2010/2011
Annual Report

LUNG CHEONG
INTERNATIONAL HOLDINGS LIMITED

Stock Code: 348

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Corporate Information

EXECUTIVE DIRECTORS

Mr Leung Lun *(Chairman)*
Mr Wong, Andy Tze On

INDEPENDENT NON-EXECUTIVE DIRECTORS

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

COMPANY SECRETARY

Mr Mak Yee Chuen, Vincent

AUDITOR

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111 Connaught Road Central
Hong Kong

LEGAL ADVISERS ON CAYMAN ISLANDS LAW

Maples and Calder Asia
53/F The Centre
99 Queen's Road
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LEGAL ADVISERS ON HONG KONG LAW

D.S. Cheung & Co. Solicitors
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Bank of East Asia Harbour View Centre
56 Gloucester Road
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HONG KONG BRANCH SHARE REGISTRAR AND TRANSFER OFFICE

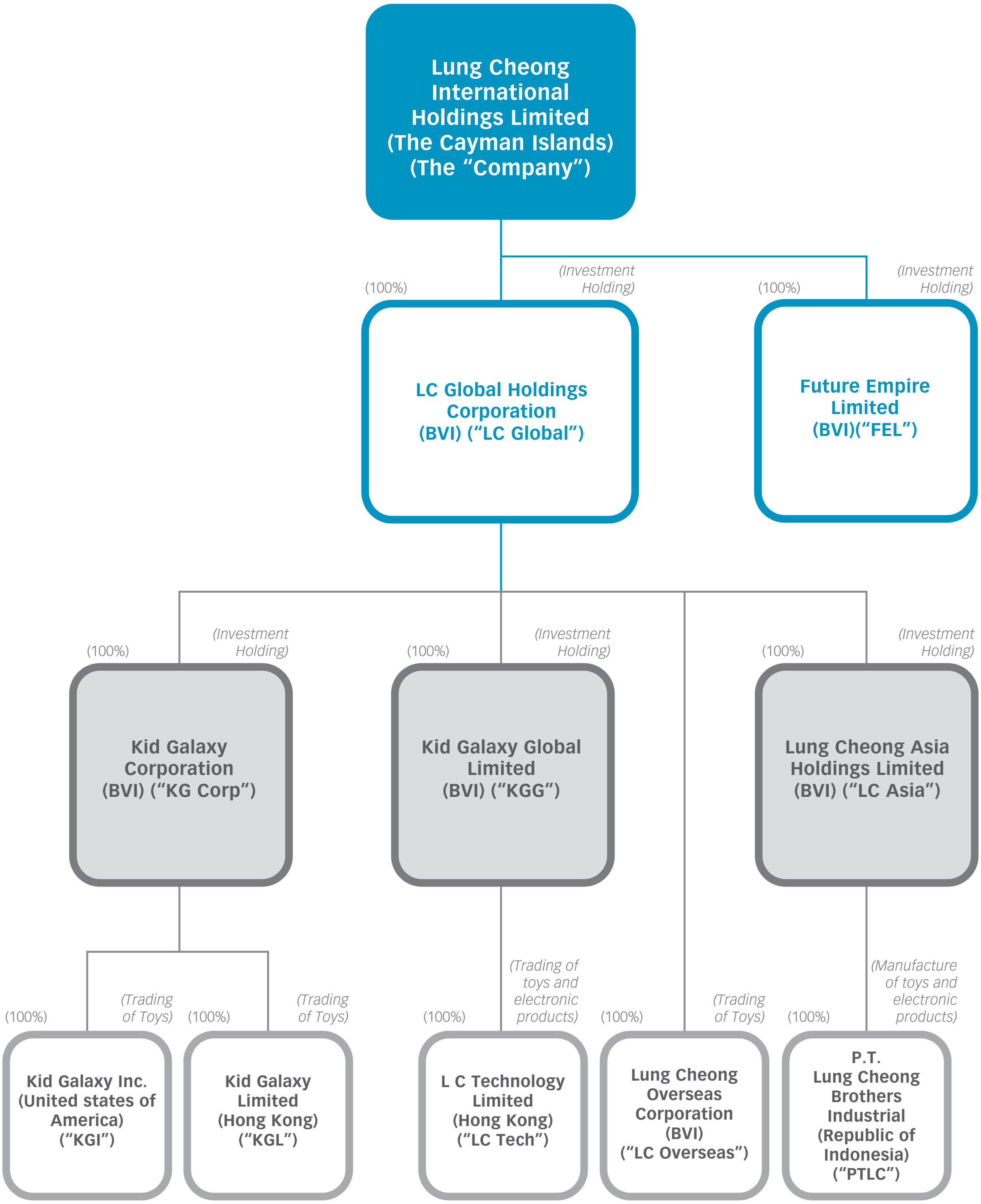
Tricor Abacus Limited
26/F Tesbury Centre
28 Queen's Road East
Wanchai
Hong Kong

LISTING INFORMATION

The Stock Exchange of Hong Kong Limited
Stock Code: 348

Corporate Structure

(as at 28 June 2011)



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 2011.

RESULTS

For the year ended 31 March 2011 ("FY10/11"), the Group's turnover increased by 34% to approximately ("approx") HK$538 million, compared with approx HK$402 million for the year ended 31 March 2010 ("FY09/10").

Gross profit margin for FY10/11 was 17% compared to 20% in FY09/10. However, loss attributable to owners of the Company was approx HK$198 million, compared with a loss of approx HK$175 million in FY09/10.

In view of the results, the Directors do not recommend the payment of any dividend for the year ended 31 March 2011 (FY09/10: Nil).

BUSINESS REVIEW

It has been a year of great challenges for the Group amid a resurgent, yet highly volatile global market, the Group has continued with its strategic refocusing, forging ahead with its roadmap to identify new opportunities, develop and expand its core business, while near-completing the divestment of its more competitive business interests.

For FY10/11, with the Group's major export destinations being North America, Europe and Japan, the market environment remained competitive and challenging. The after effects of the financial tsunami and muted worldwide economies have made customers conservative in placing orders, especially in the premium priced electronic toys segment. Fewer sales of premium priced items were mainly due to economic uncertainties affecting the products of our customers in these markets. However, amid this uncertain business environment, the Group's overall sales for the year recorded an increase. During FY10/11, North America continued to be the largest export area for the Group, accounting for approx 56% of total turnover (FY09/10: 38%). Other significant overseas markets for the Group included Europe and Japan, which accounted for approx 22% (FY09/10: 18%) and approx 5% (FY09/10: 10%) respectively. The Group's investments into the development of lower priced innovative electronic and plastic toys and strengthening the customer base in this segment have been rewarded as a great portion of products shipped during this financial year were mainly less complex, medium to low priced products which accounted for approx 59% of sales in FY10/11. Shipment of radio control toys continued to be lower than projections, therefore the Group's dedicated efforts toward the radio control ("R/C") toy business segment needed to be repositioned. Overall, the Group's R/C toy business accounted for 37% of total sales during FY10/11, lower than the 44% recorded in this segment in the previous financial year.

Chairman's Statement

For FY10/11 the Group's manufacturing plants in Mainland China had to cope with an increase in worker's remunerations which affected all manufacturers, particularly those located in the Pearl River Delta Region. Furthermore, insufficient supply of migrant workers into the region during the year had pushed up the wage levels and overtime expenses of the Group. Competition among manufacturers for staff and workers had made it necessary for the Group to offer higher wages and better benefits in order to attract new employees and to retain existing employees. This resulted in lower gross margin due to relatively high direct labour, general and administration costs during the year under review.

The Group continued to strive for profitability under the strong value of the Renminbi ("RMB"), weakness of the United States dollar ("US$"), 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 the economic slowdown in our major markets. Amid this competitive business environment and relatively higher cost of goods sold, the Group's gross margin for the year was lower at approx 17% (FY09/10: 20%). Due to the challenging manufacturing environment in the People's Republic of China ("PRC") in the FY10/11, it was necessary to utilize more of the production capacity at the Group's South East Asian plant in Indonesia to partially alleviate cost pressures. The Serang factory in Indonesia, at peak production stage during the period under review, was employing a record number of seasonal contract labour. The PRC factories employed fewer workers as compared with the same period in previous years. The Serang factory in Indonesia, during the year under review contributed to approx 15% (FY09/10: 14%) of the Group's turnover.

During the year under review, the Group operated the two existing PRC factories being Changping and Zhou Wu. However, due to increased orders in FY10/11, major production processes were consolidated within the Changping factory and certain less complex production processes remained in the Zhou Wu factory. For the year under review, the Group's increased revenue and lower gross margin did not match the increased selling and distribution expenses amounting to approx HK$43 million and administration costs amounting to approx HK$161 million in FY10/11 relating to our investments into the Changping factory and depreciation of newly added equipment and moulds in recent years, plus capital expenditures on internal quality control laboratories, upgrading production facilities to meet stringent requirements and modernization of equipment during the year.

As reported in the interim report of the Company for the six months ended 30 September 2010 (the "Interim Report") and the annual report for the year ended 31 March 2010 ("the 2010 Annual Report"), the Group continues to face escalating wages in the area where the Group's Mainland China factories are located and an unstable supply of migrant workers. The Group's profitability had been adversely affected by the high production cost which was aggravated by the strong value of RMB and weakness of the US$. In addition, due to the under-utilization of certain plant and equipment in Mainland China manufacturing plants, management of the Company considered that the Group's revenue did not generate income that matched the costs relating to its recent investments.

Chairman's Statement

In light of the operating difficulties in Mainland China and the economic uncertainties in the Group's major business sectors, the Group entered into a disposal agreement and supplemental agreement ("Disposal Agreements") on 28 January 2011 and 24 March 2011 respectively for the disposal of the entire issued capital of Lung Cheong (BVI) Holdings Limited ("LC (BVI)"); and loans owing by LC (BVI) or any other member of the disposed group to the Company and/or the remaining group for an aggregate consideration of HK$18 million in cash , subject to adjustment ("Disposal"). As part of the disposal, a revaluation on property, plant and equipment was required, resulting in an impairment of HK$80 million in FY10/11. The purchaser is owned as to 30% by Mr. Leung Chung Ming ("Mr. CM Leung") and as to 70% by Mr. Leung, Kenneth Yuk Wai who is a son of Mr. Leung Lun, a substantial Shareholder and an executive Director, when Mr. CM Leung is a substantial Shareholder and a former executive Director who resigned on 9 May 2011. Details of the Disposal are further set out in the announcement dated 25 March 2011. Pursuant to the Listing Rules, the Disposal was approved by the Independent Shareholders at the Company's Extraordinary General Meeting ("EGM") held on 12 April 2011.

On 12 July 2010, the Group, 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 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, details of the proposed acquisition are further set out in the announcement dated 13 July 2010 ("proposed acquisition"). This proposed acquisition was subject to the satisfaction of a due diligence review and the negotiation and finalisation of the terms and conditions of a formal agreement. The proposed acquisition did not materialize, as both parties could not reach a final agreement within six months of the Letter of Intent per the announcement dated 12 January 2011.

PLANS AND PROSPECTS

Globally, the toy industry continues to recuperate as demand for non-essential items recovers. Management is concerned that the recent financial crisis in a few European countries and the aftermath of the Japanese earthquake may slowdown the overall global economic recovery. Furthermore, factors such as the volatility of raw materials prices, ever increasing energy costs, the weakness of the US$ and appreciation of the Indonesian currency the Rupiah, may lead to increasing production costs which are expected to affect the Group's operations. Despite these challenges, shipment in the early stages of financial year 2011/2012 ("FY11/12") have been steady with the Group being involved in the production of toys relating to a major block buster movie sequel as well as top selling electronic bug toys.

As mentioned in the Interim Report and the 2010 Annual Report, the Group continues to seek diversified income sources and to further reduce the Group's reliance on its primary Original Equipment Manufacturing ("OEM") income stream. The Disposal is therefore one of the Company's stated corporate strategies. Whilst the Group will retain some of the OEM business with the Company's existing customers, it will focus on the design, development, sales and marketing of its own Kid Galaxy brand of products and gradually position the Group as an Own Brand Manufacturing ("OBM") operator.

Chairman's Statement

The Disposal would release the Company from future capital requirements and management resources for the Disposal Group plus the high operating cost for the Mainland China manufacturing plants as compared to that in Indonesia. 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 market position amid the exit of weaker players.

The Group continues to streamline the production efficiency of the Indonesian plant aiming to lower the overall manufacturing overhead, transportation and administrative costs. In addition, measures will continue to be adopted to enhance productivity. These measures include replacing machines of low efficiency and high maintenance cost, streamlining workflow, revision of work practice and parameters, and exploring opportunities for utlitising idle seasonal capacity. The Group will endeavor to trim overheads, improve productivity and control production costs while the toy industry rides out the storm.

To reduce over reliance on any particular geographical region, the Group steps up its business development into new markets, specifically with new distributors of Kid Galaxy products in European markets. The turnover of Kid Galaxy, was approx 20% (FY09/10: 19%) of the Group's turnover for the current financial year. The Group has developed over 20 proprietary brands of toys over the past ten years and the major brands are Elite Fleet, DRV, Morphibians, GoGo Auto, KG Flyer, Steel Force, World of Wheels and My First RC (website: www.kidgalaxy.com) for sales to the North American and the European markets. The Group has recently obtained the license of the Ford brand for the design, development, sales and marketing of pre-school toys mainly in the North American market. The branded toys and licensed products have been launched and received favorable response in our expanded distribution channels. Europe is another important growing market that the Group will capitalize on. Our distribution network in Europe has expanded with increased number of distributors, importers and agents promoting sales. In addition to the traditional department store counters, the Group is exploring new sales channels in North America such as supermarkets, wholesalers, Internet and other specialty retailers. Our sales will continue to grow as more brands and new innovative toys are developed and the sales will be supported by promotional programs created by Kid Galaxy sales and marketing teams.

