Annual Report 2011/2012

LUNG CHEONG
INTERNATIONAL HOLDINGS LIMITED

(Incorporated in the Cayman Islands with limited liability)

Stock Code: 348

Contents

	Pages
Corporate Information	2
Corporate Structure	3
Chairman's Statement	4
Review of Operations	10
Management Discussion and Analysis	14
Corporate Governance Report	21
Report of the Directors	26
Independent Auditor's Report	39
Consolidated Statement of Comprehensive Income	41
Statements of Financial Position	42
Consolidated Statement of Changes in Equity	44
Consolidated Statement of Cash Flows	45
Notes to the Financial Statements	47

Corporate Information

EXECUTIVE DIRECTORS

Mr Leung Lun, M.H. *(Chairman and Chief Executive)*
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

BDO Limited
25/F Wing On Centre
111 Connaught Road Central
Hong Kong

LEGAL ADVISERS ON CAYMAN ISLANDS LAW

Maples and Calder Asia
53/F The Centre
99 Queen's Road
Hong Kong

LEGAL ADVISERS ON HONG KONG LAW

D.S. Cheung & Co. Solicitors
29/F
Bank of East Asia Harbour View Centre
56 Gloucester Road
Wanchai
Hong Kong

REGISTERED OFFICE

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

HEAD OFFICE AND PRINCIPAL PLACE OF BUSINESS IN HONG KONG

Lung Cheong Building
1 Lok Yip Road
Fanling
New Territories
Hong Kong
Tel: (852) 2677 6757
Fax: (852) 2677 6857
website: www.e-lci.com

PRINCIPAL SHARE REGISTRAR AND TRANSFER OFFICE

HSBC Trustee (Cayman) Limited
P.O. Box 484
HSBC House
68 West Bay Road
Grand Cayman
KY1-1106
Cayman Islands
British West Indies

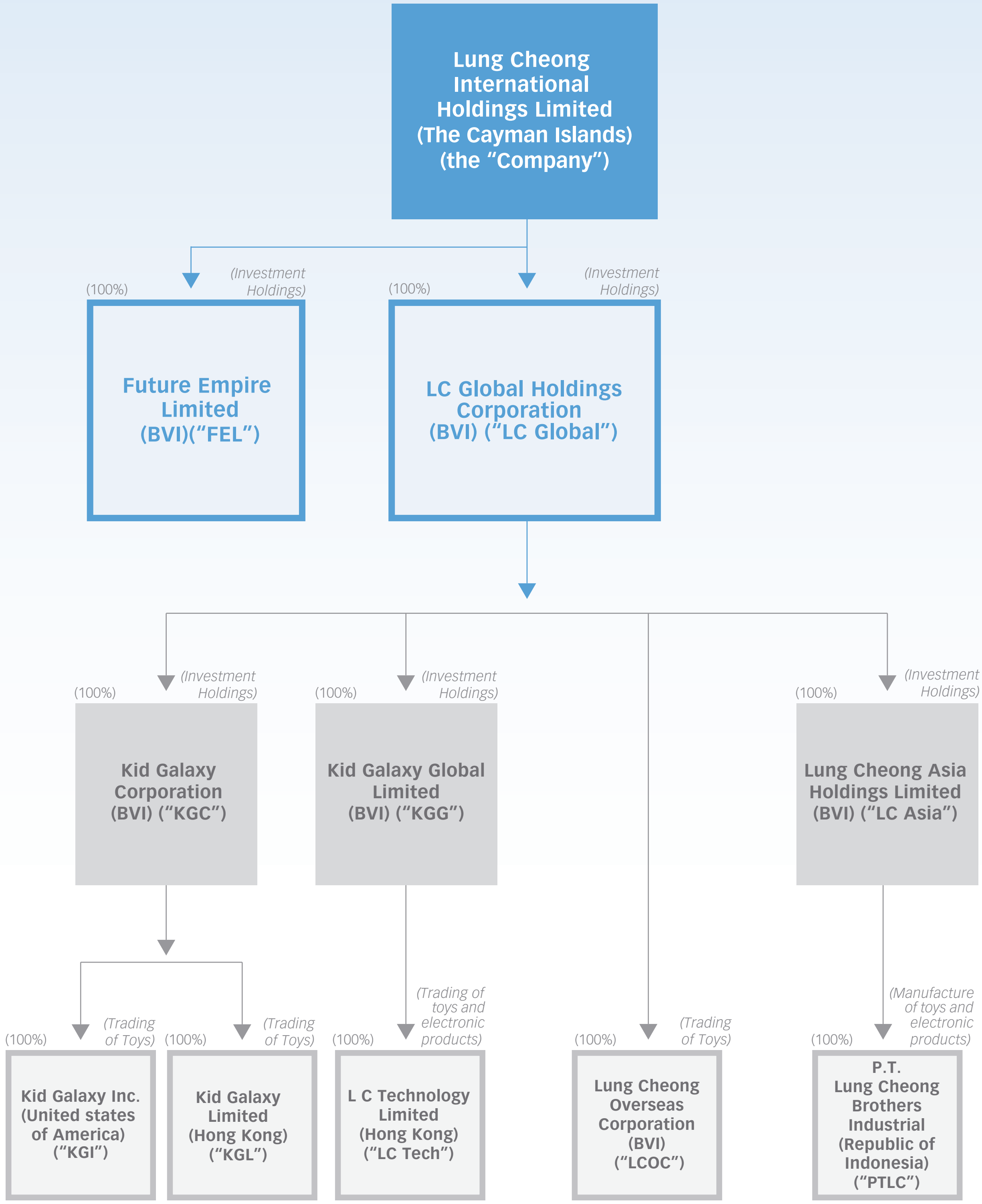
HONG KONG BRANCH SHARE REGISTRAR AND TRANSFER OFFICE

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

LISTING INFORMATION

The Stock Exchange of Hong Kong Limited
Stock Code: 348

Corporate Structure
(as at 28 June 2012)



Chairman's Statement

On behalf of the board of directors (the "Board" and or "Directors") of Lung Cheong International Holdings Limited (the "Company") and its subsidiaries (together the "Group" and "Remaining Group"), I present to you the annual results of the Company and the Group for the year ended 31 March 2012.

RESULTS

For the year ended 31 March 2012 ("FY11/12"), the Group's turnover decreased by approximately ("approx") 22% to approx HK$420 million, compared with approx HK$538 million for the year ended 31 March 2011 ("FY10/11" and/or "Corresponding Period").

Gross profit margin for FY11/12 was approx 16% compared to approx 17% in FY10/11. Overall, profit attributable to owners of the Company was approx HK$78 million, compared with a loss of approx HK$198 million in FY10/11.

The Directors do not recommend the payment of any dividend for the year ended 31 March 2012 (FY10/11: Nil).

BUSINESS REVIEW

In April 2011 the Group completed the disposal of Lung Cheong (BVI) Holdings Limited and its subsidiaries (the "Disposal Group"). It was then released from the net liabilities position of the Disposal Group. Currently, the Group's core business are its Original Brand Manufacturing ("OBM") business and Original Equipment Manufacturing ("OEM") business, with the Indonesian factory becoming its primary production base. The Directors and senior executives ("Management") believes Indonesia's plentiful supply of labour and competitive labour costs would eventually be beneficial to the Group, and provides it with a stable environment to reduce reliance on PRC manufacturing plants of the Disposal Group over time.

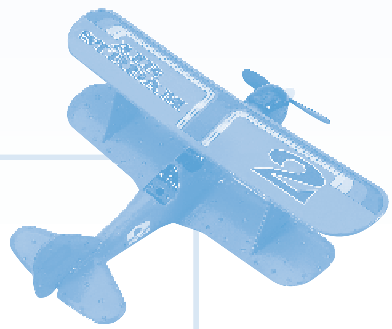
The Group entered into a disposal agreement and supplemental agreement ("Disposal Agreements") on 28 January 2011 and 24 March 2011 respectively for the disposal of the entire issued capital of Lung Cheong (BVI) Holdings Limited ("LC (BVI)"); and loans owing by LC (BVI) or any other member of the Disposal Group to the Company and/or the Remaining Group for an aggregate consideration of HK$18 million in cash, subject to adjustment ("Disposal"). The purchaser Brisk Mark Holdings Limited is owned as to 30% by Mr Leung Chung Ming ("Mr CM Leung") who is the brother of Mr Leung Lun, M.H. ("Mr. Leung" or the "Chairman") and as to 70% by Mr Leung, Kenneth Yuk Wai who is a son of the Chairman and a substantial Shareholder. Mr CM Leung was a substantial Shareholder and a former executive Director who resigned on 9 May 2011 in accordance with the Disposal Agreements. Details of the Disposal are further set out in the circular dated 25 March 2011. Pursuant to the Rules Governing the Listing of Securities on the Stock Exchange (the "Listing Rules"), the Disposal was approved by the Independent Shareholders at the Company's Extraordinary General Meeting ("EGM") held on 12 April 2011.

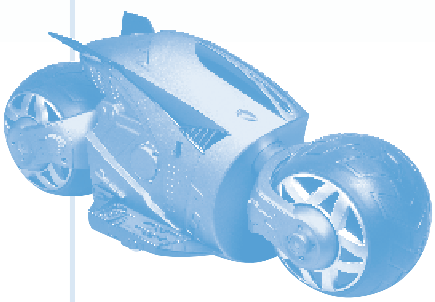
Chairman's Statement

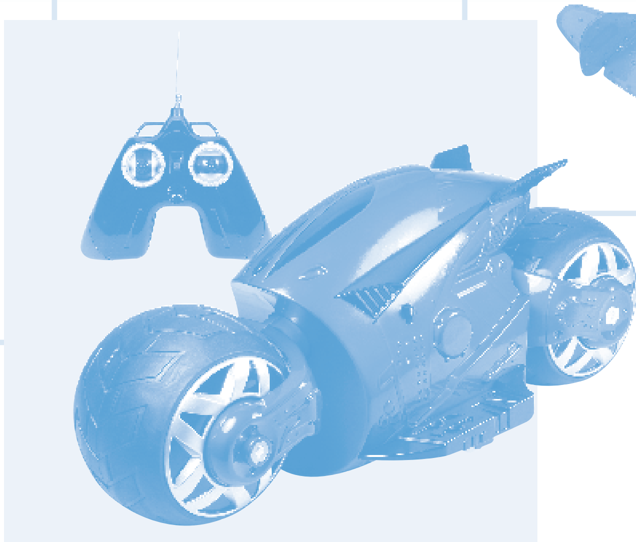
When finalizing the Completion Accounts of the Disposal Group as at 12 April 2011 (i.e. the "Completion Date"), it is noted that the net liabilities of the Disposal Group as at the Completion Date increased when compared to the net liabilities of the Disposal Group as at 30 November 2010 due to continuing losses of the Disposal Group for the period from 1 December 2010 to Completion Date. Accordingly, there was no consideration received from the Purchaser but a gain of approx HK$25 million on the Disposal resulted.

The gain on Disposal totalling approx HK$92 million also included the exchange gain of approx HK$67 million released from the exchange fluctuation reserve which represented the cumulative exchange differences arising from translation of currency relating to People's Republic of China ("PRC") operation of the Disposal Group since incorporation. The exchange gain released from the exchange fluctuation reserve is the reclassification adjustment to the consolidated financial statements of the Group in accordance with Hong Kong Financial Reporting Standards. The exchange difference under "reserves" in the consolidated statement of financial position was a cumulative result of the net assets in the PRC operation of the Disposal Group since incorporation of which the Group had actually recognized in its financial statements in prior years. However, the release of exchange gain has no effects on the net assets values to the Group and the release of exchange gain has no cash flow effects on the Group as result of the Disposal.

In addition to a challenging market environment in FY 11/12, the Group had to compete to preserve its OEM customers without a PRC manufacturing base and relying on its Indonesian production facilities. Overall, the Group's turnover recorded a decrease as certain customers opted to place orders with the Disposal Group directly or with other OEM competitors with PRC facilities. Benefiting from a shift in its strategy, the Group's existing core business took advantage of its reduced scale to strengthen its competitive advantages. As a result, sales with improved average selling prices and margins were secured, and the Group's gross profit margin was only slightly affected.







Chairman’s Statement

During FY11/12, the Group’s major export destinations were United States of America (“US”), Europe, Australia and Japan. US continued to be the largest export destinations for the Group, accounting for approx 59% of total turnover in FY11/12 (FY10/11: 58%). Other significant overseas markets for the Group included Europe, Australia and Japan, which accounted for approx 28% in FY11/12 (FY10/11: 25%), approx 3% in FY11/12 (FY10/11: 3%) and approx 2% in FY11/12 (FY10/11: 5%) respectively.

The Group’s effort into developing relationships with customers whom had strong electronic and plastic toy lines targeted at the lower-priced segment were rewarded this year. The major portion shipped were less complex, medium-to-low priced products during FY11/12, increased to approx 69% of sales (FY10/11: 59%). Shipment of radio control toys were lowered, the Group’s radio control (“R/C”) toy business segment accounted for approx 28% of total sales during FY11/12, lower than the approx 37% recorded in this segment as compared with that in the Corresponding Period. Fewer sales of premium priced items were mainly due to economic uncertainties affecting consumers worldwide. However, amid the uncertain business environment, the Group’s operations contributed approx HK$2 million in operating profit for FY11/12 (FY10/11: loss HK$198 million).

However, due to reduced orders caused by subdued worldwide economies, time required for transfer of production from customers’ PRC and Thailand suppliers, and the ongoing debt crisis in Europe, turnover of the Group’s manufacturing plant in Indonesia decreased from approx HK$81 million for the Corresponding Period to approx HK$51 million, and accounted for approx 12% (FY10/11: 15%) of Group’s turnover.

As mentioned in the FY11/12 Interim Report, the Group continues to seek diversified income sources and to further reduce the Group’s reliance on its primary PRC OEM income stream. The Disposal is therefore one of the Company’s stated corporate strategies. Whilst the Group will enlarge the OEM business with the Company’s existing customers, it will also focus on the design, development, sales and marketing of its own Kid Galaxy brand of products and gradually position the Group as an effective OBM operator. During the year, Kid Galaxy enriched its product mix with new product lines such as “Big Wheelie Cycle”, “Ratchet Racers”, “Slick Drifter” and “Dyna Rides” receiving an encouraging market response. It has launched several new product lines in FY11/12 as a result of our strong development efforts.

Chairman's Statement

Apart from continuous research and development, the Group in FY11/12 has also actively expanded its distribution channels in US and Europe for Kid Galaxy products by increasing its presence at exhibitions and opening new sales channels such as supermarkets, wholesalers, Internet and chain stores. With marketing programs for Kid Galaxy branded products in place, the turnover of Kid Galaxy OBM sales was approx HK$89 million in FY11/12, compared with approx HK$105 million for FY10/11. Its revenue derived mainly from its own brands such as Elite Fleet, Morphibians, GoGo Auto, World of Wheels, My First RC and the recently licensed Ford GoGo Auto.

However, in anticipation of the relatively heavy investment in developing and promoting new products which may affect OBM margins in the years to come, plus the uncertainties potentially affecting Kid Galaxy's primary US market, where it's specialty distribution channels were greatly reduced as well as weakening European economies due to the lingering Euro Debt Crisis, being Kid Galaxy's major developing market, an impairment of goodwill relating to the previous acquisition of Kid Galaxy amounting to approx HK$17 million has been provided during the year under review.

PLANS AND PROSPECTS

Management takes a cautious view of its business for the financial year ending 31 March 2013 ("FY12/13"). As market fluctuations and economic uncertainties such as the concern over European sovereignty debt crisis may affect product demand and customer orders, Management is concerned that the global toy industry will still face challenges in FY12/13. Factors such as the volatility of raw materials prices, ever increasing energy costs, the weakness of the US dollar ("US$") and fluctuation of the Indonesian Rupiah may lead to increasing production costs which would impact the Group's profitability.

In addition, as existing OEM customers may place orders directly with the Disposal Group, with competitors with factories in Vietnam or request production to be carried out in PRC factories. Subsequent to the Group's disposal and changes in its business structure, Management foresees that its total sales and turnover will be affected in FY12/13. As such, measures will be taken to attract OEM customers to place orders directly with the Group, and allocate more production to the Indonesia factory. At the same time, the Management will aim to lower the overall manufacturing overhead, transportation and administrative costs in order to maintain its margins, as well as enhance the production efficiency of the Indonesian plant.

The Group's production base in Indonesia currently enjoys favorable advantages over PRC and most 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. Management remains confident of the Group's ability to seize this unique opportunity to consolidate its market position amid the exit of weaker players.

Chairman's Statement

The Group continues to streamline the production efficiency of the Indonesian plant aiming to lower the overall manufacturing overhead, sourcing and administrative costs. In addition, new 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. Management will endeavor to trim excess overheads, improve productivity and control production costs while the toy industry rides out the storm.

