LUNG CHEONG
INTERNATIONAL HOLDINGS LIMITED

2007/2008
ANNUAL REPORT

Stock Code: 348

Lung Cheong Development Centre, Changping, Dongguan, China

Contents

Corporate Information

EXECUTIVE DIRECTORS

Mr Leung Lun *(Chairman)*
Mr Leung Chung Ming
(Managing Director)
Mr Zhong Bingquan
Ms Cheng Yun Tai
Mr Wong, Andy Tze On

INDEPENDENT NON-EXECUTIVE DIRECTORS

Mr Wong Lam, O.B.E., J.P.
Mr Ye Tian Liu
Mr Lai Yun Hung

NON-EXECUTIVE DIRECTOR

Mr Ko Peter, Ping Wah

COMPANY SECRETARY

Mr Mak Yee Chuen, Vincent

AUDITOR

Shu Lun Pan Horwath Hong Kong CPA Limited

REGISTERED OFFICE

Ugland House
South Church Street
P.O. Box 309
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Grand Cayman
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HEAD OFFICE AND PRINCIPAL PLACE OF BUSINESS IN HONG KONG

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1 Lok Yip Road
Fanling
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Tel: (852) 2677 6699
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PRINCIPAL BANKERS

ABN AMRO Bank N.V.
Bank of China (Hong Kong) Limited
DBS Bank (Hong Kong) Limited
Hang Seng Bank Limited
Standard Chartered Bank (Hong Kong) Limited

LEGAL ADVISERS ON HONG KONG LAW

D. S. Cheung & Co. Solicitors

LEGAL ADVISERS ON CAYMAN ISLANDS LAW

Maples and Calder Asia

PRINCIPAL SHARE REGISTRAR AND TRANSFER OFFICE

Bank of Bermuda (Cayman) Limited
P.O. Box 513 G.T.
3rd Floor, British American Tower
Dr. Roy's Drive
George Town
Grand Cayman
Cayman Islands
British West Indies

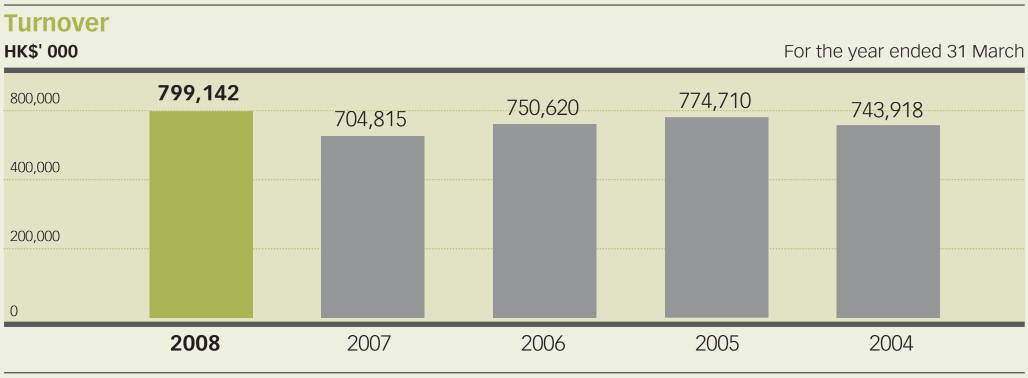
HONG KONG BRANCH SHARE REGISTRAR AND TRANSFER OFFICE

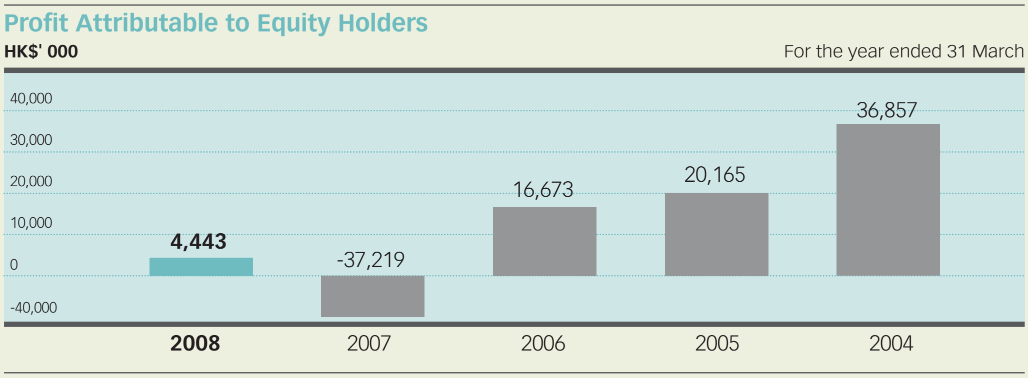
Tricor Abacus Limited
26/F, Tesbury Centre
28 Queen's Road East
Wanchai
Hong Kong

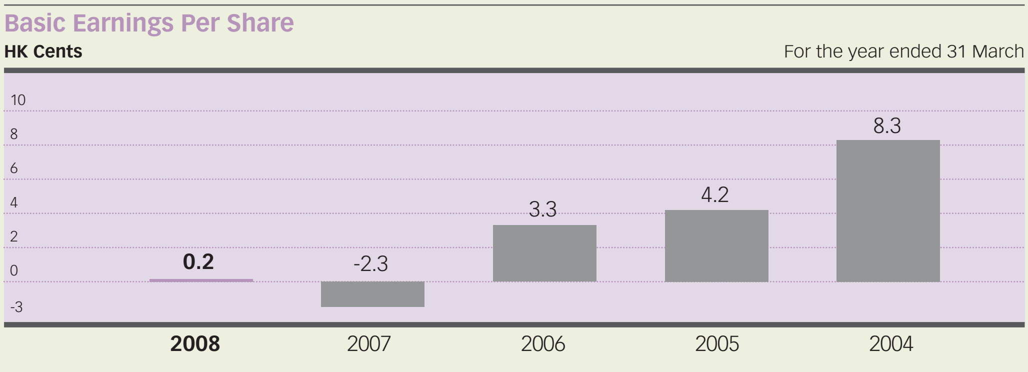
LISTING INFORMATION

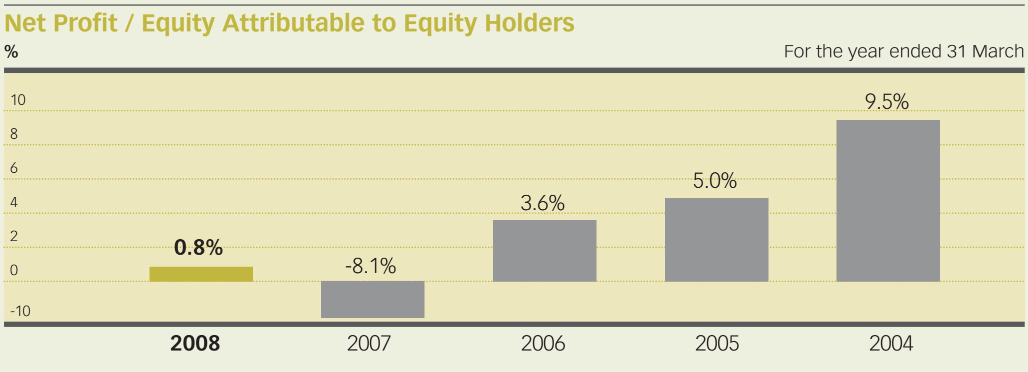
The Stock Exchange of Hong Kong Limited
Stock Code: 348

Financial Highlights

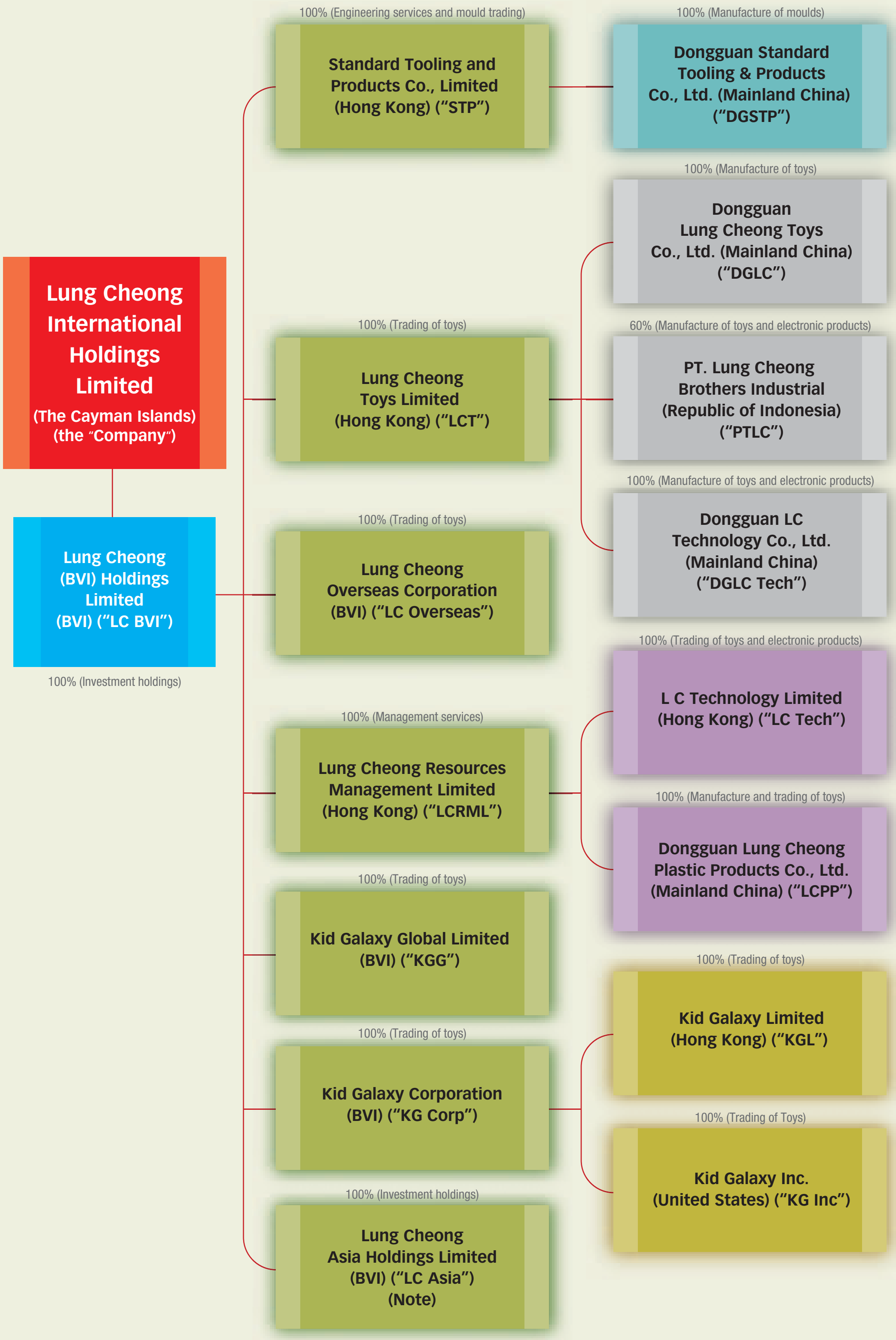








Corporate Structure



Note: Incorporated on 16 April 2008

Chairman's Statement

On behalf of the Board of Directors of Lung Cheong International Holdings Limited (the "Company") and its subsidiaries (collectively referred to the "Group"), I have the pleasure of presenting to you the Group's financial results for the year ended 31 March 2008.

Mr Leung Lun
Chairman

Chairman's Statement

While the past year was special as it was the 10th anniversary of listing of the Group on the Hong Kong Stock Exchange, we envisaged at the beginning of the financial year 2007/08 ("FY07/08") that it would be another challenging year. The results presented in this report are evidence of the Group's efforts and success in tackling the difficulties encountered during the full financial period. Revenue recorded for the FY07/08 was HK$799 million, representing an increase of 13% when compared with financial year 2006/07 ("FY06/07"), attributable to the Group's ability to take full advantage of the additional capacity provided by the new factory in Changping. For the year ended 31 March 2008, the Group reported a profit of HK$4 million. The Directors do not recommend any dividend payment (FY06/07: NIL) for the year.

BUSINESS REVIEW

During the year under review, the aftermath of several major global toy recall incidents rocked the confidence of customers, financial institutions and investors in the toy industry. Although the Group was not involved in any of the incidents, it spent more on upgrading production facilities, extra independent testings and associated administrative works, with the aim of reassuring customers of the quality and safety of its products. The Group has always been diligent in following paint-related materials procurement procedures and kept abreast of latest directives and control on product painting and decoration processes issued by customers and international authorities.

Regarding the lawsuit filed by Action Products International Inc. ("the lawsuit") against the Company, the Group sought ruling from the District Court of Appeal, State of Florida, USA, against the decision of the Circuit Court of Alachua County finding for the plaintiff. The appeal court decided against the Company. The impact of the litigation was fully reflected in the Group's FY06/07 results, with sufficient provisions made for covering judgement payment. The lawsuit was fully settled and concluded in the last quarter of FY07/08.

In FY07/08, the Group also experienced its profit margins squeezed by escalation of material costs, accelerating appreciation of the Renminbi ("RMB") against our main revenue currencies including the United States dollar ("US$") and Hong Kong dollar ("HK$"). The increase in minimum basic wage of workers in China also created additional cost burden for the Group.

Chairman's Statement

In March 2008, the Group's new and modernized Changping factory opened officially, consolidating the Group's major manufacturing, design, engineering and warehousing capacities all under one roof in China. The process of combining the Group's resources facilitates operational efficiency in the long run, but resulted in additional restructuring and relocation costs during FY07/08. The consolidation process also presented the management the opportunity to dispose of certain non-core assets of the Group. The new factory, with proximity to main terminus in the Guangdong Railway system in its easy access, has advantage competing for technicians and general workers from Guangdong and other provinces.

To ensure that orders were met cost-effectively, we pushed for more extensive utilisation of our Serang factory in Indonesia where cost is lower and labour supply is ample. Major customers were willing to transfer less complex production to our Southeast Asian plant, which allowed us to use our Dongguan facilities for higher value production.

During FY07/08, the Group had new investors pledging support to its business. On 31 May 2007, the Company entered into a top up placement arrangement involving the issue of 96,000,000 new shares raising in all approximately HK$55 million. A term loan facility of HK$200 million secured by the Group on 21 August 2007 also reflected the confidence of the banking sector in the Group. The term loan was used to repay the remaining balance of a previous HK$300 million term loan. The controlling shareholders of the Company also contributed HK$50 million in form of shareholder's loan in early March 2008 to reduce the term loan facility.

The Group endured the most challenging period in its history, incurring loss for the first time in the preceding year, attributable mainly to the provision made in relation to the lawsuit. Facing hurdles including banks tightening credit policy, the Group had to depend on Shareholders' contributions and internally generated cash flow. Fortunately, with the support of loyal customers and financiers, the Group made it through the testing times in solid strides.

To strengthen performance, the Group stepped up effort to grow the radio control (R/C) business segment, ranging from producing aerodynamics planes for outdoor play to the world's smallest indoor toy helicopter. Accordingly, the R/C business was the major revenue earner of the Group during the review period, claiming leadership in the sector.

PLANS AND PROSPECTS

The management is cautiously optimistic about the general outlook of the Group's business going forward. Notwithstanding uncertainties in the market, the management believes with the Changping factory in operation, it has a solid platform to seize opportunities for growth. Dongguan City, where the factory is located, is expected to continue to be one of the most efficient hubs for large scale high-tech electronic toy manufacturing in China, with the support of an unmatched supply chain characterized by efficient labour and technical expertise. The management expects that tight supply of migrant workers to ease as less capable competitors are ousted from the area.

Looking to the financial year 2008/09 ("FY08/09"), the Group needs to deal with fluctuating costs of raw materials such as plastic, packaging, electronic components and metal parts. In addition, the management will have to address the reduction of rebate of export value added tax which took effect recently and the pressure from continuous appreciation of the RMB. Persistently high and climbing oil prices will have adverse impact on the Group's material, utility and transportation costs. Besides, the looming U.S. sub-prime mortgage of crisis, will continue to affect our major export market, tightened credit policy threatening a slump in local consumption sentiment. The Strong Euro and fresh orders from European customers could possibly counter the softening US sales.

However, the management remains confident of the Group's ability to seize this unique opportunity to consolidate its market leadership amid exit of weaker players. To improve operational efficiency, the Group will continue to control costs and invest in its facilities and staff to improve productivity and maintain competitiveness. We earmarked around HK$15 million during the second quarter of FY07/08 for improving on-site laboratory and production equipment.

The New China Labour Law which took effect on 1 January 2008 pushed up the Group's overall labour costs. Upward adjustment of minimum wages have led to increase in other labour cost constituents including social security contributions and other fringe benefits. Efforts of local authorities to boost welfare of workers will gradually increase the burden of manufacturing cost of the Group. Heeding the situation, the Group will continue to offer above average remunerations to attract and retain workers until such time when labour supply improves.

As far as the industry is concerned, there is growing pressure on overseas customers to share the increased manufacturing cost. While absorbing increase in sourced materials, the Group has tried to pass and had passed reasonable portion of the increased cost by raising product prices.

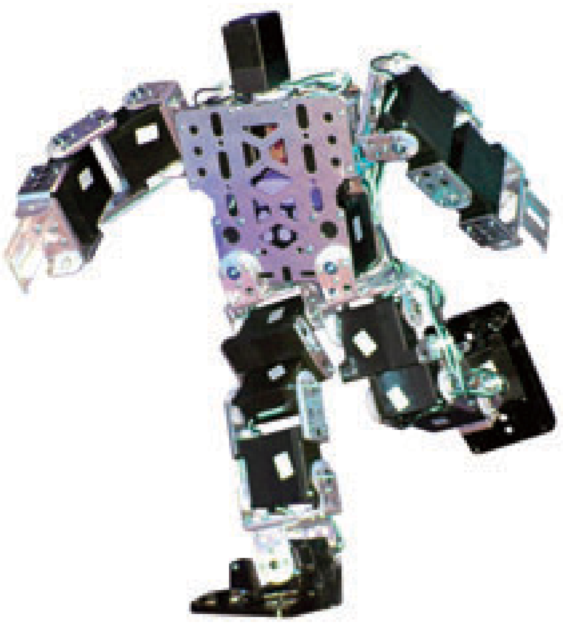
The Group's leading position in radio control and electronic toys business continued to bolster overall sales, consistently bringing in orders and product development requests from well-known toy brands. Original Design Manufacturing ("ODM") will help stabilising the Group's gross margin in the competitive market. It is, however, more difficult to maintain higher margins compared with previous years. At its efforts to expand Own Brand Manufacturing ("OBM"), the Group expects the OBM arm, Kid Galaxy to contribute positively to its future results.

