2008/2009
Annual Report

LUNG CHEONG
INTERNATIONAL HOLDINGS LIMITED

Stock Code: 348

CONTENTS

CORPORATE INFORMATION

EXECUTIVE DIRECTORS

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

INDEPENDENT NON-EXECUTIVE DIRECTORS

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

NON-EXECUTIVE DIRECTOR

Mr Ko Peter, Ping Wah

COMPANY SECRETARY

Mr Mak Yee Chuen, Vincent

AUDITORS

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111 Connaught Road Central
Hong Kong

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53/F The Centre
99 Queen's Road
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1910-1913 Hutchison House
10 Harcourt Road
Central
Hong Kong

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PRINCIPAL SHARE REGISTRAR AND TRANSFER OFFICE

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HSBC Trustee (Cayman) Limited
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HSBC House
68 West Bay Road
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HONG KONG BRANCH SHARE REGISTRAR AND TRANSFER OFFICE

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

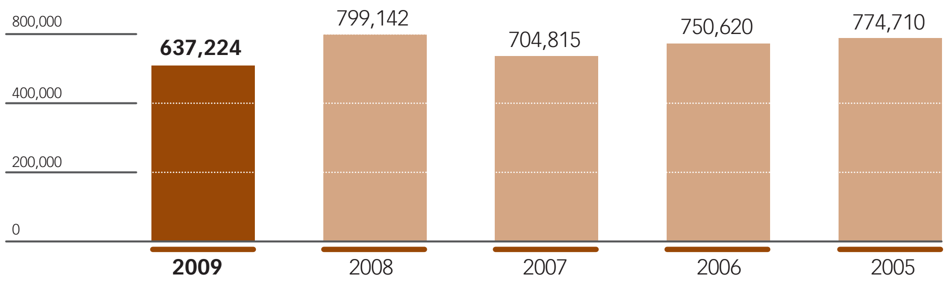
LISTING INFORMATION

The Stock Exchange of Hong Kong
Limited
Stock Code: 348

Turnover

HK$' 000

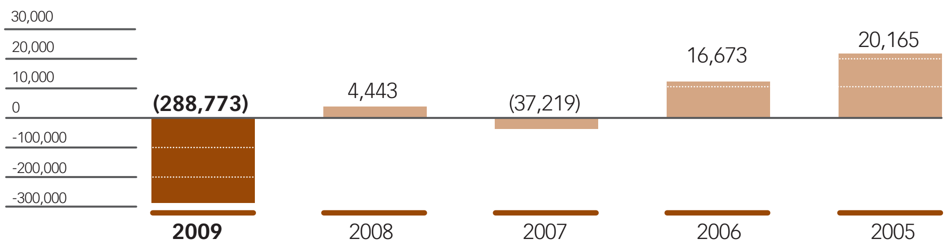
For the year ended 31 March



Profit / (Loss) Attributable to Equity Holders

HK$' 000

For the year ended 31 March



Basic Earnings / (Loss) Per Share

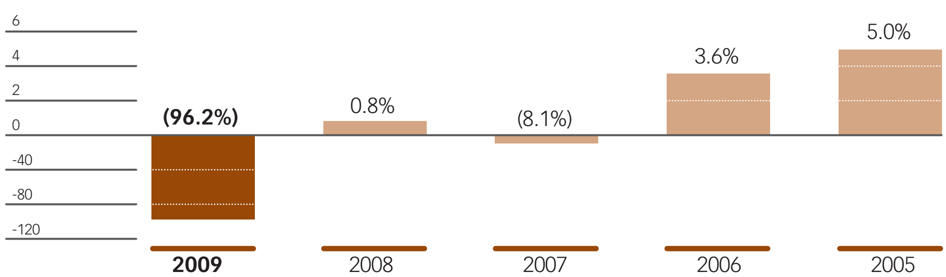
HK Cents

For the year ended 31 March

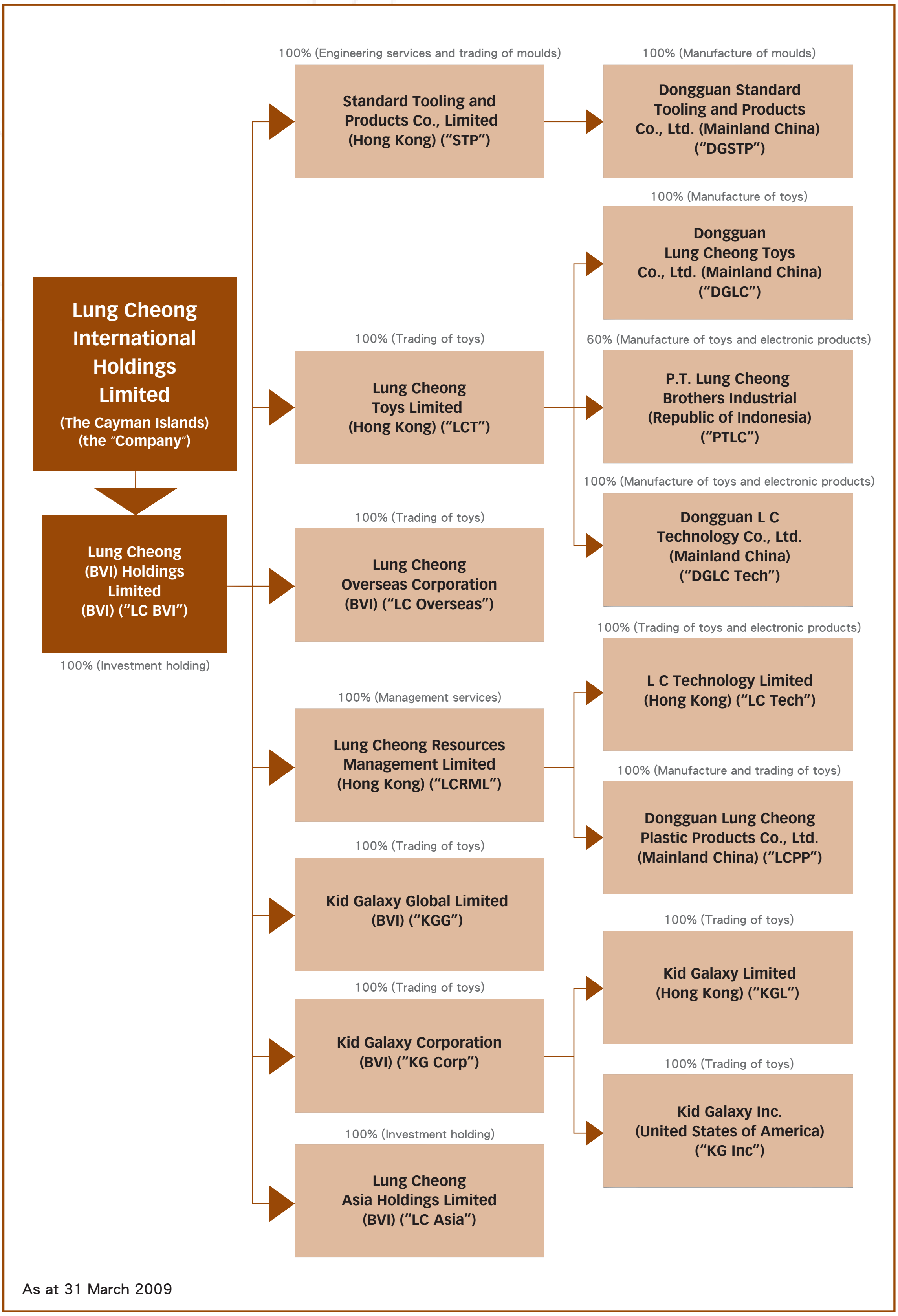
Net Profit / (Loss) Attributable to Equity Holders

%

For the year ended 31 March



CORPORATE STRUCTURE



CHAIRMAN'S STATEMENT

On behalf of the board of directors (the "Board") of Lung Cheong International Holdings Limited (the "Company") and its subsidiaries (together the "Group"), I present to you the Group's audited financial results for the year ended 31 March 2009.

RESULTS

For the year ended 31 March 2009, the Group's turnover decreased to approximately HK$637 million, compared with approximately HK$799 million for the corresponding period of last year. Gross profit margin was lowered at approximately 19% compared with approximately 24% for the year ended 31 March 2008. Loss attributable to equity holders of the Company was approximately HK$289 million, whereas the Group recorded a profit of approximately HK$4 million for financial year 2007/2008 ("FY 07/08").

In view of the results, the directors do not recommend any dividend payment (FY 07/08: NIL) for the year.

BUSINESS REVIEW

Founded over 45 years ago, the Group has thrived and weathered through the Asia financial crisis and Hong Kong flu epidemic, but the second half of financial year 2008/2009 ("FY 08/09") was the most challenging period the industry has ever experienced. Although we envisaged at the beginning of FY 08/09 that it would be a competitive year, the financial tsunami is like nothing we could have ever prepared for, let alone being able to gauge it's sudden and lightning impact and damage to the world's economies within such a short time and not knowing how long it will take for consumer confidence to return to normal. The toy manufacturing industry was particularly hard hit by dramatic closures and highly publicized liquidation of few toy producers in the Guangdong Province.

The results presented in this report are evidence of the Group's effort in tackling the difficulties encountered during FY 08/09. Revenue for FY 08/09 decreased by approximately 20% when compared with that for FY 07/08, attributable to the financial tsunami that ignited in the later part of 2008 which caused sudden reduction of orders. The thorough testing requirements and slack economy in United States of America ("USA") and Europe made customers more conservative in placing orders.

For the year ended 31 March 2009, the Group's manufacturing plants in Mainland China had to cope with the increase in wages, social security contributions and other welfare benefits, which were common to all manufacturers particularly those located in the Pearl River Delta Region. With the implementation of the new Labour Contract Law in Mainland China, a complement social security system for workers was adopted, resulting in the amount of contributions to various schemes being increased in line with the wage increases. Furthermore, insufficient supply of migrant workers in the region during the period had pushed up the wage levels of these workers. Competition among manufacturers for workers had made it necessary for the Group to offer higher wages in order to attract new workers or retain existing employees and thus an increase to the cost of goods sold.

The Group continued to strive for profitability under the prolonged appreciation of Renminbi ("RMB"), high and unstable crude oil price and general increase in costs of materials. The Group had to weather the high production costs and had limited scope of price increases due to economic slowdown in our major markets. Amid this deteriorating business environment, the Group's overall gross margin was further lowered by approximately HK$19 million being provision made for obsolete, damaged and non compliance materials for planned orders. This led to an increase in cost of goods sold and brought the gross margin down to approximately 19% (FY 07/08: approximately 24%).

CHAIRMAN'S STATEMENT

During the period under review, the USA continued to be the largest market of the Group, accounting for approximately 31% of the Group's total turnover (FY 07/08: approximately 35%). The other significant export markets for the Group included Europe and Japan, which remained stable at approximately 16% (FY 07/08: approximately 16%) and approximately 13% (FY 07/08: approximately 13%) respectively.

The sale of the radio control ("R/C"), wireless toys and robotic innovations did not reduce as much as others lines of products during the year under review. The Group's R/C toy business accounted for approximately 69% of total sales, revenue from this segment was lowered by only around 10% when compared with FY 07/08.

The Group has been operating the two existing Dongguan factories in Changping and Zhou Wu and also the Indonesian factory. The wholly-owned dormant Qian Tou industrial site is going through re-zoning procedures to convert it into residential/commercial use. The industrial property is at a good location, right next to the Dongguan University of Technology. It ought to fetch a higher return, as the Group intends to dispose of or redevelop it. However, pursuant to the Group's policy of valuating properties periodically, valuation around year end date resulted in more than HK$120 million of impairment following the current distress industrial property market.

In FY 08/09, the toy industry endured the most challenging period in the Group's 45 years history. The Group incurred loss to such an extent for the first time in the amount of approximately HK$289 million, attributable mainly to revaluation deficit on land and buildings as well as other exceptional factors. Fortunately, with the support of loyal customers and suppliers, the Group made it through the testing times in solid strides.

PLANS AND PROSPECTS

Globally, the toy industry is recuperating after the world economy cooled and demand for non-essential items fell. Management believes that toys will not be as negatively affected in the Group's major export markets. As the Group is the preferred supplier of major toy companies and market leaders, management is confident that forecast orders will be delivered as planned along with the recoveries of these markets. We continue to put our focus of resources and efforts in two categories of customers: growing with core customers, which provide consistent support during the time of uncertainties, and expanding the base of strategic customers, which provide outlets for the continued investment into innovative product development. As a result of these continuous efforts, a major Japanese toys market leader has placed substantial orders for a movie-related licensed toy products with the Group. These transforming toys should account for a major portion of revenue in the forthcoming financial period.

To reduce over reliance on any particular geographical regions, the Group steps up its business development into new markets, specifically with new distributors of Kid Galaxy products in European markets. The Group has obtained the license of Fisher Price brand for Kid Galaxy's pre-school toys for the USA market which is planned for release in the forthcoming toy fairs as part of the strategy to expand our distribution channels. China is another important growth market that the Group will capitalise on. Our distribution network in China has expanded with the increasing number of exhibitions organized and sponsored by government in order to promote local sales. In addition to the traditional department store counters, the Group is opening new sales channels that include supermarkets, wholesalers, Internet and other speciality retailers. Our educational robotic product line will continue to grow as more schools offer the subject of robotic study to students and its revenue will be fostered by local and international competitions.

The Group continues its belief about the strength and importance in investing in research and development. On-going resources are being allocated to the development of wireless and robotic innovations to secure our strength and leadership.

The Group assesses the markets from time to time and is ready to regulate the scale of production. The Group will endeavour to trim overheads significantly, improve productivity and control production costs while the toy industry rides out the storm. The Group will enhance the facility utilization and production efficiency of the two existing Dongguan plants in all possibilities aiming to lower the overall manufacturing overhead, transportation and administrative costs.

The Group's alternate production base in Indonesia currently enjoys favorable advantages over Mainland China and other Asian countries such as lower labour costs, plentiful supply of labour and competitive local currencies, the Rupiah. The positive environment continues and the Group looks forward to optimistic growth in Indonesia. The acquisition of the remaining 40% equity interests of the subsidiary has been completed by issuing 26,000,000 shares of the Company, details of which are set out in the announcement dated 25 September 2008.

Looking ahead, operational conditions are challenging. The Group would be facing adverse factors, such as the potential appreciation of the RMB and increasing costs in promoting the product safety which leads to the increase in production cost. However, management remains confidence of the Group's ability to seize this unique opportunity to consolidate its market leadership amid exit of weaker players.

