LUNG CHEONG
INTERNATIONAL HOLDINGS LIMITED

Stock Code: 348

2009/2010
Annual Report

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

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

NON-EXECUTIVE DIRECTOR

Dr Ko Peter, Ping Wah

COMPANY SECRETARY

Mr Mak Yee Chuen, Vincent

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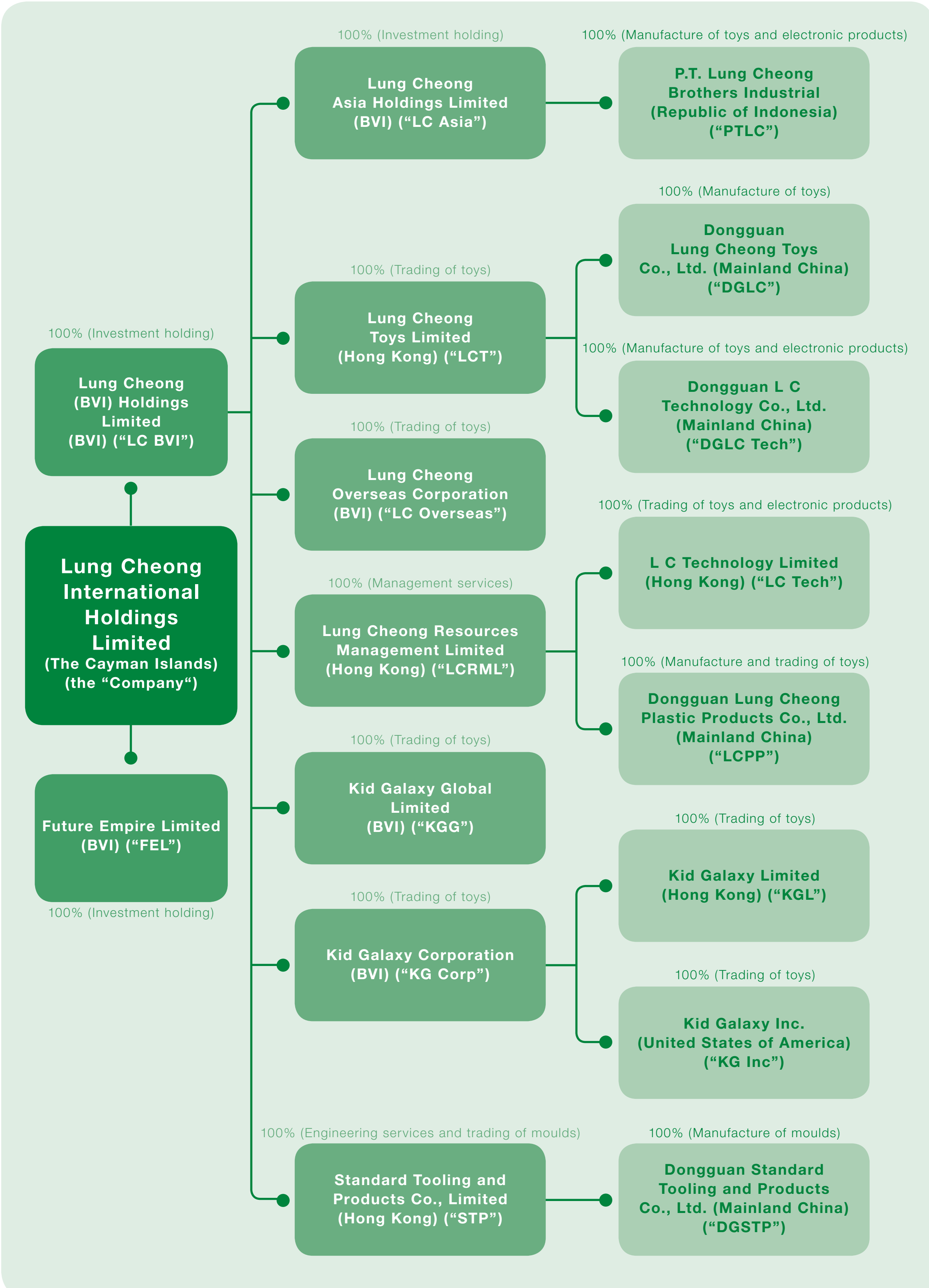
LISTING INFORMATION

The Stock Exchange of Hong Kong Limited
Stock Code: 348

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 annual results of the Company and the Group for the year ended 31 March 2010.

RESULTS

For the year ended 31 March 2010, the Group's turnover decreased to approximately HK$402 million, compared with approximately HK$637 million for the corresponding period of last year. Gross profit margin was steady at approximately 20% compared with approximately 19% for the year ended 31 March 2009. Loss attributable to owners of the Company was approximately HK$175 million, compared to a loss of approximately HK$289 million recorded for the financial year 2008/2009 ("FY08/09"). In view of the results, the directors do not recommend any dividend payment for the year (FY08/09: NIL).

BUSINESS REVIEW

Listed on the Hong Kong Stock Exchange since September 1997, the Group has weathered through the Asia financial crisis and Hong Kong flu epidemic. The financial year 2009/2010 ("FY09/10") was one of the most challenging period the Group has ever experienced. Although we envisaged at the beginning of FY09/10 that it would be a competitive year, the financial tsunami continued to affect the Group's major markets being United States ("US"), Europe and Japan, where business environment remained cautious. The slack worldwide economies made customers more conservative in placing orders in particular the higher priced electronic toys. The toy manufacturing industry was particularly hard hit as demand for non-essential consumer items fell and concentrated expenditures on lower priced point electronic and plastic toys. The Group recorded approximately 80% increase of sales in this segment.

The results presented in this report are evidence of the difficulties encountered during FY09/10. Revenue for FY09/10 decreased by approximately 37% when compared with that for FY08/09, mainly attributable to the financial tsunami that ignited in 2008 which caused almost 60% reduction of orders for the Group's primary revenue source, radio control ("R/C") toys and wireless premium hobby products. The global financial crisis had adverse impact on certain customers' abilities to maintain category position, passing on cost increases and continue ordering high-end quality Original Design Manufacturing ("ODM") products. These inabilities eventually led a weaker customer to exit the R/C business and reduction of business with R/C segment customers that seek low margin products.

For the year ended 31 March 2010, the Group's manufacturing plants in Mainland China had to cope with the increase in wages, which were common to all manufacturers particularly those located in the Pearl River Delta Region with the implementation of the new Labour Contract Law. 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 staff and workers had made it necessary for the Group to offer higher wages in order to attract new, retain and relocate existing employees resulted in relatively high direct labour, general and administration costs during FY09/10.

Chairman's Statement

The Group continued to strive for profitability under the strong value 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 impacted by provision made for obsolete, damaged and specified materials catered for delayed, discontinued products, cancelled projects and orders. This led to relative high cost of goods sold and kept the gross margin steady at approximately 20% (FY08/09: 19%).

The Group has been operating the two existing Dongguan factories being Changping and Zhou Wu and the Indonesian factory during the year under review. However, due to reduced orders in the final quarter of FY09/10, production were temporary consolidated within the Changping factory resulted in having to impair redundant facilities and compensate employees who wished to remain in the Zhou Wu area. Pursuant to the Group's policy of evaluating the useful lives and utilization rate of the Group's assets such as molds and production facilities periodically, management assessment resulted in approximately HK$19 million of impairment on property, plants and equipment that were under utilized in FY09/10. For the period under review, the Group's low revenue for the period did not match with the relative production and administration costs relating to our investments into Changping factory and depreciation of newly added equipment and molds in recent years, thus capital expenditures on internal quality control laboratories, upgrading production facilities and modernization of equipment during the period under review was lowered to approximately HK$7 million.

Due to the challenging manufacturing environment in the Mainland China in the FY09/10, the relocation of more production to the Group's South East Asian plant in Indonesia was necessary. By doing so, the Group has alleviated part of the cost pressure. The Serang factory in Indonesia, at peak production stage during the period under review accounted for approximately 14% (FY08/09: 4%) of Group's turnover and was employing over a thousand workers, including seasonal contract labour. The Mainland China factories employed fewer workers compared to the same period of previous years.

On 18 September 2009, the Company entered into a Placing Agreement in which the Placing Agent has procured to place 466,958,000 existing shares at a price of HK$0.15 per share. The subscription shares of 466,958,000 shares represent approximately 18.75% of the existing issued share capital of the Company as at the date and approximately 15.79% of the issued share capital of the Company as enlarged by the subscription. The net proceeds of approximately HK$68 million were used for the general working capital of the Group as set out in the announcement dated 18 September 2009.

In FY09/10, the toy industry endured the most challenging period in the Group's over 45 years history. The Group continued to incur loss in FY09/10, attributable mainly to impairment, provisions as well as other financial tsunami related factors. Fortunately, with the support of committed investors, loyal customers and suppliers, the Group made it through the testing times in solid strides.

PLANS AND PROSPECTS

Globally, the toy industry continues its reform triggered by toy recalls in recent years and taking time to recuperate as demand for non-essential items recovers. Management is concerned that the recent financial crisis in few European countries may slowdown overall economy recovery. Furthermore, factors such as the volatility of raw materials prices, ever increasing energy costs, the appreciation of the RMB, labour shortages and the periodic increase in statutory minimum wages leading to increasing labour costs are expected to affect the Group's Mainland China operations. Despite these challenges, shipment in the first quarter of financial year 2010/2011 ("FY10/11") has been strong with both Changping and the reopened Zhou Wu factories operating at near full capacity.

The Group's alternate production base in Indonesia currently enjoys favorable advantages over Mainland China and other Asian countries such as plentiful supply of labour and competitive labour costs. The positive environment seems to continue and the Group looks forward to optimistic growth in our Indonesian plant. The Management remains confident of the Group's ability to seize this unique opportunity to consolidate its production position amid exit of weaker players with production facilities solely based in Guangdong Province.

The Group continues its belief about the importance of investing a portion of sales in product development. Ongoing resources are being allocated to the development of innovative products to secure our strength and leadership. We continue focus our resources and efforts in two categories of customers: growing with core customers, providing consistent support during the time of uncertainties, and expanding the base of strategic customers, providing outlets for our continued investment into innovative product development.

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. Kid Galaxy, which accounted for over 19% (FY08/09: 13%) of the Group's turnover in FY09/10, has licensed the Fisher Price brand for pre-school toys for major markets. The licensed products have been released and receiving favorable response in our expanded distribution channels. Mainland China is another important growth market that the Group will capitalize on. Our distribution network in Mainland 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 exploring new sales channels such as supermarkets, wholesalers, Internet and other specialty 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 will consolidate the production efficiency of the two existing Dongguan plants into one eventually, aiming to lower the overall manufacturing overhead, transportation and administrative costs. Besides, measures will continue to be adopted to enhance productivity. These measures include replacing machines of low efficiency and high maintenance effort, streamlining workflow, revision of work practice and parameters, and exploring opportunities for utlitising the idle capacity. The Group will endeavor to trim overheads significantly, improve productivity and control production costs while the toy industry rides out the storm.

Chairman's Statement

The Group continues to seek diversified income source. An executive team has been setup since December 2009 to look into all possibility of mergers, acquisitions and divestments and to further reduce the Group reliance on primary ODM/Original Equipment Manufacturing ("OEM") income stream. The executive team has engaged professionals with the purpose of reengineering the Group into profitable structure.

Furthermore, on 12 July 2010, the Company, through its wholly-owned subsidiary, Future Empire Limited signed a Letter of Intent on Equity Transfer ("Letter of Intent") with Robust Hero Limited, an indirectly wholly-owned subsidiary of HNA Group Co., Ltd ("HNA Group"), the fourth largest airline in Mainland China, in order to acquire all equity interests and the aircraft leasing business of HNA Group (Hong Kong) Co., Limited and Hong Kong International Aviation Leasing Company Limited (the "Target Companies") under HNA Group at a total consideration of HK$6 billion ("proposed acquisition"). This proposed acquisition is subject to the satisfaction of a due diligence review and the negotiation and finalisation of the terms and conditions of a formal agreement. According to the profit guarantee in the Letter of Intent, the audited total after-tax income for the two fiscal years ending 31 December 2010 and 31 December 2011 will not be less than HK$1.3 billion.