Chairman's Statement

The Group will continue to operate the two existing Dongguan factories and also the Indonesian factory. The wholly-owned Qian Tou industrial site is going through re-zoning procedures to be converted into residential/ commercial usage, which ought to fetch higher return for the Group. The industrial property is at a good location, right next to the Dongguan City University of Technology. The management will re-evaluate alternatives for the leased Zhou Wu Factory before the end of the FY08/09. Restructuring of the Dongguan plants is underway and expected to continue in the FY08/09. We do not expect the restructuring exercise will result in any major impact on the Group's overall production capabilities.

With more major customers permitting allocation of production of their products to our Indonesian facility, the Directors see more new orders to be fulfilled in the coming year with capacity in Indonesia. The Indonesian operation is expected to deliver strong performance in the years to come. The Group adheres to and fully supports the Code of Business Practice of the International Council of Toy Industries ("ICTI"). Both its Dongguan and Indonesia factories have passed the ICTI audit or the ICTI CARE process.

The Group will continue to pursue various initiatives to enhance productivity and cost effectiveness. Not resting on its laurels, the Group will seek strategic business opportunities to achieve top and bottom line growth. The



management will strive for better returns to shareholders. Moving forward, it will implement various business plans and cost control measures such as consolidating and growing through strategic investments, partnerships and acquisitions in the coming financial periods.

In conclusion, I would like to thank my fellow Board members and senior management, and all of Lung Cheong's employees for their contribution and dedication to the Group, which had enabled us to overcome the challenges encountered during the year. My appreciation also goes to our investors, bankers and shareholders for their support to the Group during difficult times in the past year.

Leung Lun
Chairman

24 July 2008

Managing Director's Review of Operations

MARKET REVIEW

For the year ended 31 March 2008, the Group's export to the US remained strong, with shipment value reaching HK$280 million from HK$274 million in the corresponding period last year, accounting for 35% (FY06/07: 39%) of the Group's total shipment. Penetration of direct TV marketing channels, retail chains and speciality stores by Kid Galaxy Inc. ("KGI") all contributed to growth in sales in the market.

Shipment to Europe grew to HK$132 million as compared with HK$108 million in FY06/07, accounting for 16% (FY06/07: 15%) of the Group's revenue, attributable partly to the strong Euro currency. Export to Japan was also steady at HK$102 million (FY06/07: HK$97 million), making up 13% of the Group's total revenue compared to 14% last year.

Consistently large local deliveries translated into increased shipment to China and Hong Kong accounting to HK$213 million in FY07/08 compared with HK$161 million in FY06/07. Some of those shipments however were destined for the US, Europe and Japanese market eventually via Hong Kong and China after consolidation at various ports in Southern China.

Managing Director's Review of Operations

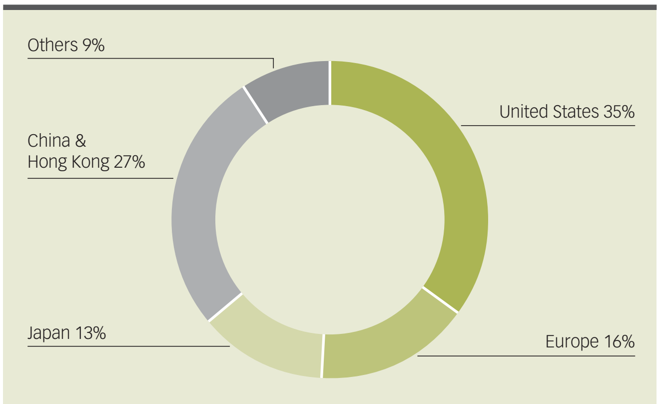
PRODUCT REVIEW

Radio Control/Wireless products

The Group's core expertise segment accounted for 62% of total turnover for the year against 57% of the previous year, indicating sustainable growth. Revenue amounted to HK$494 million, a 23% increase from HK$403 million last year thanks to increased orders from major customers.

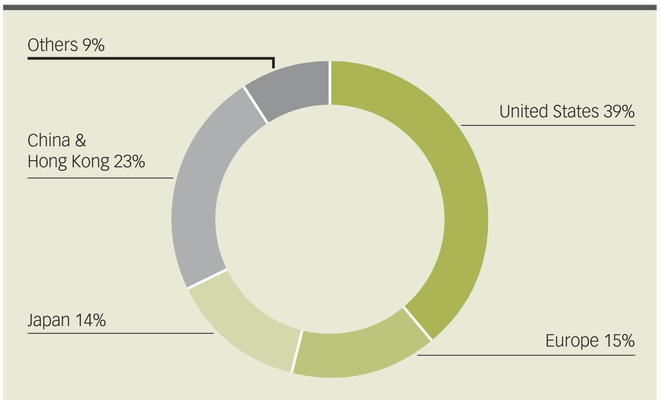
Turnover by Geographical Segment

For the year ended 31 March 2008



Turnover by Geographical Segment

For the year ended 31 March 2007



The success of certain new, innovative and hobby grade radio control products ranging from multi-channel transmitter, automobiles, boats, aerodynamic planes and light-weight insects that can fly and be enjoyed both in and outdoor reflected the manufacturing strengths and quality of the Group's wireless segment.

Electronic and Plastic Toys

The segment recorded an increase of 20% in sales from HK$185 million in FY06/07 to HK$221 million in FY07/08, accounting for 28% of the Group's turnover compared to 26% in the previous year. The success of the category was attributable to increased orders from leading US and Japanese pre-school toy customers. These customers have stringent requirements on product quality, particularly after recent toy recall incidents. The segment also grew because our customers had confidence in ordering less complex products from our Indonesian factory.

Consumer Electronic Products

Sales contribution from the segment decreased from HK$117 million in FY06/07 to HK$84 million mainly as a result of the Group discontinued production of Bluetooth earphones and digital cameras. Revenue from consumer electronic products accounted for 11% of the Group's total turnover (FY2006/07: 17%). Robotics with competition, educational and construction applications contributed to the earnings of this non-toy segment of the Group.

Investment in research and development of robotics has started to bear fruits. The Group commenced production of the world's smallest and most advanced humanoid robot iSobot and a more sophisticated Robot X at its Changping factory in the second half of FY07/08.

Managing Director's Review of Operations

DIVISIONAL AND RESOURCES REVIEW

China

Relocation of production to the new Changping factory was completed in the last quarter of FY07/08 with the official grand opening ceremony on 29 February 2008. The Group operated three production plants to take full advantage of its production capacity before facilities were redeployed in the Qian Tou factory in the third quarter of FY07/08. With the new Changping factory commenced production in early FY07/08, the Group uses capacity of the Zhou Wu facility for supporting peak-season orders.

Changping is a key railway terminus in Guangdong province. The new factory of the Group has a total floor area of approximately 90,000 square metres for production, warehousing, office and dormitory uses. The Group has begun to streamline production in China, consolidating operations to modernize at the Changping factory while redeploying Qian Tou to reduce overhead.

Indonesia

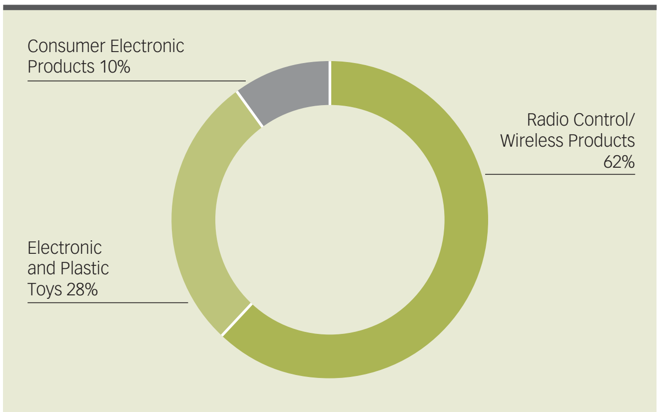
During this year under review, bolstered by increased customer confidence in the Group's operations in Southeast Asia, the factory in Indonesia made strong contribution to the Group's turnover. Pressure from appreciation of the RMB and labour shortages in Southern China had prompted more customers to permit the Group placing additional non-complex product orders with the Indonesia Factory during the year.

To ensure it can meet orders cost-effectively, the Group has been engaging its Indonesian factory more extensively. With major customers willingly transferred orders to the Southeast Asian facility, the Group was able to relieve facilities in China for higher value production while taking advantage of Indonesia's more flexible costs structure and plentiful labour. Utilisation rate of the Indonesian plant thus increased markedly relative to the previous year.

Managing Director's Review of Operations

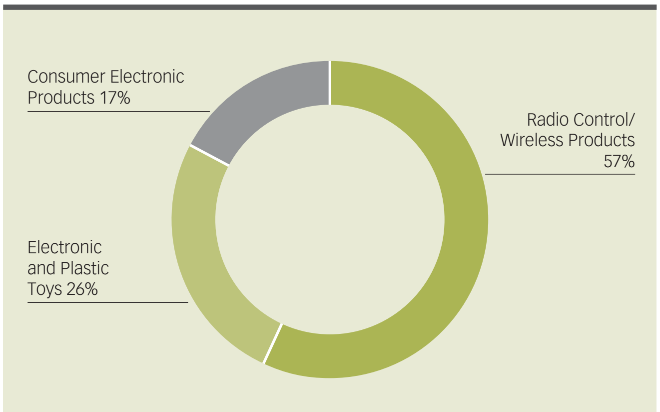
Turnover by Product Type

For the year ended 31 March 2008



Turnover by Product Type

For the year ended 31 March 2007



United States

The Manchester operation, KGI mainly takes care of marketing, product design, sales and fulfillment in the North American market. After moving to a new location in New Hampshire, KGI has performed well with sales increased to last year's HK$48 million compared to HK$57 million for year ended 31 March 2008. KGI derived its revenue mainly from its own brands such as GoGo Auto, KG Flyer and My First RC, etc.

KGI was able to increase sales from success in utilising speciality stores and TV shopping channel. Its products are popular also because of their award-winning innovative designs. KGI is the recipient of many prominent national toy awards, namely the "Oppenheim Toy Portfolio Gold Award" from Oppenheim Toy Portfolio, "100 Best Children's Products 2007" from Dr. Toy Award and "Toy of the Year Award", "Preferred Choice Award" and "Seal OF Excellence Award" at the 2007 Creative Child Awards.

LITIGATION IN FLORIDA, UNITED STATES

On 9 October 2006, the Jury in the Circuit Court of the Alachua County, Florida, US (the "Circuit Court") arrived at a decision against the Group in the amount of US$5.1 million (approximately HK$40 million). Details of the Lawsuits and the previous verdicts were set out in the announcements of the Group dated 16 October 2006, 16 November 2006 and 20 July 2007.

Managing Director's Review of Operations

The Group filed an appeal against the decision of the Circuit Count during FY07/08. However, on 30 November 2007, the District Court of Appeal, State of Florida, USA, affirmed the decision of the Circuit Court. The impact of the litigation was entirely reflected in the Group's results for the year ended 31 March 2007, judgement payment was fully settled during this financial period. Details of the outcome of the lawsuit was set out in the announcement of the Company dated 4 December 2007.

Employee

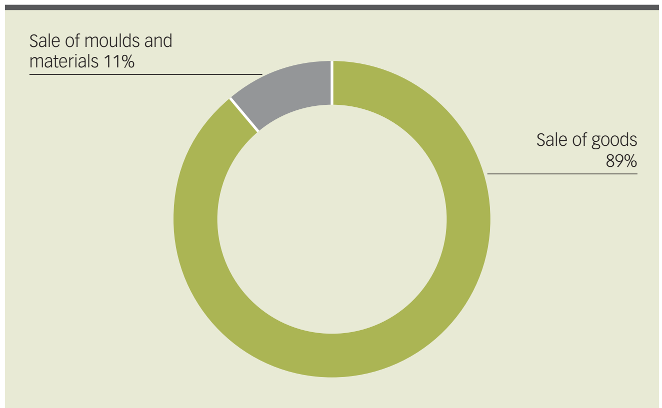
As at 31 March 2008, the Group had approximately 6,500 employees of which 60, 6,229, 200 and 11 employees were based in the Hong Kong headquarters, the Dongguan factories, the Indonesian factory and the US office respectively. The number of people employed by the Group varies from time to time depending on production needs and staff are remunerated based on industry practices.

Appreciation

On behalf of the Board, I would like to take this opportunity to express my sincere gratitude to our customers, suppliers and business partners for their continual support over the past year. I would also like to extend my appreciation to our management and staff for their hard work and dedication, despite the challenging year in the toy business.

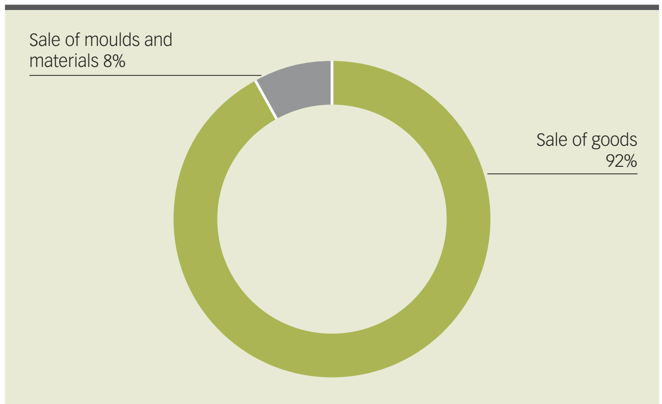
Turnover

For the year ended 31 March 2008



Turnover

For the year ended 31 March 2007

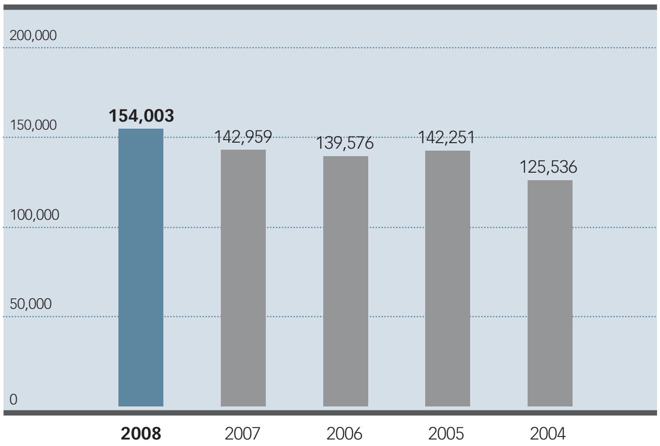


Leung Chung Ming
Managing Director

24 July 2008

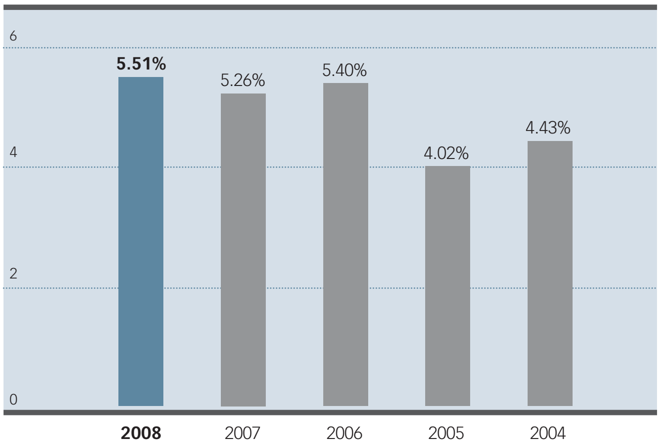
G&A

HK$'000 For the year ended 31 March



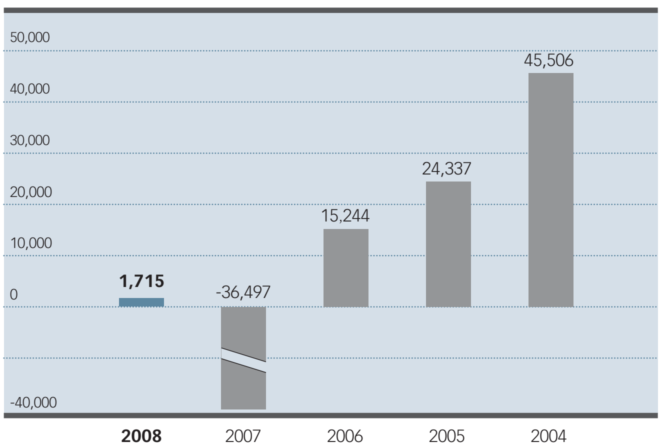
Selling Expense / Turnover

% For the year ended 31 March



Profit Before Tax

HK$'000 For the year ended 31 March



FINANCIAL REVIEW

The Group's brand new and enlarged facilities contributing to sales increased by 13% to HK$799 million for the year ended 31 March 2008. Other revenues consist of net treatment of foreign exchange, interest income, net gains from derivative financial instruments and net income from disposal of various non-core assets.

The escalation of material costs, higher mandatory wages for workers and steep appreciation of the RMB against revenue currencies such as US and HK dollars, fully offset gains in sales and the impacts of measures implemented to enhance productivity.

Increased R/C sales, ODM products and increment in Kid Galaxy OBM sales contributed to supporting the Group's gross margin despite heavy pricing pressure, resulting in gross profit lowered at HK$195 million for the year versus HK$208 million in FY06/07. Gross profit margin, however, decreased to 24% (FY06/07: 30%). The Group will continue to rely on higher ODM and OBM sales to improve and maintain high gross margin.

Selling and distribution expenses for the year ended 31 March 2008 amounted to HK$44 million, representing an increase of 19% against HK$37 million in the previous year. The rise was mainly attributable to increased commission payment and marketing and promotional expenses. Transportation and distribution expenses were pushed up by high fuel costs.

General and Administrative ("G&A") expenses for the year ended 31 March 2008 amounted to HK$154 million against HK$143 million in the previous year, or 19% of turnover (FY06/07: 20%). The main constituents of G&A expenses were staff costs, depreciation of fixed asset and utilities expenses. Additional costs during the financial period included the charge of the market value of share options when they were granted and the restructuring costs associated with relocation of production to the new Changping factory. Overall, the Group recorded an operating profit of HK$28 million compared to operating loss of HK$9 million in the previous year. Provision for litigation payments was the mainly cause of loss in the previous year.

Finance costs inclusive of interest expenses, bank charges plus fees incurred for a new term loan was explained by the high overall costs for the year under review despite the decrease in borrowing. Finance cost was HK$26 million in FY07/08 compared to HK$27 million in FY06/07. The management believes the current tight credit environment will continue and interest rates could turn on the upward trend.