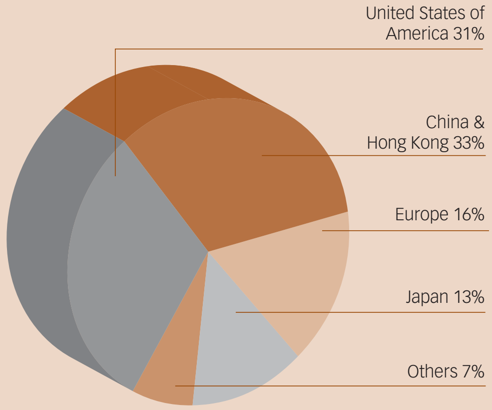
In conclusion, I would like to thank my fellow Board members and senior management, and all of the Group's employees for their contribution and dedication to the Group, which had enabled us to overcome the challenges encountered during the year. My appreciation also goes to our customers, financers and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

Leung Lun
Chairman

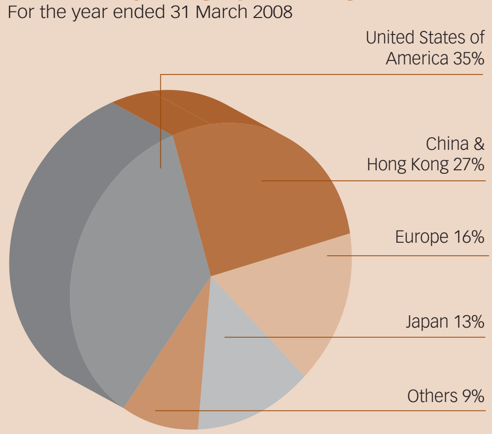
31 July 2009

MANAGING DIRECTOR'S REVIEW OF OPERATIONS

Turnover by Geographical Segment
For the year ended 31 March 2009



Turnover by Geographical Segment
For the year ended 31 March 2008



MARKET REVIEW

For the year ended 31 March 2009, USA remained the major export destination for the Group's products, with shipment amounting to approximately HK$200 million, lower than the approximately HK$280 million in the corresponding period last year, accounting for approximately 31% (FY 07/08: approximately 35%) of the Group's total shipment.

Shipment to Europe was lowered at approximately HK$100 million as compared with approximately HK$132 million in FY 07/08, accounting for approximately 16% (FY 07/08: approximately 16%) of the Group's revenue, attributable to the sluggish demand since the start of the financial tsunami.

Export to Japan was less than that in previous year at approximately HK$83 million (FY 07/08: approximately HK$102 million), maintaining the same approximately 13% of the Group's total revenue of the two years concerned.

Local deliveries translated into steady shipment to China and Hong Kong from approximately HK$213 million in FY 07/08 to approximately HK$210 million in FY 08/09. Some of those shipments however were destined for the USA, Europe and Japanese markets eventually via China and Hong Kong by the forwarder of ultimate customers after consolidation.

PRODUCT REVIEW

Radio Control/Wireless Products

The Group's core segment accounted for approximately 69% of total turnover for the year against approximately 62% of the previous year, indicating our expertise in this segment of the market. However, revenue amounted to approximately HK$441 million and approximately 11% decreased from approximately HK$494 million last year resulting from reduced orders in the last quarter of the financial year ended 31 March 2009.

The new, innovative and licensed radio control/wireless products ranging from helicopters, automobiles, boats, planes and hobby grade controllers sold well before the financial turmoil started.

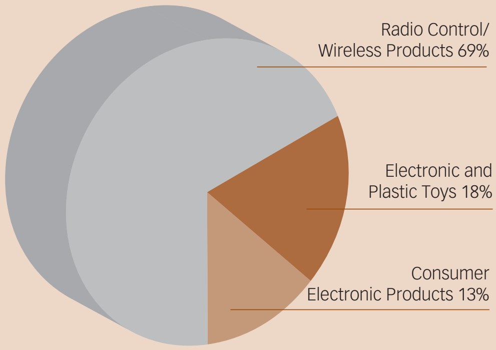
Electronic and Plastic Toys

The segment recorded a decrease in sale of approximately 48% from approximately HK$221 million in FY 07/08 to approximately HK$116 million in FY 08/09, accounting for approximately 18% of the Group's turnover compared with approximately 28% in the previous year. The reduction of turnover in this category was attributable to the decrease in orders, particularly after previous toy recalls of other toy manufacturers and financial tsunami.

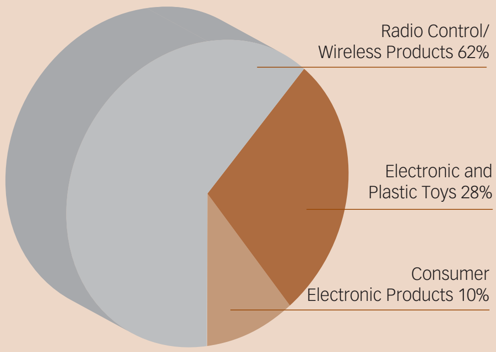
Consumer Electronic Products

Sales contribution from this segment recorded a slight decrease from approximately HK$84 million in FY 07/08 to approximately HK$80 million. It was mainly attributable to the sales of robotic products designed and produced by the Group. Revenue from consumer electronic products accounted for approximately 13% of the Group's total turnover (FY 07/08: approximately 10%). Sales of robotic products are anticipated to have continuing contribution to the earnings of this non-toy segment of the Group.

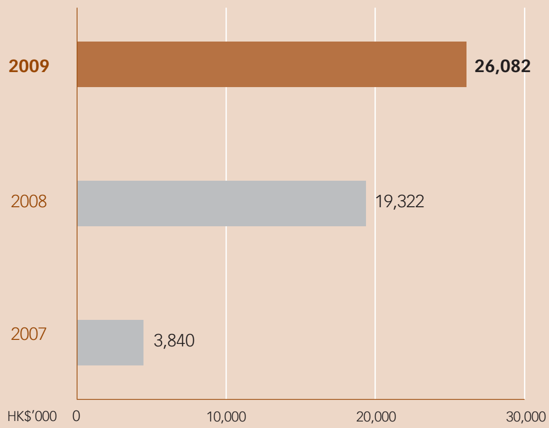
Turnover by Product Type
For the year ended 31 March 2009



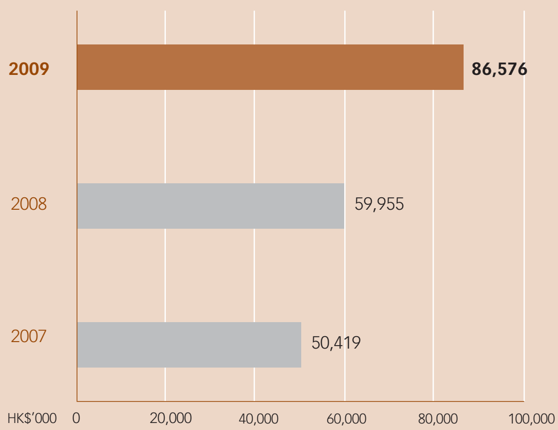
Turnover by Product Type
For the year ended 31 March 2008



Growth in Turnover of Indonesian Production
For the year ended 31 March



Growth in Turnover of Kid Galaxy
For the year ended 31 March



DIVISIONAL AND RESOURCES REVIEW

Production

China

Relocation of production to the new Changping factory was completed in FY 07/08 with the official grand opening ceremony on 29 February 2008. With the new Changping factory commenced production in late FY 07/08, the Group planned to maximize the capacity of the Zhou Wu facility for the support of peak-season orders from original equipment manufacturing. However, due to the financial tsunami, the Group hardly had the opportunity to optimize the facilities utilization during the financial period under review thus resulting in the impairment of the leasehold improvements, molds, plant and equipments of the Group for the year ended 31 March 2009.

Indonesia

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

With major customers' willing to transfer orders to the Southeast Asian facility, the Group was able to relieve facilities in China for higher value-added production while taking advantages of more flexible costs structure and plentiful labour in Indonesia. Utilisation rate of the Indonesian plant was increased.

Sales and Marketing

Kid Galaxy
The Manchester operation, Kid Galaxy Inc. ("KGI"), takes care of marketing, product design and sales fulfillment in the USA market. KGI and the Hong Kong sales arm Kid Galaxy Limited ("KGL") have performed well with sales increased from last year's approximately HK$60 million to approximately HK$87 million for year ended 31 March 2009. Its revenue derived mainly from its own brands such as Elite Fleet, DRV, Morphibians, GoGo Auto, KG Flyer, My First RC and so forth.

In USA, KGI was able to increase sales from successful utilisation of specialty stores and TV shopping channel. Its products are popular because of their award-winning innovative designs. Our various products obtained many prominent national toy awards, namely the "Toy Of The Year Award", "Preferred Choice Award" and "Seal Of Excellence Award" at the 2009 Creative Child Awards, during the year.

EMPLOYEE

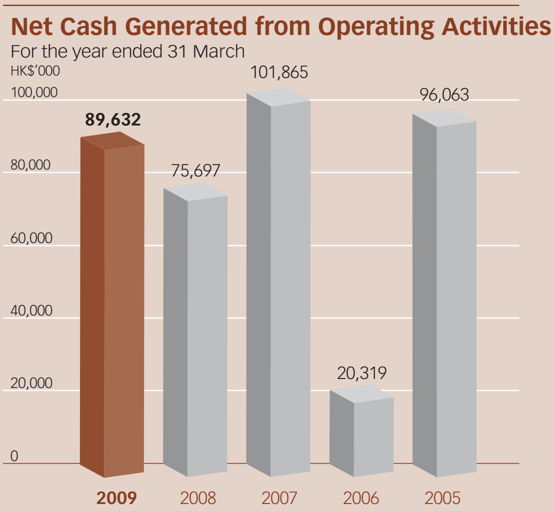
As at 31 March 2009, the Group had approximately 4,170 employees of which 60, 3,899, 200 and 11 employees were based in Hong Kong, the Dongguan factories, the Indonesian factory and the USA office respectively. The number of employees of the Group varies from time to time depending on production needs and they are remunerated based on industry practices.

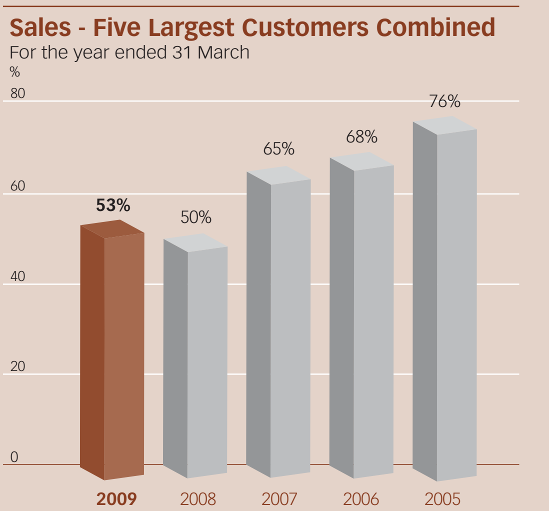
APPRECIATION

On behalf of the Board, I would like to take this opportunity to express my sincere gratitude to our long term customers, suppliers and all other business partners for their continuous support over the past year. I would also like to extend my appreciation to our management and staff for their effort and dedication, despite the challenging year in the toys business.

LEUNG Chung Ming
Managing Director

31 July 2009





FINANCIAL REVIEW

The financial turmoil in later part of 2008 affected the Group's strategies in the new factory and it's position in the high end electronic toys and non-toys product segments resulting in a sales decrease of approximately 20% to approximately HK$637 million for the year ended 31 March 2009.

Cost of goods sold ("COGS"), despite the lower purchases, consisted of relatively high material costs, written off and impaired inventories, escalated mandatory wages for workers and appreciation of RMB which further affect the sales of the Group which main revenue currencies are United States dollars ("US$") and Hong Kong dollars ("HK$") and set off the impacts of measures implemented to reduce direct labour cost. COGS were approximately HK$518 million in FY 08/09 compared with approximately HK$604 million in FY 07/08.

The decreased overall sales led to gross profit falling to approximately HK$120 million for the year versus approximately HK$195 million in FY 07/08. Gross profit margin decreased to approximately 19% (FY 07/08: approximately 24%).

Selling and distribution expenses for the year ended 31 March 2009 was approximately HK$33 million, representing a decrease of approximately 24% against approximately HK$44 million in the previous year. Commission payment on sales, marketing and promotional expenses and transportation and distribution expenses dropped in line with the reduced turnover.

General and Administrative ("G&A") expenses for the year ended 31 March 2009 amounted to approximately HK$205 million. Increase in overall G&A was approximately 33% over previous year (FY 07/08: approximately HK$154 million) due to staff costs of approximately HK$73 million (FY 07/08: approximately HK$68 million), depreciation of fixed asset of approximately HK$31 million (FY 07/08: approximately HK$19 million), net treatment of foreign currency exchange of approximately HK$27 million (FY 07/08: approximately HK$1 million), insurance of approximately HK$5 million (FY07/08: HK$3 million) and compliance and testing expenses of approximately HK$2 million (FY 07/08: HK$1 million).

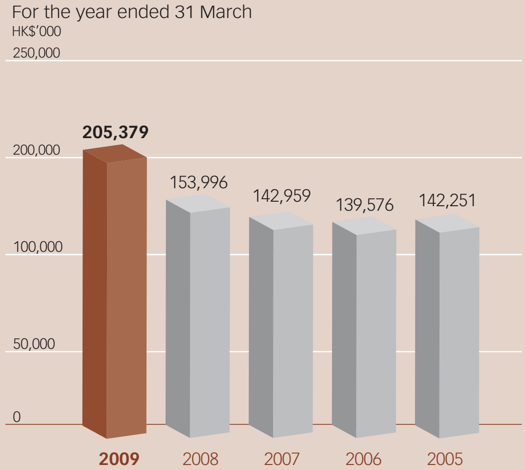
Exceptional costs during the financial period include revaluation deficit on land and buildings amounted to the value of approximately HK$122 million, impairment on property, plant and equipment amounted to approximately HK$22 million, allowance for doubtful debts to the amount of approximately HK$15 million and impairment of certain trademarks and licenses amounted to approximately HK$6 million.

Finance costs include interest expenses, bank charges plus fees incurred for trade facilities and the remaining term loan showed a lower overall interest expense for the year under review. Finance cost was approximately HK$17 million in FY 08/09 compared to approximately HK$26 million in FY 07/08.

All in all, the Group recorded loss attributable to shareholders of approximately HK$289 million in FY 08/09 compared to a profit of approximately HK$4 million in FY 07/08.

