1. ORGANISATION AND OPERATIONS

Lung Cheong International Holdings Limited (the “Company”) and its subsidiaries (collectively, the “Group”) are principally engaged in development, engineering, manufacture and sales of toys and moulds.

The Company is a limited liability company incorporated in the Cayman Islands. Its principal place of business is at Lung Cheong Building, 1 Lok Yip Road, Fanling, New Territories, Hong Kong.

The Company’s shares are listed on the Main Board of The Stock Exchange of Hong Kong Limited (“Stock Exchange”).

These financial statements are presented in thousands of units of Hong Kong dollars (HK$’000), unless otherwise stated.

2. ADOPTION OF NEW AND REVISED STANDARDS

In the current year, the Group has adopted all of the new and revised Hong Kong Financial Reporting Standards (“HKFRSs”) which collective term includes all applicable individual HKFRSs, Hong Kong Accounting Standards (“HKASs”) and Interpretations (“HK(IFRIC)”) issued by the Hong Kong Institute of Certified Public Accountants (“HKICPA”) that are relevant to its operations and effective for annual reporting periods beginning on and after 1 December 2005, 1 January 2006 or 1 March 2006. The adoption of these new and revised HKFRSs did not result in substantial changes to the Group’s accounting policies nor have affected the amounts reported for the current or prior years.

At the date of authorization of these financial statements, the following HKFRSs which are relevant to the Group were in issue but not yet effective:

		Effective for annual periods beginning on or after
HKAS 1 (Amendment)	Capital Disclosures	1 January 2007
HKFRS 7	Financial Instruments: Disclosures	1 January 2007
HKFRS 8	Operating Segments	1 January 2009
HK(IFRIC) — Int 8	Scope of HKFRS 2	1 May 2006
HK(IFRIC) — Int 9	Reassessment of Embedded Derivatives	1 June 2006
HK(IFRIC) — Int 10	Interim Financial Reporting and Impairment	1 November 2006
HK(IFRIC) — Int 11	HKFRS 2 — Group and Treasury Share Transactions	1 March 2007
HK(IFRIC) — Int 12	Service Concession Arrangements	1 January 2008

The directors of the Company have considered these HKFRSs and anticipate that they have no material impact on how the results of operations and financial position of the Group are prepared and presented.

3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

The principal accounting policies applied in the preparation of these financial statements are set out below.

(a) Statement of compliance and basis of preparation

The financial statements have been prepared under the historical cost convention, as modified by the revaluation of freehold land and buildings, available-for-sale financial assets, financial assets and financial liabilities (including derivative financial instruments) at fair value through profit or loss, which are carried at fair value.

The financial statements have been prepared in accordance with HKFRSs promulgated by the HKICPA. The financial statements also comply with the disclosure requirements of the Hong Kong Companies Ordinance and the disclosure provisions of the Rules Governing the Listing of Securities on the Stock Exchange.

The preparation of financial statements in conformity with HKFRSs requires the use of certain critical accounting estimates. It also requires management to exercise its judgement in the process of applying the Group's accounting policies.

(b) Consolidation

The consolidated financial statements include the financial statements of the Company and all its subsidiaries made up to 31 March.

Subsidiaries are all entities (including special purpose entities) over which the Group has the power to govern the financial and operating policies generally accompanying a shareholding of more than one half of the voting rights. The existence and effect of potential voting rights that are currently exercisable or convertible are considered when assessing whether the Group controls another entity.

Subsidiaries are fully consolidated from the date on which control is transferred to the Group. They are de-consolidated from the date that control ceases.

The purchase method of accounting is used to account for the acquisition of subsidiaries by the Group. The cost of an acquisition is measured as the fair value of the assets given, equity instruments issued and liabilities incurred or assumed at the date of exchange, plus costs directly attributable to the acquisition. Identifiable assets acquired and liabilities and contingent liabilities assumed in a business combination are measured initially at their fair values at the acquisition date, irrespective of the extent of any minority interest. The excess of the cost of acquisition over the fair value of the Group's share of the identifiable net assets acquired is recorded as goodwill. If the cost of acquisition is less than the fair value of the net assets of the subsidiary acquired, the difference is recognized directly, in the consolidated income statement.

3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES *(Continued)*

(b) Consolidation *(Continued)*

Inter-company transactions, balances and unrealized gains on transactions between group companies are eliminated. Unrealized losses are also eliminated but considered as an impairment indicator of an impairment of the asset transferred.

Accounting policies of subsidiaries have been changed where necessary to ensure consistency with the policies adopted by the Group.

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.

(c) Property, plant and equipment

Buildings comprise mainly factories, showrooms and offices. Freehold land and buildings are shown at fair value, based on periodic, but at least triennial, valuations by external independent valuers, less subsequent depreciation. Any accumulated depreciation at the date of revaluation is eliminated against the gross carrying amount of the asset and the net amount is restated to the revalued amount of the asset. All other property, plant and equipment are stated at historical cost less depreciation and impairment losses. Historical cost includes expenditure that is directly attributable to the acquisition of the items.

Subsequent costs are included in the asset's carrying amount or recognized as a separate asset, as appropriate, only when it is probable that future economic benefits associated with the item will flow to the Group and the cost of the item can be measured reliably. All other repairs and maintenance are expensed in the income statement during the financial period in which they are incurred.

Increases in the carrying amount arising on revaluation of freehold land and buildings are credited to other reserves in equity. Decreases that offset previous increases of the same asset are charged against other reserves directly in equity; all other decreases are expensed in the income statement.

3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES *(Continued)*

(c) Property, plant and equipment *(Continued)*

Depreciation of property, plant and equipment is calculated using the straight-line method to allocate cost or revalued amounts to their residual values over their estimated useful lives, as follows:

Buildings	50 years
Leasehold improvements	20-50 years
Plant and machinery	5 years
Furniture, fixtures and equipment	5 years
Motor vehicles	5 years
Moulds	5 years

The assets' residual values and useful lives are reviewed, and adjusted if appropriate, at each balance sheet date.

An asset's carrying amount is written down immediately to its recoverable amount if the asset's carrying amount is greater than its estimated recoverable amount.

Gains and losses on disposals are determined by comparing proceeds with carrying amount and are included in the income statement.

(d) 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 identifiable assets of the acquired subsidiaries at the date of acquisition. Goodwill on acquisitions of subsidiaries is included in intangible assets. Goodwill is tested annually for impairment and carried at cost less accumulated impairment losses, if any. Impairment losses on goodwill are not reversed.

Goodwill is allocated to cash-generating units for the purpose of impairment testing. The allocation is made to those cash-generating units or groups of cash-generating units that are expected to benefit from the business combinations in which the goodwill arose.

3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES *(Continued)*

(d) Intangible assets *(Continued)*

(ii) Club memberships

Club memberships are stated at cost less any accumulated impairment losses.

The carrying amounts 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 is reduced to its fair value. The impairment loss is recognized as an expense in the income statement. This impairment loss is written back to the income statement 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.

