ANNUAL REPORT

2006/2007

Lung Cheong International Holdings Limited

Stock Code : 348

CONTENTS

Changping Factory

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

Horwath Hong Kong CPA Limited

REGISTERED OFFICE

Ugland House
South Church Street
P.O. Box 309
George Town
Grand Cayman
Cayman Islands
British West Indies

HEAD OFFICE AND PRINCIPAL PLACE OF BUSINESS IN HONG KONG

Lung Cheong Building
1 Lok Yip Road
Fanling
New Territories
Hong Kong
Tel: (852) 2677 6699
Fax: (852) 2677 6857
website: www.e-lci.com

PRINCIPAL BANKERS

ABN AMRO Bank N.V.
Bank of China (Hong Kong) Limited
Bank of East Asia, Limited
Bank of Tokyo-Mitsubishi UFJ, Ltd.
DBS Bank (Hong Kong) Limited
Hang Seng Bank Limited
Rabobank International
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

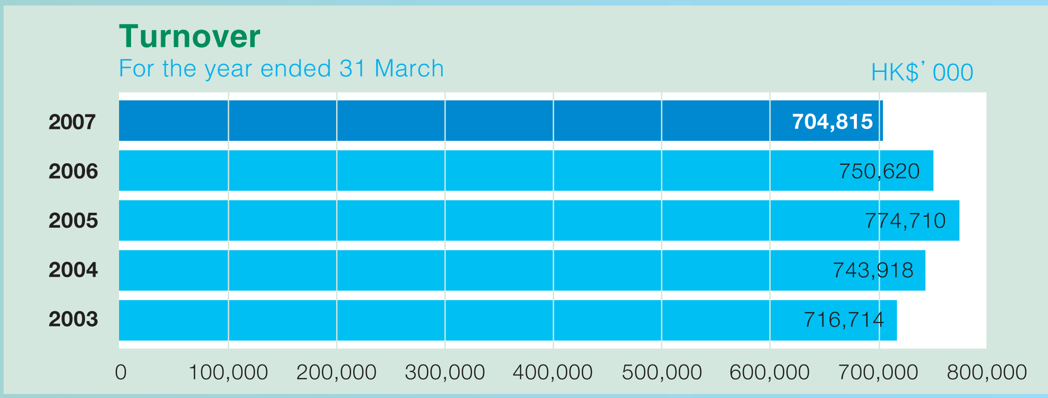
Bank of Bermuda (Cayman) Limited
P.O. Box 513 G.T.
3rd Floor, British American Tower
Dr. Roy's Drive
George Town
Grand Cayman
Cayman Islands
British West Indies

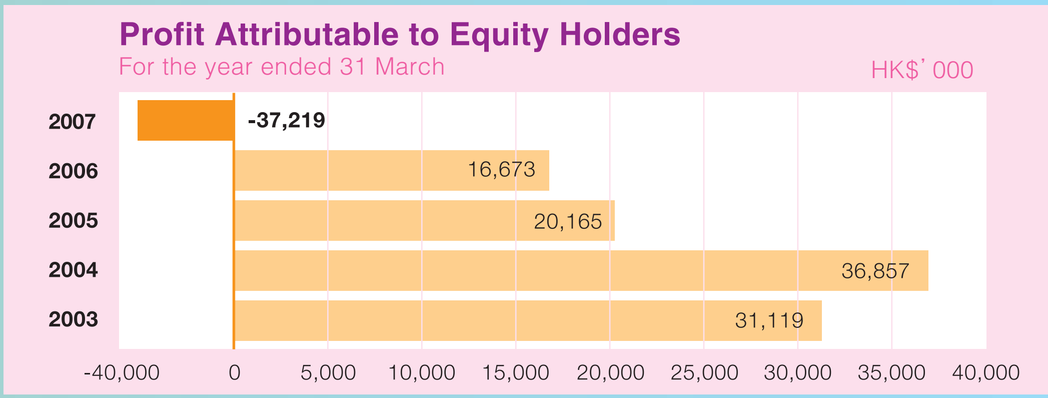
HONG KONG BRANCH SHARE REGISTRAR AND TRANSFER OFFICE

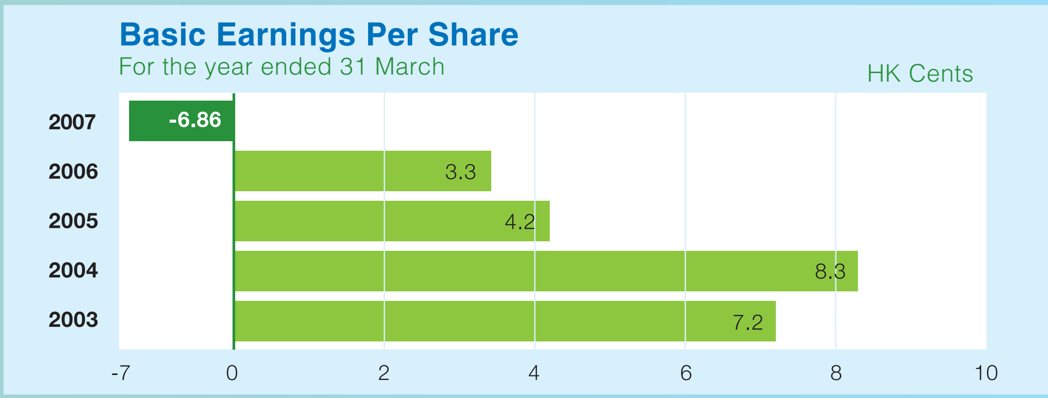
Abacus Share Registrars Limited
26/F, Tesbury Centre
28 Queen's Road East
Wanchai
Hong Kong

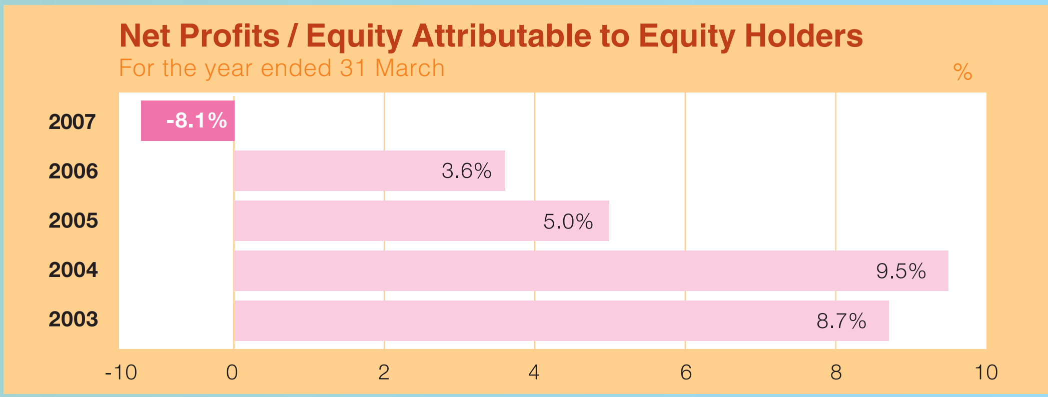
LISTING INFORMATION

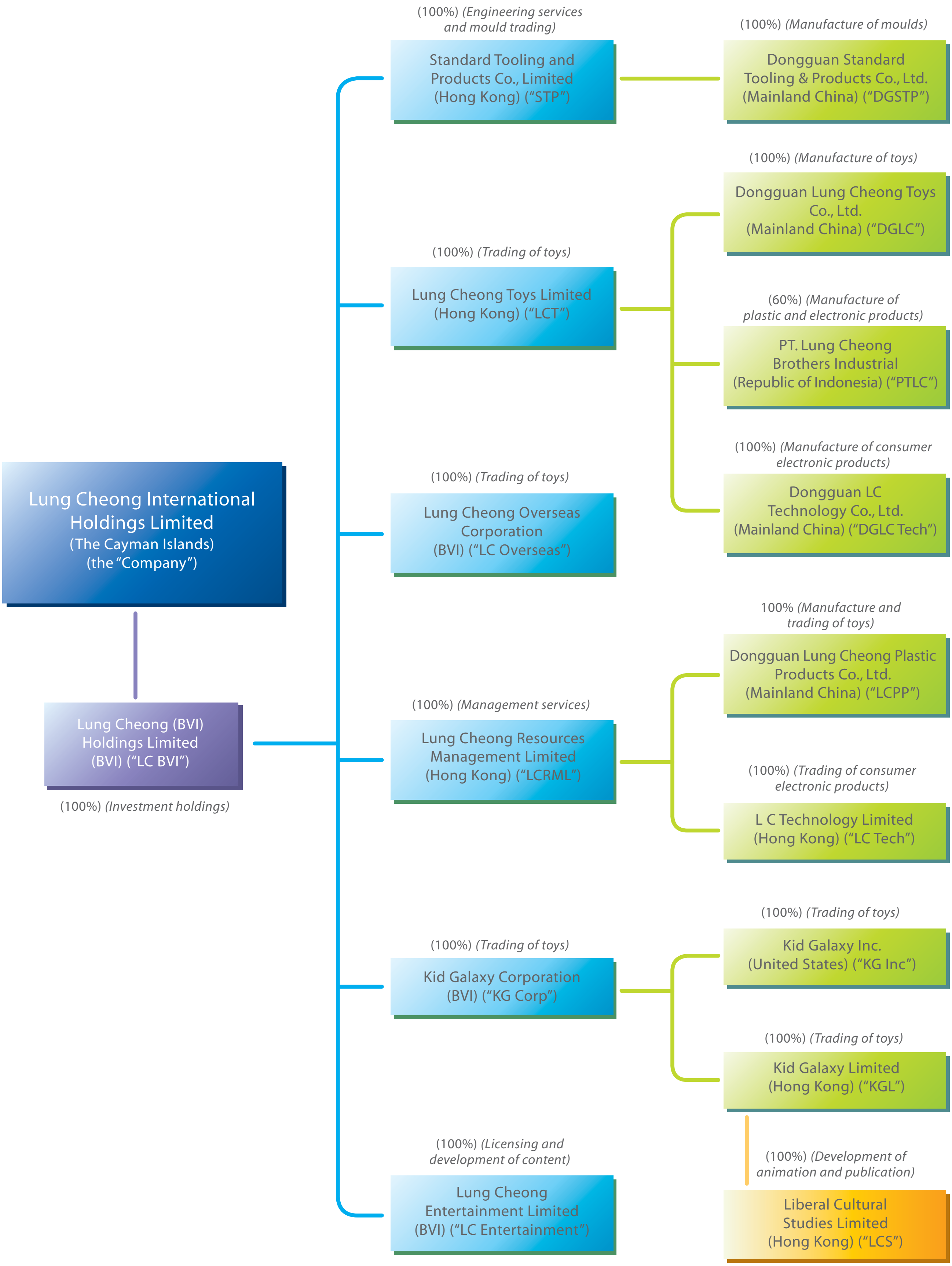
The Stock Exchange of Hong Kong Limited
Stock Code: 348


Turnover
For the year ended 31 March
HK$' 000
2007
704,815
2006
750,620
2005
774,710
2004
743,918
2003
716,714
0
100,000
200,000
300,000
400,000
500,000
600,000
700,000
800,000


