LUNG CHEONG
INTERNATIONAL HOLDINGS LIMITED

(Incorporated in the Cayman Islands with limited liability)
Stock Code: 348

Annual Report
2013/2014

Contents

Corporate Information

EXECUTIVE DIRECTORS

Mr Leung Lun, M.H. *(Chairman and Chief Executive)*
Mr Wong, Andy Tze On
Ms Fang Fang

INDEPENDENT NON-EXECUTIVE DIRECTORS

Mr Ye Tian Liu
Mr Lai Yun Hung
Dr Ko Peter, Ping Wah

AUDIT COMMITTEE

Mr Lai Yun Hung *(Chairman)*
Mr Ye Tian Liu
Dr Ko Peter, Ping Wah

NOMINATION COMMITTEE

Mr Leung Lun, M.H. *(Chairman)*
Mr Ye Tian Liu
Mr Lai Yun Hung
Dr Ko Peter, Ping Wah
Ms Fang Fang

REMUNERATION COMMITTEE

Mr Ye Tian Liu *(Chairman)*
Mr Lai Yun Hung
Mr Leung Lun, M.H.
Dr Ko Peter, Ping Wah
Ms Fang Fang

COMPANY SECRETARY

Mr Mak Yee Chuen, Vincent

AUDITOR

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PRINCIPAL SHARE REGISTRAR AND TRANSFER OFFICE

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HONG KONG BRANCH SHARE REGISTRAR AND TRANSFER OFFICE

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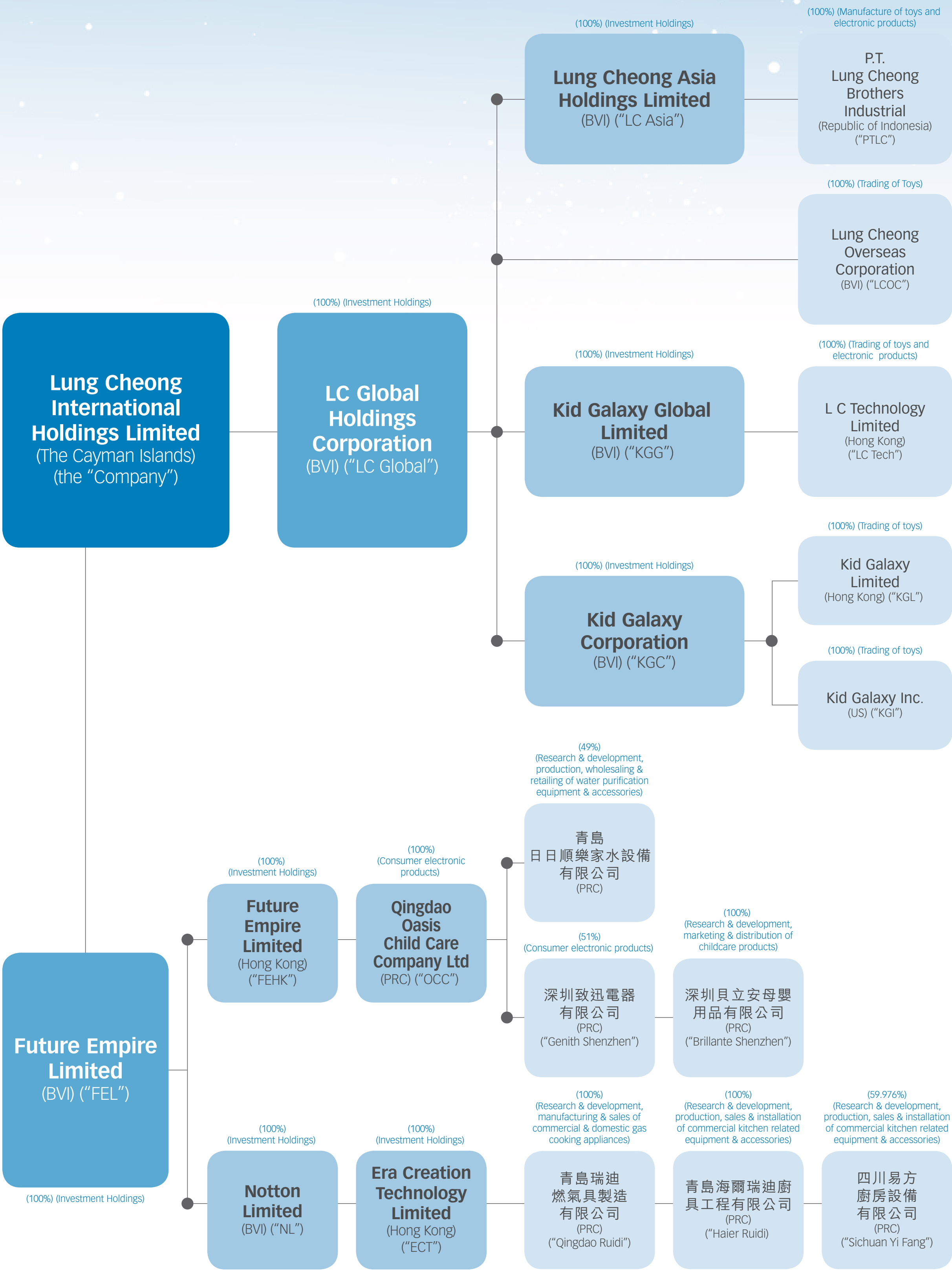
Level 22 Hopewell Centre
183 Queen's Road East
Hong Kong