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 OBM 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 OBM customers, providing outlets for our continued investment into innovative product development under the Kid Galaxy brands. These plans can now be carried out effectively with the post balance date placement of shares completed.

On 24 April 2012, the Company entered into the Placing Agreement with the Placing Agent pursuant to which the Company appointed the Placing Agent to procure not fewer than six Placees (who are Independent Third Parties) to subscribe for up to 500 million Placing Shares. In addition, the Company would issue unlisted Warrants, on the basis of one Warrant for each Placing Share issued, at the Issue Price of HK$0.01 per Warrant. Holders of the Warrants may exercise the subscription rights attached to the Warrants, in whole or in part, at any time during the Exercise Period to subscribe for the Subscription Shares at the Subscription Price of HK$0.15 per Subscription Share (subject to adjustment). Each Warrant carries the right to subscribe for one Subscription Share. It is expected the maximum gross proceeds and maximum net proceeds of approx HK$155 million and approx HK$152 million will be raised upon completion of the Placing and fully exercised of the Warrants (the "Placing").

The net proceeds from the Placing (excluding any exercise of the subscription rights attached to the Warrants) amounted to approx HK$77 million. The net proceeds from the full exercise of the subscription rights attached to the Warrants, would amount to approx HK$75 million. The Company intends to apply the aggregate net proceeds from the Placing, together with the proceeds from the issue of the Subscription Shares upon full exercise of the subscription rights attached to the Warrants for the purposes set out in the Company's announcement of the Company dated 25 April 2012 and the circular of the Company dated 16 May 2012.

Pursuant to the Listing Rules, the Placing was approved by the Independent Shareholders at the Company's EGM held on 31 May 2012. All conditions precedent to the Placing as set out in the Placing Agreement have been fulfilled and the completion of the Placing took place on 13 June 2012. 500 million Placing Shares with an aggregate of 500 million unlisted Warrants attached have been successfully placed by the Placing Agent to not fewer than six Placees at the Placing Price of HK$0.15 per Placing Share and Issue Price of HK$0.01 per Warrant in accordance with the terms and conditions of the Placing Agreement.

Chairman's Statement

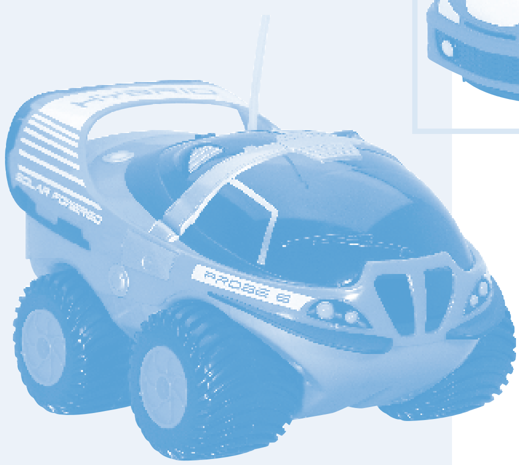
The Directors consider that the Placing would be a good opportunity to raise capital for the Company in that it would not have a significant immediate dilution effect on the shareholding of the existing Shareholders. In light of the recent uncertainties in the world markets, the Directors consider that it was prudent for the Group to conduct the Placing to raise sufficient fund for general working capital and expansion of business as and when such opportunities arise and to improve the Group's financial position. The Placing would also provide the Group an excellent opportunity to raise further substantial funds in the event the holders of the Warrants exercise their subscription rights attached to the Warrants at any time during the Exercise Period.

Looking forward, the Group will focus on the research and development of more OBM products, expand marketing tactics for Kid Galaxy products to establish a solid foundation for the future development. Management will actively look into all possibilities of selective mergers, acquisitions and divestments to further reduce the Group's reliance on primarily OBM and OEM income streams so as to seek alternate sources of revenue from new ventures to add value to shareholders.

APPRECIATION

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 corporate realignment and reorganization. My appreciations goes to our investors, customers, financiers and suppliers for their support to the Group during the past transformative year.

Leung Lun
Chairman and Chief Executive
28 June 2012



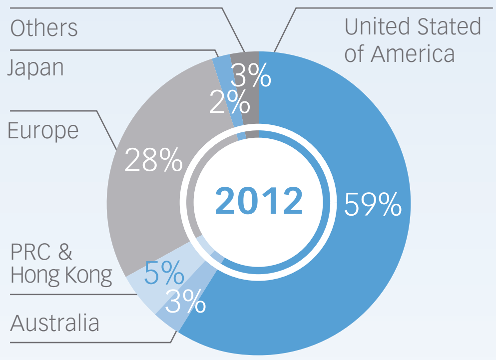
Review of Operations

MARKET REVIEW

For the year ended 31 March 2012, the US remained the major export destination for the Group's products, with shipments amounting to approx HK$246 million compared to approx HK$311 million in the corresponding period last year, accounting for approx 59% (FY10/11: 58%) of the Group's total shipment. Shipments to Europe were approx HK$118 million as compared with approx HK$136 million in FY10/11, accounting for approx 28% (FY10/11: 25%) of the Group's revenue, the drop in dollar term sales was mainly attributable to the uncertainties surrounding European countries. Exports to Japan was less than that in the previous year at approx HK$10 million (FY10/11: HK$26 million), accounting for approx 2% of the Group's total revenue compared to approx 5% in FY10/11 due to the continued sluggish Japanese economy. With its strong currency, Australian shipments were approx 3% of sales in the last two financial years. Local deliveries translated into shipments to PRC and Hong Kong were mostly destined for the US, Europe and Japanese markets eventually via the forwarders of customers after consolidation.

Turnover by Geographical Segment

For the year ended 31 March 2012



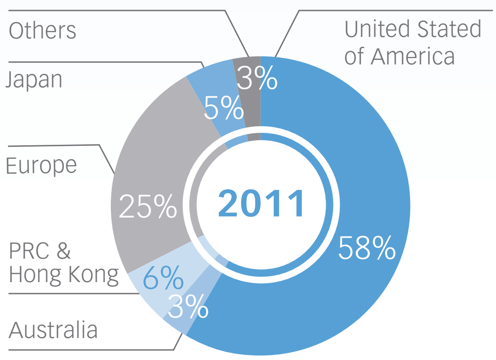
PRODUCT REVIEW

Electronic and Plastic Toys

The Group's core segment recorded a decrease in sales of approx 8% from approx HK$315 million in FY10/11 to approx HK$291 million in FY11/12, accounting for approx 69% of the Group's turnover compared with approx 59% in the previous year. The decrease in turnover of this category was attributable to the decrease in orders of premium priced toys, particularly with some economies recovering from recent financial downturn. Apart from Kid Galaxy's successful penetration into newer retail channels with wider range of median priced products, during F11/12, the Group received substantial OEM orders for a console game related interactive toy and wireless modules from a new US customer. Our existing US based major customer continued to place large orders for innovative miniture sized vibrating bug toys and robotic products which were promoted strongly in the US market during the year under review. In view of this realignment in the marketplace, the Group has invested substantially into strengthening relationships with customers in this category and for Kid Galaxy to develop more innovative median priced products going forward.

Turnover by Geographical Segment

For the year ended 31 March 2011



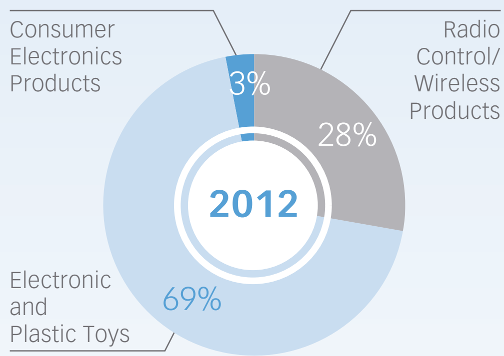
Review of Operations

Radio Control/Wireless Products

This segment accounted for approx 28% of total turnover for the year against approx 37% of the previous year, indicating our difficulties in this segment of the market. Furthermore, revenue decreased to approx HK$116 million recording approx 41% decreased from approx HK$198 million last year resulting from decreased orders for the financial year ended 31 March 2012. The sale of the R/C toys recorded a major decrease in sales during the year under review mainly attributable to the competitive nature of this product category at most price points. The Group's customers procuring the R/C segment continued to be spoiled by lower priced and indifferent quality products offered by competitors during the year under review.

Turnover by Product Type

For the year ended 31 March 2012

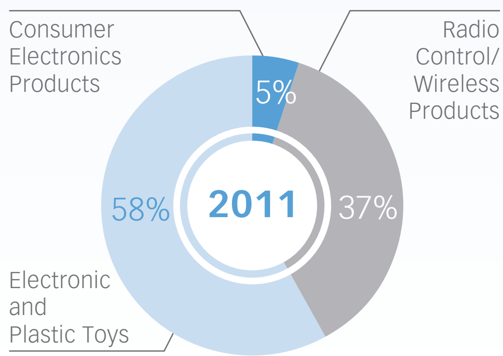


Consumer Electronic Products

Sales contribution from this segment recorded a major decrease from approx HK$25 million in FY10/11 to approx HK$13 million in FY11/12. It was mainly attributable to the decreased sales of premium priced consumer electronic products in the aftermath of the financial crisis as well as minimal orders for such category products from the Group's Indonesian factory. Revenue from consumer electronic products accounted for approx 3% of the Group's total turnover (FY10/11: 5%). In view of the decrease in new products under development and quotations, sales of consumer electronic products are not anticipated to make much contribution to the earnings of this non-toy segment of the Group in coming financial years.

Turnover by Product Type

For the year ended 31 March 2011



Review of Operations

DIVISIONAL AND RESOURCES REVIEW

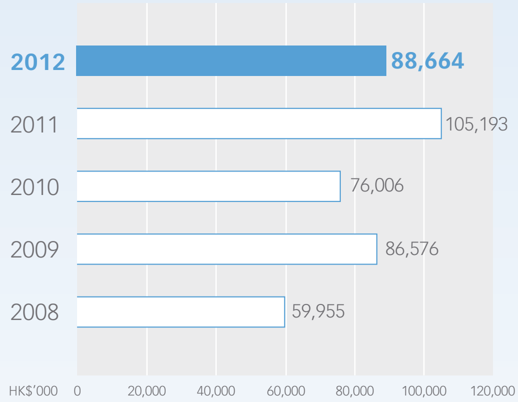
Sales and Marketing

Kid Galaxy

The Manchester operation, Kid Galaxy Inc. ("KGI"), which takes care of marketing, product design, customer service and sales fulfillment functions for the North America market, being US and Canada. KGI and the Hong Kong sales arm Kid Galaxy Limited ("KGL") have contributed with sales of approx HK$89 million for year ended 31 March 2012 compared to approx HK$105 million in FY10/11. Its revenue derived mainly from own brands sales such as Elite Fleet, Morphibians, GoGo Auto, KG Flyer, My First RC and recently licensed Ford brand.

Growth in Turnover of Kid Galaxy

For the year ended 31 March



In North America, KGI was able to maintain sales with higher margin despite reduced number of specialty stores, through increased sales to internet channels and mass retail outlets. Its products received wide coverage after our various products were awarded the industries' most prominent Oppenheim Toy Portfolio Gold awards as well as one of Parents Magazine 55 Best Toys in FY10/11.

Apart from Ford, the Group continued to explore other potential licenses suitable for our current product lines as well as distribution networks in place during the year, to leverage the opportunity provided by the launch of the Ford licensed toys during FY11/12. Kid Galaxy also enriched its product mix with new product lines such as "World of Wheels", "CyberCycle", "Spinball Racers" and "My First Rides" just to name a few. These new lines introduced during the year under review received an encouraging market response from customers and will be further promoted in FY12/13. In US, KGI aims to increase sales from further penetration into the mass market and internet retail networks.

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 contributions 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 FY11/12, 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 2012, was employing over 1,600 seasonal contract labour. The revenue of Serang factory in Indonesia, during the year ended 31 March 2012 accounted for approx 12% of the sales of the Group compared to approx 15% in FY10/11.

EMPLOYEES

As at 31 March 2012, the Group had approx 1,247 employees and contract workers, based in Hong Kong headquarter, Macau office, PRC liaison office, the Indonesian factory and the US sales office. 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 2012

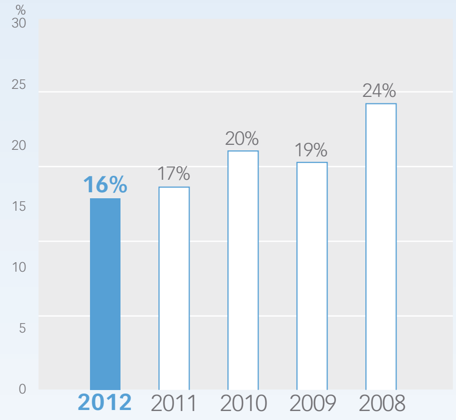
Management Discussion and Analysis

FINANCIAL REVIEW

Worldwide uncertainties, in particular concern over the European Sovereignty debt crisis continued to affect the Group's performance despite our streamlining of Indonesian production facilities and enlarged investment into the median priced electronic and plastic toys product segments resulting in a sales decrease of approx 22% to approx HK$420 million for the year ended 31 March 2012. When comparing financial figures with previous years, management wish to highlight certain major differences in comparative figures mainly as a result of the Disposal during FY11/12.

Gross Profit Ratio

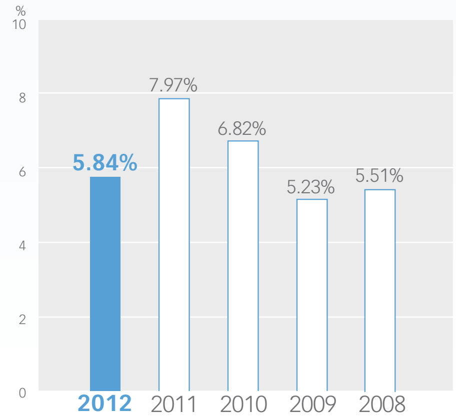
For the year ended 31 March



Cost of goods sold ("COGS"), in line with lower sales, consisting of purchases decreased approx 21% compared to previous financial year. Spiraling material costs, the strong Renminbi ("RMB") currency, that in addition to higher statutory minimum wage costs incurred by the Group's major supplier, being Disposal Group's PRC factories which affected the overall costs of the Group which main revenue currencies are US$ and Hong Kong dollars ("HK$") offset the impacts of measures implemented to reduce cost. The COGS were approx HK$354 million in FY11/12 compared with approx HK$449 million in FY10/11. In FY11/12 Purchases consist of materials and finished goods acquired from independent external third parties as well as the Disposal Group.

Selling Expense/Turnover

For the year ended 31 March



Purchases from the Disposal Group amounted to approx HK$313 million for FY11/12 (FY10/11: HK$327 million) in line with continuing connected transactions resolution approved by independent shareholders at the Company's EGM held on 7 July 2011. During FY11/12 and after Completion Date, The Group reimbursed the Disposal Group to the amount of approx HK$3 million in relation to costs associated with salaries for directors and employees for a specific periods previously employed by the Disposal Group, before their employment were formally transferred to the Remaining Group. The Group occupied certain areas as its registered corporate office at Lung Cheong Building, Fanling, Hong Kong owned by the Disposal Group at no charge during FY11/12. This arrangement will be reviewed during FY12/13 and once a revised arrangement is in place, it will be announced and if required, to seek approval in accordance with Listing Rules.

Management Discussion and Analysis

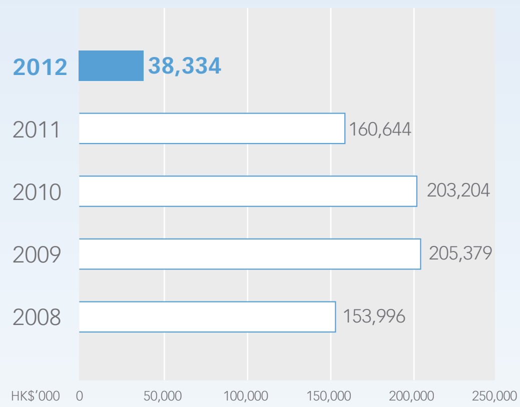
The decreased in sales led to lower gross profit, which decreased to approx HK$65 million for the year versus approx HK$89 million in FY10/11. Gross profit margin however, was steady at approx 16% (FY10/11: 17%).

In view of the lower turnover, selling and distribution expenses for the year ended 31 March 2012 were relatively lower at approx HK$25 million, representing a decrease of approx 43% against approx HK$43 million in the previous year. Commission paid on sales, licensing fees, marketing and promotional expenses, and transportation and distribution expenses decreased in line with the reduced turnover.