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 to focus our resources and efforts in two categories of customers: growing with strategic OEM 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 under the Kid Galaxy brands.

The Group will engage in the development, engineering, manufacture and sale of toys on an OBM and OEM basis. The Group's own branded toy items will be sold through its distribution channels including department stores and specialty shops and to its customers including importers and agents. Upon completion of the Reorganisation and considering that the Group's disposed of its entire interests in LC (BVI) and most of its subsidiaries ("Disposed Segment") as set out in our announcement dated 25 March 2011, it is evident that Kid Galaxy OBM and Indonesia OEM are becoming the main contributor towards the Group's profits and corroborates our belief that the Group's readjustment of strategic focus will eventually bear fruits.

Chairman's Statement

Despite the inconclusive proposed acquisition, a task group is actively looking into all possibility of mergers, acquisitions and divestments to further reduce the Group's reliance on primarily Original Design Manufacturing ("ODM") and OEM income stream and to seek alternate sources of revenue from new ventures to add value to stakeholders.

APPRECIATION

During FY10/11, Mr. Zhong Bingquan ("Mr. Zhong") and Ms. Cheng Yun Tai (" Ms. Cheng ") retired as executive directors of the Company with effect from 31 August 2010 due to increased commitments in their own businesses. Dr. Ko Peter, Ping Wah ("Dr. Ko") has also retired as non-executive director of the Company in order to concentrate on his professional commitments. He also ceased to be a member of the Audit Committee, Remuneration Committee and Nomination Committee of the Company with effect from 31 August 2010.

The conditions precedent under the Disposal Agreements on 28 January 2011 and 24 March 2011 respectively had been fulfilled and were completed on 29 April 2011. In accordance with terms of the Disposal Agreements, Mr. CM Leung has resigned as an executive director of the Company with effect from 9 May 2011 in order to devote his full attention on the business of the disposed Group. Further details of the above retirements and resignation are set out in the Company's announcements on 31 August 2010 and 9 May 2011.

The Board would like to extend its gratitude to Mr. CM Leung, Mr. Zhong, Ms. Cheng and Dr. Ko for their valuable efforts and contributions to the Company during their respective terms of tenure.

In conclusion, I would like to sincerely thank my current fellow Board members and senior management, and all the remaining and disposed group employees for their contribution and dedications to the Group, which enabled us to overcome the challenges encountered during the year of sales growth and corporate reorganization. My appreciation also goes to our customers, financiers and suppliers for their support to the Group during transformation times in the past year.

Leung Lun
Chairman
28 June 2011

Review of Operations

For the year ended 31 March 2011, North America remained the major export destination for the Group's products, with shipments amounting to approx HK$302 million compared to approx HK$151 million in the corresponding period last year, accounting for approx 56% (FY 09/10: 38%) of the Group's total shipment.

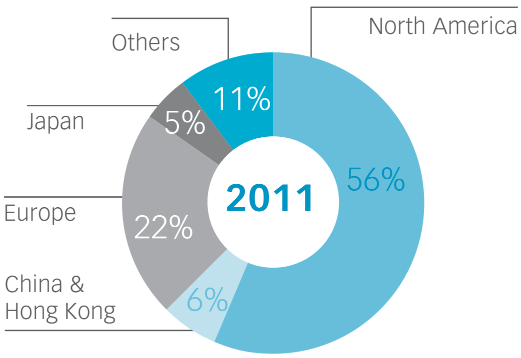
Shipment to Europe was higher at approx HK$117 million as compared with approx HK$72 million in FY 09/10, accounting for approx 22% (FY 09/10: 18%) of the Group's revenue, attributable to the strong European currencies and demand for median priced goods.

Export to Japan was less than that in previous year at approx HK$26 million (FY 09/10: HK$40 million), accounting for approx 5% of the Group's total revenue compared to approx 10% in FY09/10 due to sluggish Japanese economy.

Local deliveries translated into shipment to Mainland China and Hong Kong were mostly destined for the North America, Europe and Japanese markets eventually via the forwarders of ultimate customers after consolidation.

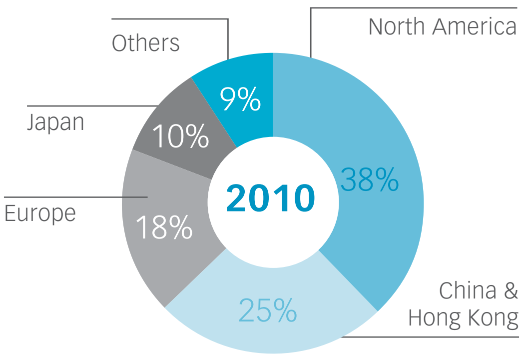
Turnover by Geographical Segment

For the year ended 31 March 2011



Turnover by Geographical Segment

For the year ended 31 March 2010



PRODUCT REVIEW

Radio Control/Wireless Products

The Group's core segment accounted for approx 37% of total turnover for the year against approx 44% of the previous year, indicating our difficulties in this segment of the market. Furthermore, revenue increased to approx HK$198 million recording approx 11% increased from approx HK$178 million last year resulting from increase orders for the financial year ended 31 March 2011. The sale of the R/C toys recorded a minor increase in sales during the year under review mainly attributable to the Group's increased product range at lower price points. The Group's customers within the R/C segment continued to be affected by buying patterns of cautious customers during the year under review.

Review of Operations

Electronic and Plastic Toys

The segment recorded an increases in sales of approx 51% from approx HK$208 million in FY09/10 to approx HK$315 million in FY10/11, accounting for approx 58% of the Group's turnover compared with approx 52% 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 some economies recovering from recent financial tsunami.

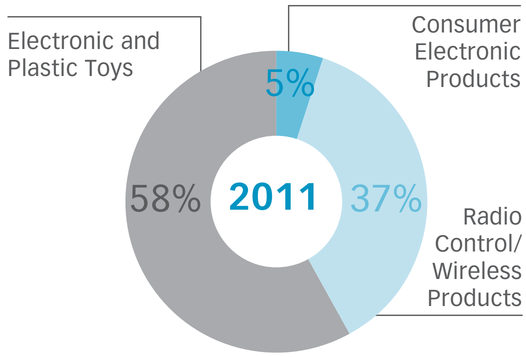
Apart from Kid Galaxy's successful penetration into newer retail channels with fuller range of median priced products, the Group received substantial world wide orders for a movie related transforming toys from our major Japanese customer. Our US based major customer also placed continuous large orders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

Consumer Electronic Products

Sales contribution from this segment recorded an increase from approx HK$16 million in FY 09/10 to approx HK$25 million. It was mainly attributable to the increased sales of premium priced consumer electronic products as well as orders for robotic products designed and produced by the Group in the aftermath of the financial crisis. Revenue from consumer electronic products accounted for approx 5% of the Group's total turnover (09/10: approx 4%). Despite the slight increase in 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.

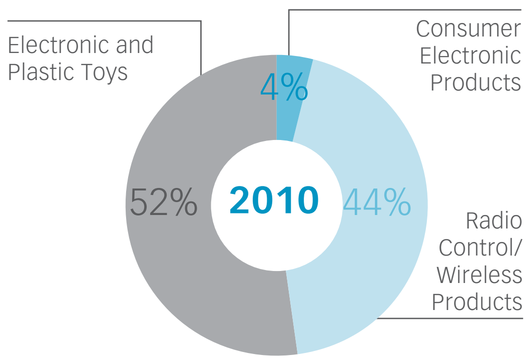
Turnover by Product Type

For the year ended 31 March 2011



Turnover by Product Type

For the year ended 31 March 2010



Review of Operations

DIVISIONAL AND RESOURCES REVIEW

Sales and Marketing

Kid Galaxy

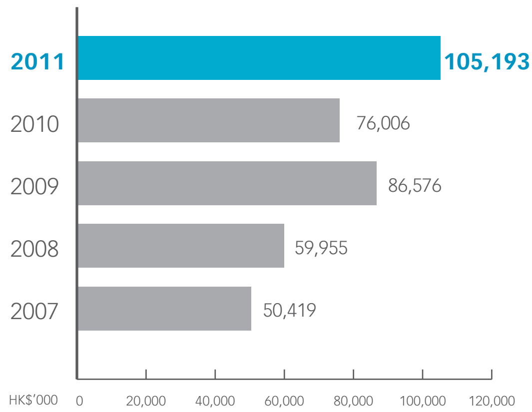
The Manchester operation, Kid Galaxy Inc. ("KGI"), takes care of marketing, product design and sales fulfillment in the North America market, being US and Canada. KGI and the Hong Kong sales arm Kid Galaxy Limited ("KGL") have performed well with sales of approx HK$105 million for year ended 31 March 2011. Its revenue derived mainly from its own brands such as Elite Fleet, DRV, Morphibians, GoGo Auto, KG Flyer, My First RC and recently licensed Ford brand.

In North America, KGI was able to increase sales from successful utilization of speciality stores, internet channels and large mass retail outlets. Its products received wide marketing coverage after our various products being awarded the industry most prominent Oppenheim Toy Portfolio Gold awards as well as My First RC — Big Wheelie Cycle was named one of Parents Magazine 55 Best Toys during the year.

In licensing, apart from Fisher Price and Ford, 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 licensed toys during the summer of 2010. Kid Galaxy also enriching its product mix with new product lines such as "World of Wheels Jr", "Steel Force", "Little Universe", "Wave Breakers" and "My First Spin 'N' GO" 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 FY11/12. In US, KGI was able to increase sales from successful penetration of specialty stores and internet retail network.

Growth in Turnover of Kid Galaxy

For the year ended 31 March



Review of Operations

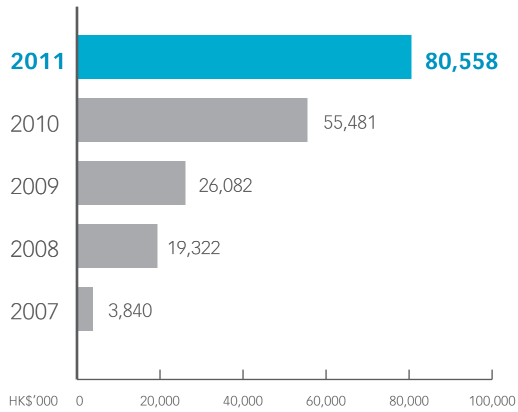
INDONESIA

During the year under review, bolstered by increased customer confidence in the Group's operations in South East Asia, the factory in Indonesia made more contribution to the Group's turnover. Challenges in Southern China had prompted more customers to place additional non-complex product orders with the Serang factory during the year. With major customers willing to transfer orders to and new customers willing to test the available capacity of the South East Asia facility, the Group was able to take advantage of the local flexible labour structure and increased utilization of the Serang factory.

Due to the challenging environment in the FY10/11, it was necessary to utilize production capacity at the Group's South East Asian plant in Indonesia to partially alleviate cost pressures. The Serang factory in Indonesia, at peak production stage during the year ended 31 March 2011, was employing over 1,500 seasonal contract labour. The revenue of Serang factory in Indonesia, during the year ended 31 March 2011 accounted for approx 15% of the sales of the Group.

Growth in Turnover of Indoneslan Production

For the year ended 31 March



EMPLOYEES

As at 31 March 2011, the Group had approx 4,562 employees and contract workers. Approx 57, 3,782, 711 and 12 of the workforce were based in Hong Kong, the PRC plants, the Indonesian factory and the US office respectively. The number of employees of the Group varies from time to time depending on production needs and they are remunerated based on industry practices.

APPRECIATION

On behalf of the Board, I would like to take this opportunity to express my sincere gratitude to our long-term business partners for their continuous support over the past year. I would also like to extend my appreciation to our remaining and disposed group management and staff for their effort and dedication, despite another challenging year in the toy business.

Wong, Andy Tze On
Executive Director
28 June 2011

Management Discussion and Analysis

FINANCIAL REVIEW

Worldwide uncertainties continued to affect the Group's performance despite our streamlining of production facilities and enlarged investment into the median priced electronic toys and non-toys product segments resulting in a sales increase of approx 34% to approx HK$538 million for the year ended 31 March 2011.

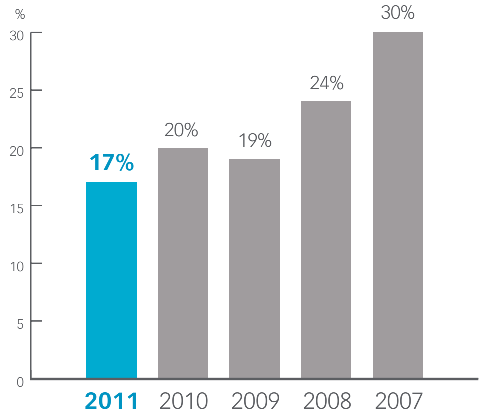
Cost of goods sold ("COGS"), in line with sales growth, consist of purchases increased approx 93% compared to previous financial year, due to relatively high material costs, written off and impaired inventories, escalated overtime wages for workers and strong RMB which affect the overall costs of the Group which main revenue currencies are United States dollars ("US$") and Hong Kong dollars ("HK$") and offset the impacts of measures implemented to reduce direct labour cost as main expense currency are in the form of RMB. The COGS were approx HK$449 million in FY10/11 compared with approx HK$323 million in FY09/10.