LISTING INFORMATION

The Stock Exchange of Hong Kong Limited
Stock Code: 348

Corporate Structure

(as at 27 June 2014)



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"), I present to you the annual results of the Company and the Group for the year ended 31 March 2014.

RESULTS

For the year ended 31 March 2014 (the "Year" or "Period"), the Group's turnover decreased by approximately ("approx") 7% to approx HK$194 million, compared with approx HK$209 million for the year ended 31 March 2013 (the "FY12/13" or "Corresponding Period").

Gross profit margin for the Period was approx 31% compared to approx 26% in the Corresponding Period. Overall, profit attributable to owners of the Company was approx HK$5 million compared with a profit of approx HK$2 million in the Corresponding Period. The Directors do not recommend the payment of any dividend for the year ended 31 March 2014 (FY12/13: Nil).

BUSINESS REVIEW

The Group recorded a slight increase in profit for the year ended 31 March 2014 as compared to the profit recorded by the Group for the year ended 31 March 2013. The increase in consolidated profit was primarily attributable to interest income and gain on disposal of the Group's available-for-sale investments of approx HK$20 million for the year ended 31 March 2014 which did not occur for the same period in previous year.

For our financial year ended 31 March 2014 ("FY13/14"), the Group's core businesses are its Kid Galaxy Original Brand Manufacturing ("OBM") business and Original Equipment Manufacturing ("OEM") business, with the Indonesian factory as its primary production base. The Directors and senior executives ("Management") believe Indonesia's plentiful supply of labour continued to be beneficial and provides the Group with a stable environment. The purchases from related People's Republic of China ("PRC") toy factories have been reduced from approx HK$79 million to approx HK$48 million during the comparative period under review. Turnover of the Group's manufacturing plant in Indonesia decreased from approx HK$93 million for the Corresponding Period to approx HK$77 million, and accounted for approx 40% (FY12/13: 45%) of Group's turnover for the period ended 31 March 2014. During peak production time within the Period, the Group had over 1,600 employees at the Indonesian factory. However, weakness of the Rupiah and increased in labor costs has resulted in salaries and wages increase accounting for approx 27% for the Indonesian subsidiary's turnover during the Period under review.

