previous valuation is transferred from the property revaluations reserve to retained profits and is shown as a movement in reserves.

The carrying value of leasehold land and buildings are depreciated on a straight-line basis over the unexpired periods of the leases or their expected useful lives of 50 years to the Group, whichever is shorter.

(ii) Other fixed assets

Other fixed assets are stated at cost less accumulated depreciation and accumulated impairment losses. They are depreciated at rates sufficient to write off their cost less accumulated impairment losses over their estimated useful lives on a straight-line basis. The principal annual rates are as follows:

Leasehold improvements	2-5%
Plant and machinery	20%
Furniture, fixtures and equipment	20%
Motor vehicles	20%
Moulds	20%

Major costs incurred in restoring fixed assets to their normal working condition are charged to the profit and loss account. Improvements are capitalised and depreciated over their expected useful lives to the Group.

1 Principal accounting policies (continued)

(c) Property, plant and equipment (continued)

(iii) Impairment and gain or loss on sale

At each balance sheet date, both internal and external sources of information are considered to assess whether there is any indication that the fixed assets are impaired. If any such indication exists, the recoverable amount of the asset is estimated and where relevant, an impairment loss is recognised to reduce the asset to its recoverable amount. Such impairment losses are recognised in the profit and loss account except where the asset is carried at valuation and the impairment loss does not exceed the revaluation surplus for that same asset, in which case it is treated as a revaluation decrease.

The gain or loss on disposal of a fixed asset is the difference between the net sales proceeds and the carrying amount of the relevant asset, and is recognised in the profit and loss account. Any revaluation reserve balance remaining attributable to the relevant asset is transferred to retained earnings and is shown as a movement in reserves.

(d) Assets under leases

(i) Finances leases

Leases that substantially transfer to the Group all the risks and rewards of ownership of assets are accounted for as finance leases. Finance leases are capitalised at the inception of the lease at the lower of the fair value of the leased assets or the present value of the minimum lease payments. Each lease payment is allocated between the capital and finance charges so as to achieve a constant rate on the capital balances outstanding. The corresponding rental obligations, net of finance charges, are included in long-term liabilities. The finance charges are charged to the profit and loss account over the lease periods.

Assets held under finance leases are depreciated over the shorter of their estimated useful lives or the lease periods.

1 Principal accounting policies (continued)

(d) Assets under leases (continued)

(ii) Operating leases

Leases where substantially all the risks and rewards of ownership of assets remain with the leasing company are accounted for as operating leases. Payments made under operating leases net of any incentives received from the leasing company are charged to the profit and loss account on a straight-line basis over the lease periods.

(e) Intangible assets

(i) Goodwill

Goodwill represents the excess of the cost of an acquisition over the fair value of the Group's share of the net assets of the acquired subsidiary at the date of acquisition. Goodwill is included in intangible assets and is amortised using the straight-line method over its estimated useful life of 15 years.

(ii) Impairment of intangible assets

Where an indication of impairment exists, the carrying amount of any intangible asset is assessed and written down immediately to its recoverable amount.

(f) Other investments

(i) Club memberships and non-trading securities

Club memberships and non-trading securities are stated at cost less any provision for impairment losses.

The carrying amounts of individual investments are reviewed at each balance sheet date to assess whether the fair values have declined below the carrying amounts. When a decline other than temporary has occurred, the carrying amount of such investments is reduced to its fair value. The impairment loss is recognised as an expense in the profit and loss account. This impairment loss is written back to the profit and loss account when the circumstances and events that led to the write-downs or write-offs cease to exist and there is persuasive evidence that the new circumstances and events will persist for the foreseeable future.

1 Principal accounting policies (continued)

(f) Other investments (continued)

(ii) Investment in life insurance contracts

The cash surrender value that could be realised under a life insurance contract at the balance sheet date is treated as an asset. The change in the cash surrender or contract value during the year is an adjustment of premium paid and is recognised as an expense or income in the profit and loss account.

(g) Inventories

Inventories are stated at the lower of cost and net realisable value. Cost, calculated on a first-in first-out basis, comprises raw materials, direct labour and an appropriate proportion of production overheads.

Net realisable value is determined on the basis of anticipated sales proceeds less estimated selling expenses and, where appropriate, the cost of conversion from their existing state to a finished condition.

(h) Accounts receivable

Provision is made against accounts receivable to the extent they are considered to be doubtful. Accounts receivable in the balance sheet are stated net of such provision.

(i) Cash and cash equivalents

Cash and cash equivalents are carried in the balance sheet at cost. For the purposes of the cash flow statement, cash and cash equivalents comprise cash on hand, deposits held at call with banks and cash investments with a maturity of three months or less from date of investment.

(j) Employee benefits

(i) Employee leave entitlements

Employee entitlements to annual leave and long service leave are recognised when they accrue to employees. A provision is made for the estimated liability for annual leave as a result of services rendered by employees up to the balance sheet date.

Employee entitlements to sick leave and maternity leave are not recognised until the time of leave.

1 Principal accounting policies (continued)

(j) Employee benefits (continued)

(ii) Profit sharing and bonus plans

The expected cost of profit sharing and bonus payments are recognised as a liability when the Group has a present legal or constructive obligation as a result of services rendered by employees and a reliable estimate of the obligation can be made.

Liabilities for profit sharing and bonus plans are expected to be settled within 12 months and are measured at the amounts expected to be paid when they are settled.