General and Administrative ("G&A") expenses for the year ended 31 March 2012 amounted to approx HK$38 million, resulting in overall G&A was approx 76% lower than previous year (FY10/11: HK$161 million). The large reduction in G&A was mainly due to the Disposal thus excluding a large portion of the Disposal Group's G&A expenses in FY11/12. G&A consist of mainly staff costs, depreciation of fixed assets such as molds, leasehold improvements, plant and equipment during the FY11/12. In line with sales, included in G&A were compliance and testing fees and utility charges as well as repair and maintenance costs of the Indonesian production facilities. Professional fees such as legal, consulting and accounting fees that were incurred during FY11/12 in relation to the works in conjunction with the Disposal and Group reorgnization also formed part of the G&A expense.

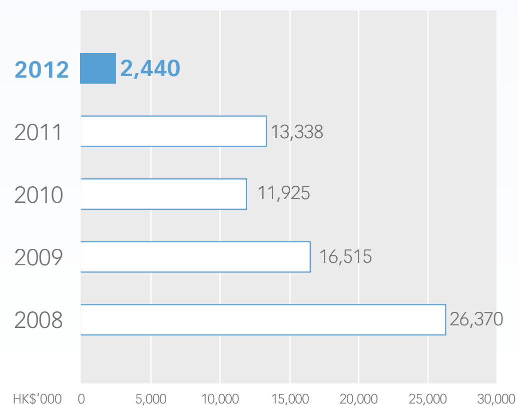
G&A

For the year ended 31 March



Finance Costs

For the year ended 31 March



Exceptional gain during the financial period included a gain of approx HK$25 million on the Disposal resulted from finalizing the Completion Accounts of Disposal Group as at 12 April 2011 which showed a net liabilities of the Disposal Group as at the Completion Date increased when compared to the net liabilities of the Disposal Group as at 30 November 2010 due to continuing losses of the Disposal Group for the period from 1 December 2010 to Completion Date. However, there was no cash consideration received from the Purchaser.

Management Discussion and Analysis

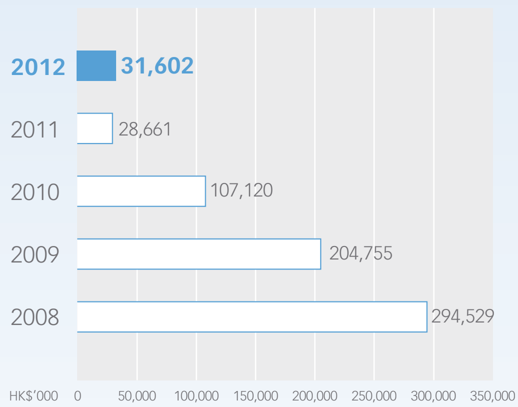
The gain on disposal also included the exchange gain of approx HK$67 million released from the exchange fluctuation reserve which represented the cumulative exchange differences arising from translation of currency relating to PRC operation of the Disposal Group since incorporation. The exchange gain released from the exchange fluctuation reserve is the reclassification adjustment to the consolidated financial statements of the Group in accordance with Hong Kong Financial Reporting Standards. The exchange difference under "reserves" in the consolidated statement of financial position was a cumulative result of the net assets in the PRC operation of the Disposal Group since incorporation of which the Group had actually recognized in its financial statements in prior years. However, the release of exchange gain has no effect on the net assets values to the Group and the release of exchange gain has no cash flow effects on the Group as result of the Disposal.

Management constantly reviewed the carrying amount of Goodwill of approx HK$19 million since the acquisition of Kid Galaxy in 2001. Due to the major reduction of customers within the specialty channel and discontinued sale of a brand of toy when Kid Galaxy was acquired, an impairment were made to the amount of approx HK$17 million for the year end 31 March 2012.

Finance costs included interest expenses, bank charges plus fees incurred for trade facilities and equipment leasing for the year under review. Finance cost was approx HK$2 million in FY11/12 compared to approx HK$13 million in FY10/11.

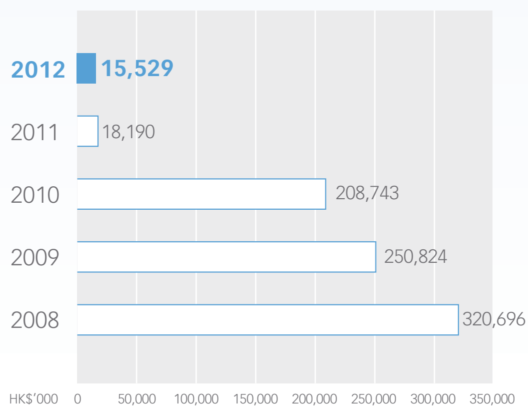
Inventories

As at 31 March



Bank Borrowings

As at 31 March



All in all, the Group recorded a profit attributable to shareholders of approx HK$78 million in FY11/12 compared to a loss of approx HK$198 million in FY10/11.

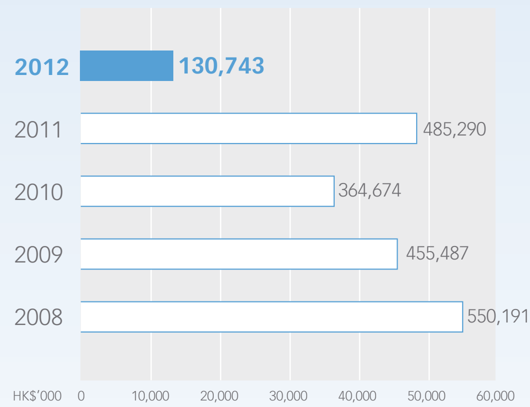
Management Discussion and Analysis

GROUP RESOURCES AND LIQUIDITY

In line with the approval granted by shareholders of the Company at the EGM held on 12 April 2011 for the Disposal, the balance sheet reflects only the assets and liabilities of the remaining businesses. Shareholders' funds as at 31 March 2011 showed deficit of approx HK$3 million. In view of the profit achieved and revaluation surplus for the year ended 31 March 2012, shareholders' funds was approx HK$20 million, an improvement compared to the previous year. The net assets per share was approx HK$0.01 compared to the negative assets incurred in FY10/11. As at 31 March 2012, the Group had a total of 2,957,757,997 shares in issue.

Total Liabilities

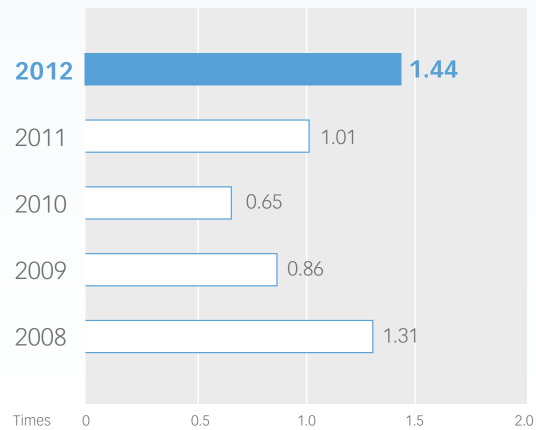
As at 31 March



After the Disposal, non-current assets had reduced greatly in value to approx HK$48 million as at 31 March 2011. Property, plant and equipment assets owned by the Group under noncurrent assets increased by approx HK$15 million to approx HK$41 million as at 31 March 2012. The increase in value was attributable mainly to a gain on the revaluation of approx HK$18 million (FY10/11: revaluation deficit of approx HK$9 million) of the industrial land and factory buildings in Indonesia compared to the market appraised value three financial years ago. Revaluation of property, plant and equipment has been part of the Group's periodic management assessment policy, taking into account the local property market conditions, current state of the toy manufacturing industry and overall utilization of production facilities during the financial period under review.

Current Ratio

As at 31 March



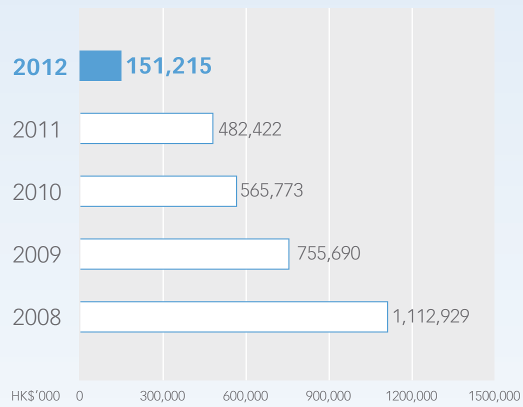
Goodwill associated with Kid Galaxy's acquisition made up approx HK$19 million of intangible assets as at 31 March 2011. Impairment to the amount of approx HK$17 million were made during the year thus the remaining approx HK$2.5 million reflect the book value of goodwill as at 31 March 2012.

Management Discussion and Analysis

Management emphasized controlling inventories by scaling purchases in line with orders. The decrease in sales and the Disposal led to changes in purchasing activities during the FY11/12. The Disposal was the main reason for the change. Inventories however recorded an increase of approx 10% compared to previous year end date, value of stock in warehouse increased from approx HK$29 million at the end of FY10/11 to approx HK$32 million as at 31 March 2012. These are stock held mainly in our Indonesian factory and by an independently managed warehouse in the US. Stock turnover days were lower at 26 days compared with 46 days in the previous year due to decrease in sales and the Disposal.

Total Assets

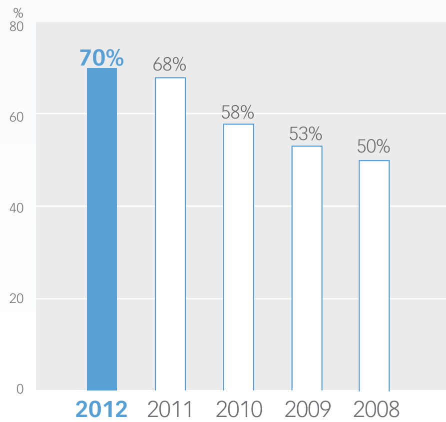
As at 31 March



In line with the reduced turnover and tighter credit terms, trade receivables recorded an approx 54% decrease as at 31 March 2012 to approx HK$18 million, compared with approx HK$38 million at the previous year. Debtor turnover days were lower at 24 days in FY11/12 compared with 49 days in FY10/11. Including Kid Galaxy's OBM revenue, the top 5 customers accounted for approx 70% of the Group's turnover, compared to approx 68% 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 OEM customers and retailers.

Sales - Five Largest Customers Combined

As at 31 March



Cash and bank balance as at 31 March 2012 were approx HK$7 million, compared with approx HK$14 million as at 31 March 2011. The Group dealt with different revenue and expenditure currencies during the FY11/12 such as HK$, US$, RMB as well as Indonesian Rupiah. None of which of the cash or bank balances had been pledged to banks or financial institutions as at 31 March 2012.

Trade payables recorded a decrease against the previous year. Trade payables, other payables and accrued charges were approx HK$13 million as at 31 March 2012 compared with approx HK$17 million as at 31 March 2011. The decrease in trade payables consisted mainly of payables relating to material purchases, which were lower and in line with the reduced turnover. Creditor turnover days decreased to 36 days versus 123 days at the end of the previous year.

Management Discussion and Analysis

Borrowings under current liabilities decreased to approx HK$16 million as at 31 March 2012 from approx HK$18 million at 31 March 2011, attributable mainly to a trade facility offered by a local bank to our Indonesian subsidiary. The Trade facility is secured by the Group's Indonesian property, plant and equipment.

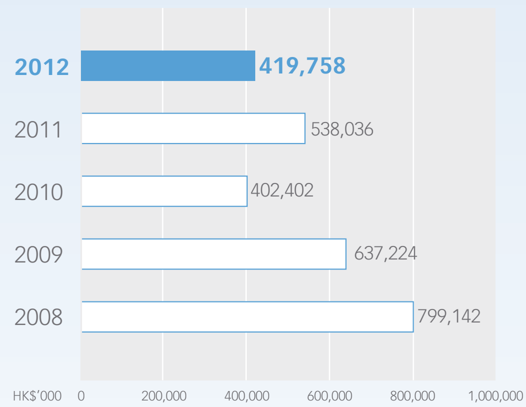
Taking into consideration certain set offs, the total amount due from the Disposal Group was approx HK$43 million, while on the liability section, amount due to the Disposal Group classified as current liabilities amounting to approx HK$43.4 million, the net current liabilities of the Group to the Disposal Group as at 31 March 2012 show a value of approx HK$0.4 million.

As at 31 March 2012, the Group had total assets of HK$151 million which was financed by shareholders' fund, major shareholder's loan, payables, amounts due to Disposal Group and financial institutions credit facilities. The Group mainly generated revenue and incurred costs in HK$, US$ and Indonesian Rupiah and did not have any related hedges for year ended 31 March 2012. 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.

As at 31 March 2012, the Group's total borrowings including shareholders loan of HK$50 million amounted to about HK$66 million with about HK$16 million repayable on demand or within one year and about HK$50 million repayable after one year. Gearing ratio, calculated as the total borrowings less cash and bank balances divided by shareholders' equity was approx 285% as at 31 March 2012. All borrowings denominated in HK$ and US$ and bore interest at floating rates. As at 31 March 2012, the Group recorded total current assets of approx HK$104 million and total current liabilities of approx HK$72 million. The current ratio of the Group, calculated by dividing the total current assets by total current liabilities was 144%. The Group recorded an increase in shareholders' funds from negative value of approx HK$3 million as at 31 March 2011 to a surplus of approx HK$20 million as at 31 March 2012. The increase was mainly resulting from gains from operations and revaluation gain of property as at 31 March 2012.

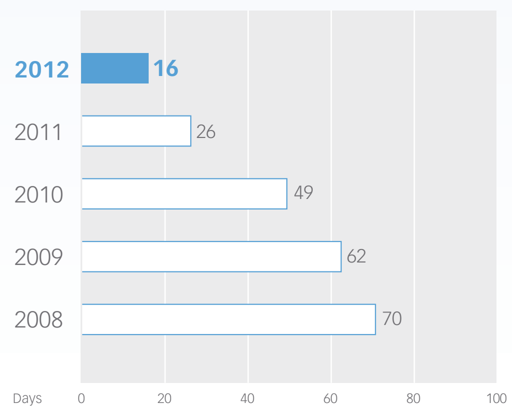
Turnover

For the year ended 31 March



Debtor Turnover Days

As at 31 March



Management Discussion and Analysis

On 24 April 2012, the Company entered into the Placing Agreement with a Placing Agent to procure not fewer than six Placees to subscribe up to 500 million Shares at the Placing Price of HK$0.15 per share. In addition, the Company would issue unlisted Warrants, on the basis of one Warrant for each Placing Share issued, at the Issue Price of HK$0.01 per Warrant.

The net proceeds from the Placing (excluding any exercise of the subscription rights attached to the Warrants) amounted to approx HK$77 million. The Company intends to apply the aggregate net proceeds from the Placing, together with the proceeds from the issue of the Subscription Shares upon full exercise of the subscription rights attached to the Warrants of approx HK$75 million for the purposes set out in the Company's announcement dated 25 April 2012 and the circular of the Company dated 16 May 2012.

Pursuant to the Listing Rules, the Placing was approved by the Independent Shareholders at the Company's EGM held on 31 May 2012. All conditions precedent of the Placing as set out in the Placing Agreement have been fulfilled and the completion of the Placing took place on 13 June 2012. 500 million Placing Shares with an aggregate of 500 million unlisted Warrants attached have been successfully placed by the Placing Agent to not fewer than six Placees at the Placing Price of HK$0.15 per Placing Share and Issue Price of HK$0.01 per Warrant in accordance with the terms and conditions of the Placing Agreement.

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 2012. Foreign currency amounts have been translated at the approx exchange rates prevailing at the close of business on 31 March 2012.

The Group's operation relied upon the support from suppliers and financial institutions. Facilities and credit terms 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 capital raised from the Placement, the Group 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 maintaining a high standard of corporate governance practices as set out in the Code on Corporate Governance Practices (the "CG Code") in Appendix 14 of the Listing Rules and the Company has complied with the code provisions set out in the CG Code save for the deviation from code provision A.2.1.