Profit Attributable to Equity Holders
For the year ended 31 March
HK$' 000
2007
-37,219
2006
16,673
2005
20,165
2004
36,857
2003
31,119
-40,000
0
5,000
10,000
15,000
20,000
25,000
30,000
35,000
40,000


Basic Earnings Per Share
For the year ended 31 March
HK Cents
2007
-6.86
2006
3.3
2005
4.2
2004
8.3
2003
7.2
-7
0
2
4
6
8
10


Net Profits / Equity Attributable to Equity Holders
For the year ended 31 March
%
2007
-8.1%
2006
3.6%
2005
5.0%
2004
9.5%
2003
8.7%
-10
0
2
4
6
8
10


Lung Cheong International Holdings Limited
(The Cayman Islands)
(the "Company")
Lung Cheong (BVI) Holdings Limited
(BVI) ("LC BVI")
(100%) (Investment holdings)
(100%) (Engineering services and mould trading)
Standard Tooling and Products Co., Limited
(Hong Kong) ("STP")
(100%) (Manufacture of moulds)
Dongguan Standard Tooling & Products Co., Ltd.
(Mainland China) ("DGSTP")
(100%) (Trading of toys)
Lung Cheong Toys Limited
(Hong Kong) ("LCT")
(100%) (Manufacture of toys)
Dongguan Lung Cheong Toys Co., Ltd.
(Mainland China) ("DGLC")
(60%) (Manufacture of plastic and electronic products)
PT. Lung Cheong Brothers Industrial
(Republic of Indonesia) ("PTLC")
(100%) (Manufacture of consumer electronic products)
Dongguan LC Technology Co., Ltd.
(Mainland China) ("DGLC Tech")
(100%) (Trading of toys)
Lung Cheong Overseas Corporation
(BVI) ("LC Overseas")
(100%) (Management services)
Lung Cheong Resources Management Limited
(Hong Kong) ("LCRML")
100% (Manufacture and trading of toys)
Dongguan Lung Cheong Plastic Products Co., Ltd.
(Mainland China) ("LCPP")
(100%) (Trading of consumer electronic products)
L C Technology Limited
(Hong Kong) ("LC Tech")
(100%) (Trading of toys)
Kid Galaxy Corporation
(BVI) ("KG Corp")
(100%) (Trading of toys)
Kid Galaxy Inc.
(United States) ("KG Inc")
(100%) (Trading of toys)
Kid Galaxy Limited
(Hong Kong) ("KGL")
(100%) (Development of animation and publication)
Liberal Cultural Studies Limited
(Hong Kong) ("LCS")
(100%) (Licensing and development of content)
Lung Cheong Entertainment Limited
(BVI) ("LC Entertainment")

Mr Leung Lun
Chairman

On behalf and as the Chairman of the Board of Directors, I am pleased to present the audited results of Lung Cheong International Holdings Limited (the "Company") and its subsidiaries (collectively referred to as the "Group") for the year ended 31 March 2007.

The financial year under review was the most challenging and difficult period the Group had ever endured in its history. For the first time after the listing of the Company's shares on The Stock Exchange of Hong Kong Limited, it registered a loss of HK$37 million attributable to equity holders of the Company as compared to profit of HK$17 million in the preceding year, attributable mainly to a provision made for damages awarded against the Group for a lawsuit against the Company and its subsidiary Kid Galaxy Inc. ("KGI").

For the year ended 31 March 2007, the Group reported a turnover of HK$705 million compared to HK$751 million in the previous year. Sales were 6% lower. Excluding the non-recurring provision for lawsuit judgement of HK$48 million, profit attributable to shareholders would have been approximately HK$11 million.

BUSINESS REVIEW

During the period under review, the Group was involved in a lawsuit relating to the acquisition of KGI in 2001 ("Lawsuit") resulting in a public jury ("Jury") finding the Group in breach of a Confidential Agreement and awarded the plaintiff US$5.1 million (approximately HK$40 million) damages ("Verdict"). The Group has filed an appeal against the verdict, but full provision for the amount plus interest in the sum of US$6 million (approximately HK$48 million) ("Provision") was made in the accounts for the financial year ended 31 March 2007. This was the main reason for the Group to experience loss in its overall results for the year ended 31 March 2007.

The other challenges the Group had to face included limited and ageing production facilities, labour shortage and increased minimum wages in Guangdong Province beginning in September 2006. Fluctuating raw material costs, fierce price competition, high interest rate and appreciation of the Renminbi also compounded the situation.

Overall sales came down by 6% from HK$751 million to HK$705 million due to the alteration of the shipment dates of certain products to major Japanese customers for the reason of their changes to product specifications and marketing plans. Also, the Group adopted a cautious shipment schedule in early 2007 to facilitate the relocation to the new Changping Factory.

The Group continued to derive the bulk of its revenue from sales of radio control and electronic toys. With leadership in the product categories, it was able to secure consistent orders and product development requests from well-known brands in the toy industry. Original Design Manufacturing ("ODM") business helped to stabilize the Group's gross margin amid tough competition. It was more difficult to maintain a higher margin when compared with previous years, but the Group's effort to expand into Own Brand Manufacturing ("OBM") business had mitigated pressure on its margin.

Aged facilities posed restriction on the Group's ability to meet peak season production needs and attract workers. We had to offer higher than average remunerations to attract and retain workers, resulting in higher manufacturing overhead for the year ended 31 March 2007.

Relocation to the new Changping Factory took longer than planned. The Group's overall capital expansion and relocation plans were affected by the unfavourable ruling of the United States ("US") Lawsuit, which led to a sudden credit squeeze.

In January 2007, the Group completed a one share for every two shares held rights issue, underwritten by the majority shareholder Lung Cheong Investment Ltd., and raised HK$47 million. The amount was used primarily for the Appeal Bond placed with the Court in Florida, US as required for filing the appeal against the court ruling.

With a loss recorded for the financial year under review, the Directors do not recommend payment of dividend (2006: Nil) for the year. In return for the support of our equity holders and investors over the years, the Board proposed to issue two bonus shares for every one existing share held subject to equity holders' approval in the next Annual General Meeting.

PLANS AND PROSPECTS

The Directors expect the operating environment of the Group to remain competitive in the coming year. Looking forward, the Group will strive to make the best of the production, warehousing and dormitory capacities of all its three factories including the new Changping Factory to meet forthcoming peak season demands. The Changping Factory is expected to be fully operational by the interim of 2007/08, which will increase the overall production capacity of the Group to support sales in the coming year.

The Group will eventually vacate the wholly-owned factory site at Qian Tou, Dongguan and apply for it to be re-zoned as a residential/commercial site of higher value for disposal or redevelopment. The site is right next to the Dongguan University of Technology, the only tertiary educational institution in Dongguan City.

The Directors plan to dispose of or sub-let the leased Zhou Wu Factory before the end of financial year 2007/08. We do not expect this move to have a major impact on the Group's overall production capabilities.

The new and modernized Changping Factory will allow the Group to consolidate manufacturing, design, engineering and warehousing capabilities at one location in China. The Directors believe resources can be more efficiently utilized, which will enable the Group to enjoy improved cost-effectiveness in the years to come.

The Directors are of the view that the Group's new plant would work in favour of recruitment of workers. With Changping as a key railway terminus in Guangdong, the Group has the advantage of sourcing workers from different areas in Guangdong and other provinces.

The Group runs a production plant in Indonesia. Taking into account the different constraints faced by its manufacturing facilities in China, the Group, with customers' consent, has moved more production to the Indonesian plant. The Directors expect this trend to continue with more orders to be filled by under-utilized Indonesia capacity. The Group anticipates strong contribution from our South East Asian factory to its performance in coming years.

The Group will continue to actively develop ODM business and strengthen research and development ("R&D") capabilities to expand its portfolio of innovative products. Our product designers and engineers will also continue to support Original Equipment Manufacturing ("OEM") customers in new product development. We expect OEM to remain as the core business of the Group in financial year 2007/08.

The Group expects its own brand segment Kid Galaxy ("KG"), with a firm foundation and the help of continuous marketing and product development efforts, to contribute positively to its overall results in the coming financial year. KG's own brand products are expected to gain market share and generate better sales in the US.

To strengthen the Group's business, the management intends to improve overall profit margin through measures including re-engineering management and production flow and rationalizing different resources of its manufacturing operations, commanded after consolidation of all its production facilities.

Regarding the Lawsuit in Florida, the Directors were advised by Orlando based law firm Lowndes, Drosdick, Doster, Kantor and Reed, P.A. ("Attorney") that the decision by the Jury upon the claims brought by Action Products International Inc. ("APII") against the Company is contrary to both the facts presented and the clear law of the State of Florida. The Company will continue to aggressively appeal the Judgement and is confident that the verdict will be eventually set aside.

In the event the appeal is unsuccessful, the Company will be required to satisfy the plaintiff's claims from the Appeal Bond. An appeal, according to our Attorney, usually takes between nine to twelve months from the filing day. The Company will make announcement(s) to inform the shareholders of any latest development as and when appropriate.

I would like to thank my fellow Board members and senior management, and all of Lung Cheong's employees for their commitment to the Group. My appreciation also goes to our investors, bankers and financial partners for their invaluable support.

Leung Lun
Chairman

23 July 2007

Mr Leung Chung Ming
Managing Director

MARKET REVIEW

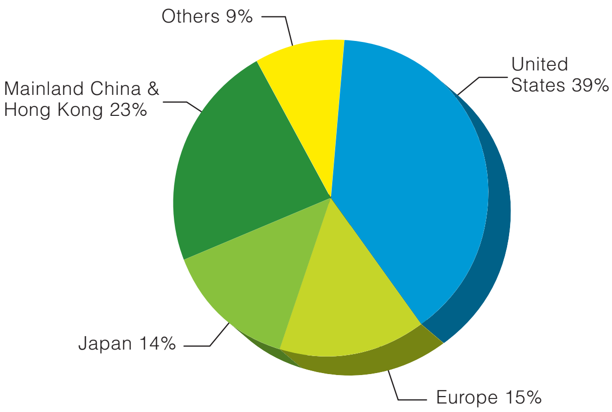
For the year ended 31 March 2007, export to the United States ("US") remained strong, recording shipment value of HK$274 million, accounting for 39% (2006: 42%) of the Group's overall shipment.

Shipment to Europe remained steady at HK$108 million (2006: HK$112 million), accounting for 15% (2006: 15%) of the Group's revenue. Export to Japan shrank to HK$97 million (2006: HK$166 million), or 14% of the Group's total shipment against 22% in the previous year.

Growth in local deliveries boosted shipment to Mainland China and Hong Kong from 15% in 2006 to 23% in 2007. Some of these shipments, consolidated in Hong Kong and China, headed for the US, Europe and Japanese markets as final destinations.