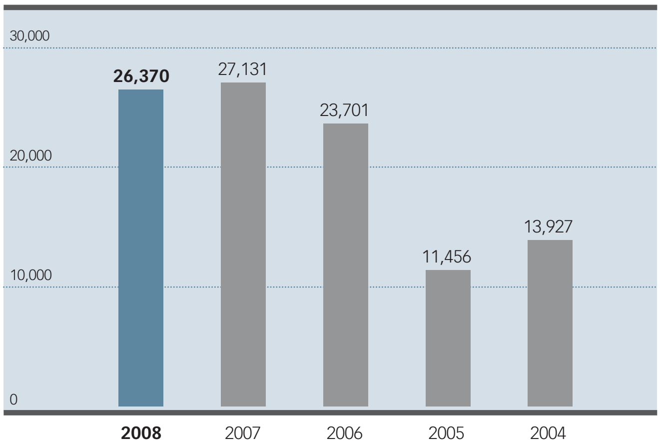
All in all, the Group achieved net profit attributable to shareholders of HK$4 million in FY07/08 compared to a loss of HK$37 million in FY06/07. The Directors, however, do not recommend any final dividend payment for the year under review. They see the need to retain funds to support implementation of business plans and as buffer considering the current economic climate.

GROUP RESOURCES AND LIQUIDITY

Shareholder funds as at 31 March 2008 were HK$563 million, 22% more than HK$461 million in the previous year. The net assets per share were lowered by 64% from HK64 cents to HK23 cents because of the issue of 96,000,000 new shares on 31 May 2007 to independent external investors and result of bonus issue during FY07/08. The HK$55 million proceeds were used to repay previous term loan and as working capital. As at 31 March 2008, the Group had a total of 2,464,799,997 shares in issue.

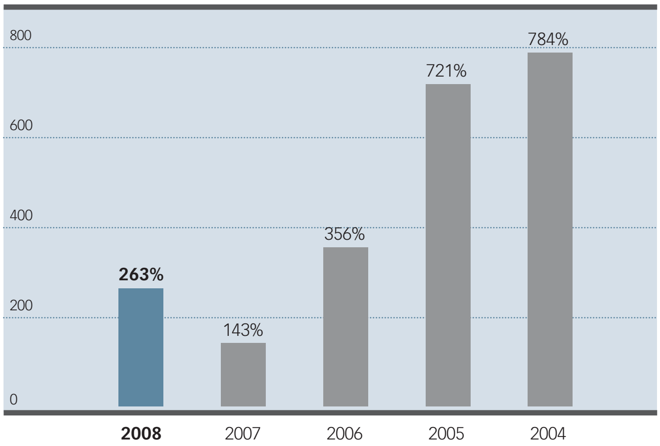
Interest Expenses

HK$'000 For the year ended 31 March



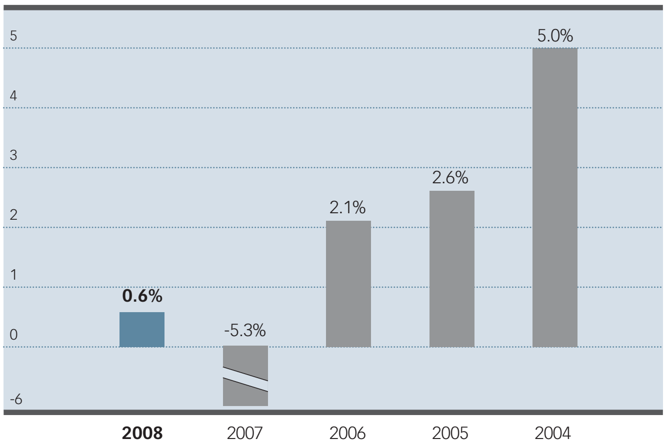
EBITDA / Interest

% For the year ended 31 March



Net Profit Margin

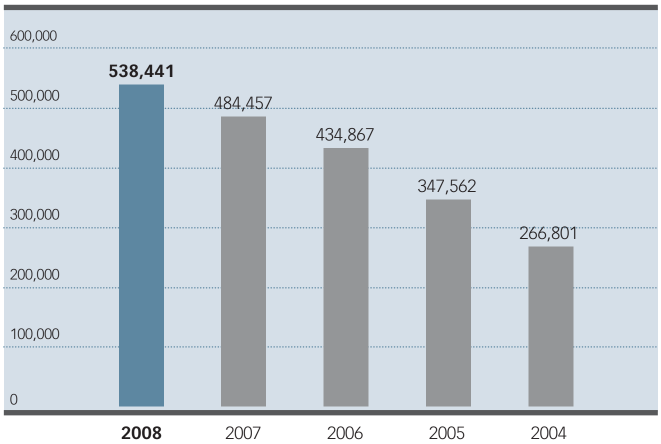
% For the year ended 31 March



Management Discussion & Analysis

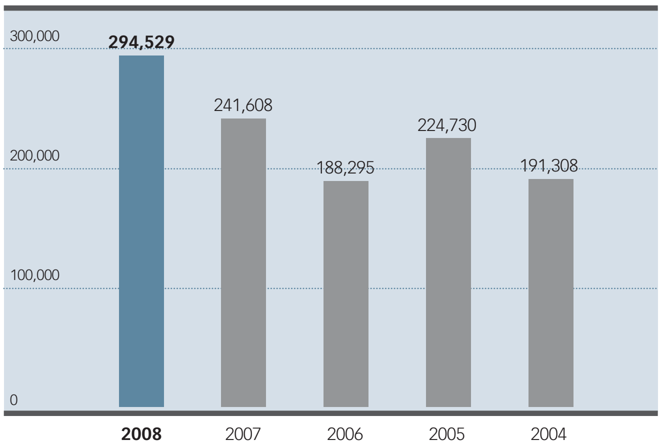
Fixed Assets

HK$'000 as at 31 March



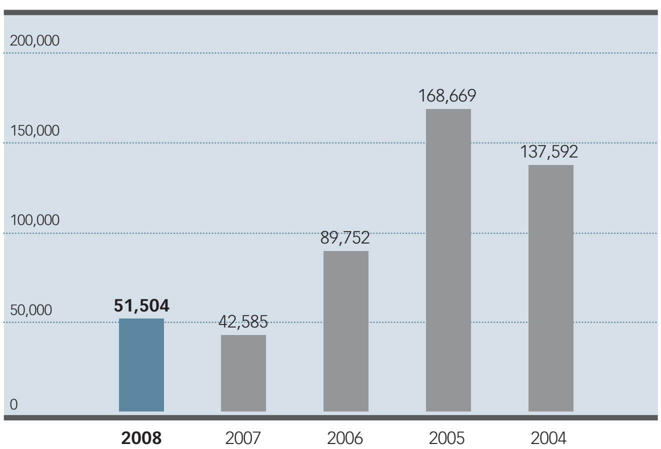
Inventories

HK$'000 as at 31 March



Cash and Cash Equivalents

HK$'000 as at 31 March



Fixed assets increased from HK$484 million to HK$538 million as at 31 March 2008. Property, plant and equipment under non-current assets increased from HK$437 million to HK$441 million, attributable mainly to capital expenditures in relation to works at the new Changping factory plus annual moulds investment for ODM and OBM businesses.

Goodwill associated with Kid Galaxy's acquisition and club membership made up HK$22 million of intangible assets. Leasehold land and land use rights of the Group totalling HK$97 million as at 31 March 2008.

Management effort to control inventories continued, but anticipating more orders and rise in raw material prices, the Group purchased certain critical materials before year end date. Some existing customers delayed shipment of products because of change in product specifications and sales plans, altogether pushed up inventory from HK$242 million at the end of FY06/07 to HK$295 million as at 31 March 2008. Stock turnover were higher at 122 days compared to 111 days in the previous year.

Trade receivables recorded a slight decrease as at 31 March 2008 to HK$146 million, compared to HK$159 million at the previous year end date despite the increase in sales. The management will regularly evaluate the Group's customers, assess their known financial position and credit risks. More clients are covered by limited export credit insurance in view of current uncertain economic climate. Sales to the five largest customers changed from 65% in FY06/07 to 50% in FY07/08, indicating a healthy diversification of clientele reliance and risks.

Other receivables, deposits and prepayment increased from HK$35 million at year end date in FY06/07 to HK$53 million as at 31 March 2008. They consisted mainly of deposits and prepayment for new equipment, moulds and materials for meeting production needs in the coming financial year.

Cash and bank balances as at 31 March 2008 were HK$52 million, compared to HK$43 million as at 31 March 2007. The HK$48 million restricted cash in FY06/07 year end date was used to settle litigation cost and damage payment against the Group in Florida, US. The balance refunded from the Florida Court after settlement was used to cover legal and professional fees relating to the lawsuit.

Overall, total current assets was steady at HK$547 million compared to HK$528 million in the previous year end date. Current ratio improved from 112% in the previous year to 131% as at 31 March 2008.

Trade payables recorded an increase against the previous year. Trade payables were HK$97 million and other payables were HK$66 million compared to HK$51 million and HK$61 million respectively as at 31 March 2007. The increase in trade payables consisted mainly of increase in materials in stock for future use and advanced purchases to protect margin. Creditor turnover days increased to 57 days versus 43 days at the end of the previous year.

Borrowings under current liabilities decreased from HK$303 million as at 31 March 2007 to HK$251 million at 31 March 2008, attributable mainly to availability of a new term loan facility allowing the Group to repay certain portion of the previous short term loan during the financial year. Major shareholder's loan of HK$50 million also made up part of the borrowings as at 31 March 2008. Details of the shareholder's loan was set out in the announcement of the Company dated 10 March 2008.

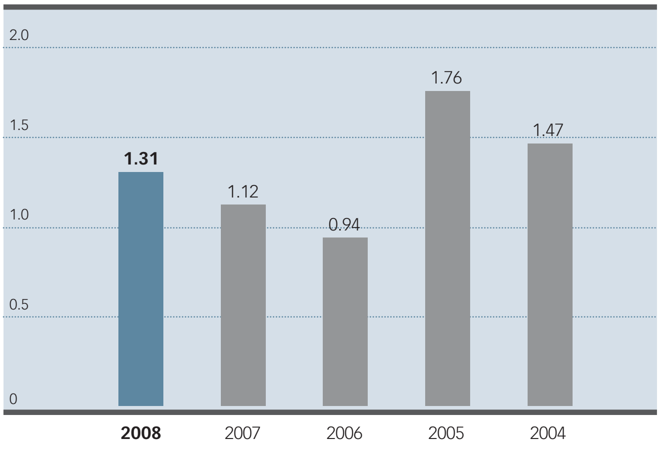
Trust receipts loan was up from HK$94 million as at 31 March 2007 to HK$119 million at 31 March 2008 and was mainly used to finance account receivables and increase in inventories. Long term bank loans due within the next 12 months amounted to HK$30 million as at 31 March 2008.

The gearing ratio, calculated as the total borrowings less cash and bank balances and divided by shareholders' equity, was lowered to 57% as at 31 March 2008 compared to 77% in 2007.

Notwithstanding unforeseeable circumstances, the Group will continue to dispose of non-core assets and reduce borrowings. The Board is confident that the Group has sufficient financial resources to meet operational needs in the coming year.

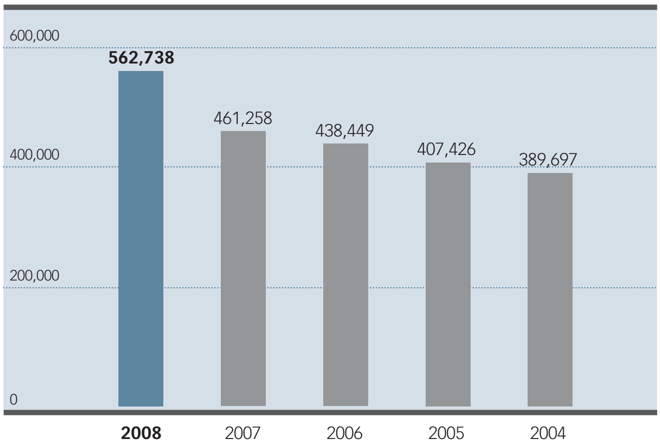
Current Ratio

Times as at 31 March



Equity Attributable to Equity Holders

HK$'000 as at 31 March



Corporate Governance Report

The Company is committed to achieving high standard of corporate governance in order to safeguard the interest of its shareholders and stakeholders. Save as disclosed below, throughout the year ended 31 March 2008, the Company has complied with all the principles and code provisions of the Code on Corporate Governance Practices (the "CG Code") as set out in Appendix 14 to the Rules Governing the Listing of Securities on The Stock Exchange of Hong Kong Limited (the "Listing Rules"). This report describes the Company's corporate governance practices, explains the applications of the principles of the CG Code and deviations, if any.

MODEL CODE FOR SECURITIES TRANSACTIONS

The Company has adopted the Model Code for Securities Transactions by Directors of Listed Issuers (the "Model Code") as set out in Appendix 10 to the Listing Rules as its own code of conduct for dealing in securities of the Company by the directors. Based on specific enquiry with the directors, all the directors confirmed that they have complied with the required standards as set out in the Model Code during the year ended 31 March 2008.

THE BOARD

The Board is responsible for providing leadership and control of the Company and monitoring the performance of the management. The Board focuses on the formulation of business strategy, policy and control. The Board delegates day-to-day operations of the Company to its executive directors and senior management of the Group. The Board reviews and approves key matters affecting the Company's strategic policies, finances and shareholders, such as financial statements, dividend policy and major corporate activities. Decisions of the Board are communicated to the management through executive directors who have attended Board meetings.

The Board comprises five executive directors, one non-executive director and three independent non-executive directors. The names and brief biographies are set out on page 28 to page 30 of this Annual Report. The non-executive directors (including the independent non-executive directors) are high calibre executives with diversified industry expertise and bring a wide range of skills and experience to the Company. One of the independent non-executive directors possesses recognized professional qualifications in accounting. They bring independent judgement on issues of strategy, performance, risk and people through their contribution at Board meetings. The Board considers that the three non-executive directors, representing one third of the Board, are independent in character and judgement and they also meet the independence criteria set out in Rule 3.13 of the Listing Rules.

The Board has received from each independent non-executive director a written annual confirmation of independence pursuant to Rule 3.13 of the Listing Rules.

Mr Leung Lun is the Chairman of the Board and Mr Leung Chung Ming is the managing director. They are brothers. The Chairman provides leadership to the Board and is responsible for the overall strategic planning and corporate development. The managing director is responsible for policy making and corporate management of the Group in order to implement the strategies approved by the Board.

Board meetings are scheduled at approximately quarterly intervals, and additional meetings will be held as and when required. All directors have access to the advice and services of the company secretary of the Company and independent professional advice may be taken by the directors as required. There were twelve Board meetings held during the year ended 31 March 2008 and the attendance of individual members of the Board at such meetings is set out below:

	Attendance
Executive Directors	
Mr Leung Lun	12/12
Mr Leung Chung Ming	12/12
Mr Zhong Bingquan	12/12
Ms Cheng Yun Tai	12/12
Mr Wong, Andy Tze On	12/12
Non-executive Director	
Mr Ko Peter, Ping Wah	12/12
Independent Non-executive Directors	
Mr Wong Lam, O.B.E., J.P.	12/12
Mr Ye Tian Liu	12/12
Mr Lai Yun Hung	12/12

Non-executive directors (including the independent non-executive directors) are appointed for a specific term of three years. All directors are subject to retirement by rotation once every three years and are subject to re-election in accordance with the articles of association of the Company.

REMUNERATION COMMITTEE

The Company has established a remuneration committee (the "Remuneration Committee") in 2005. The Remuneration Committee comprises three independent non-executive directors, namely Mr Wong Lam, O.B.E., J.P., Mr Ye Tian Liu and Mr Lai Yun Hung, a non-executive director Mr Ko Peter, Ping Wah and two executive directors Mr Leung Lun and Mr Leung Chung Ming. Mr Wong Lam, O.B.E., J.P. is the chairman of the Remuneration Committee. The function of the Remuneration Committee is to make recommendations to the Board on the Company's policy and structure for all remuneration of directors and senior management. The fees of the non-executive directors (including the independent non-executive directors) are determined by the Board.

The Remuneration Committee met once during the year ended 31 March 2008 and six members agreed and proposed no adjustment to existing remuneration packages and employment contracts in view of the current financial and trading environment.

The Company adopts a competitive remuneration package for its employees. Promotion and salary increments are assessed based on a performance related basis in order to attract, retain and motivate talented executives/ employees to strive for future developments and expansion of the Company. To provide the Company with a flexible means of giving incentive to rewarding, remunerating, compensating and/or providing benefits to the executives/employees, a share option scheme was adopted by the Company in 2002. Details of the 2002 share option scheme are set out on page 26 to page 27 of this Annual Report.

NOMINATION COMMITTEE

The Company has established a nomination committee (the "Nomination Committee") in 2006. The Nomination Committee comprises three independent non-executive directors, namely Mr Wong Lam, O.B.E., J.P., Mr Ye Tian Liu and Mr Lai Yun Hung, a non-executive director, namely Mr Ko Peter, Ping Wah and two executive directors, namely Mr Leung Lun and Mr Leung Chung Ming. Mr Leung Lun is the chairman of the Nomination Committee. The function of the Nomination Committee is to review the structure, size and composition (including the skills, knowledge and experience) of the Board on a regular basis and make recommendations to the Board regarding any proposed changes.

During the year ended 31 March 2008, there was no casual vacancy for Directors, nor was there any need to appoint new directors. Therefore, the Nomination Committee did not have any meeting held to consider issue relating to any appointment of director.

AUDIT COMMITTEE

Pursuant to the Listing Rules, an audit committee (the "Audit Committee") was established on 14 March 2000. The Audit Committee comprises three independent non-executive directors, namely Mr Ye Tian Liu, Mr Wong Lam, O.B.E., J.P. and Mr Lai Yun Hung and a non-executive director, namely Mr Ko Peter, Ping Wah. Mr Ye Tian Liu is the chairman of the Audit Committee.

By reference to "A Guide for the Formation of An Audit Committee" published by the Hong Kong Institute of Certified Public Accountants, written terms of reference which describe the authority and duties of the Audit Committee were prepared and adopted by the Board since the date of establishment. The principal activities of the Audit Committee include the review and supervision of the Group's financial reporting process (including the preparation of the half-yearly and annual results) and internal controls.