Through this proposed acquisition, the Group would acquire all equity interests of the Target Companies engaged in the aircraft leasing business, which would solidify the business diversification strategy of the Group, providing strong foundation for the Group's entry into Mainland China's potential huge aircraft leasing sector. According to an estimation from the management of the Civil Aviation Administration of China, the fleet of domestic airplanes is expected to reach 3,000 by 2025, with a leasing rate of 60%, meaning a potential monetary value of over US$130 billion. Currently, the aircrafts leasing penetration rate in developed countries ranges from 20% to 40%, as compared to less than 1% in the year 2008 for Mainland China. This implies the large development and growth potential of the aircrafts leasing market in Mainland China. If materialise, the alternate source of revenue and profit guarantee from this new venture would add value to stakeholders thereon. Details of the above proposed acquisition are further set out in the announcement on 13 July 2010.

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 investors, customers, bankers and suppliers for their support to the Group during challenging times in the year past.

Leung Lun
Chairman
23 July 2010

Managing Director's Review of Operations

For the year ended 31 March 2010, US remained the major export destination for the Group's products, with shipment amounting to approximately HK$151 million, lower than the approximately HK$200 million in the corresponding period last year, accounting for approximately 38% (FY08/09: 31%) of the Group's total shipment.

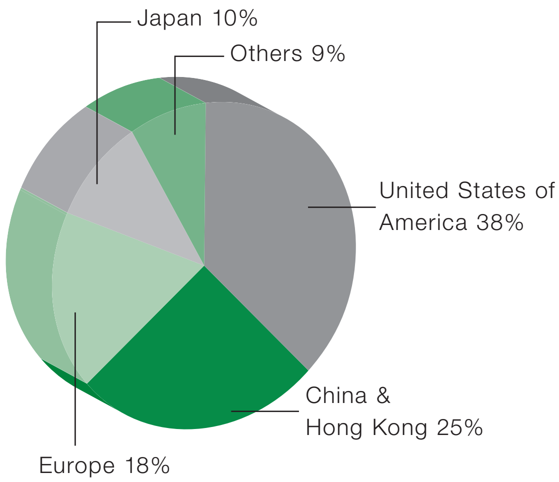
Shipment to Europe was lowered at approximately HK$72 million as compared with approximately HK$100 million in FY08/09, accounting for approximately 18% (FY08/09: 16%) of the Group's revenue, attributable to the sluggish demand since the start of the financial tsunami.

Export to Japan was less than that in previous year at approximately HK$40 million (FY08/09: HK$83 million), accounting for approximately 10% of the Group's total revenue compared to approximately 13% in FY08/09. The lower sales value of higher priced point complex items were mainly due to economic uncertainties affecting the Group's customers' premium products in these markets.

Lower local deliveries translated into shipment to Mainland China and Hong Kong from approximately HK$210 million in FY08/09 to approximately HK$103 million in FY09/10. Most of those shipments however were destined for the US, Europe and Japanese markets eventually via China and Hong Kong by the forwarder of ultimate customers after consolidation.

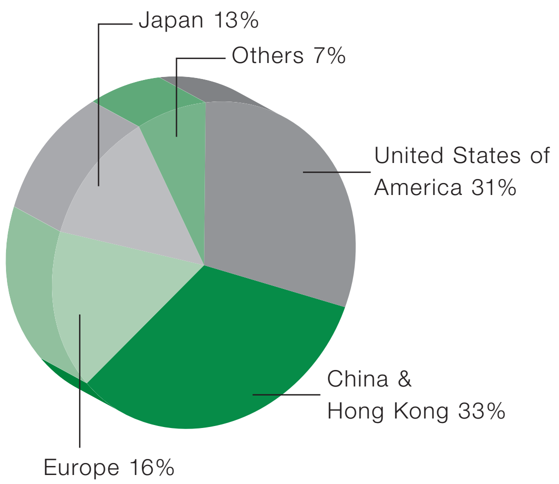
Turnover by Geographical Segment

For the year ended 31 March 2010



Turnover by Geographical Segment

For the year ended 31 March 2009



PRODUCT REVIEW

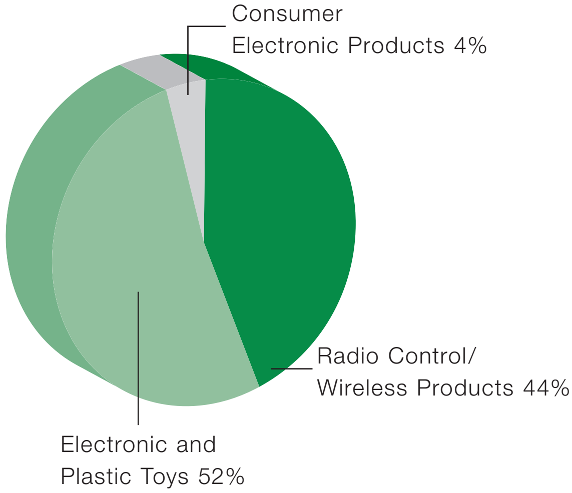
Radio Control/Wireless Products

The Group's core segment accounted for approximately 44% of total turnover for the year against approximately 69% of that in previous year, indicating our difficulties in this segment of the market. Furthermore, revenue reduced to approximately HK$178 million in FY09/10 recording approximately 60% decreased from approximately HK$441 million last year resulting from reduced orders. The sale of the R/C toys and wireless hobby products recorded a major decrease in sales during the year under review mainly attributable to the Group's reduced trade with low margin customers. The Group's customers lost sales due to lower sale through of high price point R/C items which were affected by buying pattern of cautious customers, leading to a major customer's total withdrawal from R/C business during the year under review.

The Group's persistence in investment into development of wireless and R/C innovations was not rewarded in this financial period as main sellers were offering less complex median priced products. Shipments of the world's famous hobby grade radio control transmitters were lower too. The Group's dedicated efforts toward the R/C toy business segment will be re-examined going forward.

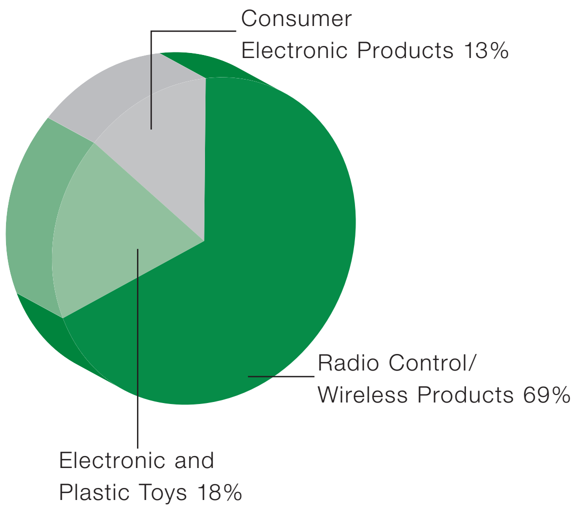
Turnover by Product Type

For the year ended 31 March 2010



Turnover by Product Type

For the year ended 31 March 2009



Managing Director's Review of Operations

Electronic and Plastic Toys

The segment recorded an increase in sale of approximately 80% from approximately HK$116 million in FY08/09 to approximately HK$208 million in FY09/10, accounting for approximately 52% of the Group's turnover compared with approximately 18% in the previous year. The dramatic increase in turnover of this category was attributable to the increase in orders of lesser price toys, particularly with most economies recovering from recent financial tsunami.

Apart from Kid Galaxy's successful penetration into newer retail channels with fuller range of median priced products, the Group received substantial world wide orders for a movie related transforming toys from one of our major Japanese customers. One of our US based major customer also placed continuous large orders for innovative mini-sized robotic bugs which were yet to release in many parts of the world market during the year under review. In view of this realignment in the marketplace, the Group has to invest substantial resources into developing more innovative products with median prices going forward.

Consumer Electronic Products

Sales contribution from this segment recorded a major decrease from approximately HK$80 million in FY08/09 to approximately HK$16 million. It was mainly attributable to the lower sales of premium priced consumer electronic products as well as lesser orders for robotic products designed and produced by the Group affected by prudent consumers in the aftermath of the financial crisis. Revenue from consumer electronic products accounted for approximately 4% of the Group's total turnover (FY08/09: 13%). Despite the lower turnover, sales of newly designed innovative consumer electronic products are anticipated to continue contribution to the earnings of this non-toy segment as the Group continues to work with a world leading brand in this category.

Managing Director's Review of Operations

DIVISIONAL AND RESOURCES REVIEW

Sales and Marketing

Kid Galaxy

The Manchester operation, Kid Galaxy Inc. ("KGI"), takes care of marketing, product design and sales fulfillment in the North America market, being US and Canada. KGI and the Hong Kong sales arm, Kid Galaxy Limited ("KGL"), have performed well with sales of approximately HK$76 million for the year ended 31 March 2010. Its revenue is derived mainly from its own brands such as Elite Fleet, DRV, Morphibians, GoGo Auto, KG Flyer, My First RC and recently licensed Fisher Price brand.

While traditional geographic toy markets remain the Group's major source of income, Mainland China, as one of the fast-growing economies in the world, provides KGL with opportunities for growth. As distribution channels in Mainland China become mature, the Group is well-positioned to exploit the advantages of cooperating directly with wholesalers and regional distributors for higher efficiency and profitability. As Mainland China's middle-class continues its rapid expansion and local consumers become more affluent and sophisticated overseas brands, demand for high quality products is expected to strengthen. The Group plans to adjust its strategy accordingly to launch the full range of Kid Galaxy toys to better address this ongoing market trend. With business strategies thus refined, the Group looks forward to accelerating its penetration in the domestic Mainland China market.

In licensing, apart from Fisher Price, the Group began to explore other potential licenses suitable for our current product lines as well as distribution network in place during the year to leverage the opportunity provided by the launch of the Fisher Price during the summer of 2010. Kid Galaxy is also enriching its product mix with new product lines such as "World of Wheels", "Steel Force", "Little Universe", "Wave Breakers" and "Tubeez" just to name a few. These new lines introduced during the year under review received an encouraging market response and will be further promoted in FY10/11.

In US, KGI was able to increase sales from successful utilization 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, as well as "Oppenheim Gold Awards" for most of Kid Galaxy products during the year under review.

EMPLOYEE

As at 31 March 2010, the Group had approximately 3,891 employees and contract workers. Approximately 56, 2,904, 919 and 12 of the workforce were based in Hong Kong, the Dongguan factories, the Indonesian factory and the US office respectively. The Group has seasonal fluctuations in the numbers of workers employed in its production plants, while the number of management and administrative staff remains stable. The number of employees of the Group varies from time to time depending on production needs and they are remunerated based on industry practices. Total staff costs for the year ended 31 March 2010 amounted to approximately HK$126 million (FY08/09: HK$144 million).

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 another challenging year in the toys business.

LEUNG Chung Ming
Managing Director
23 July 2010

FINANCIAL REVIEW

The financial turmoil that started in later part of 2008 continued to affect the Group's performance despite our expansion of Changping production facilities and consistent investment into the high-end electronic toys and non-toys product segments resulting in a sales decrease of approximately 37% to approximately HK$402 million for the year ended 31 March 2010.

Cost of goods sold ("COGS"), despite the lower purchases by approximately 38% compared to previous financial year, consisted of relatively high material costs, written off and impaired inventories, escalated mandatory wages for workers and strong RMB which affect the overall costs 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 as main expense currency are in the form of RMB. The COGS were approximately HK$323 million in FY09/10 compared with approximately HK$518 million in FY08/09.

The decreased in sales of high margin products continued to apply pressure on gross profit. Its decreased to approximately HK$80 million for the year versus approximately HK$120 million in FY08/09. Gross profit margin however, was steady at approximately 20% (FY08/09: 19%).

In view with the lower turnover, selling and distribution expenses for the year ended 31 March 2010 was lower at approximately HK$27 million, representing a decrease of approximately 18% against approximately HK$33 million in the previous year. Commission paid on sales, marketing and promotional expenses, transportation and distribution expenses dropped in line with the reduced turnover.

General and Administrative ("G&A") expenses for the year ended 31 March 2010 amounted to approximately HK$203 million (FY08/09: HK$205 million) which was approximately 51% of sales (FY08/09: 32%). G&A included staff costs of approximately HK$69 million (FY08/09: HK$74 million) and depreciation of fixed asset of approximately HK$30 million (FY08/09: HK$31 million),

Exceptional costs during the financial period included impairment on property, plant and equipment amounted to approximately HK$19 million (FY08/09: HK$22 million). Impairment was made on molds, leasehold improvements, plant and equipment not fully utilized during the FY09/10 as well as uncertain utilization going forward.

