

Notes to the Accounts

For the year ended 31 March 2005

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 Institute of Certified Public Accountants ("HKICPA"). They have been prepared under the historical cost convention as modified by the revaluation of leasehold land and buildings.

The HKICPA has issued a number of new and revised Hong Kong Financial Reporting Standards and Hong Kong Accounting Standards ("new HKFRSs") which are effective for accounting periods beginning on or after 1 January 2005. The Group have not early adopted these new HKFRSs in the accounts for the year ended 31 March 2005. The Group has already commenced an assessment of the impact of these new HKFRSs but is not yet in a position to state whether these new HKFRSs would have a significant impact on its results of operations and financial position.

(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 Company, 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.

The gain or loss on disposal of a subsidiary represents the difference between the proceeds of the disposal and the Group's share of its net asset together with any unamortised goodwill and any related cumulative foreign currency translation adjustments.

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

Notes to the Accounts

For the year ended 31 March 2005

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 accumulated impairment loss 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 set off against increases on earlier valuations in respect of the same property and thereafter are 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 the disposal of a property, the relevant portion of the revaluation reserve realised in respect of previous valuations is released from the property revaluation 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.

Notes to the Accounts

For the year ended 31 March 2005

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.

(d) 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.

Notes to the Accounts

For the year ended 31 March 2005

1 Principal Accounting Policies (continued)

(f) Other investments

(i) Club memberships and non-trading securities

Club memberships and non-trading securities are stated at cost less any accumulated 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.

(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) Trading securities

Trading securities are carried at fair value. At each balance sheet date, the net unrealised gains or losses arising from the changes in fair value of trading securities are recognised in the profit and loss account. Profits or losses on disposal of trading securities, representing the difference between the net sales proceeds and the carrying amounts, are recognised in the profit and loss account as they arise.

(h) 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.

(i) 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.

Notes to the Accounts

For the year ended 31 March 2005

1 Principal Accounting Policies (continued)

(j) **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, cash investments with a maturity of three months or less from date of investment and bank overdrafts.

(k) **Employee benefits**

(i) **Employee leave entitlements**

Employee entitlements to annual 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.

(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**

The Group operates a number of defined contribution plans for its employees, the assets of which are held in separate trustee-administrated funds. The pension plans are generally funded by payments from employees and by the relevant companies in the Group.

The Group's contributions to the defined contribution retirement scheme are expensed as incurred and are reduced by contribution forfeited by those employees who leave the scheme prior to vesting fully in the contributions.

Notes to the Accounts

For the year ended 31 March 2005

1 Principal Accounting Policies (continued)

(k) Employee benefits (continued)

(iv) Equity compensation benefits

Share options are granted to directors and certain employees. If the options are granted at the market price of the shares on the date of the grant and are exercisable at that price, no compensation cost is recognised. If the options are granted at a discount on the market price, the discount is recognised in the balance sheet as an increase in equity. When the options are exercised, the proceeds received net of any transaction costs are credited to share capital (nominal value) and share premium.

(l) 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.

(m) 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.

Notes to the Accounts

For the year ended 31 March 2005

1 Principal Accounting Policies (continued)

(n) **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 title has passed.

Revenue 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.

(o) **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.

(p) **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.

(q) **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 the outflow is probable, it will then be recognised as a provision.

Notes to the Accounts

For the year ended 31 March 2005

1 Principal Accounting Policies (continued)

(q) Contingent liabilities and contingent assets (continued)

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 are disclosed in the notes to the accounts when an inflow of economic benefits is probable. When inflow is virtually certain, an asset is recognised.

(r) 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.

No analysis by business segment is presented as the Group's turnover and results are substantially derived primarily from toy manufacturing operation.