(e) Impairment of non-financial assets

Assets that have an indefinite useful life are not subject to depreciation or amortization, which are at least tested annually for impairment and are reviewed for impairment whenever events or changes in circumstances indicate that the carrying amount may not be recoverable. Assets that are subject to amortization are reviewed for impairment whenever events or changes in circumstances indicate that the carrying amount may not be recoverable. An impairment loss is recognized for the amount by which the asset's carrying amount exceeds its recoverable amount. The recoverable amount is the higher of an asset's fair value less costs to sell and value in use. For the purposes of assessing impairment, assets are grouped at the lowest levels for which there are separately identifiable cash flows (cash-generating units). Non-financial assets other than goodwill that suffered an impairment are reviewed for possible reversal of the impairment at each reporting date.

(f) Finance assets

The Group classifies its financial assets as available-for-sale based on the purpose for which the financial assets were acquired. Management determines the classification of its financial assets at initial recognition and re-evaluates this designation at every reporting date.

Available-for-sale financial assets are non-derivatives. They are included in non-current assets unless management intends to dispose of the investment within twelve months of the balance sheet date.

Regular purchases and sales of investments are recognized on trade-date - the date on which the Group commits to purchase or sell the asset. Investments are initially recognized at fair value plus transaction costs for all financial assets not carried at fair value through profit or loss. Investments are derecognized when the rights to receive cash flows from the investments have expired or have been transferred and the Group has transferred substantially all risks and rewards of ownership. Available-for-sale financial assets are subsequently carried at fair value.

3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES *(Continued)*

(f) Finance assets *(Continued)*

Changes in the fair value of securities classified as available-for-sale are recognized in equity. When securities classified as available-for-sale are sold or impaired, the accumulated fair value adjustments recognized in equity are included in the income statement as 'gains and losses from investment securities'. Interest on available-for-sale securities calculated using the effective interest method is recognized in the income statement.

The fair values of quoted investments are based on current bid prices. If the market for a financial asset is not active (and for unlisted securities), the Group establishes fair value by using valuation techniques. These include the use of recent arm's length transactions, reference to other instruments that are substantially the same, discounted cash flow analysis, and option pricing models, making maximum use of market inputs and relying as little as possible on entity-specific inputs.

The Group assesses at each balance sheet date whether there is objective evidence that a financial asset or a group of financial assets is impaired. In the case of equity securities classified as available-for-sale, a significant or prolonged decline in the fair value of the security below its cost is considered in determining whether the securities are impaired. If any such evidence exists for available-for-sale financial assets, the cumulative loss - measured as the difference between the acquisition cost and the current fair value, less any impairment loss on that financial asset previously recognized in the income statement - is removed from equity and recognized in the income statement. Impairment losses recognized in the income statement on equity instruments are not reversed through the income statement.

(g) Derivative financial instruments

Derivates are initially recognized at fair value on the date a derivative contract is entered into and are subsequently remeasured at their fair values. The method of recognizing the resulting gain or loss depends on whether the derivative is designated as a hedging instrument, and if so, the nature of the item being hedged. Since the derivative instruments entered into by the Group does not qualify for hedge accounting, changes in the fair value of any derivative instruments are recognized immediately in the income statement.

(h) Inventories

Inventories are stated at the lower of cost and net realizable value. Cost is determined using the first-in, first-out (FIFO) method. The cost of finished goods and work-in-progress comprises raw materials, direct labour and an appropriate proportion of production overheads. Net realizable 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.

3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES *(Continued)*

(i) Trade and other receivables

Trade and other receivables are recognized initially at fair value and subsequently measured at amortized cost using the effective interest method, less provision for impairment. A provision for impairment of trade and other receivables is established when there is objective evidence that the Group will not be able to collect all amounts due according to the original terms of receivables. Significant financial difficulties of the debtor, probability that the debtor will enter bankruptcy or financial reorganization, and default or delinquency payments are considered as indicators that the trade receivable is impaired. The amount of the provision is the difference between the asset's carrying amount and the present value of estimated future cash flows, discounted at the effective interest rate. The amount of the provision is recognized in the income statement.

(j) Cash and cash equivalents

Cash and cash equivalents include cash in hand, deposits held at call with banks and bank overdrafts. Bank overdrafts are shown within borrowings in current liabilities in the balance sheet.

(k) Borrowings

Borrowings are recognized initially at fair value, net of transaction costs incurred. Transaction costs are incremental costs that are directly attributable to the acquisition, issue or disposal of a financial asset or financial liability, including fees and commissions paid to agents, advisers, brokers and dealers, levies by regulatory agencies and securities exchanges, and transfer taxes and duties. Borrowings are subsequently stated at amortized cost; any difference between the proceeds (net of transaction costs) and the redemption value is recognized in the income statement over the period of the borrowings using the effective interest method.

Borrowings are classified as current liabilities unless the Group has an unconditional right to defer settlement of the liability for at least twelve months after the balance sheet date.

(l) Share capital

Ordinary shares are classified as equity.

(m) Dividend distribution

Dividend distribution to the Company's equity holders is recognized as a liability in the Group's financial statements in the period in which the dividends are approved by the Company's equity holders.

3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES *(Continued)*

(n) Leases

Leases are classified as finance leases whenever the terms of the lease transfer substantially all the risks and rewards of ownership to the lessee. All other leases are classified as operating leases.

Assets held under finance leases are recognized as assets of the Group at their fair values at the inception of the lease or, if lower, at the present value of the minimum lease payments. The corresponding liability to the lessor is included in the balance sheet as a finance lease obligation. Lease payments are apportioned between finance charges and reduction of the lease obligation so as to achieve a constant rate of interest on the remaining balance of the liability. Finance charges are charged to profit and loss account, unless they are directly attributable to qualifying assets, in which case they are capitalized in accordance with the Group's policy on borrowing costs.

Rentals payable under operating leases are charged to profit or loss on a straight-line basis over the term of the relevant lease. Benefits received and receivable as an incentive to enter into an operating lease are also spread on a straight-line basis over the lease term.

The cost of acquiring land held under an operating lease is amortized on a straight-line basis over the period of the lease term except where the property is classified as an investment property.

(o) Provisions

Provisions are recognized 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 recognized as a separate asset but only when the reimbursement is virtually certain.

Where there are a number of similar obligations, the likelihood that an outflow will be required in settlement is determined by considering the class of obligations as a whole. A provision is recognized even if the likelihood of an outflow with respect to any one item included in the same class of obligations is small.

(p) Contingent liabilities

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 recognized because it is not probable that outflow of economic resources will be required or the amount of obligation cannot be measured reliably.

3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES *(Continued)*

(p) Contingent liabilities *(Continued)*

A contingent liability is not recognized but is disclosed in the financial statements. When a change in the probability of an outflow occurs so that the outflow is probable, it will then be recognized as a provision.

(q) Taxation

Income tax expense represents the sum of the tax currently payable and deferred tax.

The tax currently payable is based on taxable profit for the year. Taxable profit differs from profit as reported in the income statement because it excludes items of income or expenses that are taxable or deductible in other years and it further excludes items that are never taxable or deductible. The Group's liability for current tax is calculated using tax rates that have been enacted or substantively enacted by the balance sheet date.

Deferred income tax 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 consolidated financial statements. However, deferred income tax is not accounted for if it arises from initial recognition of an asset or liability in a transaction other than a business combination that at the time of the transaction affects neither accounting nor taxable profit or loss. Deferred income tax is determined using tax rates (and laws) that have been enacted or substantially enacted by the balance sheet date and are expected to apply when the related deferred income tax asset is realized or the deferred income tax liability is settled.