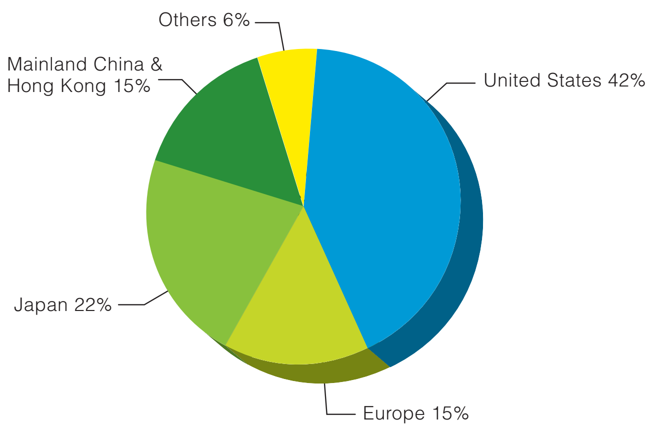
Turnover by Geographical Segment

(For the year ended 31 March 2007)



Turnover by Geographical Segment

(For the year ended 31 March 2006)



PRODUCT REVIEW

Radio Control Toys

The Group's core business segment accounted for 57% of its turnover for the year, stable when compared to 58% last year. Revenue was HK$403 million, 7% less than the HK$434 million recorded last year, mainly due to major Japanese customers postponing shipment of the Group's products for its newly developed fuel operated vehicles and robotics to the following financial period.

Continuous success of the Group's certain innovative and licensed radio control products for automobiles, boats, airplanes (including Flying Super Hero) testifies to the Group's manufacturing strengths and quality outputs in the wireless segment. Revenue of the segment came partly from Kid Galaxy in the past year from new brands such as Elite Fleet, Interactive R/C, Morphibians, Mad Dog Motors, GoGo Auto and My First RC, etc.

The Group during this financial year invested into tooling for all different sizes of vehicle chassis ranging from very small to large scale vehicles. This investment should pave the way to the Group to expand sales, strengthen and protect its position within the radio control vehicles segment.

Electronic and Plastic Toys

The electronic and plastic toys segment recorded an increase of 5% in sales from HK$176 million in 2006 to HK$185 million in 2007. The segment accounted from 26% of the Group's turnover compared to 23% in the previous year. The increased revenue of the segment was a result of increased orders from leading US and Japanese customers for toys for pre-school children. These orders often come with stringent quality requirements.

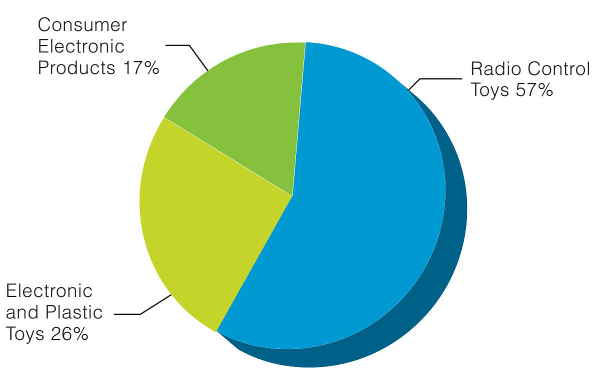
On the licensed business front, during the period under review, certain licensed sports products performed below expectations. The Group is now reviewing the prospects of all its sports licenses in particular that for Bendos figures.

Consumer Electronic Products

Sales contribution from the segment decreased from HK$141 million in 2006 to HK$117 million in 2007. Revenue for consumer electronic products accounted for 17% of the Group's total turnover (2006: 19%). A range of educational and construction based robotics, Bluetooth earphones and automatic vacuum machines are the earning contributors of the non-toy segment.

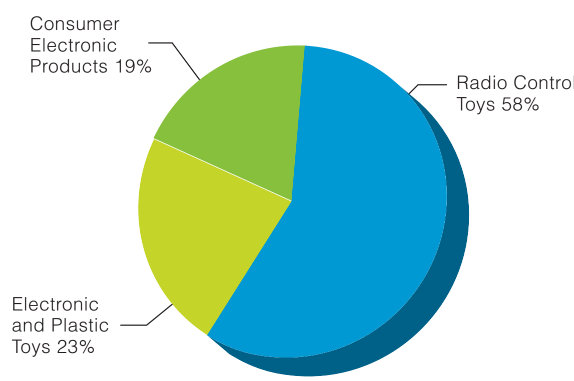
Turnover by Product Type

(For the year ended 31 March 2007)



Turnover by Product Type

(For the year ended 31 March 2006)



DIVISIONAL AND RESOURCES REVIEW

China

Relocation of facilities of the Qian Tou plant to the new Changping Factory commenced in early 2007 and will continue in the coming year.

The new factory will have production, warehouse, office and dormitory facilities spanning a total of approximately 90,000 square meters, and will boost the Group's production and operational efficiency markedly when it is fully operational. For the financial year under review, however, the Group had to rely on the two existing factories in Dongguan for production.

Indonesia

During this year under review, the Group's factory in Indonesia did not contribute significantly to the Group's turnover, the reason being customers were concerned about the uncertain political and social situations in the country and were reluctant to have their orders met by the factory. However, persistent appreciation of the Renminbi and labour shortage in Southern China had convinced a few customers to use facilities of the plant to produce certain non-complex products starting in early 2007.

US

The New Hampshire operation consists mainly of marketing, product design, sales and fulfillment in the US market. KGI, which was relocated to a more efficient new office in Manchester, has started to report encouraging results. Its own brand subsidiary recorded sales of HK$48 million, compared with HK$32 million made last year.

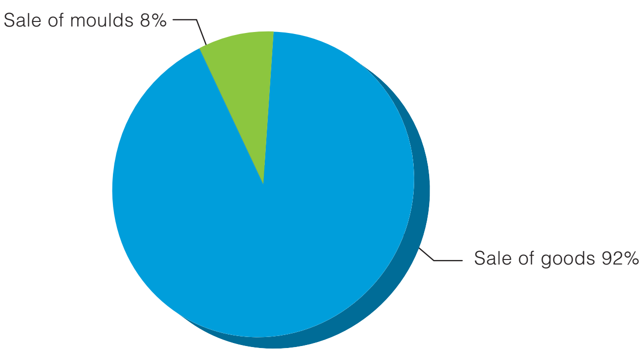
LAWSUIT IN FLORIDA, US

On 9 October 2006, the jury in the Circuit Court of Alachua County, Florida, US (the "Circuit Court") ruled against the Company and commanded it to pay damages in the amount of US$5.1 million (approximately HK$40 million) to APII. On 16 October 2006, the Company filed a motion with the Circuit Court to set aside the jury's verdict but was subsequently denied. 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.

The Company filed an appeal against the verdict on 4 December 2006. Pending hearing or Court finding of the appeal, the Company has posted a cash bond (the "Appeal Bond") with the Circuit Court in an amount equal to the damages plus two years of interest at 9% per annum totalling US$6 million (approximately HK$48 million). The provision was made in the accounts of the Group for the year ended 31 March 2007.

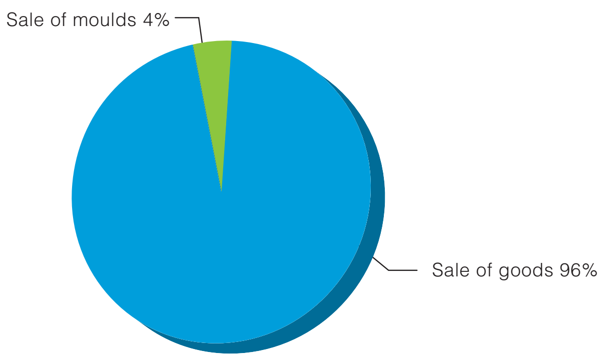
Turnover

(For the year ended 31 March 2007)



Turnover

(For the year ended 31 March 2006)



EMPLOYEE

As at 31 March 2007, the Group had approximately 6,053 employees of which 70, 5,771, 203 and 9 employees were based in Hong Kong headquarter, 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 long term customers, suppliers, licensors 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 toys business.

Leung Chung Ming
Managing Director

23 July 2007

FINANCIAL REVIEW

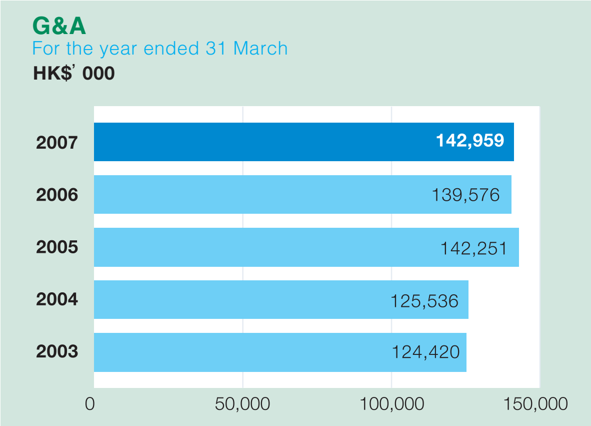
The 2006/07 Annual Report must be read in conjunction with notes commencing on page 44 which governed the presentation of the financial statements, for both the current and corresponding periods.

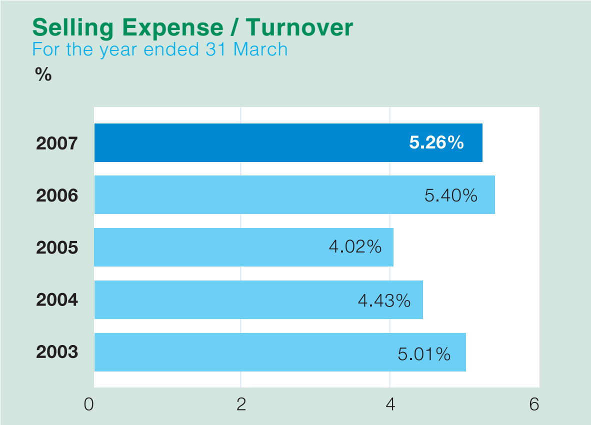
The Group's restrictive aged facilities, relocation to new factory and delayed shipment by a couple of major customers resulted in lower sales by 6% to HK$705 million for the year ended 31 March 2007.

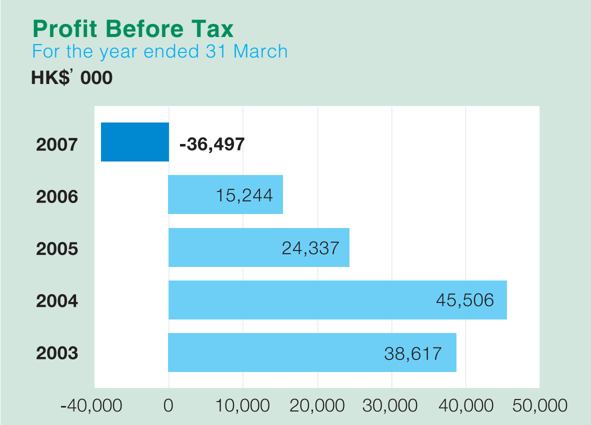
The increased in material costs, wages of production workers and appreciation of the Chinese Yuan against the US currency, which is one of the Group's main source of revenue currency keep a tight lid on the cost of goods sold.

Increased ODM revenue and improvement from Kid Galaxy OBM sales contributed to stabilizing the Group's gross margin despite tough pricing competition in the OEM segment, resulting in gross profit decreased marginally from HK$216 million in 2005/06 to HK$208 million in 2006/07, but gross margin steady at 30% (2006: 29%). The Group had to rely on higher ODM/OBM sales to maintain high gross margin.