(iii) Pension obligations

For Hong Kong employees, the Group contributes to one defined contribution retirement scheme and the Mandatory Provident Fund ("MPF"). The former is available to employees joined prior to 1 December 2000 and the latter is available to employees joined after 1 December 2000. Contributions to the schemes by the Group and employees are calculated as a percentage of employees' basic salaries. The retirement benefit schemes costs charged to the profit and loss account represent contributions payable by the Group to the funds. For the defined contribution scheme, the Group's contributions are reduced by contributions forfeited by those employees who leave the scheme prior to vesting fully in the contributions. For the MPF, contributions are vested immediately. The assets of the retirement schemes are held separately from those of the Group in an independently administered fund.

The subsidiaries in Mainland China, Indonesia and the United States participate in relevant defined contribution schemes, the assets of which are held separately from those of the Group in independently administered funds. Contributions are made to these schemes based on certain percentages of the applicable payroll costs. The contributions are expensed as incurred.

(iv) Equity compensation benefits

Share options are granted to directors and certain employees. The options granted are not recognised in the accounts until they are exercised. When the options are exercised, the proceeds received net of any transaction costs are credited to share capital (nominal value) and share premium.

1 Principal accounting policies (continued)

(k) Deferred taxation

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. Taxation rates enacted or substantively enacted by the balance sheet date are used to determine deferred taxation.

Deferred tax assets are recognised to the extent that it is probable that future taxable profit will be available against which the temporary differences can be utilised.

Deferred taxation is provided on temporary differences arising on investments in subsidiaries except where the timing of the reversal of the temporary difference can be controlled and it is probable that the temporary difference will not reverse in the foreseeable future.

In prior years, deferred taxation was accounted for at the current taxation rate in respect of timing differences between profit as computed for taxation purposes and profit as stated in the accounts to the extent that a liability or an asset was expected to be payable or recoverable in the foreseeable future. The adoption of the revised SSAP 12 represents a change in accounting policy, which has been applied retrospectively so that the comparatives presented have been restated to conform to the changed policy.

In this connection, opening retained earnings at 1 April 2002 and 2003 have been reduced by HK$1,238,000 and HK$2,662,000 respectively, which represent the unprovided net deferred tax liabilities. The change has resulted in an increase in deferred tax assets and deferred tax liabilities at 31 March 2003 by HK$3,042,000 and HK$5,704,000 respectively.

(l) Translation of foreign currencies

Transactions in foreign currencies are translated at exchange rates ruling at the transaction dates. Monetary assets and liabilities expressed in foreign currencies at the balance sheet date are translated at rates of exchange ruling at the balance sheet date. Exchange differences arising in these cases are dealt with in the profit and loss account.

The balance sheet of subsidiaries expressed in foreign currencies are translated at the rates of exchange ruling at the balance sheet date whilst the profit and loss is translated at an average rate. Exchange differences are dealt with as a movement in reserves. Upon disposal of a foreign subsidiary, the relevant portion of the cumulative exchange differences realised is taken to the profit and loss account as part of the gain and loss on disposal.

1 Principal accounting policies (continued)

(m) Revenue recognition

Revenue from the sale of goods is recognised on the transfer of risks and rewards of ownership, which generally coincides with the time when the goods are delivered to customers and the title has passed.

Income arising from the manufacturing of moulds for customers is recognised upon the completion of the production and delivery of moulds.

Interest income is recognised on a time proportion basis, taking into account the principal amounts outstanding and the interest rates applicable.

(n) Borrowing costs

Borrowing costs that are directly attributable to the acquisition, construction or production of an asset that necessarily takes a substantial period of time to get ready for its intended use or sale are capitalised as part of the cost of that asset.

All other borrowing costs are charged to the profit and loss account in the year in which they are incurred.

(o) Provisions

Provisions are recognised when the Group has a present legal or constructive obligation as a result of past events, it is probable that an outflow of resources will be required to settle the obligation, and a reliable estimate of the amount can be made. Where the Group expects a provision to be reimbursed, the reimbursement is recognised as a separate asset but only when the reimbursement is virtually certain.

(p) Contingent liabilities and contingent assets

A contingent liability is a possible obligation that arises from past events and whose existence will only be confirmed by the occurrence or non-occurrence of one or more uncertain future events not wholly within the control of the Group. It can also be a present obligation arising from past events that is not recognised because it is not probable that outflow of economic resources will be required or the amount of obligation cannot be measured reliably. A contingent liability is not recognised but is disclosed in the notes to the accounts. When a change in the probability of an outflow occurs so that when outflow becomes probable, it will then be recognised as a provision.

A contingent asset is a possible asset that arises from past events and whose existence will be confirmed only by the occurrence or non-occurrence of one or more uncertain events not wholly within the control of the Group. Contingent assets are not recognised but is disclosed in the notes to the accounts when an inflow of economic benefits is probable. When inflow is virtually certain, an asset is recognised.

1 Principal accounting policies (continued)

(q) Segment reporting

In accordance with the Group's internal financial reporting the Group has determined that business segments be presented as the primary reporting format and geographical segments as the secondary reporting format.

Segment assets consist primarily of intangible assets, fixed assets, inventories, receivables and operating cash. Capital expenditure comprises additions to intangible assets and fixed assets.

In respect of geographical segment reporting, sales are based on the country in which the customer is located. Total assets and capital expenditure are where the assets are located.