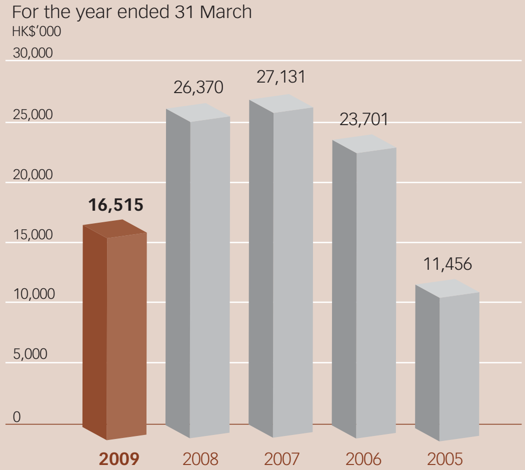
G&A

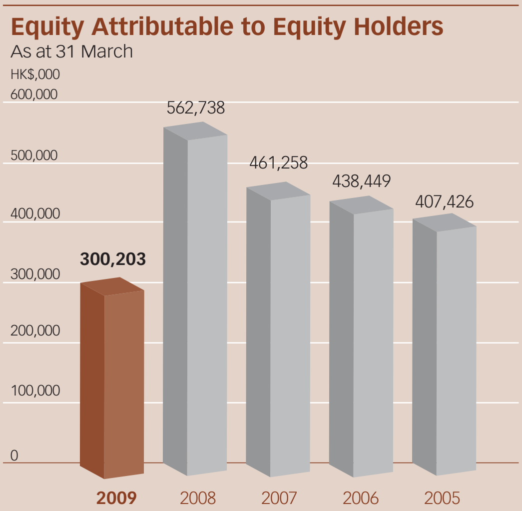
For the year ended 31 March

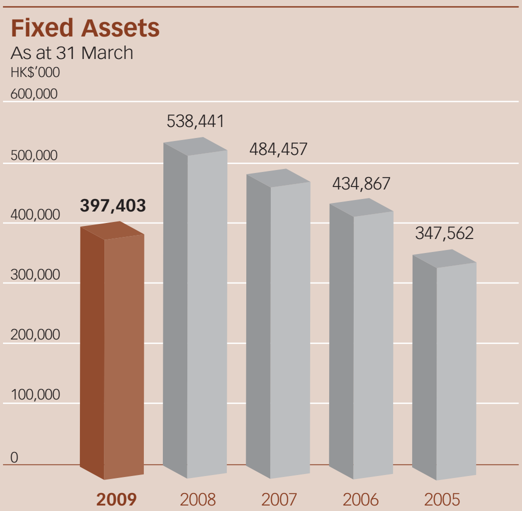


Finance Costs

For the year ended 31 March







GROUP RESOURCES AND LIQUIDITY

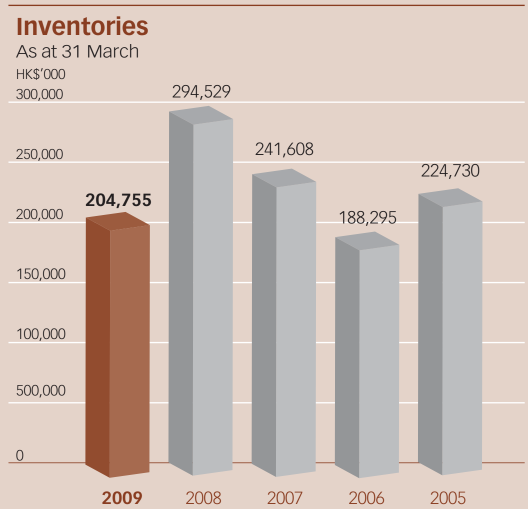
Shareholders' funds as at 31 March 2009 were approximately HK$300 million, approximately 47% less than approximately HK$563 million in the previous year. The net assets per share were lowered by approximately 47% from approximately HK23 cents to approximately HK12 cents because of the loss incurred in FY 08/09. As at 31 March 2009, the Group had a total of 2,464,799,997 shares in issue.

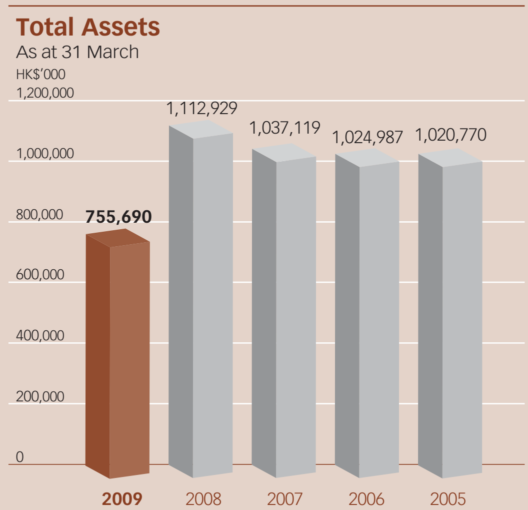
Fixed assets reduced in value by approximately HK$141 million to approximately HK$397 million as at 31 March 2009. Property, plant and equipment under non-current assets decreased from approximately HK$441 million to approximately HK$308 million. Leasehold land and land use rights of the Group was approximately HK$90 million as at 31 March 2009. The reduction in value were attributable mainly to revaluation deficit of land and buildings as well as impairment of property, plant and equipment as a result of the Group's periodic valuation policy, the current state of the toy manufacturing industry and overall under utilization of production facilities. The other reasons for decrease in value were disposals of certain properties in Hong Kong and Mainland China by the Group in the amount of approximately HK$13 million during the financial period under review.

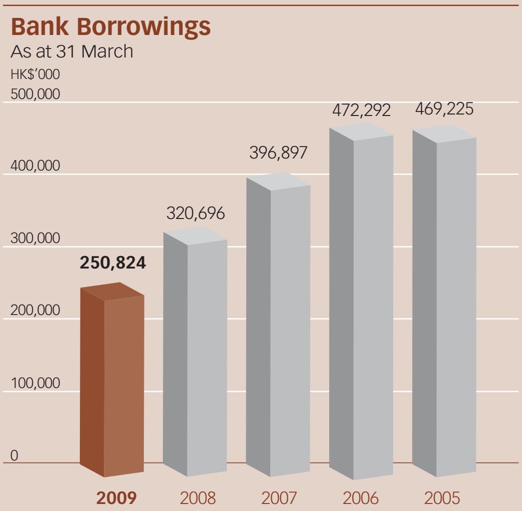
Goodwill associated with Kid Galaxy's acquisition and club memberships made up approximately HK$21 million of intangible assets. Minor adjustments were made from previous year's approximately HK$22 million to reflect to current market values of certain club memberships owned by the Group as at 31 March 2009.

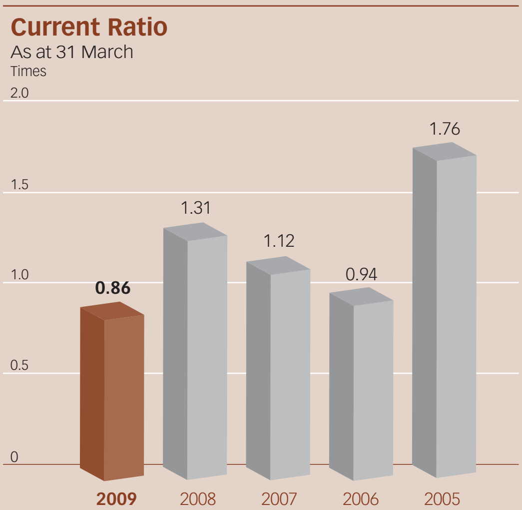
The effort to control inventories continued, but the reduction in sales led to an approximately 41% decrease in purchasing activities during the FY 08/09. The uncertainties effect of the world's economies during the second half of FY 08/09 caused the Group to halt trades with few customers while certain customers reduced orders. Provisions were made for these terminations, reductions, suspensions, delays and cancellations of orders as well as for obsolete, damaged and non-complied inventories. Inventory value decreased from approximately HK$295 million at the end of FY 07/08 to approximately HK$205 million as at 31 March 2009. Stock turnover days were higher at 143 days compared with 122 days in the previous year due to decrease in sales.

Trade receivables recorded an approximately 51% decrease as at 31 March 2009 to approximately HK$72 million, compared with approximately HK$146 million at the previous year. Allowance for doubtful debts of approximately HK$15 million was made during the FY 08/09 due to certain customers being affected by the current financial tsunami. Debtor turnover days were lower at 62 days in FY 08/09 compared with 70 days in FY 07/08. Management regularly evaluates the Group's customers, assesses their known financial position and credit risks but the financial turmoil leads to higher risk for doubtful debts. In view of the ongoing uncertain economic climate, management attempts to have more customers covered by export credit insurance despite additional insurance expenses.









Cash and bank balances as at 31 March 2009 were approximately HK$27 million, compared with approximately HK$52 million as at 31 March 2008. The reduction in cash and bank balances were partly applied in repaying loan during the FY 08/09. The Group dealt with different revenue and expenses currencies during the FY 08/09 such as RMB, HK$, US$ as well as Indonesian Rupiah.

Overall, total current assets were lower at approximately HK$333 million compared with approximately HK$547 million in the previous year end date. The result led to inability to meet certain financial covenants of the term loan. Thus the re-classification of long term portion of the term loan of approximately HK$69 million to short term loan made current ratio decrease from 131% to 86% as at 31 March 2009.

Trade payables recorded a decrease against the previous year. Trade payables were approximately HK$67 million while other payables and accrued charges were approximately HK$58 million as at 31 March 2009 compared with approximately HK$97 million and approximately HK$66 million respectively as at 31 March 2008. The decrease in trade payables consisted mainly of approximately 41% reduced purchases in line with reduction in sales. Creditor turnover days increased to 107 days versus 57 days at the end of the previous year.

Borrowings under current liabilities increased from approximately HK$201 million as at 31 March 2008 to approximately HK$251 million at 31 March 2009, attributable mainly to re-classification of long term portion of the term loan of approximately HK$69 million to short term loan. Trust receipts loan was up from approximately HK$119 million as at 31 March 2008 to approximately HK$128 million at 31 March 2009.

The gearing ratio, calculated as the total borrowings less cash and bank balances and divided by shareholders' equity, increased to approximately 97% as at 31 March 2009 compared with approximately 57% in 2008. The Group's continued operations rely upon the support from financial institutions. Management is currently liaising with these financial institutions to obtain the relief of certain financial covenants.

Bearing unforeseen circumstances, the Group will continue to review the viability of certain non-core assets, maximize utilization of its core assets and develop appropriate banking facilities to finance anticipated future growth in sales. The Board is confident that the Group has sufficient financial resources to meet operational needs and financial obligations in the coming year.

CORPORATE GOVERNANCE REPORT

The Company is committed to achieving high standard of corporate governance in order to safeguard the interest of its shareholders and stakeholders. Save as disclosed below, throughout the year ended 31 March 2009, 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 2009.

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 29 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 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 six Board meetings held during the year ended 31 March 2009 and the attendance of individual members of the Board at such meetings is set out below:

	Attendance
Executive Directors	
Mr Leung Lun	6/6
Mr Leung Chung Ming	6/6
Mr Zhong Bingquan	6/6
Ms Cheng Yun Tai	6/6
Mr Wong, Andy Tze On	6/6
Non-executive Director	
Mr Ko Peter, Ping Wah	6/6
Independent Non-executive Directors	
Mr Wong Lam, O.B.E., J.P.	6/6
Mr Ye Tian Liu	6/6
Mr Lai Yun Hung	6/6

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 2009 and a proposal on remuneration packages and employment contracts was submitted to the Board.

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 83 to page 84 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 2009, 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.

Two Audit Committee meetings were held during the year ended 31 March 2009. 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	2/2
Independent Non-executive Directors	
Mr Wong Lam, O.B.E., J.P.	2/2
Mr Ye Tian Liu	2/2
Mr Lai Yun Hung	2/2

AUDITORS' REMUNERATION

Messrs. Shu Lun Pan Hong Kong CPA Limited resigned as auditors of the Company with effect from 19 May 2009 and BDO Limited ("BDO") was then appointed as auditors of the Company with effect from 19 May 2009. A resolution will be submitted to the forthcoming annual general meeting to re-appoint BDO as auditors of the Company.

During the year ended 31 March 2009, the fees charged to the financial statements of the Company and its subsidiaries for BDO's statutory audit amounted to approximately HK$1.0 million. In addition, approximately HK$0.1 million was charged for non-audit services. The non-audit services mainly consist of special review and tax compliance. The cost of audit services of subsidiaries not performed by BDO amounted to approximately HK$0.5 million.

FINANCIAL REPORTING

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

The Directors acknowledge their responsibility for preparing the financial statements as set out on page 37 to page 96. The statement of the external auditors about its reporting responsibilities on the financial statements is set out on page 35 to page 36.

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

INTERNAL CONTROL

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

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

DIRECTORS' REPORT

The Directors submit their report together with the audited financial statements for the year ended 31 March 2009.

PRINCIPAL ACTIVITIES AND GEOGRAPHICAL ANALYSIS OF OPERATIONS

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

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

RESULTS AND APPROPRIATIONS

The results of the Group for the year are set out in the consolidated income statement on page 37.

The Directors do not recommend the payment of final dividend for the year ended 31 March 2009 (2008: Nil).

The Directors view that it would not be prudent to recommend any cash dividend in view of the result for the year ended 31 March 2009 (2008: Nil).

RESERVES

Movements in the reserves of the Group and of the Company during the year are set out in page 40 and Note 32 to the financial statements.

DONATIONS

Charitable and other donations made by the Group during the year amounted to approximately HK$95,000.

PROPERTY, PLANT AND EQUIPMENT

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

INFORMATION ON SUBSIDIARIES

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

FIVE YEAR FINANCIAL SUMMARY

The following is a summary of the consolidated results, assets and liabilities of the Group for each of the last five years ended 31 March 2009.

	2009	2008	2007	2006	2005
	HK$'000	HK$'000	HK$'000	HK$'000	HK$'000
Turnover	**637,224**	799,142	704,815	750,620	774,710
(Loss)/profit before income tax	**(291,065)**	1,715	(36,497)	15,244	24,337
Income tax credit/(charge)	**2,292**	2,728	(779)	565	(4,172)
(Loss)/profit for the year	**(288,773)**	4,443	(37,276)	15,809	20,165
Attributable to:					
Equity holders of the Company	**(288,773)**	4,443	(37,219)	16,673	20,165
Minority interest	**—**	—	(57)	(864)	—
	(288,773)	4,443	(37,276)	15,809	20,165
Total assets	**755,690**	1,112,929	1,037,119	1,024,987	1,020,770
Total liabilities	**455,487**	550,191	575,861	586,481	605,190
Total equity	**300,203**	562,738	461,258	438,506	415,580

DISTRIBUTABLE RESERVES

At 31 March 2009, in the opinion of the directors, the Company has no distributable reserves. At 31 March 2008, the reserves of the Company available for distribution amounted to approximately HK$98,651,000 which 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 1998, a share option scheme (the "Old Scheme") was approved by the shareholders of the Company under which its Directors may, at their discretion, invite employees of the Group including any executive directors to take up options (the "Share Options") to subscribe for ordinary shares (each a "Share") of HK$0.1 each in the Company subject to the terms and conditions stipulated therein.

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

On 3 September 2002, the shareholders of the Company approved the termination of the Old Scheme and the adoption of a new scheme ("the Scheme") as a result of the amendments of Chapter 17 of the Rules Governing the Listing of Securities on The Stock Exchange of Hong Kong Limited (the "Listing Rules").