Selling and distribution expenses for the year ended 31 March 2007 amounted to HK$37 million. The decrease of 9% in selling expenditures compared to previous year HK$41 million was mainly attributable to reduce marketing expenses and lower licensing fees due to discontinued certain sports related licenses. High fuel costs kept transportation and distribution expenses relatively high.







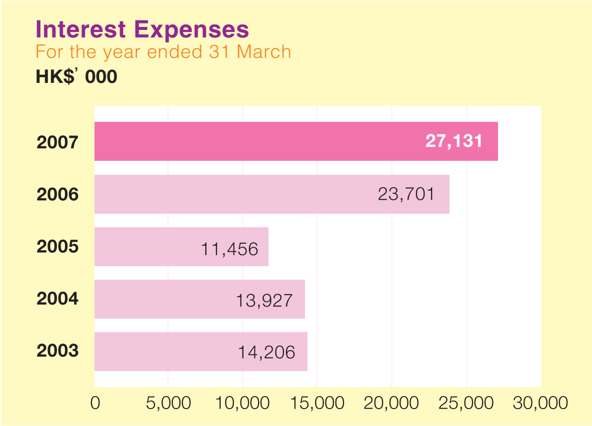
General and administrative expenses ("G&A") for the year ended 31 March 2007 remained constant at around HK$143 million, or 20% of turnover (2006: 19%). Other expenses forming the G&A are staff costs, depreciation of fixed asset and net treatment of foreign exchange. The Group also made a provision of HK$48 million for the lawsuit damages during the year. Overall, the Group suffered an operating loss of HK$9 million compared to operating profit of HK$39 million in the previous year.

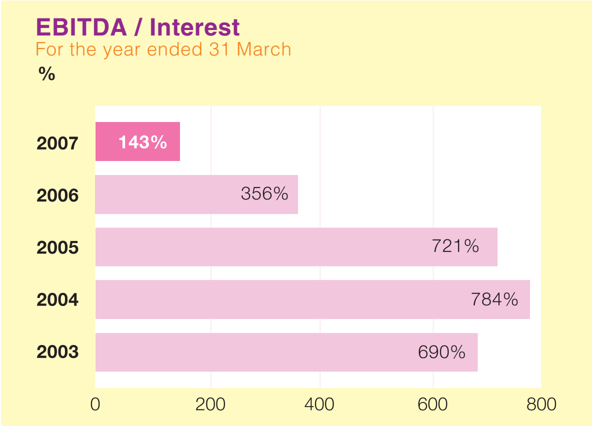
Interest rates remained high throughout the year under review. Finance cost increased 15% from HK$24 million in 2005/06 to HK$27 million in 2006/07; further denting the Group's operating loss level. The Directors however believe the interest expenses in 2006/07 should have peaked now that we have commenced repayment of certain long term loans and disposed of non-core assets.

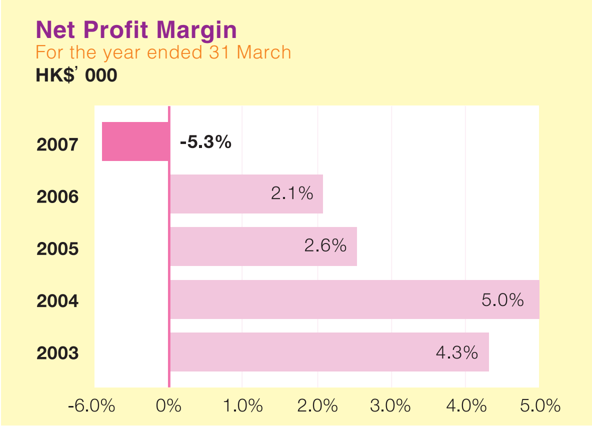
All in all, the Group recorded its first loss since listed on the Hong Kong Stock Exchange in September 1997 to the amount of HK$37 million.

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

At the meeting held on 23 July 2007, in return for the support of our shareholders and investors for years, the Board proposed to issue bonus shares to all shareholders of the Company on the basis of two bonus shares, credited as fully paid, for every one existing share held, by way of capitalization of sum standing to the credit of the Company's share premium account subject to shareholders' approval in the next annual general meeting.







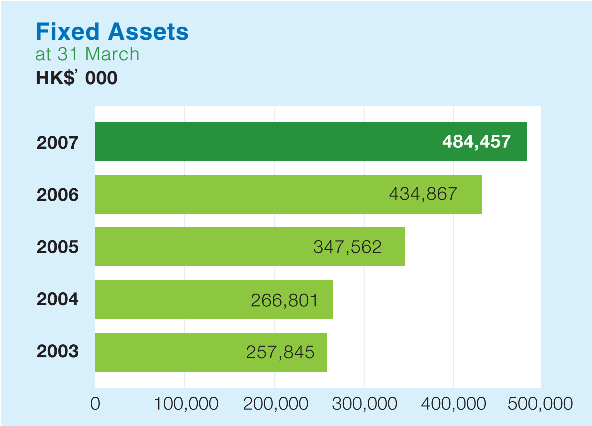
GROUP RESOURCES AS LIQUIDITY

Equity attributable to equity holders of the Company as at 31 March 2007 were HK$461 million, recording 5% increase over previous year's HK$438 million. The net assets increased due to HK$47 million raised from a one for every two shares held rights issue completed in January 2007. The issue of 241,866,666 new shares took the Group's total shares issued to 725,599,999 as at 31 March 2007. The net assets per share decreased by 26% from HK87 cents (restated for right issue) to HK64 cents due to the loss of HK$37 million incurred during the year.

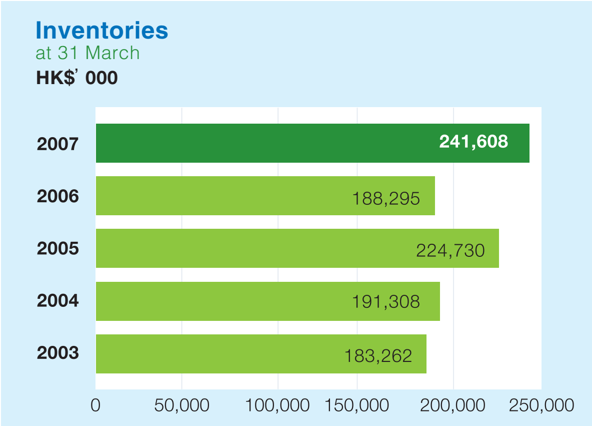
Property, plant and equipment, leasehold land and land use rights increased by HK$50 million to HK$484 million as at 31 March 2007. Capital expenditures of renovating the new Changping Factory plus new moulds for the Group's ODM and OBM business were the main additions to the property, plant and equipment within non-current assets, increasing from HK$387 million as at 31 March 2006 to HK$437 million as at 31 March 2007.

Goodwill associated with Kid Galaxy's acquisition and club memberships make up HK$22 million of intangible assets. Available-for-sale financial asset of HK$28 million was disposed of along with the divestment of a wholly owned subsidiary namely Fericle Holdings Ltd ("Fericle") in March 2007. Fericle's sole asset consists of investment in life insurance policies of the Group's key executives. Details of the disposal was set out in the announcement of the Company dated 16 March 2007.

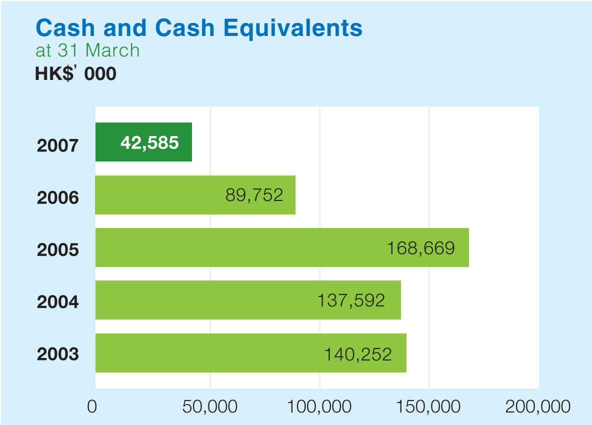
Management's effort to control inventories following previous year's success took a setback as the Group's major customers delayed shipment of their products due mainly to alteration to product specifications and sales plans. These delays directly impacted on the Group inventories, causing it to increase from HK$188 million as at 31 March 2006 to HK$242 million as at 31 March 2007. Most of these products were shipped in the first quarter of the 2007/08 financial year. As a result of this delay, stock turnover were higher at 111 days compared to 100 days in the previous year.



Trade receivables recorded a 15% decrease as at 31 March 2007 to HK$159 million, compared to HK$187 million at the previous year end date. Debtor turnover remained steady at 90 days in 2006/07. Management would constantly evaluate its customers, known financial position and assess credit risks. Thus few clienteles are covered by expert credit insurance to a certain level.



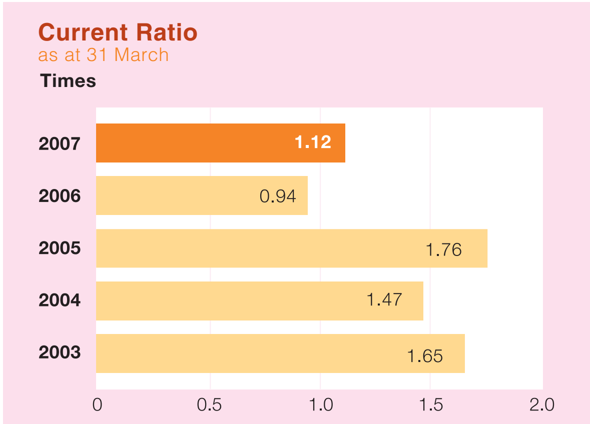
Other receivables, deposits and prepayments showed a reduction from HK$67 million at year end date in 2006 to HK$35 million as at 31 March 2007. Thus consists mainly of deposits and prepayments for new equipment and materials for coming financial year production needs.



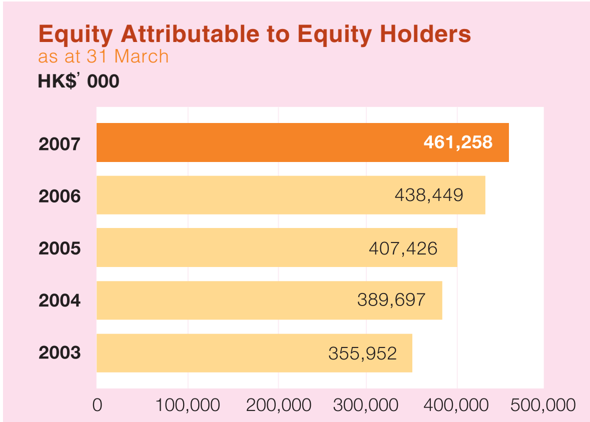
Cash and cash equivalents as at 31 March 2007 were HK$43 million, about half of the HK$90 million shown as at 31 March 2006. Apart from utilizing funds to lower borrowings and operational needs, HK$48 million shown as restricted cash has been applied as the cash bond for appealing the jury's verdict against the Group in Florida, US. The Appeal Bond is placed with the Circuit Court interest bearing account pending the outcome of the appeal process. The Directors anticipate having the Appellate Court's decision before the end of 2007/08 financial year.