2 Turnover, revenue and segment information

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

Revenues recognised during the year are as follows:

	2004 **HK$'000**	2003 HK$'000
Turnover		
Sale of goods	**706,150**	665,317
Mould income	**37,768**	51,397
	743,918	716,714
Other revenues		
Interest income	**100**	2,619
Others	**1,184**	638
	1,284	3,257
Total revenues	**745,202**	719,971

2 Turnover, revenue and segment information (continued)

Primary reporting format – business segments

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

Secondary reporting format – geographical segments

	Turnover 2004 HK$'000	Total assets 2004 HK$'000	Capital expenditure 2004 HK$'000
United States of America	**372,926**	**44,157**	**341**
Europe (Note)	**137,885**	**1,950**	**–**
Japan	**94,012**	**71,005**	**–**
Mainland China	**54,383**	**478,536**	**50,253**
Indonesia	**6,296**	**46,933**	**345**
Hong Kong	**42,075**	**197,356**	**492**
Others	**36,341**	**11,854**	**45**
Total	**743,918**	**851,791**	**51,476**

	Turnover 2003 HK$'000	Total assets 2003 HK$'000 Restated	Capital expenditure 2003 HK$'000
United States of America	290,390	77,712	3,522
Europe (Note)	144,802	–	–
Japan	139,799	35,125	–
Mainland China	42,487	435,783	43,946
Indonesia	9,811	40,965	448
Hong Kong	58,936	192,442	226
Others	30,489	10,546	–
Total	716,714	792,573	48,142

2 Turnover, revenue and segment information (continued)

Secondary reporting format – geographical segments (continued)

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 ratio of profit to turnover.

Note: The turnover derived from Europe represents sales of toys to multiple customers with goods shipped directly to Europe under the instruction of these customers. The respective trade receivables are included in the United States of America, Japan and Hong Kong segments.

3 Operating profit

Operating profit is stated after crediting and charging the following:

	2004	2003
	HK$'000	HK$'000
Crediting		
Net exchange gains	**85**	2,249
Gain on disposal of fixed assets	**110**	391
Reversal of revaluation deficit of certain leasehold land and buildings	**680**	–
Charging		
Auditors' remuneration	**1,299**	1,243
Amortisation of goodwill (included in general and administrative expenses)	**1,633**	1,590
Provision for obsolete inventories	**2,139**	–
Bad debts written off	**1,728**	–
Revaluation deficit of certain leasehold land and buildings	**2,212**	–
Depreciation of owned fixed assets	**49,786**	45,143
Depreciation of fixed assets under finance leases	**–**	58
Staff costs (excluding of directors' remuneration - Note 9)	**92,163**	90,746
Operating lease rentals in respect of land and buildings	**6,013**	4,996

4 Finance costs

	2004 HK$'000	2003 HK$'000
Interest on loans from banks and financial institutions and overdrafts	11,447	11,893
Interest elements of finance leases	–	720
Arrangement fees on bank loans	2,480	1,593
	13,927	14,206

5 Taxation

Hong Kong profits tax has been provided at the rate of 17.5% (2003: 16%) on the estimated assessable profit for the year. In 2003, the government enacted a change in the profits tax rates from 16% to 17.5% for the fiscal year 2003/2004. Taxation on profits of Mainland China subsidiaries has been calculated on the estimated assessable profit for the year at the rates of taxation as applicable to the local subsidiaries. No provision for taxation of the subsidiaries having tax losses has been made as at 31 March 2004.

The amount of taxation charged to the consolidated profit and loss account represents:

	2004 HK$'000	2003 HK$'000 Restated
Current taxation		
Hong Kong profits tax		
– current year	4,480	2,510
– overprovision in prior years	(794)	(409)
Mainland China enterprise income tax		
– current	3,792	3,192
– overprovision in prior years	(2,689)	(479)
Deferred taxation (Note 23(c))	3,860	2,684
	8,649	7,498

5 Taxation (continued)

The taxation on the Group's profit before taxation differs from the theoretical amount that would arise using the taxation rate of the home country of the Company as follows:

	2004	2003
	HK$'000	HK$'000
Profit before taxation	**45,506**	38,617
Calculated at a taxation rate of 17.5% (2003: 16%)	**7,964**	6,179
Effect of different taxation rates in other countries	**548**	1,006
Income not subject to taxation	**(957)**	(1,005)
Expenses not deductible for taxation purposes	**3,866**	4,206
Tax exemption	**–**	(964)
Overprovision in prior years	**(3,483)**	(888)
Utilisation of previously unrecognised tax losses	**(101)**	(1,657)
Others	**812**	621
Taxation charge	**8,649**	7,498

6 Profit attributable to shareholders

The consolidated profit attributable to shareholders includes a profit of approximately HK$12,222,000 (2003: HK$11,638,000), including dividend from a subsidiary of HK$10,000,000 (2003: HK$10,000,000) dealt with in accounts of the Company.

7 Dividends

	2004 HK$'000	2003 HK$'000
Ordinary shares		
Interim, paid on 15 January 2004, of HK0.75 cents (2003: HK0.25 cents) per ordinary share	**3,628**	1,036
Final, proposed, of HK0.75 cents (2003: HK0.75 cents) per ordinary share (Note (a))	**3,628**	3,108
Preference shares (Note (b))		
Nil (2003: HK$4,333) per preference share	**–**	173
Nil (2003: HK$12,928) per preference share	**–**	517
Final, proposed, of HK$ nil (2003: HK$13,000) per preference share	**–**	520
	7,256	5,354

Notes:

(a) At a meeting held on 22 July 2004, the Directors declared a final dividend of HK0.75 cents per ordinary share. This proposed dividend is not reflected as a dividend payable in these accounts, but will be reflected as an appropriation of retained profits for the year ending 31 March 2005.