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$12 million in FY09/10 compared to approximately HK$17 million in FY08/09.

All in all, the Group recorded loss attributable to owners of approximately HK$175 million in FY09/10 compared to a loss of approximately HK$289 million in FY08/09.

GROUP RESOURCES AND LIQUIDITY

Shareholders' funds as at 31 March 2010 were approximately HK$201 million, approximately 33% less than approximately HK$300 million in the previous year. The net assets per share were lowered by approximately 40% from approximately HK12 cents to approximately HK7 cents because of the loss incurred in FY09/10. As at 31 March 2010, the Group had a total of 2,957,757,997 shares in issue.

Fixed assets reduced in value by approximately HK$55 million to approximately HK$342 million as at 31 March 2010. Property, plant and equipment under non-current assets decreased from approximately HK$308 million to approximately HK$255 million. Leasehold land and land use rights of the Group was approximately HK$88 million as at 31 March 2010. The reduction in value were attributable mainly to depreciation of land and buildings as well as impairment of property, plant and equipment as a result of the Group's periodic management assessment of the current state of the toy manufacturing industry and overall under utilization of production facilities. In FY08/09, there were disposals of certain residential units which were staff quarters and director's quarters of the Group to a corporate entity which was beneficially owned by certain executive directors of the Company and a beneficial owner of the controlling shareholder of the Company in aggregate consideration of approximately HK$4 million. There were no formal appraisal of any of the Group's properties in Hong Kong, Indonesia and Mainland China as at 31 March 2010.

Goodwill associated with Kid Galaxy's acquisition and club memberships made up approximately HK$21 million of intangible assets. No additions, revaluations or adjustments were made during the year thus the HK$21 million reflect the book value of goodwill and known market values of certain club memberships owned by the Group as at 31 March 2010.

The effort to control inventories continued and the reduction in sales led to an approximately 39% decrease in purchasing activities during the FY09/10. The uncertainties effect of the world's economies during the FY09/10 caused the Group to reduce trade with few customers while certain customers reduced orders. Impairments were made for these reductions, suspensions, delays and cancellations of orders as well as for obsolete, damaged and specific materials catered for discontinued products, cancelled projects and non-complied inventories. Inventory recorded a decrease of approximately 48% compared to previous year end date, value of stock in warehouse decreased from approximately HK$205 million at the end of FY08/09 to approximately HK$107 million as at 31 March 2010. Stock turnover days were higher at 144 days compared with 143 days in the previous year due to decrease in sales.

Trade receivables recorded an approximately 49% decrease as at 31 March 2010 to approximately HK$37 million, compared with approximately HK$72 million at the previous year. Net impairment of trade and other receivables amounting to approximately HK$0.9 million was made during the FY09/10 due to certain customers being affected by the current financial tsunami. Debtor turnover days were lower at 49 days in FY09/10 compared with 62 days in FY08/09. Excluding Kid Galaxy's Own Brand Manufacturing ("OBM") revenue, the top 5 customers accounted for approximately 58% of the Group's turnover, compared to 53% in the previous financial year. Management regularly evaluates the Group's customers, assesses their known financial position and credit risks. In view of the current financial uncertainties affecting most customers, Management plans to control risks by working with financially proven customers with good trading records.

Cash and bank balances as at 31 March 2010 were approximately HK$44 million, compared with approximately HK$27 million as at 31 March 2009. The Group dealt with different revenue and expenses currencies during the FY09/10 such as RMB, HK$, US$ as well as Indonesian Rupiah.

Overall, total current assets were lower at approximately HK$200 million compared with approximately HK$333 million in the previous year-end date. The classification of long term portion of a term loan to short term loan made current ratio decrease from 86% to 66% as at 31 March 2010.

Trade payables recorded a decrease against the previous year. Trade payables were approximately HK$47 million while other payables and accrued charges were approximately HK$36 million as at 31 March 2010 compared with approximately HK$67 million and approximately HK$58 million respectively as at 31 March 2009. The decrease in trade payables consisted mainly of approximately 30% reduction in purchases, which were in line with reduction in sales. Creditor turnover days increased to 123 days versus 107 days at the end of the previous year.

Borrowings under current liabilities decreased from approximately HK$251 million as at 31 March 2009 to approximately HK$209 million at 31 March 2010, attributable mainly to classification of a term loan to short term loan. Trust receipts loan was lower from approximately HK$128 million as at 31 March 2009 to approximately HK$80 million at 31 March 2010. The Loans from banks and financial institutions were steady at approximately HK$129 million compared to HK$123 million at previous year end date.

The gearing ratio, calculated as the total borrowings less cash and bank balances and divided by shareholders' equity, increased to approximately 112% as at 31 March 2010 compared with approximately 97% in 2009. The Group's continued operations rely upon the support from financial institutions. Overall the result led to inability to meet certain financial covenants of the term loan. Management is currently liaising with financial institutions to obtain the relief of these 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 2010, 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 2010.

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 25 to page 26 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 with full attendance during the year ended 31 March 2010.

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, namely Dr Ko Peter, Ping Wah and two executive directors, namely 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.

All members of the Remuneration Committee met once during the year ended 31 March 2010 for a proposal on remuneration packages and employment contracts to be 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 22 to page 23 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 Dr 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 2010, 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 Dr 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 halfyearly and annual results) and internal controls.

Two Audit Committee meetings were held with full attendance during the year ended 31 March 2010.

AUDITOR'S REMUNERATION

BDO Limited ("BDO") has been appointed or, as the case maybe, re-appointed by the shareholders of the Company annually at the Company's annual general meeting as the Company's external auditors. During the year ended 31 March 2010, the fees charged to the financial statements of the Company and its subsidiaries for BDO's statutory audit amounted to approximately HK$1.03 million. The cost of audit services of subsidiaries not performed by BDO amounted to approximately HK$0.57 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 36 to page 100. The statement of the external auditors about its reporting responsibilities on the financial statements is set out on page 34 to page 35.

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 2010.

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 6 to the financial statements.

RESULTS AND APPROPRIATIONS

The results of the Group for the year are set out in the consolidated statement of comprehensive income on page 36.

The Directors view that it would not be prudent to recommend any dividend in view of the result for the year ended 31 March 2010 (2009: Nil).

RESERVES

Movements in the reserves of the Group and of the Company during the year are set out in page 39 and Note 33 to the financial statements.

DONATIONS

Charitable and other donations made by the Group during the year amounted to approximately HK$776,000.

PROPERTY, PLANT AND EQUIPMENT

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

INFORMATION ON SUBSIDIARIES

Particulars of the subsidiaries are set out in Note 21 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 2010.

	2010	2009	2008	2007	2006
	HK$'000	*HK$'000*	*HK$'000*	*HK$'000*	*HK$'000*
Turnover	**402,402**	637,224	799,142	704,815	750,620
(Loss)/profit before income tax	**(173,413)**	(291,065)	1,715	(36,497)	15,244
Income tax (expense)/credit	**(1,540)**	2,292	2,728	(779)	565
(Loss)/profit for the year	**(174,953)**	(288,773)	4,443	(37,276)	15,809
Attributable to:					
Owners of the Company	**(174,953)**	(288,773)	4,443	(37,219)	16,673
Minority interest	**—**	—	—	(57)	(864)
	(174,953)	(288,773)	4,443	(37,276)	15,809
Total assets	**565,773**	755,690	1,112,929	1,037,119	1,024,987
Total liabilities	**364,674**	455,487	550,191	575,861	586,481
Total equity	**201,099**	300,203	562,738	461,258	438,506

DISTRIBUTABLE RESERVES

At 31 March 2009 and 2010, in the opinion of the directors, the Company has no distributable reserves.

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 3 September 2002, the shareholders of the Company approved the adoption of a share option scheme ("the Scheme").

SHARE OPTION SCHEME *(Continued)*

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 of the Company held on 25 September 2009, details of which have been set out in the circular dated 19 August 2009. Accordingly, as at 31 March 2010, the maximum number of shares available for issue under the Scheme is 295,775,799, representing 10% of the issued ordinary share capital of the Company as at the date of the annual general meeting and the issued ordinary share capital of the Company as at 31 March 2010.

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.

(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.

SHARE OPTION SCHEME *(Continued)*

(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, share options were granted to the Directors and eligible employees and consultants of the Group. None of the above share options were exercised and all of the share options lapsed. There is no outstanding share option as at 31 March 2010.

Details of the share options movement and outstanding as at 31 March 2010 have been disclosed in Note 32 to the financial statements.

Directors' Report

DIRECTORS

The Directors during the year were:

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

† *Non-executive directors*

Independent non-executive directors

In accordance with Article 116 of the Articles, the Directors retiring by rotation at the annual general meeting are Mr Leung Lun, Ms Cheng Yun Tai and Mr Wong Lam, O.B.E., J.P. Both Mr Leung Lun and Mr Wong Lam, O.B.E., J.P., being eligible, offer themselves for re-election as Directors at the annual general meeting. As Ms Cheng Yun Tai would like to concentrate in her own businesses, she will not offer herself for re-election as a Director at the annual general meeting.

Apart from the above Directors who will retire at the annual general meeting pursuant to Article 116 of the Articles, Mr Zhong Bingquan has notified the Company that due to the increased commitment in his own businesses, he will retire as a Director at the annual general meeting voluntarily. Dr Ko Peter, Ping Wah has also notified the Company that in order to concentrate on his professional commitments, he will retire as a Director at the annual general meeting voluntarily.

All of Ms Cheng, Mr Zhong and Dr Ko have confirmed that there is no disagreement with the Directors and there is no matter in relation to their retirement that needs to be brought to the attention of the Shareholders.

The other two retiring directors, namely Mr Leung Lun and Mr Wong Lam, O.B.E., J.P., being eligible, offer themselves for re-election as Directors at the forthcoming annual general meeting.

DIRECTORS *(Continued)*

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

Executive Directors

Mr Leung Lun, aged 61, 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 46 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 and Zhaoqing City by the local authority in 1996 and 2009 respectively for his contribution to the cities.

Mr Leung Chung Ming, aged 50, 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 Mainland China 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.

Mr Zhong Bingquan, aged 58, 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 55, 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, namely LC Toys, since March 1995.

Mr Wong, Andy Tze On, aged 43, is responsible for formulation of the corporate strategies, new business ventures and financial planning of the Group. He is also responsible for listing compliance, 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.

DIRECTORS *(Continued)*

Non-executive Director

Dr Ko Peter, Ping Wah, aged 61, has been appointed as a Director since January 2003. He is now our non-executive director. Dr 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 91, 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 was 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") but he has resigned from the above directorships since 6 May 2010.

Mr Ye Tian Liu, aged 64, 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.

Mr Lai Yun Hung, aged 58, is a partner of Lai & Wong, Certified Public Accountants. He has over 30 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.

DIRECTORS *(Continued)*

Company Secretary

Mr Mak Yee Chuen, Vincent, aged 53, was appointed as company secretary in July 2000. Mr Mak holds a master degree of laws from the University of Hong Kong in 2001 and master 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 35, is the associate director 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 Mak Wing Kwong, David, aged 48, is the chief operating officer responsible for the Group's daily operational matters. He joined the Group in November 2009. He has over 20 years of experiences in OEM, ODM and OBM business. He has solid experience and knowledge in managing international sales and marketing, product development and factory operations especially in information technology and electronics industries. He holds a master of science degree in international marketing from Strathclyde University, diploma in management studies from Hong Kong Polytechnic University and diploma in company direction from the Hong Kong Institute of Directors. He is the fellow member of the Hong Kong Institute of Directors and member of Chartered Institute of Marketing.

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 in National Taiwan University and has over 30 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.

DIRECTORS *(Continued)*

Senior Management *(Continued)*

Mr Ng Ki Yin, Simon, aged 56, is the director of operation, in charge of expanding Indonesian business and operations. 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 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.

Mr Yu Kin Chung, Simon, aged 47, is the Group's chief accountant. He is responsible for the overall accounting, finance and taxation function of the Group. He obtained a bachelor's degree in the faculty of business administration majoring in accounting from the Chinese University of Hong Kong. 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 for consumer electronics. He has over 25 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.

Mr Yim To, aged 58, 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 Bruce Oravec, aged 67, 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. 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 39(a) to the financial statements.