Details of the Scheme are as follows:

(1) Purpose

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

(2) Eligible persons

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

(3) Maximum number of shares

The scheme mandate limit of the Scheme was refreshed pursuant to a shareholders' resolution passed in the annual general meeting ("**AGM**") of the Company held on 27 August 2007, details of which have been set out in the circular dated 3 August 2007. Accordingly, as at 31 March 2009, the maximum number of shares available for issue under the Scheme is 82,159,999, representing 10% of the issued ordinary share capital of the Company as at the date of the AGM and approximately 3.33% of the issued ordinary share capital of the Company as at 31 March 2009 (taking into effect the bonus issue during the current year after the refreshment of scheme mandate limit).

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

SHARE OPTION SCHEME *(Continued)*

(4) Maximum entitlement of each eligible person

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

(5) Time of exercise of option

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

(6) Acceptance of offers

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

(7) Basis of determining the option exercise price

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

(8) The remaining life of the Scheme

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

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

None of the share options were exercised and all of the share options has lapsed as at the reporting date of 31 July 2009.

Details of the share options movement and outstanding as at 31 March 2009 have been disclosed in Note 31 to the financial statements.

DIRECTORS' REPORT

DIRECTORS

The Directors during the year were:

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

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

In accordance with Article 116 of the Company's articles of association, the Directors who are to retire by rotation at the forthcoming annual general meeting are Mr Leung Chung Ming, Mr Ko Peter, Ping Wah and Mr Ye Tian Liu. 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 60, 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 45 years of experience in the toys manufacturing industry. Mr Leung is a director of the Chinese Overseas Friendship Association, a standing member of the committee of the Chinese People's Political Consultative Conference of Jiang Xi Province and a standing member of the committee of the Chinese People's Political Consultative Conference of Dongguan City. He is also an honourable president of Dongguan Toys Association of China, president 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 49, 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 57, 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 54, 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 42, is responsible for formulation of the corporate strategies, new business ventures and financial planning of the Group. He is also responsible for financier and investor relationship management as well as corporate communications of the Group. Mr Wong holds a business degree in accounting from the Curtin University of Technology, Western Australia. He joined the Group in June 1993. He is a member of the Australian Society of Certified Practising Accountants. Mr Wong was appointed as a Director in August 1997.

Non-executive Director

Mr Ko Peter, Ping Wah, aged 60, has been appointed as a Director since January 2003. He is now our non-executive director. Mr Ko holds a Ph. D degree in business administration from Bulacan State University, Republic of the Philippines, a master of science degree in business administration from the University of Bath, England and a bachelor's degree of law (Chinese Law) from the University of Beijing, China and higher diploma in mechanical engineering from Hong Kong Polytechnic University. He has been registered Lead Auditor & Tutor of ISO9000 for 10 Years and Quality Management Consultant and Trainer for 14 years. He is appointed as part-time tutor of universities in Hong Kong and overseas for many years.

Independent Non-executive Directors

Mr Wong Lam, O.B.E., JP., aged 90, 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 63, 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 57, is a partner of Lai & Wong, Certified Public Accountants. He has over 29 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 52, 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 34, is the associate director responsible for the management of the Group's marketing and sales in China & USA. He is also responsible for the development of new investments and business ventures. Mr Leung is the son of the Group's Chairman. He holds a bachelor of commerce (accounting and finance) degree and a bachelor of engineering (I.T.) 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 51, was appointed the director of quality advancement and business development of the Group since December 2006. He acquired a postgraduate master's degree of business study in City University of Hong Kong and bachelor of science degree in electronic engineering and has over 27 years of experience in quality control of electronics. He first joined the Group in April 1995. He is responsible for the quality assurance and OEM business development of the Group.

Mr Ng Ki Yin, Simon, aged 55, is the director of operation, in charge of the Group's daily operational matters. He holds a bachelor of science degree in business management. He joined the Group in June 1994. Mr Ng is responsible for managing the human resources, information technology, production planning, sourcing, material planning and logistic functions of the Group's China and South East Asia facilities. He has over 20 years of experience in manufacturing resources planning and system management both in overseas corporates and PRC companies.

DIRECTORS *(Continued)*

Senior Management *(Continued)*

Mr Yu Kin Chung, Simon, aged 46, is the Group's chief accountant. He obtained a bachelor's degree in the Faculty of Business Administration majoring in Accounting from The Chinese University of Hong Kong in 1985. He has served in several audit and accounting firms in Hong Kong and various manufacturing plants in Mainland China which are mainly in the OEM industry of consumer electronics products. He has over 24 years of solid working experience in accounting, listing and de-listing in Singapore listing market, merger and acquisition, and also taxation services in both Hong Kong and Australia. He is now responsible for the overall accounting, finance and taxation function of the Group. He has joined the Group since June 2005.

Mr Yim To, aged 57, is the director of production of the Group. He has over 24 years of production and management experience in the toys industry. He joined the Group in July 1995. He is responsible for the overall manufacturing functions of the Group. Mr Yim is directly in charge of the productivity management of the Dongguan factories.

Mr Yung Chuk Kam, Ronnie, aged 58, is the vice president responsible for the sales & marketing department. He is responsible for exploring business opportunities, providing strategic marketing direction to the Group through researching and developing new strategic business relationships and OBM product opportunities. He holds the master's degree in science from Warwick University of UK. He has over 23 years experience in toys field and was a senior executive of a well-known toy company. He joined the Group in March 2008.

Mr Oravec, Bruce, aged 66, has been a director of Kid Galaxy, Inc. since 2002. His career in the toy industry began in 1980 in Milton Bradley Company as its Senior Legal Counsel. In 1985, he joined Kenner-Parker Toys, Inc., as its Senior Vice President, General Counsel and Secretary. In 1990, he became Senior Vice President, General Counsel and Secretary of Fisher-Price, Inc. In 1996, Mr Oravec co-founded a pre-school toy company, WB & N, Inc. He currently provides business consultation services for toy industry executives and is on the Board of Directors of the ToyTown Museum of East Aurora, New York. Mr Oravec holds a bachelor's degree from the University of Michigan and bachelor of laws degree (LL.B) from Harvard Law School.

DIRECTORS' SERVICE CONTRACTS

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

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

DIRECTORS' INTERESTS IN CONTRACTS

On 7 March 2008, the Company and Lung Cheong Investment Limited entered into a loan agreement pursuant to which Lung Cheong Investment Limited agreed to grant a loan of HK$50 million to the Company for partial repayment of the loan granted under the facility agreement entered into between, amongst others, the Company and a syndicate of banks on 21 August 2007. Lung Cheong Investment Limited is the controlling shareholder of the Company and is wholly owned by a company beneficially owned by Messrs. Leung Lun and Leung Chung Ming, both are directors of the Company. The above details and subsequent extension are set out in the announcements of the Company dated 10 March 2008 and 25 September 2008 and Note 37(a) to the financial statements.

On 29 September 2008, the Group disposed of certain properties to a corporate entity which is beneficial owned by certain executive directors of the Company at fair market value. The above details are set out in the announcement of the Company dated 10 October 2008.

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

DIRECTORS' INTERESTS IN EQUITY SECURITIES

At 31 March 2009, the interests and short positions of each Director and chief executive of the Company in the shares or underlying shares of the Company and its associated corporations (within the meaning of Part XV of the Securities and Futures Ordinance (Chapter 571 of Laws of Hong Kong) ("SFO")) as recorded in the register required to be kept under section 352 of the SFO or as otherwise notified to the Company and The Stock Exchange of Hong Kong Limited ("Stock Exchange") pursuant to the Model Code for Securities Transactions by Directors of Listed Issuers contained in the Listing Rules were as follows:

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

notes:

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

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

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

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

SUBSTANTIAL SHAREHOLDERS

As at 31 March 2009, the following persons, other than a director or chief executive of the Company, had an interest in the shares and underlying shares of the Company as recorded in the register required to be kept under section 336 of the SFO:

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

Notes:

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

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

PRE-EMPTIVE RIGHTS

In the event that the Company issues, otherwise than pursuant to the Old Scheme and the 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.

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 2009, 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$60,048,000, plus accrued interest, due by P. T. Lung Cheong Brothers Industrial ("PTLC"), a 60% owned subsidiary of LC Toys. The balance of the 40% interest in PTLC was owned by independent third parties who had subsequently disposed of the interest in aggregate consideration of HK$3,900,000 to a wholly-owned subsidiary of the Group on 25 June 2009. Further details are set out in Note 41 to the financial statements. The long-term loans were advanced to finance the set up of the production facilities of PTLC. The amounts are unsecured, interest-free (2008: 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:

	2009	2008
	%	%
Sales		
— the largest customer	**15**	15
— five largest customers combined	**53**	50
Purchases		
— the largest supplier	**11**	8
— five largest suppliers combined	**36**	26

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.

SUBSEQUENT EVENT

Details of subsequent event are set out in Note 41 to the financial statements.

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.

AUDITORS

The Company's auditors changed their name from Shu Lun Pan Horwath Hong Kong CPA Limited to Shu Lun Pan Hong Kong CPA Limited on 1 May 2009. Messrs. Shu Lun Pan Hong Kong CPA Limited resigned as auditors of the Company with effect from 19 May 2009 and BDO Limited was then appointed as auditors of the Company with effect from 19 May 2009. The financial statements have been audited by BDO 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 BDO Limited as auditors of the Company.

On behalf of the Board

Leung Lun
Chairman

31 July 2009

BDO Limited
Certified Public Accountants
德豪會計師事務所有限公司

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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 37 to 96, which comprise the consolidated and company balance sheets as at 31 March 2009, 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.

AUDITORS' 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.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the auditors' judgement, 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 auditors consider 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.

INDEPENDENT AUDITORS' REPORT

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 2009 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.

EMPHASIS OF MATTER

Without qualifying our opinion, we draw attention to Note 3(b) to the financial statements which indicates that the Group incurred a net loss of approximately HK$288,773,000 during the year ended 31 March 2009 and, as of that date, the Group's current liabilities exceeded its current assets by approximately HK$55,281,000 and it had outstanding short-term borrowings of approximately HK$256,861,000 which are due for repayment within the next twelve months. These conditions indicate the existence of a material uncertainty which may cast significant doubt about the Group's ability to continue as a going concern.

BDO LIMITED
Certified Public Accountants

Chan Kam Wing, Clement
Practising Certificate Number P02038

Hong Kong, 31 July 2009

CONSOLIDATED INCOME STATEMENT

For the year ended 31 March 2009

	Notes	2009 HK$'000	2008 HK$'000
Turnover	5	**637,224**	799,142
Cost of sales		**(517,656)**	(603,842)
Gross profit		**119,568**	195,300
Other income and gains, net	6	**9,709**	28,002
Selling and distribution expenses		**(33,324)**	(44,026)
General and administrative expenses		**(205,379)**	(153,996)
Revaluation deficit on land and buildings		**(121,827)**	—
Impairment on property, plant and equipment	17	**(22,097)**	—
Impairment on trade and other receivables, deposits and prepayments	22	**(21,200)**	—
Write back of provision for damages under lawsuits		**—**	2,805
Operating (loss)/profit	7	**(274,550)**	28,085
Finance costs	8	**(16,515)**	(26,370)
(Loss)/profit before income tax		**(291,065)**	1,715
Income tax credit	9	**2,292**	2,728
(Loss)/profit for the year		**(288,773)**	4,443
Attributable to:			
Equity holders of the Company	10	**(288,773)**	4,443
Minority interest		**—**	—
		(288,773)	4,443
Dividends	11	**—**	—
(Loss)/earnings per share for (loss)/profit attributable to the equity holders of the Company			
— Basic and diluted	12	**(11.72) cents**	0.18 cents

The accompanying notes form part of these financial statements.

BALANCE SHEETS

As at 31 March 2009

	Notes	Group 2009 HK$'000	Group 2008 HK$'000	Company 2009 HK$'000	Company 2008 HK$'000
ASSETS AND LIABILITIES					
Non-current assets					
Leasehold land and land use rights	16	**89,582**	97,356	**—**	—
Property, plant and equipment	17	**307,821**	441,085	**—**	—
Goodwill	18	**19,240**	19,240	**—**	—
Club memberships	19	**2,001**	2,474	**—**	—
Interests in subsidiaries	20	**—**	—	**299,965**	543,583
Deferred tax assets	29	**4,113**	6,163	**—**	—
		422,757	566,318	**299,965**	543,583
Current assets					
Inventories	21	**204,755**	294,529	**—**	—
Trade and other receivables, deposits and prepayments	22	**99,089**	198,762	**5,057**	2,883
Derivative financial instruments	23	**544**	634	**—**	—
Tax recoverable		**1,893**	1,182	**9**	9
Cash and cash equivalents	24	**26,652**	51,504	**153**	437
		332,933	546,611	**5,219**	3,329
Current liabilities					
Trade and other payables and accrued charges	25	**125,619**	162,824	**462**	1,781
Obligations under finance leases	27	**6,037**	—	**—**	—
Derivative financial instruments	23	**317**	1,002	**—**	—
Borrowings	26	**250,824**	200,696	**109,603**	30,000
Loan from immediate holding company	37(a)	**—**	50,000	**—**	50,000
Tax payable		**5,417**	3,983	**—**	—
		388,214	418,505	**110,065**	81,781
Net current (liabilities)/assets		**(55,281)**	128,106	**(104,846)**	(78,452)
Total assets less current liabilities		**367,476**	694,424	**195,119**	465,131

BALANCE SHEETS

As at 31 March 2009

	Notes	Group 2009 HK$'000	Group 2008 HK$'000	Company 2009 HK$'000	Company 2008 HK$'000
Total assets less current liabilities		**367,476**	694,424	**195,119**	465,131
Non-current liabilities					
Obligations under finance leases	27	**10,342**	—	—	—
Borrowings	26	—	120,000	—	120,000
Provision for long service payment	28	**1,420**	1,476	—	—
Loan from immediate holding company	37(a)	**50,000**	—	**50,000**	—
Deferred tax liabilities	29	**5,511**	10,210	—	—
		67,273	131,686	**50,000**	120,000
Net assets		**300,203**	562,738	**145,119**	345,131
EQUITY					
Share capital	30	**246,480**	246,480	**246,480**	246,480
Reserves	32	**53,723**	316,258	**(101,361)**	98,651
Total equity		**300,203**	562,738	**145,119**	345,131

These financial statements were approved and authorised for issue by the board of directors on 31 July 2009.

Leung Lun
Director

Leung Chung Ming
Director

The accompanying notes form part of these financial statements.