In addition to a challenging market environment in FY13/14, the Group had to compete to preserve its OEM customers without a PRC manufacturing base and to rely on its Indonesian production facilities. Overall, the Group's turnover recorded a decrease as certain customers reduced order or opted to place orders with other OEM competitors with PRC and other South East Asian facilities.

Chairman's Statement

During the Year, Kid Galaxy enriched its product mix with new product lines receiving an encouraging market response. It has launched several new product lines during the Year as a result of our strong development efforts utilising all of the HK$15 million from the 2012 Placing. In spite of the marketing programs for Kid Galaxy branded products in place, the turnover of Kid Galaxy OBM sales has decreased to approx HK$94 million, compared with approx HK$110 million for the previous year due to the drop in orders from European and Asia Pacific markets.

The Group has continued its efforts into developing relationships with customers who had strong electronic and plastic toy lines targeted at the median-priced segment. The major portion shipped were less complex, medium priced electronic and plastic products during the year ended 31 March 2014. Shipment of toys were weaker, the Group's toy business segment accounted for approx HK$173 million for the year ended 31 March 2014, lower than the approx HK$209 million recorded for this segment as compared with that in the Corresponding Period. Due to the economic uncertainties affecting consumers worldwide, there were lower sales for toys by approx 17% in FY13/14 compared to previous year.

On 2 April 2013, the Company completed a round of new share placing and raised approx HK$389 million net proceeds. The Proceed not only strengthens the Group's financial position, its also help the Group to make prompt response to all merger and acquisition opportunities which are beneficial to the Group as a whole. Furthermore, the Placing Agent has procured Haier Electrical Appliances Second Holdings (BVI) Limited ("Haier Electrical Appliances Second") as a strategic investor of the Company. Haier Electrical Appliances Second is a wholly-owned subsidiary of Qingdao Haier Investment and Development Co., Ltd. ("Haier Investment") which is one of the major investment companies within Haier Group of companies. Founded 1984, the Haier Group of companies is headquartered in Qingdao, Shandong Province, the PRC and is one of the world's leading white goods home appliance manufacturers. The products of the Haier Group are sold in over 100 countries. The Directors are of the opinion that by accepting Haier Electrical Appliances Second as a strategic investor, the Group can draw on the successful experience of the Haier Group of companies in particular, in building up a well-known worldwide brand name and efficient manufacturing management and worldwide distribution channel, and to improve its business strategy towards the competitive toy manufacturing industry.

Since then, the Management has been actively seeking new revenue source and investment opportunities. During the Period, the Group acquired Notton Limited and its wholly-owned subsidiary Era Creation Technology Limited ("Era Creation"). Era Creation holds the entire equity interest in Qingdao Ruidi, which is engaged in research, development, manufacturing and sale of commercial and residential kitchen products appliances in the PRC. Qingdao Ruidi also owns several intellectual property rights in respect of advanced technologies in the area of environmental friendly kitchen products appliances. The total consideration for the acquisition is HK$108 million, with covenant to profit guarantee for both 2014 and 2015. The Group paid the first cash installment of HK$8 million as scheduled after the acquisition closed in late August 2013 and expect to settle the second payment (HK$8 million in form of cash and 100 million ordinary shares of the Company) if the 2014 profit guarantee (HK$11 million) is reached. Moreover, the Group expects to settle the third payment (HK$8 million in form of cash and 100 million ordinary shares of the Company) if the 2015 profit guarantees (HK$21 million) is reached. The intangible asset consisting mainly of intellectual properties and trademarks for Qingdao Ruidi by the end of 30 September 2013 was approx HK$5 million. Based on the revaluation report by independent third party, this acquisition resulted an increase in goodwill of approx HK$95 million.