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

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

(r) Translation of foreign currencies

(i) Functional and presentation currency

Items included in the financial statements of each of the Group's entities are measured using the currency of the primary economic environment in which the entity operates ("the functional currency"). The consolidated financial statements are presented in Hong Kong dollars which is the Company's functional and presentation currency.

3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES *(Continued)*

(r) Translation of foreign currencies *(Continued)*

(ii) Transactions and balances

Foreign currency transactions are translated into the functional currency using the exchange rates prevailing at the dates of the transactions. Foreign exchange gains and losses resulting from the settlement of such transactions and from the translation at year-end exchange rates of monetary assets and liabilities denominated in foreign currencies are recognized in the income statement.

Translation differences on non-monetary items, such as equity instruments held at fair value through profit or loss, are reported as part of the fair value gain or loss. Translation difference on non-monetary items, such as equities classified as available-for-sale financial assets, are included in the fair value reserve in equity.

(iii) Group companies

The results and financial position of all the group entities (none of which has the currency of a hyperinflationary economy) that have a functional currency different from the presentation currency are translated into the presentation currency as follows:

- assets and liabilities for each balance sheet presented are translated at the closing rate at the date of that balance sheet;
- income and expenses for each income statement are translated at average exchange rates (unless this average is not a reasonable approximation of the cumulative effect of the rates prevailing on the transaction dates, in which case income and expenses are translated at the dates of the transactions); and
- all resulting exchange differences are recognized as a separate component of equity.

On consolidation, exchange differences arising from the translation of the net investment in foreign entities are taken to equity. When a foreign operation is sold, such exchange differences are recognized in the income statement as part of the gain or loss on sale.

Goodwill and fair value adjustments arising on the acquisition of a foreign entity are treated as assets and liabilities of the foreign entity and translated at the closing rate.

3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES *(Continued)*

(s) Employee benefits

(i) Employee leave entitlements

Employee entitlements to annual leave are recognized 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 recognized until the time of leave.

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

(ii) Profit sharing and bonus plans

The expected cost of profit sharing and bonus payments are recognized 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 twelve months and are measured at the amounts expected to be paid when they are settled.

(iii) Pension obligations

The Group participates in several defined contribution retirement benefit schemes. A defined contribution plan is a retirement benefit scheme under which the Group pays contributions, on a mandatory, contractual or voluntary basis, into a separate entity. The schemes are generally funded through payments to insurance companies or state/trustee-administered funds. The Group has no further payment obligations once the contributions have been paid. It has no legal or constructive obligations to pay further contributions if the fund does not hold sufficient assets to pay all employees the benefits relating to employee service in the current and prior periods.

The contributions are recognized as employment costs when they are due and are reduced by contributions forfeited by those employees who leave the scheme prior to vesting fully in the contributions.

3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES *(Continued)*

(s) Employee benefits *(Continued)*

(iv) Share based compensation benefits

The fair value of the employee services received in exchange for the grant of the options is recognized as an expense. The total amount to be expensed over the vesting period is determined by reference to the fair value of the options granted, excluding the impact of any non-market vesting conditions (for example, profitability and sales growth targets). Non-market vesting conditions are included in assumptions about the number of options that are expected to become exercisable. At each balance sheet date, the entity revises its estimates of the number of options that are expected to become exercisable. It recognizes the impact of the revision of original estimates, if any, in the income statement with a corresponding adjustment to equity.

The proceeds received net of any directly attributable transaction costs are credited to share capital (nominal value) and share premium when the options are exercised.

(t) 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 capitalized as part of the cost of that asset. All other borrowing costs are charged to the income statement in the period in which they are incurred.

(u) Related parties

Two parties are considered to be related if one party has the ability, directly or indirectly, to control the other party or exercise significant influence over the other party in making financial and operating decisions. Parties are also considered to be related if they are subject to common control or common significant influence. Related parties may be individuals (being members of key management personnel, significant shareholders and/or their close family members) or other entities and include entities which are under the significant influence of related parties of the Group where those parties are individuals, and post-employment benefit plans which are for the benefit of employees of the Group or of any entity that is a related party of the Group.

3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES *(Continued)*

(v) Revenue recognition

Revenue comprises the fair value of the consideration received or receivable for the sale of goods and services in the ordinary course of the Group's activities, net of value-added tax rebates and discounts and after elimination of sales with the Group. Revenue is recognized as follows:

(i) Sales of goods

Sales of goods are recognized when a Group entity sells a product to the customer, has delivered products to the customer, the customer has accepted the products and collectibility of the related receivables is reasonably assumed.

(ii) Interest income

Interest income is recognized on a time-proportion basis using the effective interest method.

(w) Segment reporting

A business segment is a group of assets and operations engaged in providing products or services that are subject to risks and returns that are different from those of other business segments. A geographical segment is engaged in providing products or services within a particular economic environment that is subject to risks and returns that are different from those of segments operating in other economic environments.

4. CRITICAL ACCOUNTING ESTIMATES AND JUDGEMENTS

Estimates and judgements are continually evaluated and are based on historical experience and other factors, including expectations of future events that are believed to be reasonable under the circumstances.

The Group makes estimates and assumptions concerning the future. The resulting accounting estimates will, by definition, seldom equal the related actual results. The estimates and assumptions that have a significant risk of causing a material adjustment to the carrying amounts of assets or liabilities are discussed below.

(a) Useful lives, residual values and depreciation of property, plant and equipment

The Group's management determines the estimated useful lives, residual values and related depreciation charges for its property, plant and equipment. This estimate is based on the historical experience of the actual useful lives of property, plant and equipment of similar nature and functions. Management will increase the depreciation charge where useful lives are less than previously estimated lives, it will write-off or write-down technically obsolete or non-strategic assets that have been abandoned or sold. Actual economic lives may differ from estimated useful lives; actual residual values may differ from estimated residual values. Periodic review could result in a change in depreciable lives and residual values and therefore depreciation expense in the future periods.

4. CRITICAL ACCOUNTING ESTIMATES AND JUDGEMENTS *(Continued)*

(b) Impairment of goodwill

The Group tests annually whether goodwill has suffered any impairment. For the purposes of impairment reviews, the recoverable amount of goodwill is determined based on value-in-use calculations. The value-in-use calculations primarily use cash flow projections based on ten-year financial budgets approved by management. There are a number of assumptions and estimates involved in the preparation of cash flow projections for the period covered by the approved budgets. Key assumptions include the expected growth in revenues, timing of future capital expenditures, growth rates and selection of discount rates to reflect the risks involved. Management prepares the financial budgets reflecting actual and prior year performance and market development expectations. Judgement is required to determine key assumptions adopted in the cash flow projections and changes to key assumptions can significantly affect these cash flow projections and therefore the results of the impairment reviews.

(c) Net realizable value of inventories

Net realizable value of inventories is the estimated selling price in the ordinary course of business, less estimated costs of completion and variable selling expenses. These estimates are based on the current market condition and the historical experience of manufacturing and selling products of similar nature. It could change significantly as a result of changes in customer taste and competitor actions in response to severe industry cycle. Management reassesses the estimations at each balance sheet date.