CONSOLIDATED STATEMENT OF CHANGES IN EQUITY

For the year ended 31 March 2009

	Attributable to equity holders of the Company									
	Share capital HK$'000 (Note 30)	Share premium HK$'000 (Note 32)	Exchange fluctuation reserve HK$'000 (Note 32)	Statutory surplus reserve HK$'000 (Note 32)	Land and buildings revaluation reserve HK$'000 (Note 32)	Share options reserve HK$'000 (Note 32)	Retained profits/ (accumulated losses) HK$'000	Total HK$'000	Minority interests HK$'000	Total equity HK$'000
At 1 April 2007	72,560	133,454	(29,521)	28,840	21,140	—	234,785	461,258	—	461,258
Currencies translation difference and net income recognised directly in equity	—	—	39,158	—	—	—	—	39,158	—	39,158
Profit for the year	—	—	—	—	—	—	4,443	4,443	—	4,443
Total recognised income and expenses for the year	—	—	39,158	—	—	—	4,443	43,601	—	43,601
Share-based payments	—	—	—	—	—	3,202	—	3,202	—	3,202
Transfer to retained profits on lapse of share options	—	—	—	—	—	(2,410)	2,410	—	—	—
Issue of shares in placing arrangement	9,600	46,080	—	—	—	—	—	55,680	—	55,680
Share issue expenses	—	(1,003)	—	—	—	—	—	(1,003)	—	(1,003)
Issue of shares by bonus issue	164,320	(164,320)	—	—	—	—	—	—	—	—
At 31 March 2008	246,480	14,211	9,637	28,840	21,140	792	241,638	562,738	—	562,738
Currencies translation difference	—	—	21,730	—	—	—	—	21,730	—	21,730
Revaluation surplus of land and buildings, net	—	—	—	—	4,508	—	—	4,508	—	4,508
Net income recognised directly in equity	—	—	21,730	—	4,508	—	—	26,238	—	26,238
Release upon disposal of properties	—	—	—	—	(142)	—	142	—	—	—
Loss for the year	—	—	—	—	—	—	(288,773)	(288,773)	—	(288,773)
Total recognised income and expenses for the year	—	—	21,730	—	4,366	—	(288,631)	(262,535)	—	(262,535)
Transfer to accumulated losses on lapse of share options	—	—	—	—	—	(546)	546	—	—	—
At 31 March 2009	246,480	14,211	31,367	28,840	25,506	246	(46,447)	300,203	—	300,203

The accompanying notes form part of these financial statements.

CONSOLIDATED CASH FLOW STATEMENT

For the year ended 31 March 2009

	2009 HK$'000	2008 HK$'000
Operating activities		
(Loss)/profit before income tax	**(291,065)**	1,715
Adjustments for:		
Interest income	**(80)**	(1,504)
Interest expense	**15,467**	24,805
Arrangement fees on bank loans	**1,048**	1,566
Depreciation of property, plant and equipment	**53,675**	39,981
Provision/(release of provision) for long service payment	**256**	(58)
Revaluation deficit of land and buildings	**121,827**	—
Impairment on inventories	**30,155**	—
Impairment on property, plant and equipment	**22,097**	—
Impairment on trade and other receivables, deposits and prepayments	**21,200**	—
Impairment on club memberships	**473**	—
Write back of provision for damages under lawsuits	**—**	(2,805)
Amortisation of leasehold land and land use rights	**2,069**	1,180
Equity settled share-based payment expenses	**—**	3,202
Loss/(gain) on disposal of property, plant and equipment	**1,703**	(7,202)
Gain on disposal of a subsidiary	**—**	(3,125)
Fair value (gain)/loss on derivative financial instruments	**(595)**	65
Operating cash flows before changes in working capital	**(21,770)**	57,820
Inventories	**59,619**	(54,255)
Trade and other receivables, deposit and prepayments	**78,473**	(4,193)
Trade and other payables and accrued charges	**(37,205)**	50,744
Trust receipt loans	**9,631**	24,517
Cash generated from operations	**88,748**	74,633
Release of restricted cash	**—**	2,805
Interest received	**80**	1,998
Hong Kong profits tax refund/(paid)	**614**	(3,291)
Overseas income tax refund/(paid)	**190**	(448)
Net cash generated from operating activities	**89,632**	75,697

CONSOLIDATED CASH FLOW STATEMENT

For the year ended 31 March 2009

	Note	2009 HK$'000	2008 HK$'000
Investing activities			
Purchase of property, plant and equipment		**(38,489)**	(59,116)
Disposal of a subsidiary		**—**	4,473
Proceeds from disposal of property, plant and equipment		**12,680**	8,445
Net cash used in investing activities		**(25,809)**	(46,198)
Financing activities			
Interest expense and arrangement fees on bank loans		**(16,515)**	(26,371)
New loans from banks and financial institutions		**—**	211,512
Repayment of loans borrowed from banks and financial institutions		**(79,503)**	(312,230)
Capital element of finance lease rental payment		**(4,335)**	—
Loan from immediate holding company		**—**	50,000
Net proceeds from issue of shares in placing arrangement		**—**	54,677
Net cash used in financing activities		**(100,353)**	(22,412)
Net (decrease)/increase in cash and cash equivalents		**(36,530)**	7,087
Effect of foreign exchange rate changes		**11,678**	1,832
Cash and cash equivalents at beginning of year		**51,504**	42,585
Cash and cash equivalents at end of year	24	**26,652**	51,504

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, moulds and materials.

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

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

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

2. ADOPTION OF NEW AND REVISED STANDARDS

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

The adoption of HK(IFRIC) - Int 12 "Service concession arrangements", HK(IFRIC) - Int 14 "HKAS 19 - The limit on a defined benefit asset, minimum funding requirements and their interaction" and HKAS 39 & HKFRS 7 Amendments "Reclassification of financial assets" has no impact on these financial statements.

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

		Effective date
HKAS 1 (Revised)	Presentation of financial statements	(i)
HKAS 23 (Revised)	Borrowing costs	(i)
HKAS 32 & HKAS 1 (Amendments)	Puttable financial instruments and obligations arising on liquidation	(i)
HKFRS 1 & HKAS 27 (Amendments)	Cost of an investment in a subsidiary, jointly controlled entity or associate	(i)
HKFRS 8	Operating segments	(i)
HK(IFRIC) - Int 15	Agreements for the construction of real estates	(i)
HKFRS 2 (Amendment)	Vesting conditions and cancellations	(i)
	Group cash-settled share-based payment transactions	(vii)
HKFRS 7 (Amendment)	Improving disclosure about financial instruments	(i)
HKAS 27 (Revised)	Consolidated and separate financial statements	(ii)
HKAS 39 (Amendment)	Eligible hedged items	(ii)

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

		Effective date
HKFRS 1 (Revised)	First-time adoption of HKFRSs	(ii)
HKFRS 3 (Revised)	Business combinations	(ii)
HK(IFRIC) — Int 17	Distribution of non-cash assets to owners	(ii)
HK(IFRIC) — Int 13	Customer loyalty programmes	(iii)
HK(IFRIC) — Int 16	Hedges of a net investment in a foreign operation	(iv)
HK(IFRIC) — Int 9 & HKAS 39 (Amendments)	Embedded derivatives	(v)
HK(IFRIC) — Int 18	Transfers of assets from customers	(vi)
2008 Improvements to HKFRSs that may result in accounting changes for presentation, recognition or measurement	— HKAS 1, HKAS 16, HKAS 19, HKAS 20, HKAS 23, HKAS 27, HKAS 28, HKAS 29, HKAS 31, HKAS 36, HKAS 38, HKAS 39, HKAS 40 & HKAS 41	(i)
	— HKFRS 5	(ii)
2009 Improvements to HKFRSs that may result in accounting changes for presentation, recognition or measurement	— HKAS 39 (80)	(i)
	— HKAS 38, HKFRS 2, HK(IFRIC) — Int 9, HK(IFRIC) — Int 16	(ii)
	— HKAS 1, HKAS 7, HKAS 17, HKAS 36, HKAS 39, HKFRS 5, HKFRS 8	(vii)

Effective date

(i) Annual periods beginning on or after 1 January 2009
(ii) Annual periods beginning on or after 1 July 2009
(iii) Annual periods beginning on or after 1 July 2008
(iv) Annual periods beginning on or after 1 October 2008
(v) Annual periods ending on or after 30 June 2009
(vi) Transfers of assets from customers received on or after 1 July 2009
(vii) Annual periods beginning on or after 1 January 2010

The Group is in the process of making an assessment of what the impact of these new or revised Standards or Interpretations is expected to be in the period of their initial application.

3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

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

(a) Statement of compliance

The financial statements have been prepared in accordance with all applicable HKFRSs accounting principles generally accepted in Hong Kong. The financial statements also comply with the applicable disclosure requirements of the Hong Kong Companies Ordinance and the applicable disclosure provisions of the Rules Governing the Listing of Securities on The Stock Exchange of Hong Kong Limited.

(b) Basis of preparation

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

The preparation of financial statements in conformity with HKFRS 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. The areas involving a higher degree of judgement or complexity, or areas where assumptions and estimates are relatively significant to the consolidated financial statements are disclosed in Note 4.

As at 31 March 2009, the Group's current liabilities exceeded its current assets by approximately HK$55,281,000, and it had outstanding short-term borrowings of approximately HK$256,861,000 which are due for repayment within the next twelve months. Included in the short-term borrowings is an outstanding syndicated loan of approximately HK$109,603,000 in respect of which the Group has breached certain covenants. Further details are set out in Note 26 to the financial statements. These conditions indicate the existence of a material uncertainty which may cast significant doubt about the Group's ability to continue as a going concern and to fulfill its financial obligations. Its ability to do so depends on the continuing supports of the banks to provide financing and the success of management's continuing efforts to improve the Group's profitability and operating cash flow.

The directors consider that the Group has good credit history as it has been servicing its debt obligations according to the loan repayment schedules. The loans are secured by assets of the Group. The directors are confident that the outstanding bank loans will be able to roll over when they are due for repayment or the Group will be able to secure additional banking facilities to meet its future working capital and financial requirements. Breaches of bank covenants of the syndicated loan have been reported to respective banks which involved in the syndicated loan on the earliest practical date. The Group is liaising with these banks to obtain relief some of the bank covenants of the syndicated loan. To the best estimation of the directors of the Company, the discussion will be finalised after the date of these financial statements. Up to the date of these financial statements, there is no withdrawal of banking facilities granted by any of the Group's principal banks. Management will continue to implement a number of measures aiming at improving working capital and cash flows of its businesses. On the cost control front, management will continue its initiatives in closely monitoring daily operating expenses and discretionary capital expenditures.

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

(b) Basis of preparation *(Continued)*

In light of the measures described above and based on the Group's cash flow projection for the coming year, the directors are confident that the Group will have sufficient working capital to meet its financial obligations when they fall due and maintain its operating scale in the next twelve months from the balance sheet date. Accordingly, the directors are of the opinion that it is appropriate to prepare these financial statements on a going concern basis. These financial statements do not include any adjustments relating to the carrying amount and reclassification of assets and liabilities that might be necessary should the Group be unable to continue as a going concern.

(c) Consolidation

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

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

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

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

Minority interest in the net assets of consolidated subsidiaries are identified separately from the Group's equity therein. Minority interests consist of the amount of those interests at the date of the original business combination and the minority's share of changes in equity since the date of the combination. Losses applicable to the minority in excess of the minority's interest in the subsidiary's equity are allocated against the interests of the Group except to the extent that the minority has a binding obligation and is able to make an additional investment to cover the losses.

(d) Business combinations

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

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

(e) Subsidiaries

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

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

(f) Property, plant and equipment

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

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

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

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

Buildings	50 years
Leasehold improvements	Over the shorter of the lease terms and 5 -50 years
Plant and machinery	5 years
Furniture, fixtures and equipment	5 years
Motor vehicles	5 years
Moulds	5 years

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

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

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

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

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

Assets held under finance leases are depreciated over their expected useful lives on the same basis as owned assets, or where shorter, the term of the relevant lease.

Gains and losses on disposals are determined by comparing proceeds with carrying amount. These are included in profit or loss.

The directors of the Company consider that it is more appropriate to depreciate the leasehold improvement of a factory over its lease term. With effect from 1 April 2008, the estimated useful lives of certain leasehold improvement of the Group's factory were reviewed and reduced to 3.5 years. The change in estimated useful lives has been applied prospectively, commencing in the current year. The change in the useful lives has resulted in a higher depreciation charge by approximately HK$6,478,000 for the current financial year.

(g) Goodwill

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

Goodwill is tested annually for impairment.

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

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

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

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

(h) Club memberships

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

(i) Impairment of tangible and intangible assets excluding goodwill

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

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

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

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

(j) Inventories

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

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

(k) Financial assets

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

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

(i) Loans and receivables

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

(ii) Impairment of financial assets

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

Objective evidence of impairment could include:

— significant financial difficulty of the issuer or counterparty; or

— default or delinquency in interest or principal payments; or

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

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

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

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

(k) Financial assets *(Continued)*

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

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

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

(iii) Effective interest method

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

(iv) Derecognition of financial assets

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

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

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

(i) Classification as debt or equity

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

(ii) Equity instruments

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

(iii) Financial liabilities

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

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

(iv) Derecognition of financial liabilities

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

(m) Derivative financial instruments

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

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

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

(n) Cash and cash equivalents

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

(o) Leases

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

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

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

The cost of acquiring land held under an operating lease is amortised on a straight-line basis over the period of the lease term.

(p) Financial guarantees issued

Financial guarantees are contracts that require the issuer (i.e. the guarantor) to make specified payments to reimburse the beneficiary of the guarantee (the ''holder") for a loss the holder incurs because a specified debtor fails to make payment when due in accordance with the terms of a debt instrument.

Where the Group issues a financial guarantee, the fair value of the guarantee (being the transaction price, unless the fair value can otherwise be reliably estimated) is initially recognised as deferred income within trade and other payables. Where consideration is received or receivable for the issuance of the guarantee, the consideration is recognised in accordance with the Group's policies applicable to that category of asset. Where no such consideration is received or receivable, an immediate expense is recognised in profit or loss on initial recognition of any deferred income.

The amount of the guarantee initially recognised as deferred income is amortised in profit or loss over the term of the guarantee as income from financial guarantees issued. In addition, provisions are recognised in accordance with Note 3(q) if and when (i) it becomes probable that the holder of the guarantee will call upon the Group under the guarantee, and (ii) the amount of that claim on the Group is expected to exceed the amount currently carried in trade and other payables in respect of that guarantee i.e. the amount initially recognised, less accumulated amortisation.

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

(q) Provisions and contingent liabilities

Provisions are recognised for liabilities of uncertain timing or amount when the Group has a legal or constructive obligation arising as a result of a past event, it is probable that an outflow of economic benefits will be required to settle the obligation and a reliable estimate can be made. Where the time value of money is material, provisions are stated at the present value of the expenditures expected to settle the obligation.

Where it is not probable that an outflow of economic benefits will be required, or the amount cannot be estimated reliably, the obligation is disclosed as a contingent liability, unless the probability of outflow of economic benefits is remote. Possible obligations, whose existence will only be confirmed by the occurrence or non-occurrence of one or more future events are also disclosed as contingent liabilities unless the probability of outflow of economic benefits is remote.