(b) Pursuant to the amendments to the rights of the preference shares on 18 July 2002 the holder of preference shares will receive dividends equivalent to those for the ordinary shares, which amounts shall be determined by the number of ordinary shares issuable on conversion of the preference shares and the amounts of dividend payable for one ordinary share. Before the amendments, the preference shares carried a fixed cumulative cash dividend at the rate of 4.5% per annum.

8 Earnings per share

The calculation of basic earnings per share is based on the Group's profit attributable to shareholders of HK$36,857,000 (2003: HK$31,119,000) less dividends related to preference shares of HK$Nil (2003: HK$1,210,000). The calculation of diluted earnings per share in prior year is based on the Group's profit attributable to shareholders of HK$31,119,000.

The basic earnings per share is based on the weighted average number of 443,288,889 (2003: 414,366,667) ordinary shares in issue during the year. The diluted earnings per share in prior year is based on 414,366,667 ordinary shares which is the weighted average number of ordinary shares in issue during the year plus (a) the weighted average number of 69,333,333 ordinary shares deemed to be issued at a consideration of HK$0.45 per ordinary share assuming all outstanding preference shares had been converted, and (b) the weighted average number of 124,000 ordinary shares deemed to be issued at no consideration if all outstanding share options have been exercised. In 2004, the outstanding share options were not included in the calculation of the diluted earnings per share as the exercise of these share options at the time would have an anti-dilutive effect. No information in respect of diluted earnings per share in current year is presented as the company has no financial instruments with dilutive effect in existence.

9 Staff costs

Staff costs excluding director's remuneration comprises:

	2004	2003
	HK$'000	HK$'000
Wages and salaries	**87,171**	82,151
Other staff benefits	**2,987**	6,543
Pension costs - defined contribution plans	**2,005**	2,052
	92,163	90,746

10 Directors' and senior management's emoluments

(a) Directors' emoluments

The aggregate amounts of emoluments paid and payable to the Directors of the Company are as follows:

	2004 **HK$'000**	2003 HK$'000
Fees	**180**	180
Other emoluments:		
Basic salaries, housing allowances, other allowances and benefits in kind	**5,593**	6,054
Provident fund scheme contributions	**81**	81
	5,854	6,315

All the directors' fees disclosed above is payable to the independent non-executive Directors.

No Directors have waived their emoluments in respect of the years ended 31 March 2004 and 2003.

Certain directors have been granted options to acquire shares in the Company under the share option scheme approved by the shareholders of the Company on 8 September 1997 (the "Old Scheme"). Details of the share options granted and exercised are set out in Note 21.

The emoluments of the Directors fell within the bands as set out below. The emoluments represent the amount paid to or receivable by the Directors of the Company in the respective financial years and do not include the benefits derived or to be derived from the share options granted under the Old Scheme.

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

(a) Directors' emoluments (continued)

	2004	2003
Nil – HK$1,000,000	**5**	6
HK$1,000,001 – HK$1,500,000	**1**	1
HK$1,500,001 – HK$2,000,000	**1**	1
HK$2,000,001 – HK$2,500,000	**1**	1
	8	9

(b) Five highest paid individuals

The five individuals whose emoluments were the highest in the Group for the year include three (2003: three) Directors whose emoluments are disclosed in the analysis presented above. The emoluments payable to the remaining two (2003: two) individuals during the year are as follows:

	2004 HK$'000	2003 HK$'000
Basic salaries, housing allowances, other allowances and benefits in kind	**1,038**	1,208
Provident fund scheme contributions	**42**	64
	1,080	1,272

During the years ended 31 March 2004 and 2003 none of the two individuals was granted share options under the Old Scheme to acquire ordinary shares in the Company.

During the year ended 31 March 2004, no options (2003: 200,000) were exercised by the afore-mentioned two highest paid individuals.

The emoluments of the afore-mentioned two (2003: two) highest paid individuals fell within the band of Nil to HK$1,000,000 for both years. The emoluments represent the amount paid to or receivable by the individuals in the respective financial years and do not include the benefits derived or to be derived from the share options granted under the Old Scheme.

11 Provident fund scheme arrangements

The Group has two provident fund scheme arrangements for its Hong Kong employees: (a) the ORSO Scheme and (b) the MPF Scheme.

The ORSO Scheme has been granted an exemption from registration for MPF purposes. Under the ORSO Scheme, contributions of both the employers and employees are calculated at 5% of the monthly salary of the employees. The employees are entitled to all the employers' contributions after 10 years of completed service, or at a reduced scale after completion of 3 to 9 years' service. The forfeited contributions are to be used to reduce the employers' contributions.

Under the MPF Scheme, contributions amounting to 5% of the employee's relevant income, as defined in the MPF Ordinance, up to a maximum of HK$1,000 are respectively made by the Group and the employees. The contributions are fully and immediately vested in the employees as accrued benefits once they are paid to the approved trustee of the MPF Scheme.

The Group contributions to certain defined contribution schemes for its employees in Mainland China, Indonesia and the United States. Contribution are made at a certain percentage of the basic salary of employees.

The total amount of retirement benefit costs charged to the Group's profit and loss account for the year ended 31 March 2004 was HK$2,005,000 (2003: HK$2,052,000).

At 31 March 2004 and 2003 no forfeited contributions are available to offset future contributions of the Group to the ORSO Scheme. The unvested benefits so utilised under the ORSO Scheme during the year ended 31 March 2004 was HK$200,000 (2003: HK$287,000).