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

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

Notes to the Accounts

For the year ended 31 March 2005

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:

	2005 HK\$'000	2004 HK\$'000
Turnover		
Sale of goods	743,597	706,150
Mould income	31,113	37,768
	774,710	743,918
Other revenue		
Interest income	472	100
Others	580	1,184
	1,052	1,284
Total revenues	775,762	745,202

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 2005 HK\$'000	Total assets 2005 HK\$'000	Capital expenditure 2005 HK\$'000
United States of America	344,080	123,757	35
Europe <i>(Note)</i>	118,542	1,218	-
Japan	162,360	55,345	-
Mainland China	61,809	487,290	100,720
Indonesia	2,896	35,799	143
Hong Kong	18,755	288,746	19,826
Others	66,268	19,282	-
Total	774,710	1,011,437	120,724

Notes to the Accounts

For the year ended 31 March 2005

2 Turnover, Revenue and Segment Information (continued)

Secondary reporting format – geographical segments (continued)

	Turnover 2004 HK\$'000	Total assets 2004 HK\$'000	Capital expenditure 2004 HK\$'000
United States of America	372,926	44,157	341
Europe (<i>Note</i>)	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

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.

Notes to the Accounts

For the year ended 31 March 2005

3 Operating Profit

Operating profit is stated after crediting and charging the following:

	2005 HK\$'000	2004 HK\$'000
Crediting		
Bad debts written back	346	–
Net exchange gains	–	85
Gain on disposal of fixed assets	–	110
Reversal of revaluation deficit of certain leasehold land and buildings	–	680
Charging		
Auditors' remuneration	1,435	1,299
Amortisation of goodwill	1,633	1,633
Provision for obsolete inventories	–	2,139
Bad debts written off	–	1,728
Revaluation deficit of certain leasehold land and buildings	–	2,212
Depreciation of fixed assets	46,381	49,786
Loss on disposal of fixed assets	121	–
Impairment loss of other investments	1,174	–
Unrealised loss on listed trading securities	1,515	–
Realised loss on listed trading securities	1,357	–
Staff costs (excluding of directors' remuneration (<i>Note 9</i>))	106,391	92,163
Operating lease rentals in respect of land and buildings	5,746	6,013
Net exchange losses	8,501	–

4 Finance Costs

	2005 HK\$'000	2004 HK\$'000
Interest on loans from banks and financial institutions and overdrafts	9,309	11,447
Interest on other loan (note 24)	205	–
Arrangement fees on bank loans	1,942	2,480
	11,456	13,927

Notes to the Accounts

For the year ended 31 March 2005

5 Taxation

Hong Kong profits tax has been provided at the rate of 17.5% (2004: 17.5%) on the estimated assessable profit for the year. 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.

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

	2005 HK\$'000	2004 HK\$'000
Current taxation		
Hong Kong profits tax		
– current year	3,466	4,480
– overprovision in prior years	(80)	(794)
Mainland China enterprise income tax		
– current	1,695	3,792
– overprovision in prior years	(176)	(2,689)
Deferred taxation (<i>Note 25(b)</i>)	(733)	3,860
	4,172	8,649

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:

	2005 HK\$'000	2004 HK\$'000
Profit before taxation	24,452	45,506
Calculated at a taxation rate of 17.5% (2004: 17.5%)	4,279	7,964
Effect of different taxation rates in other countries	(1,274)	548
Income not subject to taxation	(1,554)	(1,243)
Expenses not deductible for taxation purposes	2,113	2,773
Tax exemption	(4,377)	(98)
Tax losses not recognised	5,241	2,289
Overprovision in prior years	(256)	(3,483)
Utilisation of previously unrecognised tax losses	–	(101)
Taxation charge	4,172	8,649

Notes to the Accounts

For the year ended 31 March 2005

6 Profit Attributable to Shareholders

The consolidated profit attributable to shareholders includes a loss of approximately HK\$45,210,000 (2004: profit of HK\$12,222,000), including dividend from a subsidiary of HK\$27,000,000 (2004: HK\$10,000,000), dealt with in accounts of the Company.

7 Dividends

	2005 HK\$'000	2004 HK\$'000
Ordinary shares		
Interim, paid on 21 December 2004, of HK0.50 cents (2004: HK0.75 cents) per ordinary share	2,419	3,628
Final, proposed, of HK0.50 cents (2004: HK0.75 cents) per ordinary share (Note)	2,419	3,628
	4,838	7,256

Note: At a meeting held on 27 July 2005, the Directors declare a final dividend of HK0.50 cents per ordinary share. This proposed dividend is not reflected as a dividend payable in these accounts, but will be reflected as a distribution of share premium for the year ending 31 March 2006.