Overall, total current assets were steady at HK$528 million compared to HK$535 million in the previous year end date. Current ratio shown an improvement from 94% in previous year to 112% as at 31 March 2007.

Trade payables and other payables and accrued charges both recorded an increase from previous year. Trade payables were HK$51 million and other payables and accrued charges were HK$61 million as at 31 March 2007 compared to HK$47 million and HK$45 million as at 31 March 2006 respectively. In addition, a provision of HK$48 million was made for the Lawsuit. Creditor turnover days of 46 days were similar to that in the previous year.



Borrowings under current liabilities showed a major decrease from HK$472 million as at 31 March 2006 to HK$303 million at 31 March 2007. This decrease was mainly due to reclassification of bank loans to long term and repayment of portion of the long term loans during the financial year.



Trust receipts loan shown an increase from HK$57 million as at 31 March 2006 to HK$94 million at 31 March 2007 mainly utilized to finance the increased inventories. Long term bank loans were HK$94 million as at 31 March 2007. Bank loan of HK$27 million utilized to finance investment for sales were reduced along with the disposal of Fericle.

The gearing ratio, calculated as the total borrowings less cash and cash equivalents and divided by shareholders' equity, was lowered at 77% as at 31 March 2007 compared to 87% as at 31 March 2006.

On 13 June 2007, the first quarter of the financial year 2007/08, the Group placed 96 million shares to independent external investors and raised HK$55 million. The proceeds collected were applied to further reduce borrowings and for working capital.

Bearing unforeseen circumstances, and the Group's commitment to seek alternative financing, dispose of non-core assets and further reduce borrowings, the Board is confident that the Group has sufficient financial resources to meet forthcoming operational needs.

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 2007, 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 2007.

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 26 to page 28 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 nineteen Board meetings held during the year ended 31 March 2007 and the attendance of individual members of the Board at such meetings is set out below:

	Attendance
Executive Directors	
Mr Leung Lun	19/19
Mr Leung Chung Ming	19/19
Mr Zhong Bingquan	19/19
Ms Cheng Yun Tai	19/19
Mr Wong, Andy Tze On	19/19
Non-executive Director	
Mr Ko Peter, Ping Wah	19/19
Independent Non-executive Directors	
Mr Wong Lam, O.B.E., J.P.	19/19
Mr Ye Tian Liu	19/19
Mr Lai Yun Hung	19/19

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 2007 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 24 to page 25 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 2007, 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 2007. 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

Messrs. PricewaterhouseCoopers ("PwC") resigned as auditor of the Company with effect from 13 June 2007 and Horwath Hong Kong CPA Limited ("Horwath") was then appointed as auditor of the Company with effect from 15 June 2007. A resolution will be submitted to the forthcoming annual general meeting to re-appoint Horwath as auditor of the Company.

During the year ended 31 March 2007, the fees charged to the financial statements of the Company and its subsidiaries for Horwath's statutory audit amounted to approximately HK$1.2 million. In addition, approximately HK$0.4 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 Horwath amounted to approximately HK$0.6 million. No audit fee was charged by PwC since PwC had resigned before commencement of the statutory audit for the year ended 31 March 2007. Approximately HK$0.1 million was charged by PwC for non-audit services. The non-audit services mainly consist of tax compliance.

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 38 to page 86. The statement of the external auditor about its reporting responsibilities on the financial statements is set out on page 36 to page 37.

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 establish 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.

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

PRINCIPAL ACTIVITIES AND GEOGRAPHICAL ANALYSIS OF OPERATIONS

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

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

RESULTS AND APPROPRIATIONS

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

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

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

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

RESERVES

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

DONATIONS

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

PROPERTY, PLANT AND EQUIPMENT

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

INFORMATION ON SUBSIDIARIES

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

FIVE YEAR FINANCIAL SUMMARY

The following is a summary of the consolidated results, assets and liabilities of the Group for each of the last five years ended 31 March 2007.

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

DISTRIBUTABLE RESERVES

At 31 March 2007, the reserves of the Company available for distribution amounted to HK$161,204,000 (2006: HK$185,914,000). These were represented by share premium and retained profits of the Company. Under the Companies Law, Chapter 22 (Law 3 of 1961, as consolidated and revised) of the Cayman Islands, share premium of the Company is available for paying distributions and dividends to shareholders subject to the provisions of its memorandum and articles of association and provided that immediately following the distributions or dividend payments, the Company is able to pay its debts as they fall due in the ordinary course of business.

PURCHASE, SALE OR REDEMPTION OF SHARES

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

SHARE OPTION SCHEME

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

On 3 September 2002, the shareholders of the Company approved the termination of the Old Scheme and the adoption of a new scheme ("2002 Scheme") as a result of the amendments of Chapter 17 of the Rules Governing the Listing of Securities on The Stock Exchange of Hong Kong Limited (the "Listing Rules"). Upon termination of the Old Scheme, no further options can be granted thereunder and all Share Options granted prior to such termination had lapsed on or before 30 September 2005.

Details of the 2002 Scheme are as follows:

(1) Purpose

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

(2) Eligible persons

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

(3) Maximum number of shares

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

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

SHARE OPTION SCHEME *(Continued)*

(4) Maximum entitlement of each eligible person

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

(5) Time of exercise of option

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

(6) Acceptance of offers

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

(7) Basis of determining the option exercise price

The subscription price for the Shares under the 2002 Scheme shall be a price determined by the Directors at its discretion, provided that it shall not be less than the higher of (i) the closing price of the shares stated in the daily quotation sheets issued by The Stock Exchange of Hong Kong Limited (the "Stock Exchange") on the date of grant; (ii) the average closing price of the shares stated in the Stock Exchange's daily quotation sheets for the five trading days immediately preceding the date of grant of share options; and (iii) the nominal value of the Shares

(8) The remaining life of the 2002 Scheme

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

No options have been granted under the 2002 Scheme.

DIRECTORS

The Directors during the year were:

Mr Leung Lun
Mr Leung Chung Ming
Mr Zhong Bingquan
Ms Cheng Yun Tai
Mr Wong, Andy Tze On
Mr Wong Lam, O.B.E., J.P. [#]
Mr Ye Tian Liu [#]
Mr Ko Peter, Ping Wah [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 Leung Lun, Ms Cheng Yun Tai and Mr Wong Lam, O.B.E., J.P.. All the retiring directors, being eligible, offer themselves for re-election as Directors at the forthcoming Annual General Meeting.

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

Executive Directors

Mr Leung Lun, aged 58, is the Chairman of the Company and the founder of the Group. He is the elder brother of Mr Leung Chung Ming, the Group's managing director. Mr Leung is responsible for the overall corporate policy and development strategy as well as overseeing the Group's overall management. He has over 40 years of experience in the toys manufacturing industry. Mr Leung is a director of the Chinese Overseas Friendship Association, a member of the committee of the Chinese People's Political Consultative Conference of Jiang Xi Province and a standing member of the committee of the Chinese People's Political Consultative Conference of Dongguan City. He is also an honourable president of Dongguan Toys Association of China, chairman of Hong Kong Kowloon City Industry and Commerce Association and vice president of Hong Kong Economic & Trade Association. He was named an honourable citizen of Dongguan City by the local authority in 1996 for his contribution to the City.

Mr Leung Chung Ming, aged 47, is the Managing Director of the Company. He is the brother of Mr Leung Lun. He joined the Group in November 1979 and is responsible for the strategic planning, ODM marketing and development functions of the Group. He is also in charge of the Group's OEM sales. He is currently a vice president of China Toy Association and The Toys Manufacturer's Association of Hong Kong and a director of China Children and Teenagers' Fund. He is also a member of the committee of the Chinese People's Political Consultative Conference of Guizhou Province and 2002 Young Industrialist of Hong Kong.

DIRECTORS *(Continued)*

Executive Directors *(Continued)*

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

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

Mr Wong, Andy Tze On, aged 40, is responsible for the formulation of the corporate strategy, new business ventures and financial planning of the Group. He is also responsible for financier and investor relationship management as well as corporate communication of the Group. Mr Wong holds a business degree in accounting from the Curtin University of Technology, Western Australia. He joined the Group in June 1993. He is a member of the Australian Society of Certified Practising Accountants. Mr Wong was appointed as a Director in August 1997.

Non-executive Directors

Mr Ko Peter, Ping Wah, aged 58, has been appointed as a director since January 2003. He is now our non-executive Director. Mr Ko holds a master's degree of science in business administration from the University of Bath, England and bachelor degree of law (Chinese Law) from the University of Beijing, China and higher diploma in mechanical engineering from Hong Kong Polytechnic University. He has been registered Lead Auditor & Tutor of ISO9000 for 10 Years and Quality Management Consultant and Trainer for 14 years. He is appointed as part-timer tutor of universities in Hong Kong and overseas for many years.

Independent Non-executive Directors

Mr Wong Lam, O.B.E., JP., aged 88, is a former member of Hong Kong Legislative Council and former standing committee member of the Chinese People's Political Consultative Conference of Dongguan City. Mr Wong was appointed as an independent non-executive director in November 1999. He is also an independent non-executive director of Yangtzekiang Garment Limited and YGM Trading Limited, both companies' shares are listed on the Stock Exchange of Hong Kong Limited (the "Stock Exchange").

Mr Ye Tian Liu, aged 61, was appointed as an independent non-executive director in November 1999. Mr Ye holds a master's degree in business administration. He was formally an executive director of a locally listed company for several years. He has extensive experiences in China trade and investment.

DIRECTORS *(Continued)*

Independent Non-executive Directors *(Continued)*

Mr Lai Yun Hung, aged 55, is a partner of Lai & Wong, Certified Public Accountants. He has over 25 years of working experience in audit and tax advice in audit firms, with exposure in listed and unlisted companies engaging in various industries including banks, financial institutions, manufacturing and trading companies, travel agencies and solicitors firms. Mr Lai is an associate member of the Institute of Chartered Accountants in England and Wales (ACA), a fellow member of the Association of Chartered Certified Accountants (FCCA) in the United Kingdom and a fellow member of the Hong Kong Institute of Certified Public Accountants (FCPA (Practising)) in Hong Kong. Mr Lai was appointed as an independent non-executive director in September 2004. He is also an independent non-executive director of Chi Cheung Investment Company, Limited, whose shares are listed on the Stock Exchange.

Company Secretary

Mr Mak Yee Chuen, Vincent, aged 50, was appointed as company secretary in July 2000. Mr Mak holds a master's degree of laws from The University of Hong Kong in 2001 and master's degree in business administration from The Hong Kong Polytechnic University in 1994. He is a fellow member of the Hong Kong Institute of Certified Public Accountants and The Association of Chartered Certified Accountants. He was the founder and partner of Vincent Mak & Company, Certified Public Accountants in 1987. He is now the principal of Vincent Mak & Co., Solicitors.

Senior Management

Mr Leung Yuk Hung, Paul, aged 32, is the associate director responsible for the management of the Group's information technology infrastructure. He is also responsible for the development of new business ventures. Mr Leung is the son of the Group's Chairman. He holds a bachelor of engineering (I.T.) degree and a bachelor of commerce (accounting and finance) degree from the University of Western Australia. He is also a Certified Information Systems Auditor (CISA). He joined the Group in March 2003.