(d) Trade and other receivables

The Group's management determines the provision for impairment of trade and other receivables based on an assessment of the recoverability of the receivables. This assessment is based on the credit history of its customers and other debtors and the current market condition. Management reassesses the provision at each balance sheet date.

(e) Income taxes and deferred tax

The Group is subject to income taxes in Hong Kong and Mainland China. There are certain transactions and calculations for which the ultimate tax determination is uncertain during the ordinary course of business. The Group recognizes liabilities for anticipated tax audit issues based on estimates of whether additional taxes will be due. Where the final tax outcome of these matters is different from the amounts that were initially recorded, such differences will impact the income tax and deferred tax provisions in the period in which such determination is made.

Deferred tax assets relating to certain temporary differences and tax losses are recognized when management considers it is likely that future taxable profits will be available against which the temporary differences or tax losses can be utilized. When the expectations are different from the original estimates, such differences will impact the recognition of deferred tax assets and income tax charges in the period in which such estimates have been changed.

5. TURNOVER AND SEGMENT INFORMATION

The Group is principally engaged in the development, engineering, manufacture and sale of toys and moulds. Turnover recognized during the year are as follows:

	2007 HK$'000	2006 HK$'000
Turnover		
Sale of goods	**651,290**	717,055
Sale of moulds	**53,525**	33,565
	704,815	750,620

Primary reporting format — business segments

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

5. TURNOVER AND SEGMENT INFORMATION *(Continued)*

Secondary reporting format — geographical segments

	Turnover 2007 HK$'000	Total assets 2007 HK$'000	Capital expenditure 2007 HK$'000
United States of America	**273,843**	**59,217**	**473**
Europe (Note)	**107,875**	**5,516**	**—**
Japan	**96,850**	**29,029**	**—**
Mainland China	**71,614**	**596,307**	**81,388**
Indonesia	**1,398**	**34,271**	**1,167**
Hong Kong	**89,456**	**298,043**	**2,873**
Others	**63,779**	**14,736**	**2**
Total	**704,815**	**1,037,119**	**85,903**

	Turnover 2006 HK$'000	Total assets 2006 HK$'000	Capital expenditure 2006 HK$'000
United States of America	307,521	59,134	68
Europe (Note)	112,495	5,919	—
Japan	165,683	101,468	—
Mainland China	91,965	586,877	94,817
Indonesia	1,691	22,981	1,065
Hong Kong	26,141	245,671	28,149
Others	45,124	2,937	—
Total	750,620	1,024,987	124,099

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 for shipments directly to Europe under the instructions of customers. The respective trade receivables are included in the United States of America, Japan and Hong Kong segments.

6. OTHER GAINS

	2007 HK$'000	2006 HK$'000
Interest income	**607**	617
Net gain on derivative financial instruments:		
— forward contracts and interest swaps:		
transactions not qualifying as hedges	**939**	741
Sample income	**5,048**	1,680
Gain on disposal of subsidiaries	**1,414**	—
Other	**2,150**	325
	10,158	3,363

7. EXPENSES BY NATURE

Expenses included in cost of sales, selling and distribution expenses, general and administrative expenses are analyzed as follows:

	2007 HK$'000	2006 HK$'000
Cost of inventories sold	**360,532**	408,505
Auditors' remuneration	**1,766**	2,065
Provision for obsolete inventories	**—**	574
Amortization of leasehold land and land use rights	**1,129**	1,120
Depreciation of property, plant and equipment	**47,223**	43,474
Write-off/impairment loss of other investments in unlisted shares overseas	**—**	1,224
Loss on disposal of listed trading securities	**—**	1,386
Employee benefit expense (Note 13)	**123,049**	115,798
Operating lease rentals in respect of land and buildings	**4,661**	5,573
Net exchange (gains)/losses	**(485)**	4,568

8. FINANCE COSTS

	2007 HK$'000	2006 HK$'000
Interest on loans from banks and financial institutions and overdrafts wholly repayable within five years	**26,545**	22,947
Arrangement fees on bank loans	**586**	754
	27,131	23,701

9. INCOME TAX (CHARGE)/CREDIT

Hong Kong profits tax has been provided at the rate of 17.5% (2006: 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 subsidiaries.

The amount of tax (charge)/credit in the consolidated income statement represents:

	2007 HK$'000	2006 HK$'000
Current income tax		
Hong Kong profits tax		
— current year	**(2,400)**	(1,687)
— over/(under) provision in prior years	**300**	(3)
Mainland China enterprise income tax		
— current	**(445)**	(993)
— overprovision in prior years	**—**	1,370
Deferred income tax (Note 30)	**1,766**	1,878
	(779)	565

The taxation on the Group's loss/(profit) before income tax differs from the theoretical amount that would arise using the Hong Kong profits tax rate as follows:

	2007 HK$'000	2006 HK$'000
Loss/(profit) before income tax	**36,497**	(15,244)
Calculated at a taxation rate of 17.5% (2006: 17.5%)	**6,387**	(2,668)
Effect of different taxation rates in other countries	**(1,223)**	1,310
Income not subject to taxation	**564**	1,034
Expenses not deductible for taxation purposes	**(8,700)**	(3,882)
Tax exemption	**3,216**	3,808
Tax losses not recognized	**(758)**	(404)
(Under)/overprovision in prior years	**(265)**	1,367
Tax (charge)/credit	**(779)**	565

10. (LOSS)/PROFIT ATTRIBUTABLE TO EQUITY HOLDERS OF THE COMPANY

The consolidated (loss)/profit attributable to equity holders of the Company includes a loss of approximately HK$47,616,000 (2006: profit of HK$21,216,000), including dividend from a subsidiary of HK$ Nil (2006: HK$21,000,000), dealt with in financial statements of the Company.

11. DIVIDENDS

The directors do not recommend final dividend in respect of the year ended 31 March 2007 (2006: Nil).

At the meeting held on 23 July 2007, the directors proposed to issue bonus shares to all shareholders whose names appear in the register of members of the Company on 27 August 2007 on the basis of two bonus shares, credited as fully paid, for every one existing share held, by way of capitalization of sum standing to the credit of the Company's share premium account subject to shareholders' approval in the next annual general meeting.

12. (LOSS)/EARNINGS PER SHARE

Basic

Basic (loss)/earnings per share is calculated by dividing the (loss)/profit attributable to equity holders of the Company by the weighted average number of ordinary shares in issue during the year.

	2007 HK$'000	2006 HK$'000
(Loss)/profit attributable to equity holders of the Company	**(37,219)**	16,673

	2007	2006 (Restated)
Weighted average number of ordinary shares in issue	**542,365,844**	505,719,013
Basic (loss)/earnings per share (HK cents)	**(6.86)**	3.30

Basic earnings per share for the year ended 31 March 2006 is restated to take into effect the rights issue during the year.

No diluted (loss)/earnings per share for the years ended 31 March 2007 and 2006 has been presented as there were no dilutive potential ordinary shares in issue as at 31 March 2007 and 2006.