8 Earnings per Share

The calculation of basic earnings per share is based on the Group's profit attributable to shareholders of HK\$20,280,000 (2004: HK\$36,857,000) and the weighted average number of 483,733,333 (2004: 443,288,889) ordinary shares in issue during the year.

No dilutive earnings per share has been presented for the years ended 31 March 2005 and 2004 as the exercise of share options would be anti-dilutive.

9 Staff Costs

Staff costs excluding directors' emoluments comprises:

	2005 HK\$'000	2004 HK\$'000
Wages and salaries	100,447	87,171
Other staff benefits	3,723	2,987
Pension costs – defined contribution plans (Note 11)	2,221	2,005
	106,391	92,163

Notes to the Accounts

For the year ended 31 March 2005

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:

	2005 HK\$'000	2004 HK\$'000
Fees for independent non-executive directors	150	180
Fees for non-executive director	60	–
Other emoluments:		
Basic salaries, housing allowances, other allowances and benefits in kind	6,487	5,593
Provident fund scheme contributions	84	81
	6,781	5,854

No emoluments have been paid by the Group to Directors or the five highest paid individuals, as an inducement to join or upon joining the Group or as compensation for loss of office. No Directors waived their emoluments in respect of the years ended 31 March 2005 and 2004.

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 22.

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.

	2005	2004
Nil – HK\$1,000,000	6	5
HK\$1,000,001 – HK\$1,500,000	0	1
HK\$1,500,001 – HK\$2,000,000	1	1
HK\$2,000,001 – HK\$2,500,000	2	1
	9	8

Notes to the Accounts

For the year ended 31 March 2005

10 Directors' and Senior Management's Emoluments (continued)**(b) Five highest paid individuals**

The five individuals whose emoluments were the highest in the Group for the year include four (2004: three) Directors whose emoluments are disclosed in the analysis presented above. The emoluments payable to the remaining one (2004: two) individuals during the year are as follows:

	2005 HK\$'000	2004 HK\$'000
Basic salaries, housing allowances, other allowances and benefits in kind	634	1,038
Provident fund scheme contributions	31	42
	665	1,080

During the years ended 31 March 2005 and 2004, no share options were granted to the individuals under the Old Scheme to acquire ordinary shares in the Company.

During the years ended 31 March 2005 and 2004, no options were exercised by the afore-mentioned highest paid individuals.

The emoluments of the afore-mentioned one (2004: 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.

Notes to the Accounts

For the year ended 31 March 2005

11 Provident Fund Scheme Arrangements (continued)

The Group contributions to certain defined contribution schemes for its employees in Mainland China, Indonesia and the United States of America. Contributions 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 2005 was HK\$2,221,000 (2004: HK\$2,005,000).

At 31 March 2005 and 2004 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 2005 was HK\$60,000 (2004: HK\$200,000).

12 Goodwill

	Group	
	2005 HK\$'000	2004 <i>HK\$'000</i>
At 1 April	20,873	22,506
Amortisation	(1,633)	(1,633)
At 31 March	19,240	20,873
Representing:		
Cost	24,488	24,488
Accumulated amortisation	(5,248)	(3,615)
Net book amount	19,240	20,873

Notes to the Accounts

For the year ended 31 March 2005

13 Fixed Assets – Group

	Leasehold land and buildings HK\$'000	Leasehold improve- ments HK\$'000	Plant and machinery HK\$'000	Group Furniture, fixtures and equipment HK\$'000	Motor vehicles HK\$'000	Moulds HK\$'000	Construction in progress HK\$'000	Total HK\$'000
Cost or valuation								
At 1 April 2004	91,010	96,353	160,798	27,287	6,809	148,656	–	530,913
Additions, at cost	5,196	296	9,476	1,287	1,221	13,841	89,407	120,724
Disposals	–	(179)	–	(79)	(195)	–	–	(453)
Exchange adjustments	(1,345)	–	(704)	(33)	(10)	–	–	(2,092)
At 31 March 2005	94,861	96,470	169,570	28,462	7,825	162,497	89,407	649,092
Accumulated depreciation								
At 1 April 2004	–	28,818	120,850	21,181	4,235	89,028	–	264,112
Charge for the year	2,289	7,053	15,022	2,026	751	19,240	–	46,381
Disposals	–	(90)	–	(79)	(39)	–	–	(208)
Exchange adjustments	–	–	(562)	(29)	(10)	–	–	(601)
At 31 March 2005	2,289	35,781	135,310	23,099	4,937	108,268	–	309,684
Net book value								
At 31 March 2005	92,572	60,689	34,260	5,363	2,888	54,229	89,407	339,408
At 31 March 2004	91,010	67,535	39,948	6,106	2,574	59,628	–	266,801