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

DIRECTORS *(Continued)*

Senior Management *(Continued)*

Mr Ng Ki Yin, Simon, aged 53, is the director of operation, in charge of the Group's Indonesian production facilities. He holds a bachelor of science degree in bushiness management. He joined the Group in June 1994. Mr Ng is responsible for managing the operation in term of sales and marketing, production, human resources, sourcing, material planning and logistic functions of the Group's sole South East Asia facility. He has over 20 years of experience in manufacturing resources planning and system management both in overseas corporates and PRC companies.

Mr Seto Sai Cheong, Paul, aged 45, is the Group's chief accountant. He is a member of the Hong Kong Institute of Certified Public Accountants, The Association of Chartered Certified Accountants and The Taxation Institute of Hong Kong and has over 23 years of experience in accounting and taxation, He is responsible for overall finance, accounting and taxation functions of the Group. He joined the Group in December 2000.

Mr Oravec, Bruce, aged 64, is a director of Kid Galaxy Inc. since 2002. His career in the toys industry began in 1980 in Milton Bradley Company as its Senior Legal Counsel. In 1985, he joined Kenner-Parker Toys, Inc. as its Senior Vice President, General Counsel and Secretary. In 1990, he became Senior Vice President, General Counsel and Secretary of Fisher-Price, Inc. In 1996 Mr Oravec founded a per-school toy company, WB&N, Inc. He currently provides business consultation services for toys industry executives and is on the Board of Directors of the ToyTown Museum of East Aurora, New York. Mr Oravec hold a bachelor's degree from the University of Michigan and bachelor of laws (LL.B) from Harvard Law School.

DIRECTORS' SERVICE CONTRACTS

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

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

DIRECTORS' INTERESTS IN CONTRACTS

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

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

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

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

DIRECTORS' INTERESTS IN EQUITY SECURITIES

Apart from the options granted under the Old Scheme, at no time during the year was the Company, any of its holding companies or subsidiaries a party to any arrangements to enable the Directors, Chief Executives and their Associates to acquire benefits by means of the acquisition of shares in, or debentures of, the Company or any other body corporate.

Pursuant to the Term and Revolving facilities agreement entered into by the Company and a group of financial institutions on 7 December 2004 amounting to HK$300 million, Mr Leung Lun and Mr Leung Chung Ming are required to jointly hold at least 45% of the issued share capital of the Company.

As at 31 March 2007, the interests and short positions of each Director and chief executive of the Company in the shares, underlying shares or old bentures of the Company and its associated corporations (within the meaning of Part XV of the Securities and Futures Ordinance (Chapter 571 of Laws of Hong Kong) ("SFO")) as recorded in the register required to be kept under section 352 of the SFO or as otherwise notified to the Company and the Stock Exchange pursuant to the Model Code for Securities Transactions by Directors of Listed Issuers contained in the Listing Rules were as follows:

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

Notes:

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

SUBSTANTIAL SHAREHOLDERS

As at 31 March 2007, the following persons, other than a director or chief executive of the Company, had an interest in the shares and underlying shares of the Company as recorded in the register required to be kept under section 336 of the SFO:

Name of shareholder	**Number of ordinary shares of HK$0.10 each (Note 1)**	**Capacity**	**Approximate percentage of interest**
Lung Cheong Investment Limited	481,816,080 (L)	Beneficial owner	66.4%
Rare Diamond Limited	481,816,080 (L) (Note 2)	Interest of controlled corporation	66.4%
Mr Chan Wing Sun	43,970,000	Beneficial owner	6.1%

Notes:

1. The letter "L" represents the entity's interests in the shares.

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

PRE-EMPTIVE RIGHTS

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

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

MANAGEMENT CONTRACTS

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

CONNECTED TRANSACTIONS

At 31 March 2007, a wholly-owned subsidiary of the Company, Lung Cheong Toys Limited ("LC Toys"), had long-term loans and deferred trading balances amounted in aggregate to HK$60,648,000, plus accrued interest, due by PT. Lung Cheong Brothers Industrial ("PTLC"), a 60% owned subsidiary of LC Toys. The balance of the 40% interest in PTLC is owned by independent third parties who are not connected with the Directors, Chief Executives or substantial shareholders of the Company and its subsidiaries, other than PTLC, or any of their respective associates. The long-term loans were advanced to finance the set up of the production facilities of PTLC. The amounts are unsecured, bearing interest at 3-month HIBOR per annum (2006: 3-month HIBOR per annum) and have no fixed repayment terms. LC Toys considers the uncertainties on the repayment of the advances and makes the full provision for the whole balance.

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

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

(2) on normal commercial terms; and

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

MAJOR CUSTOMERS AND SUPPLIERS

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

	2007	2006
	%	%
Sales		
— the largest customer	**19**	17
— five largest customers combined	**65**	68
Purchases		
— the largest supplier	**8**	8
— five largest suppliers combined	**29**	27

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

AUDIT COMMITTEE

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

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

INDEPENDENCE OF INDEPENDENT NON-EXECUTIVE DIRECTORS

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

SUFFICIENCY OF PUBLIC FLOAT

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

AUDITOR

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

On behalf of the Board

Leung Lun
Chairman

23 July 2007

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Certified Public Accountants
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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 38 to 86, which comprise the consolidated and company balance sheets as at 31 March 2007, 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 2007 and of the loss 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.

HORWATH HONG KONG CPA LIMITED
Certified Public Accountants
23 July 2007
Chan Kam Wing, Clement
Practicing Certificate number P02038

CONSOLIDATED INCOME STATEMENT

For the year ended 31 March 2007

(Expressed in Hong Kong dollars)

	Note	2007 HK$'000	2006 HK$'000
Turnover	5	**704,815**	750,620
Cost of sales		**(496,628)**	(534,951)
Gross profit		**208,187**	215,669
Other gains — net	6	**10,158**	3,363
Selling and distribution expenses		**(37,108)**	(40,511)
General and administrative expenses		**(142,959)**	(139,576)
Provision for damages under lawsuits	27	**(47,644)**	—
Operating (loss)/profit	7	**(9,366)**	38,945
Finance costs	8	**(27,131)**	(23,701)
(Loss)/profit before income tax		**(36,497)**	15,244
Income tax (charge)/credit	9	**(779)**	565
(Loss)/profit for the year		**(37,276)**	15,809
Attributable to:			
Equity holders of the Company	10	**(37,219)**	16,673
Minority interest		**(57)**	(864)
		(37,276)	15,809
Dividends	11	**—**	—
(Loss)/earnings per share for (loss)/profit attributable to the equity holders of the Company for the year			
— Basic	12	**(6.86 cents)**	3.30 cents

The accompanying notes form part of these financial statements.

As at 31 March 2007

(Expressed in Hong Kong dollars)

	Note	Group 2007 HK$'000	Group 2006 HK$'000	Company 2007 HK$'000	Company 2006 HK$'000
ASSETS AND LIABILITIES					
Non-current assets					
Intangible assets	16	**21,714**	21,714	**—**	—
Leasehold land and land use rights	17	**47,415**	47,458	**—**	—
Property, plant and equipment	18	**437,042**	387,409	**—**	—
Investments in subsidiaries	19	**—**	—	**450,927**	535,232
Available-for-sale financial assets	20	**—**	28,103	**—**	—
Deferred income tax assets	30	**3,239**	4,872	**—**	—
		509,410	489,556	**450,927**	535,232
Current assets					
Inventories	21	**241,608**	188,295	**—**	—
Trade and other receivables, deposits and prepayments	22	**194,593**	254,422	**972**	1,553
Derivative financial instruments	23	**369**	450	**—**	—
Current tax recoverable		**416**	2,512	**39**	325
Restricted cash	24	**48,138**	—	**48,138**	—
Cash and cash equivalents	25	**42,585**	89,752	**140**	101
		527,709	535,431	**49,289**	1,979
Current liabilities					
Trade and other payables and accrued charges	26	**112,100**	92,084	**408**	2,924
Provision	27	**47,644**	—	**47,644**	—
Derivative financial instruments	23	**672**	105	**—**	—
Borrowings	28	**303,297**	472,292	**124,800**	300,000
Current income tax liabilities		**6,957**	7,438	**—**	—
		470,670	571,919	**172,852**	302,924
Net current assets/(liabilities)		**57,039**	(36,488)	**(123,563)**	(300,945)
Total assets less current liabilities carried forward		**566,449**	453,068	**327,364**	234,287

BALANCE SHEET

As at 31 March 2007

(Expressed in Hong Kong dollars)

	Note	Group 2007 HK$'000	Group 2006 HK$'000	Company 2007 HK$'000	Company 2006 HK$'000
Total assets less current liabilities brought forward		**566,449**	453,068	**327,364**	234,287
Non-current liabilities					
Borrowings	28	**93,600**	—	**93,600**	—
Provision for long service payment	29	**1,554**	1,196	**—**	—
Deferred income tax liabilities	30	**10,037**	13,366	**—**	—
		105,191	14,562	**93,600**	—
Net assets		**461,258**	438,506	**233,764**	234,287
EQUITY					
Share capital	31	**72,560**	48,373	**72,560**	48,373
Reserves	32	**388,698**	390,076	**161,204**	185,914
Equity attributable to equity holders of the Company		**461,258**	438,449	**233,764**	234,287
Minority interest		**—**	57	**—**	—
Total equity		**461,258**	438,506	**233,764**	234,287

These financial statements were approved and authorized for issue by the board of directors on 23 July 2007.

Leung Lun
Director

Zhong Bingquan
Director

The accompanying notes form part of these financial statements.

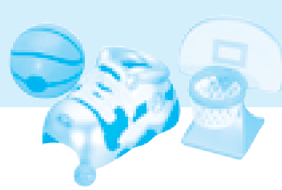
CONSOLIDATED STATEMENT OF CHANGES IN EQUITY

For the year ended 31 March 2007

(Expressed in Hong Kong dollars)

	Attributable to equity holders of the Company								
	Share capital	Share premium	Exchange fluctuation reserve	Capital reserve	Buildings revaluation reserve	Retained profits	Total	Minority interests	Total equity
At 1 April 2005	48,373	112,967	(48,931)	27,828	18,604	256,343	415,184	—	415,184
Surplus on property revaluation	—	—	—	—	2,536	—	2,536	—	2,536
Currencies translation difference	—	—	6,475	—	—	—	6,475	—	6,475
Net income recognized directly in equity	—	—	6,475	—	2,536	—	9,011	—	9,011
Profit for the year	—	—	—	—	—	16,673	16,673	(864)	15,809
Total recognized income and expenses for the year	—	—	6,475	—	2,536	16,673	25,684	(864)	24,820
Capital contribution from a minority shareholder	—	—	—	—	—	—	—	921	921
Dividend paid	—	(2,419)	—	—	—	—	(2,419)	—	(2,419)
Transfer to capital reserve	—	—	—	696	—	(696)	—	—	—
At 31 March 2006	48,373	110,548	(42,456)	28,524	21,140	272,320	438,449	57	438,506
Currencies translation difference	—	—	12,935	—	—	—	12,935	—	12,935
Net income recognized directly in equity	—	—	12,935	—	—	—	12,935	—	12,935
Loss for the year	—	—	—	—	—	(37,219)	(37,219)	(57)	(37,276)
Total recognized income and expenses for the year	—	—	12,935	—	—	(37,219)	(24,284)	(57)	(24,341)
Issue of share by a way of rights issue	24,187	24,186	—	—	—	—	48,373	—	48,373
Share issue expenses	—	(1,280)	—	—	—	—	(1,280)	—	(1,280)
Transfer to capital reserve	—	—	—	316	—	(316)	—	—	—
At 31 March 2007	72,560	133,454	(29,521)	28,840	21,140	234,785	461,258	—	461,258

The accompanying notes form part of these financial statements.