Chairman's Statement

Since the completion of acquisition on 19 August 2013, the Group has optimized the management structure, upgraded the manufacturing technology, integrated and expanded sales channels of Qingdao Ruidi. In addition, the Group is acutely aware of the huge Equipment Procurement Construction ("EPC") opportunities arising from the commercial kitchen (i.e. kitchen of hotels, restaurants, colleges, hospitals, militaries, government agencies, etc) and quickly seized them. Therefore, the Group successfully transformed Qingdao Ruidi from a purely cooking appliances manufacturer and distributor into a commercial kitchen total solution provider and EPC contractor. For this purpose, a wholly owned subsidiary of Qingdao Ruidi, 青島海爾瑞迪廚具工程有限公司 ("Haier Ruidi") was set up in November 2013.

During the Period, the Group has initiated a few trial commercial kitchen EPC projects and the Directors are very confident on this business and expecting more substantial revenue to be generated for the year ended 31 March 2015 ("FY14/15").

During the Period, the Group set up a Wholly Foreign-Owned Enterprise ("WOFE"), namely Qingdao Oasis Child Care Company Ltd ("OCC"), to invest primarily in the PRC consumer electronic and childcare products. In addition, at the end of September 2013, the Group used OCC to acquire 51% share interest in a PRC company namely Genith Shenzhen which is principally engaged in the research and development, marketing and distribution of baby appliances in the Mainland China. Based on the revaluation report by independent third party, this acquisition has resulted in an increase in goodwill of approx HK$4 million.

Baby appliances is an emerging sub-market for consumer electronic products, which has been growing rapidly. Different from normal consumer electronic products, customers in particular parents set high demands on safety and quality for baby appliances. Management believes that our decades of experience in pre-school toy industry prepared us well for this new development. After the acquisition, OCC and its non-wholly owned subsidiary, Genith Shenzhen, have been working closely in terms of the management structure optimization, Research and Development enhancement, product line expansion, sales channel development and integration. In addition, OCC was authorized to use the trademarks of "Haier" and "海爾" on all the childcare related products manufactured and traded by OCC at nil consideration during the Period. The childcare related products include but not limited to baby care kit (baby electric steriliser, baby bottle & food warmer, infant formula preparation kit, baby food warmer, baby food processor), baby washing machine, baby air-conditioner, baby air-purifier, baby water purifier, baby refrigerator, children hair grooming products and related childcare electronic products. As a result, sales with improved average selling prices and margins were secured, and the Group's gross profit margin for the Period accounted for improvement to approx 31% compared with approx 26% in the Corresponding Period.

During the year ended 31 March 2014, the Group's major export destinations were the United States of America ("US"), Europe and Mainland China. US continued to be the largest export destinations for the Group, accounting for approx 46% of total turnover the Period (FY12/13: 45%). Other significant overseas markets for the Group during the Period included Europe which accounted for approx 33% (FY12/13: 41%) lower due to the region's economic uncertainties. Mainland China accounted for approx 11% (FY12/13: 1%) of the local delivery to customers for the newly acquired baby appliances and commercial kitchen products.

During the Period, the Group generated approx HK$15 million from small baby appliances with the gross margin of 39%. The sales of the large baby appliance commence since May 2014, therefore, the Management is optimistic of a much bigger turnover in FY14/15.

PLANS AND PROSPECTS

Management takes a cautious view of its business in FY14/15. As market fluctuations and economic uncertainties may affect product demand and customer orders, Management is concerned that the global toy industry will still face challenges in FY14/15. Factors such as increased competition from electronic and mobile tablets, the volatility of raw materials prices, ever increasing energy costs, the weakness of consumer spending, imminent increase in minimum salaries in the PRC as well as Indonesia and fluctuation of the Indonesian Rupiah and the US dollar ("US$") may lead to increasing production costs which would have an adverse impact on the Group's profitability.

In addition, existing OEM customers may place orders directly with competitors with factories in other South East Asia countries or prefer production to be carried out in PRC factories. Management foresees that the Group's total sales and turnover may continue to be affected in FY14/15. As such, measures have already been adopted to attract OEM customers to place more orders directly with the Group's Indonesia factory.