Three Audit Committee meetings were held during the year ended 31 March 2008. The attendance of each member of the Audit Committee in such meetings is set out as follows:

	Attendance
Non-executive Director	
Mr Ko Peter, Ping Wah	3/3
Independent Non-executive Directors	
Mr Wong Lam, O.B.E., J.P.	3/3
Mr Ye Tian Liu	3/3
Mr Lai Yun Hung	3/3

AUDITORS' REMUNERATION

Shu Lun Pan Horwath Hong Kong CPA Limited ("SLP Horwath") has been appointed or, as the case maybe, re-appointed by the shareholders of the Company annually at the Company's annual general meeting as the Company's external auditor since 06/07. During the year ended 31 March 2008, the fees charged to the financial statements of the Company and its subsidiaries for SLP Horwath's statutory audit amounted to approximately HK$1.3 million. In addition, approximately HK$0.1 million was charged for non-audit services. The non-audit services mainly consist of special review and tax compliance. The cost of audit services of subsidiaries not performed by SLP Horwath amounted to approximately HK$0.4 million.

FINANCIAL REPORTING

The Board is responsible for presenting a balanced, clear and understandable assessment of annual and interim reports, price-sensitive announcements and other disclosures required under the Listing Rules and other regulatory requirements.

The directors acknowledge their responsibility for preparing the financial statements as set out on page 40 to page 96. The statement of the external auditor about its reporting responsibilities on the financial statements is set out on page 38 to page 39.

The directors confirm that, to the best of their knowledge, information and belief, having made all reasonable enquiries, they are not aware of any material uncertainties relating to events or conditions that may cast significant doubt upon the Company's ability to continue as a going concern.

INTERNAL CONTROL

The directors have the overall responsibility for internal control of the Group, including risk management, and establishing appropriate policies having regard to the objectives of the Company. The directors, through the Audit Committee, have continued to review the effectiveness of the Company's system of financial and non-financial controls. The system of internal control is designed to manage rather than eliminate the risk of failure to achieve business objectives and can only provide reasonable and not absolute assurance against material misstatement or loss. Controls are monitored by management review and by a programme of internal audits. The Audit Committee reviews the effectiveness of the internal control environment of the Group. It receives reports from the internal and external auditors, which include recommendation for improvement.

The Company has put in place an organizational structure with formal defined lines of responsibility and delegation of authority. There are also established procedures for planning, capital expenditure, treasury transactions, information and reporting systems, and for monitoring the Company's businesses and performance.

Directors' Report

The Directors submit their report together with the audited financial statements for the year ended 31 March 2008.

PRINCIPAL ACTIVITIES AND GEOGRAPHICAL ANALYSIS OF OPERATIONS

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

An analysis of the Group's turnover and segment information is set out in Note 5 to the financial statements.

RESULTS AND APPROPRIATIONS

The results of the Group for the year are set out in the consolidated income statement on page 40.

The Directors do not recommend the payment of final dividend for the year ended 31 March 2008 (2007: Nil).

The Directors view that it would not be prudent to recommend any cash dividend in view of the result for the year ended 31 March 2008 (2007: Nil).

RESERVES

Movements in the reserves of the Group and of the Company during the year are set out in page 43 and Note 33 to the financial statements.

DONATIONS

Charitable and other donations made by the Group during the year amounted to HK$220,000.

PROPERTY, PLANT AND EQUIPMENT

Details of the movements in property, plant and equipment are set out in Note 17 to the financial statements.

INFORMATION ON SUBSIDIARIES

Particulars of the subsidiaries are set out in Note 20 to the financial statements.

FIVE YEAR FINANCIAL SUMMARY

The following is a summary of the consolidated results, assets and liabilities of the Group for each of the last five years ended 31 March 2008.

	2008 HK$'000	2007 HK$'000	2006 HK$'000	2005 HK$'000	2004 HK$'000
Turnover	**799,142**	704,815	750,620	774,710	743,918
Profit/(loss) before income tax	**1,715**	(36,497)	15,244	24,337	45,506
Income tax credit/(charge)	**2,728**	(779)	565	(4,172)	(8,649)
Profit/(loss) for the year	**4,443**	(37,276)	15,809	20,165	36,857
Attributable to:					
Equity holders of the Company	**4,443**	(37,219)	16,673	20,165	36,857
Minority interest	**—**	(57)	(864)	—	—
	4,443	(37,276)	15,809	20,165	36,857
Total assets	**1,112,929**	1,037,119	1,024,987	1,020,770	851,791
Total liabilities	**550,191**	575,861	586,481	605,190	462,094
Total equity	**562,738**	461,258	438,506	415,580	389,697

DISTRIBUTABLE RESERVES

At 31 March 2008, the reserves of the Company available for distribution amounted to HK$98,651,000 (2007: HK$161,204,000). These were represented by share premium and retained profits of the Company. Under the Companies Law, Chapter 22 (Law 3 of 1961, as consolidated and revised) of the Cayman Islands, share premium of the Company is available for paying distributions and dividends to shareholders subject to the provisions of its memorandum and articles of association and provided that immediately following the distributions or dividend payments, the Company is able to pay its debts as they fall due in the ordinary course of business.

PURCHASE, SALE OR REDEMPTION OF SHARES

Neither the Company, nor any of its subsidiaries purchased, redeemed or sold any of the Company's shares during the year.

SHARE OPTION SCHEME

On 8 September 1997, a share option scheme (the "Old Scheme") was approved by the shareholders of the Company under which its Directors may, at their discretion, invite employees of the Group including any executive directors to take up options (the "Share Options") to subscribe for ordinary shares (each a "Share") of HK$0.1 each in the Company subject to the terms and conditions stipulated therein.

Upon termination of the Old Scheme, no further options can be granted thereunder and all Share Options granted prior to such termination had lapsed on or before 30 September 2005.

On 3 September 2002, the shareholders of the Company approved the termination of the Old Scheme and the adoption of a new scheme ("the 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").

Details of the 2002 Scheme are as follows:

(1) Purpose

To recognize the contribution of employees, suppliers, consultants, agents and advisers of the Group.

(2) Eligible persons

Full-time employees of the Group (including Directors of the Company and its subsidiaries) suppliers, consultants, agents and advisers who have contributed or will contribute to the Group.

(3) Maximum number of shares

The scheme mandate limit of the Scheme was refreshed pursuant to a shareholders' resolution passed in the annual general meeting ("**AGM**") of the Company held on 27 August 2007, details of which have been set out in the circular dated 3 August 2007. Accordingly, as at 31 March 2008, the maximum number of shares available for issued under the Scheme is 82,159,999, representing 10% of the issued ordinary share capital of the Company as at the date of the AGM and approximately 3.33% of the issued ordinary share capital of the Company as at 31 March 2008 (taking into effect the bonus issue during the current year after the refreshment of scheme mandate limit).

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

SHARE OPTION SCHEME *(Continued)*

(4) Maximum entitlement of each eligible person

Unless approved by shareholders, the total number of shares issued and to be issued upon exercise of the share options granted to each eligible person in any 12-month period must not exceed 1% of the shares of the Company in issue.

(5) Time of exercise of option

An option may be exercised during the periods to be determined and notified by the Directors to the grantees at the time of making offers to grant share options to them provided that such periods shall not exceed the period of ten years from the date of grant.

(6) Acceptance of offers

Offers for the grant of share options must be accepted within twenty-eight days, inclusive of the dates on which the offers are made. Offers for grant of share options have to be accepted together with remittance in favour of the Company of HK$1.00.

(7) Basis of determining the option exercise price

The subscription price for the Shares under the Scheme shall be a price determined by the Directors at its discretion, provided that it shall not be less than the higher of (i) the closing price of the shares stated in the daily quotation sheets issued by The Stock Exchange of Hong Kong Limited (the "Stock Exchange") on the date of grant; (ii) the average closing price of the shares stated in the Stock Exchange's daily quotation sheets for the five trading days immediately preceding the date of grant of share options; and (iii) the nominal value of the Shares

(8) The remaining life of the 2002 Scheme

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

During the year (but before the refreshment of scheme mandate limit as stated above), a total of 28,940,000 share options were granted to the Directors and eligible employees and consultants of the Group with a weighted average exercise price of approximately HK$3.73 per share. The total number of share options was subsequently restated to 86,820,000 to take into effect the bonus issue during the current year.

Details of the share options movement and outstanding as at 31 March 2008 have been disclosed in Note 32 to the financial statements.

Directors' Report

DIRECTORS

The Directors during the year were:

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

[1] *Non-executive directors*
Independent non-executive directors

In accordance with Article 116 of the Company's articles of association, the Directors who are to retire by rotation at the forthcoming annual general meeting are Mr Zhong Bingquan, Mr Wong, Andy Tze On and Mr Lai, Yun Hung. All the retiring directors, being eligible, offer themselves for re-election as Directors at the forthcoming Annual General Meeting.

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

Executive Directors

Mr Leung Lun, aged 59, is the Chairman of the Company and the founder of the Group. He is the elder brother of Mr Leung Chung Ming, the Group's managing director. Mr Leung is responsible for the overall corporate policy and development strategy as well as overseeing the Group's overall management. He has over 40 years of experience in the toys manufacturing industry. Mr Leung is a director of the Chinese Overseas Friendship Association, a standing member of the committee of the Chinese People's Political Consultative Conference of Jiang Xi Province and a standing member of the committee of the Chinese People's Political Consultative Conference of Dongguan City. He is also an honourable president of Dongguan Toys Association of China, chairman of Hong Kong Kowloon City Industry and Commerce Association and vice president of Hong Kong Economic & Trade Association. He was named an honourable citizen of Dongguan City by the local authority in 1996 for his contribution to the City.

Mr Leung Chung Ming, aged 48, is the Managing Director of the Company. He is the brother of Mr Leung Lun. He joined the Group in November 1979 and is responsible for the strategic planning, ODM marketing and development functions of the Group. He is also in charge of the Group's OEM sales. He is currently a vice president of China Toy Association and The Toys Manufacturer's Association of Hong Kong and a director of China Children and Teenagers' Fund. He is also a member of the committee of the Chinese People's Political Consultative Conference of Guizhou Province and 2002 Young Industrialist of Hong Kong.

DIRECTORS *(Continued)*

Executive Directors *(Continued)*

Mr Zhong Bingquan, aged 56, is one of the founders of Lung Cheong Toys Limited ("LC Toys") in September 1989. He is responsible for formulation of strategies and planning for the Mainland China production facilities. Mr Zhong is also responsible for liaison with local authorities in Mainland China. He is also general manager of Dongguan City Supply, Marketing and Trading Company since 1979.

Ms Cheng Yun Tai, aged 53, is responsible for overseeing the external relationship management of the Group's operations in Mainland China. She is also responsible for liaising with local authorities in Mainland China. Ms Cheng is in charge of liaison with local tax, commerce and foreign economic bureaus. She has been a director of a subsidiary of the Company since March 1995.

Mr Wong, Andy Tze On, aged 41, is responsible for formulation of the corporate strategies, new business ventures and financial planning of the Group. He is also responsible for financier and investor relationship management as well as corporate communications of the Group. Mr Wong holds a business degree in accounting from the Curtin University of Technology, Western Australia. He joined the Group in June 1993. He is a member of the Australian Society of Certified Practising Accountants. Mr Wong was appointed as a Director in August 1997.

Non-executive Director

Mr Ko Peter, Ping Wah, aged 59, has been appointed as a director since January 2003. He is now our non-executive Director. Mr Ko holds a master's degree of science in business administration from the University of Bath, England and a bachelor's degree of law (Chinese Law) from the University of Beijing, China and higher diploma in mechanical engineering from Hong Kong Polytechnic University. He has been registered Lead Auditor & Tutor of ISO9000 for 10 Years and Quality Management Consultant and Trainer for 14 years. He is appointed as part-time tutor of universities in Hong Kong and overseas for many years.

Independent Non-executive Directors

Mr Wong Lam, O.B.E., JP., aged 89, is a former member of Hong Kong Legislative Council and former standing committee member of the Chinese People's Political Consultative Conference of Dongguan City. Mr Wong was appointed as an independent non-executive director in November 1999. He is also an independent non-executive director of Yangtzekiang Garment Limited and YGM Trading Limited, both companies' shares are listed on the Stock Exchange of Hong Kong Limited (the "Stock Exchange").

Mr Ye Tian Liu, aged 62, was appointed as an independent non-executive director in November 1999. Mr Ye holds a master's degree in business administration. He was formally an executive director of a locally listed company for several years. He has extensive experiences in China trade and investment.

DIRECTORS *(Continued)*

Independent Non-executive Directors *(Continued)*

Mr Lai Yun Hung, aged 56, is a partner of Lai & Wong, Certified Public Accountants. He has over 28 years of working experience in audit and tax advice in audit firms, with exposure in listed and unlisted companies engaging in various industries including banks, financial institutions, manufacturing and trading companies, travel agencies and solicitors firms. Mr Lai is an associate member of the Institute of Chartered Accountants in England and Wales (ACA), a fellow member of the Association of Chartered Certified Accountants (FCCA) in the United Kingdom and a fellow member of the Hong Kong Institute of Certified Public Accountants (FCPA (Practising)) in Hong Kong. Mr Lai was appointed as an independent non-executive director in September 2004. He is also an independent non-executive director of Chi Cheung Investment Company, Limited, whose shares are listed on the Stock Exchange.

Company Secretary

Mr Mak Yee Chuen, Vincent, aged 51, was appointed as company secretary in July 2000. Mr Mak holds a master's degree of laws from The University of Hong Kong in 2001 and master's degree in business administration from The Hong Kong Polytechnic University in 1994. He is a fellow member of the Hong Kong Institute of Certified Public Accountants and The Association of Chartered Certified Accountants. He was the founder and partner of Vincent Mak & Company, Certified Public Accountants in 1987. He is now the principal of Vincent Mak & Co., Solicitors.

Senior Management

Mr Leung Yuk Hung, Paul, aged 33, is the associate director responsible for the management of the Group's information technology infrastructure. He is also responsible for the development of new business ventures. Mr Leung is the son of the Group's Chairman. He holds a bachelor of engineering (I.T.) degree and a bachelor of commerce (accounting and finance) degree from the University of Western Australia. He is also a Certified Information Systems Auditor (CISA). He joined the Group in March 2003.

Mr Kwok Chu Hung, aged 50, was appointed the director of quality advancement and business development of the Group since December 2006. He acquired a postgraduate master's degree of business study in City University of Hong Kong and bachelor of science degree in electronic engineering and has over 27 years of experience in quality control of electronics. He first joined the Group in April 1995. He is responsible for the quality assurance and OEM business development of the Group.

Mr Ng Ki Yin, Simon, aged 54, is the director of operation, in charge of the Group's daily operational matters. He holds a bachelor of science degree in bushiness management. He joined the Group in June 1994. Mr Ng is responsible for managing the human resources, information technology, production planning, sourcing, material planning and logistic functions of the Group's China and South East Asia facilities. He has over 20 years of experience in manufacturing resources planning and system management both in overseas corporates and PRC companies.

DIRECTORS *(Continued)*

Senior Management *(Continued)*

Mr Seto Sai Cheong, Paul, aged 46, is the Group's chief accountant. He is a member of the Hong Kong Institute of Certified Public Accountants, The Association of Chartered Certified Accountants and The Taxation Institute of Hong Kong and has over 24 years of experience in accounting and taxation, He is responsible for overall finance, accounting and taxation functions of the Group. He joined the Group in December 2000.

Mr Yim To, aged 56, is the director of production of the Group. He has over 24 years of production and management experience in the toys industry. He joined the Group in July 1995. He is responsible for the overall manufacturing functions of the Group. Mr Yim is directly in charge of the productivity management of the Dongguan factories.

Mr Yung Chuk Kam, Ronnie, aged 57, is the vice president responsible for the sales & marketing department. He is responsible for exploring business opportunities, providing strategic marketing direction to the Group through researching and developing new strategic business relationships and OBM product opportunities. He holds the master's degree in science from Warwick University of UK. He has over 23 years experience in toys field and was a senior executive of a well-know toy company. He joined the Group in March 2008.

Mr Oravec, Bruce, aged 65, has been a director of Kid Galaxy, Inc. since 2002. His career in the toys industry began in 1980 in Milton Bradley Company as its Senior Legal Counsel. In 1985, he joined Kenner-Parker Toys, Inc., as its Senior Vice President, General Counsel and Secretary. In 1990, he became Senior Vice President, General Counsel and Secretary of Fisher-Price, Inc. In 1996, Mr Oravec co-founded a per-school toy company, WB & N, Inc. He currently provides business consultation services for toys industry executives and is on the Board of Directors of the ToyTown Museum of East Aurora, New York. Mr Oravec holds a bachelor's degree from the University of Michigan and bachelor of laws degree (LL.B) from Harvard Law School.

DIRECTORS' SERVICE CONTRACTS

Each of the executive directors has entered into a service agreement with the Company for an initial fixed term of three years commencing from 1 September 1997 and shall continue thereafter unless and until terminated by either the Company or the Director giving to the other party not less than six months' notice in writing to determine the same. Under the agreements, the executive directors will receive a fixed monthly salary. Certain of the executive directors will also receive a year end bonus and a discretionary bonus under the agreements.

Apart from the above, none of the Directors has a service contract with the Company which is not terminable within one year without payment of compensation, other than statutory compensation.

DIRECTORS' INTERESTS IN CONTRACTS

Prior to 14 March 2007, Fericle Holdings Limited ("Fericle"), a subsidiary of the Group, maintained separate insurance contracts for each of Mr Leung Lun, Mr Leung Chung Ming and Mr Wong, Andy Tze On, all of whom are executive Directors, with insured amounts of US$10,000,000 (HK$78,000,000), US$10,000,000 (HK$78,000,000) and US$5,000,000 (HK$39,000,000) respectively. Each of the insurance contracts will mature on the date when the insured reaches the age of 100 or death of the insured, whichever is earlier. For each of the insurance contracts, Fericle and the beneficiary of the insured is entitled to 50% of the insured amount but Fericle is wholly entitled to any cash surrender value attached to the relevant insurance contracts during the period of the life insurance.

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

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

On 7 March 2008, the Company and Lung Cheong Investment Limited entered into a loan agreement pursuant to which Lung Cheong Investment Limited agreed to grant a loan of HK$50 million to the Company for partial repayment of the loan granted under the facility agreement entered into between, amongst others, the Company and a syndicate of banks on 21 August 2007. Lung Cheong Investment Limited is the controlling shareholder of the Company and is wholly owned by a company beneficially owned by Messrs. Leung Lun and Leung Chung Ming, both are directors of the Company. The above details are set out in the announcement of the Company dated 10 March 2008.

Save as mentioned above, no contracts of significance in relation to the Company's business to which the Company, any of its holding companies or subsidiaries was a party, and in which a Director had a material interest, whether directly or indirectly, or a controlling shareholder or any of its subsidiaries is a party, subsisted at the end of the year or at any time during the year.