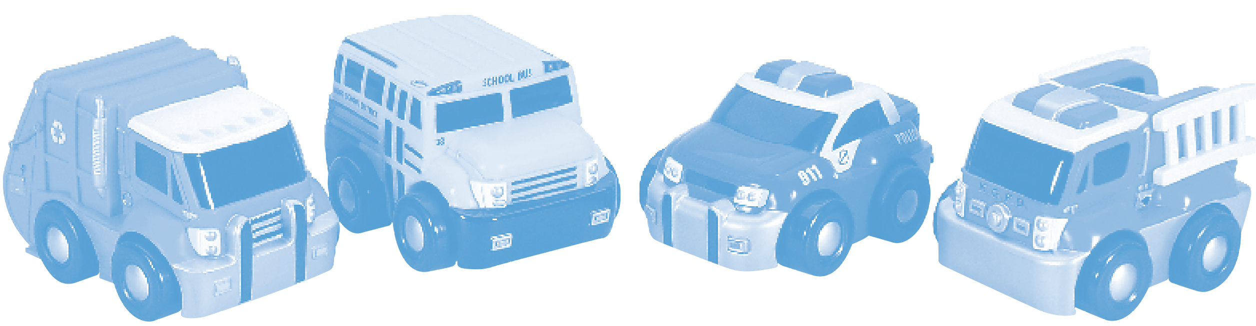
Upon resignation of Mr Leung Chung Ming on 9 May 2011, Mr Leung Lun, M.H., Chairman of the Company, takes up the role of the Chief Executive of the Company. The Board believes that vesting the roles of both Chairman and Chief Executive in the same person provides the Company with strong and consistent leadership enabling the Company to operate efficiently. The Board considers that such an arrangement will not impair the balance of power and authority between the Board and the management of the Company.

MODEL CODE FOR SECURITIES TRANSACTIONS

The Company has adopted a code of conduct regarding securities transactions by directors on terms no less exacting than the required standard set out in Appendix 10 of the Listing Rules (the "Model Code"). The Company has made specific enquiry of its directors. All directors confirmed that they have complied with the required standard set out in the Model Code and the code of conduct regarding securities transactions by directors adopted by the Company throughout the year under review.

THE BOARD

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



Corporate Governance Report

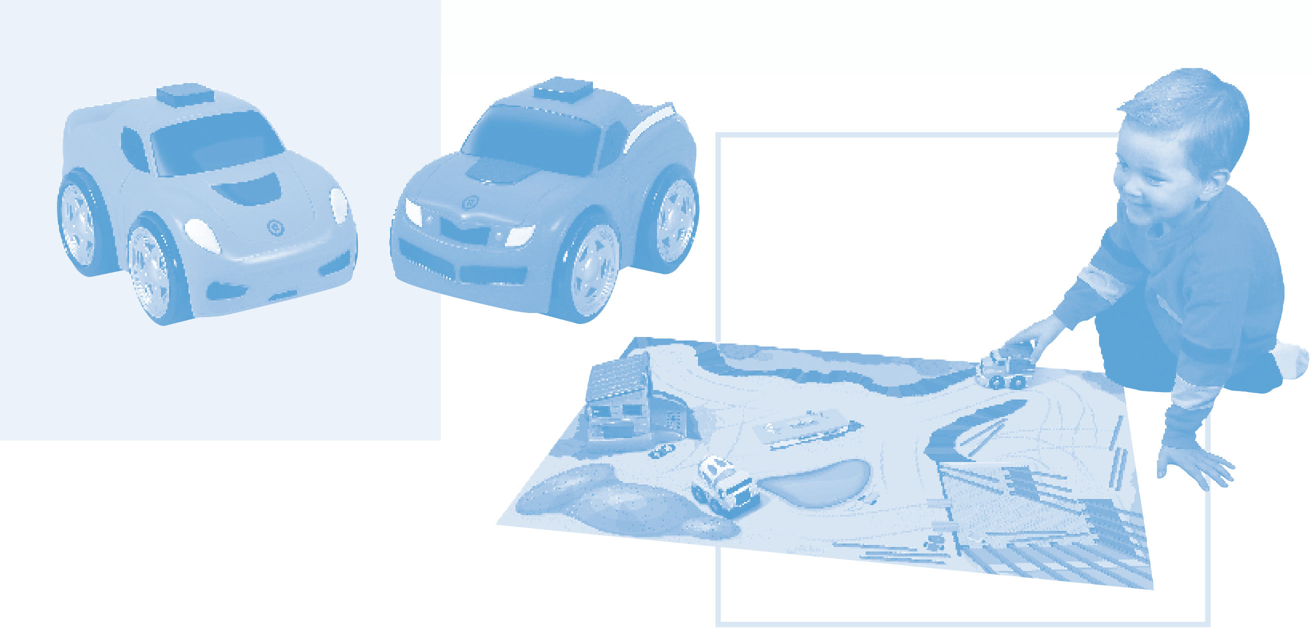
The Board currently comprises two executive directors and three independent non-executive directors. The names and brief biographies are set out on page 30 to page 31 of this Annual Report. The independent non-executive directors are high calibre executives with diversified industry expertise and bring 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 independent 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, M.H. 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 seven Board meetings held with full attendance during the year ended 31 March 2012.

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.



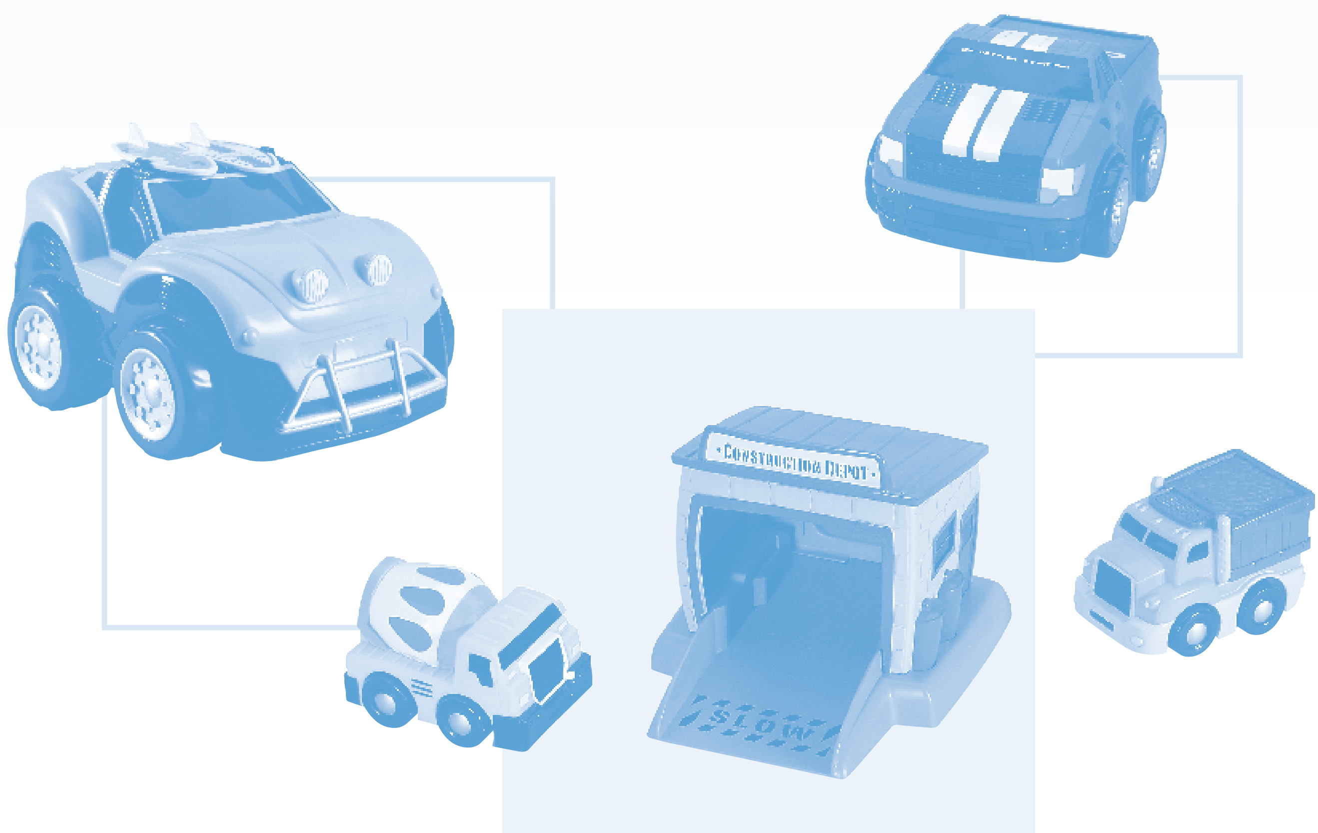
Corporate Governance Report

NUMBER OF MEETINGS ATTEND/HELD

	Board	Remuneration Committee	Nomination Committee	Audit Committee
Executive directors				
Mr Leung Lun, M.H.	7/7	1/1	N/A	N/A
Mr Leung Chung Ming (resigned on 9 May 2011)	N/A	N/A	N/A	N/A
Mr Wong, Andy Tze On	7/7	N/A	N/A	N/A
Independent non-executive directors				
Mr Wong Lam, O.B.E., J.P.	7/7	1/1	N/A	2/2
Mr Ye Tian Liu	7/7	1/1	N/A	2/2
Mr Lai Yun Hung	7/7	1/1	N/A	2/2

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 an executive director, namely Mr Leung Lun, M.H.. Mr Ye Tian Liu 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.



Corporate Governance Report

All members of the Remuneration Committee met once during the year ended 31 March 2012 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 28 and page 29 of this Annual Report.

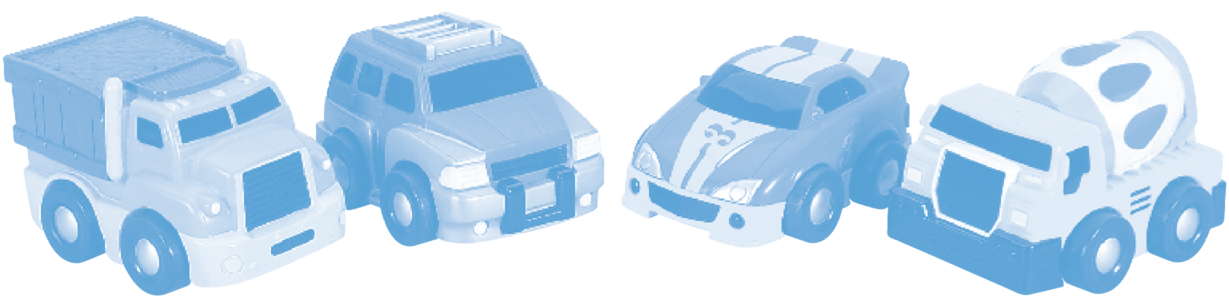
NOMINATION COMMITTEE

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, M.H.. 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 2012, 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 Lai Yun Hung 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 half yearly and annual results, internal controls and corporate governance).

Two Audit Committee meetings were held with full attendance during the year ended 31 March 2012.

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 2012, the fees charged to the financial statements of the Company and its subsidiaries for BDO's statutory audit amounted to approx HK$0.50 million. The cost of audit services of subsidiaries not performed by BDO amounted to approx HK$0.34 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 41 to page 108. The statement of the external auditors about its reporting responsibilities on the financial statements is set out on page 39 and page 40.

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 2012.

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 41.

The Directors view that it would not be prudent to recommend any dividend in view of the result for the year ended 31 March 2012 (2011: Nil).

RESERVES

Movements in the reserves of the Group and of the Company during the year are set out in page 44 and Note 32 to the financial statements.

DONATIONS

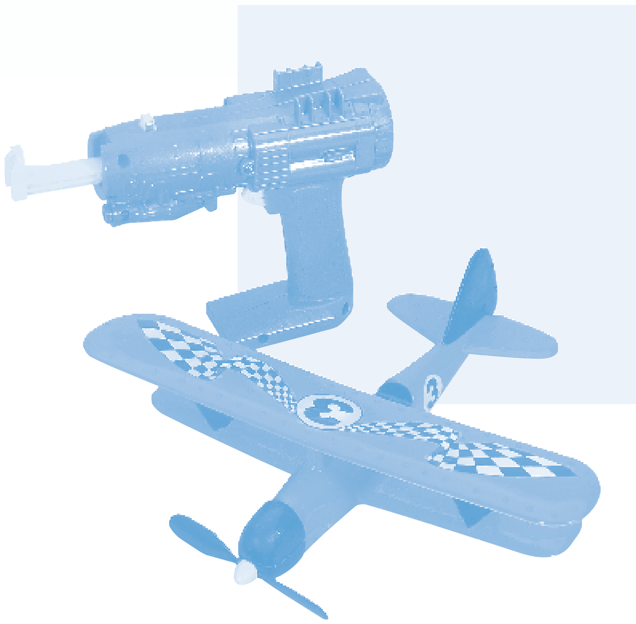
Charitable and other donations made by the Group during the year amounted to approx HK$34,000.

PROPERTY, PLANT AND EQUIPMENT

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

INFORMATION ON SUBSIDIARIES

Particulars of the subsidiaries are set out in Note 19 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 2012.

	2012 HK$'000	2011 HK$'000	2010 HK$'000	2009 HK$'000	2008 HK$'000
Turnover	**419,758**	538,036	402,402	637,224	799,142
Profit/(loss) before income tax	**76,731**	(196,106)	(173,413)	(291,065)	1,715
Income tax (expense)/credit	**918**	(1,398)	(1,540)	2,292	2,728
Profit/(loss) for the year	**77,649**	(197,504)	(174,953)	(288,773)	4,443
Attributable to:					
Owners of the Company	**77,649**	(197,504)	(174,953)	(288,773)	4,443
Non-controlling interests	**–**	–	–	–	–
	77,649	(197,504)	(174,953)	(288,773)	4,443
Total assets	**151,215**	482,422	565,773	755,690	1,112,929
Total liabilities	**130,743**	485,290	364,674	455,487	550,191
Total equity/(deficit)	**20,472**	(2,868)	201,099	300,203	562,738

DISTRIBUTABLE RESERVES

At 31 March 2011 and 2012, in the opinion of the directors, the Company has no distributable reserves.

PURCHASE, SALE OR REDEMPTION OF LISTED SECURITIES

Neither the Company, nor any of its subsidiaries has purchased, redeemed or sold any of the Company's shares during the period under review.

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

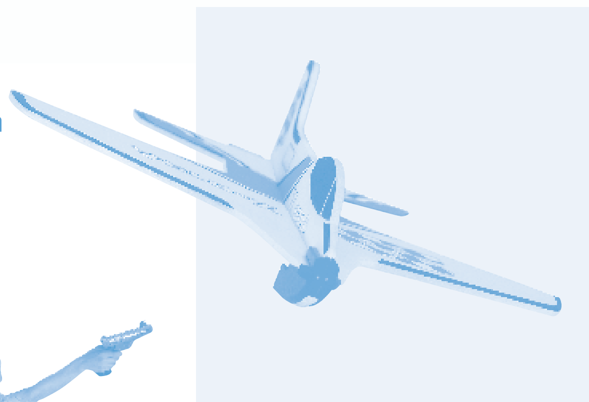
The subscription price for the Shares under the Scheme shall be a price determined by the Directors at its discretion, provided that it shall not be less than the higher of (i) the closing price of the shares stated in the daily quotation sheets issued by The Stock Exchange of Hong Kong Limited (the "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.

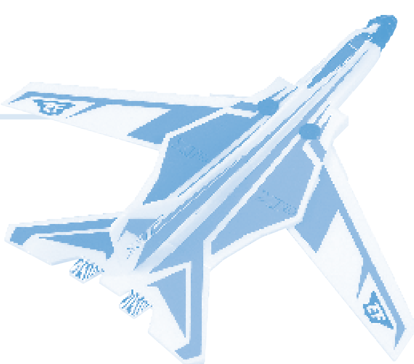
(8) The remaining life of the Scheme

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 2012.

Details of the share options movement and outstanding as at 31 March 2012 have been disclosed in Note 31 to the financial statements.





Report of the Directors

DIRECTORS

The Directors during the year and up to the date of this report were:

Mr Leung Lun, M.H.
Mr Leung Chung Ming (resigned on 9 May 2011)
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 Ye Tian Liu and Mr Wong Lam, O.B.E, J.P.. Mr Wong Lam, O.B.E., J.P. will not offer himself to re-election whereas Mr Ye Tian Liu being eligible, offer himself for re-election as Director at the Annual General Meeting.

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

Executive Directors

Mr Leung Lun, M.H., aged 63, is the chairman and chief executive of the Company and the founder of the Group. Mr Leung is responsible for the overall corporate policy and development strategy as well as overseeing the Group's overall management. He has 48 years of experience in the toys manufacturing industry. Mr Leung is also a member of the Company's remuneration committee and chairman of nomination committee. 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. He is also an honourable president of Dongguan Toys Association of China, chairman of Kowloon West Youth Care Committee, 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 45, is the executive director responsible for formulation of the corporate strategies, corporate and business management, financial planning and management 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 93, 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. Mr Wong is also a member of the Company's remuneration, nomination and audit committees. He was an independent non-executive director of Yangtzekiang Garment Limited and YGM Trading Limited until 6 May 2010, both companies' shares are listed on the Stock Exchange of Hong Kong Limited (the "Stock Exchange").