The analysis of the cost or valuation at 31 March 2005 of the above assets is as follows:

At cost	5,196	96,470	169,570	28,462	7,825	162,497	89,407	559,427
At 2004 professional valuation	89,665	–	–	–	–	–	–	89,665
	94,861	96,470	169,570	28,462	7,825	162,497	89,407	649,092
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

Notes to the Accounts

For the year ended 31 March 2005

13 Fixed Assets – Group (continued)

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

	Group	
	2005 HK\$'000	2004 HK\$'000
(a) In Hong Kong, held on leases of between 10 and 50 years	18,814	14,050
(b) Outside Hong Kong, held on leases of between 10 and 50 years (Note)	88,685	68,350
(c) Outside Hong Kong, held on leases over 50 years	8,438	8,610
	115,937	91,010

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\$74,947,000 (2004: HK\$76,745,000) had they been stated at cost less accumulated depreciation.

Note: The balance included the land use right of approximately HK\$23,365,000 recorded in construction in progress.

14 Interests in Subsidiaries

	Company	
	2005 HK\$'000	2004 HK\$'000
Unlisted investments, at cost	115,801	115,801
Amount due from a subsidiary (Note (a))	365,369	330,844
Less: provision for impairment loss	(74,000)	–
	291,369	330,844
	407,170	446,645

- (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 2005. Out of the total amount, HK\$240,000,000 (2004: HK\$37,500,000 is interest bearing at Hong Kong Interbank Offered Rate plus 2% per annum and HK\$162,500,000 is at Hong Kong Interbank Offered Rate plus 1.25% per annum) is interest bearing at Hong Kong Interbank Offered Rate plus 0.735% per annum, while the remaining balance is interest-free.

Notes to the Accounts

For the year ended 31 March 2005

14 Interests in Subsidiaries (continued)

(b) Particulars of the subsidiaries of the Company at 31 March 2005 are as follows:–

Name of company	Place of incorporation and operations	Particulars of issued share capital/ registered capital	Effective percentage holding		Nature of business
			2005	2004	
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	Manufacture of moulds
L C Technology Limited	Hong Kong	Ordinary HK\$10,000	100	100	Trading of consumer electronic products
Lung Cheong Resources Management Limited	Hong Kong	Deferred HK\$10,000 Ordinary HK\$2	100	100	Management services
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
Dongguan L C Technology Co., Ltd. (note)	Mainland China	HK\$3,500,000	100	–	Manufacture of consumer electronic products

Notes to the Accounts

For the year ended 31 March 2005

14 Interests in Subsidiaries (continued)

Name of company	Place of incorporation and operations	Particulars of issued share capital/ registered capital	Effective percentage holding		Nature of business
			2005	2004	
Shares/investments held indirectly (continued):					
PT. Lung Cheong Brothers Industrial	Republic of Indonesia	Rupiah 5,728,000,000	60	60	Manufacture of plastic and electronic products
Standard Tooling and Products Co. Ltd.	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 of America	Ordinary US\$100,010	100	100	Trading of toys
Lung Cheong Entertainment Limited	British Virgin Islands	Ordinary US\$1	100	100	Licensing and development of content
Fericle Holdings Limited	British Virgin Islands	Ordinary US\$1	100	100	Investment holding
Liberal Cultural Studies Limited	Hong Kong	Ordinary HK\$10,000	100	–	Development of animation and publication

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.