(r) Taxation

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

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

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

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

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

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

(r) Taxation *(Continued)*

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

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

(s) Translation of foreign currencies

(i) Functional and presentation currency

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

(ii) Transactions and balances

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

(iii) Group companies

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

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

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

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

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

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

(iii) Group companies *(Continued)*

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

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

(t) Employee benefits

(i) Employee leave entitlements

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

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

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

(ii) Profit sharing and bonus plans

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

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

(iii) Pension obligations

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

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

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

(t) Employee benefits *(Continued)*

(iv) Share-based payments

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

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

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

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

(u) Borrowing costs

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

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

All other borrowing costs are charged to the income statement in the period in which they are incurred.

(v) Related parties

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

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

(w) Revenue recognition

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

(i) Sale of goods

Sale of goods is recognised when the Group entity has delivered products to the customer, the customer has accepted the products and collectibility of the related receivables is reasonably assured.

(ii) Interest income

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

(x) Segment reporting

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

4. CRITICAL ACCOUNTING ESTIMATES AND JUDGEMENTS

In the application of the Group's accounting policies, the directors are required to make judgements, estimates and assumptions about the carrying amounts of assets and liabilities that are not readily apparent from other sources. Estimates and judgements are continually evaluated and are based on historical experience and other factors, including expectations of future events that are believed to be reasonable under the circumstances. Actual results differ from these estimates.

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.

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

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

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

(b) Impairment of property, plant and equipment and intangible assets

The impairment loss for property, plant and equipment is recognised for the amount by which the carrying amount exceeds its recoverable amount. The recoverable amount of the assets, or, where appropriate, the cash generating unit to which they belong, is the higher of its fair value less costs to sell and value in use. The recoverable amounts are determined based on fair value less costs to sell which are based on the best information available to reflect the amount obtainable at the balance sheet date, from the disposal of the asset in an arm's length transaction between knowledgeable and willing parties, after deducting the costs of disposal. For the estimation of value in use, the Group's management estimates future cash flows from the cash-generating units and chooses a suitable discount rate in order to calculate the present value of those cash flows.

(c) 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.

(d) Net realisable value of inventories

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

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

(e) 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.

(f) Current taxes and deferred tax

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

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

5. TURNOVER AND SEGMENT INFORMATION

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

	2009 **HK$'000**	2008 HK$'000
Sale of goods	**578,627**	714,839
Sale of moulds and materials	**58,597**	84,303
	637,224	799,142

Primary reporting format — business segments

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

5. TURNOVER AND SEGMENT INFORMATION *(Continued)*

Secondary reporting format — geographical segments

	Turnover 2009 HK$'000	Total assets 2009 HK$'000	Capital expenditure 2009 HK$'000
United States of America	**199,538**	**45,893**	**523**
Europe	**100,480**	**1,867**	**—**
Japan	**83,475**	**4,709**	**—**
China	**112,051**	**516,144**	**50,501**
Indonesia	**657**	**43,709**	**630**
Hong Kong	**97,550**	**142,687**	**7,549**
Others	**43,473**	**681**	**—**
Total	**637,224**	**755,690**	**59,203**

	Turnover 2008 HK$'000	Total assets 2008 HK$'000	Capital expenditure 2008 HK$'000
United States of America	279,668	47,373	1,470
Europe	131,847	441	—
Japan	101,992	22,445	—
China	110,674	758,657	51,855
Indonesia	1,355	49,592	2,776
Hong Kong	102,455	225,819	3,013
Others	71,151	8,602	2
Total	799,142	1,112,929	59,116

6. OTHER INCOME AND GAINS, NET

	2009 HK$'000	2008 HK$'000
Exchange gains	**4,592**	12,192
Gain on disposal of property, plant and equipment	**—**	7,202
Gain on disposal of a subsidiary	**—**	3,125
Interest income	**80**	1,504
Net fair value gain on derivative financial instruments:		
— forward contracts and interest-rate swaps: transactions not qualifying as hedges	**1,636**	1,663
Sample income	**1,536**	1,059
Others	**1,865**	1,257
	9,709	28,002

7. EXPENSES BY NATURE

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

	2009 HK$'000	2008 HK$'000
Cost of inventories sold	**517,656**	603,842
Amortisation of leasehold land and land use right (Note 16)	**2,069**	1,180
Auditors' remuneration	**1,515**	1,517
Bad debts written off	**—**	1,021
Currency exchange difference	**26,575**	909
Depreciation of property, plant and equipment	**53,675**	39,981
Employee benefit expenses (Note 13)	**144,154**	154,949
Impairment on club memberships (Note 19)	**473**	—
Compliance and testing fee	**2,490**	1,434
Insurance	**5,127**	3,230
Loss on disposal of property, plant and equipment	**1,703**	—
Operating lease rentals in respect of land and buildings	**3,366**	4,161
Water and electricity	**6,422**	4,909
Write off of and impairment on inventories	**30,155**	—

8. FINANCE COSTS

	2009 HK$'000	2008 HK$'000
Interest on loans and overdraft from banks and financial institutions wholly repayable within five years	**11,971**	24,804
Interest on loan from immediate holding company	**3,013**	—
Finance charges on obligations under finance leases	**483**	—
Arrangement fees on bank loans	**1,048**	1,566
	16,515	26,370

9. INCOME TAX CREDIT

No Hong Kong profits tax or Mainland China enterprise income tax have been provided as the Group sustained a loss for the year.

The amount of tax credit in the consolidated income statement represents:

	2009 HK$'000	2008 HK$'000
Current tax		
Hong Kong profits tax		
— current year	**—**	—
— under provision in prior years	**(23)**	(79)
Mainland China enterprise income tax		
— current year	**—**	(24)
— over provision in prior years	**155**	—
Deferred tax credit (Note 29)	**2,160**	2,831
Tax credit	**2,292**	2,728

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:

	2009 HK$'000	2008 HK$'000
Loss/(profit) before income tax	**291,065**	(1,715)
Tax credit/(charge) calculated at the tax rate of 16.5% (2008: 17.5%)	**48,025**	(300)
Effect of different tax rates in other countries	**15,310**	(21)
Income not subject to taxation	**566**	2,219
Expenses not deductible for taxation purposes	**(15,983)**	(1,055)
Tax exemption	**198**	8,278
Tax losses not recognised	**(46,098)**	(6,758)
Over provision in prior years	**274**	365
Tax credit	**2,292**	2,728

10. LOSS ATTRIBUTABLE TO EQUITY HOLDERS OF THE COMPANY

The consolidated loss attributable to equity holders of the Company for the year ended 31 March 2009 includes a loss of approximately HK$13,583,000 (2008: approximately HK$16,217,000) which has been dealt with in financial statements of the Company.

11. DIVIDENDS

The directors do not recommend any dividend in respect of the year ended 31 March 2009 (2008: Nil).

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.

	2009 **HK$'000**	2008 HK$'000
(Loss)/profit attributable to equity holders of the Company	**(288,773)**	4,443

	2009 **Number** **of shares** **'000**	2008 Number of shares '000
Issued ordinary shares at beginning of year	**2,464,800**	725,600
Effect of placing arrangement	**—**	78,951
Effect of bonus issue	**—**	1,609,102
Weighted average number of ordinary shares in issue	**2,464,800**	2,413,653
Basic (loss)/earnings per share (HK cents)	**(11.72)**	0.18

Diluted

The diluted (loss)/earnings per share for the years ended 31 March 2009 and 2008 are same as their basic (loss)/earnings per share as the conversion of the outstanding share options would have an anti-dilutive effect on the basic (loss)/earnings per share for the years.

13. EMPLOYEE BENEFIT EXPENSES

Employee benefit expenses excluding directors' emoluments comprise:

	2009 **HK$'000**	2008 HK$'000
Wages and salaries	**139,912**	149,363
Other staff benefits	**3,428**	3,470
Share-based payments	**—**	1,752
Pension costs — defined contribution plans (Note 15)	**814**	364
	144,154	154,949

14. DIRECTORS' AND SENIOR MANAGEMENT'S EMOLUMENTS

(a) Directors' emoluments

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

	2009 **HK$'000**	2008 HK$'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	**6,233**	6,196
Share-based payments	**—**	749
Provident fund scheme contributions	**84**	84
	6,557	7,269

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 2009 and 2008.

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

(a) Directors' emoluments *(Continued)*

The remuneration of every director for the year ended 31 March 2009 is set out below:

Name of director	Fees HK$'000	Basic salaries and bonus HK$'000	Housing and other allowances and benefits in kind HK$'000	Equity-settled share-based payments HK$'000	Employer's contribution to pension scheme HK$'000	Total HK$'000
Mr Leung Lun	**—**	**1,500**	**780**	**—**	**12**	**2,292**
Mr Leung Chung Ming	**—**	**1,649**	**576**	**—**	**12**	**2,237**
Mr Zhong Bingquan	**—**	**324**	**—**	**—**	**12**	**336**
Ms Cheng Yun Tai	**—**	**324**	**—**	**—**	**12**	**336**
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	**4,517**	**1,716**	**—**	**84**	**6,557**

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

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

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 (2008: three) directors whose emoluments are disclosed in the analysis presented above. The emoluments payable to the remaining two (2008: two) individuals during the year are as follows:

	2009	2008
	HK$'000	HK$'000
Basic salaries, housing allowances, other allowances and benefits in kind	**1,629**	1,303
Share-based payments	**—**	251
Bonus	**—**	114
Provident fund scheme contributions	**52**	45
	1,681	1,713

During the year, no share options were granted to the individuals under a share option scheme (the "Scheme") (Note 31) to acquire ordinary shares in the Company.

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

The emoluments of these two (2008: two) highest paid individuals fell within the band of Nil to HK$1,000,000 for both years.

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

15. PROVIDENT FUND SCHEME ARRANGEMENTS

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

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

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

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 2009 was HK$814,000 (2008: HK$364,000).

16. LEASEHOLD LAND AND LAND USE RIGHTS

	Group	
	2009	2008
	HK$'000	HK$'000
At beginning of year	**97,356**	47,415
Transfer from construction in progress (Note 17)	**—**	49,025
Disposals	**(9,841)**	—
Amortisation charged for the year (Note 7)	**(2,069)**	(1,180)
Exchange difference	**4,136**	2,096
At end of year	**89,582**	97,356

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

	Group	
	2009	2008
	HK$'000	HK$'000
In Mainland China, held on:		
— Land use rights of over 50 years	**—**	5,878
— Land use rights of between 10 to 50 years	**75,016**	72,601
In Hong Kong, held on:		
— Land use rights of between 10 to 50 years	**14,566**	18,877
	89,582	97,356

17. PROPERTY, PLANT AND EQUIPMENT

Group	Land and buildings HK$'000	Leasehold improvements HK$'000	Plant and machinery HK$'000	Furniture, fixtures and equipment HK$'000	Motor vehicles HK$'000	Moulds HK$'000	Construction in progress HK$'000	Total HK$'000
At 1 April 2007								
Cost or valuation	56,278	109,080	187,684	31,669	10,052	229,619	226,922	851,304
Accumulated depreciation	(1,372)	(53,833)	(167,117)	(28,006)	(7,035)	(156,899)	—	(414,262)
Net book amount	54,906	55,247	20,567	3,663	3,017	72,720	226,922	437,042
Year ended 31 March 2008								
Net book amount at 1 April 2007	54,906	55,247	20,567	3,663	3,017	72,720	226,922	437,042
Additions	—	15	5,075	2,545	308	2,805	48,368	59,116
Transfer to land and buildings	242,554	—	—	—	—	—	(242,554)	—
Transfer to leasehold land and land use rights (Note 16)	—	—	—	—	—	—	(49,025)	(49,025)
Disposals	—	(7)	—	(691)	—	(544)	—	(1,242)
Disposal of a subsidiary	—	—	—	(10)	—	—	—	(10)
Depreciation charge	(1,162)	(4,652)	(9,316)	(1,054)	(1,164)	(22,633)	—	(39,981)
Exchange differences	8,310	3,757	841	211	41	2,141	19,884	35,185
Net book value at 31 March 2008	304,608	54,360	17,167	4,664	2,202	54,489	3,595	441,085
At 31 March 2008								
Cost or valuation	307,446	117,129	204,392	28,802	10,132	79,173	3,595	750,669
Accumulated depreciation	(2,838)	(62,769)	(187,225)	(24,138)	(7,930)	(24,684)	—	(309,584)
Net book amount	304,608	54,360	17,167	4,664	2,202	54,489	3,595	441,085
Year ended 31 March 2009								
Net book amount at 1 April 2008	304,608	54,360	17,167	4,664	2,202	54,489	3,595	441,085
Additions	21,276	378	8,265	8,026	169	21,089	—	59,203
Transfer	3,644	—	—	—	—	—	(3,644)	—
Disposals	(4,190)	(128)	—	—	—	—	—	(4,318)
Impairment (note iii)	—	—	—	—	—	(22,097)	—	(22,097)
Depreciation charge	(4,270)	(14,458)	(6,760)	(2,233)	(1,000)	(24,954)	—	(53,675)
Revaluation deficit, net	(117,543)	—	—	—	—	—	—	(117,543)
Exchange differences	1,111	2,372	194	159	(14)	1,295	49	5,166
Net book value at 31 March 2009	204,636	42,524	18,866	10,616	1,357	29,822	—	307,821
At 31 March 2009								
Cost or valuation	205,401	123,913	220,287	37,665	8,716	52,818	—	648,800
Accumulated depreciation and impairment	(765)	(81,389)	(201,421)	(27,049)	(7,359)	(22,996)	—	(340,979)
Net book amount	204,636	42,524	18,866	10,616	1,357	29,822	—	307,821

17. PROPERTY, PLANT AND EQUIPMENT *(Continued)*

notes:

(i) The Group's land and buildings were revalued at 31 March 2009. Valuations were made on the basis of open market value carried out by Asset Appraisal Limited, Dongguan City HengXin Real Estate Evaluation Co. Ltd. and PT. Satyatama Graha Tara, all are independent firms of professional valuers.

(ii) The carrying amounts of these revalued land and buildings would have been HK$285,197,000 (2008: HK$257,120,000) had they been stated at cost less accumulated depreciation and accumulated impairment losses.

(iii) During the year ended 31 March 2009, an impairment loss of HK$22,097,000 was recognised by the Group in respect of certain moulds due to technical obsolescence.

(iv) As at 31 March 2009, certain land and buildings situated in the PRC with an aggregate net book value of HK$153,290,000 (2008: HK$243,555,000) had not been transferred to the Group subject to obtain property ownership certificates issued by relevant local government authorities. Notwithstanding this, the directors are of the opinion that the Group has the right to use these buildings during the year.

(v) During the year, additions to property, plant and equipment of the Group financed by new finance leases were HK$21,520,000 (2008: HK$Nil). At the balance sheet date, the carrying amount of property, plant and equipment held under finance leases of the Group was HK$20,136,000 (2008: HK$Nil). The related depreciation charge was HK$1,384,000 (2008: HK$Nil).