Mr Ye Tian Liu, aged 66, was appointed as an independent non-executive director in November 1999. Mr Ye holds a master's degree in business administration. Mr Ye is also the chairman of the Company's remuneration committee and member of the audit and nomination committees. He was formally an executive director of a locally listed company for several years. He has extensive experiences in China trade and investment.

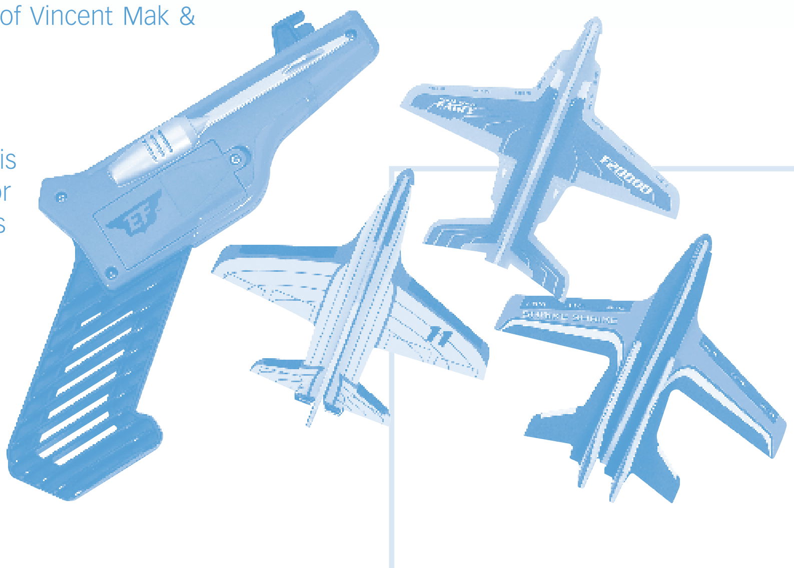
Mr Lai Yun Hung, aged 60, is a partner of Lai & Wong, Certified Public Accountants as well as the managing director of Lai & C.K. Wong CPA Limited. Mr Lai Chairs the Company's audit committee and is also members of the remuneration and nomination committees of the Company. He has over 30 years of working 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 55, was appointed as company secretary in July 2000. Mr Mak holds a master degree of laws from the University of Hong Kong and master degree in business administration from the Hong Kong Polytechnic University. He is a fellow member of the Hong Kong Institute of Certified Public Accountants and The Association of Chartered Certified Accountants. He was the founder and partner of Vincent Mak & Company, Certified Public Accountants since 1987. He is also the principal of Vincent Mak & Co., Solicitors.

Senior Management

Mr Leung Yuk Hung, Paul, aged 37, 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 joined the Group in March 2003.



Report of the Directors

Mr Ng Ki Yin, Simon, aged 58, is the director and head of operations of P.T. Lung Cheong Brothers Industrial, in charge of expanding Indonesian business and production. 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 Bruce Oravec, aged 69, 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. Mr Oravec holds a bachelor's degree from the University of Michigan and bachelor of laws degree (LL.B) from Harvard Law School.

DIRECTORS' SERVICE CONTRACTS

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

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

DIRECTORS' INTERESTS IN CONTRACTS

On 7 March 2008, the Company and Lung Cheong Investment Limited entered into a loan agreement pursuant to which Lung Cheong Investment Limited agreed to grant a loan of HK$50 million to the Company for partial repayment of the loan granted under the facility agreement entered into between, amongst others, the Company and a syndicate of banks on 21 August 2007. Lung Cheong Investment Limited is the controlling shareholder of the Company and is wholly owned by a company beneficially owned by Mr Leung Lun, M.H., an executive 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 36(b) to the financial statements.

Each of the Independent Non-executive Directors has entered into a service contract with the Company for a term of three years which will be automatically renewed for another term of three years until it is terminated pursuant to the terms of the service contract. According to the service contract, it may be terminated at any time by the Independent Non-executive Director giving not less than three months' prior written notice.

DIRECTORS' INTERESTS IN COMPETING BUSINESS

As at 31 March 2012, apart from the Disposal Group, the Directors were not aware of any business or interest of each Director, management shareholder and their respective associate, that competes or may compete with the business of the Group and any other conflict of interest which any such person have or may have with the Group.

Report of the Directors

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 2012, 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%

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, M.H., an executive director of the Company and 30% by Mr Leung Chung Ming, who is the brother of Mr Leung Lun, M.H..

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.

Report of the Directors

SUBSTANTIAL SHAREHOLDERS

As at 31 March 2012, 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.

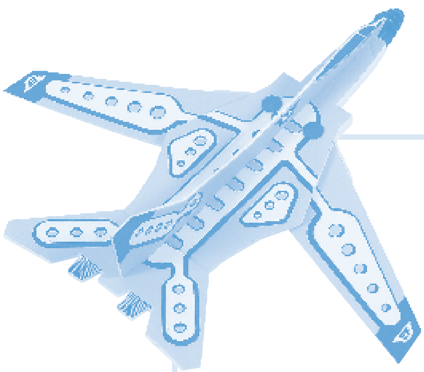
2. These shares were registered in the name of Lung Cheong Investment Limited, the entire issued share capital of which is owned by Rare Diamond Limited. Rare Diamond Limited is beneficially owned as to 70% by Mr Leung Lun, M.H., an executive director of the Company, and 30% by Mr Leung Chung Ming, who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

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:

	2012	2011
	%	%
Sales		
– the largest customer	**25**	29
– five largest customers combined	**70**	68
Purchases		
– the largest supplier	**90**	7
– five largest suppliers combined	**96**	19

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.

Report of the Directors

BOARD OF DIRECTORS

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 Disposal Group.

CONTINUING CONNECTED TRANSACTIONS

At an EGM held on 7 July 2011, an ordinary resolution was passed by the independent shareholders which approved the master purchase agreement dated 9 May 2011 entered into between LC Global Holdings Corporation ("LC Global"), a subsidiary of the Company, and LC (BVI) ("Disposal Group"), which is owned as to 30% by Mr CM Leung and 70% by Mr Leung, Kenneth Yuk Wai who is a son of the Chairman, (the "Master Purchase Agreement") in relation to, among other matters, the supply of consumer electronic products, radio control/wireless products, electronic and plastic toys for a term up to 31 March 2014. The proposed annual caps in relation to the transactions under the Master Purchase Agreement for the period commencing from 1 May 2011 to 31 March 2014 and each of the period/years ending 31 March 2012, 31 March 2013 and 31 March 2014 would not exceed HK$330 million, HK$310 million and HK$290 million.

For FY11/12, purchases from Disposal Group amounted to approx HK$313 million in line with the resolution approved by independent shareholders at the Company's EGM held on 7 July 2011.

In accordance with Rule 14A.37 of the Listing Rules, the independent non-executive directors of the Company reviewed the continuing connected transactions in the paragraph above and confirmed that the transactions were entered into:

(i) In the ordinary and usual course of business of the Company;

(ii) Either on normal commercial terms or on terms no less favorable to the Company than terms available to or from (as appropriate) independent third parties; and

(iii) In accordance with the relevant agreement governing them on terms that were fair and reasonable and in the interests of the shareholders of the Company as a whole.

Pursuant to Rule 14A.38 of the Listing Rules, the Company's auditor was engaged to report on the Company's continuing connected transactions in accordance with Hong Kong Standard on Assurance Engagements 3000 "Assurance Engagements Other Than Audits or Reviews of Historical Financial Information" and with reference to Practice Note 740 "Auditor's Letter on Continuing Connected Transactions under the Hong Kong Listing Rules" Issued by the Hong Kong Institute of Certified Public Accountants.

Report of the Directors

The auditor has issued an unqualified letter containing findings and conclusions in respect of the continuing connected transactions disclosed by the Group in the paragraph above in accordance with paragraph 14A.38 of the Listing Rules. A copy of the auditor's letter has been provided by the Company to the Stock Exchange.

SUBSEQUENT EVENT

The Company entered into the Placing Agreement with the Placing Agent on 24 April 2012 to procure not fewer than six Placees (who are Independent Third Parties) to subscribe for up to 500 million Placing Shares. In addition, the Company would issue unlisted Warrants, on the basis of one Warrant for each Placing Share issued, at the Issue Price of HK$0.01 per Warrant. Holders of the Warrants may exercise the subscription rights attached to the Warrants, in whole or in part, at any time during the Exercise Period to subscribe for the Subscription Shares at the Subscription Price of HK$0.15 per Subscription Share (subject to adjustment). Each Warrant carries the right to subscribe for one Subscription Share (the "Placing").

The Placing Shares represent 16.91% of the Company's existing issued share capital and approx 14.46% of the Company's issued share capital as enlarged by the issue of the Placing Shares, but not the Subscription Shares. The total number of Placing Shares and Subscription Shares (if exercised in full) will be equivalent to approx 33.81% of the existing issued share capital of the Company and also equivalent to approx 25.27% of the issued share capital as enlarged by the Placing Shares and Subscription Shares. The Placing Shares and the Subscription Shares would be issued under the Specific Mandate to be sought at the EGM.

All the conditions precedent to the Placing as set out in the Placing Agreement have been fulfilled and the completion of the Placing took place on 13 June 2012. 500,000,000 Placing Shares with an aggregate of 500,000,000 unlisted Warrants attached have been successfully placed by the Placing Agent to not fewer than six Placees in accordance with the terms and conditions of the Placing Agreement. Details of the Placing are further set out in the Company's announcement dated 25 April 2012 and 13 June 2012. As at the date of this report, the issued share capital of the Company comprised 3,457,757,997 ordinary shares.

Net proceeds from the Placing (excluding any exercise of the subscription rights attached to the Warrants) of approx HK$78 million was received. The total proceeds from the full exercise of the subscription rights attached to the Warrants, will amount to approx HK$153 million. The Company intends to apply the aggregate net proceeds from the Placing together with the proceeds from the issue of the Subscription Shares upon full exercise of the subscription rights attached to the Warrants for the purposes set out in the circular of the Company dated 16 May 2012.

Report of the Directors

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 and Chief Executive
28 June 2012

Independent Auditor's Report

BDO

Tel : +852 2218 8288
Fax: +852 2815 2239
www.bdo.com.hk

25th Floor Wing On Centre
111 Connaught Road Central
Hong Kong

電話：+852 2218 8288
傳真：+852 2815 2239
www.bdo.com.hk

香港
干諾道中111號
永安中心25樓

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

We have audited the consolidated financial statements of Lung Cheong International Holdings Limited (the "Company") and its subsidiaries (collectively referred to as the "Group") set out on pages 41 to 108, which comprise the consolidated and company statements of financial position as at 31 March 2012, 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 consolidated 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 consolidated 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 consolidated 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 consolidated financial statements are free from material misstatement.

Independent Auditor's Report

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the consolidated financial statements. The procedures selected depend on the auditor's judgment, including the assessment of the risks of material misstatement of the consolidated 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 consolidated 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 consolidated financial statements.

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

OPINION

In our opinion, the consolidated financial statements give a true and fair view of the state of affairs of the Company and of the Group as at 31 March 2012 and of the Group's profit 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.

BDO Limited
Certified Public Accountants

Ng Wai Man
Practising Certificate Number: P05309

Hong Kong, 28 June 2012

Consolidated Statement of Comprehensive Income

For the year ended 31 March 2012

	Notes	2012 HK$'000	2011 HK$'000
Turnover	6	**419,758**	538,036
Cost of sales		**(354,385)**	(449,199)
Gross profit		**65,373**	88,837
Other income, gains and losses, net	7	**1,322**	11,665
Selling and distribution expenses		**(24,499)**	(42,874)
General and administrative expenses		**(38,334)**	(160,644)
Impairment on property, plant and equipment	17	**–**	(80,366)
Reversal of impairment on trade receivables		**–**	614
Impairment of goodwill	18	**(16,740)**	–
Gain on disposal of subsidiaries	37	**92,049**	–
Operating profit/(loss)		**79,171**	(182,768)
Finance costs	9	**(2,440)**	(13,338)
Profit/(loss) before income tax	8	**76,731**	(196,106)
Income tax credit/(expense)	10	**918**	(1,398)
Profit/(loss) for the year		**77,649**	(197,504)
Other comprehensive income:			
Release of exchange fluctuation reserve upon disposal of subsidiaries	37	**(66,918)**	–
Exchange differences arising on translation of foreign operations		**(736)**	1,056
Surplus/(deficit) on revaluation of land and buildings	17	**17,793**	(9,341)
Income tax relating to (surplus)/deficit on revaluation of land and buildings	29	**(4,448)**	1,822
Other comprehensive income for the year, net of tax		**(54,309)**	(6,463)
Total comprehensive income for the year		**23,340**	(203,967)
Profit/(loss) for the year attributable to the owners of the Company	11	**77,649**	(197,504)
Total comprehensive income attributable to the owners of the Company		**23,340**	(203,967)
Earnings/(loss) per share attributable to the owners of the Company			
– Basic and diluted	13	**2.63 cents**	(6.68) cents

Statements of Financial Position

As at 31 March 2012

	Notes	Group 2012 HK$'000	Group 2011 HK$'000	Company 2012 HK$'000	Company 2011 HK$'000
ASSETS AND LIABILITIES					
Non-current assets					
Property, plant and equipment	17	**41,198**	26,600	**–**	–
Goodwill	18	**2,500**	19,240	**–**	–
Interests in subsidiaries	19	**–**	–	**43,828**	84,366
Deferred tax assets	29	**3,508**	1,694	**–**	–
		47,206	47,534	**43,828**	84,366
Current assets					
Inventories	20	**31,602**	28,661	**–**	–
Trade and other receivables, deposits and prepayments	21	**22,026**	41,059	**509**	–
Amounts due from related companies	22	**43,013**	–	**43**	–
Tax recoverable		**212**	151	**9**	9
Cash and cash equivalents	23	**7,156**	13,723	**229**	276
		104,009	83,594	**790**	285
Assets of a disposal group classified as held for sale	24	**–**	351,294	**–**	–
		104,009	434,888	**790**	285
Current liabilities					
Trade and other payables and accrued charges	25	**12,577**	16,928	**650**	3,728
Amounts due to related companies	22	**43,412**	–	**3,943**	–
Obligations under finance leases	26	**–**	3,721	**–**	–
Borrowings	27	**15,529**	18,190	**–**	–
Tax payable		**760**	3	**–**	–
		72,278	38,842	**4,593**	3,728
Liabilities of a disposal group classified as held for sale	24	**–**	391,772	**–**	–
		72,278	430,614	**4,593**	3,728
Net current assets/(liabilities)		**31,731**	4,274	**(3,803)**	(3,443)
Total assets less current liabilities		**78,937**	51,808	**40,025**	80,923

Statements of Financial Position

As at 31 March 2012

	Notes	Group 2012 HK$'000	Group 2011 HK$'000	Company 2012 HK$'000	Company 2011 HK$'000
Total assets less current liabilities		**78,937**	51,808	**40,025**	80,923
Non-current liabilities					
Obligations under finance leases	26	**–**	604	**–**	–
Provision for long service payment	28	**1,611**	1,683	**–**	–
Loan from immediate holding company	36(b)	**50,000**	50,000	**50,000**	50,000
Deferred tax liabilities	29	**6,854**	2,389	**–**	–
		58,465	54,676	**50,000**	50,000
Net assets/(liabilities)		**20,472**	(2,868)	**(9,975)**	30,923
EQUITY					
Share capital	30	**295,776**	295,776	**295,776**	295,776
Reserves	32	**(275,304)**	(298,644)	**(305,751)**	(264,853)
Total equity/(deficit)		**20,472**	(2,868)	**(9,975)**	30,923

On behalf of the Board

Leung Lun
Director

Wong, Andy Tze On
Director

Consolidated Statement of Changes in Equity

For the year ended 31 March 2012

	Share capital HK$'000	Share premium HK$'000	Exchange fluctuation reserve HK$'000	Statutory surplus reserve HK$'000	Land and buildings revaluation reserve HK$'000	Accumulated losses HK$'000	Total HK$'000
At 1 April 2010	295,776	37,657	38,894	28,840	25,506	(225,574)	201,099
Exchange differences arising on translation of foreign operations	–	–	1,056	–	–	–	1,056
Reversal of revaluation gain on land and buildings	–	–	–	–	(9,341)	–	(9,341)
Release of income tax relating to reversal of revaluation gain on land and buildings	–	–	–	–	1,822	–	1,822
Loss for the year	–	–	–	–	–	(197,504)	(197,504)
Total comprehensive income for the year	–	–	1,056	–	(7,519)	(197,504)	(203,967)
At 31 March 2011 and 1 April 2011	295,776	37,657	39,950	28,840	17,987	(423,078)	(2,868)
Release of exchange fluctuation reserve arising from disposal of subsidiaries	–	–	(66,918)	–	–	–	(66,918)
Exchange difference arising from translation of foreign operations	–	–	(736)	–	–	–	(736)
Surplus on revaluation of land and buildings	–	–	–	–	17,793	–	17,793
Income tax relating to surplus on revaluation of land and buildings	–	–	–	–	(4,448)	–	(4,448)
Profit for the year	–	–	–	–	–	77,649	77,649
Total comprehensive income for the year	–	–	(67,654)	–	13,345	77,649	23,340
Transfer of reserves upon disposal of subsidiaries	–	–	–	(28,840)	(2,441)	31,281	–
At 31 March 2012	**295,776**	**37,657**	**(27,704)**	**–**	**28,891**	**(314,148)**	**20,472**

Nature and purpose of reserves are disclosed in Note 32.