The Group's production base in Indonesia currently enjoys favorable advantages with plentiful supply of labour. The Group looks forward to optimistic growth in its Indonesian plant and enlarges its production capacity as the Group foresees there is sustainable positive environment. Management remains confident in the Group's ability to seize this unique opportunity to consolidate its manufacturing position amid the exit of weaker players. Construction of additional factory building of our Indonesia production facilities utilising funds from the 2012 Placing has commenced since FY13/14 and are expected to be operational in the third quarter of FY14/15. Management expects the production capacity to double once the new factory becomes fully operational for the year ended 31 March 2016.

However the Group needs to streamline the production efficiency of its Indonesian plant to lower the overall manufacturing overhead, sourcing and administrative costs. In addition, new measures have already been adopted to enhance productivity. Management will endeavor to trim excess overheads, improve productivity and control production costs in view of the imminent raise in minimum salaries for the country in 2015.

The Group has actively expanded its distribution channels in the US and also places more effort to develop the European markets. Kid Galaxy continues to increase its presence at exhibitions and open new sales channels such as clubs, Television Sales networks, Internet and chain stores for FY14/15.

The Group has been undertaking business reengineering in the past years, which is transforming the Group from a pure toy manufacturer into a multiple revenue streams group. Besides the legacy business, the Group successfully enters commercial kitchen and baby appliance business during the Period and the Management endeavors to explore more opportunities with high growth rate and attractive investment return to enhance shareholder value.

Commercial Kitchen

To further improve geographical coverage and business service quality, on 2 April 2014 Haier Ruidi entered into a Sales & Purchase agreement to purchase approx 60% of the entire equity interest of 四川易方廚房設備有限公司 ("Sichuan Yi Fang") at a total consideration of Renminbi ("RMB") 8 million (or equivalent to HK$10 million). Sichuan Yi Fang is principally engaged in research and development, production, sale and installation of commercial kitchen related equipment and accessories in the PRC.

Commercial kitchen is a very fragmented sector in the PRC with no major players in the market. Market growth is driven by increasing demand for dinning out as living standard rises, higher environmental standard and fuel cost saving motive. Based on Bosi Data Research and Development, the market is growing 20% per annum over the last 6 years and is expected to reach RMB50 billion in 2015. The Group's patented advanced infra technology for commercial kitchen appliances is able to offer the best energy efficiency in the market of 70% as compared to the government standard of 45%, which allows more than 50% saving in gas consumption in comparison with traditional blast gas kitchen range. Our products have low carbon monoxide emission (20 times less than national standard), quietness and even heating distribution ability. In addition, the Management expects the new government regulation on minimum heat efficiency requirement for commercial kitchen appliance to be implemented in the foreseeable future. With our proprietary product and strong execution ability, the Group has successfully bid a few sizable commercial kitchen EPC projects and the revenue will be booked in FY14/15.

Consumer Electronic Product

(i) Baby Appliance

The market for childcare related products and services is huge and fast growing in China. According to the research from China Research Centre for Children's Industry, the market is approx RMB1.4 trillion in 2013. The recent relaxation of one-child policy provides more catalysts in the children industry. The market is expected to be approx RMB2.6 trillion by 2017.

Since the Group entered the baby appliance market in September 2013, the Management has been actively developing and expanding the small baby appliance (i.e. steam cooker, electric sterilizer, bottle & food warmer etc) product line. Meanwhile, the Group has further leveraged Haier's world class strength in white appliances, and prepared to launch a series of large baby appliances innovatively adapted from big white appliances such as baby washing machine, baby air-conditioner, baby refrigerator, etc. We commenced the large baby appliances sales in May 2014 with very positive word-of-month and we expect more new products to be launched shortly. We target to be the leader in the market to provide large baby appliances in sizable volume in full range. Overall, with our full spectrum of product line (from small to large), strong brand name ("Haier" and "海爾") and extensive distribution channels, the Management is very confident that this business will bring substantial revenue and enhance the profitability of the Group as a whole.