(vi) The land and buildings included a freehold land outside Hong Kong with an aggregate net book value of HK$14,529,000 (2008: HK$14,614,000).

18. GOODWILL

	Group	
	2009	2008
	HK$'000	HK$'000
Cost		
At beginning and end of year	**19,240**	19,240

Impairment test for goodwill

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

As at 31 March 2009, the Group's goodwill is allocated to the toys trading business in the United States of America.

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

18. GOODWILL *(Continued)*

Key assumptions used for value-in-use calculations:

	United States of America	
	2009	2008
Growth rate	**0 to 3%**	3%
Discount rate	**10%**	8%

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

19. CLUB MEMBERSHIPS

	Group	
	2009	2008
	HK$'000	HK$'000
At beginning of year	**2,474**	2,474
Impairment loss for the year (Note 7)	**(473)**	—
At end of year	**2,001**	2,474

20. INTERESTS IN SUBSIDIARIES

	Company	
	2009	2008
	HK$'000	HK$'000
Unlisted investments, at cost	**115,801**	115,801
Amounts due from subsidiaries (note)	**454,164**	501,782
	569,965	617,583
Less: provision for impairment loss	**(270,000)**	(74,000)
	299,965	543,583

note:

The amounts are due from certain wholly-owned subsidiaries and in substance represent contribution from the Company in the form of a quasi-equity loan. They are unsecured and will not be demanded for repayment within the next twelve months from 31 March 2009. Out of the total amount, HK$109,603,000 (2008: HK$150,000,000) is interest bearing at Hong Kong Interbank Offered Rate plus 1.15% (2008: Hong Kong Interbank Offered Rate plus 1.15%) per annum while the remaining balance is interest-free.

20. INTERESTS IN SUBSIDIARIES *(Continued)*

Particulars of the subsidiaries of the Company at 31 March 2009 are as follows:

Name of company	Place of incorporation and operations	Particulars of issued share capital/ registered capital	Effective percentage holding 2009	Effective percentage holding 2008	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:					
Lung Cheong Toys Limited	Hong Kong	Deferred HK$1,000,000 Ordinary HK$2	**100**	100	Trading of toys
L C Technology Limited	Hong Kong	Ordinary HK$10,000	**100**	100	Trading of toys and electronic products
Lung Cheong Resources Management Limited	Hong Kong	Deferred HK$10,000 Ordinary HK$2	**100**	100	Management services
Kid Galaxy Limited	Hong Kong	Ordinary HK$10,000	**100**	100	Trading of toys
Standard Tooling and Products Co., Limited	Hong Kong	Ordinary HK$3,000,000	**100**	100	Engineering services and trading of moulds
Dongguan Lung Cheong Toys Co., Ltd. *	Mainland China	HK$140,330,000	**100**	100	Manufacture of toys
Dongguan L C Technology Co., Ltd. *	Mainland China	HK$85,005,000	**100**	100	Manufacture of toys and electronic products
Dongguan Lung Cheong Plastic Products Co., Ltd. *	Mainland China	HK$6,500,000	**100**	100	Manufacture and trading of toys
Dongguan Standard Tooling and Products Co., Ltd. *	Mainland China	HK$7,700,000	**100**	100	Manufacture of moulds

20. INTERESTS IN SUBSIDIARIES *(Continued)*

Name of company	Place of incorporation and operations	Particulars of issued share capital/ registered capital	Effective percentage holding 2009	Effective percentage holding 2008	Nature of business
Shares/investments held indirectly: *(Continued)*					
P.T. Lung Cheong Brothers Industrial	Republic of Indonesia	Rupiah 5,728,000,000	**60**	60	Manufacture of toys and electronic products
Kid Galaxy Global Limited	British Virgin Islands	Ordinary US$1	**100**	100	Trading of toys
Kid Galaxy Corporation	British Virgin Islands	Ordinary US$10	**100**	100	Trading of toys
Lung Cheong Asia Holdings Limited #	British Virgin Islands	Ordinary US$50,000	**100**	—	Investment holding
Lung Cheong Overseas Corporation	British Virgin Islands	Ordinary US$50,000	**100**	100	Trading of toys
Kid Galaxy Inc.	United States of America	Ordinary US$100,010	**100**	100	Trading of toys

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

\# This subsidiary was incorporated on 16 April 2008.

21. INVENTORIES

	2009 HK$'000	2008 HK$'000
Raw materials	**97,214**	106,257
Work-in-progress	**68,646**	120,040
Finished goods	**38,895**	68,232
	204,755	294,529

The cost of inventories recognised as an expense during the year was HK$547,811,000 (2008: HK$603,842,000).

22. TRADE AND OTHER RECEIVABLES, DEPOSITS AND PREPAYMENTS

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

	Group		Company	
	2009 HK$'000	2008 HK$'000	2009 HK$'000	2008 HK$'000
Trade receivables	**87,107**	146,121	**—**	—
Less: allowance for doubtful debts	**(15,204)**	—	**—**	—
	71,903	146,121	**—**	—
Other receivables, deposits and prepayments	**33,182**	52,641	**5,057**	2,883
Less: provision for impairment	**(5,996)**	—	**—**	—
	27,186	52,641	**5,057**	2,883
	99,089	198,762	**5,057**	2,883

Prepayments include interest expenses of HK$3,243,000 (2008: HK$Nil) paid on loan from immediate holding company.

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

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

(b) The movements in the allowance for doubtful debts during the year, including both specific and collective loss components, are as follows:

Allowance for doubtful debts on trade receivables

	2009 HK$'000	2008 HK$'000
At beginning of year	**—**	—
Impairment loss recognised	**15,204**	—
At end of year	**15,204**	—

Provision for impairment on other receivables, deposits and prepayments

	2009 HK$'000	2008 HK$'000
At beginning of year	**—**	—
Impairment loss recognised	**5,996**	—
At end of year	**5,996**	—

At 31 March 2009, the Group's trade receivables of HK$15,204,000 (2008: HK$Nil) were individually determined to be impaired. The individually impaired receivables related to customers that were in financial difficulties and management assessed that only a portion of the receivables is expected to be recovered. Consequently, specific allowances for doubtful debts of HK$15,204,000 (2008: HK$Nil) were recognised. The Group does not hold any collateral over these balances.

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

(c) At 31 March 2009, the ageing analysis of the trade receivables was as follows:

	Group	
	2009	2008
	HK$'000	HK$'000
0-90 days	**57,789**	126,962
91-180 days	**3,874**	6,625
181-365 days	**7,536**	5,724
Over 365 days	**2,704**	6,810
	71,903	146,121

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 0 to 90 days but business partners with strong financial backgrounds may be offered longer credit terms.

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

	Group	
	2009	2008
	HK$'000	HK$'000
Neither past due nor impaired	**38,916**	107,053
Within 30 days past due	**12,230**	14,202
31 to 90 days past due	**10,585**	10,500
Over 90 days past due	**10,172**	14,366
	32,987	39,068
	71,903	146,121

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

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

23. DERIVATIVE FINANCIAL INSTRUMENTS

	Group	
	2009	2008
	HK$'000	HK$'000
Assets		
Forward foreign exchange contracts — not qualifying as hedges	**280**	634
Interest-rate swaps — not qualifying as hedges	**264**	—
	544	634
Liabilities		
Forward foreign exchange contracts — not qualifying as hedges	**(317)**	—
Interest-rate swaps — not qualifying as hedges	**—**	(1,002)
	(317)	(1,002)

Note 36(b) sets out details of commitments under these contracts as at 31 March 2009.

24. CASH AND CASH EQUIVALENTS

	Group		Company	
	2009	2008	**2009**	2008
	HK$'000	HK$'000	**HK$'000**	HK$'000
Cash at banks and in hand	**26,652**	32,149	**153**	437
Short-term bank deposits	**—**	19,355	**—**	—
	26,652	51,504	**153**	437

Included in cash and cash equivalents of the Group as at 31 March 2009 were approximately HK$8,056,000 (2008: approximately HK$26,201,000) denominated in Renminbi. Renminbi is not a freely convertible currency.

25. TRADE AND OTHER PAYABLES AND ACCRUED CHARGES

	Group		Company	
	2009	2008	**2009**	2008
	HK$'000	HK$'000	**HK$'000**	HK$'000
Trade payables	**67,462**	97,286	**—**	—
Other payables and accrued charges	**58,157**	65,538	**462**	1,781
	125,619	162,824	**462**	1,781

At 31 March 2008 and 2009, the ageing analysis of the trade payables was as follows:

	Group	
	2009	2008
	HK$'000	HK$'000
0-90 days	**24,716**	74,486
91-180 days	**31,368**	16,445
181-365 days	**6,621**	5,918
Over 365 days	**4,757**	437
	67,462	97,286

26. BORROWINGS

	Group		Company	
	2009	2008	**2009**	2008
	HK$'000	HK$'000	**HK$'000**	HK$'000
Non-current				
Loans from banks and financial institutions	**—**	120,000	**—**	120,000
Current				
Trust receipt loans	**128,145**	118,514	**—**	—
Loans from banks and financial institutions	**122,679**	82,182	**109,603**	30,000
	250,824	200,696	**109,603**	30,000
Total borrowings	**250,824**	320,696	**109,603**	150,000

26. BORROWINGS *(Continued)*

(a) At 31 March 2009, the borrowings were repayable as follows:

	Group		Company	
	2009	2008	**2009**	2008
	HK$'000	HK$'000	**HK$'000**	HK$'000
On demand or within one year	**250,824**	200,696	**109,603**	30,000
After one year but within two years	**—**	45,000	**—**	45,000
After two years but within five years	**—**	75,000	**—**	75,000
	250,824	320,696	**109,603**	150,000

(b) All borrowings at 31 March 2009 were interest bearing at variable rate. The average effective interest rates at the balance sheet date were as follows:

	2009		2008	
	HK$	**US$**	HK$	US$
Bank borrowings	**2.4%**	**3.5%**	3.3%	3.7%

(c) During the year, the Group had breached certain covenants in connection with a syndicated loan granted since 2007. The directors of the Company considered the loan is due on demand and had reclassified the non-current portion of the syndicated loan of HK$68,500,000 to current portion during the year. Further details are set out in Note 3(b) to the financial statements.

27. OBLIGATIONS UNDER FINANCE LEASES

At 31 March 2009, the Group had obligations under finance leases repayable as follows:

	Group			
	Minimum lease payments		Present value of minimum lease payments	
	2009	2008	**2009**	2008
	HK$'000	HK$'000	**HK$'000**	HK$'000
Within one year	**6,403**	—	**6,037**	—
In the second to fifth year inclusive	**10,594**	—	**10,342**	—
	16,997	—	**16,379**	—
Less: future finance charges	**(618)**	—		
Present value of lease obligations	**16,379**	—		

It is the Group's policy to lease certain of its property, plant and equipment under finance leases. The average lease term is 3 to 4 years. All leases are on a fixed repayment basis and no arrangements have been entered into for contingent rental payments.

The Group's obligations under finance leases are secured by the lessors' title to the leased assets.

28. PROVISION FOR LONG SERVICE PAYMENT

	Group	
	2009	2008
	HK$'000	HK$'000
At beginning of year	**1,476**	1,554
Additional/(reversal of) provisions	**256**	(58)
Exchange differences	**(312)**	(20)
At end of year	**1,420**	1,476

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

29. DEFERRED TAX

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

Deferred tax assets:

	Cumulative tax losses HK$'000
At 1 April 2007	3,239
Credited to profit or loss (Note 9)	3,037
Changes in tax rate charged to profit or loss	(106)
Exchange difference	(7)
At 31 March 2008	6,163
Charged to profit or loss (Note 9)	(1,932)
Exchange difference	(118)
At 31 March 2009	**4,113**

Deferred tax liabilities:

	Accelerated depreciation HK$'000	**Revaluation of properties** HK$'000	**Others** HK$'000	**Total** HK$'000
At 1 April 2007	4,850	5,187	—	10,037
(Credited)/charged to profit or loss (Note 9)	(3,002)	(96)	3,304	206
Change in tax rate credited to profit or loss	(106)	—	—	(106)
Exchange difference	—	73	—	73
At 31 March 2008	1,742	5,164	3,304	10,210
Credited to profit or loss (Note 9)	(736)	(52)	(3,304)	(4,092)
Exchange difference	—	(607)	—	(607)
At 31 March 2009	**1,006**	**4,505**	**—**	**5,511**

Deferred tax assets are recognised for tax losses carry-forward to the extent that the realisation of the related tax benefits through future taxable profits are probable. The Group did not recognise deferred tax assets in respect of losses amounting to approximately HK$88,283,000 (2008: HK$48,230,000) that can be carried forward against future taxable income. All tax losses may be carried forward indefinitely except for the amount of approximately HK$18,993,000 (2008: HK$20,936,000) that will expire from 2022 to 2029.

30. SHARE CAPITAL

	Authorised			
	Convertible cumulative redeemable preference shares of US$100,000 each		Ordinary shares of HK$0.10 each	
	Number of shares	US$'000	Number of shares '000	HK$'000
At 1 April 2007	40	4,000	1,000,000	100,000
Increase (note (a))	—	—	1,000,000	100,000
Increase (note (b))	—	—	8,000,000	800,000
At 31 March 2008 and 31 March 2009	**40**	**4,000**	**10,000,000**	**1,000,000**

	Issued and fully paid			
	Convertible cumulative redeemable preference shares of US$100,000 each		Ordinary shares of HK$0.10 each	
	Number of shares	US$'000	Number of shares '000	HK$'000
At 1 April 2007	—	—	725,600	72,560
Issue of shares in placing arrangement (note (c))	—	—	96,000	9,600
Issue of shares by bonus issue (note (d))	—	—	1,643,200	164,320
At 31 March 2008 and 31 March 2009	**—**	**—**	**2,464,800**	**246,480**

notes:

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

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

30. SHARE CAPITAL *(Continued)*

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

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

31. SHARE OPTION SCHEME

On 3 September 2002, a share option scheme ("Scheme") was approved by the shareholders of the Company. Under the Scheme, share options can be exercised at any time during the periods to be determined and notified by the directors of the Company to the grantees at the time of making offers to grant share options to them, provided that such periods shall not exceed the period of ten years from the date of grant. The Scheme mandate limit of the Scheme was refreshed pursuant to a shareholders' resolution passed in the annual general meeting of the Company held on 27 August 2007 (the "AGM"). The maximum number of shares available for issue under the Scheme is 82,159,999, representing 10% of the issued ordinary share capital of the Company as at the date of the AGM and approximately 3.33% of the issued share capital of the Company as at 31 March 2009. The subscription price for the shares under the Scheme shall be a price determined by the directors at their discretion, provided that it shall not be less than the higher of (i) the closing price of the shares stated in the daily quotation sheets of 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.

No share options were granted during the year.