The increased in sales failed to relieve pressure on gross profit, which increased to approx HK$89 million for the year versus approx HK$80 million in FY09/10. Gross profit margin however, was lowered to approx 17% (FY09/10: approx 20%).

In view of the higher turnover, selling and distribution expenses for the year ended 31 March 2011 were higher at approx HK$43 million, representing a increase of approx 56% against approx HK$27 million in the previous year. Commission paid on sales, licensing fees, marketing and promotional expenses, and transportation and distribution expenses increased in line with the higher turnover.

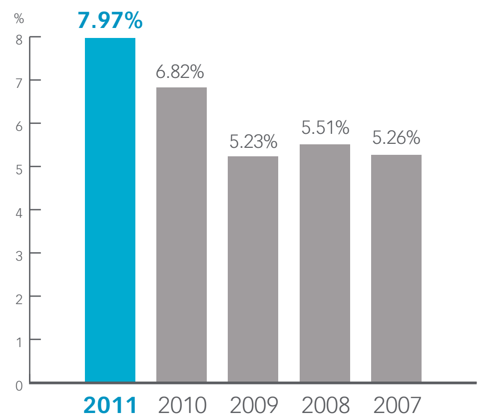
Gross Profit Ratio

For the year ended 31 March



Selling Expense/Turnover

For the year ended 31 March



Management Discussion and Analysis

General and Administrative ("G&A") expenses for the year ended 31 March 2011 amounted to approx HK$161 million, representing overall G&A was approx 30% of sales, over previous year (FY09/10: HK$203 million) due to decrease in provision for bad debts, of approx HK$0.2 million (FY09/10: HK$8 million), consumables of approx HK$17 million (FY09/10: HK$54 million) and depreciation of fixed asset and impairment of molds, leasehold improvements, plant and equipment not fully utilized during the FY10/11 of approx HK$21 million (FY09/10: HK$30 million). However, it was partly offset by relatively high staff costs of approx HK$66 million (FY09/10: HK$69 million). Increase in sales also led to higher compliance and testing fees and utility charges as well as repair and maintenance costs of production facilities. Professional fees such as legal, consulting and accounting fees were higher during FY10/11 due to additional work relating to the Disposal.

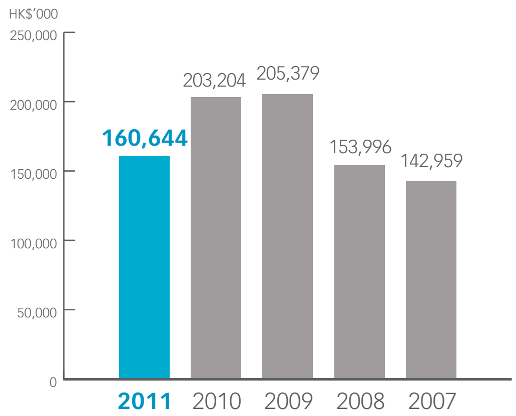
Exceptional costs during the financial period include impairment on property, plant and equipment relating to the Disposal amounted to approx HK$80 million (FY09/10: HK$19 million).

Finance costs include interest expenses, bank charges plus fees incurred for trade facilities and the remaining term loan showed a higher overall interest expense for the year under review. Finance cost was approx HK$13 million in FY10/11 compared to approx HK$12 million in FY09/10.

All in all, the Group recorded loss attributable to shareholders of approx HK$198 million in FY10/11 compared to a loss of approx HK$175 million in FY09/10.

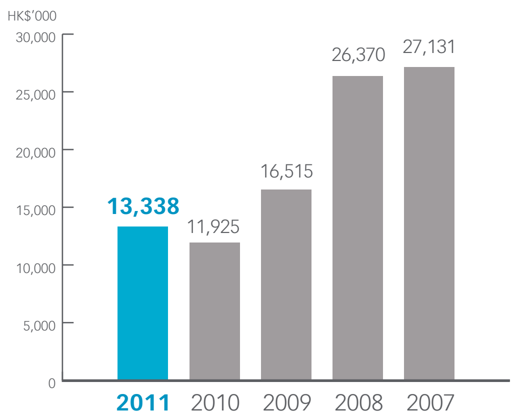
G&A

For the year ended 31 March



Finance Costs

For the year ended 31 March



Management Discussion and Analysis

GROUP RESOURCES AND LIQUIDITY

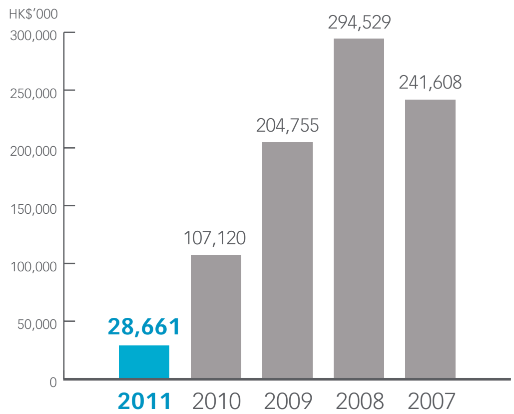
In line with the approval granted by shareholders of the Company at the EGM held on 12 April 2011, the balance sheet will reflect only the assets and liabilities of the remaining businesses, which will be further adjusted after completion account is reflected in next published account. Shareholders' funds as at 31 March 2011 were deficit of approx HK$3 million, less than approx HK$204 million in the previous year. There were no net assets per share when compared to approx HK$7 cents because of the loss incurred in FY10/11. As at 31 March 2011, the Group had a total of 2,957,757,997 shares in issue.

In view of the Disposal, non-current assets reduced in value by approx HK$318 million to approx HK$48 million as at 31 March 2011. Property, plant and equipment under non-current assets decreased by approx HK$228 million to approx HK$27 million. Leasehold land and land use rights of the Group valued at approx HK$88 million as at 31 March 2010 were sold as part of the Disposal. The reduction in value was attributable mainly to the Disposal as well as depreciation of land and buildings as well as impairment of property, plant and equipment as a result of the Group's periodic management assessment policy, the current state of the toy manufacturing industry and overall utilization of production facilities during the financial period under review.

Goodwill associated with Kid Galaxy's acquisition made up approx HK$19 million of intangible assets. No additions, revaluations or adjustments were made during the year thus the HK$19 million reflect the book value of goodwill as at 31 March 2011. Certain club memberships owned by the Group to the value of approx HK$2 million as at 31 March 2010, but was held by a Disposed subsidiary were sold as part of the disposal process.

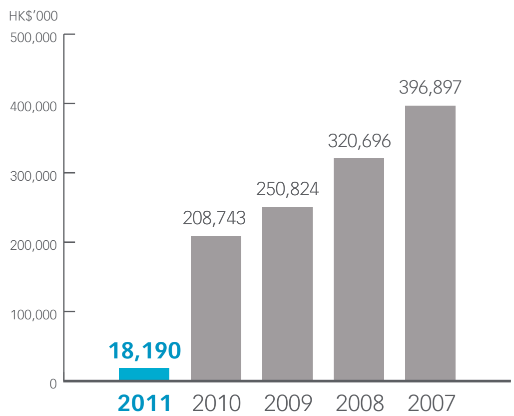
Inventories

As at 31 March



Bank Borrowings

As at 31 March



Management Discussion and Analysis

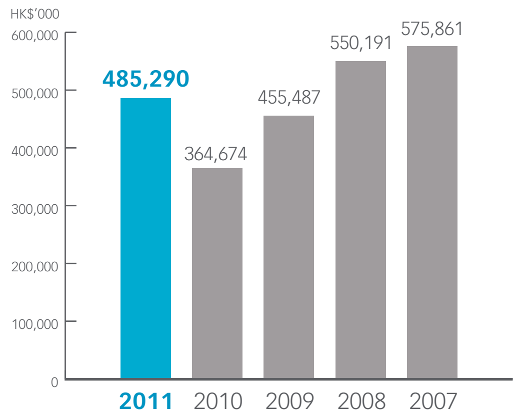
The effort to control inventories continued, despite the increase in sales which led to an increase in purchasing activities during the FY10/11. The disposal was the main reason for the reduction. Inventories recorded a decrease of approx 73% compared to previous year end date, value of stock in warehouse decreased from approx HK$107 million at the end of FY09/10 to approx HK$29 million as at 31 March 2011. These are stock held mainly in our Indonesian factory and US independently managed warehouse. Stock turnover days were lower at 75 days compared with 144 days in the previous year due to increase in sales and the Disposal.

Trade receivables recorded an approx 3% increase as at 31 March 2011 to approx HK$38 million, compared with approx HK$37 million at the previous year. Debtor turnover days were lower at 26 days in FY10/11 compared with 49 days in FY09/10. Excluding Kid Galaxy's Own Brand Manufacturing ("OBM") revenue, the top 5 customers accounted for approx 68% of the Group's turnover, compared to 58% 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 concentrating efforts on reputable customers.

Bank balance and cash as at 31 March 2011 were approx HK$14 million, compared with approx HK$44 million as at 31 March 2010. The Group dealt with different revenue and expenses currencies during the FY10/11 such as RMB, HKD, USD as well as Indonesian Rupiah.

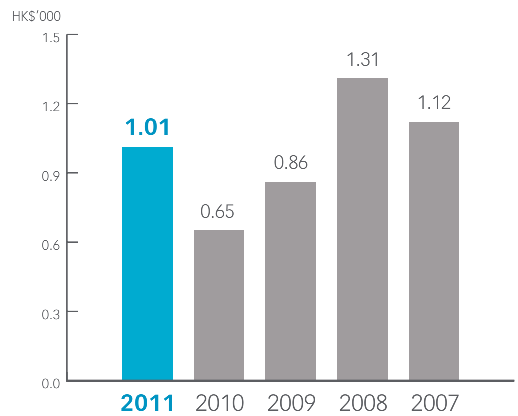
Total Liabilities

As at 31 March



Current Ratio

As at 31 March



Management Discussion and Analysis

Bank balances and cash of the Group as at 31 March 2011 amounted to about HK$14 million, which consists of approx HK$5.2 million in HK dollars, approx HK$7.5 million in US dollars, approx HK$0.4 million in RMB and approx HK$0.3 million in Rupiah, none of which had been pledged to banks.

Overall, the total assets of a disposal group classified as held for sale amounting to approx HK$351 million resulting in total current assets were approx HK$435 million compared with approx HK$200 million in the previous year-end date.

Trade payables recorded a decrease against the previous year. Trade payables, other payables and accrued charges were approx HK$17 million as at 31 March 2011 compared with approx HK$83 million as at 31 March 2010. The decrease in trade payables consisted mainly of payables relating to disposed group, which were in line with the disposal agreement. Creditor turnover days decreased to 27 days versus 123 days at the end of the previous year.

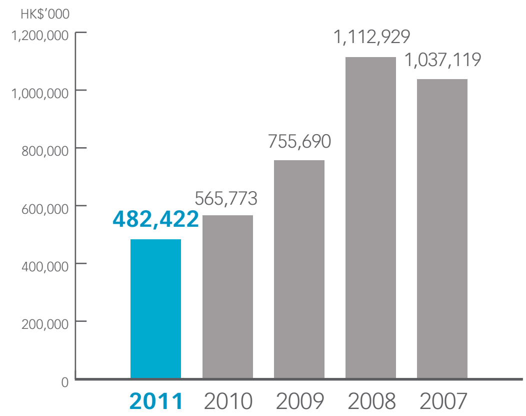
Borrowings under current liabilities decreased from approx HK$209 million as at 31 March 2010 to approx HK$18 million at 31 March 2011, attributable mainly to full repayment of a term loan as well as reallocation of borrowings to the disposed group in line with the disposal agreement.

Taking into consideration the total liability of a disposal group classified as held for sale amounting to approx HK$392 million, the net current assets of the Group as at 31 March 2011 show a value of approx HK$4 million against a net current liabilities amount of approx HK$104 million as at 31 March 2010.

As at 31 March 2011, the Group had total assets of HK$131 million which was financed by shareholders' fund, major shareholder's loan, payables, amounts due to disposed group and financial institutions credit facilities. The Group mainly generated revenue and incurred costs in HK$, US$ and Rupiah and did not have any related hedges for year ended 31 March 2011. No financial instruments were used for hedging purpose. The Group adopted a prudent funding and treasury policy and managed the fluctuation exposures of exchange rate and interest rate on specific transactions.

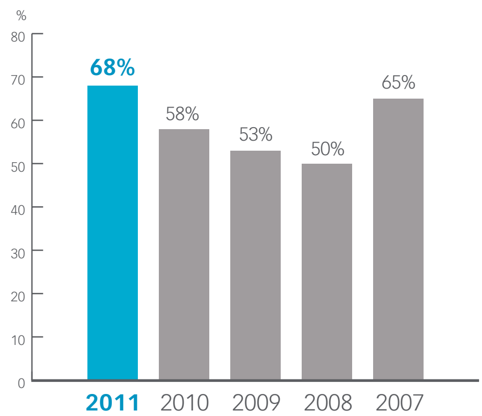
Total Assets

As at 31 March



Sales – Five Largest Customers Combined

For the year ended 31 March

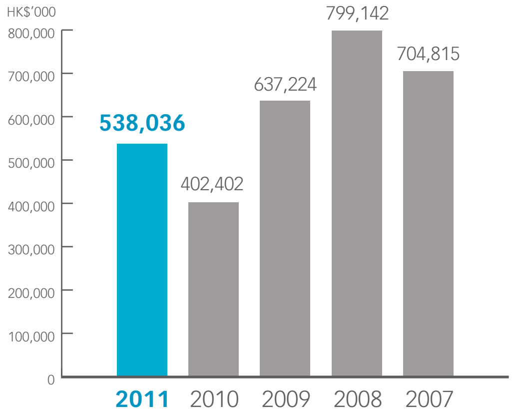


Management Discussion and Analysis

As at 31 March 2011, the Group's total borrowings including shareholders loan of HK$50 million amounted to about HK$366 million with about HK$228 million repayable on demand or within one year and about HK$138 million repayable after one year, All borrowings denominated in Hong Kong dollars and RMB and bore interest at floating rates. As at 31 March 2011, the Group recorded total current assets of approx HK$435 million and total current liabilities of approx HK$431 million. The current ratio of the Group, calculated by dividing the total current assets by total current liabilities was 101%. The Group recorded a decrease in shareholders' funds from approx HK$201 million as at 31 March 2010 to a deficit of approx HK$3 million as at 31 March 2011. The decrease was mainly resulting from loss from operations and impairment on revaluation of properties on Disposal . Bearing unforeseen circumstance upon completion of the Disposal, shareholder fund would show a net asset position in next reporting period.