12 Goodwill

	Group	
	2004	2003
	HK$'000	HK$'000
At 1 April	**22,506**	23,145
Additions (Note)	**–**	951
Amortisation	**(1,633)**	(1,590)
At 31 March	**20,873**	22,506
Representing:		
Cost	**24,488**	24,488
Accumulated amortisation	**(3,615)**	(1,982)
Net book amount	**20,873**	22,506

Note:

In year 2003, the Group acquired the remaining 40% of the equity interest in Kid Galaxy Corporation for a cash consideration of HK$9,750,000 from the minority shareholders. The consideration represents HK$9,288,000 paid for the amount due by Kid Galaxy Corporation to that minority shareholder and HK$462,000 for the 40% equity interest. Upon completion of the acquisition, Kid Galaxy Corporation has become a wholly-owned subsidiary of the Group.

13 Fixed assets – Group

	Group						
	Leasehold land and buildings HK$'000	Leasehold improvements HK$'000	Plant and machinery HK$'000	Furniture, fixtures and equipment HK$'000	Motor vehicles HK$'000	Moulds HK$'000	Total HK$'000
Cost or valuation							
At 1 April 2003	91,449	90,767	149,061	26,665	6,372	116,797	481,111
Additions, at cost	254	5,584	11,472	606	1,701	31,859	51,476
Disposals	–	–	–	(15)	(1,270)	–	(1,285)
Exchange adjustments	143	2	265	31	6	–	447
Revaluation adjustments	(836)	–	–	–	–	–	(836)
At 31 March 2004	91,010	96,353	160,798	27,287	6,809	148,656	530,913
Accumulated depreciation							
At 1 April 2003	5,073	22,139	104,581	19,063	4,792	67,618	223,266
Charge for the year	2,983	6,679	16,083	2,121	510	21,410	49,786
Disposals	–	–	–	(15)	(1,071)	–	(1,086)
Exchange adjustments	32	–	186	12	4	–	234
Revaluation adjustments	(8,088)	–	–	–	–	–	(8,088)
At 31 March 2004	–	28,818	120,850	21,181	4,235	89,028	264,112
Net book value							
At 31 March 2004	91,010	67,535	39,948	6,106	2,574	59,628	266,801
At 31 March 2003	86,376	68,628	44,480	7,602	1,580	49,179	257,845
The analysis of the cost or valuation at 31 March 2004 of the above assets is as follows:							
At cost	–	96,353	160,798	27,287	6,809	148,656	439,903
At 2004 professional valuation	91,010	–	–	–	–	–	91,010
	91,010	96,353	160,798	27,287	6,809	148,656	530,913

13 Fixed assets – Group (continued)

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

	Group 2004 HK$'000	2003 HK$'000
(a) In Hong Kong, held on leases of between 10 and 50 years	**14,050**	16,608
(b) Outside Hong Kong, held on leases of between 10 and 50 years	**68,350**	60,961
(c) Outside Hong Kong, held on leases over 50 years	**8,610**	8,807
	91,010	86,376

The leasehold land and buildings were respectively revalued at 31 March 2004 by RHL Appraisal Ltd. and Satyatama Graha Tara, independent firms of professional valuers, on the basis of their open market value in existing use. Their carrying amount would have been HK$76,745,000 (2003: HK$78,749,000) had they been stated at cost less accumulated depreciation.

14 Investments in subsidiaries

	Company 2004 HK$'000	2003 HK$'000
Unlisted investments, at cost	**115,801**	115,801
Due from a subsidiary (Note (a))	**330,844**	333,370
	446,645	449,171

(a) The amount is due from a wholly-owned subsidiary. It is unsecured and will not be demanded for repayment within the next twelve months from 31 March 2004. Out of the total amount, HK$37,500,000 (2003: HK$127,500,000) is interest bearing at Hong Kong Interbank Offered Rate plus 2% per annum, HK$162,500,000 (2003: HK$72,500,000) at Hong Kong Interbank Offered Rate plus 1.25% per annum, while the remaining balance is interest-free.

14 Investments in subsidiaries (continued)

(b) Particulars of the subsidiaries of the Company at 31 March 2004 are as follows:

Name of company	Country/place of incorporation/ operations	Particulars of issued share capital/ registered capital	Effective percentage holding 2004	Effective percentage holding 2003	Nature of business
Shares held directly:					
Lung Cheong (BVI) Holdings Limited	British Virgin Islands	Ordinary US$130,660	**100**	100	Investment holding
Shares/investments held indirectly:					
Dongguan Lung Cheong Plastic Products Co., Ltd. (Note)	Mainland China	HK$6,500,000	**100**	100	Manufacture and trading of toys
Dongguan Lung Cheong Toys Co., Ltd. (Note)	Mainland China	HK$124,030,000	**100**	100	Manufacture of toys
Dongguan Standard Tooling and Products Co., Ltd. (Note)	Mainland China	HK$7,700,000	**100**	100	Manufacturing of moulds
L C Technology Limited	Hong Kong	Ordinary HK$10,000	**100**	100	Trading of consumer electronic products
Lung Cheong Resources Management Limited (formerly known as Lung Cheong Group Limited)	Hong Kong	Deferred HK$10,000 Ordinary HK$2	**100**	100	Management services

14 Investments in subsidiaries (continued)

(b) (continued)