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 2010, 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)*	50.68%
	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)*	50.68%
	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.

DIRECTORS' INTERESTS IN EQUITY SECURITIES *(Continued)*

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 2010, 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	50.68%
Rare Diamond Limited	1,499,082,240(L) *(Note 2)*	Interest of controlled corporation	50.68%

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.

MAJOR CUSTOMERS AND SUPPLIERS

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

	2010	2009
	%	%
Sales		
— the largest customer	**26**	15
— five largest customers combined	**58**	53
Purchases		
— the largest supplier	**15**	11
— five largest suppliers combined	**32**	36

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 Dr 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

On 12 July 2010, the Company thought a newly incorporated British Virgin Islands subsidiary, Future Empire Limited, entered into a letter of intent in relation to a possible acquisition. Further details are set out in the Chairman's Statement, Note 43 to the financial statements and the Company's announcement on 13 July 2010.

SUFFICIENCY OF PUBLIC FLOAT

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

AUDITOR

The financial statements have been audited by BDO Limited who retire and, being eligible, offer themselves for re-appointment. A resolution for the appointment of BDO Limited as auditor of the Company will be proposed at the forthcoming annual general meeting.

On behalf of the Board

Leung Lun
Chairman
23 July 2010

Independent Auditor's Report

BDO Limited
Certified Public Accountants
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TO THE SHAREHOLDERS OF LUNG CHEONG INTERNATIONAL HOLDINGS LIMITED
(Incorporated in the Cayman Islands with limited liability)

We have audited the financial statements of Lung Cheong International Holdings Limited (the "Company") and its subsidiaries (collectively referred to as the "Group") set out on pages 36 to 100, which comprise the consolidated and company statement of financial position as at 31 March 2010, and the consolidated statement of comprehensive income, consolidated statement of changes in equity and consolidated statement of cash flows for the year then ended, and a summary of significant accounting policies and other explanatory notes.

DIRECTORS' RESPONSIBILITY FOR THE FINANCIAL STATEMENTS

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

AUDITOR'S RESPONSIBILITY

Our responsibility is to express an opinion on these financial statements based on our audit and to report our opinion solely to you, as a body, in accordance with the terms of our engagement, 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 auditor's judgment, including the assessment of the risks of material misstatement of the financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the entity's preparation and true and fair presentation of the financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of accounting estimates made by the directors, as well as evaluating the overall presentation of the financial statements.

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

Independent Auditor's 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 2010 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 MATTERS

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$174,953,000 during the year ended 31 March 2010 and, as of that date, the Group's current liabilities exceeded its current assets by approximately HK$103,726,000 and it had outstanding short-term borrowings of approximately HK$215,073,000 that are due for repayment within the next twelve months. These conditions, along with other matters set forth in Note 3(b), 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

Ng Wai Man
Practising Certificate Number P05309

Hong Kong, 23 July 2010

Consolidated Statement of Comprehensive Income

For the year ended 31 March 2010

	Notes	2010 HK$'000	2009 HK$'000
Turnover	6	**402,402**	637,224
Cost of sales		**(322,586)**	(517,656)
Gross profit		**79,816**	119,568
Other income and gains, net	7	**9,102**	9,709
Selling and distribution expenses		**(27,433)**	(33,324)
General and administrative expenses		**(203,204)**	(205,379)
Revaluation deficit of land and buildings		**—**	(121,827)
Impairment on property, plant and equipment	18	**(18,910)**	(22,097)
Impairment on trade and other receivables	23	**(859)**	(21,200)
Operating loss	8	**(161,488)**	(274,550)
Finance costs	9	**(11,925)**	(16,515)
Loss before income tax		**(173,413)**	(291,065)
Income tax (expense)/credit	10	**(1,540)**	2,292
Loss for the year		**(174,953)**	(288,773)
Other comprehensive income, after tax:			
Exchange differences arising on translation of foreign operations		**7,527**	21,730
Gain on revaluation of land and buildings, net		**—**	4,508
Other comprehensive income for the year		**7,527**	26,238
Total comprehensive income for the year		**(167,426)**	(262,535)
Loss for the year attributable to:			
Owners of the Company	11	**(174,953)**	(288,773)
Minority interest		**—**	—
		(174,953)	(288,773)
Total comprehensive income attributable to:			
Owners of the Company		**(167,426)**	(262,535)
Minority interest		**—**	—
		(167,426)	(262,535)
Loss per share attributable to the owners of the Company			
— Basic and diluted	13	**(6.40) cents**	(11.72) cents

Statements of Financial Position

As at 31 March 2010

		Group		Company	
		2010	2009	**2010**	2009
	Notes	**HK$'000**	HK$'000	**HK$'000**	HK$'000
ASSETS AND LIABILITIES					
Non-current assets					
Leasehold land and land use rights	17	**87,708**	89,582	**—**	—
Property, plant and equipment	18	**254,762**	307,821	**—**	—
Goodwill	19	**19,240**	19,240	**—**	—
Club memberships	20	**2,001**	2,001	**—**	—
Interests in subsidiaries	21	**—**	—	**222,829**	299,965
Deferred tax assets	30	**2,097**	4,113	**—**	—
		365,808	422,757	**222,829**	299,965
Current assets					
Inventories	22	**107,120**	204,755	**—**	—
Trade and other receivables, deposits and prepayments	23	**47,151**	99,089	**880**	5,057
Derivative financial instruments	24	**—**	544	**—**	—
Tax recoverable		**1,836**	1,893	**9**	9
Cash and cash equivalents	25	**43,858**	26,652	**315**	153
		199,965	332,933	**1,204**	5,219
Current liabilities					
Trade and other payables and accrued charges	26	**82,537**	125,619	**626**	462
Obligations under finance leases	28	**6,330**	6,037	**—**	—
Derivative financial instruments	24	**—**	317	**—**	—
Borrowings	27	**208,743**	250,824	**68,502**	109,603
Tax payable		**6,081**	5,417	**—**	—
		303,691	388,214	**69,128**	110,065
Net current liabilities		**(103,726)**	(55,281)	**(67,924)**	(104,846)
Total assets less current liabilities		**262,082**	367,476	**154,905**	195,119

Statements of Financial Position

As at 31 March 2010

		Group		Company	
		2010	2009	**2010**	2009
	Notes	**HK$'000**	HK$'000	**HK$'000**	HK$'000
Total assets less current liabilities		**262,082**	367,476	**154,905**	195,119
Non-current liabilities					
Obligations under finance leases	28	**4,625**	10,342	**—**	—
Provision for long service payment	29	**1,922**	1,420	**—**	—
Loan from immediate holding company	39(a)	**50,000**	50,000	**50,000**	50,000
Deferred tax liabilities	30	**4,436**	5,511	**—**	—
		60,983	67,273	**50,000**	50,000
Net assets		**201,099**	300,203	**104,905**	145,119
EQUITY					
Share capital	31	**295,776**	246,480	**295,776**	246,480
Reserves	33	**(94,677)**	53,723	**(190,871)**	(101,361)
		201,099	300,203	**104,905**	145,119
Minority interest		**—**	—	**—**	—
Total equity		**201,099**	300,203	**104,905**	145,119

These financial statements were approved and authorised for issue by the board of directors on 23 July 2010.

Leung Lun
Director

Leung Chung Ming
Director

Consolidated Statement of Changes in Equity

For the year ended 31 March 2010

	Attributable to owners of the Company								Minority interests	Total equity
	Share capital	Share premium	Exchange fluctuation reserve	Statutory surplus reserve	Land and buildings revaluation reserve	Share options reserve	Retained profits/ (accumulated losses)	Total		
	HK$'000	HK$'000	HK$'000	HK$'000	HK$'000	HK$'000	HK$'000	HK$'000	HK$'000	HK$'000
At 31 March 2008	246,480	14,211	9,637	28,840	21,140	792	241,638	562,738	–	562,738
Total comprehensive income for the year	–	–	21,730	–	4,508	–	(288,773)	(262,535)	–	(262,535)
Transfer between reserves										
– upon disposal of properties	–	–	–	–	(142)	–	142	–	–	–
– upon 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
Total comprehensive income for the year	**–**	**–**	**7,527**	**–**	**–**	**–**	**(174,953)**	**(167,426)**	**–**	**(167,426)**
Acquisition of minority interests in a subsidiary (Note 38)	**2,600**	**1,820**	**–**	**–**	**–**	**–**	**(4,420)**	**–**	**–**	**–**
Transfer between reserves upon lapse of share options	**–**	**–**	**–**	**–**	**–**	**(246)**	**246**	**–**	**–**	**–**
Issue of shares in placing arrangement (Note 31a)	**46,696**	**21,626**	**–**	**–**	**–**	**–**	**–**	**68,322**	**–**	**68,322**
At 31 March 2010	**295,776**	**37,657**	**38,894**	**28,840**	**25,506**	**–**	**(225,574)**	**201,099**	**–**	**201,099**

Nature and purpose of reserves are disclosed in Note 33.

Consolidated Statement of Cash Flows

For the year ended 31 March 2010

	Note	2010 HK$'000	2009 HK$'000
Operating activities			
Loss before income tax		**(173,413)**	(291,065)
Adjustments for:			
Interest income		**(283)**	(80)
Interest expense and arrangement fee for bank loans		**11,925**	16,515
Depreciation of property, plant and equipment		**45,340**	53,675
Provision for severance payments		**3,451**	—
Provision for long service payment		**150**	256
Revaluation deficit of land and building		**—**	121,827
Impairment on property, plant & equipment		**18,910**	22,097
Impairment on trade and other receivables, deposits and prepayments		**859**	21,200
Impairment on club membership		**—**	473
Amortisation of leasehold land and land use rights		**1,874**	2,069
(Gain)/loss on disposal of property, plant and equipment		**(86)**	1,703
Gain on disposal of derivative financial instruments		**(127)**	—
Fair value gain on derivative financial instruments		**—**	(595)
Operating cash flows before changes in working capital		**(91,400)**	(51,925)
Inventories		**97,635**	89,774
Trade and other receivables, deposit and prepayments		**47,836**	78,473
Trade and other payables and accrued charges		**(47,217)**	(37,205)
Trust receipt bank loans		**(48,541)**	9,631
Cash (used in)/generated from operations		**(41,687)**	88,748
Interest received		**283**	80
Hong Kong profits tax paid		**—**	614
Overseas income tax paid		**(648)**	190
Net cash (used in)/generated from operating activities		**(42,052)**	89,632

Consolidated Statement of Cash Flows

For the year ended 31 March 2010

	Note	2010 HK$'000	2009 HK$'000
Investing activities			
Purchase of property, plant and equipment		**(5,907)**	(38,489)
Proceeds from disposal of derivative financial instruments		**354**	—
Proceeds from disposal of property, plant and equipment		**86**	12,680
Net cash used in investing activities		**(5,467)**	(25,809)
Financing activities			
Interest expense and arrangement fees on bank loans		**(8,682)**	(16,515)
Issue of shares in placing arrangement		**68,322**	—
New loans from banks and financial institutions		**83,091**	—
Repayment of loans borrowed from banks and financial institutions		**(76,631)**	(79,503)
Capital element of finance lease rental payment		**(6,132)**	(4,335)
Net cash generated from/(used in) financing activities		**59,968**	(100,353)
Net increase/(decrease) in cash and cash equivalents		**12,449**	(36,530)
Effect of foreign exchange rate changes		**4,757**	11,678
Cash and cash equivalents at beginning of year		**26,652**	51,504
Cash and cash equivalents at end of year	25	**43,858**	26,652

1. ORGANISATION AND OPERATIONS

Lung Cheong International Holdings Limited (the "Company") is a limited liability company incorporated in the Cayman Islands. Its shares are listed on the Main Board of The Stock Exchange of Hong Kong Limited ("Stock Exchange"). 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 is an investment holding company and the Group is principally engaged in development, engineering, manufacture and sales of toys, moulds and materials during the year ended 31 March 2010. The principle activities of its subsidiaries are set out in Note 21 to the financial statements.

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

2. ADOPTION OF NEW AND REVISED HONG KONG FINANCIAL REPORTING STANDARDS ("HKFRSs")

(a) The Group has adopted the following new/revised HKFRSs issued by the Hong Kong Institute of Certified Public Accountants ("HKICPA") that are effective for the current accounting period and relevant to the Group.