Turnover

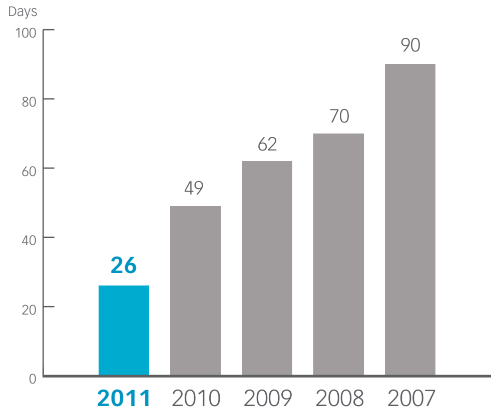
For the year ended 31 March



Save as aforesaid or as otherwise disclosed herein, the Group did not have any debt securities issued and outstanding, or authorized or otherwise created but unissued, any term loans (secured, unsecured, guaranteed or not), any other borrowings or indebtedness in the nature of borrowing including bank overdrafts and liabilities under acceptances (other than normal trade bills) or acceptance credits, any mortgages or charges, or other material contingent liabilities or guarantee at the close of business on 31 March 2011. Foreign currency amounts have been translated at the approximate exchange rates prevailing at the close of business on 31 March 2011.

Debtor Turnover days

As at 31 March



The Group's operation relied upon the support from financial institutions. Facilities are provided on the basis of which certain financial and operational undertakings are complied with. On behalf of the Board, the Directors are of the opinion that, after taking into account the Group's internal resources, cash flow from operations and cash relieve from the Disposal, the Group, after completion for the Disposal, will have sufficient working capital to satisfy its present requirements for the next twelve months from the date of this report in the absence of unforeseen circumstances.

Corporate Governance Report

The Company is committed to achieving high standards of corporate governance in order to safeguard the interest of its shareholders and stakeholders. Save as disclosed below, throughout the year ended 31 March 2011, 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 2011.

THE BOARD

The Board is responsible for providing leadership and control of the Company and monitoring the per formance 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 currently comprises two executive directors and three independent non-executive directors. The names and brief biographies are set out on page 26 to page 27 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 more than half 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. The Chairman provides leadership to the Board and is responsible for the overall strategic planning and corporate development.

Board meetings are scheduled at approx 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 2011.

Corporate Governance Report

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 and a executive directors, namely Mr Leung Lun. 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 2011 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 24 to page 25 of this Annual Report.

NOMINATION COMMITTEE

The Company has established a nomination committee (the "Nomination Committee") in 2006. The Nomination Committee comprises three independent non-executive directors, namely Mr Wong Lam, O.B.E., J.P., Mr Ye Tian Liu and Mr Lai Yun Hung and an executive director Mr Leung Lun. Mr Leung 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 2011, 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. Mr Ye Tian Liu is the chairman of the Audit Committee.

Corporate Governance Report

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 2011.

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 2011, the fees charged to the financial statements of the Company and its subsidiaries for BDO's statutory audit amounted to approx HK$0.88 million. The cost of audit services of subsidiaries not performed by BDO amounted to approx HK$0.56 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 35 to page 96. The statement of the external auditors about its reporting responsibilities on the financial statements is set out on page 33 to page 34.

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.

Report of the Directors

The Directors submit their report together with the audited financial statements for the year ended 31 March 2011.

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.

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 35.

The Directors view that it would not be prudent to recommend any dividend in view of the result for the year ended 31 March 2011 (2010: Nil).

RESERVES

Movements in the reserves of the Group and of the Company during the year are set out in page 38 and Note 33 to the financial statements.

DONATIONS

Charitable and other donations made by the Group during the year amounted to approx HK$32,000.

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.

Report of the Directors

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 2011.

	2011	2010	2009	2008	2007
	HK$'000	HK$'000	HK$'000	HK$'000	HK$'000
Turnover	**538,036**	402,402	637,224	799,142	704,815
(Loss)/profit before income tax	**(196,106)**	(173,413)	(291,065)	1,715	(36,497)
Income tax (expense)/credit	**(1,398)**	(1,540)	2,292	2,728	(779)
(Loss)/profit for the year	**(197,504)**	(174,953)	(288,773)	4,443	(37,276)
Attributable to:					
Owners of the Company	**(197,504)**	(174,953)	(288,773)	4,443	(37,219)
Non-controlling interests	**—**	—	—	—	(57)
	(197,504)	(174,953)	(288,773)	4,443	(37,276)
Total assets	**482,422**	565,773	755,690	1,112,929	1,037,119
Total liabilities	**485,290**	364,674	455,487	550,191	575,861
Total (deficit)/equity	**(2,868)**	201,099	300,203	562,738	461,258

DISTRIBUTABLE RESERVES

At 31 March 2010 and 2011, 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.

Report of the Directors

SHARE OPTION SCHEME

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

Details of the Scheme are as follows:

(1) Purpose

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

(2) Eligible persons

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

(3) Maximum number of shares

The scheme mandate limit of the Scheme was refreshed pursuant to a shareholders' resolution passed in the annual general meeting ("AGM") of the Company held on 25 September 2009, details of which have been set out in the circular dated 19 August 2009. Accordingly, 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 and as at 31 March 2011.

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.

Report of the Directors

(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.

None of the above share options were exercised and all of the share options has lapsed as at the reporting date of 31 March 2011.

Details of the share options movement and outstanding as at 31 March 2011 have been disclosed in Note 32 to the financial statements.

Report of the Directors

DIRECTORS

The Directors as at the date of this report are:

Mr Leung Lun
Mr Wong, Andy Tze On
Mr Wong Lam, O.B.E., J.P. #
Mr Ye Tian Liu #
Mr Lai Yun Hung #

Independent non-executive directors

In accordance with Article 116 of the Articles, the Directors retiring by rotation at the annual general meeting are Mr Wong, Andy Tze On and Mr Lai Yun Hung. Both the retairing Directors, being eligible, offer themselves for re-election as Directors at the annual general meeting.

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

Executive Directors

Mr Leung Lun, aged 62, is the chairman of the Company and the founder of the Group. He is the elder brother of Mr. CM Leung, the Group's managing director during the year. Mr Leung is responsible for the overall corporate policy and development strategy as well as overseeing the Group's overall management. He has 47 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 Merchants Support For Rehabilitated Offenders Committee 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 Wong, Andy Tze On, CPA aged 44, 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.

Report of the Directors

Independent Non-executive Directors

Mr Wong Lam, O.B.E., JP., aged 92, 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 65, 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 59, is a partner of Lai & Wong, Certified Public Accountants as well as the managing director of Lai & C.K. Wong CPA Limited. 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.

Company Secretary

Mr Mak Yee Chuen, Vincent, aged 54, 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 Cer tified Accountants. He was the founder and par tner 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 36, 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.

Report of the Directors

Mr Mak Wing Kwong, David, aged 49, 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 Ng Ki Yin, Simon, aged 57, 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 sales and marketing, 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 48, 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 delisting in Singapore listing market, merger and acquisition, and also taxation services in both Hong Kong and Australia.

Mr Bruce Oravec, aged 68, 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.

Report of the Directors

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 Mr. Leung Lun, a director of the Company and Mr. CM Leung, a former Director 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 38(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 2011, 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 (Note 3)	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%

Report of the Directors

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. CM Leung respectively.

3. Mr. CM Leung has resigned as an executive director of the Company with effect from 9 May 2011.

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.

SUBSTANTIAL SHAREHOLDERS

As at 31 March 2011, 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. CM Leung.

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.

Report of the Directors

MAJOR CUSTOMERS AND SUPPLIERS

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

	2011	2010
	%	%
Sales		
— the largest customer	**29**	26
— five largest customers combined	**68**	58
Purchases		
— the largest supplier	**7**	15
— five largest suppliers combined	**19**	32

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. 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.

BOARD OF DIRECTORS

Mr. Zhong Bingquan and Ms. Cheng Yun Tai have retired as executive directors of the Company with effect from 31 August 2010 due to increased commitments in their own businesses. Dr. Ko Peter, Ping Wah has also retired as non-executive director of the Company in order to concentrate on his professional commitments. He also ceased to be a member of the Audit Committee, Remuneration Committee and Nomination Committee of the Company with effect from 31 August, 2010. Details of the retirements are set out in the Company announcements on 31 August 2010.

Report of the Directors

SUBSEQUENT EVENT

The ordinary resolution of approving the Disposal was duly passed by way of poll by the shareholders at the extraordinary general meeting held on 12 April 2011. At the date of approval of this financial statements, the management is still in the process of preparing the completion account of the disposal group for the finalisation of consideration. Therefore, the Company is not yet in a position to disclose neither the financial result of this Disposal attributable to the Company nor other relevant financial information of the Group subsequent to the Disposal.

In accordance with terms of the Disposal Agreements, Mr. CM Leung has resigned as an executive director of the Company with effect from 9 May 2011 in order to devote his full attention on the business of the disposed group. Further details of the above resignation is set out in the Company's announcement on 9 May 2011.

Following the Disposal, on 9 May 2011, the Company entered with the disposed group into a master purchasing agreement pursuant to which the Company would agree to purchase from the disposed group with the annual caps during the period commencing 1 May 2011 until 31 March 2014. The Board recommended independent shareholders to vote in favour of the ordinary resolution to be put forward to independent shareholders at the EGM on 7 July 2011. For details, please refer to the Company's circular dated 20 June 2011.

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
28 June 2011

Independent Auditor's Report

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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 35 to 96, which comprise the consolidated and company statements of financial position as at 31 March 2011, and the consolidated statement of comprehensive income, the consolidated statement of changes in equity and the consolidated statement of cash flows for the year then ended, and a summary of significant accounting policies and other explanatory information.

DIRECTORS' RESPONSIBILITY FOR THE CONSOLIDATED FINANCIAL STATEMENTS

The directors of the Company are responsible for the preparation of financial statements that give a true and fair view 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, and for such internal control as the directors determine is necessary to enable the preparation of financial statements that are free from material misstatement, whether due to fraud or error.

AUDITOR'S RESPONSIBILITY

Our responsibility is to express an opinion on these financial statements based on our audit. This report is made 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 about 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 of financial statements that give a true and fair view 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 of the Group as at 31 March 2011 and of the Group's loss and cash flows 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$197,504,000 during the year ended 31 March 2011 and, as of that date, the Group was in net liabilities position of approximately HK$2,868,000. These conditions indicate the existence of a material uncertainty which may cast significant doubt about the Group's ability to continue as a going concern.