13. EMPLOYEE BENEFIT EXPENSE

Employee benefit expense excluding directors' emoluments comprises:

	2007 HK$'000	2006 HK$'000
Wages and salaries	**117,554**	109,321
Other staff benefits	**4,734**	3,792
Pension costs - defined contribution plans (Note 15)	**761**	2,685
	123,049	115,798

14. 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:

	2007 HK$'000	2006 HK$'000
Fees for independent non-executive directors	**180**	180
Fees for non-executive director	**60**	60
Other emoluments:		
Basic salaries, bonus, housing allowances, other allowances and benefits in kind	**6,274**	6,416
Provident fund scheme contributions	**84**	84
	6,598	6,740

No emoluments have been paid by the Group to the directors as an inducement to join or upon joining the Group or as compensation for loss of office during the year. No directors waived their emoluments in respect of the years ended 31 March 2007 and 2006.

14. DIRECTORS' AND SENIOR MANAGEMENT'S EMOLUMENTS *(Continued)*

(a) Directors' emoluments *(Continued)*

The remuneration of every director for the year ended 31 March 2007 is as set out below:

Name of director	**Fees HK$'000**	**Basic salaries and bonus HK$'000**	**Housing allowances, other allowances and benefits in kind HK$'000**	**Employer's contribution to pension scheme HK$'000**	**Total HK$'000**
Mr Leung Lun	**—**	**1,500**	**780**	**12**	**2,292**
Mr Leung Chun Ming	**—**	**1,569**	**576**	**12**	**2,157**
Mr Zhong Bingquan	**—**	**324**	**—**	**12**	**336**
Ms Cheng Yun Tai	**—**	**445**	**—**	**12**	**457**
Mr Wong, Andy Tze On	**—**	**720**	**360**	**36**	**1,116**
Mr Wong Lam	**60**	**—**	**—**	**—**	**60**
Mr Ye Tian Liu	**60**	**—**	**—**	**—**	**60**
Mr Ko Peter, Ping Wah	**60**	**—**	**—**	**—**	**60**
Mr Lai Yun Hung	**60**	**—**	**—**	**—**	**60**
	240	**4,558**	**1,716**	**84**	**6,598**

The remuneration of every director for the year ended 31 March 2006 is as set out below:

Name of director	Fees HK$'000	Basic salaries and bonus HK$'000	Housing allowances, other allowances and benefits in kind HK$'000	Employer's contribution to pension scheme HK$'000	Total HK$'000
Mr Leung Lun	—	1,500	780	12	2,292
Mr Leung Chun Ming	—	1,567	576	12	2,155
Mr Zhong Bingquan	—	324	—	12	336
Ms Cheng Yun Tai	—	589	—	12	601
Mr Wong, Andy Tze On	—	720	360	36	1,116
Mr Wong Lam	60	—	—	—	60
Mr Ye Tian Liu	60	—	—	—	60
Mr Ko Peter, Ping Wah	60	—	—	—	60
Mr Lai Yun Hung	60	—	—	—	60
	240	4,700	1,716	84	6,740

14. 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 three (2006: four) directors whose emoluments are disclosed in the analysis presented above. The emoluments payable to the remaining two (2006: one) individuals during the year are as follows:

	2007 HK$'000	2006 HK$'000
Basic salaries, housing allowances, other allowances and benefits in kind	**1,155**	627
Bonus	**—**	18
Provident fund scheme contributions	**45**	33
	1,200	678

During the years ended 31 March 2007 and 2006, no share options were granted to the individuals under the Old Scheme to acquire ordinary shares in the Company, and no options were exercised by the afore-mentioned highest paid individuals.

The emoluments of the afore-mentioned two (2006: one) 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.

No emoluments were paid to the highest paid individuals as an inducement to join the Group or as compensation for loss of office.

15. PROVIDENT FUND SCHEME ARRANGEMENTS

The Group has two provident fund scheme arrangements for its Hong Kong employees: the ORSO Scheme and 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. Forfeited contributions are used to reduce the employers' contributions.

Under the MPF Scheme, contributions amounting to 5% of the employees' relevant income, as defined in the MPF Ordinance, up to a maximum of HK$1,000 are respectively made by the employers 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.

15. PROVIDENT FUND SCHEME ARRANGEMENTS *(Continued)*

The Group contributes 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 salaries of employees.

The total amount of retirement benefit costs charged to the Group's income statement for the year ended 31 March 2007 was HK$761,000 (2006: HK$2,685,000).

At 31 March 2007 and 2006 no forfeited contributions were available to offset future contributions of the Group to the ORSO Scheme. The unvested benefits so utilized under the ORSO Scheme during the year ended 31 March 2007 was HK$202,000 (2006: HK$27,000).

16. INTANGIBLE ASSETS

	Club memberships HK$'000	Goodwill HK$'000	Total HK$'000
Cost			
At 1 March 2005, 31 March 2006 and 2007	2,474	19,240	21,714

Impairment test for goodwill

Goodwill is allocated to the Group's cash-generating units (CGUs) identified according to country and business segment.

As at 31 March 2007, the Group's goodwill is allocated to the toys trading business in the United States.

The recoverable amount of a CGU is determined based on value-in-use calculations. These calculations use cash flow projections based on financial budgets approved by management covering a ten-year period. The growth rate does not exceed the long-term average growth rate for the toys business in which the CGU operates.

Key assumptions used for value-in-use calculations:

	United States of America
Growth rate	3%
Discount rate	8%

Management determined growth rate based on past performance and its expectations for the market development. The discount rate used is pre-tax and reflects specific risks relating to the relevant segments.

17. LEASEHOLD LAND AND LAND USE RIGHTS

	2007 HK$'000	2006 HK$'000
At beginning of year	**47,458**	48,578
Amortization	**(1,129)**	(1,120)
Exchange difference	**1,086**	—
At end of year	**47,415**	47,458

The Group's interests in leasehold land and land use rights represent prepaid operating lease payments and their net book value are analyzed as follows:

	2007 HK$'000	2006 HK$'000
In Mainland China, held on:		
— Land use rights of over 50 years	**5,552**	5,419
— Land use rights of between 10 to 50 years	**22,519**	22,223
In Hong Kong, held on:		
— Land use rights of between 10 to 50 years	**19,344**	19,816
	47,415	47,458