Notes to the Accounts

For the year ended 31 March 2005

15 Other Investments

	Group	
	2005 HK\$'000	2004 HK\$'000
At cost		
Unlisted shares overseas	2,398	2,349
Club memberships	2,474	2,738
Investments in life insurance contract (<i>Note</i>)	28,238	28,263
	33,110	33,350
Less: Provision for impairment loss	(1,174)	–
	31,936	33,350

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 2005	:	US\$3,620,000 (HK\$28,238,000)
		Fericle is wholly entitled to any cash surrender value attached to the relevant insurance contracts during the period of the life insurance

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 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 an expense or income in the profit and loss account.

Notes to the Accounts

For the year ended 31 March 2005

16 Inventories

	Group	
	2005 HK\$'000	2004 HK\$'000
Raw materials	159,948	122,927
Work-in-progress	28,394	26,626
Finished goods	38,527	43,894
Less: Provision for obsolete inventories	(2,139)	(2,139)
	224,730	191,308

17 Trade Receivables

The ageing analysis of the trade receivables was as follows:

	Group	
	2005 HK\$'000	2004 HK\$'000
0 – 30 days	64,708	66,511
31 – 60 days	31,209	27,904
61 – 90 days	34,620	12,826
91 – 180 days	35,532	46,700
181 – 365 days	13,244	6,876
Over 365 days	3,588	3,544
	182,901	164,361

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.

Notes to the Accounts

For the year ended 31 March 2005

18 Amount due from a Subsidiary

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

19 Trading Securities

	Group	
	2005 HK\$'000	2004 HK\$'000
Equity securities		
Listed in Hong Kong	8,574	–
Market value of listed equity securities	8,574	–

All trading securities were pledged to secure the margin facilities provided by the securities broker (Note 24).

20 Bank Balances and Cash

Included in bank balances and cash of the Group as at 31 March 2005 were HK\$72,224,000 (2004: HK\$96,610,000) which were denominated in Renminbi. Renminbi is not a freely convertible currency.

Notes to the Accounts

For the year ended 31 March 2005

21 Trade Payables and Deposits Received

	Group	
	2005 HK\$'000	2004 HK\$'000
Trade payables (Note)	66,920	59,048
Deposits received	267	5,322
	67,187	64,370

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

	Group	
	2005 HK\$'000	2004 HK\$'000
0 – 30 days	21,410	19,293
31 – 60 days	14,380	23,358
61 – 90 days	13,173	6,140
91 – 180 days	16,274	9,179
181 – 365 days	1,324	924
Over 365 days	359	154
	66,920	59,048

Notes to the Accounts

For the year ended 31 March 2005

22 Share Capital

	Authorised			
	Convertible cumulative redeemable preference shares of US\$100,000 each No. of shares	US\$'000	Ordinary shares of HK\$0.10 each No. of Shares (thousands)	HK\$'000
At 31 March 2004 and 2005	40	4,000	1,000,000	100,000

	Issued and fully paid			
	Convertible cumulative redeemable preference shares of US\$100,000 each No. of Shares	HK\$'000 (equivalent)	Ordinary shares of HK\$0.10 each No. of shares (thousands)	HK\$'000
At 31 March 2004 and 2005	–	–	483,733	48,373
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

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

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.

Notes to the Accounts

For the year ended 31 March 2005

22 Share Capital (continued)

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 6% 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 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.

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

	Number of Options	
	2005	2004
At the beginning of the year	10,800,000	11,900,000
Lapsed	-	(1,100,000)
At the end of the year (Note)	10,800,000	10,800,000
Options vested at 31 March	10,800,000	8,600,000

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

Expiry date	Exercise price HK\$	2005 Number of options	2004 Number of options
Directors 30 September 2005	0.675	10,000,000	10,000,000
Other employees 30 September 2005	0.675	800,000	800,000
		10,800,000	10,800,000