BDO Limited
Certified Public Accountants

Ng Wai Man
Practising Certificate Number P05309

Hong Kong, 28 June 2011

Consolidated Statement of Comprehensive Income

For the year ended 31 March 2011

	Notes	2011 HK$'000	2010 HK$'000
Turnover	6	**538,036**	402,402
Cost of sales		**(449,199)**	(322,586)
Gross profit		**88,837**	79,816
Other income and gains, net	7	**11,665**	9,102
Selling and distribution expenses		**(42,874)**	(27,433)
General and administrative expenses		**(160,644)**	(203,204)
Impairment on property, plant and equipment	18	**(80,366)**	(18,910)
Reversal of impairment/(impairment) on trade and other receivables		**614**	(859)
Operating loss	8	**(182,768)**	(161,488)
Finance costs	9	**(13,338)**	(11,925)
Loss before income tax		**(196,106)**	(173,413)
Income tax expense	10	**(1,398)**	(1,540)
Loss for the year		**(197,504)**	(174,953)
Other comprehensive income:			
Exchange differences arising on translation of foreign operations		**1,056**	7,527
Reversal of revaluation gain on land and buildings	18	**(9,341)**	—
Release of income tax relating to reversal of revaluation gain on land and buildings		**1,822**	—
Other comprehensive income for the year, net of tax		**(6,463)**	7,527
Total comprehensive income for the year		**(203,967)**	(167,426)
Loss for the year attributable to:			
Owners of the Company	11	**(197,504)**	(174,953)
Non-controlling interests		**—**	—
		(197,504)	(174,953)
Total comprehensive income attributable to:			
Owners of the Company		**(203,967)**	(167,426)
Non-controlling interests		**—**	—
		(203,967)	(167,426)
Loss per share attributable to the owners of the Company			
— Basic and diluted	13	**(6.68) cents**	(6.40) cents

Statements of Financial Position

As at 31 March 2011

		Group		Company	
	Notes	**2011 HK$'000**	2010 HK$'000	**2011 HK$'000**	2010 HK$'000
ASSETS AND LIABILITIES					
Non-current assets					
Leasehold land and land use rights	17	**—**	87,708	**—**	—
Property, plant and equipment	18	**26,600**	254,762	**—**	—
Goodwill	19	**19,240**	19,240	**—**	—
Club memberships	20	**—**	2,001	**—**	—
Interests in subsidiaries	21	**—**	—	**84,366**	222,829
Deferred tax assets	30	**1,694**	2,097	**—**	—
		47,534	365,808	**84,366**	222,829
Current assets					
Inventories	22	**28,661**	107,120	**—**	—
Trade and other receivables, deposits and prepayments	23	**41,059**	47,151	**—**	880
Tax recoverable		**151**	1,836	**9**	9
Cash and cash equivalents	24	**13,723**	43,858	**276**	315
		83,594	199,965	**285**	1,204
Assets of a disposal group classified as held for sale	25	**351,294**	—	**—**	—
		434,888	199,965	**285**	1,204
Current liabilities					
Trade and other payables and accrued charges	26	**16,928**	82,537	**3,728**	626
Obligations under finance leases	28	**3,721**	6,330	**—**	—
Borrowings	27	**18,190**	208,743	**—**	68,502
Tax payable		**3**	6,081	**—**	—
		38,842	303,691	**3,728**	69,128
Liabilities of a disposal group classified as held for sale	25	**391,772**	—	**—**	—
		430,614	303,691	**3,728**	69,128
Net current assets/(liabilities)		**4,274**	(103,726)	**(3,443)**	(67,924)
Total assets less current liabilities		**51,808**	262,082	**80,923**	154,905

Statements of Financial Position

As at 31 March 2011

	Notes	Group 2011 HK$'000	Group 2010 HK$'000	Company 2011 HK$'000	Company 2010 HK$'000
Total assets less current liabilities		**51,808**	262,082	**80,923**	154,905
Non-current liabilities					
Obligations under finance leases	28	**604**	4,625	**—**	—
Provision for long service payment	29	**1,683**	1,922	**—**	—
Loan from immediate holding company	38(a)	**50,000**	50,000	**50,000**	50,000
Deferred tax liabilities	30	**2,389**	4,436	**—**	—
		54,676	60,983	**50,000**	50,000
Net (liabilities)/assets		**(2,868)**	201,099	**30,923**	104,905
EQUITY					
Share capital	31	**295,776**	295,776	**295,776**	295,776
Reserves	33	**(298,644)**	(94,677)	**(264,853)**	(190,871)
		(2,868)	201,099	**30,923**	104,905
Non-controlling interests		**—**	—	**—**	—
Total (deficit)/equity		**(2,868)**	201,099	**30,923**	104,905

These financial statements were approved and authorised for issue by the board of directors on 28 June 2011.

Leung Lun
Director

Wong, Andy Tze On
Director

Consolidated Statement of Changes in Equity

For the year ended 31 March 2011

	Attributable to owners of the Company									
	Share capital HK$'000	Share premium HK$'000	Exchange fluctuation reserve HK$'000	Statutory surplus reserve HK$'000	Land and buildings revaluation reserve HK$'000	Share options reserve HK$'000	Accumulated losses HK$'000	Total HK$'000	Non-controlling interests HK$'000	Total equity HK$'000
At 1 April 2009	246,480	14,211	31,367	28,840	25,506	246	(46,447)	300,203	—	300,203
Exchange differences arising on translation of foreign operations	—	—	7,527	—	—	—	—	7,527	—	7,527
Loss for the year	—	—	—	—	—	—	(174,953)	(174,953)	—	(174,953)
Total comprehensive income for the year	—	—	7,527	—	—	—	(174,953)	(167,426)	—	(167,426)
Acquisition of minority interests of a subsidiary	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 and 1 April 2010	295,776	37,657	38,894	28,840	25,506	—	(225,574)	201,099	—	201,099
Exchange differences arising on translation of foreign operations	—	—	1,056	—	—	—	—	1,056	—	1,056
Reversal of revaluation gain on land and buildings	—	—	—	—	(9,341)	—	—	(9,341)	—	(9,341)
Release of income tax relating to reversal of revaluation gain on land and buildings	—	—	—	—	1,822	—	—	1,822	—	1,822
Loss for the year	—	—	—	—	—	—	(197,504)	(197,504)	—	(197,504)
Total comprehensive income for the year	—	—	1,056	—	(7,519)	—	(197,504)	(203,967)	—	(203,967)
At 31 March 2011	**295,776**	**37,657**	**39,950**	**28,840**	**17,987**	**—**	**(423,078)**	**(2,868)**	**—**	**(2,868)**

Nature and purpose of reserves are disclosed in Note 33.

As at 31 March 2011, the cumulative income or expense recognised in other comprehensive income relating to disposal group classified as held for sale (Note 25) include exchange fluctuation reserve of approximately HK$57,342,000 and land and buildings revaluation reserve of approximately HK$2,441,000.

Consolidated Statement of Cash Flows

For the year ended 31 March 2011

	2011 HK$'000	2010 HK$'000
Operating activities		
Loss before income tax	**(196,106)**	(173,413)
Adjustments for:		
Interest income	**(262)**	(283)
Interest expense and finance charge	**13,338**	11,925
Depreciation of property, plant and equipment	**26,177**	45,340
Provision for severance payments	**—**	3,451
(Reversal of)/addition to provision for long service payment	**(59)**	150
Impairment on property, plant and equipment	**80,366**	18,910
(Recovery of impairment)/impairment on trade and other receivables, deposits and prepayments	**(614)**	859
Amortisation of leasehold land and land use rights	**1,932**	1,874
Loss/(gain) on disposal of property, plant and equipment	**33**	(86)
Gain on disposal of derivative financial instruments	**—**	(127)
Operating cash flows before changes in working capital	**(75,195)**	(91,400)
Inventories	**(5,529)**	97,635
Trade and other receivables, deposits and prepayments	**(9,433)**	47,836
Trade and other payables and accrued charges	**25,908**	(47,217)
Trust receipt loans	**(2,811)**	(48,541)
Cash used in operations	**(67,060)**	(41,687)
Interest received	**262**	283
Overseas income tax paid	**(1,126)**	(648)
Net cash used in operating activities	**(67,924)**	(42,052)

Consolidated Statement of Cash Flows

For the year ended 31 March 2011

	Notes	2011 HK$'000	2010 HK$'000
Investing activities			
Purchase of property, plant and equipment		**(4,659)**	(5,907)
Proceeds from disposal of derivative financial instruments		**—**	354
Proceeds from disposal of property, plant and equipment		**436**	86
Net cash used in investing activities		**(4,223)**	(5,467)
Financing activities			
Interest expense and finance charge		**(13,338)**	(8,682)
Issue of shares in placing arrangement		**—**	68,322
New loans from banks and financial institutions		**229,790**	83,091
Repayment of loans borrowed from banks and financial institutions		**(133,280)**	(76,631)
Capital element of finance lease rental payment		**(6,649)**	(6,132)
Net cash generated from financing activities		**76,523**	59,968
Net increase in cash and cash equivalents		**4,376**	12,449
Effect of foreign exchange rate changes		**(2,405)**	4,757
Cash and cash equivalents at beginning of year		**43,858**	26,652
Cash and cash equivalents at end of year	24,25	**45,829**	43,858

Notes to the Financial Statements

31 March 2011

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 2011. 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 HONG KONG FINANCIAL REPORTING STANDARDS ("HKFRSs")

(a) Adoption of new/revised HKFRSs — effective on 1 April 2010

HKFRSs (Amendments)	Improvements to HKFRSs
Amendments to HKAS 39	Eligible Hedged Items
Amendments to HKFRS 2	Share-based Payment — Group Cash-settled Share-based Payment Transactions
HKAS 27 (Revised)	Consolidated and Separate Financial Statements
HKFRS 3 (Revised)	Business Combinations
HK(IFRIC) — Interpretation 17	Distributions of Non-cash Assets to Owners
HK Interpretation 5	Presentation of Financial Statements — Classification by the Borrower of a Term Loan that Contains a Repayment on Demand Clause

The adoption of these new/revised HKFRSs has no significant impact on Group's financial statements.

HKFRS 3 (Revised) — Business Combinations and HKAS 27 (Revised) — Consolidated and Separate Financial Statements

The revised accounting policies are described in note 4 to the financial statements which are effective prospectively for business combinations effected in financial periods beginning on or after 1 July 2009. Changes in HKFRS 3 include the valuation of non-controlling interest, the accounting for transaction costs, the initial recognition and subsequent measurement of a contingent consideration and business combinations achieved in stages. These changes impact the amount of goodwill and the results in the period that an acquisition occurs and future results. The adoption of revised HKFRS 3 has had no impact to the financial statements as there has been no business combination transaction during the year.

The revised HKAS 27 requires that a change in the ownership interest of a subsidiary (without loss of control) is accounted for as a transaction with owners in their capacity as owners, accordingly, such transactions are recognised within equity. When control is lost and any remaining interest in the entity is re-measured to fair value, and a gain or loss is recognised in profit or loss. The adoption of revised HKAS 27 has had no impact on the current year.

Notes to the Financial Statements

31 March 2011

2. ADOPTION OF HONG KONG FINANCIAL REPORTING STANDARDS ("HKFRSs") — *Continued*

(a) Adoption of new/revised HKFRSs — effective on 1 April 2010 — *Continued*

HKAS 17 (Amendments) — Leases

As part of Improvements to HKFRSs issued in 2009, HKAS 17 has been amended in relation to the classification of leasehold land. Before the amendment to HKAS 17, the Group was required to classify leasehold land as operating leases and to present leasehold land as prepaid lease payments in the statement of financial position. The amendment to HKAS 17 has removed such a requirement and requires that the classification of leasehold land should be based on the general principles set out in HKAS 17, that is, whether or not substantially all the risks and rewards incidental to ownership of a leased asset have been transferred to the lessee. The Group concluded that the classification of such leases as operating leases continues to be appropriate.

HK Interpretation 5 — Presentation of Financial Statements — Classification by the Borrower of a Term Loan that Contains a Repayment on Demand Clause

The Interpretation is a clarification of an existing standard, HKAS 1 Presentation of Financial Statements. It sets out the conclusion reached by the HKICPA that a term loan which contains a clause which gives the lender the unconditional right to demand repayment at any time shall be classified as a current liability in accordance with paragraph 69(d) of HKAS 1 irrespective of the probability that the lender will invoke the clause without cause. The adoption of HK Interpretation 5 has had no impact on the financial statements in current and prior years.

(b) New/revised HKFRSs that have been issued but are not yet effective

The following new/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:

		Effective date
HKFRSs (Amendments)	Improvements to HKFRSs 2010	(i) & (ii)
HK(IFRIC) — Interpretation 19	Extinguishing Financial Liabilities with Equity Instruments	(i)
HKAS 24 (Revised)	Related Party Disclosures	(ii)
Amendments to HKFRS 7	Disclosure — Transfers of Financial Assets	(iii)
HKFRS 9	Financial Instruments	(iv)

Effective date:

(i) Annual periods beginning on or after 1 July 2010
(ii) Annual periods beginning on or after 1 January 2011
(iii) Annual periods beginning on or after 1 July 2011
(iv) Annual periods beginning on or after 1 January 2013

Notes to the Financial Statements

31 March 2011

2. ADOPTION OF HONG KONG FINANCIAL REPORTING STANDARDS ("HKFRSs") — *Continued*

(b) New/revised HKFRSs that have been issued but are not yet effective — *Continued*

HKAS 24 (Revised) clarifies and simplifies the definition of related parties. It also provides for a partial exemption of related party disclosure to government-related entities for transactions with the same government or entities that are controlled, jointly controlled or significantly influenced by the same government.

The amendments to HKFRS 7 improve the derecognition disclosure requirements for transfer transactions of financial assets and allow users of financial statements to better understand the possible effects of any risks that may remain with the entity on transferred assets. The amendments also require additional disclosures if a disproportionate amount of transfer transactions are undertaken around the end of a reporting period.

Under HKFRS 9, financial assets are classified into financial assets measured at fair value or at amortised cost depending on the entity's business model for managing the financial assets and the contractual cash flow characteristics of the financial assets. Fair value gains or losses will be recognised in profit or loss except for those non-trade equity investments, which the entity will have a choice to recognise the gains and losses in other comprehensive income. HKFRS 9 carries forward the recognition and measurement requirements for financial liabilities from HKAS 39, except for financial liabilities that are designated at fair value through profit or loss, where the amount of change in fair value attributable to change in credit risk of that liability is recognised in other comprehensive income unless that would create or enlarge an accounting mismatch. In addition, HKFRS 9 retains the requirements in HKAS 39 for derecognition of financial assets and financial liabilities.

The Group is in the process of making an assessment of the potential impact of these new/revised HKFRSs and the directors so far concluded that the application of these new/revised HKFRSs will have no material impact on 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 (hereinafter collectively referred to as the "HKFRSs"). 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.

Notes to the Financial Statements
31 March 2011

3. BASIS OF PREPARATION — *Continued*

(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 non-current asset (or disposal group) classified as held for sale are carried at the lower of its carrying amount and fair value less costs to sell.

The preparation of financial statements in conformity with HKFRSs requires the use of certain critical accounting estimates. It also requires management to exercise its judgment in the process of applying the Group's accounting policies. The areas involving a higher degree of judgment or complexity, or areas where assumptions and estimates are relatively significant to the consolidated financial statements are disclosed in Note 5.