18. PROPERTY, PLANT AND EQUIPMENT

	Freehold land and buildings HK$'000	Leasehold improve-ments HK$'000	Plant and machinery HK$'000	Furniture, fixture and equipment HK$'000	Motor vehicles HK$'000	Moulds HK$'000	Construction in progress HK$'000	Total HK$'000
At 1 April 2005								
Cost or valuations	53,811	96,470	169,570	28,462	7,825	162,497	89,407	608,042
Accumulated depreciation	(1,663)	(35,781)	(135,310)	(23,099)	(4,937)	(108,268)	—	(309,058)
Net book amount	52,148	60,689	34,260	5,363	2,888	54,229	89,407	298,984
Year ended 31 March 2006								
Net book amount								
at 1 April 2005	52,148	60,689	34,260	5,363	2,888	54,229	89,407	298,984
Additions	—	4,538	4,059	1,143	1,981	25,912	86,466	124,099
Depreciation	(1,118)	(7,197)	(11,693)	(2,055)	(898)	(20,513)	—	(43,474)
Revaluation surplus	2,536	—	—	—	—	—	—	2,536
Exchange differences	1,241	1,591	531	127	34	161	1,579	5,264
Net book value								
at 31 March 2006	54,807	59,621	27,157	4,578	4,005	59,789	177,452	387,409
At 31 March 2006								
Cost or valuations	56,847	103,783	177,886	29,999	9,754	190,134	177,452	745,855
Accumulated depreciation	(2,040)	(44,162)	(150,729)	(25,421)	(5,749)	(130,345)	—	(358,446)
Net book amount	54,807	59,621	27,157	4,578	4,005	59,789	177,452	387,409
Year ended 31 March 2007								
Net book amount								
at 1 April 2006	54,807	59,621	27,157	4,578	4,005	59,789	177,452	387,409
Additions	313	1,177	3,861	919	174	35,989	41,099	83,532
Depreciation	(1,349)	(7,677)	(10,981)	(1,943)	(1,191)	(24,082)	—	(47,223)
Exchange differences	1,135	2,126	530	109	29	1,024	8,371	13,324
Net book value								
at 31 March 2007	54,906	55,247	20,567	3,663	3,017	72,720	226,922	437,042
At 31 March 2007								
Cost or valuations	56,278	109,080	187,684	31,669	10,052	229,619	226,922	851,304
Accumulated depreciation	(1,372)	(53,833)	(167,117)	(28,006)	(7,035)	(156,899)	—	(414,262)
Net book amount	54,906	55,247	20,567	3,663	3,017	72,720	226,922	437,042

The Group's freehold land and buildings were revalued at 31 March 2006. Valuations were made on the basis of open market value carried out by RHL Appraisal Ltd. and Satyatama Graha Tara, independent firms of professional valuers.

19. INVESTMENTS IN SUBSIDIARIES

	Company 2007 HK$'000	Company 2006 HK$'000
Unlisted investments, at cost	**115,801**	115,801
Amounts due from subsidiaries (Note)	**409,126**	493,431
Less: provision for impairment loss	**(74,000)**	(74,000)
	335,126	419,431
	450,927	535,232

Note:

The amounts are due from certain wholly-owned subsidiaries. They are unsecured and will not be demanded for repayment within the next twelve months from 31 March 2007. Out of the total amount, HK$218,400,000 (2006: HK$300,000,000) is interest bearing at Hong Kong Interbank Offered Rate plus 0.735% per annum, while the remaining balance is interest-free.

Particulars of the subsidiaries of the Company at 31 March 2007 are as follows:

Name of company	Place of incorporation and operations	Particulars of issued share capital/ registered capital	Effective percentage holding 2007	Effective percentage holding 2006	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	Manufacture of moulds

19. INVESTMENTS IN SUBSIDIARIES *(Continued)*

Name of company	Place of incorporation and operations	Particulars of issued share capital/ registered capital	Effective percentage holding 2007	Effective percentage holding 2006	Nature of business
Shares/investments held indirectly: *(Continued)*					
LC 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 LC Technology Co., Ltd. (Note)	Mainland China	HK$3,500,000	**100**	100	Manufacture of consumer electronic products
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

19. INVESTMENTS IN SUBSIDIARIES *(Continued)*

Name of company	Place of incorporation and operations	Particulars of issued share capital/ registered capital	Effective percentage holding 2007	Effective percentage holding 2006	Nature of business
Shares/investments held indirectly: *(Continued)*					
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
Liberal Cultural Studies Limited	Hong Kong	Ordinary HK$10,000	**100**	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 financial statements after making adjustments as the directors considered appropriate for compliance with HKFRSs, issued by the HKICPA.

20. AVAILABLE-FOR-SALE FINANCIAL ASSETS

	2007 HK$'000	2006 HK$'000
At the beginning of the year	**28,103**	28,238
Impairment loss	**(277)**	(135)
Disposal of subsidiaries	**(27,826)**	—
At the end of the year	**—**	28,103

Available-for-sale financial assets included the followings:

	2007 HK$'000	2006 HK$'000
Investments in life insurance contracts	**—**	28,103

The Group purchased three life insurance contracts on October 2002 for each of the following three executive directors, namely Mr Leung Lun, Mr Leung Chung Ming and Mr Wong, Andy Tze On.

The total insured amount was approximately US$25 million (approximately HK$195 million). Each of the contracts would mature on the date when the insured reached the age of 100 or death of the insured, whichever was earlier. At time of death of the insured, 50% of the insured amount would be payable to the Group and 50% to the beneficiary of the respective insured.

21. INVENTORIES

	2007 HK$'000	2006 HK$'000
Raw materials	**135,279**	100,349
Work-in-progress	**66,571**	53,880
Finished goods	**39,758**	34,066
	241,608	188,295

22. TRADE AND OTHER RECEIVABLES, DEPOSITS AND PREPAYMENTS

The carrying amounts of trade and other receivables, deposits and prepayments are as follows:

	Group		Company	
	2007 HK$'000	2006 HK$'000	**2007 HK$'000**	2006 HK$'000
Trade receivables	**159,456**	187,043	**—**	—
Other receivables, deposits and prepayments	**35,137**	67,379	**972**	1,553
	194,593	254,422	**972**	1,553

At 31 March 2007, the ageing analysis of the trade receivables was as follows:

	Group	
	2007 HK$'000	2006 HK$'000
0-30 days	**52,217**	88,480
31-60 days	**14,801**	17,813
61-90 days	**37,716**	21,660
91-180 days	**39,562**	53,257
181-365 days	**4,106**	3,856
Over 365 days	**11,054**	1,977
	159,456	187,043

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 ranges from 30 to 90 days but business partners with strong financial background may be offered longer credit terms.

22. TRADE AND OTHER RECEIVABLES, DEPOSITS AND PREPAYMENTS *(Continued)*

Trade receivables were denominated in the following currencies:

	Group	
	2007	2006
	HK$'000	HK$'000
Hong Kong dollars	**71,319**	32,310
Chinese Renminbi	**9,097**	6,347
United States dollars	**78,957**	148,285
Indonesian Rupiah	**83**	101
	159,456	187,043

23. DERIVATIVE FINANCIAL INSTRUMENTS

	2007	2006
	HK$'000	HK$'000
Assets		
Forward foreign exchange contracts — not qualifying as hedges (Note)	**369**	450
Liabilities		
Interest-rate swaps - not qualifying as hedges	**(672)**	(105)

Note: Please refer to Note 36(b) for the commitments under these contracts as at 31 March 2007.

24. RESTRICTED CASH

	2007	2006
	HK$'000	HK$'000
Restricted cash	**48,138**	—

As at the balance sheet date, the Company placed cash of approximately HK$47,644,000 plus accrued interest of approximately HK$494,000 as the cash bond for appealing the jury's verdict against the Group in Florida, US (Note 27).

25. CASH AND CASH EQUIVALENTS

	Group		Company	
	2007	2006	**2007**	2006
	HK$'000	HK$'000	**HK$'000**	HK$'000
Cash at banks and in hand	**22,306**	53,102	**140**	101
Short term bank deposits	**20,279**	36,650	**—**	—
	42,585	89,752	**140**	101

Included in cash and cash equivalents of the Group as at 31 March 2007 were approximately HK$23,984,000 (2006: approximately HK$75,262,000) denominated in Renminbi. Renminbi is not a freely convertible currency.

The effective interest rate on short-term bank deposits was 2.8% (2006:1.7%); these deposits have an average maturity of 90 days.