Name of company	Country/place of incorporation/ operations	Particulars of issued share capital/ registered capital	Effective percentage holding 2004	2003	Nature of business
Shares/investments held indirectly: (continued)					
Kid Galaxy Limited	Hong Kong	Ordinary HK$10,000	**100**	100	Trading of toys
Lung Cheong Overseas Corporation	British Virgin Islands	Ordinary US$50,000	**100**	100	Trading of toys
Lung Cheong Toys Limited	Hong Kong	Deferred HK$1,000,000 Ordinary HK$2	**100**	100	Trading of toys
PT. Lung Cheong Brothers Industrial	Republic of Indonesia	Rupiah 5,728,000,000	**60**	60	Manufacture and sale of electronic products and toys
Standard Tooling and Products Co. Limited	Hong Kong	Ordinary HK$3,000,000	**100**	100	Engineering services and mould trading
Kid Galaxy Corporation	British Virgin Islands	Ordinary US$10	**100**	100	Trading of toys
Kid Galaxy Inc.	United States	Ordinary US$100,010	**100**	100	Trading of toys
Lung Cheong Entertainment Limited (formerly known as LC Entertainment Limited)	British Virgin Islands	Ordinary US$1	**100**	100	Development of content
Fericle Holdings Limited	British Virgin Islands	Ordinary US$1	**100**	100	Investment holding
Favour Million Co. Limited	Hong Kong	Ordinary HK$2	**100**	100	Investment holding

14 Investments in subsidiaries (continued)

(b) (continued)

Note:

These companies are wholly foreign-owned enterprises established in Mainland China. They adopt 31 December as their accounting year end date pursuant to the local regulations. Accordingly, the management accounts of these subsidiaries as at and for the twelve months ended 31 March have been incorporated in the group accounts after making adjustments as the Directors considered appropriate for compliance with accounting principles generally accepted in Hong Kong.

15 Other investments

	Group	
	2004	2003
	HK$'000	HK$'000
At cost		
Unlisted shares overseas	**2,349**	2,349
Club memberships	**2,738**	2,738
Investments in life insurance contract (Note)	**28,263**	28,204
	33,350	33,291

15 Other investments (continued)

Note:

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. Particulars of the insurance contracts are as follows:

Insurance owner	:	Fericle Holdings Limited, a subsidiary of the Company
Total insured amounts	:	US$25 million (HK$195 million)
Commencement date	:	28 October 2002
Beneficiary at time of the death of the insured	:	For each of the policies, 50% to Fericle Holdings Limited and 50% to the beneficiary of the respective insured
Maturity date	:	Each of the contracts will mature on the date when the insured reaches the age of 100 or death of the insured, whichever is earlier
Total initial premium	:	US$3,753,000 (HK$29,277,000)
Cash surrender value as at 31 March 2004	:	US$3,623,000 (HK$28,263,000)

The total initial premium paid is financed by a long-term bank loan of the same amount. The loan is repayable three years after the date of drawdown of the loan, interest-bearing at 1% plus the bank's cost of fund and secured by the three life insurance policies which have a combined death benefit of US$25 million (HK$195 million) and a corporate guarantee executed by the Company.

The amount of cash surrender value of the insurance contracts which the Group can realise at the balance sheet date is treated as an asset and the change in cash surrender value during the year is an adjustment to the premium paid and is recognised as and expense or income in the profit and loss account.

16 Other long-term assets

The amount represented down payment for acquisition of land use right on a parcel of land located in Changping, Dongguan, Guangdong Province, Mainland China. Please refer to Note 27(a) for capital commitment.

17 Inventories

	Group 2004 HK$'000	2003 HK$'000
Raw materials	**122,927**	103,517
Work-in-progress	**26,626**	28,861
Finished goods	**43,894**	50,884
Less: Provision for finished goods	**(2,139)**	–
	191,308	183,262

18 Trade receivables

At 31 March 2004, the ageing analysis of the trade receivables was as follows:

	Group 2004 HK$'000	2003 HK$'000
0 -30 days	**66,511**	39,253
31-60 days	**27,904**	19,431
61-90 days	**12,826**	20,406
Over 90 days	**57,120**	45,158
	164,361	124,248

The Group's sales are on letter of credit or open account terms. Credit terms are reviewed on a regular basis. The normal trade term is between 30 to 90 days but business partners with strong financial background may be offered longer credit terms.

19 Amount due from a subsidiary

The amount represents dividend receivable from a subsidiary and the amount is unsecured, interest-free and payable on demand.

20 Trade payables and deposits received

	Group 2004 HK$'000	2003 HK$'000
Trade payables (Note)	**59,048**	47,857
Deposits received	**5,322**	1,980
	64,370	49,837

Note:

At 31 March 2004, the ageing analysis of the trade payables was as follows:

	Group 2004 HK$'000	2003 HK$'000
0 -30 days	**19,293**	16,993
31-60 days	**23,358**	12,235
61-90 days	**6,140**	10,817
Over 90 days	**10,257**	7,812
	59,048	47,857

21 Share capital

	Authorised			
	Convertible cumulative redeemable preference shares of US$100,000 each		Ordinary shares of HK$0.10 each	
	No. of shares	US$'000	No. of shares (thousands)	HK$'000
At 31 March 2003 and 2004	40	4,000	1,000,000	100,000

	Issued and fully paid			
	Convertible cumulative redeemable preference shares of US$100,000 each		Ordinary shares of HK$0.10 each	
	No. of shares	HK$'000 (equivalent)	No. of shares (thousands)	HK$'000
At 31 March 2003	40	30,960	414,400	41,440
Conversion of preference shares	(40)	(30,960)	69,333	6,933
At 31 March 2004	–	–	483,733	48,373

21 Share capital (continued)

(a) There are no movements in the authorised share capital of the Company during the year.