Consolidated Statement of Cash Flows

For the year ended 31 March 2012

	Notes	2012 HK$'000	2011 HK$'000
Operating activities			
Profit/(loss) before income tax		**76,731**	(196,106)
Adjustments for:			
Interest income		**(7)**	(262)
Interest expense and finance charges		**2,440**	13,338
Depreciation of property, plant and equipment		**4,007**	26,177
Addition to/(reversal of) provision for long service payment		**20**	(59)
Impairment on property, plant and equipment		**–**	80,366
Impairment on goodwill		**16,740**	–
Impairment on/(reversal of impairment on) trade and other receivables, deposits and prepayments		**446**	(614)
Amortisation of leasehold land and land use rights		**–**	1,932
Loss on disposal of property, plant and equipment		**405**	33
Gain on disposal of subsidiaries		**(92,049)**	–
Operating cash flows before changes in working capital		**8,733**	(75,195)
Inventories		**(2,579)**	(5,529)
Trade and other receivables, deposits and prepayments		**20,904**	(9,433)
Amounts due from related companies		**(61,924)**	–
Trade and other payables and accrued charges		**(5,432)**	25,908
Amounts due to related companies		**43,412**	–
Trust receipt bank loans		**–**	(2,811)
Cash generated from/(used in) operations		**3,114**	(67,060)
Interest received		**7**	262
Overseas income tax paid		**(121)**	(1,126)
Net cash generated from/(used in) operating activities		**3,000**	(67,924)

Consolidated Statement of Cash Flows

For the year ended 31 March 2012

	Notes	2012 HK$'000	2011 HK$'000
Investing activities			
Purchase of property, plant and equipment		**(2,148)**	(4,659)
Proceeds from disposal of property, plant and equipment		**541**	436
Net cash outflow from disposal of subsidiaries	37	**(37,314)**	–
Net cash used in investing activities		**(38,921)**	(4,223)
Financing activities			
Interest and finance charge paid		**(2,440)**	(13,338)
New loans from banks and financial institutions		**24,590**	229,790
Repayment of borrowings from banks and financial institutions		**(20,604)**	(133,280)
Capital element of finance lease obligations		**(4,359)**	(6,649)
Net cash (used in)/generated from financing activities		**(2,813)**	76,523
Net (decrease)/increase in cash and cash equivalents		**(38,734)**	4,376
Effect of foreign exchange rate changes		**61**	(2,405)
Cash and cash equivalents at beginning of year		**45,829**	43,858
Cash and cash equivalents at end of year		**7,156**	45,829

Notes to the Financial Statements

31 March 2012

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 is at P.O. Box 309, Ugland House, South Church Street, George Town, Grand Cayman, Cayman Islands, British West Indies and the 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 its subsidiaries (collectively the "Group") are principally engaged in development, engineering, manufacture and sale of toys, moulds and materials during the year ended 31 March 2012. The principle activities of its subsidiaries are set out in Note 19 to the financial statements.

The directors regard Lung Cheong Investment Limited, as being the immediate holding company and Rare Diamond Limited as being the ultimate holding company, both of which were companies incorporated in the British Virgin Islands.

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

(a) Adoption of new/revised HKFRSs – Effective 1 April 2011

HKFRSs (Amendments)	Improvements to HKFRSs
HK(IFRIC) – Interpretation 19	Extinguishing Financial Liabilities with Equity Instruments
HKAS 24 (Revised)	Related Party Disclosures

Except as explained below, the adoption of these new/revised standards and interpretations has no significant impact on the Group's financial statements.

HKFRS 3 (Amendments) – Business Combinations

As part of the Improvements to HKFRSs issued in 2010, HKFRS 3 has been amended to clarify that the option to measure non-controlling interests ("NCI") at either fair value or the NCI's proportionate share in the recognised amounts of the acquiree's identifiable net assets is limited to instruments that are present ownership interests and entitle their holders to a proportionate share of the acquiree's net assets in the event of liquidation. Other components of NCI are measured at their acquisition date fair value unless another measurement basis is required by HKFRSs. The Group has amended its accounting policies for measuring NCI but the adoption of the amendment has had no impact on the Group's financial statements.

Notes to the Financial Statements

31 March 2012

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

(a) Adoption of new/revised HKFRSs – Effective 1 April 2011 – *Continued*

HKAS 24 (Revised) – Related Party Disclosures

HKAS 24 (Revised) amends the definition of related party and clarifies its meaning. This may result in changes to those parties who are identified as being related parties of the reporting entity. The Group has reassessed the identification of its related parties in accordance with the revised definition and no material impact has been noted for comparative periods disclosure. The adoption of HKAS 24 (Revised) has no impact on the Group's reported profit or loss, total comprehensive income or equity for comparative period presented.

HKAS 24 (Revised) also introduces simplified disclosure requirements applicable to related party transactions where the Group and the counterparty are under the common control, joint control or significant influence of a government, government agency or similar body. These new disclosures are not relevant to the Group because the Group is not a government related entity.

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

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

Amendments to HKFRSs	Annual Improvements to HKFRSs 2009-2011 Cycle [3]
Amendments to HKFRS 7	Disclosures – Transfers of Financial Assets [1]
Amendments to HKFRS 7	Disclosures – Offsetting Financial Assets and Financial Liabilities [3]
Amendments to HKAS 1 (Revised)	Presentation of Items of Other Comprehensive Income [2]
Amendments to HKAS 32	Presentation – Offsetting Financial Assets and Financial Liabilities [4]
Amendments to HKFRS 7 and HKFRS 9	Mandatory Effective Date of HKFRS 9 and Transition Disclosures [5]
HKFRS 1	Severe Hyperinflation and Removal of Fixed Dates for First-time Adopters [1]
HKFRS 9	Financial Instruments [5]
HKFRS 10	Consolidated Financial Statements [3]
HKFRS 12	Disclosure of Interest in Other Entities [3]
HKFRS 13	Fair Value Measurement [3]
HKAS 27 (as revised in 2011)	Separate Financial Instruments [3]

Notes to the Financial Statements

31 March 2012

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

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

1 Effective for annual periods beginning on or after 1 July 2011
2 Effective for annual periods beginning on or after 1 July 2012
3 Effective for annual periods beginning on or after 1 January 2013
4 Effective for annual periods beginning on or after 1 January 2014
5 Effective for annual periods beginning on or after 1 January 2015

Amendments to HKFRS 7 – Disclosures – Transfers of Financial Assets

The amendments to HKFRS 7 improve the 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.

Amendments to HKAS 1 (Revised) – Presentation of Items of Other Comprehensive Income

The amendments to HKAS 1 (Revised) require the Group to separate items presented in other comprehensive income into those that may be reclassified to profit and loss in the future (e.g. revaluations of available-for-sale financial assets) and those that may not (e.g. revaluations of property, plant and equipment). Tax on items of other comprehensive income is allocated and disclosed on the same basis. The amendments will be applied retrospectively.

HKFRS 9 – Financial Instruments

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, classification 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.

Notes to the Financial Statements

31 March 2012

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

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

HKFRS 10 – Consolidated Financial Statements

HKFRS 10 introduces a single control model for consolidation of all investee entities. An investor has control when it has power over the investee (whether or not that power is used in practice), exposure or rights to variable returns from the investee and the ability to use the power over the investee to affect those returns. HKFRS 10 contains extensive guidance on the assessment of control. For example, the standard introduces the concept of "de facto" control where an investor can control an investee while holding less than 50% of the investee's voting rights in circumstances where its voting interest is of sufficiently dominant size relative to the size and dispersion of those of other individual shareholders to give it power over the investee. Potential voting rights are considered in the analysis of control only when these are substantive, i.e. the holder has the practical ability to exercise them. The standard explicitly requires an assessment of whether an investor with decision making rights is acting as principal or agent and also whether other parties with decision making rights are acting as agents of the investor. An agent is engaged to act on behalf of and for the benefit of another party and therefore does not control the investee when it exercises its decision making authority. The implementation of HKFRS 10 may result in changes in those entities which are regarded as being controlled by the Group and are therefore consolidated in the financial statements. The accounting requirements in the existing HKAS 27 on other consolidation related matters are carried forward unchanged. HKFRS 10 is applied retrospectively subject to certain transitional provisions.

HKFRS 12 – Disclosure of Interests in Other Entities

HKFRS 12 integrates and makes consistent the disclosures requirements about interests in subsidiaries, associates and joint arrangements. It also introduces new disclosure requirements, including those related to unconsolidated structured entities. The general objective of the standard is to enable users of financial statements to evaluate the nature and risks of a reporting entity's interests in other entities and the effects of those interests on the reporting entity's financial statements.

Notes to the Financial Statements

31 March 2012

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

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

HKFRS 13 – Fair Value Measurement

HKFRS 13 provides a single source of guidance on how to measure fair value when it is required or permitted by other standards. The standard applies to both financial and non-financial items measured at fair value and introduces a fair value measurement hierarchy. The definitions of the three levels in this measurement hierarchy are generally consistent with HKFRS 7 "Financial Instruments: Disclosures". HKFRS 13 defines fair value as the price that would be received to sell an asset or paid to transfer a liability in an orderly transaction between market participants at the measurement date (i.e. an exit price). The standard removes the requirement to use bid and ask prices for financial assets and liabilities quoted in an active market. Rather the price within the bid-ask spread that is most representative of fair value in the circumstances should be used. It also contains extensive disclosure requirements to allow users of the financial statements to assess the methods and inputs used in measuring fair values and the effects of fair value measurements on the financial statements. HKFRS 13 can be adopted early and is applied prospectively.

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 the Group's financial statements.

In addition, the Hong Kong Institute of Certified Public Accountants also published a number of amendments to existing standards under its annual improvement project. These amendments are not expected to have a significant financial impact on the results of operations and financial position of the Group.

Notes to the Financial Statements
31 March 2012

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.

(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.

(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.

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.

Notes to the Financial Statements

31 March 2012

4. SIGNIFICANT ACCOUNTING POLICIES – *Continued*

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

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

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 that represents a present ownership interest in the subsidiary 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.

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.

Notes to the Financial Statements

31 March 2012

4. SIGNIFICANT ACCOUNTING POLICIES – *Continued*

(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.

(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 derecognised. All other repairs and maintenance are expensed in profit or loss during the financial period in which they are incurred.

Notes to the Financial Statements

31 March 2012

4. SIGNIFICANT ACCOUNTING POLICIES – *Continued*

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

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

Buildings	50 years
Leasehold improvements	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.

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.

Notes to the Financial Statements

31 March 2012

4. SIGNIFICANT ACCOUNTING POLICIES – *Continued*

(d) Goodwill – *Continued*

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) 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.

Notes to the Financial Statements

31 March 2012

4. SIGNIFICANT ACCOUNTING POLICIES – *Continued*

(e) Impairment of tangible and intangible assets excluding goodwill – *Continued*

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.

(f) 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.

(g) 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.

Notes to the Financial Statements

31 March 2012

4. SIGNIFICANT ACCOUNTING POLICIES – *Continued*

(g) Financial assets – *Continued*

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.

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.

Notes to the Financial Statements

31 March 2012

4. SIGNIFICANT ACCOUNTING POLICIES – *Continued*

(g) Financial assets – *Continued*

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

Impairment losses are written off against the corresponding assets directly, except for impairment losses recognised in respect of 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 2012

4. SIGNIFICANT ACCOUNTING POLICIES – *Continued*

(h) 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.

(i) 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.

Notes to the Financial Statements

31 March 2012

4. SIGNIFICANT ACCOUNTING POLICIES – *Continued*

(j) Leases

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

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

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

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

(k) 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.

Notes to the Financial Statements

31 March 2012

4. SIGNIFICANT ACCOUNTING POLICIES – *Continued*

(k) Financial guarantee contracts issued – *Continued*

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(l) 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.

(l) 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.

(m) 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.

Notes to the Financial Statements

31 March 2012

4. SIGNIFICANT ACCOUNTING POLICIES – *Continued*

(m) Income taxes – *Continued*

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 profit 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 profit will be available to allow all or part of the asset to be recovered.

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

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.

Notes to the Financial Statements

31 March 2012

4. SIGNIFICANT ACCOUNTING POLICIES – *Continued*

(n) 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

For the purpose of presenting consolidated financial statements, the assets and liabilities of the Group's foreign operations are expressed in Hong Kong 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 in other comprehensive income and accumulated as exchange fluctuation reserve. Exchange differences recognised in profit or loss of group entities' individual 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.

Notes to the Financial Statements

31 March 2012

4. SIGNIFICANT ACCOUNTING POLICIES – *Continued*

(o) 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.

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.

Notes to the Financial Statements

31 March 2012

4. SIGNIFICANT ACCOUNTING POLICIES – *Continued*

(p) 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.

(q) Related parties

(a) A person or a close member of that person's family is related to the Group if that person:

(i) has control or joint control over the Group;

(ii) has significant influence over the Group; or

(iii) is a member of key management personnel of the Group or the Company's parent.

(b) An entity is related to the Group if any of the following conditions apply:

(i) The entity and the Group are members of the same group (which means that each parent, subsidiary and fellow subsidiary is related to the others).

(ii) One entity is an associate or joint venture of the other entity (or an associate or joint venture of a member of a group of which the other entity is a member).

(iii) Both entities are joint ventures of the same third party.

Notes to the Financial Statements

31 March 2012

4. SIGNIFICANT ACCOUNTING POLICIES – *Continued*

(q) Related parties – *Continued*

(b) An entity is related to the Group if any of the following conditions apply:– *Continued*

(iv) One entity is a joint venture of a third entity and the other entity is an associate of the third entity.

(v) The entity is a post-employment benefit plan for the benefit of the employees of the Group or an entity related to the Group.

(vi) The entity is controlled or jointly controlled by a person identified in (a).

(vii) A person identified in (a)(i) has significant influence over the entity or is a member of key management personnel of the entity (or of a parent of the entity).

Close members of the family of a person are those family members who may be expected to influence, or be influenced by, that person in their dealings with the entity and include:

(i) that person's children and spouse or domestic partner;

(ii) children of that person's spouse or domestic partner; and

(iii) dependents of that person or that person's spouse or domestic partner.

(r) Revenue recognition

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

i) Sale of goods

Sale of goods 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.

Notes to the Financial Statements

31 March 2012

4. SIGNIFICANT ACCOUNTING POLICIES – *Continued*

(r) Revenue recognition – *Continued*

ii) Interest income

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

(s) 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.

Notes to the Financial Statements
31 March 2012

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.

(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

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.

Notes to the Financial Statements

31 March 2012

5. CRITICAL ACCOUNTING ESTIMATES AND JUDGMENTS – *Continued*

(c) Impairment of goodwill

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

(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.

Notes to the Financial Statements

31 March 2012

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:

	2012 HK$'000	2011 HK$'000
Sale of toys	413,123	532,726
Sale of moulds and materials	6,635	5,310
Total revenue	419,758	538,036

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.

(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 2012		
United States of America	**246,014**	**3,309**
Europe (Note)	**117,886**	**–**
China	**19,150**	**–**
Australia	**12,938**	**–**
Japan	**10,306**	**–**
Hong Kong	**1,669**	**2,425**
Indonesia	**816**	**37,964**
Others	**10,979**	**–**
Total	**419,758**	**43,698**

Notes to the Financial Statements

31 March 2012

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: – *Continued*

	Revenue HK$'000	Non-current assets HK$'000
For the year ended 31 March 2011		
United States of America	311,217	19,534
Europe (Note)	135,915	–
China	24,653	–
Australia	14,838	–
Japan	26,451	–
Hong Kong	7,211	4,798
Indonesia	1,156	21,508
Others	16,595	–
Total	538,036	45,840

Note: The countries included in this category included mainly United Kingdom, Germany and Italy. No further analysis by countries of this category is presented because the revenue from each individual country is insignificant to the total revenue.