HKFRSs (Amendments)	Improvements to HKFRSs issued in 2008, except for the amendment to HKFRS 5 that is effective for annual periods beginning on or after 1 July 2009
HKFRSs (Amendments)	Improvements to HKFRSs issued in 2009 in relation to the amendment to paragraph 80 of HKAS 39
HKAS 1 (Revised)	Presentation of Financial Statements
HKAS 23 (Revised)	Borrowing Costs
HKFRS 1 and HKAS 27 (Amendment)	Cost of an Investment in a Subsidiary, Jointly Controlled Entity or Associate
HKFRS 2 (Amendment)	Vesting Conditions and Cancellations
HKFRS 7 (Amendment)	Improving Disclosures about Financial Instruments
HKFRS 8	Operating Segments

The adoption of the above new/revised HKFRSs had no material effect on the reported results or financial position of the Group for both the current and prior reporting periods, except for the following changes:

2. ADOPTION OF NEW AND REVISED HONG KONG FINANCIAL REPORTING STANDARDS ("HKFRSs") *(Continued)*

(a) *(Continued)*

HKAS 1 (Revised), Presentation of Financial Statements

The revised standard affects certain disclosures of financial statements. Under the revised standard, the Income Statement, the Balance Sheet and the Cash Flow Statement are renamed as the "Statement of Comprehensive Income", the "Statement of Financial Position" and the "Statement of Cash Flows" respectively. All income and expenses arising from transactions with non-owners are presented under the "Statement of Comprehensive Income"; while the owners' changes in equity are presented in the "Statement of Changes in Equity".

HKFRS 8, Operating Segments

HKFRS 8 replaces HKAS 14 "Segment Reporting", and requires operating segments to be identified on the basis of internal reports of the Group that are regularly reviewed by the chief operating decision-maker in order to allocate resources to the segments and to assess their performance. As the business segments reported by the Group in accordance with the requirements of HKAS 14 are the same as the operating segments provided to the chief operating decision-maker as required by HKFRS 8, there are no changes to the operating segments and the relevant segment information on the adoption of HKFRS 8.

(b) Potential impact arising on HKFRSs not yet effective

The following new or revised HKFRSs, potentially relevant to the Group's operations, have been issued but are not yet effective and have not been early adopted by the Group.

HKFRSs (Amendments)	Amendment to HKFRS 5 as part of Improvements to HKFRSs [1]
HKFRSs (Amendments)	Improvements to HKFRSs 2009 [2]
HKFRSs (Amendments)	Improvements to HKFRSs 2010 [3]
Amendments to HKFRS 2	Share-based Payment – Group Cash-settled Share-based Payment Transactions [4]
HKAS 27 (Revised)	Consolidated and Separate Financial Statements [1]
HKFRS 3 (Revised)	Business Combinations [1]
HK(IFRIC) – Interpretation 19	Extinguishing Financial Liabilities with Equity Instruments [5]
HKAS 24 (Revised)	Related Party Disclosures [6]
HKFRS 9	Financial Instruments [7]

2. ADOPTION OF NEW AND REVISED HONG KONG FINANCIAL REPORTING STANDARDS ("HKFRSs") *(Continued)*

(b) **Potential impact arising on HKFRSs not yet effective** *(Continued)*

[1] Effective for annual periods beginning on or after 1 July 2009
[2] Effective for annual periods beginning on or after 1 July 2009 and 1 January 2010, as appropriate
[3] Effective for annual periods beginning on or after 1 July 2010 and 1 January 2011, as appropriate
[4] Effective for annual periods beginning on or after 1 January 2010
[5] Effective for annual periods beginning on or after 1 July 2010
[6] Effective for annual periods beginning on or after 1 January 2011
[7] Effective for annual periods beginning on or after 1 January 2013

The adoption of HKFRS 3 (Revised) may affect the Group's accounting for business combinations for which the acquisition dates are on or after 1 January 2010. HKAS 27 (Revised) will affect the accounting treatment for changes in the Group's ownership interest in a subsidiary. Changes in the Group's ownership interest that do not result in loss of control of the subsidiary will be accounted for as equity transactions.

The amendment to HKAS 17 made under "Improvements to HKFRSs 2009", mandatory for accounting periods beginning on or after 1 January 2010, removes the specific guidance which stated that land held under a lease should be classified as an operating lease unless title to the land is expected to pass at the end of the lease term. It provides new guidance which indicates that entity should use judgement to decide whether the lease transfers the significant risks and rewards of ownership of the land in accordance with the criteria set out in HKAS 17. The Group will reassess the classification of land elements of unexpired leases at the date it adopts the amendment on the basis of information existing at the inception of the lease and recognise a lease newly classified as a finance lease retrospectively if the criteria of a finance lease is met. If the information necessary to apply the amendment retrospectively is not available, the Group will recognise the related asset and liability at their fair values on the date of adoption and recognise the difference in retained earnings.

The Group is in the process of making an assessment of the potential impact of other new/revised HKFRSs and the directors so far concluded that the application of the other new/revised HKFRSs will have no material impact on the results and the financial position of the Group.

3. BASIS OF PREPARATION

(a) Statement of compliance

The financial statements have been prepared in accordance with all applicable HKFRSs and Hong Kong Accounting Standards ("HKAS") and Interpretations. 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 measurement and going concern assumption

The financial statements have been prepared under the historical cost convention except that the land and buildings are carried at revalued amount and certain financial instruments are carried at fair value.

The preparation of financial statements in conformity with HKFRSs requires the use of certain critical accounting estimates. It also requires management to exercise its judgement in the process of applying the Group's accounting policies. 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 5.

As at 31 March 2010, the Group's current liabilities exceeded its current assets by approximately HK$103,726,000, and it had outstanding short-term borrowings of approximately HK$215,073,000 which are due for repayment within the next twelve months. Included in the short-term borrowings is an outstanding syndicated loan of HK$68,502,000 in respect of which the Group has breached certain covenants. Further details are set out in Note 27 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 therefore, the Group may not be able to realise its assets and discharge its liabilities in the normal course of business. Its ability to do so depends on the continuing supports of the lenders to provide financing and the success of management's continuing efforts to improve the Group's profitability and operating cash flows.

3. BASIS OF PREPARATION *(Continued)*

(b) **Basis of measurement and going concern assumption** *(Continued)*

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 certain assets of the Group. The Directors are confident that the outstanding 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 had been reported to respective banks which involved in the syndicated loan on the earliest practical date. The Group is liaising with these lenders to waive some of the 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.

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 as and when they fall due and maintain its operating scale in the next twelve months from the end of reporting period. 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.

4. SIGNIFICANT ACCOUNTING POLICIES

(a) **Basis of consolidation**

The consolidated financial statements comprise of the financial statements of the Company and its subsidiaries ("the Group"). Inter-company transactions and balances between group companies are eliminated in full in preparing the consolidated financial statements.

On acquisition, the assets and liabilities of the relevant subsidiaries are measured at their fair values at the date of acquisition. The interest of minority shareholders is stated at the minority's proportion of the fair values of the assets and liabilities recognised.

4. SIGNIFICANT ACCOUNTING POLICIES *(Continued)*

(a) Basis of consolidation *(Continued)*

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

Minority interests represent the portion of profit or loss and net assets of subsidiaries attributable to equity interests that are not owned directly or indirectly through subsidiaries, by the Company. Minority interests are presented in the consolidated statement of financial position within equity, separately from equity attributable to the equity shareholders of the Company. Minority interests in the results of the Group are presented on the face of the consolidated statement of comprehensive income as an allocation of the total profit or loss for the year between minority interests and the owners of the Company.

Where losses applicable to the minority exceed the minority's interest in the equity of a subsidiary, the excess, and any further losses applicable to the minority, are charged against the group's interest except to the extent that the minority has a binding obligation to, and is able to, make additional investment to cover the losses. If the subsidiary subsequently reports profits, the group's interest is allocated all such profits until the minority's share of losses previously absorbed by the Group has been recovered.

(b) Business combinations

The acquisition 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, after re-assessment.

4. SIGNIFICANT ACCOUNTING POLICIES *(Continued)*

(c) Subsidiaries

Subsidiaries are entities over which the Company is able to exercise control. Control is achieved where the Company, directly or indirectly, has the power to govern the financial and operating policies of an entity so as to obtain benefits from its activities. In assessing control, potential voting rights that presently are exercisable are taken into account.

In the Company's statement of financial position, investments in subsidiaries are stated at cost less impairment loss, if any. The results of subsidiaries are accounted by the Company on the basis of dividend received and receivable.

(d) Property, plant and equipment

Buildings comprise mainly factories, showrooms and offices. Freehold land and buildings are carried at revalued amount, being fair value, based on periodic, but at least triennial, valuations by external independent valuers, less any subsequent accumulated depreciation and subsequent accumulated impairment losses. 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.

Increases in the carrying amount arising on revaluation of land and buildings are recognised in other comprehensive income and accumulated in equity under land and buildings revaluation reserve. Decreases that offset previous increases of the same asset are offset against previous increase on earlier valuations and thereafter any further losses are recognised in profit or loss.

All other property, plant and equipment are stated at historical cost less accumulated depreciation and accumulated impairment losses. Historical cost includes expenditure that is directly attributable to the acquisition of the items.

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

4. SIGNIFICANT ACCOUNTING POLICIES *(Continued)*

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

Depreciation of property, plant and equipment, other than construction in progress, 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 the end of each reporting period.

Construction in progress is stated at cost less impairment losses. Cost comprises direct 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 is written down immediately to its recoverable amount if its 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.

During the year, the directors planned to close down a plant in the PRC in near future. The directors of the Company consider that it is more appropriate to depreciate certain leasehold improvements located in the plant over the estimated remaining operating period of that plant. With effect from 1 April 2009, the estimated useful lives of those leasehold improvements were reviewed and reduced to 21 months. The change in the estimated useful lives has been applied prospectively, commencing the current year. The change in the useful lives has resulted in a higher depreciation charge by approximately HK$4,976,000 for the current financial year.

4. SIGNIFICANT ACCOUNTING POLICIES *(Continued)*

(e) Goodwill

Goodwill represents the excess of the cost of a business combination over the interest in the fair value of identifiable assets, liabilities and contingent liabilities acquired. Cost comprises the fair values of assets given, liabilities assumed and equity instruments issued, plus any direct costs of acquisition.

Goodwill is capitalised as a separate asset with any impairment in carrying amount being recognised in profit or loss.

Where the fair value of identifiable assets, liabilities and contingent liabilities exceed the fair value of consideration paid, the excess is recognised in profit or loss on the acquisition date, after re-assessment.

For the purpose of impairment testing, goodwill arising from an acquisition is allocated to each of the relevant cash-generating units that are expected to benefit from the synergies of the acquisition. A cash-generating unit to which goodwill has been allocated is tested for impairment annually, and whenever there is an indication that the unit may be impaired.

When the recoverable amount of the cash-generating unit is less than the carrying amount of the unit, the impairment loss is allocated to reduce the carrying amount of any goodwill allocated to the unit first, and then to the other assets of the unit pro-rata on the basis of the carrying amount to each asset in the unit. Any impairment loss for goodwill is recognised in profit or loss and is not reversed in subsequent periods.

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.

(f) Club memberships

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

4. SIGNIFICANT ACCOUNTING POLICIES *(Continued)*

(g) Impairment of tangible and intangible assets excluding goodwill

At the end of each reporting period, 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 or an impairment loss previously recognised no longer exists or may have reduced. 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. Where a reasonable and consistent basis of allocation can be identified, corporate assets are also allocated to individual cash-generating units, or otherwise they are allocated to the smallest group of cash-generating units for which a reasonable and consistent allocation basis can be identified.

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 for which the estimates of future cash flows have not been adjusted.

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 accounted for in accordance with the relevant accounting policy for that relevant asset.

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 accounted for in accordance with the relevant accounting policy for that relevant asset.

4. SIGNIFICANT ACCOUNTING POLICIES *(Continued)*

(h) 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.

(i) 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 the end of each reporting period. 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.

4. SIGNIFICANT ACCOUNTING POLICIES *(Continued)*

(i) Financial assets *(Continued)*

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

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.

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.

4. SIGNIFICANT ACCOUNTING POLICIES *(Continued)*

(i) Financial assets *(Continued)*

(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.

(j) 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.