(b) During the year, 69,333,333 ordinary shares of HK$0.1 each were issued at HK$0.45 each as a result of the conversion of the convertible preference shares. Such issued ordinary shares rank pari passu with the existing shares.

(c) 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 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.

Under the 2002 Scheme, share options can be exercised at any time 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. 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. 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 of 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. A nominal consideration of HK$1 is payable for each of the share options granted.

21 Share capital (continued)

Movement in the number of share options outstanding during the year are as follows:

	Number of Options 2004	2003
At the beginning of the year	**11,900,000**	12,100,000
Exercised	**–**	(200,000)
Lapsed	**(1,100,000)**	-
At the end of the year (Note)	**10,800,000**	11,900,000
Options vested at 31 March	**8,600,000**	6,900,000

Note

Share options outstanding at the end of the year have the following terms:

Expiry date	Exercise price HK$	**2004 Number of options**	2003 Number of options
Directors			
30 September 2005	0.675	**10,000,000**	10,000,000
Other employees			
30 September 2005	0.675	**800,000**	1,900,000
		10,800,000	11,900,000

22 Other reserves and retained profits

	Group						Company	
	Other reserves							
	Share premium HK$'000	Exchange fluctuation reserve HK$'000	Capital reserve HK$'000	Fixed assets revaluation reserve HK$'000	Total HK$'000	Retained profits HK$'000	Share premium HK$'000	Retained profits HK$'000
At 1 April 2003, as previously reported	88,940	(49,911)	26,566	16,186	81,781	204,433	176,241	13,140
Effect of adopting SSAP12 (revised)	–	–	–	–	–	(2,662)	–	–
At 1 April 2003, as restated	88,940	(49,911)	26,566	16,186	81,781	201,771	176,241	13,140
Exchange difference arising from translation of accounts of overseas subsidiaries	–	(2,155)	–	–	(2,155)	–	–	–
Surplus on property revaluation	–	–	–	6,299	6,299	–	–	–
Conversion of preference shares	24,027	–	–	–	24,027	–	24,027	–
Transfer to capital reserve	–	–	515	–	515	(515)	–	–
Profit for the year	–	–	–	–	–	36,857	–	12,222
Dividends paid	–	–	–	–	–	(7,256)	–	(7,256)
At 31 March 2004	112,967	(52,066)	27,081	22,485	110,467	230,857	200,268	18,106
At 1 April 2002, as previouly reported	88,825	(48,783)	25,061	17,268	82,371	176,111	176,126	5,300
Effect of adopting SSAP12 (revised)	–	–	–	–	–	(1,238)	–	–
At 1 April 2002, as restated	88,825	(48,783)	25,061	17,268	82,371	174,873	176,126	5,300
Exchange difference arising from translation of accounts of overseas subsidiaries	–	(1,128)	–	–	(1,128)	–	–	–
Realisation of property revaluation reserve upon disposal of leasehold land and buildings	–	–	–	(1,082)	(1,082)	1,082	–	–
Exercise of share options	115	–	–	–	115	–	115	–
Transfer to capital reserve	–	–	1,505	–	1,505	(1,505)	–	–
Profit for the year	–	–	–	–	–	31,119	–	11,638
Dividends paid	–	–	–	–	–	(3,798)	–	(3,798)
At 31 March 2003	88,940	(49,911)	26,566	16,186	81,781	201,771	176,241	13,140

22 Other reserves and retained profits (continued)

Notes:

(i) 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.

(ii) 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.

23 Long-term liabilities

	Group		Company	
	2004	2003	**2004**	2003
	HK$'000	HK$'000	**HK$'000**	HK$'000
Loans from banks and financial institutions – secured and wholly repayable within five years (Note (a))	**244,757**	254,102	**200,000**	200,000
Obligations under finance leases wholly repayable within five years (Note (b))	**–**	236	**–**	–
Deferred taxation (Note (c))	**13,823**	7,800	**39**	272
Provision for long service payment	**901**	641	**–**	–
	259,481	262,779	**200,039**	200,272
Current portion included in current liabilities	**(146,980)**	(114,881)	**(131,500)**	(90,000)
	112,501	147,898	**68,539**	110,272

23 Long-term liabilities (continued)

(a) At 31 March 2004, the loans from banks and financial institutions were repayable as follows:

	Group		Company	
	2004	2003	**2004**	2003
	HK$'000	HK$'000	**HK$'000**	HK$'000
Within one year	**146,980**	114,881	**131,500**	90,000
In the second year	**97,777**	110,000	**68,500**	110,000
In the third to fifth years	**–**	29,221	**–**	–
	244,757	254,102	**200,000**	200,000

(b) Details of finance lease liabilities were as follows:

	Group	
	2004	2003
	HK$'000	HK$'000
Within one year	**–**	67
In the second year	**–**	67
In the third to fifth year	**–**	131
	–	265
Future finance charges on finance leases	**–**	(29)
Present value of finance lease liabilities	**–**	236

The present value of finance lease liabilities is as follows:

	Group	
	2004	2003
	HK$'000	HK$'000
Within one year	**–**	55
In the second year	**–**	58
In the third to fifth year	**–**	123
	–	236

23 Long-term liabilities (continued)

(c) Deferred taxation

	Group 2004 HK$'000	2003 HK$'000 Restated
Deferred tax assets	**(2,718)**	(3,042)
Deferred tax liabilities	**13,823**	7,800
	11,105	4,758

Deferred taxation are calculated in full on temporary differences under the liability method using a principal taxation rate of 17.5% (2003: 16%).