DIRECTORS' INTERESTS IN EQUITY SECURITIES

At 31 March 2008, the interests and short positions of each Director and chief executive of the Company in the shares or underlying shares of the Company and its associated corporations (within the meaning of Part XV of the Securities and Futures Ordinance (Chapter 571 of Laws of Hong Kong) ("SFO")) as recorded in the register required to be kept under section 352 of the SFO or as otherwise notified to the Company and The Stock Exchange of Hong Kong Limited ("Stock Exchange") pursuant to the Model Code for Securities Transactions by Directors of Listed Issuers contained in the Listing Rules were as follows:

Name of Director	Name of company	Capacity	Number and class of securities (Note 1)	Approximate Percentage on the issued share capital of the same class of securities
Leung Lun	The Company	Interest of controlled corporation	1,499,082,240 ordinary shares (L) (Note 2)	60.82%
	The Company	Beneficial interest	3,000,000 ordinary shares (L) (Note 3)	0.12%
	Lung Cheong Investment Limited	Interest of controlled corporation	1,000 ordinary shares (L)	100%
	Rare Diamond Limited	Beneficial interest	70 ordinary shares (L)	70%
Leung Chung Ming	The Company	Interest of controlled corporation	1,499,082,240 ordinary shares (L) (Note 2)	60.82%
	The Company	Beneficial interest	3,000,000 ordinary shares (L) (Note 3)	0.12%
	Lung Cheong Investment Limited	Interest of controlled corporation	1,000 ordinary shares (L)	100%
	Rare Diamond Limited	Beneficial interest	30 ordinary shares (L)	30%

DIRECTORS' INTERESTS IN EQUITY SECURITIES *(Continued)*

Name of Director	Name of company	Capacity	Number and class of securities (Note 1)	Approximate Percentage on the issued share capital of the same class of securities
Zhong Bingquan	The Company	Beneficial interest	3,000,000 ordinary shares (L) (Note 3)	0.12%
Cheng Yun Tai	The Company	Beneficial interest	3,000,000 ordinary shares (L) (Note 3)	0.12%
Wong, Andy Tze On	The Company	Beneficial interest	3,000,000 ordinary shares (L) (Note 3)	0.12%
Wong Lam	The Company	Beneficial interest	600,000 ordinary shares (L) (Note 3)	0.02%
Ye Tian Liu	The Company	Beneficial interest	600,000 ordinary shares (L) (Note 3)	0.02%
Lai Yun Hung	The Company	Beneficial interest	600,000 ordinary shares (L) (Note 3)	0.02%
Ko, Peter Ping Wah	The Company	Beneficial interest	600,000 ordinary shares (L) (Note 3)	0.02%

Notes:

1. The letter "L" represents the Director's interests in the shares and underlying shares of the relevant company.

2. These shares were held by Lung Cheong Investment Limited, a company wholly owned by Rare Diamond Limited. Rare Diamond Limited is beneficially owned as to 70% by Mr Leung Lun and 30% by Mr Leung Chung Ming respectively.

3. These interests represent interests of the respective Directors in the share options of the Company granted under the Scheme.

Apart from the Scheme, at no time during the period was the Company, its holding companies or its subsidiaries a party to any arrangements to enable the Directors, chief executives of the Company and their associates to acquire benefits by means of the acquisition of shares in, or debentures of, the Company or any other body corporate.

Pursuant to the term facilities agreement entered into by the Company and a group of financial institutions on 21 August 2007 amounting to HK$200 million, Mr Leung Lun and Mr Leung Chung Ming are required to jointly hold at least 45% of the issued share capital of the Company and Mr Leung Lun and Mr Leung Chung Ming are individually required to own at least 10% of the issued share capital of the Company.

SUBSTANTIAL SHAREHOLDERS

As at 31 March 2008, the following persons, other than a director or chief executive of the Company, had an interest in the shares and underlying shares of the Company as recorded in the register required to be kept under section 336 of the SFO:

Name of shareholder	Number of ordinary shares of HK$0.10 each (Note 1)	Capacity	Approximate percentage of interest
Lung Cheong Investment Limited	1,499,082,240 (L)	Beneficial owner	60.82%
Rare Diamond Limited	1,499,082,240(L) (Note 2)	Interest of controlled corporation	60.82%

Notes:

1. The letter "L" represents the entity's interests in the shares and underlying shares of the Company.

2. These Shares were registered in the name of Lung Cheong Investment Limited, the entire issued share capital of which is owned by Rare Diamond Limited. Rare Diamond Limited is beneficially owned as to 70% by Mr Leung Lun and 30% by Mr Leung Chung Ming.

PRE-EMPTIVE RIGHTS

In the event that the Company issues, otherwise than pursuant to the Old Scheme and the 2002 Scheme, for cash consideration of any new shares or securities (including options and warrants) in the Company convertible into ordinary shares (the "New Issue Securities"), the holders of the Company's preference shares (the "Preference Shares") are entitled to subscribe, or procure subscribers to subscribe, for all or part of the New Issue Securities. Any New Issue Securities not subscribed for by the holders of Preference Shares may be subscribed for by the holders of ordinary shares in the Company upon terms and conditions no more favourable than those offered to the holder of Preference Shares.

The Company and the holders of all the Company's existing issued preference shares agreed on 18 July 2002 and the independent shareholders ratified at the extraordinary general meeting of the Company on 3 September 2002 that the afore-mentioned pre-emptive rights be granted only up to 20 July 2005.

MANAGEMENT CONTRACTS

Other than the contracts of service with the Directors or any persons engaged in the full-time employment of the Group, no contracts concerning the management and administration of the whole or any substantial part of the business of the Group were entered into or existed during the year.

CONNECTED TRANSACTIONS

At 31 March 2008, a wholly-owned subsidiary of the Company, Lung Cheong Toys Limited ("LC Toys"), had long-term loans and deferred trading balances amounted in aggregate to HK$60,648,000, plus accrued interest, due by PT. Lung Cheong Brothers Industrial ("PTLC"), a 60% owned subsidiary of LC Toys. The balance of the 40% interest in PTLC is owned by independent third parties who are not connected with the Directors, Chief Executives or substantial shareholders of the Company and its subsidiaries, other than PTLC, or any of their respective associates. The long-term loans were advanced to finance the set up of the production facilities of PTLC. The amounts are unsecured, bearing interest at 3-month HIBOR per annum (2007: 3-month HIBOR per annum) and have no fixed repayment terms. LC Toys considers the uncertainties on the repayment of the advances and makes the full provision for the whole balance.

The Directors, including the non-executive directors, are of the opinion that the above transaction was entered into:

(1) in the ordinary and usual course of business of the Group;

(2) on normal commercial terms; and

(3) in accordance with the relevant agreement governing the transaction on terms that are fair and reasonable and in the interests of the shareholders of the Company listed issuer as a whole.

MAJOR CUSTOMERS AND SUPPLIERS

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

	2008	2007
	%	%
Sales		
— the largest customer	**15**	19
— five largest customers combined	**50**	65
Purchases		
— the largest supplier	**8**	8
— five largest suppliers combined	**26**	29

No directors or their associates (as defined in the Listing Rules) and no shareholders (which to the knowledge of the directors own more than 5% of the Company's share capital) had an interest in the major suppliers or customers noted above.

AUDIT COMMITTEE

Pursuant to the Listing Rules, an audit committee was established by the Company on 14 March 2000. The Committee comprises three Independent non-executive directors, namely Mr Ye Tian Liu, Mr Wong Lam, O.B.E., J.P. and Mr Lai Yun Hung and a non-executive director, namely Mr Ko Peter, Ping Wah.

By reference to "A Guide for the Formation of An Audit Committee" published by the Hong Kong Institute of Certified Public Accountants, written terms of reference which describe the authority and duties of the audit committee were prepared and adopted by the Board of the Company on the same date. The principal activities of the Audit Committee include the review and supervision of the Group's financial reporting process and internal controls.

INDEPENDENCE OF INDEPENDENT NON-EXECUTIVE DIRECTORS

The Company has received from each independent non-executive director an annual confirmation of his independence pursuant to Rule 3.13 of the Listing Rules. The Company considers that all of the independent non-executive directors are independent.

SUFFICIENCY OF PUBLIC FLOAT

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

AUDITOR

The financial statements have been audited by Shu Lun Pan Horwath Hong Kong CPA Limited, whose term of appointment will end at the conclusion of the forthcoming Annual General Meeting and being eligible, offer themselves for re-appointment. A resolution will be submitted to the forthcoming Annual General Meeting to re-appoint Shu Lun Pan Horwath Hong Kong CPA Limited as auditor of the Company.

On behalf of the Board

Leung Lun
Chairman

24 July 2008

Independent Auditor's Report

Shu Lun Pan Horwath Hong Kong CPA Limited
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18 Harbour Road
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Telephone : (852) 2526 2191
Facsimile : (852) 2810 0502
horwath@horwath.com.hk
www.horwath.com.hk

TO THE SHAREHOLDERS OF
LUNG CHEONG INTERNATIONAL HOLDINGS LIMITED
(Incorporated in the Cayman Islands with limited liability)

We have audited the financial statements of Lung Cheong International Holdings Limited (the "Company") and its subsidiaries (collectively referred to as the "Group") set out on pages 40 to 96, which comprise the consolidated and company balance sheets as at 31 March 2008, and the consolidated income statement, consolidated statement of changes in equity and consolidated cash flow statement for the year then ended, and a summary of significant accounting policies and other explanatory notes.

DIRECTORS' RESPONSIBILITY FOR THE FINANCIAL STATEMENTS

The directors of the Company are responsible for the preparation and the true and fair presentation of these financial statements in accordance with Hong Kong Financial Reporting Standards issued by the Hong Kong Institute of Certified Public Accountants and the disclosure requirements of the Hong Kong Companies Ordinance. This responsibility includes designing, implementing and maintaining internal control relevant to the preparation and the true and fair presentation of financial statements that are free from material misstatement, whether due to fraud or error; selecting and applying appropriate accounting policies; and making accounting estimates that are reasonable in the circumstances.

AUDITOR'S RESPONSIBILITY

Our responsibility is to express an opinion on these financial statements based on our audit and to report our opinion solely to you, as a body, and for no other purpose. We do not assume responsibility towards or accept liability to any other person for the contents of this report. We conducted our audit in accordance with Hong Kong Standards on Auditing issued by the Hong Kong Institute of Certified Public Accountants. Those standards require that we comply with ethical requirements and plan and perform the audit to obtain reasonable assurance as to whether the financial statements are free from material misstatement.

AUDITOR'S RESPONSIBILITY *(Continued)*

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the auditor's judgment, including the assessment of the risks of material misstatement of the financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the entity's preparation and true and fair presentation of the financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of accounting estimates made by the directors, as well as evaluating the overall presentation of the financial statements.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion.

OPINION

In our opinion, the financial statements give a true and fair view of the state of affairs of the Company and the Group as at 31 March 2008 and of the profit and cash flows of the Group for the year then ended in accordance with Hong Kong Financial Reporting Standards and have been properly prepared in accordance with the disclosure requirements of the Hong Kong Companies Ordinance.

SHU LUN PAN HORWATH HONG KONG CPA LIMITED
Certified Public Accountants

24 July 2008

Chan Kam Wing, Clement
Practising Certificate number P02038

Consolidated Income Statement

For the year ended 31 March 2008

(Expressed in Hong Kong dollars)

	Notes	**2008 HK$'000**	2007 HK$'000
Turnover	5	**799,142**	704,815
Cost of sales		**(603,842)**	(496,628)
Gross profit		**195,300**	208,187
Other income and gains, net	6	**28,002**	10,643
Selling and distribution expenses		**(44,026)**	(37,108)
General and administrative expenses		**(153,996)**	(143,444)
Written back of provision/(provision) for damages under lawsuits	27	**2,805**	(47,644)
Operating profit/(loss)	7	**28,085**	(9,366)
Finance costs	8	**(26,370)**	(27,131)
Profit/(loss) before income tax		**1,715**	(36,497)
Income tax credit/(charge)	9	**2,728**	(779)
Profit/(loss) for the year		**4,443**	(32,276)
Attributable to:			
Equity holders of the Company	10	**4,443**	(37,219)
Minority interest		**—**	(57)
		4,443	(37,276)
Dividends	11	**—**	—
Earnings/(loss) per share for profit/(loss) attributable to the equity holders of the Company			
			(Restated)
— Basic	12	**0.18 cents**	(2.29 cents)

The accompanying notes form part of these financial statements.

Balance Sheets

As at 31 March 2008

(Expressed in Hong Kong dollars)

		Group		Company	
	Notes	**2008 HK$'000**	2007 HK$'000	**2008 HK$'000**	2007 HK$'000
ASSETS AND LIABILITIES					
Non-current assets					
Leasehold land and land use rights	16	**97,356**	47,415	**—**	—
Property, plant and equipment	17	**441,085**	437,042	**—**	—
Goodwill	18	**19,240**	19,240	**—**	—
Club memberships	19	**2,474**	2,474	**—**	—
Interests in subsidiaries	20	**—**	—	**543,583**	450,927
Deferred tax assets	30	**6,163**	3,239	**—**	—
		566,318	509,410	**543,583**	450,927
Current assets					
Inventories	21	**294,529**	241,608	**—**	—
Trade and other receivables, deposits and prepayments	22	**198,762**	194,593	**2,883**	972
Derivative financial instruments	23	**634**	369	**—**	—
Tax recoverable		**1,182**	416	**9**	39
Restricted cash	24	**—**	48,138	**—**	48,138
Cash and cash equivalents	25	**51,504**	42,585	**437**	140
		546,611	527,709	**3,329**	49,289
Current liabilities					
Trade and other payables and accrued charges	26	**162,824**	112,100	**1,781**	408
Provision for damages under lawsuits	27	**—**	47,644	**—**	47,644
Derivative financial instruments	23	**1,002**	672	**—**	—
Borrowings	28	**200,696**	303,297	**30,000**	124,800
Loan from immediate holding company	38(b)	**50,000**	—	**50,000**	—
Tax payable		**3,983**	6,957	**—**	—
		418,505	470,670	**81,781**	172,852
Net current assets/(liabilities)		**128,106**	57,039	**(78,452)**	(123,563)
Total assets less current liabilities		**694,424**	566,449	**465,131**	327,364

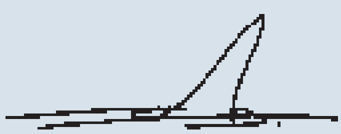
Balance Sheets

As at 31 March 2008

(Expressed in Hong Kong dollars)

		Group		Company	
	Notes	**2008 HK$'000**	2007 HK$'000	**2008 HK$'000**	2007 HK$'000
Total assets less current liabilities		**694,424**	566,449	**465,131**	327,364
Non-current liabilities					
Borrowings	28	**120,000**	93,600	**120,000**	93,600
Provision for long service payment	29	**1,476**	1,554	**—**	—
Deferred tax liabilities	30	**10,210**	10,037	**—**	—
		131,686	105,191	**120,000**	93,600
Net assets		**562,738**	461,258	**345,131**	233,764
EQUITY					
Share capital	31	**246,480**	72,560	**246,480**	72,560
Reserves	33	**316,258**	388,698	**98,651**	161,204
Total equity		**562,738**	461,258	**345,131**	233,764

These financial statements were approved and authorised for issue by the board of directors on 24 July 2008.



Leung Lun
Director

Leung Chung Ming
Director

The accompanying notes form part of these financial statements.

Consolidated Statement of Changes in Equity

For the year ended 31 March 2008

(Expressed in Hong Kong dollars)

	Attributable to equity holders of the Company									
	Share capital HK$'000	Share premium HK$'000	Exchange fluctuation reserve HK$'000	Statutory surplus reserve HK$'000	Buildings revaluation reserve HK$'000	Share options reserve HK$'000	Retained profits HK$'000	Total HK$'000	Minority interests HK$'000	Total equity HK$'000
At 1 April 2006	48,373	110,548	(42,456)	28,524	21,140	—	272,320	438,449	57	438,506
Currencies translation difference and net income recognised directly in equity	—	—	12,935	—	—	—	—	12,935	—	12,935
Loss for the year	—	—	—	—	—	—	(37,219)	(37,219)	(57)	(37,276)
Total recognised income and expenses for the year	—	—	12,935	—	—	—	(37,219)	(24,284)	(57)	(24,341)
Issue of shares by rights issue	24,187	24,186	—	—	—	—	—	48,373	—	48,373
Share issue expenses	—	(1,280)	—	—	—	—	—	(1,280)	—	(1,280)
Income appropriation	—	—	—	316	—	—	(316)	—	—	—
At 31 March 2007	72,560	133,454	(29,521)	28,840	21,140	—	234,785	461,258	—	461,258
Currencies translation difference and net income recognised directly in equity	—	—	39,158	—	—	—	—	39,158	—	39,158
Profit for the year	—	—	—	—	—	—	4,443	4,443	—	4,443
Total recognised income and expenses for the year	—	—	39,158	—	—	—	4,443	43,601	—	43,601
Share-based payments	—	—	—	—	—	3,202	—	3,202	—	3,202
Transfer to retained profits on lapse of share options	—	—	—	—	—	(2,410)	2,410	—	—	—
Issue of shares in placing arrangement	9,600	46,080	—	—	—	—	—	55,680	—	55,680
Share issue expenses	—	(1,003)	—	—	—	—	—	(1,003)	—	(1,003)
Issue of shares by bonus issue	164,320	(164,320)	—	—	—	—	—	—	—	—
At 31 March 2008	246,480	14,211	9,637	28,840	21,140	792	241,638	562,738	—	562,738

The accompanying notes form part of these financial statements.