4. SIGNIFICANT ACCOUNTING POLICIES *(Continued)*

(k) 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.

(l) 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 statement of cash flows.

(m) 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 statement of financial position 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.

4. SIGNIFICANT ACCOUNTING POLICIES *(Continued)*

(m) Leases *(Continued)*

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

(n) Financial guarantee contracts issued

Financial guarantee contracts 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 contract, 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 4(u) 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.

(o) 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.

4. SIGNIFICANT ACCOUNTING POLICIES *(Continued)*

(p) Income taxes

Income taxes represent the sum of the tax currently payable and deferred tax.

(i) Current tax

The tax currently payable is based on taxable profit for the year. Taxable profit differs from profit as reported in the statement of comprehensive income 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 end of the reporting period.

(ii) Deferred tax

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 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 the end of each reporting period 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.

4. SIGNIFICANT ACCOUNTING POLICIES *(Continued)*

(p) Income taxes *(Continued)*

(ii) Deferred tax *(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 end of reporting period. 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 end of reporting period, 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.

(q) 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 profit or loss.

(iii) Consolidated financial statements

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 reporting period presented are translated at the closing rate at the date of that reporting period;

4. SIGNIFICANT ACCOUNTING POLICIES *(Continued)*

(q) Foreign currencies *(Continued)*

(iii) Consolidated financial statements *(Continued)*

- income and expenses for each reporting period 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 in other comprehensive income and accumulated in exchange fluctuation reserve within equity.

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

(r) 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 end of reporting period.

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 end of reporting period.

(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.

4. SIGNIFICANT ACCOUNTING POLICIES *(Continued)*

(r) Employee benefits *(Continued)*

(iii) Pension obligations

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

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

(iv) Share-based payments

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

The fair value determined at the grant date of the equity-settled share-based payments is expensed on a straight-line basis over the vesting period, based on the Group's estimate of equity instruments that will eventually vest. At the end of each reporting period, 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 the end of each reporting period.

4. SIGNIFICANT ACCOUNTING POLICIES *(Continued)*

(s) 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. The capitalistion of such borrowing costs ceases when the assets are substantially ready for their intended use or sale.

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 recognised in profit or loss in the period in which they are incurred.

(t) 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.

(u) Revenue recognition

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

(i) Sales of goods

Sales of goods are recognised when the Group entity has delivered products to the customer; the customer has accepted the products and collectibility of the related receivables is reasonably assumed.

(ii) Interest income

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

5. 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.

(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 end of reporting period, 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.

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

(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 five-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 the end of each reporting period.

(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 the end of each reporting period.

(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.

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

(f) Current taxes and deferred tax *(Continued)*

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.

6. 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:

	2010 **HK$'000**	2009 HK$'000
Sale of goods	**377,907**	578,627
Sale of moulds and materials	**24,495**	58,597
Total revenue	**402,402**	637,224

On the adoption of HKFRS 8, the Group has identified and prepared segment information based on the regular internal financial information reported to the Group's senior management for their assessment of performance and resource allocation. The Group's operation is managed as a single business segment.

6. TURNOVER AND SEGMENT INFORMATION *(Continued)*

(a) Information about the Group's revenue and operations by geographical region, according to the location of customers and assets is as follows:

	Revenue HK$'000	Non-current assets HK$'000
For the year ended 31 March 2010		
United States of America	**151,300**	**39,407**
Europe	**72,310**	**—**
Japan	**39,800**	**—**
China	**71,119**	**277,570**
Indonesia	**8,408**	**8,805**
Hong Kong	**31,702**	**34,398**
Others	**27,763**	**5,628**
Total	**402,402**	**365,808**

	Revenue HK$'000	Non-current assets HK$'000
For the year ended 31 March 2009		
United States of America	199,538	22,806
Europe	100,480	—
Japan	83,475	—
China	112,051	322,080
Indonesia	657	12,345
Hong Kong	97,550	49,364
Others	43,473	16,162
Total	637,224	422,757

6. TURNOVER AND SEGMENT INFORMATION *(Continued)*

(b) Information on the Group's revenue by product type is as follows:

	2010	2009
	HK$'000	HK$'000
Radio control/wireless products	**177,808**	441,067
Electronic and plastic toys	**208,200**	115,585
Consumer electronic products	**16,394**	80,572
	402,402	637,224

(c) Information on major customers is as follows:

For the year ended 31 March 2010, revenues from three external customers had contributed to more than 49% of the Group's revenue amounting to HK$199,363,000. Other than these customers, there is no other customer whose revenue contributed to more than 10% of the Group's revenue.

For the year ended 31 March 2009, revenues from two external customers had contributed to more than 29% of the Group's revenue amounting to HK$186,244,000. Other than these customers, there is no other customer whose revenue contributed to more than 10% of the Group's revenue.

7. OTHER INCOME AND GAINS, NET

	2010	2009
	HK$'000	HK$'000
Sample income and others	**5,826**	3,401
Exchange gains, net	**2,993**	4,592
Interest income	**283**	80
Net fair value gain on derivatives financial instruments:		
— forward contracts and interest-rate swaps transactions not qualifying as hedges	**—**	1,636
	9,102	9,709

8. EXPENSES BY NATURE

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

	2010	2009
	HK$'000	HK$'000
Cost of inventories sold	**322,586**	517,656
Amortisation of leasehold land and land use rights (Note 17)	**1,874**	2,069
Auditor's remuneration	**1,601**	1,515
Depreciation of property, plant and equipment	**45,340**	53,675
Loss on disposal of property, plant and equipment	**—**	1,703
Impairment loss for trade and other receivables (Note 23(b))	**1,370**	21,200
Recovery of impairment loss for trade receivables previously recognised (Note 23(b))	**(511)**	—
Impairment on club memberships (Note 20)	**—**	473
Employee benefit expenses (Note 14)	**126,149**	144,154
Operating lease rentals in respect of land and buildings	**2,925**	3,366
Compliance and testing fee	**1,485**	2,490

9. FINANCE COSTS

	2010	2009
	HK$'000	HK$'000
Interests on loans and overdraft from banks and financial institutions wholly repayable within five years	**8,301**	13,019
Interest on loan from immediate holding company	**3,243**	3,013
Finance charges on obligations under finance leases	**381**	483
	11,925	16,515

10. INCOME TAX (EXPENSE)/CREDIT

No Hong Kong profits tax has been provided as the Group sustained a loss in Hong Kong for the year (2009: Nil).

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

	2010 HK$'000	2009 HK$'000
Current tax		
Hong Kong profits tax		
— under provision in prior years	**—**	(23)
Mainland China enterprise income tax		
— current year	**(1,178)**	—
— over provision in prior years	**—**	155
Deferred tax credit (Note 30)	**(362)**	2,160
Income tax (expense)/credit	**(1,540)**	2,292

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

	2010 HK$'000	2009 HK$'000
Loss before income tax	**173,413**	291,065
Tax credit calculated at the tax rate of 16.5% (2009: 16.5%)	**28,613**	48,025
Effect of different tax rates in other countries	**2,172**	15,310
Income not subject to taxation	**—**	566
Expenses not deductible for taxation purposes	**(16,480)**	(15,983)
Tax exemption	**—**	198
Tax losses not recognised	**(15,845)**	(46,098)
Over provision in prior years	**—**	274
Tax (charge)/credit for the year	**(1,540)**	2,292

11. LOSS ATTRIBUTABLE TO OWNERS OF THE COMPANY

The consolidated loss attributable to owners of the Company for the year ended 31 March 2010 includes a loss of approximately HK$112,956,000 (2009: HK$200,012,000) which has been dealt with in the financial statements of the Company (Note 33).

12. DIVIDENDS

The directors do not recommend any dividend in respect of the year ended 31 March 2010 (2009: Nil).

13. LOSS PER SHARE

Basic

The calculation of basic loss per share is based on the loss attributable to owners of the Company of HK$174,953,000 (2009: HK$288,773,000) and the weighted average number of 2,732,010,550 (2009: 2,464,800,000) ordinary shares in issue during the year.

Diluted

The diluted loss per share for the years ended 31 March 2010 and 2009 are same as their basic loss per share as the conversion of the outstanding share options would have an anti-dilutive effect on the basic loss per share for the years.

14. EMPLOYEE BENEFIT EXPENSES

Employee benefit expenses excluding directors' emoluments comprise:

	2010 **HK$'000**	2009 HK$'000
Wages and salaries	**109,374**	135,925
Other staff benefits	**5,720**	3,428
Pension costs – defined contribution plans (Note 16)	**6,234**	4,801
Severance payment expenses	**4,821**	—
	126,149	144,154

15. DIRECTORS' AND SENIOR MANAGEMENT'S EMOLUMENTS

(a) Directors' emoluments

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

	2010 HK$'000	2009 HK$'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	**5,587**	6,233
Provident fund scheme contributions	**84**	84
	5,911	6,557

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 2010 and 2009.

The remuneration of each director for the year ended 31 March 2010 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$'000	Employer's contribution to pension scheme HK$'000	Total HK$'000
Mr Leung Lun	–	1,275	780	12	2,067
Mr Leung Chung Ming	–	1,224	761	12	1,997
Mr Zhong Bingquan	–	285	–	12	297
Ms Cheng Yun Tai	–	285	–	12	297
Mr Wong, Andy Tze On	–	617	360	36	1,013
Mr Wong Lam	60	–	–	–	60
Mr Ye Tian Liu	60	–	–	–	60
Dr Ko Peter, Ping Wah	60	–	–	–	60
Mr Lai Yun Hung	60	–	–	–	60
	240	3,686	1,901	84	5,911

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

(a) Directors' emoluments *(Continued)*

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

Name of director	Fees	Basic salaries and bonus	Housing and other allowances and benefits in kind	Employer's contribution to pension scheme	Total
	HK$'000	HK$'000	HK$'000	HK$'000	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
Dr Ko Peter, Ping Wah	60	–	–	–	60
Mr Lai Yun Hung	60	–	–	–	60
	240	4.517	1,716	84	6,557

(b) Five highest paid individuals

The five individuals whose emoluments were the highest in the Group for the year include three (2009: three) directors whose emoluments are disclosed in the analysis presented above. The emoluments payable to the remaining two (2009: two) individuals during the year are as follows:

	2010	2009
	HK$'000	HK$'000
Basic salaries, housing allowances, other allowances and benefits in kind	**1,366**	1,629
Provident fund scheme contributions	**52**	52
	1,418	1,681

The emoluments of these two (2009: two) highest paid individuals fell within the band of Nil to HK$1,000,000 for both years.

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

16. 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.

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 statement of comprehensive income for the year ended 31 March 2010 was HK$6,234,000 (2009: HK$4,801,000).

17. LEASEHOLD LAND AND LAND USE RIGHTS

	Group	
	2010	2009
	HK$'000	HK$'000
At beginning of year	**89,582**	97,356
Disposals	**—**	(9,841)
Amortisation charged for the year (Note 8)	**(1,874)**	(2,069)
Exchange difference	**—**	4,136
At end of year	**87,708**	89,582

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	
	2010	2009
	HK$'000	HK$'000
In Mainland China, held on:		
— Land use rights of between 10 to 50 years	**73,525**	75,016
In Hong Kong, held on:		
— Land use rights of between 10 to 50 years	**14,183**	14,566
	87,708	89,582

18. PROPERTY, PLANT AND EQUIPMENT

Group	Land and buildings HK$'000	Leasehold improve-ments HK$'000	Plant and machinery HK$'000	Furniture, fixtures and equipment HK$'000	Motor vehicles HK$'000	Moulds HK$'000	Construc-tion in progress HK$'000	Total HK$'000
At 1 April 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
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
At 31 March 2009								
Net book amount at 1 April 2009	204,636	42,524	18,866	10,616	1,357	29,822	–	307,821
Additions	1,113	–	2,171	1,664	707	960	–	6,615
Impairment (note iii)	–	(6,790)	–	–	–	(12,120)	–	(18,910)
Depreciation charge	(5,141)	(20,321)	(4,479)	(2,709)	(775)	(11,915)	–	(45,340)
Exchange differences	3,887	–	623	44	22	–	–	4,576
Net book value at 31 March 2010	204,495	15,413	17,181	9,615	1,311	6,747	–	254,762
At 31 March 2010								
Cost or valuation	**210,468**	**123,913**	**224,464**	**39,040**	**8,951**	**33,578**	**–**	**640,414**
Accumulated depreciation and impairment	**(5,973)**	**(108,500)**	**(207,283)**	**(29,425)**	**(7,640)**	**(26,831)**	**–**	**(385,652)**
Net book amount	**204,495**	**15,413**	**17,181**	**9,615**	**1,311**	**6,747**	**–**	**254,762**

18. 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. Limited 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$158,060,000 (2009: HK$163,370,000) had they been stated at cost less accumulated depreciation and accumulated impairment losses.