(ii) ***Water Purifier***

On 21 April 2014, Qingdao Oasis and Qingdao Goodaymart Lejia Trading Co., Ltd ("Goodaymart"), an indirect wholly-owned subsidiary of Haier Electronics Group Co., Ltd (Hong Kong Stock Code: 01169), entered into the Joint Venture ("JV") Agreement in relation to the establishment of the JV Company, which will be principally engaged in research and development, production, wholesaling and retailing of water purification equipment and accessories, installation and maintenance of water purification equipment and provision of relevant after sales services in the PRC. The JV Company will be focused on "health and environment" and aims to become a prominent full-house water purification service provider. Upon the establishment of the JV Company, Goodaymart and Qingdao Oasis will own 51% and 49% of the shareholding interest in the JV Company respectively. The JV Company is currently under the process of registration and we expect to officially start the business in July 2014.

Water purifier in China is a prospective market which is characterized by high growth yet fragmentation. In China, consumers are increasingly concerned about water quality due to water pollution caused by various factors. The demand for clean water is increasingly strong and growing fast. Per China Market Monitor Report, the water purifier market penetration rate in developed countries is over 80% whereas only 4% in China, the market size is approx RMB18 billion in 2013 and is expected to reach RMB400 billion by 2020.

Water purifier is a great business with high growth and high profitability. In addition, apart from one time revenue generated from devise sale, recurring revenue can also be generated from the replacement of filters which have a lifespan from 6 months to 36 months depending on water quality, daily usage and the function of filter. The Group is pleased to enter this market in time with a strong JV partner, who plays a leading role in the appliance logistics, distribution, installation and after-sales service. With our strong brand name ("Haier" and "海爾"), high grade technology (Besides our own proprietary technology, Haier Group has signed strategic cooperation agreement with Dow Chemical, to further strengthen the filter quality),unparalleled distribution network, the Management is excited about the prospect of this business and the stable cash flow it will be expected.

On 13 May 2014, the Group granted a total of 100 million share options with the exercise price of HK$0.87 per share. The vesting of share options will be subject to achievement of individual performance targets during a two-year assessment period.

As disclosed in the announcement of the Company dated 31 May 2013, the Company placed approx HK$350 million in its private banking account with a Swiss based banking institute and approx HK$344 million was applied in investing in high yield bonds issued by listed issuers in the open bond market. The Company's investment in the bond market is merely a temporary cash management exercise during the interim period and the Management has been liquidating the bond portfolio at market recently. The HK$350 million we originally placed in the bank, approx HK$250 million was in the form of bond, the rest HK$100 million together with the coupon income it generated has been wired out of that Swiss based banking institute for operation.

Chairman's Statement

The Company will maintain its intention with the intended use of proceeds as disclosed in the 2013 Placing Circular. As at 31 March 2014, the Group had approx HK$17 million non-cash valuation loss on available-for-sale investments as shown in our consolidated statement of comprehensive income. However, as at 26 June 2014, this marked to market loss narrowed to approx HK$13 million. Furthermore, the available-for-sale investments would have generated approx HK$5 million coupon income by end of first quarter 30 June 2014. Management will continue to closely monitor and carefully manage the investments.

APPRECIATION

In conclusion, I would like to sincerely thank my fellow Board members and senior management, and all the 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 go to our investors, customers, financiers and suppliers for their support to the Group during the past year.