Consolidated Cash Flow Statement

For the year ended 31 March 2008

(Expressed in Hong Kong dollars)

	2008 HK$'000	2007 HK$'000
Operating activities		
Profit/(loss) before income tax	**1,715**	(36,497)
Adjustments for:		
Interest income	**(1,504)**	(607)
Interest expense	**24,805**	26,545
Arrangement fees on bank loans	**1,566**	586
Depreciation of property, plant and equipment	**39,981**	47,223
(Release of provision)/provision for long service payment	**(58)**	366
(Written back of provision)/provision for damages under lawsuits	**(2,805)**	47,644
Amortisation of leasehold land and land use rights	**1,180**	1,129
Equity settled share-based payment expenses	**3,202**	—
Gain on disposal of property, plant and equipment	**(7,202)**	—
Gain on disposal of a subsidiary	**(3,125)**	(1,414)
Decrease in cash surrender value of life insurance contracts	**—**	277
Fair value loss on derivative financial instruments	**65**	648
Operating cash flows before changes in working capital	**57,820**	85,900
Inventories	**(54,255)**	(53,313)
Trade and other receivables, deposits and prepayments	**(4,193)**	59,829
Trade and other payables and accrued charges	**50,744**	21,464
Trust receipt bank loans	**24,517**	36,691
Cash generated from operations	**74,633**	150,571
Release/(placement) of restricted cash	**2,805**	(47,644)
Interest received	**1,998**	113
Hong Kong profits tax (paid)/refunded	**(3,291)**	413
Overseas income tax paid	**(448)**	(1,588)
Net cash generated from operating activities	**75,697**	101,865

Consolidated Cash Flow Statement

For the year ended 31 March 2008

(Expressed in Hong Kong dollars)

	Notes	2008 HK$'000	2007 HK$'000
Investing activities			
Purchase of property, plant and equipment		**(59,116)**	(83,532)
Disposal of a subsidiary	34	**4,473**	806
Proceeds from disposal of property, plant and equipment		**8,445**	—
Net cash used in investing activities		**(46,198)**	(82,726)
Financing activities			
Interest expense and arrangement fees on bank loans		**(26,371)**	(27,131)
New loans from banks and financial institutions		**211,512**	48,000
Repayment of loans borrowed from banks and financial institutions		**(312,230)**	(133,100)
Loan from immediate holding company		**50,000**	—
Net proceed from issue of shares in placing arrangement		**54,677**	—
Issue of shares by rights issue		**—**	47,093
Net cash used in financing activities		**(22,412)**	(65,138)
Net increase/(decrease) in cash and cash equivalents		**7,087**	(45,999)
Effect of foreign exchange rate changes		**1,832**	(1,168)
Cash and cash equivalents at beginning of year		**42,585**	89,752
Cash and cash equivalents at end of year	25	**51,504**	42,585

The accompanying notes form part of these financial statements.

Notes to the Financial Statements

(Expressed in Hong Kong dollars)

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, moulds and materials.

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 Hong Kong Financial Reporting Standards, Hong Kong Accounting Standards ("HKASs") and Interpretations issued by the Hong Kong Institute of Certified Public Accountants ("HKICPA") that are relevant to its operations and effective for the current accounting period of the Group and the Company. The adoption of these new and revised HKFRSs did not result in substantial changes to the Group's accounting policies.

The impact of the adoption of HKFRS 7, *Financial Instruments: Disclosures* and HKAS 1 (Amendment), *Capital Disclosures* has been to expand the disclosures provided in these financial statements regarding the Group's financial instruments and management of capital.

(Expressed in Hong Kong dollars)

2. ADOPTION OF NEW AND REVISED STANDARDS *(Continued)*

At the date of authorisation of these financial statements, the following standards and interpretations were in issue but not yet effective:

		Effective for annual periods beginning on or after
HKAS 1 (Revised)	Presentation of financial statements	1 January 2009
HKAS 23 (Revised)	Borrowing costs	1 January 2009
HKAS 27 (Revised)	Consolidated and separate financial statements	1 July 2009
HKAS 32 & 1 (Amendments)	Puttable financial instruments and obligations arising on liquidation	1 January 2009
HKFRS 2 (Amendment)	Share-based payment — vesting conditions and cancellation	1 January 2009
HKFRS 3 (Revised)	Business combinations	1 July 2009
HKFRS 8	Operating segments	1 January 2009
HK(IFRIC) — Int 12	Service concession arrangements	1 January 2008
HK(IFRIC) — Int 13	Customer loyalty programmes	1 July 2008
HK(IFRIC) — Int 14	HKAS 19 — The limit on a defined benefit asset, minimum funding requirements and their interaction	1 January 2008

The adoption of HKFRS 3 (Revised) may affect the accounting of business combinations for which the acquisition date is on or after the beginning of the first annual reporting period beginning on or after 1 July 2009. HKAS 27 (Revised) will affect the accounting treatment for changes in a parent's ownership interest in a subsidiary that do not result in a loss of control, which will be accounted for as equity transactions. The directors of the Company have considered these standards or interpretations and anticipate that these standards or interpretations will have no material impact on the results of operations and financial position of the Group.

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

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.

(b) Basis of preparation

The financial statements have been prepared under the historical cost convention, as modified by the revaluation of freehold land and buildings, and derivative financial instruments which are carried at fair value.

(c) Consolidation

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

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

Inter-company transactions, balances and unrealised gains on transactions between group companies are eliminated. Unrealised losses are also eliminated unless the transaction provides evidence of an impairment on the asset transferred.

Where necessary, adjustments are made to the financial statements of subsidiaries to bring their accounting policies into line with those used by other members of the Group.

(d) Business combinations

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 recognised in profit or loss directly.

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

(e) Subsidiaries

Subsidiaries are all 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.

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.

(f) 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 recognised 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 building revaluation reserve in equity. Decreases that offset previous increases of the same asset are charged against building revaluation reserve directly; all other decreases are expensed in the income statement.

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.

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

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

Construction in progress is stated at cost which includes all construction costs, borrowing costs capitalised in accordance with the Group's accounting policy and other direct costs attributable to such projects. It is not depreciated until completion of construction. Costs of completed construction works are transferred to the appropriate category of property, plant and equipment.

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. These are included in profit or loss.

(g) Goodwill

Goodwill is initially recognised as an asset at cost and is subsequently measured at cost less any accumulated impairment losses.

Goodwill is tested annually for impairment and carried at cost less accumulated impairment losses, if any.

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.

Cash-generating units to which goodwill has been allocated are tested for impairment annually, and whenever there is an indication that the unit may be impaired. If the recoverable amount of the cash-generating unit is less than the carrying amount of the unit, the impairment loss is allocated first to reduce the carrying amount of any goodwill allocated to the unit and then to other asset of the unit pro-rata on the basis of the carrying amount of each asset in the unit. An impairment loss recognised for goodwill is not reversed in a subsequent period.

On subsequent disposal of the relevant cash generating unit, the attributable amount of goodwill capitalised is included in the determination of the amount of profit or loss on disposal.

(h) Club memberships

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

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

(i) Impairment of tangible and intangible assets excluding goodwill

At each balance sheet date, the Group reviews the carrying amounts of its tangible and intangible assets to determine whether there is any indication that those assets have suffered an impairment loss. If any such indication exists, the recoverable amount of the asset is estimated in order to determine the extent of the impairment loss (if any). Where it is not possible to estimate the recoverable amount of an individual asset, the Group estimates the recoverable amount of the cash-generating unit to which the asset belongs. Recoverable amount is the higher of fair value less costs to sell and value in use. In assessing value in use, the estimated future cash flows are discounted to their present value using a pre-tax discount rate that reflects current market assessments of the time value of money and the risks specific to the asset.

Intangible assets with indefinite useful lives and intangible assets not yet available for use are tested for impairment annually, and whenever there is an indication that the asset may be impaired.

If the recoverable amount of an asset (or cash-generating unit) is estimated to be less than its carrying amount, the carrying amount of the asset (or cash-generating unit) is reduced to its recoverable amount. An impairment loss is recognised immediately in profit or loss, unless the relevant asset is carried at a revalued amount, in which case the impairment loss is treated as a revaluation decrease.

Where an impairment loss subsequently reverses, the carrying amount of the asset (or cash-generating unit) is increased to the revised estimate of its recoverable amount, but so that the increased carrying amount does not exceed the carrying amount that would have been determined had no impairment loss been recognised for the asset (or cash-generating unit) in prior years. A reversal of an impairment loss is recognised immediately in profit or loss, unless the relevant asset is carried at a revalued amount, in which case the reversal of the impairment loss is treated as a revaluation increase.

(j) Inventories

Inventories are stated at the lower of cost and net realisable 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 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.

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

(k) Finance assets

Financial assets are recognised and derecognised on trade date where the purchase or sale of a financial asset is under a contract whose terms require delivery of the investment within the timeframe established by the market concerned.

The Group's financial assets are classified into loans and receivables.

(i) Loans and receivables

Loans and receivables are non-derivative financial assets with fixed or determinable payments that are not quoted in an active market. Loans and receivables are initially measured at fair value, plus transaction costs and are subsequently measured at amortised cost using the effective interest method, less any impairment. Interest income is recognised by applying the effective interest rate, except for short-term receivables when the recognition of interest would be immaterial.

(ii) Impairment of financial assets

Financial assets are assessed for indicators of impairment at each balance sheet date. Financial assets are impaired where there is objective evidence that as a result of one or more events that occurred after the initial recognition of the financial asset, the estimated future cash flows of the investment have been impacted.

Objective evidence of impairment could include:

— significant financial difficulty of the issuer or counterparty; or

— default or delinquency in interest or principal payments; or

— it becoming probable that the borrower will enter bankruptcy or financial re-organisation; or

— significant changes in the technological, market, economic or legal environment that have an adverse effect on the debtor.

An impairment loss is recognised in profit or loss when there is objective evidence that the asset is impaired and is measured as the difference between the asset's carrying amount and the present value of estimated future cash flows, discounted at the financial asset's original effective interest rate, where the effect of discounting is material.

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

(k) Finance assets *(Continued)*

(ii) Impairment of financial assets *(Continued)*

If in a subsequent period the amount of an impairment loss decreases and the decrease can be linked objectively to an event occurring after the impairment loss was recognised, the impairment loss is reversed through profit or loss. A reversal of an impairment loss shall not result in the asset's carrying amount exceeding that which have been determined had no impairment loss been recognised in prior years.

Impairment losses are written off against the corresponding assets directly, except for impairment losses recognised in respect of trade receivables included in trade and other receivables, whose recovery is considered doubtful but not remote. In this case, the impairment losses for doubtful debts are recorded using an allowance account. When the Group is satisfied that recovery is remote, the amount considered irrecoverable is written off against trade receivables directly and any amounts held in the allowance account relating to that debt are reversed. Subsequent recoveries of amounts previously charged to the allowance account are reversed against the allowance account. Other changes in the allowance account and subsequent recoveries of amounts previously written off directly are recognised in profit or loss.

(iii) Effective interest method

The effective interest method is a method of calculating the amortised cost of a financial asset and of allocating interest income over the relevant period. The effective interest rate is the rate that exactly discounts estimated future cash receipts through the expected life of the financial asset, or where appropriate, a shorter period.

(iv) Derecognition of financial assets

The Group derecognises a financial asset only when the contractual rights to the cash flows from the asset expire; or it transfers the financial asset and substantially all the risks and rewards of ownership of the asset to another entity. If the Group neither transfers nor retains substantially all the risks and rewards of ownership and continues to control the transferred asset, the Group recognises its retained interest in the asset and an associated liability for amounts it may have to pay. If the Group retains substantially all the risks and rewards of ownership of a transferred financial asset, the Group continues to recognise the financial asset and also recognises a collateralised borrowing for the proceeds received.

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

(l) Financial liabilities and equity instrument issued by the Group

(i) Classification as debt or equity

Debt and equity instruments are classified as either financial liabilities or equity in accordance with the substance of the contractual arrangement.

(ii) Equity instruments

An equity instrument is any contract that evidences a residual interest in the assets of an entity after deducting all of its liabilities. Equity instruments issued by the Group are recorded at the proceeds received, net of direct issue costs.

(iii) Financial liabilities

Financial liabilities, including trade and other payables and borrowings, are initially measured at fair value, net of transaction costs and are subsequently measured at amortised cost, using the effective interest method.

The effective interest method is a method of calculating the amortised cost of a financial liability and of allocating interest expense over the relevant period. The effective interest rate is the rate that exactly discounts estimated future cash payments through the expected life of the financial liability, or where appropriate, a shorter period.

(iv) Derecognition of financial liabilities

The Group derecognises financial liabilities when, and only when, the Group's obligations are discharged, cancelled or they expire.

(m) Derivative financial instruments

Derivatives are initially recognised at fair value on the date a derivative contract is entered into and are subsequently remeasured at their fair values. The method of recognising 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 recognised immediately in profit or loss.

A derivative is presented as a non-current asset or a non-current liability if the remaining maturity of the instrument is more than 12 months and it is not expected to be realised or settled within 12 months. Other derivatives are presented as current assets or current liabilities.

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

(n) Cash and cash equivalents

Cash and cash equivalents comprise cash on hand and deposits held at call with banks, and other short-term highly liquid investments with original maturities of three months or less that are readily convertible to a known amount of cash and are subject to an insignificant risk of changes in value. Bank overdrafts that are repayable on demand and form an integral part of the Group's cash management are also included as a component of cash and cash equivalents for the purpose of the cash flow statement.

(o) 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 recognised 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 or loss, unless they are directly attributable to qualifying assets, in which case they are capitalised 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 amortised on a straight-line basis over the period of the lease term.

(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.

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 recognised even if the likelihood of an outflow with respect to any one item included in the same class of obligations is small.

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

(q) 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 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 financial statements. When a change in the probability of an outflow occurs so that the outflow is probable, it will then be recognised as a provision.

(r) 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 tax is recognised on differences between the carrying amounts of assets and liabilities in the financial statements and the corresponding tax bases used in the computation of taxable profit, and is accounted for using the balance sheet liability method. Deferred tax liabilities are generally recognised for all taxable temporary differences and deferred tax assets are generally recognised for all deductible temporary differences to the extent that it is probable that taxable profits will be available against which those deductible temporary differences can be utilised. Such assets and liabilities are not recognised if the temporary difference arises from goodwill or from the initial recognition (other than in a business combination) of other assets and liabilities in a transaction that affects neither the taxable profit nor the accounting profit.

The carrying amount of deferred tax assets is reviewed at each balance sheet date and reduced to the extent that it is no longer probable that sufficient taxable profits will be available to allow all or part of the asset to be recovered.

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

(r) Taxation *(Continued)*

Deferred tax liabilities are recognised for taxable temporary differences arising on investments in subsidiaries, except where the Group is able to control the reversal of the temporary difference and it is probable that the temporary difference will not reverse in the foreseeable future. Deferred tax assets arising from deductible temporary differences associated with such investments and interests are only recognised to the extent that it is probable that there will be sufficient taxable profits against which to utilise the benefits of the temporary differences and they are expected to reverse in the foreseeable future.

Deferred tax assets and liabilities are measured at the tax rates that are expected to apply in the period in which the liability is settled or the asset realised, based on tax rates (and tax laws) that have been enacted or substantively enacted by the balance sheet date. The measurement of deferred tax liabilities and assets reflects the tax consequences that would follow from the manner in which the Group expects, at the balance sheet date, to recover or settle the carrying amount of its assets and liabilities.

Deferred tax assets and liabilities are offset when there is a legally enforceable right to set off current tax assets against current tax liabilities and when they relate to income taxes levied by the same taxation authority and the Group intends to settle its current tax assets and liabilities on a net basis.

(s) Translation of foreign currencies

(i) Functional and presentation currency

Items included in the financial statements of each of the group 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.

(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 recognised in the income statement.

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

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

(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 recognised as a separate component of equity.

On consolidation, exchange differences arising from the translation of the net investment in foreign entities are taken to exchange fluctuation reserve in equity. When a foreign operation is sold, such exchange differences are recognised 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.

(t) 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.

Employee entitlements to long service leave are recognised 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.

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

(t) Employee benefits *(Continued)*

(ii) Profit sharing and bonus plans

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

Liabilities for profit sharing and bonus plans are expected to be settled within 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 recognised 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.

(iv) Share-based payments

Equity-settled share-based payments to employees and others providing similar services are measured at the fair value of the equity instruments at the grant date.

The fair value determined at the grant date of the equity-settled share-based payments is expensed on a straight-line basis over the vesting period, based on the Group's estimate of equity instruments that will eventually vest. At each balance sheet date, the Group revises its estimate of the number of equity instruments expected to vest. The impact of the revision of the original estimates, if any, is recognised in profit or loss over the remaining vesting period, with a corresponding adjustment to the share options reserve.

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

(t) Employee benefits *(Continued)*

(iv) Share-based payments *(Continued)*

Equity-settled share-based payments transactions with other parties are measured at the fair value of the goods or services received, except where the fair value cannot be estimated reliably, in which case they are measured at the fair value of the equity instruments granted, measured at the date the entity obtains the goods or the counterparty renders the service.

For cash-settled share-based payments, a liability equal to the portion of the goods or services received is recognised at the current fair value determined at each balance sheet date.

(u) 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.

Investment income earned on the temporary investment of specific borrowings pending their expenditure on qualifying assets is deducted from the borrowing costs eligible for capitalisation.

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

(v) 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)*

(w) 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 recognised as follows:

(i) Sales of goods
Sales of goods are recognised 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 recognised on a time-proportion basis using the effective interest method.

(x) 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

In the application of the Group's accounting policies, the directors are required to make judgements, estimates and assumptions about the carrying amounts of assets and liabilities that are not readily apparent from other sources. 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. Actual results differ from these estimates.

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

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.

(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 realisable value of inventories

Net realisable 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.

4. CRITICAL ACCOUNTING ESTIMATES AND JUDGEMENTS

(Continued)

(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) Current 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 recognises liabilities for anticipated tax 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 current 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 recognised when management considers it is likely that future taxable profits will be available against which the temporary differences or tax losses can be utilised. When the expectations are different from the original estimates, such differences will impact the recognition of deferred tax assets and current 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, moulds and materials. Turnover recognised during the year is as follows:

	2008 **HK$'000**	2007 HK$'000
Sale of goods	**714,839**	651,290
Sale of moulds and materials	**84,303**	53,525
	799,142	704,815

Primary reporting format — business segments

The directors of the Company consider that the operating activities of the Group constitute one business segment since they are related to common risks and returns, accordingly, no analysis by business segment is presented.

5. TURNOVER AND SEGMENT INFORMATION *(Continued)*

Secondary reporting format — geographical segments

	Turnover HK$'000	Total assets HK$'000	Capital expenditure HK$'000
For the year ended 31 March 2008			
United States of America	**279,668**	**47,373**	**1,470**
Europe (Note)	**131,847**	**—**	**—**
Japan	**101,992**	**22,445**	**—**
China	**110,674**	**758,657**	**51,855**
Indonesia	**1,355**	**49,592**	**2,776**
Hong Kong	**102,455**	**225,819**	**3,013**
Others	**71,151**	**9,043**	**2**
Total	**799,142**	**1,112,929**	**59,116**

	Turnover HK$'000	Total assets HK$'000	Capital expenditure HK$'000
For the year ended 31 March 2007			
United States of America	273,843	59,217	473
Europe (Note)	107,875	5,516	—
Japan	96,850	29,029	—
China	71,614	596,307	79,017
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	83,532

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

6. OTHER INCOME AND GAINS, NET

	2008 HK$'000	2007 HK$'000
Interest income	**1,504**	607
Net fair value gain on derivative financial instruments:		
— forward contracts and interest swaps:		
transactions not qualifying as hedges	**1,663**	939
Gain on disposal of a subsidiary (Note 34)	**3,125**	1,414
Sample income	**1,059**	5,048
Gain on disposal of property, plant and equipment	**7,202**	—
Exchange gains, net	**12,192**	485
Others	**1,257**	2,150
	28,002	10,643

7. EXPENSES BY NATURE

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

	2008 HK$'000	2007 HK$'000
Cost of inventories sold	**603,842**	496,628
Auditors' remuneration	**1,597**	1,766
Amortisation of leasehold land and land use rights	**1,180**	1,129
Depreciation of property, plant and equipment	**39,981**	47,223
Bad debts written off	**1,021**	—
Employee benefit expense (Note 13)	**154,949**	123,049
Operating lease rentals in respect of land and buildings	**4,161**	4,661

8. FINANCE COSTS

	2008 HK$'000	2007 HK$'000
Interest on loans and overdraft from banks and financial institutions wholly repayable within five years	**24,804**	26,545
Arrangement fees on bank loans	**1,566**	586
	26,370	27,131

9. INCOME TAX CREDIT/(CHARGE)

Hong Kong profits tax has been provided at the rate of 17.5% (2007: 17.5%) on the estimated assessable profit for the year.