(iii) During the year ended 31 March 2010, impairment loss of HK$18,910,000 (2009: HK$22,097,000) was recognised by the Group in respect of certain leasehold improvements and moulds due to technical obsolescence.

(iv) As at 31 March 2010, the legal title of certain land and buildings situated in the PRC with an aggregate net book value of HK$151,253,000 (2009: HK$153,290,000) 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$707,850 (2009: HK$21,520,000). At the end of reporting period, the carrying amount of property, plant and equipment held under finance leases of the Group was HK$18,446,000 (2009: HK$20,136,000). The related depreciation charge was HK$2,858,000 (2009: HK$1,384,000).

(vi) The land and buildings including a freehold land outside Hong Kong with an aggregate net book value of HK$17,508,000 (2009: HK$14,529,000).

19. GOODWILL

	Group	
	2010	2009
	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 2010, 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.

Key assumptions used for value-in-use calculations:

Growth rate	3%
Discount rate	10%

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.

20. CLUB MEMBERSHIPS

	Group	
	2010	2009
	HK$'000	HK$'000
At beginning of year	**2,001**	2,474
Impairment loss for the year (Note 8)	**–**	(473)
At end of year	**2,001**	2,001

21. INTERESTS IN SUBSIDIARIES

	Company	
	2010	2009
	HK$'000	HK$'000
Unlisted investments, at cost	**115,801**	115,801
Amounts due from subsidiaries (Note)	**482,028**	454,164
	597,829	569,965
Less: provision for impairment loss	**(375,000)**	(270,000)
	222,829	299,965

Note:

The amounts are due from certain wholly-owned subsidiaries. They are unsecured and will not be demanded for repayment within the next twelve months from 31 March 2010. Out of the total amount, HK$68,502,000 (2009: HK$109,603,000) is interest bearing at Hong Kong Interbank Offered Rate plus 2% (2009: Hong Kong Interbank Offered Rate plus 1.15%) per annum while the remaining balance is interest-free.

Particulars of the principal subsidiaries of the Company at 31 March 2010 are as follows:

Name of company	Place of incorporation and operations	Particulars of issued share capital/ registered capital	Effective percentage holding		Nature of business
			2010	2009	
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

21. INTERESTS IN SUBSIDIARIES *(Continued)*

Name of company	Place of incorporation and operations	Particulars of issued share capital/ registered capital	Effective percentage holding 2010	Effective percentage holding 2009	Nature of business
Shares/investments held indirectly: *(continued)*					
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
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
P.T. Lung Cheong Brothers Industrial#	Republic of Indonesia	Rupiah 96,305,804,000	**100**	60	Manufacture of toys and electronic products
Kid Galaxy Global Limited	British Virgin Islands	Ordinary US$1	**100**	100	Trading of toys

21. INTERESTS IN SUBSIDIARIES *(Continued)*

Name of company	Place of incorporation and operations	Particulars of issued share capital/ registered capital	Effective percentage holding 2010	Effective percentage holding 2009	Nature of business
Shares/investments held indirectly: *(continued)*					
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
Standard Tooling and Products Co., Ltd	Hong Kong	Ordinary HK$3,000,000	**100**	100	Engineering services and trading of moulds
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.

\# The remaining 40% equity interest in this subsidiary was acquired on 25 June 2009 (Note 38). Further details are set out in Note 38 to the financial statements.

22. INVENTORIES

	Group	
	2010	2009
	HK$'000	HK$'000
Raw materials	**34,794**	97,214
Work-in-progress	**31,108**	68,646
Finished goods	**41,218**	38,895
	107,120	204,755

The cost of inventories recognised as an expense, includes inventories write-down, during the year was HK$369,634,000 (2009: HK$547,811,000).

23. TRADE AND OTHER RECEIVABLES, DEPOSITS AND PREPAYMENTS

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

	Group		Company	
	2010	2009	**2010**	2009
	HK$'000	HK$'000	**HK$'000**	HK$'000
Trade receivables	**52,803**	87,107	**–**	–
Less: Allowance for doubtful debts	**(16,063)**	(15,204)	**–**	–
	36,740	71,903	**–**	–
Other receivables, deposits and prepayments	**16,407**	33,182	**880**	5,057
Less: Provision for impairment	**(5,996)**	(5,996)	**–**	–
	10,411	27,186	**880**	5,057
	47,151	99,089	**880**	5,057

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

Prepayments include interest expenses of HK$Nil (2009: HK$3,243,000) paid on loan from immediate holding company.

(a) The average credit period to the Group's trade debtors is 30 to 90 days.

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

Allowance of doubtful debts on trade receivables

	2010	2009
	HK$'000	HK$'000
At beginning of the year	**15,204**	—
Impairment loss recognised (Note i)	**859**	15,204
At end of the year	**16,063**	15,204

Provision for impairment on other receivables, deposits and prepayments

	2010	2009
	HK$'000	HK$'000
At beginning of the year	**5,996**	—
Impairment loss recognised	**—**	5,996
At end of the year	**5,996**	5,996

Note:

(i) At 31 March 2010, the Group's trade receivables of approximately HK$16,063,000 (2009: HK$15,204,000) 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$859,000 (2009: HK$15,204,000) respectively were recognised. The Group does not hold any collateral over these balances.

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

(c) At 31 March 2010, the ageing analysis of the trade receivables net of allowance for doubtful debts was as follows:

	Group	
	2010	2009
	HK$'000	HK$'000
0-90 days	**31,255**	57,789
91-180 days	**3,103**	3,874
181-365 days	**507**	7,536
Over 365 days	**1,875**	2,704
	36,740	71,903

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	
	2010	2009
	HK$'000	HK$'000
Neither past due nor impaired	**27,467**	38,916
Within 30 days past due	**3,990**	12,230
31 to 90 days past due	**2,353**	10,585
Over 90 days past due	**2,930**	10,172
	9,273	32,987
	36,740	71,903

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

(d) *(Continued)*

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.

24. DERIVATIVE FINANCIAL INSTRUMENTS

	Group	
	2010	2009
	HK$'000	HK$'000
Assets		
Forward foreign exchange contracts		
— not qualifying as hedges	**–**	280
Interest-rate swaps — not qualifying as hedges	**–**	264
	–	544
Liabilities		
Forward foreign exchange contracts		
— not qualifying as hedges	**–**	(317)

25. CASH AND CASH EQUIVALENTS

	Group		Company	
	2010	2009	**2010**	2009
	HK$'000	HK$'000	**HK$'000**	HK$'000
Cash at banks and in hand	**43,858**	26,652	**315**	153

Included in cash and cash equivalents of the Group as at 31 March 2010 were approximately HK$22,021,000 (2009: HK$8,056,000) denominated in Renminbi. Renminbi is not a freely convertible currency.

26. TRADE AND OTHER PAYABLES AND ACCRUED CHARGES

	Group		Company	
	2010	2009	**2010**	2009
	HK$'000	HK$'000	**HK$'000**	HK$'000
Trade payables	**46,898**	67,462	**—**	—
Other payables and accrued charges	**32,188**	58,157	**626**	462
Provision for severance payments	**3,451**	—	**—**	—
	82,537	125,619	**626**	462

(a) At 31 March 2010, the ageing analysis of the trade payables was as follows:

	Group	
	2010	2009
	HK$'000	HK$'000
0-90 days	**26,832**	24,716
91-180 days	**15,387**	31,368
181-365 days	**4,044**	6,621
Over 365 days	**635**	4,757
	46,898	67,462

(b) The Group has established a provision for severance payment in accordance with the relevant regulations in Mainland China. Compensation payable to employees upon termination of the employment contracts therewith are charged to the provision when incurred.

The movement in the provision for severance payments is as follows:

	Group	
	2010	2009
	HK$'000	HK$'000
At beginning of year	**—**	—
Additional provisions	**4,821**	—
Amounts utilized during the year	**(1,370)**	—
At end of year	**3,451**	—

The provision is related to the relocation of operations between Mainland China factories and estimated according to relevant local labour regulations and guidelines at the best estimation of the directors of the Company.

27. BORROWINGS

	Group		Company	
	2010	2009	**2010**	2009
	HK$'000	HK$'000	**HK$'000**	HK$'000
Trust receipt loans	**79,604**	128,145	**—**	—
Loans from banks and financial institutions	**129,139**	122,679	**68,502**	109,603
	208,743	250,824	**68,502**	109,603

(i) At 31 March 2010, the borrowings were repayable as follows:

	Group		Company	
	2010	2009	**2010**	2009
	HK$'000	HK$'000	**HK$'000**	HK$'000
On demand or within one year	**208,743**	250,824	**68,502**	109,603

(ii) All borrowings at 31 March 2010 were interest bearing at variable rate. The average effective interest rates at the end of reporting period were as follows:

	2010		2009	
	HKD	**USD**	HKD	USD
Bank borrowings	**2.4%**	**3.3%**	2.4%	3.3%

(iii) The Group had breached certain covenants in connection with a syndicated loan granted since 2007. The directors of the Company consider the syndicate loan of HK$68,502,000 (2009: HK$109,603,000) is due on demand. Further details are set out in Note 3(b) to the financial statements.

28. OBLIGATIONS UNDER FINANCE LEASES

At 31 March 2010, the Group had obligations under finance leases repayable as follows:

	Group			
	Minimum lease payment		Present value of minimum lease payments	
	2010	2009	**2010**	2009
	HK$'000	HK$'000	**HK$'000**	HK$'000
Within one year	**6,549**	6,403	**6,330**	6,037
In the second year	**4,123**	6,263	**4,043**	6,064
In the third year	**567**	3,803	**582**	3,768
In the forth to fifth years Inclusive	**–**	528	**–**	510
	11,239	16,997	**10,955**	16,379
Less: Future finance charges	**(284)**	(618)		
Total net finance lease payment	**10,955**	16,379		
Portion classified as current liabilities	**(6,330)**	(6,037)		
Non-current portion	**4,625**	10,342		

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. The rate of interest for finance leases as at 31 March 2010 ranges from 2.07% to 3.08% (2009: 2.19% to 3.74%) per annum. 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.

29. PROVISION FOR LONG SERVICE PAYMENT

	Group	
	2010	2009
	HK$'000	HK$'000
At beginning of year	**1,420**	1,476
Additional provisions	**150**	256
Exchange differences	**352**	(312)
At end of year	**1,922**	1,420

The amount mainly represents the provision for long service payment as regulated by the Indonesian Labour Law no. 13/2003 for the Group's employees in Indonesia.

30. 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 2008	6,163
Credited to profit or loss (Note 10)	(1,932)
Exchange difference	(118)
At 31 March 2009	4,113
Charged to profit or loss (Note 10)	(2,112)
Exchange difference	96
At 31 March 2010	**2,097**

Deferred tax liabilities:

	Accelerated depreciation	**Revaluation of properties**	**Others**	**Total**
	HK$'000	HK$'000	HK$'000	HK$'000
At 1 April 2008	1,742	5,164	3,304	10,210
Credited to profit or loss (Note 10)	(736)	(52)	(3,304)	(4,092)
Exchange difference	—	(607)	—	(607)
At 31 March 2009	1,006	4,505	—	5,511
Credited to profit or loss (Note 10)	(1,006)	—	(744)	(1,750)
Exchange difference	—	730	(55)	675
At 31 March 2010	**—**	**5,235**	**(799)**	**4,436**

30. DEFERRED TAX *(Continued)*

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$105,818,000 (2009: HK$88,283,000) that can be carried forward against future taxable income. All tax losses may be carried forward indefinitely except for the amount of approximately HK$19,726,000 (2009: HK$26,131,000) will expire from 2022 to 2029.