On 24 July 2007, a total of 28,940,000 share options were granted to the directors, eligible employees and consultants of the Group with a weighted average exercise price of approximately HK$3.73 per share. The total number and weighted average exercise price of share options were subsequently restated to 86,820,000 and HK$1.24 per share to take into effect the bonus issue in that year.

31. SHARE OPTION SCHEME *(Continued)*

The movements in the number of outstanding share options previously granted under the Scheme during the year were as follows:

	At beginning of year	Lapsed during the year	At end of year	Exercise price	Closing price at date of offer of grant	Exercise period
Executive directors	15,000,000	(15,000,000)	—	HK$1.33	HK$0.99	24/07/2007 to 23/07/2008
Other employees	600,000	—	600,000	HK$1.00	HK$0.99	24/07/2007 to 23/07/2009
Consultants	600,000	—	600,000	HK$1.00	HK$0.99	24/07/2007 to 23/07/2009
	16,200,000	(15,000,000)	1,200,000			

The fair value of the share options granted on 24 July 2007 was approximately HK$3,202,000, all of which was recognised as an equity-settled share-based payment expenses in that year.

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

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

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

32. RESERVES

Group

The amounts of the Group's reserves and the movements therein for the current and prior years are presented in the consolidated statement of changes in equity on page 40 of the financial statements.

The nature and purposes of reserves are set out below:

Share premium

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

Statutory surplus reserve

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

Share options reserve

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

Land and buildings revaluation reserve

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

Exchange fluctuation reserve

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

32. RESERVES *(Continued)*

Company

	Share premium HK$'000	Share options reserve HK$'000	Accumulated losses HK$'000	Total HK$'000
At 1 April 2007	220,755	—	(59,551)	161,204
Profit for the year	—	—	53,488	53,488
Share-based payments	—	3,202	—	3,202
Transfer to accumulated losses on lapse of share options	—	(2,410)	2,410	—
Issue of shares in placing arrangement	46,080	—	—	46,080
Share issue expenses	(1,003)	—	—	(1,003)
Issue of shares by bonus issue	(164,320)	—	—	(164,320)
At 31 March 2008	101,512	792	(3,653)	98,651
Loss for the year	—	—	(200,012)	(200,012)
Transfer to accumulated losses on lapse of share options	—	(546)	546	—
At 31 March 2009	**101,512**	**246**	**(203,119)**	**(101,361)**

33. NON-CASH TRANSACTION

During the year, the Group acquired HK$20,736,000 of property, plant and equipment under finance leases. These acquisitions will be reflected in the consolidated cash flow statement over the term of the finance leases via lease repayments.

34. CONTINGENT LIABILITIES

At 31 March 2009, the Company had provided guarantees to banks and financial institutions in respect of credit facilities granted to its subsidiaries amounting to HK$382,000,000 (2008: HK$445,500,000).

At 31 March 2009 and 2008, the Group had no contingent liabilities.

35. BANKING AND OTHER FACILITIES

At 31 March 2009, the Group had a total banking and other facilities of approximately HK$287,700,000 (2008: HK$424,420,000) of which the following had been utilised:

(a) a syndication loan of HK$109,603,000 (2008: HK$150,000,000); and

(b) general banking facilities of HK$141,221,000 (2008: HK$190,578,000).

Except for the amount of HK$76,000 (2008: HK$4,182,000) which are secured by the Group's majority of plant and machinery and moulds, the other general banking facilities are secured by the Group's freehold and leasehold land, land use rights and buildings, and are all supported by a corporate guarantee executed by the Company.

36. COMMITMENTS

(a) Commitments under operating leases

At 31 March 2009, the Group had future aggregate minimum lease payments under non-cancellable operating leases in respect of land and buildings as follows:

	2009 **HK$'000**	2008 HK$'000
Not later than one year	**3,634**	3,778
Later than one year and not later than five years	**8,481**	12,979
	12,115	16,757

Operating lease payments represent rentals payable by the Group on its leased properties. Leases are negotiated for an average term of two years and rentals are fixed over the terms of the leases.

(b) Derivative financial instruments

As at 31 March 2009, the Group had outstanding forward foreign currency contracts to purchase approximately US$37,500,000 (2008: approximately US$104,100,000) for approximately HK$292,500,000 (2008: approximately HK$811,980,000).

37. RELATED PARTY TRANSACTIONS

During the year, the Group had significant transactions and balances with related parties, some of which are also deemed to be connected parties pursuant to the Listing Rules. Besides, transactions between the Company and its subsidiaries, which are related parties of the Company, have been eliminated on consolidation and are not disclosed in this note. The significant transactions with these companies during the year, and balances with them at the balance sheet date, are as follows:

(a) The loan from immediate holding company is unsecured, interest bearing at HIBOR plus 2.35% and is originally due for repayment on 6 September 2008. Pursuant to an extension agreement dated 24 September 2008 with Lung Cheong Investment Limited, a company which is beneficially owned by two executive directors who are also substantial shareholders of the Company, the loan was extended for further six months from the original repayment date to 6 March 2009. On 31 March 2009, Lung Cheong Investment Limited provided a letter of financial support to the Company to indicate that they have no intention to call for repayment in whole of the amount from the Company on or before 1 April 2010. The maximum outstanding of the balance during the year was HK$50,000,000 (2008: HK$50,000,000).

(b) During the year, the Group disposed of certain residential units which are staff quarters and directors' quarters of the Group to a corporate entity which is beneficially owned by certain executive directors of the Company and a beneficial owner of the controlling shareholder of the Company in aggregate consideration of HK$4,360,000 (or RMB4,000,000 equivalent).

(c) On 24 September 2008, the Group entered into an agreement with the minority shareholders of a 60% owned subsidiary of the Company to acquire the entire 40% equity interest of the issued shares of the subsidiary in aggregate consideration of HK$3,900,000. Further details are set out in Note 41 to the financial statements.

(d) Key management personnel compensation

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

	2009 **HK$'000**	2008 HK$'000
Fees	**240**	240
Other emoluments:		
Basic salaries, bonus, housing allowances, other allowances and benefits in kind	**6,233**	6,196
Share-based payments	**—**	749
Provident fund scheme contributions	**84**	84
	6,557	7,269

38. CAPITAL RISK MANAGEMENT

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

The capital structure of the Group consists of debts, which includes the borrowings disclosed in Note 26, cash and cash equivalents and equity attributable to equity holders of the Company, comprising share capital and reserves as disclosed in Notes 30 and 32 respectively.

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

The gearing ratio at the year end was as follows:

	2009 **HK$'000**	2008 HK$'000
Debts	**317,203**	370,696
Cash and cash equivalents	**(26,652)**	(51,504)
Net debts	**290,551**	319,192
Equity	**300,203**	562,738
Gearing ratio	**97%**	57%

39. FINANCIAL RISK MANAGEMENT

Financial risk factors

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

(a) Credit risk

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

The Group's exposure to credit risk is influenced mainly by the individual characteristics of each customer. The default risk of the industry and country in which customers operate also has an influence on credit risk but to a lesser extent. At the balance sheet date, the Group has a certain concentration of credit risk as 37% (2008: 26%) and 60% (2008: 70%) of the total trade receivables was due from the Group's largest debtor and the five largest debtors respectively.

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

(b) Liquidity risk

Individual operating entities within the Group are responsible for their own cash management, including the short-term investment of cash surpluses and the raising of loans to cover expected cash demands, subject to approval by the Company's board when the borrowings exceed certain predetermined levels of authority. The Group maintains availability of funding through an adequate amount of available credit facilities. The management aims to maintain flexibility in funding by keeping credit lines available.

39. FINANCIAL RISK MANAGEMENT *(Continued)*

Financial risk factors *(Continued)*

(b) Liquidity risk *(Continued)*

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

	Carrying amount	Total contractual undiscounted cash flow	Within 1 year or on demand	More than 1 year but less than 2 years	More than 2 years but less than 5 years
	HK$'000	HK$'000	HK$'000	HK$'000	HK$'000
2009					
Bank borrowings	250,824	253,970	253,970	—	—
Obligations under finance leases	16,379	16,997	6,310	10,687	—
Trade and other payables	125,619	125,619	125,619	—	—
Loan from immediate holding company	50,000	52,243	2,243	50,000	—
	442,822	448,829	388,142	60,687	—
Derivative settled gross:					
Forward foreign exchange contracts — not qualifying as hedges					
— outflow		(290,603)	(290,603)	—	—
— inflow		290,624	290,624	—	—
Interest-rate swaps — not qualifying as hedges, net		901	400	400	101

39. FINANCIAL RISK MANAGEMENT *(Continued)*

Financial risk factors *(Continued)*

(b) Liquidity risk *(Continued)*

	Carrying amount HK$'000	Total contractual undiscounted cash flow HK$'000	Within 1 year or on demand HK$'000	More than 1 year but less than 2 years HK$'000	More than 2 years but less than 5 years HK$'000
2008					
Bank borrowings	320,696	333,424	207,702	48,769	76,953
Trade and other payables	162,824	162,824	162,824	—	—
Loan from immediate holding company	50,000	50,988	50,988	—	—
	533,520	547,236	421,514	48,769	76,953
Derivative settled gross:					
Forward foreign exchange contracts — not qualifying as hedges					
— outflow		(807,056)	(516,453)	(290,603)	—
— inflow		811,362	519,309	292,053	—
Interest-rate swaps — not qualifying as hedges, net		1,301	400	400	501

(c) Interest rate risk

The Group's interest rate risk arises primarily from long-term borrowings. All of the Group's borrowings at 31 March 2009 were issued at variable rates and expose the Group to cash flow interest rate risk. The interest rates and terms of repayment of the Group's borrowings are disclosed in Notes 26 and 27 to the financial statements, respectively. The Group currently does not use any derivative contracts to hedge its exposure to interest rate risk. However, the management will consider hedging significant interest rate exposure should the need arise.

At 31 March 2009, it is estimated that a general increase/decrease of 50 basis points in interest rates, with all other variables held constant, would decrease/increase the Group's (loss)/profit after taxation and (accumulated loss)/retained profits by approximately HK$1,720,000 (2008: HK$1,919,000).

The sensitivity analysis above has been determined assuming that the change in interest rates had occurred at the balance sheet date and had been applied to the exposure to interest rate risk for both derivative and non-derivative financial instruments in existence at that date. The 50 basis points increase or decrease represents management's assessment of a reasonably possible change in interest rates over the period until the next annual balance sheet date. The analysis is performed on the same basis for 2008.

39. FINANCIAL RISK MANAGEMENT *(Continued)*

Financial risk factors *(Continued)*

(d) Foreign exchange risk

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

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

As further detailed in Notes 23 and 36(b) of these financial statements, the Group entered into certain forward foreign currency contracts as at the balance sheet date. Subsequent to the balance sheet date, these forward currency contracts were matured and terminated. The Group is in the process of making an assessment of the impact of these financial instruments to the Group and it is expected that, in the opinion of the directors, the impact is insignificant.

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

	2009			2008		
	Rupiah IDR'000	**Renminbi RMB'000**	**United States dollars US$'000**	Rupiah IDR'000	Renminbi RMB'000	United States dollars US$'000
Trade and other receivables	**52,160,357**	**109,325**	**6,938**	176,586	—	6,595
Cash and cash equivalents	**—**	**2,050**	**738**	2,452,011	23,765	647
Trade and other payables	**—**	**(218,520)**	**(13,558)**	(1,388,234)	(24,472)	(388)
Borrowings	**—**	**—**	**(2,304)**	—	—	(3,731)
Overall net exposure	**52,160,357**	**(107,145)**	**(8,186)**	1,240,363	(707)	3,123

39. FINANCIAL RISK MANAGEMENT *(Continued)*

Financial risk factors *(Continued)*

(d) Foreign exchange risk *(Continued)*

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

	2009 Increase/ (decrease) in foreign exchange rates	**2009** Effect on loss for the year HK$'000	2008 Increase/ (decrease) in foreign exchange rates	2008 Effect on profit for the year HK$'000
Rupiah	**5%**	**(1,746)**	5%	52
	(5%)	**1,746**	(5%)	(52)
Renminbi	**5%**	**5,862**	5%	(39)
	(5%)	**(5,862)**	(5%)	39
United States dollars	**5%**	**1,596**	5%	1,215
	(5%)	**(1,596)**	(5%)	(1,215)

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

The stated changes represent management's assessment of reasonably possible changes in foreign exchange rates over the period until the next annual balance sheet date. In this respect, it is assumed that the pegged rate between the Hong Kong dollars and the United States dollars would be materially unaffected by any changes in movement in value of the United States dollars against other currencies. Results of the analysis as presented in the above table represent an aggregation of the effects on each of the group entities' (loss)/profit for the year and equity measured in the respective functional currencies, translated into Hong Kong dollars at the exchange rate ruling at the balance sheet date for presentation purposes. The analysis is performed on the same basis for 2008.

39. FINANCIAL RISK MANAGEMENT *(Continued)*

Financial risk factors *(Continued)*

(e) Price risk

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

(f) Fair values

All financial instruments are carried at amounts not materially different from their fair values as at 31 March 2009 and 2008.

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

40. SUMMARY OF FINANCIAL ASSETS AND FINANCIAL LIABILITIES BY CATEGORY

The carrying amounts of the Group's financial assets and financial liabilities as recognised at 31 March 2009 and 2008 may be categorised as follows:

	2009 HK$'000	2008 HK$'000
Financial assets		
Loans and receivables (including cash and bank balances)	**125,741**	250,266
Derivative financial assets at fair value	**544**	634
Financial liabilities		
Financial liabilities measured at amortised cost	**442,822**	533,520
Derivative financial liabilities at fair value	**317**	1,002

41. SUBSEQUENT EVENT

On 24 September 2008, Lung Cheong Asia Holdings Limited, a wholly-owned subsidiary of the Company, entered into an agreement with minority shareholders (the "Vendors") of P.T. Lung Cheong Brothers Industrial (the "PTLC"), a 60% owned subsidiary of the Group to acquire the remaining 40% equity interest of the issued share capital of PTLC at a consideration of HK$3,900,000 (the "Acquisition") which to be satisfied by the issue and allotment of shares of the Company at an issued price of HK$0.15 each to the Vendors. Further details are set out in the Company's announcement and circular dated 25 September 2008 and 16 October 2008 respectively. On 23 September 2008, a resolution was duly passed by the independent shareholders and the Acquisition was subsequently completed on 25 June 2009. The market price of the Company's share as at the date of completion was HK$0.17 per share. On 7 July 2009, an aggregate of 26,000,000 ordinary shares of HK$0.10 each were allotted and issued to the Vendors as consideration of the Acquisition. The transaction with minority interest will be accounted for as equity transaction, accordingly, differences between the consideration and the carrying value of minority interest are recognised directly in equity and attributed to the equity holders of the Company.

42. ULTIMATE HOLDING COMPANY

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

43. COMPARATIVE FIGURES

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

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