Notes to the Accounts

For the year ended 31 March 2005

23 Other Reserves and Retained Profits

	Group						Company	
	Other reserves						Share premium HK\$'000	(Accumulated losses)/ retained profits HK\$'000
	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		
At 1 April 2004	112,967	(52,066)	27,081	22,485	110,467	230,857	200,268	18,106
Exchange difference arising from translation of accounts of overseas subsidiaries	-	3,496	-	-	3,496	-	-	-
Transfer to capital reserve	-	-	747	-	747	(747)	-	-
Profit/(loss) for the year	-	-	-	-	-	20,280	-	(45,210)
Dividends paid	-	-	-	-	-	(6,047)	-	(6,047)
At 31 March 2005	112,967	(48,570)	27,828	22,485	114,710	244,343	200,268	(33,151)

	Group						Company	
	Other reserves						Share premium HK\$'000	Retained profits HK\$'000
	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		
At 1 April 2003	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
Dividend 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

Notes to the Accounts

For the year ended 31 March 2005

23 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.

24 Short-term Bank and Other Loans

The balances included an other loan of approximately HK\$7,447,000 (2004: HK\$Nil) borrowed from the securities broker and was secured by the trading securities held by the Group (Note 19).

25 Long-term Liabilities

	Group		Company	
	2005 HK\$'000	2004 HK\$'000	2005 HK\$'000	2004 HK\$'000
Loans from banks and financial institutions – unsecured and wholly repayable within five years (Note (a))	240,000	244,757	240,000	200,000
Deferred taxation (Note (b))	11,427	13,823	–	39
Provision for long service payment	971	901	–	–
	252,398	259,481	240,000	200,039
Current portion included in current liabilities	–	(146,980)	–	(131,500)
	252,398	112,501	240,000	68,539

(a) At 31 March 2005, the loans from banks and financial institutions were repayable as follows:

	Group		Company	
	2005 HK\$'000	2004 HK\$'000	2005 HK\$'000	2004 HK\$'000
Within one year	–	146,980	–	131,500
In the second year	81,600	97,777	81,600	68,500
In the third to fifth years	158,400	–	158,400	–
	240,000	244,757	240,000	200,000

Notes to the Accounts

For the year ended 31 March 2005

25 Long-term Liabilities (continued)

(b) Deferred taxation

	Group	
	2005 HK\$'000	2004 HK\$'000
Deferred tax assets	(1,055)	(2,718)
Deferred tax liabilities	11,427	13,823
	10,372	11,105

Deferred taxation are calculated in full on temporary differences under the liability method using a principal taxation rate of 17.5% (2004: 17.5%).

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

	Group	
	2005 HK\$'000	2004 HK\$'000
At 1 April	11,105	4,758
Deferred taxation (credited)/charged to profit and loss account	(754)	3,887
Taxation charged to property revaluation reserve	-	2,487
Exchange differences	21	(27)
At 31 March	10,372	11,105

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	
	2005	2004	2005	2004	2005	2004	2005	2004
	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000
At 1 April	8,216	4,190	5,568	3,338	39	272	13,823	7,800
Charged/(credited) to profit and loss account	(2,026)	4,029	(352)	(257)	(39)	(233)	(2,417)	3,539
Charged to property revaluation reserve	-	-	-	2,487	-	-	-	2,487
Exchange differences	21	(3)	-	-	-	-	21	(3)
At 31 March	6,211	8,216	5,216	5,568	-	39	11,427	13,823

Notes to the Accounts

For the year ended 31 March 2005

25 Long-term Liabilities (continued)

(b) Deferred taxation (continued)

Deferred tax assets

	Tax losses	
	2005 HK\$'000	2004 <i>HK\$'000</i>
At 1 April	(2,718)	(3,042)
Charged to profit and loss account	1,663	348
Exchange differences	-	(24)
At 31 March	(1,055)	(2,718)