31. 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 31 March 2008, 2009 and 2010	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 31 March 2008 and 2009	—	—	2,464,800	246,480
Issue of shares in placing arrangement (Note (a))	—	—	466,958	46,696
Issue of shares for acquisition of minority interest in a subsidiary (Note 38)	—	—	26,000	2,600
At 31 March 2010	**—**	**—**	**2,957,758**	**295,776**

Note:

(a) On 18 September 2009, pursuant to a placing agreement dated 18 September 2009 between the Company and a placing agent, the Company issued an aggregate of 466,958,000 new ordinary shares of HK$0.10 each at a price of HK$0.15 per share (the "Placing") to independent third parties. The net proceeds received by the Company from the Placing were approximate HK$70,044,000. Excess of net proceeds over the nominal value of shares, net of share issue expenses of HK$1,722,000, amounting to HK$21,626,000 was credited to share premium.

32. SHARE OPTION SCHEME

On 3 September 2002, a share option scheme (the "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 last held on 25 September 2009 (the "AGM"). The maximum number of shares available for issue under the Scheme is 295,775,799, representing 10% of the issued ordinary share capital of the Company as at the date of the AGM, 25 September 2009 and thereafter. The subscription price for the shares under the Scheme shall be a price determined by the directors at its discretion, provided that it shall not less than the higher of (i) the closing price of the shares stated in the daily quotation sheets of Stock Exchange on the date of grant and (ii) the average closing price of the shares stated in the Stock Exchange's daily quotation sheets for the five business days immediately preceding the date of grant of share options. A nominal consideration of HK$1 is payable for each of the share options granted.

No share options were granted during the year.

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
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
	1,200,000	(1,200,000)	–			

33. RESERVES

Group

The amounts of the Group's reserves and the movements therein for the current and prior years are presented in the consolidated statement of changes in equity on page 39 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 4(r)(iv).

Land and building revaluation reserve

Land and building revaluation reserve represents the cumulative net change in the fair value of leasehold land and buildings held at the end of reporting period and is dealt with in accordance with the accounting policy in Note 4(d).

Exchange fluctuation reserve

Exchange reserve represents foreign exchange differences arising from the translation of the financial statements of foreign operations. The reserve is dealt with in accordance with the accounting policy set out in Note 4(q)(iii).

33. RESERVES *(Continued)*

Company

	Share premium HK$'000	Share option reserve HK$'000	Accumulated losses HK$'000	Total HK$'000
At 31 March 2008	101,512	792	(3,653)	98,651
Total comprehensive income 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)**
Total comprehensive income for the year	—	—	(112,956)	(112,956)
Transfer between reserves upon lapse of share options	—	(246)	246	—
Issue of shares for acquisition of minority interest in a subsidiary (Note 38)	1,820	—	—	1,820
Issue of shares in placing arrangement (Note 31(a))	21,626	—	—	21,626
At 31 March 2010	**124,958**	**—**	**(315,829)**	**(190,871)**

34. NON-CASH TRANSACTION

(a) During the year, the Group acquired HK$707,850 (2009: HK$20,736,000) of property, plant and equipment under finance leases. These acquisitions will be reflected in the consolidated statement of cash flows over the term of the finance leases via lease repayments.

(b) During the year, the Group acquired 40% equity interest of a subsidiary from minority shareholders at a consideration of HK$4,420,000. Consideration was settled by an aggregate of 26,000,000 ordinary shares of the Company of HK$0.1 each. Market price of the Company's shares as at the completion date was HK$0.17 per share. Further details are set out in Note 38 to the notes to the financial statements.

35. CONTINGENT LIABILITIES

At 31 March 2010, 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 (2009: HK$382,000,000).

At 31 March 2010 and 2009, the Group had no contingent liabilities.

36. BANKING AND OTHER FACILITIES

At 31 March 2010, the Group had a total banking and other facilities of approximately HK$325,155,000 (2009: HK$287,700,000) of which the following had been utilised:

(a) a syndication loan of HK$68,502,000 (2009: HK$109,603,000); and

(b) general banking facilities of HK$140,241,000 (2009: HK$141,221,000).

37. COMMITMENTS UNDER OPERATING LEASES

At 31 March 2010, the Group had future aggregate minimum lease payments under non-cancellable operating leases in respect of land and buildings as follows:

	2010 **HK$'000**	2009 HK$'000
Not later than one year	**3,498**	3,634
Later than one year and not later than five years	**4,841**	8,481
	8,339	12,115

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

38. ACQUISITION OF ADDITIONAL INTEREST IN A SUBSIDIARY

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. An aggregate of 26,000,000 ordinary shares of HK$0.10 each were allotted and issued to the Vendors as consideration of HK$4,420,000 of the Acquisition. At the date of completion, HK$2,600,000 and HK$1,820,000 was credited to share capital and share premium, respectively. The transaction with minority interest has been accounted for as equity transaction, accordingly, differences between the consideration and the carrying value of minority interest were recognised directly in equity and attributed to the owners of the Company.

39. RELATED PARTY TRANSACTIONS

During the year, the Group had 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 end of reporting period, are as follows:

(a) The loan from immediate holding company is unsecured, interest bearing at HIBOR plus certain percentage 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 2010, Lung Cheong Investment Limited provide a letter of financial support to the Company to indicate that they have no intention to call for repayment in whole of the amount due to the immediate holding company on or before 1 April 2011. The maximum outstanding of the balance during the year was HK$50,000,000 (2009: HK$50,000,000).

39. RELATED PARTY TRANSACTIONS *(Continued)*

(b) In the prior 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) Key management personnel compensation

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

	2010	2009
	HK$'000	HK$'000
Fees	**240**	240
Other emoluments:		
Basis salaries, bonus, housing allowances, other allowances and benefits in kind	**5,587**	6,233
Provident fund scheme contributions	**84**	84
	5,911	6,557

40. 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 27, obligation under finance lease and non-current loan from immediate holding company, cash and cash equivalents and equity attributable to equity holders of the Company, comprising share capital and reserves as disclosed in Notes 31 and 33, respectively.

The Group's management reviews the capital structure periodically. As part of this review, management considers the cost of capital and the risks associated with each class of capital. Based on recommendations of 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.

40. CAPITAL RISK MANAGEMENT *(Continued)*

The gearing ratio at the end of reporting period was as follows:

	2010 HK$'000	2009 HK$'000
Debts	**269,698**	317,203
Cash and cash equivalents	**(43,858)**	(26,652)
Net debts	**225,840**	290,551
Equity	**201,099**	300,203
Net debts to equity ratio	**112%**	97%

41. FINANCIAL RISK MANAGEMENT

Financial risk factors

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

(a) Credit risk

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

The Group's exposure to credit risk is influenced mainly by the individual characteristics of each customer. The default risk of the industry and country in which customers operate also has an influence on credit risk but to a lesser extent. At the end of reporting period, the Group has a certain concentration of credit risk as 10% (2009: 37%) and 41% (2009: 60%) 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, subjected 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.

41. FINANCIAL RISK MANAGEMENT *(Continued)*

Financial risk factors *(Continued)*

***(b) Liquidity risk** (Continued)*

The following table details the remaining contractual maturities at the end of reporting period 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 end of reporting period) and the earliest date the Group and the Company can be required to pay.

Group

	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
2010					
Bank borrowings	208,743	211,483	211,483	–	–
Obligations under finance leases	10,955	11,239	6,550	4,105	584
Trade and other payables	82,537	82,537	82,537	–	–
Amount due to immediate holding company	50,000	53,241	3,241	50,000	–
	352,235	358,500	303,811	54,105	584

Company

	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
2010					
Bank borrowings	68,502	69,942	69,942	–	–
Trade and other payables	626	626	626	–	–
Amount due to immediate holding company	50,000	53,241	3,241	50,000	–
	119,128	123,809	73,809	50,000	–
Financial guarantees issued – maximum amount guaranteed	–	94,406	94,406	–	–

41. FINANCIAL RISK MANAGEMENT *(Continued)*

Financial risk factors *(Continued)*

(b) ***Liquidity risk*** *(Continued)*

Group

	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
2009					
Bank borrowings	250,824	253,970	253,970	–	–
Obligation under finance leases	16,379	16,997	6,310	10,687	–
Trade and other payables	125,619	125,619	125,619	–	–
Amount due to 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

Company

	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
2009					
Bank borrowings	109,603	112,318	112,318	–	–
Trade and other payables	462	462	462	–	–
Amount due to immediate holding company	50,000	52,243	2,243	50,000	–
	160,065	165,023	115,023	50,000	–
Financial guarantees issued – maximum amount guaranteed	–	269,421	269,421	–	–

41. FINANCIAL RISK MANAGEMENT *(Continued)*

Financial risk factors *(Continued)*

(c) Interest risk

The Group's interest rate risk arises primarily from long-term borrowings. All of the Group borrowings at 31 March 2010 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 27 and 28 to the financial statements. The Group currently does not use any derivative contracts to hedge its exposure to interest rate risk. However, the management will consider hedging significant interest rate exposure should the need arise.

At 31 March 2010, 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 after taxation and accumulated loss by approximately HK$1,467,000 (2009: HK$1,720,000).

The sensitivity analysis above has been determined assuming that the change in interest rates had occurred at the end of reporting period 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 end of reporting period. The analysis is performed on the same basis for 2009.

(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 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.

41. FINANCIAL RISK MANAGEMENT *(Continued)*

Financial risk factors *(Continued)*

(d) Foreign exchange risk *(Continued)*

The following table details the Group's and the Company's exposure at the end of reporting period 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.

	2010			2009		
	Rupiah	**Renminbi**	**United States dollars**	Rupiah	Renminbi	United States dollars
	IDR'000	**RMB'000**	**USD'000**	IDR'000	RMB'000	USD'000
Trade and other receivables	**13,445,323**	**162,767**	**16,350**	52,160,357	104,394	6,938
Cash and cash equivalents	**–**	**–**	**748**	–	–	738
Trade and other Payables	**–**	**(102,596)**	**–**	–	(22,036)	(13,558)
Borrowings	**–**	**–**	**(79)**	–	–	(2,304)
Overall net exposure	**13,445,323**	**60,171**	**17,019**	52,160,357	82,358	(8,186)

41. 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 after tax in response to reasonably possible changes in the foreign exchange rates to which the Group has significant exposure at the end of reporting period. 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.

	2010		2009	
	Increase/ (decrease) in foreign exchange rates	**Effect on loss for the year HK$'000**	Increase/ (decrease) in foreign exchange rates	Effect on profit for the year HK$'000
Rupiah	**5%**	**(573)**	5%	(1,746)
	(5%)	**573**	(5%)	1,746
Renminbi	**5%**	**(3,418)**	5%	(5,862)
	(5%)	**3,418**	(5%)	5,862
United States dollars	**5%**	**(6,184)**	5%	(1,596)
	(5%)	**6,184**	(5%)	1,596

The sensitivity analysis has been determined assuming that the change in foreign exchange rates had occurred at the end of reporting period 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 end of reporting period. In this respect, it is assumed that the pegged rate between the Hong Kong dollar and the United States dollar would be materially unaffected by any changes in movement in value of the United States dollar against other currencies. Results of the analysis as presented in the above table represent an aggregation of the effects on each of the group entities' loss for the year and equity measured in the respective functional currencies, translated into Hong Kong dollars at the exchange rate ruling at the end of reporting period for presentation purposes. The analysis is performed on the same basis for 2009.

41. FINANCIAL RISK MANAGEMENT *(Continued)*

Financial risk factors *(Continued)*

(e) Fair values

All financial instruments are carried at amounts not materially different from their fair values as at 31 March 2010 and 2009.

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.

42. 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 2010 and 2009 may be categorised as follows:

	2010 **HK$'000**	2009 HK$'000
Financial assets		
Loans and receivables (including cash and bank balances)	**91,009**	125,741
Derivative financial instruments at fair value	**–**	544
Financial liabilities		
Financial liabilities measured at amortised cost	**352,235**	442,822
Derivative financial liabilities at fair value	**–**	317

43. SUBSEQUENT EVENT AFTER THE REPORTING PERIOD

On 12 July 2010, the Group entered into a letter of intent with an independent third party in relation to the possible acquisition of a group of entities with principally engages in aircraft leasing business at total consideration of HK$6,000,000,000. This possible acquisition is subject to the satisfaction of a due diligence review and the negotiation and finalisation of the terms and conditions of a formal agreement. Further details are set out in the Company's announcement dated 13 July 2010.

44. APPROVAL OF FINANCIAL STATEMENTS

These financial statements were approved and authorised for issue by the Board of Directors on 23 July 2010.

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