26. TRADE AND OTHER PAYABLES AND ACCRUED CHARGES

	2007	2006
	HK$'000	HK$'000
Trade payables	**51,317**	46,592
Other payables and accrued charges	**60,783**	45,492
	112,100	92,084

At 31 March 2007, the ageing analysis of the trade payables was as follows:

	2007	2006
	HK$'000	HK$'000
0 — 30 days	**17,075**	18,189
31 — 60 days	**4,963**	10,563
61 — 90 days	**12,788**	6,585
91 — 180 days	**10,616**	10,285
181 — 365 days	**5,807**	853
Over 365 days	**68**	117
	51,317	46,592

26. TRADE AND OTHER PAYABLES AND ACCRUED CHARGES *(Continued)*

Trade payables were denominated in the following currencies:

	2007 HK$'000	2006 HK$'000
Hong Kong dollars	**31,501**	25,614
Chinese Renminbi	**17,316**	11,654
United States dollars	**1,813**	8,974
Japanese Yen	**664**	307
Indonesian Rupiah	**23**	43
	51,317	46,592

27. PROVISION

	2007 HK$'000	2006 HK$'000
Provision	**47,644**	—

In February 2002, Action Products International Inc. ("APII") filed civil lawsuits at the Circuit Court of the Alachua County (the "Circuit Court"), Florida, US against the Company, Kid Galaxy Inc. ("KGI") and Mr Tim Young ("Mr Young") and claimed an unspecified amount of damages. On 9 October 2006, the jury arrived at the decision against the Company, KGI and Mr Young and awarded APII the damages in the amount of US$5.1 million (approximately HK$40 million) (the "Damages"). On 16 October 2006, the Company filed a motion to set aside the jury's previous verdict of the Damages which was subsequently denied by the Circuit Court.

Details of the lawsuits and the previous verdicts were set out in the announcements of the Company dated 16 October 2006 and 16 November 2006.

In December 2006, the Company filed an appeal of a Circuit Court judgement with an appellate court known as the district court of appeal (the "Appellate Court"). Pending the outcome of the appeal process, the Company is currently placing appeal bond of approximately HK$48 million with the Circuit Court for the unfavorable judgement against the Group. The directors of the Company anticipate the Appellate Court may come to a decision by the financial year ending 31 March 2008. In accordance with the opinion of the Company's directors, the Group has made a full provision in respect of the Damages, together with the related interests and legal costs to be incurred.

28. BORROWINGS

	Group		Company	
	2007	2006	**2007**	2006
	HK$'000	HK$'000	**HK$'000**	HK$'000
Non-current				
Loans from banks and financial institutions	**93,600**	—	**93,600**	—
Current				
Trust receipt loans	**93,997**	57,306	**—**	—
Loans from banks and financial institutions	**209,300**	414,986	**124,800**	300,000
Total borrowings	**396,897**	472,292	**218,400**	300,000

At 31 March 2007, the borrowings were repayable as follows.

	Group		Company	
	2007	2006	**2007**	2006
	HK$'000	HK$'000	**HK$'000**	HK$'000
On demand or within one year	**303,297**	472,292	**124,800**	300,000
In the second year	**93,600**	—	**93,600**	—
	396,897	472,292	**218,400**	300,000

As 31 March 2006, the current portion of the borrowings included bank loan amounted to approximately HK$218,400,000 repayable on 30 June 2008. Such amount has been reclassified as current liabilities as a result of the Group breach of certain financial covenants of a long-term bank loan agreement as at 31 March 2006.

The effective interest rates at the balance sheet date were as follows:

	2007		2006	
	HKD	**USD**	HKD	USD
Bank borrowings	**5.0%**	**5.4%**	4.3%	4.8%

The carrying amounts of the borrowings approximate their fair values.

28. BORROWINGS *(Continued)*

The carrying amounts of the borrowings are denominated in the following currencies:

	Group		Company	
	2007 HK$'000	2006 HK$'000	**2007 HK$'000**	2006 HK$'000
Hong Kong dollars	**361,157**	445,306	**218,400**	300,000
United States dollars	**35,740**	26,986	**—**	—
	396,897	472,292	**218,400**	300,000

29. PROVISION FOR LONG SERVICE PAYMENT

	2007 HK$'000	2006 HK$'000
At beginning of year	**1,196**	971
Additional provisions	**358**	225
At end of year	**1,554**	1,196

The amount represents provision for long service payment for the Group's employees mainly in Indonesia.

30. DEFERRED INCOME TAX

Deferred income tax assets and liabilities are offset when there is a legally enforceable right to offset current tax assets against current tax liabilities and when the deferred income taxes relate to the same fiscal authority. The balances shown in the balance sheet are, after appropriate offsetting, as follows:

	2007 HK$'000	2006 HK$'000
Deferred income tax assets:		
— Deferred income tax assets to be recovered after more than 12 months	**3,239**	4,872
Deferred income tax liabilities:		
— Deferred income tax liabilities to be settled after more than 12 months	**(10,037)**	(13,366)
Net deferred income tax liabilities	**(6,798)**	(8,494)

30. DEFERRED INCOME TAX *(Continued)*

The gross movements in deferred income tax assets/(liabilities) are as follow:

	2007 HK$'000	2006 HK$'000
At 1 April	**(8,494)**	(10,372)
Credited to the income statement (Note 9)	**1,766**	1,878
Exchange differences	**(70)**	—
At 31 March	**(6,798)**	(8,494)

The movement in deferred tax assets and liabilities during the year, without taking into consideration the offsetting of balances within the same tax jurisdiction, is as follows,

Deferred tax assets:

	Cumulative tax losses HK$'000
At 1 April 2005	1,055
Credited to the income statement	3,817
At 31 March 2006	4,872
Charged to the income statement	(1,634)
Exchange difference	1
At 31 March 2007	**3,239**

Deferred tax liabilities:

	Accelerated depreciation HK$'000	**Revaluation of properties** HK$'000	**Total** HK$'000
At 1 April 2005	6,211	5,216	11,427
Charged to the income statement	1,260	679	1,939
At 1 April 2006	7,471	5,895	13,366
Credited to the income statement	(2,621)	(779)	(3,400)
Exchange difference	—	71	71
At 31 March 2007	**4,850**	**5,187**	**10,037**

30. DEFERRED INCOME TAX *(Continued)*

Deferred income tax assets are recognized for tax loss carry-forwards to the extent that the realization of the related tax benefit through future taxable profits is probable. The Group did not recognize deferred income tax assets of approximately HK$5,044,000 (2006: approximately HK$4,787,000) in respect of losses amounting to approximately HK$16,201,000 (2006: approximately HK$14,731,000) that can be carried forward against future taxable income. Losses amounting to approximately HK$11,241,000 (2006: approximately HK$12,425,000) will expire from 2022 to 2026.

31. 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 '000	HK$'000
At 31 March 2006 and 2007	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 '000	HK$'000
At 1 April 2005 and 31 March 2006	—	—	483,733	48,373
Issue of shares by a way of rights issue (Note (a))	—	—	241,867	24,187
At 31 March 2007	**—**	**—**	**725,600**	**72,560**

(a) On 30 January 2007, an aggregate of 241,866,666 ordinary shares of HK$0.1 each were allotted and issued by a way of rights issue at a price of HK$0.2 per share. The Group raised approximately HK$47,093,000, net of related expenses from rights issue.