26 Notes to the Consolidated Cash Flow Statement

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

	Group	
	2005 HK\$'000	2004 <i>HK\$'000</i>
Profit before taxation	24,452	45,506
Interest income	(472)	(100)
Interest expense	9,514	11,447
Arrangement fees on bank loans	1,942	2,480
Loss/(gain) on disposal of fixed assets	121	(110)
Depreciation of fixed assets	46,381	49,786
Amortisation of goodwill	1,633	1,633
Net revaluation deficit on leasehold land and buildings	-	1,532
Impairment loss of other investments	1,174	-
Realised loss on disposal of trading securities	1,357	-
Unrealised loss on trading securities	1,515	-
Decrease/(increase) in cash surrender value of life insurance contract	25	(59)
Profit before taxation before working capital changes	87,642	112,115
Increase in inventories	(33,422)	(8,046)
Increase in trade receivables	(18,540)	(40,113)
(Increase)/decrease in other receivables, deposits and prepayments	(15,704)	8,779
Increase in trade payables and deposits received	2,817	14,533
Increase in other payables and accrued charges	16,785	3,662
Increase in provision for long service payment	70	260
Increase in trust receipt bank loans	12,099	8,715
Net cash inflow generated from operations	51,747	99,905

Notes to the Accounts

For the year ended 31 March 2005

26 Notes to the Consolidated Cash Flow Statement (continued)

(b) Analysis of cash and cash equivalents

	Group	
	2005 HK\$'000	2004 <i>HK\$'000</i>
Bank balances and cash	168,669	137,592

(c) Analysis of changes in financing

	Short-term bank and other loans	Long-term bank loans
	<i>HK\$'000</i>	<i>HK\$'000</i>
At 1 April 2003	15,000	254,102
New loans from banks and financial institutions	50,295	90,000
Repayment of loans borrowed from banks and financial institutions	(50,295)	(99,345)
At 1 April 2004	15,000	244,757
New loans from banks and financial institutions	184,123	240,000
Repayment of loans borrowed from banks and financial institutions	(65,800)	(244,757)
At 31 March 2005	133,323	240,000

(d) Disposal of a subsidiary

	2005 HK\$'000	2004 <i>HK\$'000</i>
	Net assets of a subsidiary disposed:	
Other investments	264	–
Trading securities	40	–
Bank balances and cash	10	–
Other payables and accrued charges	(5)	–
	309	–
Satisfied by		
Cash	309	–

Notes to the Accounts

For the year ended 31 March 2005

26 Notes to the Consolidated Cash Flow Statement (continued)

(d) Disposal of a subsidiary (continued)

Analysis of the net inflow in respect of the disposal of a subsidiary:

	2005 HK\$'000	2004 HK\$'000
Sales proceeds	309	–
Cash and cash equivalents disposed of:		
Bank balances and cash	(10)	–
Net cash inflow in respect of the disposal of a subsidiary	299	–

27 Contingent Liabilities

At 31 March 2005, the Group had contingent liabilities not provided for in the accounts as follows:

	Group	
	2005 HK\$'000	2004 HK\$'000
Shipping guarantee	318	800
Bills of exchange with recourse	–	84
	318	884

The Company has executed guarantees with respect to banking facilities made available to its subsidiaries. At 31 March 2005, such facilities granted amounted to approximately HK\$787,967,000 (2004: HK\$640,847,000) consist of HK\$300,000,000 and HK\$29,277,000 for the syndication loans and the insurance related loan respectively (2004: HK\$200,000,000 and HK\$29,277,000).

28 Banking and Other Facilities

At 31 March 2005, 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 and a corporate guarantee executed by the Company; and
- (b) Other general banking facilities of HK\$461,779,000 (2004: HK\$343,559,000) utilised for working capital purposes are supported by a corporate guarantee executed by the Company.

Notes to the Accounts

For the year ended 31 March 2005

29 Commitments

(a) Capital commitment for leasehold land and building

	Group	
	2005 HK\$'000	2004 <i>HK\$'000</i>
Contracted but not provided for	17,398	8,935

(b) Commitments under operating leases

At 31 March 2005, the Group had future aggregate minimum lease payments under non-cancellable operating leases in respect of land and buildings as follows:

	Group	
	2005 HK\$'000	2004 <i>HK\$'000</i>
Not later than one year	4,224	6,576
Later than one year and not later than five years	12,651	13,876
Over five years	4,362	11,799
	21,237	32,251

30 Ultimate Holding Company

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

31 Comparative Figures

Certain 2004 comparative figures have been reclassified to conform to the current year's presentation.

32 Approval of Accounts

The accounts were approved by the Board of Directors on 27 July 2005.