With effect from the year of assessment 2008/09, Hong Kong profits tax rate has been reduced from 17.5% to 16.5%.

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 credit/(charge) in the consolidated income statement represents:

	2008 HK$'000	2007 HK$'000
Current tax		
Hong Kong profits tax		
— current year	**—**	(2,400)
— (under)/over provision in prior years	**(79)**	300
Mainland China enterprise income tax		
— current year	**(24)**	(445)
Deferred tax credit (Note 30)	**2,831**	1,766
Tax credit/(charge)	**2,728**	(779)

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

	2008 HK$'000	2007 HK$'000
(Profit)/loss before income tax	**(1,715)**	36,497
Calculated at the taxation rate of 17.5% (2007: 17.5%)	**(300)**	6,387
Effect of different taxation rates in other countries	**(21)**	(1,223)
Income not subject to taxation	**2,219**	564
Expenses not deductible for taxation purposes	**(1,055)**	(8,700)
Tax exemption	**8,278**	3,216
Tax losses not recognised	**(6,758)**	(758)
Over/(under) provision in prior years	**365**	(265)
Tax credit/(charge)	**2,728**	(779)

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

The profit/(loss) attributable to equity holders of the Company includes a profit of approximately HK$53,488,000 (2007: loss of HK$47,616,000), including a dividend from a subsidiary of HK$55,000,000 (2007: HK$Nil), which has been dealt with in financial statements of the Company.

11. DIVIDENDS

The directors do not recommend a final dividend in respect of the year ended 31 March 2008 (2007: Nil).

12. EARNINGS/(LOSS) PER SHARE

Basic

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

	2008 HK$'000	2007 HK$'000
Profit/(loss) attributable to equity holders of the Company	**4,443**	(37,219)

	2008 No. of shares '000	2007 No. of shares '000 (Restated)
Issued ordinary shares at beginning of year	**725,600**	483,733
Effect of rights issue	**—**	58,633
Effect of placing arrangement	**78,951**	—
Effect of bonus issue	**1,609,102**	1,084,732
Weighted average number of ordinary shares in issue	**2,413,653**	1,627,098
Basic earnings/(loss) per share (HK cents)	**0.18**	(2.29)

No diluted earnings per share for the year ended 31 March 2008 has been presented as the share options granted during the year had no dilutive effect on the basic earnings per share for the year. No diluted loss per share for the year ended 31 March 2007 had been calculated as no diluting events existed in that year.

13. EMPLOYEE BENEFIT EXPENSE

Employee benefit expense excluding directors' emoluments comprises:

	2008 HK$'000	2007 HK$'000
Wages and salaries	**149,363**	117,554
Other staff benefits	**3,470**	4,734
Share-based payment	**1,752**	—
Pension costs — defined contribution plans (Note 15)	**364**	761
	154,949	123,049

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:

	2008 HK$'000	2007 HK$'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	**6,196**	6,274
Share-based payments	**749**	—
Provident fund scheme contributions	**84**	84
	7,269	6,598

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 2008 and 2007.

14. DIRECTORS' AND SENIOR MANAGEMENT'S EMOLUMENTS

(Continued)

(a) Directors' emoluments *(Continued)*

The remuneration of every director for the year ended 31 March 2008 is as set out below:

Name of director	Fees HK$'000	Basic salaries and bonus HK$'000	Housing and other allowances and benefits in kind HK$'000	Equity-settled share-based payments HK$'000	Employer's contribution to pension scheme HK$'000	Total HK$'000
Mr Leung Lun	—	1,500	780	109	12	2,401
Mr Leung Chung Ming	—	1,612	576	109	12	2,309
Mr Zhong Bingquan	—	324	—	109	12	445
Ms Cheng Yun Tai	—	324	—	109	12	445
Mr Wong, Andy Tze On	—	720	360	109	36	1,225
Mr Wong Lam	60	—	—	51	—	111
Mr Ye Tian Liu	60	—	—	51	—	111
Mr Ko Peter, Ping Wah	60	—	—	51	—	111
Mr Lai Yun Hung	60	—	—	51	—	111
	240	4,480	1,716	749	84	7,269

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 and other allowances and benefits in kind HK$'000	Equity-settled share-based payments HK$'000	Employer's contribution to pension scheme HK$'000	Total HK$'000
Mr Leung Lun	—	1,500	780	—	12	2,292
Mr Leung Chung 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

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 (2007: three) directors whose emoluments are disclosed in the analysis presented above. The emoluments payable to the remaining two (2007: two) individuals during the year are as follows:

	2008 **HK$'000**	2007 HK$'000
Basic salaries, housing allowances, other allowances, and benefits in kind	**1,303**	1,155
Share-based payments	**251**	—
Bonus	**114**	—
Provident fund scheme contributions	**45**	45
	1,713	1,200

During the year ended 31 March 2008, share options of 700,000 shares were granted to the remaining two individuals. No options were exercised by these two highest paid individuals during the year ended 31 March 2008.

During the year ended 31 March 2007, no share options were granted to the individuals under the Scheme to acquire ordinary shares in the Company.

The emoluments of these two (2007: two) highest paid individuals fell within the band of Nil to HK$1,000,000 for both 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: (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. Forfeited contributions are used to reduce the employers' contributions.

15. PROVIDENT FUND SCHEME ARRANGEMENTS *(Continued)*

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 Group and the employee. The contributions are fully and immediately vested in the employees as accrued benefits once they are paid to the approved trustee of the MPF Scheme.

The Group 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 2008 was HK$364,000 (2007: HK$761,000).

At 31 March 2008 and 2007 no forfeited contributions were 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 2008 was HK$47,000 (2007: HK$118,000).

16. LEASEHOLD LAND AND LAND USE RIGHTS

	Group	
	2008	2007
	HK$'000	HK$'000
At beginning of year	**47,415**	47,458
Transfer from construction in progress (Note 17)	**49,025**	—
Amortisation charged for the year	**(1,180)**	(1,129)
Exchange difference	**2,096**	1,086
At end of year	**97,356**	47,415

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

	Group	
	2008	2007
	HK$'000	HK$'000
In Mainland China, held on:		
— Land use rights of over 50 years	**5,878**	5,552
— Land use rights of between 10 to 50 years	**72,601**	22,519
In Hong Kong, held on:		
— Land use rights of between 10 to 50 years	**18,877**	19,344
	97,356	47,415

17. PROPERTY, PLANT AND EQUIPMENT

Group	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	Construc-tion in progress HK$'000	Total HK$'000
At 1 April 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 charge	(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
Year ended 31 March 2008								
Net book amount at 1 April 2007	54,906	55,247	20,567	3,663	3,017	72,720	226,922	437,042
Additions	—	15	5,075	2,545	308	2,805	48,368	59,116
Transfer to freehold land and buildings	242,554	—	—	—	—	—	(242,554)	—
Transfer to leasehold land and land use rights (Note 16)	—	—	—	—	—	—	(49,025)	(49,025)
Disposals	—	(7)	—	(691)	—	(544)	—	(1,242)
Disposal of a subsidiary	—	—	—	(10)	—	—	—	(10)
Depreciation charge	(1,162)	(4,652)	(9,316)	(1,054)	(1,164)	(22,633)	—	(39,981)
Exchange differences	8,310	3,757	841	211	41	2,141	19,884	35,185
Net book value at 31 March 2008	304,608	54,360	17,167	4,664	2,202	54,489	3,595	441,085
At 31 March 2008								
Cost or valuations	307,446	117,129	204,392	28,802	10,132	79,173	3,595	750,669
Accumulated depreciation	(2,838)	(62,769)	(187,225)	(24,138)	(7,930)	(24,684)	—	(309,584)
Net book amount	304,608	54,360	17,167	4,664	2,202	54,489	3,595	441,085

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, both are independent firms of professional valuers.

18. GOODWILL

	Group	
	2008	2007
	HK$'000	HK$'000
Cost		
At beginning and end of year	**19,240**	19,240

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 2008, the Group's goodwill is allocated to the toys trading business in the United States of America.

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.

19. CLUB MEMBERSHIPS

	Group	
	2008	2007
	HK$'000	HK$'000
Cost		
At beginning and end of year	**2,474**	2,474

20. INTERESTS IN SUBSIDIARIES

	Company	
	2008	2007
	HK$'000	HK$'000
Unlisted investments, at cost	**115,801**	115,801
Amounts due from subsidiaries (note)	**501,782**	409,126
	617,583	524,927
Less: provision for impairment loss	**(74,000)**	(74,000)
	543,583	450,927

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 2008. Out of the total amount, HK$150,000,000 (2007: HK$218,400,000) is interest bearing at Hong Kong Interbank Offered Rate plus 1.15% (2007: 0.735%) per annum while the remaining balance is interest-free.

Particulars of the subsidiaries of the Company at 31 March 2008 are as follows:

Name of company	Place of incorporation and operations	Particulars of issued share capital/ registered capital	Effective percentage holding 2008	Effective percentage holding 2007	Nature of business
Shares held directly:					
Lung Cheong (BVI) Holdings Limited	British Virgin Islands	Ordinary US$130,660	**100**	100	Investment holdings
Shares/investments held indirectly:					
Dongguan Lung Cheong Plastic Products Co., Ltd.*	Mainland China	HK$6,500,000	**100**	100	Manufacture and trading of toys
Dongguan Lung Cheong Toys Co., Ltd.*	Mainland China	HK$124,030,000	**100**	100	Manufacture of toys

(Expressed in Hong Kong dollars)

20. 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
			2008	2007	
Shares/investments held indirectly: *(continued)*					
Dongguan Standard Tooling & Products Co., Ltd.*	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 toys and 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.*	Mainland China	HK$3,500,000	**100**	100	Manufacture of toys and electronic products

(Expressed in Hong Kong dollars)

20. 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
			2008	2007	
Shares/investments held indirectly: *(continued)*					
PT. Lung Cheong Brothers Industrial	Republic of Indonesia	Rupiah 5,728,000,000	**60**	60	Manufacture of toys 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
Kid Galaxy Global Limited (formerly known as Lung Cheong Entertainment Limited)	British Virgin Islands	Ordinary US$1	**100**	100	Trading of toys

* 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 audit and making adjustments as the directors considered appropriate for compliance with HKFRSs, issued by the HKICPA.

21. INVENTORIES

	2008 HK$'000	2007 HK$'000
Raw materials	**106,257**	135,279
Work-in-progress	**120,040**	66,571
Finished goods	**68,232**	39,758
	294,529	241,608

The cost of inventories recognised as an expense during the year was $603,842,000 (2007: $496,628,000).

22. TRADE AND OTHER RECEIVABLES, DEPOSITS AND PREPAYMENTS

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

	Group		Company	
	2008 HK$'000	2007 HK$'000	**2008 HK$'000**	2007 HK$'000
Trade receivables	**146,121**	159,456	**—**	—
Other receivables, deposits and prepayments	**52,641**	35,137	**2,883**	972
	198,762	194,593	**2,883**	972

(a) The average credit period to the Group's trade debtors is 30 days.

(b) At 31 March 2008, the ageing analysis of the trade receivables was as follows:

	Group	
	2008 HK$'000	2007 HK$'000
0-90 days	**126,962**	104,734
91-180 days	**6,625**	39,562
181-365 days	**5,724**	4,106
Over 365 days	**6,810**	11,054
	146,121	159,456

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)*

(c) The ageing analysis of trade receivables that are neither individually nor collectively considered to be impaired is as follows:

	Group	
	2008 **HK$'000**	2007 HK$'000
Neither past due nor impaired	**107,053**	84,784
Within 30 days past due	**14,202**	7,800
31 to 90 days past due	**10,500**	35,390
Over 90 days past due	**14,366**	31,482
	39,068	74,672
	146,121	159,456

Trade receivables that were neither past due nor impaired relate to a wide range of customers for whom there was no recent history of default.

Trade receivables that were past due but not impaired relate to a number of independent customers that have a good track record with the Group. Based on past experience, management believes that no impairment allowance is necessary in respect of these balances as there have not been a significant change in credit quality and the balances are still considered fully recoverable. The Group does not hold any collateral over these balances.

23. DERIVATIVE FINANCIAL INSTRUMENTS

	Group	
	2008 **HK$'000**	2007 HK$'000
Assets		
Forward foreign exchange contracts — not qualifying as hedges (note)	**634**	369
Liabilities		
Interest-rate swaps — not qualifying as hedges	**(1,002)**	(672)

Note:

Note 37(b) set out details of commitments under these contracts as at 31 March 2008.

24. RESTRICTED CASH

	Group and Company	
	2008 **HK$'000**	2007 HK$'000
Restricted cash	—	48,138

As at 31 March 2007, 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	
	2008 **HK$'000**	2007 HK$'000	**2008** **HK$'000**	2007 HK$'000
Cash at banks and in hand	**32,149**	22,306	**437**	140
Short term bank deposits	**19,355**	20,279	**—**	—
	51,504	42,585	**437**	140

Included in cash and cash equivalents of the Group as at 31 March 2008 were approximately HK$26,201,000 (2007: approximately HK$23,984,000) denominated in Renminbi. Renminbi is not a freely convertible currency.

The effective interest rate on short-term bank deposits was 3.3% (2007: 2.8%). These deposits have an average maturity of 90 days.

26. TRADE AND OTHER PAYABLES AND ACCRUED CHARGES

	Group		Company	
	2008 HK$'000	2007 HK$'000	**2008 HK$'000**	2007 HK$'000
Trade payables	**97,286**	51,317	**—**	—
Other payables and accrued charges	**65,538**	60,783	**1,781**	408
	162,824	112,100	**1,781**	408

At 31 March 2008, the ageing analysis of the trade payables was as follows:

	Group	
	2008 HK$'000	2007 HK$'000
0-90 days	**74,486**	34,826
91-180 days	**16,445**	10,616
181-365 days	**5,918**	5,807
Over 365 days	**437**	68
	97,286	51,317

27. PROVISION FOR DAMAGES UNDER LAWSUITS

	Group and Company	
	2008 HK$'000	2007 HK$'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 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.

27. PROVISION FOR DAMAGES UNDER LAWSUITS *(Continued)*

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 had placed appeal bond of approximately HK$48 million with the Circuit Court for the unfavorable judgement against the Group. The Group has made a full provision in respect of the Damages, together with the related interests and legal costs to be incurred for the year ended 31 March 2007.

In November 2007, the Company received the decision of the Appellate Court affirming the decision of the Circuit Court and ruled against the Company. The Company lost the appeal and therefore was required to pay Damages plus interests. Accordingly, the appeal bond had been released against the settlement of Damages. The amount of excess provision of approximately HK$2,805,000 was written back during the year.

28. BORROWINGS

	Group		Company	
	2008 HK$'000	2007 HK$'000	**2008 HK$'000**	2007 HK$'000
Non-current				
Loans from banks and financial institutions	**120,000**	93,600	**120,000**	93,600
Current				
Trust receipt loans	**118,514**	93,997	**—**	—
Loans from banks and financial institutions	**82,182**	209,300	**30,000**	124,800
	200,696	303,297	**30,000**	124,800
Total borrowings	**320,696**	396,897	**150,000**	218,400

28. BORROWINGS *(Continued)*

(a) At 31 March 2008, the borrowings were repayable as follows.

	Group		Company	
	2008 HK$'000	2007 HK$'000	**2008 HK$'000**	2007 HK$'000
On demand or within one year	**200,696**	303,297	**30,000**	124,800
After one year but within two years	**45,000**	93,600	**45,000**	93,600
After two years but within five years	**75,000**	—	**75,000**	—
	320,696	396,897	**150,000**	218,400

(b) All borrowings at 31 March 2008 were interest bearing at variable rate. The average effective interest rates at the balance sheet date were as follows:

	2008		2007	
	HK$	**US$**	HK$	US$
Bank borrowings	**3.3%**	**3.7%**	5.0%	5.4%

29. PROVISION FOR LONG SERVICE PAYMENT

	2008 HK$'000	2007 HK$'000
At beginning of year	**1,554**	1,196
(Reversal of)/additional provisions	**(58)**	366
Exchange differences	**(20)**	(8)
At end of year	**1,476**	1,554

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

30. DEFERRED TAX

Deferred 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 taxes relate to the same fiscal authority. The balances shown in the balance sheet are, after appropriate offsetting, as follows:

	Group	
	2008	2007
	HK$'000	HK$'000
Deferred tax assets:		
— Deferred tax assets to be recovered after more than 12 months	**6,163**	3,239
Deferred tax liabilities:		
— Deferred tax liabilities to be settled after more than 12 months	**(10,210)**	(10,037)
Net deferred tax liabilities	**(4,047)**	(6,798)

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

	2008	2007
	HK$'000	HK$'000
At beginning of year	**(6,798)**	(8,494)
Credited to profit or loss (Note 9)	**2,831**	1,766
Exchange differences	**(80)**	(70)
At end of year	**(4,047)**	(6,798)

30. DEFERRED TAX *(Continued)*

(b) The movements in deferred tax assets and liabilities during the year, without taking into consideration the offsetting of balances within the same tax jurisdiction, were as follows,

Deferred tax assets:

	Cumulative tax losses HK$'000
At 1 April 2006	4,872
Charged to profit or loss	(1,634)
Exchange difference	1
At 31 March 2007	3,239
Credited to profit or loss	3,037
Changes in tax rate charged to profit or loss	(106)
Exchange difference	(7)
At 31 March 2008	**6,163**

Deferred tax liabilities:

	Accelerated depreciation HK$'000	**Revaluation of properties** HK$'000	**Others** HK$'000	**Total** HK$'000
At 1 April 2006	7,471	5,895	—	13,366
Credited to profit or loss	(2,621)	(779)	—	(3,400)
Exchange difference	—	71	—	71
At 31 March 2007	4,850	5,187	—	10,037
(Credited)/charged to profit or loss	(3,002)	(96)	3,304	206
Change in tax rate credited to profit or loss	(106)	—	—	(106)
Exchange difference	—	73	—	73
At 31 March 2008	**1,742**	**5,164**	**3,304**	**10,210**

Deferred tax assets are recognised for tax loss carry-forwards to the extent that the realisation of the related tax benefit through future taxable profits is probable. The Group did not recognise deferred tax assets of approximately HK$8,440,000 (2007: approximately HK$5,044,000) in respect of losses amounting to approximately HK$48,230,000 (2007: approximately HK$16,201,000) that can be carried forward against future taxable income. All tax losses may be carried forward indefinitely except for the amount approximately HK$20,936,000 (2007: approximately HK$11,241,000) that will expire from 2022 to 2027.