Details of the rights issue were set out in the prospectus of the Company dated 10 January 2007.

31. SHARE CAPITAL *(Continued)*

(b) 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 termination of the Old Scheme, no further options can be granted there under 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 4% 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 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.

32. RESERVES

Share premium

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.

Capital reserve

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.

32. RESERVES *(Continued)*

Company

	Share premium HK$'000	(Accumulated losses)/ retained profits HK$'000	Total HK$'000
At 1 April 2005	200,268	(33,151)	167,117
Profit for the year	—	21,216	21,216
Dividend paid	(2,419)	—	(2,419)
At 31 March 2006	197,849	(11,935)	185,914
Loss for the year	—	(47,616)	(47,616)
Issue of shares by a way of rights issue	24,186	—	24,186
Share issue expenses	(1,280)	—	(1,280)
At 31 March 2007	**220,755**	**(59,551)**	**161,204**

33. DISPOSAL OF SUBSIDIARIES

During the year, the Group disposed of its entire 100% interest in Fericle Holdings Limited, 36% interest in Inspired Motion Technology Limited ("IMTL") and its subsidiary, Inspired Motion Technology (HK) Limited.

The net assets of these subsidiaries at the date of disposal and at 31 March 2006 were, in aggregate, as follows:

	At the date of disposal HK$'000	As at 31 March 2006 HK$'000
Net assets disposed of:		
Available-for-sale financial assets	27,826	28,103
Bank borrowings	(26,987)	(26,986)
Trade and other payables and accrued charges	(1,447)	(565)
Cash and cash equivalents	637	670
	29	1,222
Gain on disposal	1,414	
Total consideration, satisfied by cash	1,443	
Net cash inflow arising on disposal:		
Cash consideration	1,443	
Cash and cash equivalents disposed of	(637)	
	806	

33. DISPOSAL OF SUBSIDIARIES *(Continued)*

The results of these subsidiaries did not have significant impacts to the Group's operation.

After disposal of 36% interest in IMTL, the Group continues to hold 18% interest in IMTL. As IMTL had a net liabilities at the date of disposal the cost of the investment is deemed as nil.

34. CONTINGENT LIABILITIES

At 31 March 2006 and 2007, the Group had no contingent liabilities.

35. BANKING AND OTHER FACILITIES

At 31 March 2007, the Group had a total banking and other facilities of approximately HK$440,900,000 (2006: HK$861,000,000) of which the following had been utilized:

(a) a syndication loan of HK$218,400,000 (2006: HK$300,000,000); and

(b) general banking facilities of approximately HK$178,497,000 (2006: approximately HK$145,304,000).

These general banking facilities are all supported by a corporate guarantee executed by the Company.

36. COMMITMENTS

(a) Commitments under operating leases

At 31 March 2007, the Group had future aggregate minimum lease payments under non-cancellable operating leases in respect of land and buildings as follows:

	2007 HK$'000	2006 HK$'000
Not later than one year	**3,446**	3,812
Later than one year and not later than five years	**13,180**	12,673
Over five years	**2,207**	5,291
	18,833	21,776

(b) Commitments under forward foreign currency contracts

As at 31 March 2007, the Group had maximum outstanding forward foreign currency contracts to purchase approximately US$65,700,000 (2006: approximately US$109,500,000) for approximately HK$508,661,000 (2006: approximately HK$854,100,000).

37. RELATED PARTY TRANSACTIONS

Key management personnel compensation

The aggregate amounts of emoluments paid or payable to key management of the Company are as follows:

	2007 HK$'000	2006 HK$'000
Fees	**240**	240
Other emoluments:		
Basis salaries, bonus, housing allowances, other allowances and benefits in kind	**6,274**	6,416
Provident fund scheme contributions	**84**	84
	6,598	6,740

38. FINANCIAL RISK MANAGEMENT

Financial risk factors

The Group's activities expose it to a variety of financial risks: foreign exchange risk, credit risk, liquidity risk and cash flow and fair value interest-rate risk.

(a) *Foreign Exchange risk*

The Group is exposed to foreign exchange risk arising from various currency exposures, primarily with respect to United States dollars, Renminbi and Indonesia Rupiah. Foreign exchange risk arises from future commercial transactions, recognized assets and liabilities and net investments in foreign operations. The Group currently does not hedge its foreign exchange exposure.

(b) *Credit risk*

The Group has significant concentrations of credit risk. It has policies in place to ensure that sales to customers with an appropriate credit history. The carrying amount of the trade receivables included in the consolidated balance sheet represents the Group's maximum exposure to credit risk in relation to its financial assets.

(c) *Liquidity risk*

The Group maintains availability of funding through an adequate amount of available credit facilities. The management aims to maintain flexibility in funding by keeping credit lines available.

(d) *Cash flow and fair value interest-rate risk*

As the Group has no significant interest-bearing assets, the Group's income and operating cash flows are substantially independent of changes in market interest rates.

The Group's interest-rate risk arises from bank borrowings. Bank borrowings issued at variable rates expose the Group to cash flow interest-rate risk. The Group regularly seeks out the most favourable interest rates available for its bank borrowings.

Fair value estimation

The fair value of financial instruments traded in active markets is based on quoted market prices at the balance sheet date. The quoted market price used for financial assets held by the Group is the current closing price.

The fair values of financial instruments that are not traded in an active market is determined by using valuation techniques. The Group uses a variety of methods and makes assumptions that are based on market conditions existing at each balance sheet date to determine fair value for the remaining financial instruments.

38. FINANCIAL RISK MANAGEMENT *(Continued)*

Fair value estimation *(Continued)*

The nominal value less estimated credit adjustments of trade and bills receivables and trade and bills payables are assumed to approximate their fair values. The fair value of financial liabilities for disclosure purposes is estimated by discounting the future contractual cash flows at the current market interest rate that is available to the Group for similar financial instruments.

39. SUBSEQUENT EVENT

(i) On 28 May 2007, the Group and an independent third party entered into a letter of intent whereby the Group would dispose of its entire interest in a subsidiary, Liberal Cultural Studies Limited, to the independent third party at a consideration of HK$1,300,000.

(ii) On 13 May 2007, the Company and Lung Cheong Investment Limited ("LCIL"), being the controlling shareholder (as defined in the Listing Rules) of the Company, entered into a placing agreement with two placing agents, under which the placing agents would, on best-effort basis, procure purchasers to purchase up to 96,000,000 new ordinary shares of HK$0.1 each from LCIL at the price of HK$0.58 per share (the "Placing"). On the same day, LCIL and the Company entered into a subscription agreement under which LCIL conditionally agreed to subscribe up to 96,000,000 new ordinary shares from the Company at the price of HK$0.58 per share (the "Subscription"). The Placing and the Subscription were completed on 12 June 2007 and 96,000,000 ordinary shares were alloted and issued to LCIL. The net proceeds received by the Company from the Placing are approximate HK$55,680,000. Excess of net proceeds over the nominal value of shares amounting to approximate HK$45,083,000, net of related expenses from the Placing were credited to share premium.

40. ULTIMATE HOLDING COMPANY

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