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

	2012 HK$'000	2011 HK$'000
Electronic and plastic toys	**290,526**	315,045
Radio control/wireless product	**115,890**	197,694
Consumer electronic products	**13,342**	25,297
	419,758	538,036

Notes to the Financial Statements

31 March 2012

6. TURNOVER AND SEGMENT INFORMATION – *Continued*

(c) Information on major customers is as follows:

Revenue from customers of the corresponding years contributing over 10% of the total sales of the Group are as follows:

	2012 HK$'000	2011 HK$'000
Customer A	**103,735**	100,898
Customer B	**103,263**	157,392
Customer C	**56,806**	–
Customer D	**–**	59,154

7. OTHER INCOME, GAINS AND LOSSES, NET

	2012 HK$'000	2011 HK$'000
Sample income and others	**1,059**	6,410
Exchange (losses)/gains, net	**(218)**	4,993
Sales of scrap materials	**474**	–
Interest income	**7**	262
	1,322	11,665

Notes to the Financial Statements

31 March 2012

8. PROFIT/(LOSS) BEFORE INCOME TAX

Profit/(loss) before income tax is arrived at after charging/(crediting):

	2012 HK$'000	2011 HK$'000
Cost of inventories sold	**354,385**	449,199
Amortisation of leasehold land and land use rights	**–**	1,932
Auditors' remuneration	**841**	1,467
Depreciation of property, plant and equipment (Note 17)	**4,007**	26,177
Loss on disposal of property, plant and equipment	**405**	33
Impairment loss for trade receivables	**446**	49
Recovery of impairment loss for trade receivables previously recognised	**–**	(663)
Employee benefits expense (Note 14)	**31,655**	155,602
Operating lease rentals in respect of land and buildings	**717**	2,837
Compliance and testing fee	**469**	2,229

9. FINANCE COSTS

	2012 HK$'000	2011 HK$'000
Interest on loans from banks wholly repayable within five years	**1,527**	10,969
Interest on loan from immediate holding company	**844**	2,102
Finance charges on obligations under finance leases	**69**	267
	2,440	13,338

Notes to the Financial Statements

31 March 2012

10. INCOME TAX CREDIT/EXPENSE

No Hong Kong profits tax has been provided as the Group sustained a loss in Hong Kong for the year (2011: Nil).

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

	2012 **HK$'000**	2011 HK$'000
Mainland China enterprise income tax		
– current year	**–**	1,356
– over provision in prior year	**–**	(20)
Hong Kong profits tax		
– under provision in prior years	**751**	–
Deferred tax (credit)/charge (Note 29)	**(1,669)**	62
Income tax (credit)/expense	**(918)**	1,398

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

	2012 **HK$'000**	2011 HK$'000
Profit/(loss) before income tax	**76,731**	(196,106)
Tax expense/(credit) calculated at the tax rate of 16.5% (2011: 16.5%)	**12,661**	(32,357)
Effect of different tax rates in other countries	**(3,918)**	(5,025)
Income not subject to taxation	**(16,594)**	(43)
Expenses not deductible for taxation purposes	**245**	36,392
Utilisation of previously unrecognised tax losses	**(840)**	(101)
Under provision in prior years	**751**	–
Temporary difference not recognised and others	**6,777**	2,532
Income tax (credit)/expense	**(918)**	1,398

Notes to the Financial Statements
31 March 2012

11. PROFIT/(LOSS) ATTRIBUTABLE TO OWNERS OF THE COMPANY

The consolidated profit/(loss) attributable to the owners of the Company for the year ended 31 March 2012 includes a loss of approximately HK$40,898,000 (2011: loss of HK$73,982,000) which has been dealt with in the financial statements of the Company (Note 32).

12. DIVIDENDS

The directors do not recommend any dividend in respect of the year ended 31 March 2012 (2011: Nil).

13. EARNINGS/(LOSS) PER SHARE

Basic

The calculation of basic earnings/(loss) per share is based on the profit attributable to the owners of the Company of HK$77,649,000 (2011: loss of HK$197,504,000) and the weighted average number of 2,957,758,000 (2011: 2,957,758,000) ordinary shares in issue during the year.

Diluted

The diluted earnings/(loss) per share for the years ended 31 March 2012 and 2011 are same as the basic earnings/(loss) per share as there is no potential ordinary share outstanding during the year.

14. EMPLOYEE BENEFITS EXPENSE

Employee benefits expense excluding directors' emoluments comprise:

	2012 HK$'000	2011 HK$'000
Wages and salaries	**28,734**	146,058
Other staff benefits	**2,636**	6,383
Pension costs – defined contribution plans (Note 16)	**285**	3,161
	31,655	155,602

Notes to the Financial Statements

31 March 2012

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:

	2012 **HK$'000**	2011 HK$'000
Fees for independent non-executive directors	**180**	180
Other emoluments:		
Basic salaries, bonus, housing and other allowances and benefits in kind	**3,515**	5,867
Provident fund scheme contributions	**49**	70
	3,744	6,117

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 2012 and 2011.

The emolument of each director for the year ended 31 March 2012 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#	–	155	–	1	156
Mr Wong, Andy Tze On	–	720	360	36	1,116
Mr Wong Lam	60	–	–	–	60
Mr Ye Tian Liu	60	–	–	–	60
Mr Lai Yun Hung	60	–	–	–	60
	180	2,375	1,140	49	3,744

Notes to the Financial Statements

31 March 2012

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

Notes to the Financial Statements

31 March 2012

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 two (2011: three) directors whose emoluments are disclosed in the analysis presented above. The emoluments payable to the remaining three (2011: two) individuals during the year are as follows:

	2012 HK$'000	2011 HK$'000
Basic salaries, bonus, housing and other allowances and benefits in kind	**2,000**	1,600
Provident fund scheme contributions	**100**	52
	2,100	1,652

The emoluments of these three (2011: 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 (a maximum of HK$1,250 since 1 June 2012) 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 also 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 profit or loss for the year ended 31 March 2012 was HK$334,000 (2011: HK$3,231,000).

Notes to the Financial Statements

31 March 2012

17. PROPERTY, PLANT AND EQUIPMENT

Group	Land and buildings HK$'000	Leasehold improvements HK$'000	Plant and machinery HK$'000	Furniture, fixtures and equipment HK$'000	Motor vehicles HK$'000	Moulds HK$'000	Total HK$'000
At 1 April 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 a)	(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 24)	(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
Net book amount at 1 April 2011	17,533	180	3,778	4,188	1	920	26,600
Additions	530	34	323	109	134	1,018	2,148
Disposals	–	–	–	(955)	–	–	(955)
Depreciation charge	(145)	(97)	(1,766)	(1,646)	(19)	(334)	(4,007)
Revaluation surplus, net (note b)	17,793	–	–	–	–	–	17,793
Exchange differences	(156)	–	(216)	(8)	(1)	–	(381)
Net book value at 31 March 2012	35,555	117	2,119	1,688	115	1,604	41,198
At 31 March 2012							
Cost or valuation	35,555	418	14,043	6,632	624	32,161	89,433
Accumulated depreciation and impairment	–	(301)	(11,924)	(4,944)	(509)	(30,557)	(48,235)
Net book amount	35,555	117	2,119	1,688	115	1,604	41,198

Notes to the Financial Statements

31 March 2012

17. PROPERTY, PLANT AND EQUIPMENT – *Continued*

Notes:–

(a) During the year ended 31 March 2011, impairment loss of HK$1,485,000 and HK$88,222,000 was recognised by the Group in respect of certain moulds due to technical obsolescence and buildings situated in Mainland China due to the decrease in demand of factory buildings as a result of the large increase in salaries level and production cost 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.

(b) The Group's land and buildings were revalued at 31 March 2012. Valuation was made on the basis of open market value carried out by Kantor Jasa Penilai Publik Budi, Edy, Saptono & Rekan, an independent firm of professional valuer.

(c) The carrying amount of the revalued land and buildings would have been HK$2,724,000 (2011: HK$3,000,000) had they been stated at cost less accumulated depreciation and accumulated impairment losses.

(d) During the year, none of the additions to property, plant and equipment of the Group was financed by new finance leases (2011: HK$617,014). At 31 March 2012, no property, plant and equipment held under finance leases of the Group. At 31 March 2011, the carrying amount of property, plant and equipment held under finance leases of the Group was HK$15,582,000 and the related depreciation charge for the year ended 31 March 2011 was HK$3,022,000.

(e) As at 31 March 2012, the land and buildings represent land and certain factories situated in Indonesia.

18. GOODWILL

	Group	
	2012	2011
	HK$'000	HK$'000
Cost		
At beginning of year	**19,240**	19,240
Impairment loss recognised in profit or loss	**(16,740)**	–
At end of year	**2,500**	19,240

Impairment test for goodwill

The Group's goodwill was allocated to the toys trading business in the United States of America ("USA").

The recoverable amount of this cash-generating unit ("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.

Notes to the Financial Statements
31 March 2012

18. GOODWILL – *Continued*

Key assumptions used for value-in-use calculations:

	2012	2011
Growth rate	**2%**	3%
Discount rate	**12%**	10%

In determining the forecast sale of the toys trading business in the USA, the management took into account the effects of the prolonged economic downturn, keen competition and the slower growth in the toys trading business in current year, and extrapolated 2% growth in the five-year financial budgets and 2% thereafter (2011: 8% growth in the five-year financial budgets and 3% thereafter). The discount rate used is pre-tax and reflects specific risks relating to the relevant markets.

Management reassessed the recoverable amount of goodwill as at 31 March 2012 by reference to the discounted cash flow calculation with the above estimations and was of the opinion that the goodwill arising from the acquisition of the toys trading business in the USA was not fully recoverable. Accordingly, an impairment on goodwill of HK$16,740,000 was provided and charged to profit or loss during the year ended 31 March 2012.

19. INTERESTS IN SUBSIDIARIES

	Company	
	2012 HK$'000	2011 HK$'000
Unlisted investments, at cost	**780**	116,581
Amounts due from subsidiaries (note)	**416,430**	415,558
Amounts due to subsidiaries	**(382)**	(773)
	416,828	531,366
Less: provision for impairment loss	**(373,000)**	(447,000)
	43,828	84,366

Note:

The amounts due from subsidiaries are interest-free, unsecured and, in substance, represent quasi-equity loans to the subsidiaries.

Notes to the Financial Statements

31 March 2012

19. INTERESTS IN SUBSIDIARIES – *Continued*

Particulars of the principal subsidiaries of the Company at 31 March 2012 and 2011 are as follows:

Name of company	Place of incorporation and operations	Particulars of issued share capital/ registered capital	Effective percentage holding 2012	Effective percentage holding 2011	Nature of Business
Shares held directly:					
LC Global Holdings Corporation	British Virgin Islands	Ordinary US$50,000	**100**	100	Investment holdings
Future Empire Limited	British Virgin Islands	Ordinary US$50,000	**100**	100	Investment holdings
Lung Cheong (BVI) Holdings Limited #	British Virgin Islands	Ordinary US$130,660	**–**	100	Investment holdings
Shares/investments held indirectly:					
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 holdings
Kid Galaxy Corporation	British Virgin Islands	Ordinary US$10	**100**	100	Investment holdings
Lung Cheong Asia Holdings Limited	British Virgin Islands	Ordinary US$50,000	**100**	100	Investment holdings
Lung Cheong Overseas Corporation	British Virgin Islands	Ordinary US$50,000	**100**	100	Trading of toys
Kid Galaxy Inc.	United States of America	Ordinary US$100,010	**100**	100	Trading of toys

Notes to the Financial Statements

31 March 2012

19. INTERESTS IN SUBSIDIARIES – *Continued*

Name of company	Place of incorporation and operations	Particulars of issued share capital/ registered capital	Effective percentage holding 2012	Effective percentage holding 2011	Nature of Business
Shares/investments held indirectly:					
Lung Cheong Resources Management Limited #	Hong Kong	Deferred HK$10,000 Ordinary HK$2	–	100	Management services
L C Technology Limited	Hong Kong	Ordinary HK$10,000	**100**	100	Trading of toys and electronic products
Kid Galaxy Limited	Hong Kong	Ordinary HK$10,000	**100**	100	Trading of toys
Lung Cheong Toys Limited #	Hong Kong	Deferred HK$1,000,000 Ordinary HK$2	–	100	Trading of toys
Standard Tooling and Products Co., Ltd #	Hong Kong	Ordinary HK$3,000,000	–	100	Engineering services and trading of moulds
Dongguan LC Technology Co., Ltd. * #	Mainland China	HK$85,005,000	–	100	Manufacture of toys and electronic products
Dongguan Lung Cheong Plastic Products Co., Ltd * #	Mainland China	HK$6,500,000	–	100	Manufacture and trading of toys
Dongguan Standard Tooling and Products Co., Ltd. * #	Mainland China	HK$7,700,000	–	100	Manufacture of moulds
Dongguan Lung Cheong Toys Co., Ltd. * #	Mainland China	HK$140,330,000	–	100	Manufacture 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 Hong Kong Institute of Certified Public Accountants ("HKICPA").

These subsidiaries form the disposal group and were disposed of on 12 April 2011. Details are set out in Note 37 to the financial statements.

Notes to the Financial Statements

31 March 2012

20. INVENTORIES

	Group	
	2012	2011
	HK$'000	HK$'000
Raw materials	**4,705**	10,470
Work-in-progress	**11,846**	5,356
Finished goods	**15,051**	12,835
	31,602	28,661

21. TRADE AND OTHER RECEIVABLES, DEPOSITS AND PREPAYMENTS

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

	Group		Company	
	2012	2011	**2012**	2011
	HK$'000	HK$'000	**HK$'000**	HK$'000
Trade receivables	**18,540**	46,690	**–**	–
Less: Allowance for doubtful debts	**(681)**	(8,195)	**–**	–
	17,859	38,495	**–**	–
Other receivables, deposits and prepayments	**4,167**	8,560	**509**	–
Less: Provision for impairment	**–**	(5,996)	**–**	–
	4,167	2,564	**509**	–
	22,026	41,059	**509**	–

Notes to the Financial Statements

31 March 2012

21. TRADE AND OTHER RECEIVABLES, DEPOSITS AND PREPAYMENTS – *Continued*

(a) The normal 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

	Group	
	2012	2011
	HK$'000	HK$'000
At beginning of year	**8,195**	16,063
Amounts written off for the year	**(7,960)**	–
Addition to/(reversal of) impairment loss	**446**	(614)
Classified as held for sale	**–**	(7,254)
At end of year (note (i))	**681**	8,195

Provision for impairment on other receivables, deposits and prepayments

	2012	2011
	HK$'000	HK$'000
At beginning of year	**5,996**	5,996
Amounts written off for the year	**(5,996)**	–
At end of year	**–**	5,996

Note:

(i) At 31 March 2012, the Group's trade receivables of approximately HK$681,000 (2011: HK$8,195,000) were individually determined to be impaired.

Notes to the Financial Statements

31 March 2012

21. TRADE AND OTHER RECEIVABLES, DEPOSITS AND PREPAYMENTS – *Continued*

(c) At 31 March 2012, the ageing analysis of the trade receivables net of allowance for doubtful debts was as follows:

	Group	
	2012	2011
	HK$'000	HK$'000
0-90 days	**16,840**	31,133
91-180 days	**592**	2,456
181-365 days	**115**	4,126
Over 365 days	**312**	780
	17,859	38,495

The Group's sales are on letter of credit or open account terms. Credit terms are reviewed on a regular basis. The normal trade term ranges from 30 to 90 days but business partners with strong financial 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	
	2012	2011
	HK$'000	HK$'000
Not past due	**13,240**	31,017
Within 30 days past due	**3,646**	1,295
31 to 90 days past due	**522**	1,006
Over 90 days past due	**451**	5,177
	4,619	7,478
	17,859	38,495

Notes to the Financial Statements

31 March 2012

21. TRADE AND OTHER RECEIVABLES, DEPOSITS AND PREPAYMENTS – *Continued*

(e) 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.

22. AMOUNTS DUE FROM/(TO) RELATED COMPANIES

(a) Amounts due from related companies

	As at 31 March 2012 HK$'000	As at 1 April 2010 and 31 March 2011 HK$'000	**Maximum balances outstanding during the year ended 31 March 2012 HK$'000**	Maximum balances outstanding during the year ended 31 March 2011 HK$'000
Amounts due from related companies				
Lung Cheong (BVI) Holdings Limited	**1,591**	–	**1,591**	–
Lung Cheong Toys Limited	**26,055**	–	**94,155**	–
Lung Cheong Resources Management Limited	**692**	–	**1,185**	–
Lung Cheong Digitech (HK) Company Limited	**4,011**	–	**4,050**	–
Dongguan Lung Cheong Toys Co., Ltd.	**757**	–	**757**	–
Dongguan LC Technology Co., Ltd.	**9,907**	–	**9,907**	–
	43,013	–	**111,645**	–

(i) Amounts due from related companies are unsecured, interest-free and repayable on demand.