The Group incurred a net loss of approximately HK$197,504,000 during the year ended 31 March 2011 and, as of that date, the Group was in net liabilities position of approximately HK$2,868,000. 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.

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 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. 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.

(c) Functional and presentation currency

The consolidated financial statements are presented in Hong Kong dollars ("HK$"), which is the same as the functional currency of the Company.

Notes to the Financial Statements

31 March 2011

4. SIGNIFICANT ACCOUNTING POLICIES

(a) Business combination and basis of consolidation

The consolidated financial statements comprise the financial statements of the Company and its subsidiaries. Inter-company transactions and balances between group companies together with unrealised profits are eliminated in full in preparing the consolidated financial statements. Unrealised losses are also eliminated unless the transaction provides evidence of impairment on the asset transferred, in which case the loss is recognised in profit or loss.

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

Business combination from 1 April 2010

Acquisition of subsidiaries or businesses is accounted for using the acquisition method. The cost of an acquisition is measured at the aggregate of the acquisition-date fair value of assets transferred, liabilities incurred and equity interests issued by the Group, as the acquirer. The identifiable assets acquired and liabilities assumed are principally measured at acquisition-date fair value. The Group's previously held equity interest in the acquiree is re-measured at acquisition-date fair value and the resulting gains or losses are recognised in profit or loss. The Group may elect, on a transaction-by-transaction basis, to measure the non-controlling interest either at fair value or at the proportionate share of the acquiree's identifiable net assets. Acquisition-related costs incurred are expensed.

Any contingent consideration to be transferred by the acquirer is recognised at acquisition-date fair value. Subsequent adjustments to consideration are recognised against goodwill only to the extent that they arise from new information obtained within the measurement period (a maximum of 12 months from the acquisition date) about the fair value at the acquisition date. All other subsequent adjustments to contingent consideration classified as an asset or a liability are recognised in profit or loss.

Changes in the Group's interests in subsidiaries that do not result in a loss of control are accounted for as equity transactions. The carrying amounts of the Group's interest and the non-controlling interest are adjusted to reflect the changes in their relative interests in the subsidiaries. Any difference between the amount by which the non-controlling interest is adjusted and the fair value of the consideration paid or received is recognised directly in equity and attributed to owners of the Company.

Notes to the Financial Statements

31 March 2011

4. SIGNIFICANT ACCOUNTING POLICIES — *Continued*

(a) Business combination and basis of consolidation — *Continued*

***Business combination from 1 April 2010** — Continued*

When the Group loses control of a subsidiary, the profit or loss on disposal is calculated as the difference between (i) the aggregate of the fair value of the consideration received and the fair value of any retained interest and (ii) the previous carrying amount of the assets (including goodwill), and liabilities of the subsidiary and any non-controlling interest. Amounts previously recognised in other comprehensive income in relation to the subsidiary are accounted for in the same manner as would be required if the relevant assets or liabilities were disposed of.

Subsequent to acquisition, the carrying amount of non-controlling interest is the amount of those interests at initial recognition plus the non-controlling interest's share of subsequent changes in equity. Total comprehensive income is attributed to non-controlling interests even if this results in the non-controlling interest having a deficit balance.

Business combination prior to 1 April 2010

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.

Transaction costs, other than those associated with the issue of debt or equity securities, that the Group incurred in connected with business combinations were capitalised as part of the cost of the acquisition.

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) 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.

Notes to the Financial Statements

31 March 2011

4. SIGNIFICANT ACCOUNTING POLICIES — *Continued*

(c) 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.

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.

Notes to the Financial Statements

31 March 2011

4. SIGNIFICANT ACCOUNTING POLICIES — *Continued*

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

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.

(d) Goodwill

Goodwill is initially recognised at cost being the excess of the aggregate of consideration transferred and the amount recognised for non-controlling interests over the fair value of identifiable assets, liabilities and contingent liabilities acquired.

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.

Goodwill is measured at cost less impairment losses. 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.

For goodwill arising on an acquisition in a financial year, the cash-generating unit to which goodwill has been allocated is tested for impairment before the end of that financial year. 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.

(e) Club memberships

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

Notes to the Financial Statements

31 March 2011

4. SIGNIFICANT ACCOUNTING POLICIES — *Continued*

(f) 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.

(g) 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.

Notes to the Financial Statements

31 March 2011

4. SIGNIFICANT ACCOUNTING POLICIES — *Continued*

(h) 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 and other receivables that are non-derivative financial assets with fixed or determinable payments that are not quoted in an active market are classified as loans and receivables. 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.

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.

Notes to the Financial Statements

31 March 2011

4. SIGNIFICANT ACCOUNTING POLICIES — *Continued*

(h) Financial assets — *Continued*

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

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

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

iii) *Effective interest method*

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

iv) *Derecognition of financial assets*

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

Notes to the Financial Statements

31 March 2011

4. SIGNIFICANT ACCOUNTING POLICIES — *Continued*

(i) 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.

(j) 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.

(k) 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.

Notes to the Financial Statements

31 March 2011

4. SIGNIFICANT ACCOUNTING POLICIES — *Continued*

(k) Leases — *Continued*

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.

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

(l) 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(s) 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.

Notes to the Financial Statements

31 March 2011

4. SIGNIFICANT ACCOUNTING POLICIES — *Continued*

(m) 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.

(n) 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.

Notes to the Financial Statements

31 March 2011

4. SIGNIFICANT ACCOUNTING POLICIES — *Continued*

(n) Income taxes — *Continued*

ii) ***Deferred tax*** — *Continued*

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

Deferred tax assets and liabilities are measured at the tax rates that are expected to apply in the period in which the liability is settled or the asset realised, based on tax rates (and tax laws) that have been enacted or substantively enacted by the 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.

(o) Foreign currencies

The individual financial statements of each group entity are presented in the currency of the primary economic environment in which the entity operates ("functional currency"). In preparing the financial statements of the individual entities, transactions in currencies other than the entity's functional currency ("foreign currencies") are recorded at the rates of exchange prevailing at the dates of the transactions. At the end of each reporting period, monetary items denominated in foreign currencies are retranslated at the rates prevailing at the end of reporting period. Non-monetary items carried at fair value that are denominated in foreign currencies are retranslated at the rates prevailing at the date when the fair value was determined. Non-monetary items that are measured in terms of historical cost in a foreign currency are not retranslated.

Exchange differences arising on the settlement of monetary items, and on the translation of monetary items, are recognised in profit or loss in the period in which they arise. Exchange differences arising on the retranslation of non-monetary items carried at fair value are included in profit or loss for the period except for exchange differences arising on the retranslation of non-monetary items in respect of which gains and losses are recognised in other comprehensive income, in which cases, the exchange differences are also recognised in other comprehensive income

Notes to the Financial Statements

31 March 2011

4. SIGNIFICANT ACCOUNTING POLICIES — *Continued*

(o) Foreign currencies — *Continued*

For the purpose of presenting consolidated financial statements, the assets and liabilities of the Group's foreign operations are expressed in United States dollars using exchange rates prevailing at the end of reporting period. Income and expenses items are translated at the average exchange rates for the period, unless exchange rates fluctuated significantly during the period, in which case the exchange rates at the dates of the transactions are used. Exchange differences arising, if any, are recognised directly in other comprehensive income and accumulated as exchange fluctuation reserve. Exchange differences recognised in profit or loss of group entities' separate financial statements on the translation of long-term monetary items forming part of the Group's net investment in the foreign operation concerned are reclassified to other comprehensive income and accumulated in equity as exchange fluctuation reserve. On disposal of a foreign operation, the cumulative exchange differences recognised in the exchange fluctuation reserve relating to that operation up to the date of disposal are reclassified to profit or loss as part of the profit or loss on disposal.

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

(p) 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 end of reporting period.

Notes to the Financial Statements

31 March 2011

4. SIGNIFICANT ACCOUNTING POLICIES — *Continued*

(p) Employee benefits — *Continued*

ii) Profit sharing and bonus plans

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

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

iii) Pension obligations

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

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

iv) Share-based payments

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

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

Notes to the Financial Statements

31 March 2011

4. SIGNIFICANT ACCOUNTING POLICIES — *Continued*

(q) 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.

(r) 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.

(s) 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 assured.

ii) Interest income

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

Notes to the Financial Statements

31 March 2011

4. SIGNIFICANT ACCOUNTING POLICIES — *Continued*

(t) Non-current assets held for sale and disposal groups

Non-current assets and disposal groups are classified as held for sale when:

— they are available for immediate sale;

— management is committed to a plan to sell;

— it is unlikely that significant changes to the plan will be made or that the plan will be withdrawn;

— an active programme to locate a buyer has been initiated;

— the asset or disposal group is being marketed at a reasonable price in relation to its fair value; and

— a sale is expected to complete within 12 months from the date of classification.

Non-current assets and disposal groups classified as held for sale are measured at the lower of:

— their carrying amount immediately prior to being classified as held for sale in accordance with the Group's accounting policy; and

— fair value less costs to sell.

Following their classification as held for sale, non-current assets (including those in a disposal group) are not depreciated.

5. CRITICAL ACCOUNTING ESTIMATES AND JUDGMENTS

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

Notes to the Financial Statements

31 March 2011

5. CRITICAL ACCOUNTING ESTIMATES AND JUDGMENTS — *Continued*

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

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

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

The impairment loss for property, plant and equipment is recognised for the amount by which the carrying amount exceeds its recoverable amount. The recoverable amount of the assets, or, where appropriate, the cash generating unit to which they belong, is the higher of its fair value less costs to sell and value in use. The recoverable amounts are determined based on fair value less costs to sell which are based on the best information available to reflect the amount obtainable at the 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.

(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. Judgment 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.

Notes to the Financial Statements

31 March 2011

5. CRITICAL ACCOUNTING ESTIMATES AND JUDGMENTS — *Continued*

(e) Trade and other receivables

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

(f) Current tax and deferred tax

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

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

6. TURNOVER AND SEGMENT INFORMATION

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

	2011	2010
	HK$'000	HK$'000
Sale of goods	**532,726**	377,907
Sale of moulds and materials	**5,310**	24,495
Total revenue	**538,036**	402,402

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.

Notes to the Financial Statements

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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 2011		
North America	**301,835**	**21,031**
Europe	**116,857**	**—**
Japan	**26,451**	**—**
China	**24,653**	**—**
Indonesia	**20,214**	**21,705**
Hong Kong	**7,211**	**4,798**
Others	**40,815**	**—**
Total	**538,036**	**47,534**

	Revenue HK$'000	Non-current assets HK$'000
For the year ended 31 March 2010		
North 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

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

	2011 HK$'000	2010 HK$'000
Radio control/wireless products	**197,694**	177,808
Electronic and plastic toys	**315,045**	208,200
Consumer electronic products	**25,297**	16,394
	538,036	402,402

Notes to the Financial Statements

31 March 2011

6. TURNOVER AND SEGMENT INFORMATION — *Continued*

(c) Information on major customers is as follows:

For the year ended 31 March 2011, revenues from three external customers had contributed to more than 59% of the Group's revenue amounting to HK$317,444,000. 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 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.

7. OTHER INCOME AND GAINS, NET

	2011 HK$'000	2010 HK$'000
Sample income and others	**6,410**	5,826
Exchange gains, net	**4,993**	2,993
Interest income	**262**	283
	11,665	9,102

8. EXPENSES BY NATURE

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

	2011 HK$'000	2010 HK$'000
Cost of inventories sold	**449,199**	322,586
Amortisation of leasehold land and land use rights (Note 17)	**1,932**	1,874
Auditors' remuneration	**1,467**	1,601
Depreciation of property, plant and equipment	**26,177**	45,340
Loss on disposal of property, plant and equipment	**33**	—
Impairment loss for trade and other receivables	**49**	1,370
Recovery of impairment loss for trade and other receivables previously recognised	**(663)**	(511)
Employee benefits expense (Note 14)	**155,602**	126,149
Operating lease rentals in respect of land and buildings	**2,837**	2,925
Compliance and testing fee	**2,229**	1,485

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9. FINANCE COSTS

	2011 **HK$'000**	2010 HK$'000
Interest on loans and overdraft from banks and financial institutions wholly repayable within five years	**10,969**	8,301
Interest on loan from immediate holding company	**2,102**	3,243
Finance charges on obligations under finance leases	**267**	381
	13,338	11,925

10. INCOME TAX EXPENSE

No Hong Kong profits tax has been provided as the Group sustained a loss in Hong Kong for the year (2010: Nil).

The amount of tax expense in the consolidated statement of comprehensive income represents:

	2011 **HK$'000**	2010 HK$'000
Mainland China enterprise income tax		
— current year	**(1,356)**	(1,178)
— over provision in prior year	**20**	—
Deferred tax charge (Note 30)	**(62)**	(362)
Income tax expense	**(1,398)**	(1,540)

Notes to the Financial Statements

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10. INCOME TAX EXPENSE — *Continued*

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:

	2011 **HK$'000**	2010 HK$'000
Loss before income tax	**196,106**	173,413
Tax credit calculated at the tax rate of 16.5% (2010: 16.5%)	**32,357**	28,613
Effect of different tax rates in other countries	**5,025**	2,172
Income not subject to taxation	**43**	—
Expenses not deductible for taxation purposes	**(36,392)**	(16,480)
Utilisation of previously unrecognised tax losses	**101**	—
Tax losses not recognised	**(2,532)**	(15,845)
Income tax expense	**(1,398)**	(1,540)

11. LOSS ATTRIBUTABLE TO OWNERS OF THE COMPANY

The consolidated loss attributable to owners of the Company for the year ended 31 March 2011 includes a loss of approximately HK$73,982,000 (2010: HK$112,956,000) 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 2011 (2010: 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$197,504,000 (2010: HK$174,953,000) and the weighted average number of 2,957,758,000 (2010: 2,732,010,550) ordinary shares in issue during the year.