The movement on the net deferred tax liabilities is as follows:

	Group 2004 HK$'000	2003 HK$'000 Restated
At 1 April	**4,758**	2,074
Deferred taxation charged to profit and loss account	**3,887**	2,716
Taxation charged to property revaluation reserve	**2,487**	–
Exchange differences	**(27)**	(32)
At 31 March	**11,105**	4,758

23 Long-term liabilities (continued)

(c) Deferred taxation (continued)

The movement in deferred tax assets and liabilities during the year is as follows:

Deferred tax liabilities	Accelerated tax depreciation		Revaluation of properties		Others		Total	
	2004	2003	**2004**	2003	**2004**	2003	**2004**	2003
	HK$'000	HK$'000 Restated	**HK$'000**	HK$'000 Restated	**HK$'000**	HK$'000 Restated	**HK$'000**	HK$'000 Restated
At 1 April	**4,190**	726	**3,338**	3,676	**272**	462	**7,800**	4,864
Charged/(credited) to profit and loss account	**4,029**	3,376	**(257)**	(281)	**(233)**	(233)	**3,539**	2,862
Charged to property revaluation reserve	**–**	–	**2,487**	–	**–**	–	**2,487**	–
Exchange differences	**(3)**	88	**–**	(57)	**–**	43	**(3)**	74
At 31 March	**8,216**	4,190	**5,568**	3,338	**39**	272	**13,823**	7,800

Deferred tax assets	Tax losses	
	2004	2003
	HK$'000	HK$'000 Restated
At 1 April	**(3,042)**	(2,790)
Charged/(credited) to profit and loss account	**348**	(146)
Exchange differences	**(24)**	(106)
At 31 March	**(2,718)**	(3,042)

24 Notes to the consolidated cash flow statement

(a) Reconciliation of profit before taxation to net cash inflow from operations:

	Group	
	2004	2003
	HK$'000	HK$'000
Profit before taxation	**45,506**	38,617
Interest income	**(100)**	(2,619)
Interest expense	**11,447**	11,893
Arrangement fees on bank loans	**2,480**	1,593
Interest element of finance leases	**–**	720
Gain on disposal of fixed assets	**(110)**	(391)
Depreciation of owned fixed assets	**49,786**	45,143
Depreciation of fixed assets held under finance leases	**–**	58
Amortisation of goodwill	**1,633**	1,590
Insurance expense	**–**	1,073
Net revaluation deficit on leasehold land and buildings	**1,532**	-
Increase in cash surrender value of life insurance contract	**(59)**	-
Profit before taxation before working capital changes	**112,115**	97,677
(Increase)/decrease in inventories	**(8,046)**	72
Increase in trade receivables	**(40,113)**	(18,116)
Decrease/(increase) in other receivables, deposits and prepayments	**8,779**	(2,512)
Increase/(decrease) in trade payables and deposits received	**14,533**	(1,529)
Increase/(decrease) in other payables and accrued charges	**3,662**	(12,541)
Increase in provision for long service payments	**260**	641
Increase in trust receipt bank loans	**8,715**	32,882
Net cash inflow generated from operations	**99,905**	96,574

24 Notes to the consolidated cash flow statement (continued)

(b) Analysis of cash and cash equivalents

	Group 2004 HK$'000	2003 HK$'000
Bank balances and cash	**137,592**	140,252

Included in bank balances and cash of the Group as at 31 March 2004 were HK$96,610,000 (2003: HK$78,554,000) which were denominated in Renminbi. Renminbi is not a freely convertible currency.

25 Contingent liabilities

At 31 March 2004, the Group had contingent liabilities not provided for in the accounts as follows:

	Group 2004 HK$'000	2003 HK$'000
Issued letters of credit	**6,216**	7,262
Shipping guarantee	**800**	–
Bills of exchange with recourse	**84**	4,470
	7,100	11,732

The Company has executed guarantees with respect to banking facilities made available to its subsidiaries. At 31 March 2004, such facilities granted amounted to approximately HK$640,847,000 (2003: HK$593,882,000) consist of HK$200,000,000 and HK$29,277,000 for the syndication loans and the insurance related loan, respectively (2003: HK$200,000,000 and HK$29,277,000).

26 Banking and other facilities

At 31 March 2004, the Group's banking and other facilities are as follows:

(a) There was an outstanding bank loan of US$3,753,000 (HK$29,277,000) which was borrowed to finance the single lump sum payments for premiums of life insurance policies as mentioned in Note 15. The bank loan is secured by the three life insurance policies with a combined death benefit of US$25 million (HK$195 million) and a corporate guarantee executed by the Company; and

(b) Other general banking facilities of HK$343,559,000 utilised for working capital purposes are supported by a corporate guarantee executed by the Company.

27 Commitments

(a) Capital commitment for leasehold land

	Group	
	2004	2003
	HK$'000	HK$'000
Contracted but not provided for	**8,935**	–

(b) Commitments under operating leases

At 31 March 2004, the Group had future aggregate minimum lease payments under non-cancellable operating leases in respect of land and buildings as follows:

	Group	
	2004	2003
	HK$'000	HK$'000
Not later than one year	**6,576**	6,066
Later than one year and not later than five years	**13,876**	14,414
Over five years	**11,799**	14,304
	32,251	34,784

28 Ultimate holding company

The Directors regard Rare Diamond Limited, a company incorporated in the British Virgin Islands, as being the ultimate holding company.

29 Approval of accounts

The accounts were approved by the Board of Directors on 22 July 2004.