(ii) After disposal of Disposal Group (as defined in Note 37) on 12 April 2012, the above companies had become related companies of the Group, in which Mr Leung Chung Ming, who is a shareholder of the Company's ultimate holding company, Rare Diamond Limited ("RDL"), and Mr Leung Yuk Wai, Kenneth, who is the director, Mr Leung Lun's son, have beneficial interests.

(b) Amounts due to related companies are unsecured, interest-free and repayable on demand.

Notes to the Financial Statements
31 March 2012

23. CASH AND CASH EQUIVALENTS

	Group		Company	
	2012	2011	**2012**	2011
	HK$'000	HK$'000	**HK$'000**	HK$'000
Cash at banks and in hand	**7,156**	13,723	**229**	276

24. 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 (collectively the "Agreements") entered between the Company and Brisk Mark Holdings Limited (the "Purchaser"), which is owned by Mr Leung Chung Ming and Mr Leung Yuk Wai, Kenneth, the Company would dispose of its entire interests in the subsidiaries which were mainly engaged in manufacture of toys and moulds in the Mainland China (the "Disposal"). The following major classes of assets and liabilities relating to this disposal had been classified as held for sale in the consolidated statement of financial position as at 31 March 2011.

	2011
The Group	HK$'000
Leasehold land and land use rights	88,204
Property, plant and equipment	127,096
Club memberships	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

Notes to the Financial Statements

31 March 2012

25. TRADE AND OTHER PAYABLES AND ACCRUED CHARGES

	Group		Company	
	2012	2011	**2012**	2011
	HK$'000	HK$'000	**HK$'000**	HK$'000
Trade payables	**3,791**	1,327	**–**	–
Other payables and accrued charges	**8,786**	15,601	**650**	3,728
	12,577	16,928	**650**	3,728

At 31 March 2012, the ageing analysis of the trade payables was as follows:

	Group	
	2012	2011
	HK$'000	HK$'000
0-90 days	**3,787**	1,150
91-180 days	**4**	161
181-365 days	**–**	16
	3,791	1,327

Notes to the Financial Statements

31 March 2012

26. OBLIGATIONS UNDER FINANCE LEASES

At 31 March 2012, the Group had obligations under finance leases repayable as follows:

	Group			
	Minimum lease payment		Present value of minimum lease payments	
	2012 HK$'000	2011 HK$'000	2012 HK$'000	2011 HK$'000
Within one year	–	3,841	–	3,721
In the second year	–	536	–	604
	–	4,377	–	4,325
Less: Future finance charges	–	(52)		
Total net finance lease payment	–	4,325		
Portion classified as current liabilities	–	(3,721)		
Non-current portion	–	604		

It was the Group's policy to lease certain of its property, plant and equipment under finance leases. The average lease term was 3 to 4 years. The rate of interest for finance leases as at 31 March 2011 ranged from 2.21% to 3.21% per annum. All leases were on a fixed repayment basis and no arrangements had been entered into for contingent rental payments.

Notes to the Financial Statements

31 March 2012

27. BORROWINGS

	Group	
	2012	2011
	HK$'000	HK$'000
Current		
Trust receipt loans	**15,529**	18,190

i) Trust receipt loans at 31 March 2012 were interest bearing at variable rate. The average effective interest rates at the end of reporting period were as follows:

	2012		2011	
	HKD	**USD**	HKD	USD
Trust receipt loans	**N/A**	**6.75%**	3.9%	N/A

ii) As at 31 March 2012, the Group's bank borrowings and banking facilities are secured by a legal charge over the Group's land and buildings situated in Indonesia, with a carrying value of HK$35,555,000. As at 31 March 2011, the Group's bank borrowings and banking facilities were secured by corporate guarantee from group companies.

28. PROVISION FOR LONG SERVICE PAYMENT

	Group	
	2012	2011
	HK$'000	HK$'000
At beginning of year	**1,683**	1,922
Addition to/(reversal of) provision	**20**	(59)
Exchange differences	**(92)**	82
Classified as held for sale	**–**	(262)
At end of year	**1,611**	1,683

The amount as at 31 March 2012 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 2012

29. DEFERRED TAX

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

Deferred tax assets:

	Cumulative tax losses HK$'000	**Others** HK$'000	**Total** HK$'000
At 1 April 2010	2,097	799	2,896
(Charged)/credited to profit or loss (Note 10)	(403)	152	(251)
Exchange difference	–	45	45
At 31 March 2011	1,694	996	2,690
Credited/(charged) to profit or loss (Note 10)	1,721	(52)	1,669
Exchange difference	–	(51)	(51)
At 31 March 2012	3,415	893	4,308

Notes to the Financial Statements
31 March 2012

29. DEFERRED TAX – *Continued*

Deferred tax liabilities:

	Revaluation of properties HK$'000
At 31 March 2010	5,235
Credited to profit or loss (Note 10)	(189)
Released to equity	(1,822)
Exchange difference	161
At 31 March 2011	3,385
Charged to equity	4,448
Exchange difference	(179)
At 31 March 2012	7,654

Net deferred tax liabilities:

At 31 March 2012	(3,346)
At 31 March 2011	(695)

	2012 **HK$'000**	2011 HK$'000
Deferred tax assets	**3,508**	1,694
Deferred tax liabilities	**(6,854)**	(2,389)
	(3,346)	(695)

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$41,905,000 (2011: HK$120,145,000) that can be carried forward against future taxable income. All tax losses may be carried forward indefinitely except for the amount of approximately HK$19,913,000 (2011: HK$19,726,000) which will expire from 2022 to 2029.

Notes to the Financial Statements

31 March 2012

30. SHARE CAPITAL

	Authorised			
	Convertible cumulative redeemable preference shares of US$100,000 each		Ordinary shares of HK$0.10 each	
	Number of shares		Number of shares	
		US$'000	'000	HK$'000
At 1 April 2010, 31 March 2011 and 2012	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$0.10 each	
	Number of shares		Number of shares	
		US$'000	'000	HK$'000
At 1 April 2010, 31 March 2011 and 2012	–	–	2,957,758	295,776

31. SHARE OPTION SCHEME

On 3 September 2002, a share option scheme (the "Scheme") was approved by the shareholders of the Company. Under the Scheme, share options can be exercised at any time during the periods to be determined and notified by the directors of the Company to the grantees at the time of making offers to grant share options to them, provided that such periods shall not exceed the period of ten years from the date of grant. The scheme mandate limit of the Scheme was refreshed pursuant to a shareholders' resolution passed in the annual general meeting of the Company last held on 25 September 2009 (the "AGM"). The maximum number of shares available for issue under the Scheme is 295,775,799, representing 10% of the issued ordinary share capital of the Company as at the date of the AGM, 25 September 2009 and thereafter. The subscription price for the shares under the Scheme shall be a price determined by the directors at its discretion, provided that it shall not less than the higher of (i) the closing price of the shares stated in the daily quotation sheets of Stock Exchange on the date of grant and (ii) the average closing price of the shares stated in the Stock Exchange's daily quotation sheets for the five business days immediately preceding the date of grant of share options. A nominal consideration of HK$1 is payable for each of the share options granted.

No share options were granted during the current year and prior year.

As at 31 March 2012 and 2011, there was no outstanding share options previously granted under the Scheme.

Notes to the Financial Statements

31 March 2012

32. RESERVES

Group

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.

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(n).

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).

Company

	Share premium HK$'000	Accumulated losses HK$'000	Total HK$'000
At 1 April 2010	**124,958**	**(315,829)**	**(190,871)**
Loss and total comprehensive income for the year	–	(73,982)	(73,982)
At 31 March 2011	**124,958**	**(389,811)**	**(264,853)**
Loss and total comprehensive income for the year	–	(40,898)	(40,898)
At 31 March 2012	**124,958**	**(430,709)**	**(305,751)**

Notes to the Financial Statements

31 March 2012

33. NON-CASH TRANSACTION

During the year ended 31 March 2011, the Group acquired HK$617,014 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.

The Group has no significant non-cash transaction during the year ended 31 March 2012.

34. 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. No guarantees were granted by the Company at 31 March 2012.

At 31 March 2012 and 2011, the Group had no contingent liabilities.

35. COMMITMENTS UNDER OPERATING LEASES

At 31 March 2012, the Group had future aggregate minimum lease payments under non-cancellable operating leases in respect of land and buildings as follows:

	2012 **HK$'000**	2011 HK$'000
Not later than one year	**589**	322
Later than one year and not later than five years	**606**	705
	1,195	1,027

Operating lease payments represent rentals payable by the Group on its leased properties. Leases are negotiated for terms ranging from one to five years and rentals are fixed over the terms of the leases.

Notes to the Financial Statements
31 March 2012

36. 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 related parties companies during the year, and balances with them at the end of reporting period, are as follows:

(a) During the year, the Group entered into the following material transactions with related companies:

Related party relationship	Type of transaction	Transaction amount	
		2012 HK$'000	2011 HK$'000
Company controlled by a director's close family members	Sales	**88**	–
Companies controlled by a director's close family members	Purchase	**312,967**	–

(b) The loan from immediate holding company is unsecured and interest bearing at HIBOR (2011: HIBOR +2.3%). At 31 March 2012, 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 2013.

(c) Key management personnel compensation

The key management personnel includes the directors of the Company only and whose emoluments were set out in Note 15(a) to the financial statements.

Notes to the Financial Statements

31 March 2012

37. DISPOSAL OF SUBSIDIARIES

As detailed in Note 24, the Company had entered into agreements to dispose of its entire interests in certain subsidiaries (the "Disposal Group"). Details are set out in the Company's announcement and circular dated 28 January 2011 and 25 March 2011 respectively. The disposal was completed on 12 April 2011, the date on which the control on the Disposal Group was passed to the Purchaser. The assets and liabilities of the Disposal Group at the date of disposal were as follows:

	HK$'000	HK$'000
Leasehold land and land use rights	88,141	
Property, plant and equipment	126,698	
Club memberships	2,001	
Inventories	84,517	
Trade and other receivables, deposits and prepayments	13,884	
Tax recoverable	1,760	
Cash and cash equivalents	37,314	
Trade and other payables and accrued charges	(90,550)	
Obligations under finance leases	(564)	
Borrowings	(300,618)	
Tax payable	(6,363)	
Provision for long service payment	(262)	(44,042)
Release of exchange fluctuation reserve		(66,918)
Balance payable by the Company (Note)		18,911
Gain on disposal of subsidiaries		92,049
Nil consideration		–
Net cash outflow arising on disposal:		
Cash and cash equivalents disposed of		37,314

Note: Pursuant to the Agreements, as the net amount due from Disposal Group of approximately HK$263,089,000, which was less than HK$282,000,000 as at 12 April 2011, the difference of approximately HK$18,911,000 will be payable by the Company to the Disposal Group.

Notes to the Financial Statements

31 March 2012

38. CAPITAL RISK MANAGEMENT

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

The capital structure of the Group consists of net debts, which includes the borrowings disclosed in Note 27, obligation under finance leases and loan from immediate holding company, less of cash and cash equivalents and equity attributable to owners of the Company, comprising share capital and reserves as disclosed in Notes 30 and 32, respectively.

The Group's management reviews the capital structure periodically. As part of this review, 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:

	2012 **HK$'000**	2011 HK$'000
Debts	**65,529**	72,515
Cash and cash equivalents	**(7,156)**	(13,723)
Net debts	**58,373**	58,792
Equity/(deficit)	**20,472**	(2,868)
Net debts to equity ratio	**285%**	n/a

Notes to the Financial Statements

31 March 2012

39. 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 14% (2011: 27%) and 47% (2011: 63%) 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 2012

39. 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
2012				
Borrowings	15,529	15,529	15,529	–
Trade and other payables and accrued charges	12,577	12,577	12,577	–
Loan from immediate holding company	50,000	50,844	844	50,000
Amounts due to related companies	43,412	43,412	43,412	–
	121,518	122,362	72,362	50,000

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
2012				
Trade and other payables and accrued charges	650	650	650	–
Loan from immediate holding company	50,000	50,844	844	50,000
Amounts due to related companies	3,943	3,943	3,943	–
	54,593	55,437	5,437	50,000

Notes to the Financial Statements
31 March 2012

39. 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
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
2011				
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 2012

39. FINANCIAL RISK MANAGEMENT – *Continued*

Financial risk factors – *Continued*

(c) Interest risk

The Group's interest rate risk arises primarily from borrowings. All of the Group's borrowings at 31 March 2012 were issued at variable rates and expose the Group to cash flow interest rate risk. The interest rates and terms of repayment of the Group's borrowings are disclosed in Notes 26, 27 and 36(b) 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 2012, 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 profit for the year and accumulated losses by approximately HK$328,000 (2011: HK$856,000).

The sensitivity analysis above has been determined assuming that the change in interest rates had occurred at the end of reporting period and had been applied to the exposure to interest rate risk for both derivative and non-derivative financial instruments in existence at that date. The 50 basis points increase or decrease represents management's assessment of a reasonably possible change in interest rates over the period until the next end of reporting period. The analysis is performed on the same basis for 2011.

(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.

Notes to the Financial Statements

31 March 2012

39. FINANCIAL RISK MANAGEMENT – *Continued*

Financial risk factors – *Continued*

(d) Foreign exchange risk – *Continued*

At 31 March 2011, 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.

	2012			2011		
	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	19,775,525	–	6,498	–	4,075	9,373
Cash and cash equivalents	–	–	387	–	350	638
Trade and other payables	(28,642,958)	–	–	(15,629,978)	(36,728)	–
Borrowings	–	–	(2,000)	–	–	–
Overall net exposure	(8,867,433)	–	4,885	(15,629,978)	(32,303)	10,011

Notes to the Financial Statements
31 March 2012

39. FINANCIAL RISK MANAGEMENT – *Continued*

Financial risk factors – *Continued*

(d) Foreign exchange risk – *Continued*

The following table indicates the approximate change in the Group's profit/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.

	2012		2011	
	Increase/ (decrease) in foreign exchange rates	**Increase/ (decrease) in profit for the year HK$'000**	Increase/ (decrease) in foreign exchange rates	Increase/ (decrease) in loss for the year HK$'000
Rupiah	**5%**	**(313)**	5%	699
	(5%)	**313**	(5%)	(699)
Renminbi	**5%**	**–**	5%	1,923
	(5%)	**–**	(5%)	(1,923)
United States dollars	**5%**	**(538)**	–	–
	(5%)	**538**	–	–

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 dollars and the United States dollars would be materially unaffected by any changes in movement in value of the United States dollars against other currencies. Results of the analysis as presented in the above table represent an aggregation of the effects on each of the group entities' profit/loss for the year and equity measured in the respective functional currencies, translated into Hong Kong dollars at the exchange rate ruling at the end of reporting period for presentation purposes. The analysis is performed on the same basis for 2011.

Notes to the Financial Statements
31 March 2012

39. 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 2012 and 2011.

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.

40. SUMMARY OF FINANCIAL ASSETS AND FINANCIAL LIABILITIES BY CATEGORY

The carrying amounts of the Group's financial assets and financial liabilities as recognised at 31 March 2012 and 2011 may be categorised as follows:

	2012 HK$'000	2011 HK$'000
Financial assets		
Loans and receivables (including cash and bank balances)	**72,195**	54,782
Financial liabilities		
Financial liabilities measured at amortised cost	**121,518**	89,443

Notes to the Financial Statements

31 March 2012

41. SUBSEQUENT EVENT AFTER THE REPORTING PERIOD

On 24 April 2012, the Company entered into the placing agreement with the placing agent to procure not fewer than six Placees (who are independent third parties) to subscribe for up to 500 million placing shares at the placing price of HK$0.15 per share. In addition, the Company will issue unlisted warrants, at the subscription price of HK$0.15 per subscription share, on the basis of one warrant for each placing share issued, at the issue price of HK$0.01 per warrant.

The net proceeds from the placing (excluding any exercise of the subscription rights attached to the warrants) amounted to approximately HK$77 million and the net proceeds from the full exercise of the subscription rights attached to the warrants, will amount to approximately HK$75 million. The Company intends to apply the aggregate net proceeds from the placing, together with the proceeds from the issue of the subscription shares upon full exercise of the subscription rights attached to the warrants for the purposes set out in the announcements of the Company dated 25 April 2012 and the circular of the Company dated 16 May 2012.

The placing and the subscription were completed on 13 June 2012 and 500 million ordinary shares and warrants were allotted and issued. The net proceeds received by the Company from the placing are approximately HK$75 million.

42. APPROVAL OF FINANCIAL STATEMENTS

These financial statements were approved and authorised for issue by the Board of Directors on 28 June 2012.

LUNG CHEONG
INTERNATIONAL HOLDINGS LIMITED

Lung Cheong Building, 1 Lok Yip Road, Fanling, Hong Kong
Tel: (852) 2677 6757 Fax: (852) 2677 6857

www.e-lci.com