For the year ended 31 March 2007

(Expressed in Hong Kong dollars)

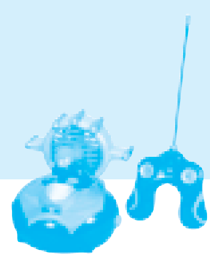
	2007 HK$'000	2006 HK$'000
Operating activities		
(Loss)/profit before income tax	**(36,497)**	15,244
Adjustments for:		
Interest income	**(607)**	(617)
Interest expense	**26,545**	22,947
Arrangement fees on bank loans	**586**	754
Depreciation of property, plant and equipment	**47,223**	43,474
Provision for long service payment	**366**	225
Provision for damage loss on litigation	**47,644**	—
Amortization of leasehold land and land use rights	**1,129**	1,120
Write-off/impairment loss of other investments	**—**	1,224
Loss on disposal of trading securities	**—**	1,386
Gain on disposal of subsidiaries	**(1,414)**	—
Decrease in cash surrender value of life insurance contracts	**277**	135
Fair value loss/(gain) on derivative financial instruments	**648**	(741)
Operating cash flows before changes in working capital	**85,900**	85,151
Inventories	**(53,313)**	36,435
Trade and other receivables	**59,829**	(36,870)
Trade and other payables and accrued charges	**21,464**	(21,728)
Trust receipt bank loans	**36,691**	(38,596)
Cash generated from operations	**150,571**	24,392
Placement of restricted cash	**(47,644)**	—
Interest received	**113**	617
Hong Kong profits tax refunded/(paid)	**413**	(3,678)
Overseas income tax paid	**(1,588)**	(1,012)
Net cash generated from operating activities	**101,865**	20,319

For the year ended 31 March 2007

(Expressed in Hong Kong dollars)

	Note	2007 HK$'000	2006 HK$'000
Investing activities			
Purchase of property, plant and equipment		**(83,532)**	(124,099)
Purchase of trading securities		**—**	(858)
Disposal of subsidiaries	33	**806**	—
Proceeds from sale of trading securities		**—**	8,046
Net cash used in investing activates		**(82,726)**	(116,911)
Financing activities			
Interest expense and arrangement fees on bank loans		**(27,131)**	(23,701)
New loans from banks and financial institutions		**48,000**	313,000
Repayment of loans borrowed from banks and financial institutions		**(133,100)**	(271,337)
Issue of share by a way of rights issue		**47,093**	—
Capital contribution from a minority shareholder		**—**	921
Dividends paid		**—**	(2,419)
Net cash (used in)/generated from financing activities		**(65,138)**	16,464
Net decrease in cash and cash equivalents		**(45,999)**	(80,128)
Effect of foreign exchange rate changes		**(1,168)**	1,211
Cash and cash equivalents at beginning of year		**89,752**	168,669
Cash and cash equivalents at end of year		**42,585**	89,752

The accompanying notes form part of these financial statements.



1. ORGANISATION AND OPERATIONS

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

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

The Company's shares are listed on the Main Board of The Stock Exchange of Hong Kong Limited ("Stock Exchange").

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

2. ADOPTION OF NEW AND REVISED STANDARDS

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

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

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

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

3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

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

(a) Statement of compliance and basis of preparation

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

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

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

(b) Consolidation

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

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

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

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

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

(b) Consolidation *(Continued)*

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

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

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

(c) Property, plant and equipment

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

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

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

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

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

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

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

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

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

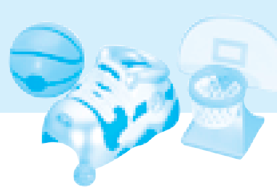
Gains and losses on disposals are determined by comparing proceeds with carrying amount and are included in the income statement.

(d) Intangible assets

(i) Goodwill

Goodwill represents the excess of the cost of an acquisition over the fair value of the Group's share of the net identifiable assets of the acquired subsidiaries at the date of acquisition. Goodwill on acquisitions of subsidiaries is included in intangible assets. Goodwill is tested annually for impairment and carried at cost less accumulated impairment losses, if any. Impairment losses on goodwill are not reversed.

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



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

(d) Intangible assets *(Continued)*

(ii) Club memberships

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

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

(e) Impairment of non-financial assets

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

(f) Finance assets

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

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

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

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

(f) Finance assets *(Continued)*

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

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

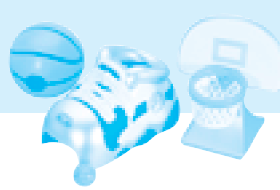
The Group assesses at each balance sheet date whether there is objective evidence that a financial asset or a group of financial assets is impaired. In the case of equity securities classified as available-for-sale, a significant or prolonged decline in the fair value of the security below its cost is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

(g) Derivative financial instruments

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

(h) Inventories

Inventories are stated at the lower of cost and net realizable value. Cost is determined using the first-in, first-out (FIFO) method. The cost of finished goods and work-in-progress comprises raw materials, direct labour and an appropriate proportion of production overheads. Net realizable value is determined on the basis of anticipated sales proceeds less estimated selling expenses and, where appropriate, the cost of conversion from their existing state to a finished condition.



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

(i) Trade and other receivables

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

(j) Cash and cash equivalents

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

(k) Borrowings

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

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

(l) Share capital

Ordinary shares are classified as equity.

(m) Dividend distribution

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

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

(n) Leases

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

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

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

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

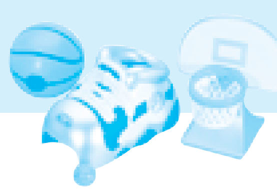
(o) Provisions

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

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

(p) Contingent liabilities

A contingent liability is a possible obligation that arises from past events and whose existence will only be confirmed by the occurrence or non-occurrence of one or more uncertain future events not wholly within the control of the Group. It can also be a present obligation arising from past events that is not recognized because it is not probable that outflow of economic resources will be required or the amount of obligation cannot be measured reliably.



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

(p) Contingent liabilities *(Continued)*

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

(q) Taxation

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

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

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

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

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

(r) Translation of foreign currencies

(i) Functional and presentation currency

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

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

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

(ii) Transactions and balances

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

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

(iii) Group companies

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

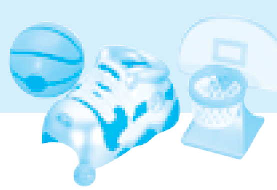
- assets and liabilities for each balance sheet presented are translated at the closing rate at the date of that balance sheet;

- income and expenses for each income statement are translated at average exchange rates (unless this average is not a reasonable approximation of the cumulative effect of the rates prevailing on the transaction dates, in which case income and expenses are translated at the dates of the transactions); and

- all resulting exchange differences are recognized as a separate component of equity.

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

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



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

(s) Employee benefits

(i) Employee leave entitlements

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

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

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

(ii) Profit sharing and bonus plans

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

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

(iii) Pension obligations

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

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

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

(s) Employee benefits *(Continued)*

(iv) Share based compensation benefits

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

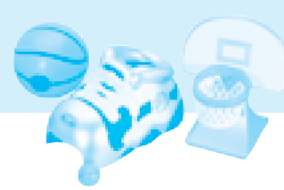
The proceeds received net of any directly attributable transaction costs are credited to share capital (nominal value) and share premium when the options are exercised.

(t) Borrowing costs

Borrowing costs that are directly attributable to the acquisition, construction or production of an asset that necessarily takes a substantial period of time to get ready for its intended use or sale are capitalized as part of the cost of that asset. All other borrowing costs are charged to the income statement in the period in which they are incurred.

(u) Related parties

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



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

(v) Revenue recognition

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

(i) Sales of goods

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

(ii) Interest income

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

(w) Segment reporting

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

4. CRITICAL ACCOUNTING ESTIMATES AND JUDGEMENTS

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

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

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

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

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

(b) Impairment of goodwill

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

(c) Net realizable value of inventories

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

(d) Trade and other receivables

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

(e) Income taxes and deferred tax

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

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

5. TURNOVER AND SEGMENT INFORMATION

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

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

Primary reporting format — business segments

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

5. TURNOVER AND SEGMENT INFORMATION *(Continued)*

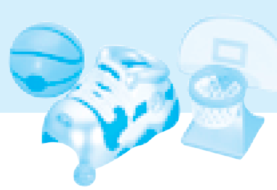
Secondary reporting format — geographical segments

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

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

No analysis of contribution to operating profit by geographical segment has been prepared as no contribution to operating profit from any of the above segments is substantially out of line with the ratio of profit to turnover.

Note: The turnover derived from Europe represents sales of toys for shipments directly to Europe under the instructions of customers. The respective trade receivables are included in the United States of America, Japan and Hong Kong segments.



6. OTHER GAINS

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

7. EXPENSES BY NATURE

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

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

8. FINANCE COSTS

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

9. INCOME TAX (CHARGE)/CREDIT

Hong Kong profits tax has been provided at the rate of 17.5% (2006: 17.5%) on the estimated assessable profit for the year.

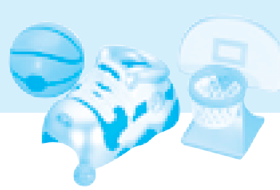
Taxation on profits of Mainland China subsidiaries has been calculated on the estimated assessable profit for the year at the rates of taxation as applicable to the subsidiaries.

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

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

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

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



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

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

11. DIVIDENDS

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

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

12. (LOSS)/EARNINGS PER SHARE

Basic

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

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

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

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

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

13. EMPLOYEE BENEFIT EXPENSE

Employee benefit expense excluding directors' emoluments comprises:

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

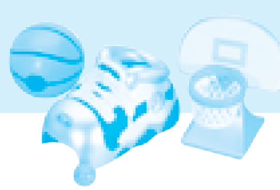
14. DIRECTORS' AND SENIOR MANAGEMENT'S EMOLUMENTS

(a) Directors' emoluments

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

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

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



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

(a) Directors' emoluments *(Continued)*

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

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

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

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

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

(b) Five highest paid individuals

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

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

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

The emoluments of the afore-mentioned two (2006: one) highest paid individuals fell within the band of Nil to HK$1,000,000 for both years. The emoluments represent the amount paid to or receivable by the individuals in the respective financial years.

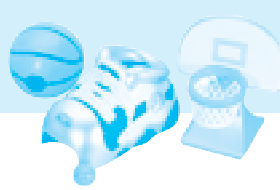
No emoluments were paid to the highest paid individuals as an inducement to join the Group or as compensation for loss of office.