Diluted

The diluted loss per share for the year ended 31 March 2011 is same as the basic loss per share as there is no potential ordinary share outstanding during the year.

The diluted loss per share for the year ended 31 March 2010 is same as the 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 year.

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14. EMPLOYEE BENEFITS EXPENSE

Employee benefits expense excluding directors' emoluments comprise:

	2011 HK$'000	2010 HK$'000
Wages and salaries	**146,058**	109,374
Other staff benefits	**6,383**	5,720
Pension costs — defined contribution plans (Note 16)	**3,161**	6,234
Severance payment expenses	**—**	4,821
	155,602	126,149

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:

	2011 HK$'000	2010 HK$'000
Fees for independent non-executive directors	**180**	180
Fees for non-executive director	**—**	60
Other emoluments:		
Basic salaries, bonus, housing allowances, other allowances and benefits in kind	**5,867**	5,587
Provident fund scheme contributions	**70**	84
	6,117	5,911

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 2011 and 2010.

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15. DIRECTORS' AND SENIOR MANAGEMENT'S EMOLUMENTS — *Continued*

(a) Directors' emoluments — *Continued*

The emolument of each director for the year ended 31 March 2011 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$'000**	**Provident fund scheme contributions HK$'000**	**Total HK$'000**
Mr Leung Lun	**—**	**1,500**	**780**	**12**	**2,292**
Mr Leung Chung Ming#	**—**	**1,440**	**797**	**12**	**2,249**
Mr Zhong Bingquan*	**—**	**135**	**—**	**5**	**140**
Ms Cheng Yun Tai*	**—**	**135**	**—**	**5**	**140**
Mr Wong, Andy Tze On	**—**	**720**	**360**	**36**	**1,116**
Mr Wong Lam	**60**	**—**	**—**	**—**	**60**
Mr Ye Tian Liu	**60**	**—**	**—**	**—**	**60**
Mr Ko Peter, Ping Wah*	**—**	**—**	**—**	**—**	**—**
Mr Lai Yun Hung	**60**	**—**	**—**	**—**	**60**
	180	**3,930**	**1,937**	**70**	**6,117**

* Retired as the Company's director on 31 August 2010
# Resigned as the company's director on 9 May 2011

The emolument 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$'000	Provident fund scheme contributions HK$'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
Mr Ko Peter, Ping Wah	60	—	—	—	60
Mr Lai Yun Hung	60	—	—	—	60
	240	3,686	1,901	84	5,911

Notes to the Financial Statements

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15. DIRECTORS' AND SENIOR MANAGEMENT'S EMOLUMENTS — *Continued*

(b) Five highest paid individuals

The five individuals whose emoluments were the highest in the Group for the year include three (2010: three) directors whose emoluments are disclosed in the analysis presented above. The emoluments payable to the remaining two (2010: two) individuals during the year are as follows:

	2011 **HK$'000**	2010 HK$'000
Basic salaries, bonus, housing allowances, other allowances and benefits in kind	**1,600**	1,366
Provident fund scheme contributions	**52**	52
	1,652	1,418

The emoluments of these two (2010: two) highest paid individuals fell within the band of Nil to HK$1,000,000 for both years.

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 2011 was HK$3,231,000 (2010: HK$6,318,000).

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17. LEASEHOLD LAND AND LAND USE RIGHTS

	Group	
	2011	2010
	HK$'000	HK$'000
At beginning of year	**87,708**	89,582
Amortisation charged for the year (Note 8)	**(1,932)**	(1,874)
Exchange difference	**2,428**	—
Classified as held for sale (Note 25)	**(88,204)**	—
At end of year	**—**	87,708

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	
	2011	2010
	HK$'000	HK$'000
In Mainland China, held for 10 to 50 years	**—**	73,525
In Hong Kong, held for 10 to 50 years	**—**	14,183
	—	87,708

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18. PROPERTY, PLANT AND EQUIPMENT

Group	Land and buildings HK$'000	Leasehold improvements HK$'000	Plant and machinery HK$'000	Furniture, fixtures and equipment HK$'000	Motor vehicles HK$'000	Moulds HK$'000	Total HK$'000
At 1 April 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
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 c)	—	(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
Net book amount at 1 April 2010	204,495	15,413	17,181	9,615	1,311	6,747	254,762
Additions	—	332	618	3,465	616	245	5,276
Disposals	—	(76)	(62)	(56)	(52)	(223)	(469)
Impairment (Note c)	(88,222)	—	—	—	—	(1,485)	(89,707)
Depreciation charge	(4,117)	(11,082)	(3,095)	(2,818)	(718)	(4,347)	(26,177)
Exchange differences	8,829	173	731	269	8	1	10,011
Classified as held for sale (Note 25)	(103,452)	(4,580)	(11,595)	(6,287)	(1,164)	(18)	(127,096)
Net book value at 31 March 2011	17,533	180	3,778	4,188	1	920	26,600
At 31 March 2011							
Cost or valuation	18,710	384	14,782	10,369	567	43,236	88,048
Accumulated depreciation and impairment	(1,177)	(204)	(11,004)	(6,181)	(566)	(42,316)	(61,448)
Net book amount	17,533	180	3,778	4,188	1	920	26,600

Notes to the Financial Statements

31 March 2011

18. PROPERTY, PLANT AND EQUIPMENT — *Continued*

Notes:—

(a) 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.

(b) As at 31 March 2011, the carrying amounts of the revalued land and buildings included in non-current assets would have been approximately HK$3,000,000 (2010: HK$158,060,000) had they been stated at cost less accumulated depreciation and accumulated impairment losses.

(c) During the year ended 31 March 2011, impairment losses of HK$1,485,000 (2010: HK$12,120,000) and HK$88,222,000 (2010: HK$Nil) were recognised by the Group in respect of certain moulds due to technical obsolescence and land and buildings situated in Mainland China respectively. The impairment on the land and buildings was recognised by the Group with reference to a valuation report dated 25 March 2011 issued by Asset Appraisal Limited.

(d) As at 31 March 2011, the legal title of certain land and buildings situated in the PRC classified as held for sale with an aggregate net book value of HK$80,456,000 (2010: HK$151,253,000) 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.

(e) During the year, additions to property, plant and equipment of the Group financed by new finance leases were HK$617,014 (2010: HK$707,850). At the end of reporting period, the carrying amount of property, plant and equipment held under finance leases of the Group was HK$15,582,000 (2010: HK$18,446,000). The related depreciation charge was HK$3,022,000 (2010: HK$2,858,000).

(f) The land and buildings including a freehold land outside Hong Kong with an aggregate net book value of HK$17,533,000 (2010: HK$17,508,000).

Notes to the Financial Statements

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19. GOODWILL

	Group	
	2011	2010
	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 2011, 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% (2010: 3%)
Discount rate	10% (2010: 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.

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20. CLUB MEMBERSHIPS

	Group 2011 HK$'000	Group 2010 HK$'000
At beginning of year	**2,001**	2,001
Classified as held for sale (Note 25)	**(2,001)**	—
At end of year	**—**	2,001

21. INTERESTS IN SUBSIDIARIES

	Company 2011 HK$'000	Company 2010 HK$'000
Unlisted investments, at cost	**116,581**	115,801
Amounts due from subsidiaries (note)	**415,558**	482,028
Amounts due to subsidiaries (note)	**(773)**	—
	531,366	597,829
Less: provision for impairment loss	**(447,000)**	(375,000)
	84,366	222,829

Note:

The amounts are due from/(to) certain wholly-owned subsidiaries. They are unsecured and will not be demanded for repayment within the next twelve months from 31 March 2011. During the year, all the amounts due from subsidiaries are interest free (2010: HK$68,502,000 is interest bearing at Hong Kong Interbank Offered Rate plus 2% per annum while the remaining balance is interest-free).

Notes to the Financial Statements

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21. INTERESTS IN SUBSIDIARIES — *Continued*

Particulars of the principal subsidiaries of the Company at 31 March 2011 are as follows:

Name of company	Place of incorporation and operations	Particulars of issued share capital/ registered capital	Effective percentage holding 2011	Effective percentage holding 2010	Nature of Business
Shares held directly:					
Lung Cheong (BVI) Holdings Limited #	British Virgin Islands	Ordinary US$130,660	**100**	100	Investment holding
Future Empire Limited	British Virgin Islands	Ordinary US$50,000	**100**	—	Investment holding
LC Global Holdings Corporation	British Virgin Islands	Ordinary US$50,000	**100**	—	Investment holding
Shares/investments held indirectly:					
Lung Cheong Toys Limited #	Hong Kong	Deferred HK$1,000,000 Ordinary HK$2	**100**	100	Trading of toys
L C Technology Limited	Hong Kong	Ordinary HK$10,000	**100**	100	Trading of toys and electronic products
Lung Cheong Resources Management Limited #	Hong Kong	Deferred HK$10,000 Ordinary HK$2	**100**	100	Management services
Kid Galaxy Limited	Hong Kong	Ordinary HK$10,000	**100**	100	Trading of toys
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

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21. INTERESTS IN SUBSIDIARIES — *Continued*

Name of company	Place of incorporation and operations	Particulars of issued share capital/ registered capital	Effective percentage holding 2011	Effective percentage holding 2010	Nature of Business
Shares/investments held indirectly: — *Continued*					
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**	100	Manufacture of toys and electronic products
Kid Galaxy Global Limited	British Virgin Islands	Ordinary US$1	**100**	100	Investment holding
Kid Galaxy Corporation	British Virgin Islands	Ordinary US$10	**100**	100	Investment holding
Lung Cheong Asia Holdings Limited	British Virgin Islands	Ordinary US$50,000	**100**	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.

These subsidiaries form the disposal group. Details are set out in Note 25 to the financial statements.

Notes to the Financial Statements

31 March 2011

22. INVENTORIES

	Group	
	2011	2010
	HK$'000	HK$'000
Raw materials	**10,470**	34,794
Work-in-progress	**5,356**	31,108
Finished goods	**12,835**	41,218
	28,661	107,120

23. TRADE AND OTHER RECEIVABLES, DEPOSITS AND PREPAYMENTS

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

	Group		Company	
	2011	2010	**2011**	2010
	HK$'000	HK$'000	**HK$'000**	HK$'000
Trade receivables	**46,690**	52,803	**—**	—
Less: Allowance for doubtful debts	**(8,195)**	(16,063)	**—**	—
	38,495	36,740	**—**	—
Other receivables, deposits and prepayments	**8,560**	16,407	**—**	880
Less: Provision for impairment	**(5,996)**	(5,996)	**—**	—
	2,564	10,411	**—**	880
	41,059	47,151	**—**	880

Notes to the Financial Statements

31 March 2011

23. TRADE AND OTHER RECEIVABLES, DEPOSITS AND PREPAYMENTS — *Continued*

(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

	2011 HK$'000	2010 HK$'000
At beginning of the year	**16,063**	15,204
(Reversal of)/addition to impairment loss (Note i)	**(614)**	859
Classified as held for sale	**(7,254)**	—
At end of the year	**8,195**	16,063

Provision for impairment on other receivables, deposits and prepayments

	2011 HK$'000	2010 HK$'000
At beginning and end of the year	**5,996**	5,996

Note:

(i) At 31 March 2011, the Group's trade receivables of approximately HK$8,195,000 (2010: HK$16,063,000) were individually determined to be impaired.

Notes to the Financial Statements

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23. TRADE AND OTHER RECEIVABLES, DEPOSITS AND PREPAYMENTS — *Continued*

(c) At 31 March 2011, the ageing analysis of the trade receivables net of allowance for doubtful debts was as follows:

	Group	
	2011	2010
	HK$'000	HK$'000
0-90 days	**31,133**	31,255
91-180 days	**2,456**	3,103
181-365 days	**4,126**	507
Over 365 days	**780**	1,875
	38,495	36,740

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 was as follows:

	Group	
	2011	2010
	HK$'000	HK$'000
Not past due	**31,017**	27,467
Within 30 days past due	**1,295**	3,990
31 to 90 days past due	**1,006**	2,353
Over 90 days past due	**5,177**	2,930
	7,478	9,273
	38,495	36,740

Trade receivables that were neither past due nor impaired relate to 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.

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24. CASH AND CASH EQUIVALENTS

	Group		Company	
	2011	2010	**2011**	2010
	HK$'000	HK$'000	**HK$'000**	HK$'000
Cash at banks and in hand	**13,723**	43,858	**276**	315

Included in cash and cash equivalents of the Group as at 31 March 2011 were approximately HK$417,000 (2010: approximately HK$22,021,000) denominated in Renminbi. Renminbi is not a freely convertible currency.

25. ASSETS AND LIABILITIES OF A DISPOSAL GROUP CLASSIFIED AS HELD FOR SALE

Pursuant to an agreement dated 28 January 2011 and a supplemental agreement dated 24 March 2011 entered between the Company and Brisk Mark Holdings Limited, which is owned by Mr. Leung Chung Ming and Mr. Leung, Kenneth Yuk Wai, the Company would dispose of its entire interests in the subsidiaries which are mainly engaged in manufacture of toys and moulds in the Mainland China (the "Disposal"). Details are set out in the Company's announcement and circular dated 28 January 2011 and 25 March 2011 respectively. The following major classes of assets and liabilities relating to this disposal have been classified as held for sale in the consolidated statement of financial position.