31. SHARE CAPITAL

Shares of the Company with nominal value of HK$0.10 each

	Authorised	
	No. of shares '000	HK$'000
At 1 April 2006 and 31 March 2007	1,000,000	100,000
Increase (Note (a))	1,000,000	100,000
Increase (Note (b))	8,000,000	800,000
At 31 March 2008	10,000,000	1,000,000

	Issued and fully paid	
	No. of shares '000	HK$'000
At 1 April 2006	483,733	48,373
Issue of shares by rights issue	241,867	24,187
At 31 March 2007	725,600	72,560
Issue of shares in placing arrangement (Note (c))	96,000	9,600
Issue of shares by bonus issue (Note (d))	1,643,200	164,320
At 31 March 2008	2,464,800	246,480

(a) Pursuant to resolution passed at an extraordinary general meeting held on 1 August 2007, the authorised share capital was increased to HK$200,000,000 by the creation of an additional 1,000,000,000 ordinary shares of HK$0.10 each.

(b) On 27 August 2007, the authorised share capital was further increased to HK$1,000,000,000 by the creation of an additional 8,000,000,000 ordinary shares of HK$0.10 each.

(c) On 5 June 2007, pursuant to a conditional placing agreement dated 31 May 2007 between the Company and a placing agent, the Company issued an aggregate of 96,000,000 new ordinary shares of HK$0.10 each at a price of HK$0.58 per share (the "Placing") to independent third parties. The net proceeds received by the Company from the Placing were approximate HK$45,077,000. Excess of net proceeds over the nominal value of shares amounting to HK$35,477,000 was credited to share premium.

(d) On 27 August 2007, an aggregate of 1,643,199,998 ordinary shares of HK$0.10 each were allotted and issued by bonus issue to all shareholders on the basis of two bonus shares, credited as fully paid, for every one existing share held, by way of capitalisation of sum standing to the credit of the Company's share premium account.

(Expressed in Hong Kong dollars)

32. SHARE OPTION SCHEME

On 3 September 2002, a share option scheme ("Scheme") was approved by the shareholders of the Company. Under the 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 Scheme is 86,820,000 (restated to take into effect the bonus issue during the year), representing approximately 3.5% of the issued share capital of the Company as at the date of this report. The subscription price for the shares under the 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.

On 24 July 2007, a total of 28,940,000 share options were granted to the Directors, eligible employees and consultants of the Group with a weighted average exercise price of approximately HK$3.73 per share. The total number and weighted average exercise price of share options were subsequently restated to 86,820,000 and HK$1.24 per share to take into effect the bonus issue during the year. The terms and conditions of the grants and movements in the number of share options under the Scheme during the year were as follows:

Date of offer of grant	At beginning of year	Granted during the year	Forfeited during the year	At end of year	Exercise price	Closing price at date of offer of grant	Exercise period
Executive Directors	—	15,000,000	—	15,000,000	HK$1.33	HK$0.99	24/07/2007 to 23/07/2008
Independent Non-executive Directors	—	2,400,000	(2,400,000)	—	HK$1.00	HK$0.99	24/07/2007 to 23/01/2008
Other employees							
(a)	—	19,620,000	(19,620,000)	—	HK$1.00	HK$0.99	24/07/2007 to 23/01/2008
(b)	—	600,000	—	600,000	HK$1.00	HK$0.99	24/07/2007 to 23/07/2008
Consultants							
(a)	—	48,600,000	(48,600,000)	—	HK$1.33	HK$0.99	24/07/2007 to 23/01/2008
(b)	—	600,000	—	600,000	HK$1.00	HK$0.99	24/07/2007 to 23/07/2009
	—	86,820,000	(70,620,000)	16,200,000			

The fair value of services received in return for share options granted is measured by reference to the fair value of share options granted. The estimate of the fair value of the share options granted is measured based on Black-Scholes model. The contractual life of the share options and expectations of early exercise are incorporated into the model.

(Expressed in Hong Kong dollars)

32. SHARE OPTION SCHEME *(Continued)*

Fair value of share options granted on 24 July 2007 and assumptions are as follows:

Fair value at measurement date	HK$0.037
Share price at the date of offer of grant	HK$0.990
Exercise price	HK$1.2442
Expected volatility	45%
Expected life	0.31 years
Expected dividends	0%
Risk-free interest rate	3.752%

The fair value of the share options granted during the year was approximately HK$3,202,000 (2007: Nil), all of which was recognised an equity-settled share-based payment expenses during the year.

33. RESERVES

Group

The amounts of the Group's reserves and the movements therein for the current and prior years are presented in the consolidated statement of changes in equity on page 43 of the Annual Report.

The nature and purposes of reserves are set out below.

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.

Statutory surplus 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.

Share options reserve

Share options reserve comprises the fair value of the estimated number of unexercised share options granted to employees of the Group recognised in accordance with the accounting policy adopted for share-based payments in Note 3(t)(iv).

33. RESERVES *(Continued)*

Building revaluation reserve

Building revaluation reserve represents the cumulative net change in the fair value of leasehold land and buildings held at the balance sheet date and is dealt with in accordance with the accounting policy in Note 3(f).

Exchange reserve

Exchange reserve represents foreign exchange differences arising from the translation of the financial statements of foreign operations. The reserve is dealt with in accordance with the accounting policy set out in Note 3(s)(iii).

Company

	Share premium HK$'000	Share option reserve HK$'000	Accumulated losses HK$'000	Total HK$'000
At 1 April 2006	197,849	—	(11,935)	185,914
Loss for the year	—	—	(47,616)	(47,616)
Issue of shares by rights issue	24,186	—	—	24,186
Share issue expenses	(1,280)	—	—	(1,280)
At 31 March 2007	220,755	—	(59,551)	161,204
Profit for the year	—	—	53,488	53,488
Share-based payments	—	3,202	—	3,202
Transfer to accumulated losses on lapse of share options	—	(2,410)	2,410	—
Issue of shares in placing arrangement	46,080	—	—	46,080
Share issue expenses	(1,003)	—	—	(1,003)
Issue of shares by bonus issue	(164,320)	—	—	(164,320)
At 31 March 2008	**101,512**	**792**	**(3,653)**	**98,651**

34. DISPOSAL OF A SUBSIDIARY

On 28 March 2008, the Group disposed of its 100% interest in a subsidiary, Liberal Culture Studies Limited.

The net assets of the subsidiary at the date of disposal were, in aggregate, as follows:

	HK$'000
Net assets disposed of:	
Property, plant and equipment	10
Trade receivables	24
Inventories	1,334
Cash and bank balances	57
Other payables and accrued charges	(20)
	1,405
Gain on disposal	3,125
Total consideration, satisfied by cash	4,530
Net cash inflow arising on disposal:	
Cash consideration	4,530
Cash and cash equivalents disposed	(57)
	4,473

The results of the disposal subsidiary did not have significant impacts on the Group's operation.

35. CONTINGENT LIABILITIES

At 31 March 2008, the Company had provided guarantees to banks and financial institutions in respect of credit facilities granted to its subsidiaries amounting to HK$445,500,000 (2007: HK$440,900,000).

At 31 March 2008 and 2007, the Group had no contingent liabilities.

36. BANKING AND OTHER FACILITIES

At 31 March 2008, the Group had a total banking and other facilities of approximately HK$424,420,000 (2007: HK$440,900,000) of which the following had been utilised:

(a) a syndication loan of HK$150,000,000 (2007: HK$218,400,000); and

(b) general banking facilities of approximately HK$190,578,000 (2007: approximately HK$178,497,000).

Except for the amount of HK$4,182,000 (2007: Nil) which are secured by the Group's majority of plant and machinery, the other general banking facilities are secured by the Group's freehold and leasehold land, land use rights and buildings, and are all supported by a corporate guarantee executed by the Company.

37. COMMITMENTS

(a) Commitments under operating leases

At 31 March 2008, the Group had future aggregate minimum lease payments under non-cancellable operating leases in respect of land and buildings as follows:

	2008 HK$'000	2007 HK$'000
Not later than one year	**3,778**	3,446
Later than one year and not later than five years	**12,979**	13,180
Over five years	**—**	2,207
	16,757	18,833

(b) Commitments under forward foreign currency contracts

As at 31 March 2008, the Group had maximum outstanding forward foreign currency contracts to purchase approximately US$104,100,000 (2007: approximately US$65,700,000) for approximately HK$811,980,000 (2007: approximately HK$508,661,000).

38. RELATED PARTY TRANSACTIONS

(a) Transactions between the Company and its subsidiaries, which are related parties of the Company, have been eliminated on consolidation.

(b) The loan from holding company is unsecured, interest bearing at HIBOR plus 2.35% and repayable by 6 September 2008.

(c) Key management personnel compensation

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

	2008 HK$'000	2007 HK$'000
Fees	**240**	240
Other emoluments:		
Basis salaries, bonus, housing allowances, other allowances and benefits in kind	**6,196**	6,274
Share-based payment	**749**	—
Provident fund scheme contributions	**84**	84
	7,269	6,598

39. CAPITAL RISK MANAGEMENT

The Group's objective of managing capital are to safeguard the Group's ability to continue as a going concern in order to provide returns for shareholders and benefits for other stakeholders and to maintain an optimal capital structure to reduce cost of capital.

The capital structure of the Group consists of debts, which includes the borrowings disclosed in note 28, cash and cash equivalents and equity attributable to equity holders of the Company, comprising share capital and reserves as disclosed in Notes 31 and 33 respectively.

The Group's management reviews the capital structure periodically. As part of this review, the management considers the cost of capital and the risks associated with each class of capital. Based on recommendations of the management, the Group will balance its overall capital structure through the payment of dividends, new share issues as well as the issue of new debt or the redemption of existing debts.

The gearing ratio at the year end was as follows:

	2008 **HK$'000**	2007 HK$'000
Debts	**370,696**	396,897
Cash and cash equivalents	**(51,504)**	(42,585)
Net debts	**319,192**	354,312
Equity	**562,738**	461,258
Net debts to equity ratio	**57%**	77%

40. 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) Credit risk

The Group's credit risk is primarily attributable to its cash and bank balances and trade and other receivables. Management has a credit policy in place and the exposures to these credit risks are monitored on an ongoing basis.

The Group's exposure to credit risk is influenced mainly by the individual characteristics of each customer. The default risk of the industry and country in which customers operate also has an influence on credit risk but to a lesser extent. At the balance sheet date, the Group has a certain concentration of credit risk as 26% (2007: 21%) and 70% (2007: 61%) of the total trade receivables was due from the Group's largest debtor and the five largest debtors respectively.

In respect of trade and other receivables, individual credit evaluations are performed on all customers requiring credit over a certain amount. These evaluations focus on the customer's past history of making payments when due and current ability to pay, and take into account information specific to the customers as well as pertaining to the economic environment in which the customers operate.

Certain customers of the Group conduct their business in the United States of America. As at 31 March 2008, the balances due from these customers in respect of the United States business amounted to approximately HK$24,915,000 (2007: HK$33,189,000). The directors are aware that some of these customers are currently parties to disputes notwithstanding that the outcome of the disputes is uncertain. Had these customers eventually been found liable under these disputes, the Group's trade receivables could be impaired. The Group will closely monitor the outstanding balances due from these customers on an ongoing basis. Normally, the Group does not obtain collateral from customers.

(b) Liquidity risk

Individual operating entities within the Group are responsible for their own cash management, including the short term investment of cash surpluses and the raising of loans to cover expected cash demands, subject to approval by the Company's board when the borrowings exceed certain predetermined levels of authority. 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.

The following table details the remaining contractual maturities at the balance sheet date of the Group's and the Company's non-derivative financial liabilities and derivative financial liabilities, which are based on contractual undiscounted cash flows including interest payments computed using contractual rates, or if floating, based on rates current at the balance sheet date and the earliest date the Group and the Company can be required to pay.

40. FINANCIAL RISK MANAGEMENT *(Continued)*

Financial risk factors *(Continued)*

(b) Liquidity risk *(Continued)*

	Carrying amount HK$'000	Total contractual undiscounted cash flow HK$'000	Within 1 year or on demand HK$'000	More than 1 year but Less than 2 years HK$'000	More than 2 years but Less than 5 years HK$'000
2008					
Bank borrowings	320,696	333,424	207,702	48,769	76,953
Derivative financial instruments, net	1,002	1,002	1,002	—	—
Trade and other payables	162,824	162,824	162,824	—	—
Amount due to immediate holding company	50,000	50,988	50,988	—	—
	534,522	548,238	422,516	48,769	76,953
2007					
Bank borrowings	396,897	405,767	311,511	94,256	—
Derivative financial instruments, net	672	672	672	—	—
Trade and other payables	112,110	112,110	112,110	—	—
	509,679	518,549	424,293	94,256	—

(c) Interest risk

The Group's interest rate risk arises primarily from long-term borrowings. All of the Group borrowings at 31 March 2008 were issued at variable rates and expose the Group to cash flow interest rate risk. The interest rates and terms of repayment of the Group's borrowings are disclosed in Notes 28 and 36 to the financial statements. The Group currently does not use any derivative contracts to hedge its exposure to interest rate risk. However, the management will consider hedging significant interest rate exposure should the need arise.

At 31 March 2008, it is estimated that a general increase/decrease of 50 basis points in interest rates, with all other variables held constant, would decrease/increase the Group's profit/(loss) after taxation and retained profits by approximately HK$1,919,000 (2007: HK$2,173,000).

The sensitivity analysis above has been determined assuming that the change in interest rates had occurred at the balance sheet date and had been applied to the exposure to interest rate risk for both derivative and non-derivative financial instruments in existence at that date. The 50 basis point increase or decrease represents management's assessment of a reasonably possible change in interest rates over the period until the next annual balance sheet date. The analysis is performed on the same basis for 2007.

40. FINANCIAL RISK MANAGEMENT *(Continued)*

Financial risk factors *(Continued)*

(d) Foreign exchange risk

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

All the Group's borrowings are denominated in the functional currency of the entity taking out the loan or, in the case of Group entities whose functional currency is Hong Kong dollars, in either Hong Kong dollars or United States dollars. Given this, management does not expect that there will be any significant currency risk associated with the Group's borrowings.

The following table details the Group's and the Company's exposure at the balance sheet date to currency risk arising from forecast transactions or recognised assets or liabilities denominated in a currency other than the functional currency of the entity to which they relate.

	2008			2007		
	Rupiah IDR'000	**Renminbi RMB'000**	**United States dollars US$'000**	Rupiah IDR'000	Renminbi RMB'000	United States dollars US$'000
Trade and other receivables	**176,586**	**—**	**6,595**	1,163,174	32,695	10,190
Cash and cash equivalents	**2,452,011**	**23,765**	**647**	180,225	23,200	7,020
Trade and other payables	**(1,388,234)**	**(24,472)**	**(388)**	(433,410)	(54,436)	(510)
Borrowings	**—**	**—**	**(3,731)**	—	—	(309)
Overall net exposure	**1,240,363**	**(707)**	**3,123**	909,989	1,459	16,391

40. FINANCIAL RISK MANAGEMENT *(Continued)*

Financial risk factors *(Continued)*

(d) Foreign exchange risk *(Continued)*

The following table indicates the approximate change in the Group's profit/loss after tax in response to reasonably possible changes in the foreign exchange rates to which the Group has significant exposure at the balance sheet date. The sensitivity analysis includes balances between group companies where the denomination of the balances is in a currency other than the functional currencies of the lender or the borrower.

	2008		2007	
	Increase/ (decrease) in foreign exchange rates	Effect on profit for the year HK$'000	Increase/ (decrease) in foreign exchange rates	Effect on (loss) for the year HK$'000
Rupiah	5%	52	5%	31
	(5%)	(52)	(5%)	(31)
Renminbi	5%	(39)	5%	74
	(5%)	39	(5%)	(74)
United States dollars	5%	1,215	5%	6,403
	(5%)	(1,215)	(5%)	(6,403)

The sensitivity analysis has been determined assuming that the change in foreign exchange rates had occurred at the balance sheet date and had been applied to each of the group entities; exposure to currency risk for both derivative and non-derivative financial instruments in existence at that date, and that all other variables, in particular interest rates, remain constant.

The stated changes represent management's assessment of reasonably possible changes in foreign exchange rates over the period until the next annual balance sheet date. In this respect, it is assumed that the pegged rate between the Hong Kong dollar and the United States dollar would be materially unaffected by any changes in movement in value of the United States dollar against other currencies. Results of the analysis as presented in the above table represent an aggregation of the effects on each of the group entities' profit/(loss) for the year and equity measured in the respective functional currencies, translated into Hong Kong dollars at the exchange rate ruling at the balance sheet date for presentation purposes. The analysis is performed on the same basis for 2007.

40. FINANCIAL RISK MANAGEMENT *(Continued)*

Financial risk factors *(Continued)*

(e) Price risk

The Group is not exposed to any equity securities risk or commodity price risk.

(f) Fair values

All financial instruments are carried at amounts not materially different from their fair values as at 31 March 2008 and 2007.

Fair value estimates are made at a specific point in time and based on relevant market information and information about the financial instruments. These estimates are subjective in nature, involve uncertainties and matters of significant judgment and therefore cannot be determined with precision. Changes in assumptions could significantly affect the estimates.

41. SUMMARY OF FINANCIAL ASSETS AND FINANCIAL LIABILITIES BY CATEGORY

The carrying amounts of the Group's financial assets and financial liabilities as recognised at 31 March 2008 and 2007 may be categorised as follows:

	2008 HK$'000	2007 HK$'000
Financial assets		
Loans and receivables (including cash and bank balances)	**250,266**	285,316
Derivative financial instruments at fair value	**634**	369
Financial liabilities		
Financial liabilities measured at amortised cost	**533,520**	508,997
Derivative financial liabilities at fair value	**1,002**	672

42. ULTIMATE HOLDING COMPANY

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

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