15. PROVIDENT FUND SCHEME ARRANGEMENTS

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

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

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



15. PROVIDENT FUND SCHEME ARRANGEMENTS *(Continued)*

The Group contributes to certain defined contribution schemes for its employees in Mainland China, Indonesia and the United States of America. Contributions are made at a certain percentage of the basic salaries of employees.

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

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

16. INTANGIBLE ASSETS

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

Impairment test for goodwill

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

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

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

Key assumptions used for value-in-use calculations:

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

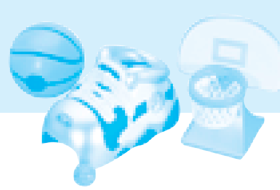
Management determined growth rate based on past performance and its expectations for the market development. The discount rate used is pre-tax and reflects specific risks relating to the relevant segments.

17. LEASEHOLD LAND AND LAND USE RIGHTS

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

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

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



18. PROPERTY, PLANT AND EQUIPMENT

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

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

19. INVESTMENTS IN SUBSIDIARIES

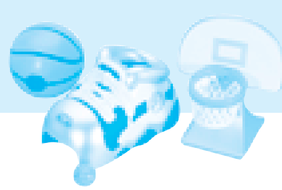
	Company 2007 HK$'000	Company 2006 HK$'000
Unlisted investments, at cost	**115,801**	115,801
Amounts due from subsidiaries (Note)	**409,126**	493,431
Less: provision for impairment loss	**(74,000)**	(74,000)
	335,126	419,431
	450,927	535,232

Note:

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

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

Name of company	Place of incorporation and operations	Particulars of issued share capital/ registered capital	Effective percentage holding 2007	Effective percentage holding 2006	Nature of business
Shares held directly:					
Lung Cheong (BVI) Holdings Limited	British Virgin Islands	Ordinary US$130,660	**100**	100	Investment holding
Shares/investments held indirectly:					
Dongguan Lung Cheong Plastic Products Co., Ltd. (Note)	Mainland China	HK$6,500,000	**100**	100	Manufacture and trading of toys
Dongguan Lung Cheong Toys Co., Ltd. (Note)	Mainland China	HK$124,030,000	**100**	100	Manufacture of toys
Dongguan Standard Tooling and Products Co., Ltd. (Note)	Mainland China	HK$7,700,000	**100**	100	Manufacture of moulds



19. INVESTMENTS IN SUBSIDIARIES *(Continued)*

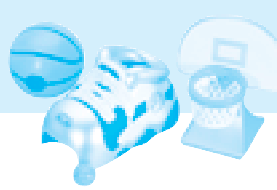
Name of company	Place of incorporation and operations	Particulars of issued share capital/ registered capital	Effective percentage holding 2007	Effective percentage holding 2006	Nature of business
Shares/investments held indirectly: *(Continued)*					
LC Technology Limited	Hong Kong	Ordinary HK$10,000	**100**	100	Trading of consumer electronic products
Lung Cheong Resources Management Limited	Hong Kong	Deferred HK$10,000 Ordinary HK$2	**100**	100	Management services
Kid Galaxy Limited	Hong Kong	Ordinary HK$10,000	**100**	100	Trading of toys
Lung Cheong Overseas Corporation	British Virgin Islands	Ordinary US$50,000	**100**	100	Trading of toys
Lung Cheong Toys Limited	Hong Kong	Deferred HK$1,000,000 Ordinary HK$2	**100**	100	Trading of toys
Dongguan LC Technology Co., Ltd. (Note)	Mainland China	HK$3,500,000	**100**	100	Manufacture of consumer electronic products
PT. Lung Cheong Brothers Industrial	Republic of Indonesia	Rupiah 5,728,000,000	**60**	60	Manufacture of plastic and electronic products
Standard Tooling and Products Co., Ltd	Hong Kong	Ordinary HK$3,000,000	**100**	100	Engineering services and mould trading

19. INVESTMENTS IN SUBSIDIARIES *(Continued)*

Name of company	Place of incorporation and operations	Particulars of issued share capital/ registered capital	Effective percentage holding 2007	Effective percentage holding 2006	Nature of business
Shares/investments held indirectly: *(Continued)*					
Kid Galaxy Corporation	British Virgin Islands	Ordinary US$10	**100**	100	Trading of toys
Kid Galaxy Inc.	United States of America	Ordinary US$100,010	**100**	100	Trading of toys
Lung Cheong Entertainment Limited	British Virgin Islands	Ordinary US$1	**100**	100	Licensing and development of content
Liberal Cultural Studies Limited	Hong Kong	Ordinary HK$10,000	**100**	100	Development of animation and publication

Note:

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



20. AVAILABLE-FOR-SALE FINANCIAL ASSETS

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

Available-for-sale financial assets included the followings:

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

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

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

21. INVENTORIES

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

22. TRADE AND OTHER RECEIVABLES, DEPOSITS AND PREPAYMENTS

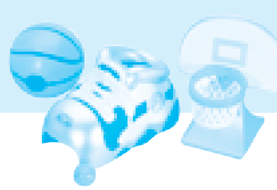
The carrying amounts of trade and other receivables, deposits and prepayments are as follows:

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

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

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

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



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

Trade receivables were denominated in the following currencies:

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

23. DERIVATIVE FINANCIAL INSTRUMENTS

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

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

24. RESTRICTED CASH

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

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

25. CASH AND CASH EQUIVALENTS

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

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

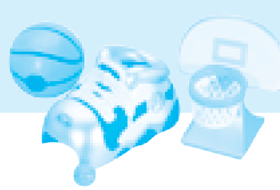
The effective interest rate on short-term bank deposits was 2.8% (2006:1.7%); these deposits have an average maturity of 90 days.

26. TRADE AND OTHER PAYABLES AND ACCRUED CHARGES

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

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

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



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

Trade payables were denominated in the following currencies:

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

27. PROVISION

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

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

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

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

28. BORROWINGS

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

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

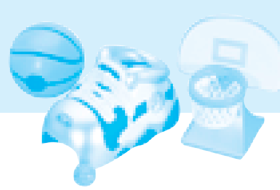
	Group		Company	
	2007 HK$'000	2006 HK$'000	**2007 HK$'000**	2006 HK$'000
On demand or within one year	**303,297**	472,292	**124,800**	300,000
In the second year	**93,600**	—	**93,600**	—
	396,897	472,292	**218,400**	300,000

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

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

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

The carrying amounts of the borrowings approximate their fair values.



28. BORROWINGS *(Continued)*

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

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

29. PROVISION FOR LONG SERVICE PAYMENT

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

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

30. DEFERRED INCOME TAX

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

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

30. DEFERRED INCOME TAX *(Continued)*

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

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

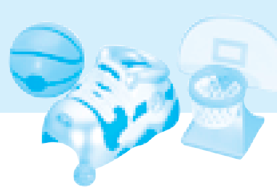
The movement in deferred tax assets and liabilities during the year, without taking into consideration the offsetting of balances within the same tax jurisdiction, is as follows,

Deferred tax assets:

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

Deferred tax liabilities:

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



30. DEFERRED INCOME TAX *(Continued)*

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

31. SHARE CAPITAL

	Authorised			
	Convertible cumulative redeemable preference shares of US$100,000 each		**Ordinary shares of HK$0.10 each**	
	No. of shares	US$'000	No. of shares '000	HK$'000
At 31 March 2006 and 2007	40	4,000	1,000,000	100,000

	Issued and fully paid			
	Convertible cumulative redeemable preference shares of US$100,000 each		**Ordinary shares of HK$0.10 each**	
	No. of shares	HK$'000 (equivalent)	No. of shares '000	HK$'000
At 1 April 2005 and 31 March 2006	—	—	483,733	48,373
Issue of shares by a way of rights issue (Note (a))	—	—	241,867	24,187
At 31 March 2007	**—**	**—**	**725,600**	**72,560**

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

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

31. SHARE CAPITAL *(Continued)*

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

On 3 September 2002, the shareholders of the Company approved the termination of the Old Scheme and the adoption of a new scheme ("2002 Scheme") as a result of the amendments of Chapter 17 of the Rules Governing the Listing of Securities on The Stock Exchange of Hong Kong Limited (the "Listing Rules"). Upon termination of the Old Scheme, no further options can be granted there under but in all other respects, the provisions of the Old Scheme shall remain in force and all share options granted prior to such termination shall continue to be valid and exercisable in accordance therewith.

Under the 2002 Scheme, share options can be exercised at any time during the periods to be determined and notified by the directors of the Company to the grantees at the time of making offers to grant share options to them, provided that such periods shall not exceed the period of ten years from the date of grant. The maximum number of shares available for issue under the 2002 Scheme is 28,940,000, representing approximately 4% of the issued share capital of the Company as at the date of this report. The subscription price for the shares under the 2002 Scheme shall be a price determined by the directors at its discretion, provided that it shall not less than the higher of (i) the closing price of the shares stated in the daily quotation sheets of Stock Exchange on the date of grant and (ii) the average closing price of the shares stated in the Stock Exchange's daily quotation sheets for the five business days immediately preceding the date of grant of share options. A nominal consideration of HK$1 is payable for each of the share options granted.

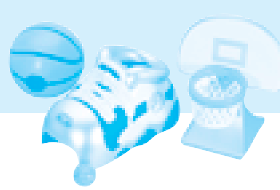
32. RESERVES

Share premium

Under the Companies Law (Revised) Chapter 22 of the Cayman Islands, share premium of the Company is available for paying distributions and dividends to shareholders subject to the provisions of its Memorandum and Articles of Association and provided that immediately following the distributions or dividend payments, the Company is able to pay its debts as they fall due in the ordinary course of business.

Capital reserve

The capital reserve represents transfers made to the statutory reserve fund set up by subsidiaries, which are wholly foreign-owned investment enterprises in Mainland China, pursuant to the local regulations. According to the regulations, the reserve fund may be used for making up losses, if any, and increasing capital.



32. RESERVES *(Continued)*

Company

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

33. DISPOSAL OF SUBSIDIARIES

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

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

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

33. DISPOSAL OF SUBSIDIARIES *(Continued)*

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

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

34. CONTINGENT LIABILITIES

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

35. BANKING AND OTHER FACILITIES

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

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

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

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

36. COMMITMENTS

(a) Commitments under operating leases

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

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

(b) Commitments under forward foreign currency contracts

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

37. RELATED PARTY TRANSACTIONS

Key management personnel compensation

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

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

38. FINANCIAL RISK MANAGEMENT

Financial risk factors

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

(a) Foreign Exchange risk

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

(b) Credit risk

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

(c) Liquidity risk

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

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

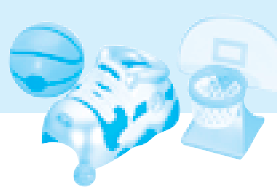
As the Group has no significant interest-bearing assets, the Group's income and operating cash flows are substantially independent of changes in market interest rates.

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

Fair value estimation

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

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



38. FINANCIAL RISK MANAGEMENT *(Continued)*

Fair value estimation *(Continued)*

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

39. SUBSEQUENT EVENT

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

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

40. ULTIMATE HOLDING COMPANY

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

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