The Group	**2011** **HK$'000**
Leasehold land and land use rights (Note 17)	**88,204**
Property, plant and equipment (Note 18)	**127,096**
Club memberships (Note 20)	**2,001**
Inventories	**83,988**
Trade and other receivables, deposits and prepayments (#)	**16,139**
Tax recoverable	**1,760**
Cash and cash equivalents	**32,106**
Assets of a disposal group classified as held for sale	**351,294**
Trade and other payables and accrued charges	**91,517**
Obligations under finance leases	**598**
Borrowings	**293,032**
Tax payable	**6,363**
Provision for long service payment	**262**
Liabilities of a disposal group classified as held for sale	**391,772**

#: "Included in trade and other receivables, deposits and prepayments is amount of approximately HK$6,719,000 (2010: HK$Nil) due from a related company, which is under control of a director of the Company, . The amount is unsecured, interest-free and repayable on demand. The maximum amount due during the year was HK$18,743,000 (2010: HK$Nil)."

Notes to the Financial Statements

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26. TRADE AND OTHER PAYABLES AND ACCRUED CHARGES

	Group		Company	
	2011 HK$'000	2010 HK$'000	**2011 HK$'000**	2010 HK$'000
Trade payables	**1,327**	46,898	**—**	—
Other payables and accrued charges	**15,601**	32,188	**3,728**	626
Provision of long severance payments	**—**	3,451	**—**	—
	16,928	82,537	**3,728**	626

(a) At 31 March 2011, the ageing analysis of the trade payables was as follows:

	2011 HK$'000	2010 HK$'000
0-90 days	**1,150**	26,832
91-180 days	**161**	15,387
181-365 days	**16**	4,044
Over 365 days	**—**	635
	1,327	46,898

(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 was as follows:

	Group	
	2011 HK$'000	2010 HK$'000
At beginning of year	**3,451**	—
Additional provisions	**—**	4,821
Amounts utilised during the year	**—**	(1,370)
Classified as held for sale	**(3,451)**	—
	—	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.

Notes to the Financial Statements

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27. BORROWINGS

	Group		Company	
	2011	2010	**2011**	2010
	HK$'000	HK$'000	**HK$'000**	HK$'000
Trust receipt loans	**18,190**	79,604	**—**	—
Loans from banks and financial institutions	**—**	129,139	**—**	68,502
Total borrowings	**18,190**	208,743	**—**	68,502

i) At 31 March 2011, the borrowings were repayable as follows:

	Group		Company	
	2011	2010	**2011**	2010
	HK$'000	HK$'000	**HK$'000**	HK$'000
On demand or within one year	**18,190**	208,743	**—**	68,502

ii) All borrowings at 31 March 2011 were interest bearing at variable rate. The average effective interest rates at the end of reporting period were as follows:

	2011		2010	
	HKD	**USD**	HKD	USD
Bank borrowings	**3.9%**	**N/A**	2.4%	3.3%

iii) The Group had breached certain covenants in connection with a syndicated loan granted since 2007 and classified the syndicate loan as current liabilities. During the year, the Group has fully settled the syndicated loan.

Notes to the Financial Statements

31 March 2011

28. OBLIGATIONS UNDER FINANCE LEASES

At 31 March 2011, the Group had obligations under finance leases repayable as follows:

	Group			
	Minimum lease payment		**Present value of minimum lease payments**	
	2011 HK$'000	2010 HK$'000	**2011 HK$'000**	2010 HK$'000
Within one year	**3,841**	6,549	**3,721**	6,330
In the second year	**536**	4,123	**604**	4,043
In the third year	**—**	567	**—**	582
	4,377	11,239	**4,325**	10,955
Less: Future finance charges	**(52)**	(284)		
Total net finance lease payment	**4,325**	10,955		
Portion classified as current liabilities	**(3,721)**	(6,330)		
Non-current portion	**604**	4,625		

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 2011 ranges from 2.21% to 3.21% (2010: 2.07% to 3.08%) 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	
	2011 HK$'000	2010 HK$'000
At beginning of year	**1,922**	1,420
(Reversal of)/additional provisions	**(59)**	150
Exchange differences	**82**	352
Classified as held for sale	**(262)**	—
At end of year	**1,683**	1,922

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.

Notes to the Financial Statements

31 March 2011

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 2009	4,113
Charged to profit or loss (Note 10)	(2,112)
Exchange difference	96
At 31 March 2010	2,097
Charged to profit or loss (Note 10)	(403)
At 31 March 2011	**1,694**

Deferred tax liabilities:

	Accelerated depreciation HK$'000	**Revaluation of properties** HK$'000	**Others** HK$'000	**Total** HK$'000
At 1 April 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
Credited to profit or loss (Note 10)	—	(189)	(152)	(341)
Classified as held for sale	—	(1,822)	—	(1,822)
Exchange difference	—	161	(45)	116
At 31 March 2011	**—**	**3,385**	**(996)**	**2,389**

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$120,145,000 (2010: HK$105,818,000) 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 (2010: HK$19,726,000) will expire from 2022 to 2029.

Notes to the Financial Statements

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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 1 April 2009, 31 March 2010 and 2011	40	4,000	10,000,000	1,000,000

	Issued and fully paid			
	Convertible cumulative redeemable preference shares of US$100,000 each		Ordinary shares of HK$0.10 each	
	Number of shares	US$'000	Number of shares '000	HK$'000
At 1 April 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	—	—	26,000	2,600
At 31 March 2010 and 2011	**—**	**—**	**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.

Notes to the Financial Statements

31 March 2011

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 and approximately 2.78% of the issued 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 current year and prior year.

As at 31 March 2011 and 2010, there was no outstanding share options previously granted under the Scheme.

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 38 of the financial statements.

The natures 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 statutory surplus 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.

Notes to the Financial Statements

31 March 2011

33. RESERVES — *Continued*

Group — *Continued*

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(p)(iv).

Land and buildings revaluation reserve

Land and buildings 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(c).

Exchange fluctuation reserve

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

Company

	Share premium HK$'000	Share options reserve HK$'000	Accumulated losses HK$'000	Total HK$'000
At 1 April 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	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)**
Total comprehensive income for the year	—	—	(73,982)	(73,982)
At 31 March 2011	**124,958**	**—**	**(389,811)**	**(264,853)**

Notes to the Financial Statements

31 March 2011

34. NON-CASH TRANSACTION

During the year, the Group acquired HK$617,014 (2010: HK$707,850) of property, plant and equipment under finance leases. These acquisitions were reflected in the consolidated statement of cash flows over the term of the finance leases via lease repayments.

35. CONTINGENT LIABILITIES

At 31 March 2011, the Company had provided guarantees to banks and financial institutions in respect of credit facilities granted to its subsidiaries amounting to HK$70,000,000 (2010: HK$382,000,000).

At 31 March 2011 and 2010, the Group had no contingent liabilities.

36. BANKING AND OTHER FACILITIES

At 31 March 2011, the Group had a total banking and other facilities of approximately HK$330,838,000 (2010: HK$325,155,000) of which the following had been utilised:

(a) a syndication loan of HK$Nil (2010: HK$68,502,000); and

(b) general banking facilities of HK$311,222,000 (2010: HK$140,241,000).

37. COMMITMENTS UNDER OPERATING LEASES

At 31 March 2011, the Group had future aggregate minimum lease payments under non-cancellable operating leases in respect of land and buildings as follows:

	2011	2010
	HK$'000	HK$'000
Not later than one year	**322**	3,498
Later than one year and not later than five years	**705**	4,841
	1,027	8,339

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

Notes to the Financial Statements

31 March 2011

38. 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 and interest bearing at HIBOR plus certain percentage. At 31 March 2011, Lung Cheong Investment Limited had provided a letter of financial support to the Company to indicate that they had no intention to call for repayment in whole of the loan on or before 1 April 2012.

(b) Key management personnel compensation

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

	2011 **HK$'000**	2010 HK$'000
Fees	**180**	240
Other emoluments:		
Basis salaries, bonus, housing allowances, other allowances and benefits in kind	**5,867**	5,587
Provident fund scheme contributions	**70**	84
	6,117	5,911

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31 March 2011

39. CAPITAL RISK MANAGEMENT

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

The capital structure of the Group consists of debts, which includes the borrowings disclosed in Note 27, obligation under finance leases and loan from immediate holding company, cash and cash equivalents and owners 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, issue of new share as well as new debts or redemption of existing debts.

The gearing ratio at the end of reporting period (after taking consideration of the Disposal) was as follows:

	2011 HK$'000	2010 HK$'000
Debts	**72,515**	269,698
Cash and cash equivalents	**(13,723)**	(43,858)
Net debts	**58,792**	225,840
(Deficit)/equity	**(2,868)**	201,099
Net debts to equity ratio	**N/A**	112%

Notes to the Financial Statements

31 March 2011

40. FINANCIAL RISK MANAGEMENT

Financial risk factors

The Group's activities expose it to a variety of financial risks: credit risk, liquidity risk, cash flow and fair value interest-rate risk and foreign exchange 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 27% (2010: 10%) and 63% (2010: 41%) of the total trade receivables was due from the Group's largest debtor and the five largest debtors respectively.

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

(b) Liquidity risk

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

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.

Notes to the Financial Statements

31 March 2011

40. 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
2011					
Borrowings	18,190	18,190	18,190	—	—
Obligations under finance leases	4,325	4,377	3,841	536	—
Trade and other payables and accrued charges	16,928	16,928	16,928	—	—
Loan from immediate holding company	50,000	52,180	2,180	50,000	—
	89,443	91,675	41,139	50,536	—

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
2011					
Borrowings	—	—	—	—	—
Trade and other payables and accrued charges	3,728	3,728	3,728	—	—
Loan from immediate holding company	50,000	52,180	2,180	50,000	—
	53,728	55,908	5,908	50,000	—
Financial guarantees issued — maximum amount guaranteed	—	42,771	42,771	—	—

Notes to the Financial Statements

31 March 2011

40. 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
2010					
Borrowings	208,743	211,483	211,483	—	—
Obligations under finance leases	10,955	11,239	6,550	4,105	584
Trade and other payables and accrued charges	82,537	82,537	82,537	—	—
Loan from 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					
Borrowings	68,502	69,942	69,942	—	—
Trade and other payables and accrued charges	626	626	626	—	—
Loan from 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	—	—

40. FINANCIAL RISK MANAGEMENT — *Continued*

Financial risk factors — *Continued*

(c) Interest rate risk

The Group's interest rate risk arises primarily from borrowings. All of the Group's borrowings at 31 March 2011 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 2011, it is estimated that a general increase/decrease of 50 basis points in interest rates, with all other variables held constant, would increase/decrease the Group's loss for the year and accumulated losses by approximately HK$856,000 (2010: HK$1,467,000).

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 end of next reporting period. The analysis is performed on the same basis for 2010.

Notes to the Financial Statements

31 March 2011

40. FINANCIAL RISK MANAGEMENT — *Continued*

Financial risk factors — *Continued*

(d) Foreign exchange risk

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

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

The following table details the Group's and the Company's exposure at the 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.

	2011			2010		
	Rupiah IDR'000	**Renminbi RMB'000**	**United States dollars USD'000**	Rupiah IDR'000	Renminbi RMB'000	United States dollars USD'000
Trade and other receivables	**—**	**4,075**	**9,373**	13,445,323	162,767	16,350
Cash and cash equivalents	**—**	**350**	**638**	—	—	748
Trade and other payables	**(15,629,978)**	**(36,728)**	**—**	—	(102,596)	—
Borrowings	**—**	**—**	**—**	—	—	(79)
Overall net exposure	**(15,629,978)**	**(32,303)**	**10,011**	13,445,323	60,171	17,019

Notes to the Financial Statements

31 March 2011

40. FINANCIAL RISK MANAGEMENT — *Continued*

Financial risk factors — *Continued*

(d) Foreign exchange risk — *Continued*

The following table indicates the approximate change in the Group's loss for the year 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.

	2011		2010	
	Increase/ (decrease) in foreign exchange rates	**Increase/ (decrease) in loss for the year HK$'000**	Increase/ (decrease) in foreign exchange rates	Increase/ (decrease) in loss for the year HK$'000
Rupiah	**5%**	**699**	5%	(573)
	(5%)	**(699)**	(5%)	573
Renminbi	**5%**	**1,923**	5%	(3,418)
	(5%)	**(1,923)**	(5%)	3,418

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 end of next annual 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 2010.

Notes to the Financial Statements

31 March 2011

40. 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 2011 and 2010.

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

41. SUMMARY OF FINANCIAL ASSETS AND FINANCIAL LIABILITIES BY CATEGORY

The carrying amounts of the Group's financial assets and financial liabilities as recognised at 31 March 2011 and 2010 may be categorised as follows:

	2011 HK$'000	2010 HK$'000
Financial assets		
Loans and receivables (including cash and bank balances)	**54,782**	91,009
Financial liabilities		
Financial liabilities measured at amortised cost	**89,443**	352,235

42. SUBSEQUENT EVENT AFTER THE REPORTING PERIOD

The ordinary resolution of approving the Disposal was duly passed by way of poll by the shareholders at the extraordinary general meeting held on 12 April 2011. At the date of approval of this financial statements, the management is still in the process of preparing the completion account of the disposed group for the finalisation of consideration. Therefore, the Company is not yet in a position to disclose neither the final result of this Disposal attributable to the Company nor other relevant financial information of the Group subsequent to the Disposal.

43. APPROVAL OF FINANCIAL STATEMENTS

These financial statements were approved and authorised for issue by the Board of Directors on 28 June 2011.

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