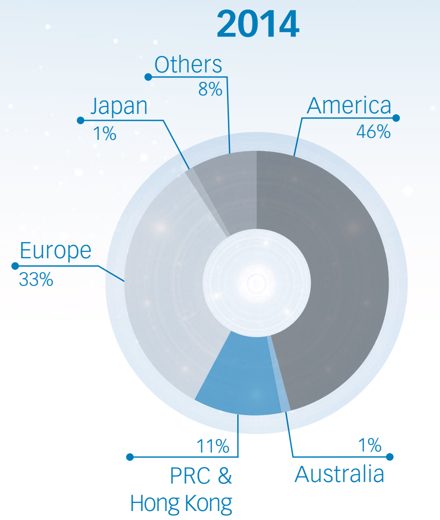
Leung Lun
Chairman and Chief Executive
27 June 2014

MARKET REVIEW

For the year ended 31 March 2014, America remained the major export destination for the Group's products, with shipments amounting to approx HK$90 million compared to approx HK$93 million in the corresponding period last year, accounted for approx 46% (FY12/13: 45%) of the Group's total shipment. Shipments to Europe were approx HK$65 million as compared with approx HK$87 million in FY12/13, accounted for approx 33% (FY12/13: 41%) of the Group's revenue. The drop in dollar term sales was mainly attributable to the delay in orders and uncertainties surrounding European countries. Exports to Japan was more than that in the previous year at approx HK$2 million (FY12/13: HK$1 million), accounted for approx 1% of the Group's total revenue compared to approx 1% in FY12/13 due to the continued sluggish Japanese economy. With our new investments, local PRC Shipment were approx 11% of sales (FY12/13: 1%) during year under review.

Turnover by Geographical Segment

For the year ended 31 March



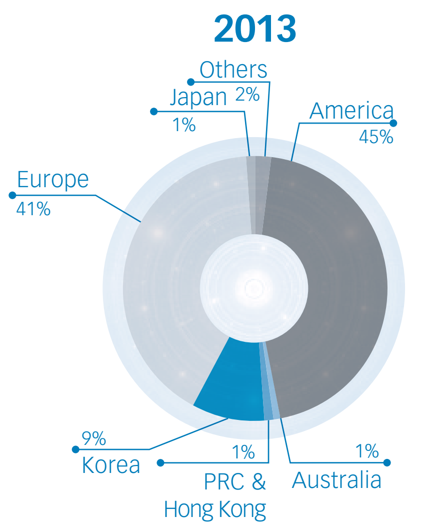
PRODUCT REVIEW

Toys

The Group's core segment recorded a decrease in sales of approx 17% from approx HK$209 million in FY12/13 to approx HK$173 million in FY13/14, accounting for approx 90% of the Group's turnover. 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.

Turnover by Geographical Segment

For the year ended 31 March



Review of Operations

Consumer Electronic Products

The subsidiary generated approx HK$15 million in revenue and a loss before income tax of approx HK$8 million in FY13/14 compared with nil in FY12/13 due to a temporary small economic scale. The Company initiated the baby appliances business in September 2013, which is the major revenue generator during the period.

Commercial Kitchen products

The Group entered into this new segment of business upon the acquisition of Notton Limited since 19 August 2013. This segment contributed revenue of approx HK$5 million and a loss before income tax of approx HK$3 million in FY13/14. The Company started the cooking appliance sales and a few EPC trial contracts during the period. However, due to the temporary small economic scale, this sector made a loss in the Period.

DIVISIONAL AND RESOURCES REVIEW

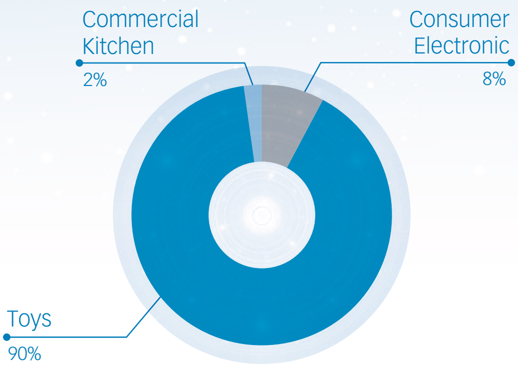
Kid Galaxy

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 international sales arm Kid Galaxy Limited ("KGL") have contributed with sales of approx HK$94 million for year ended 31 March 2014 compared to approx HK$110 million in FY12/13. Its revenue derived mainly from own brands sales such as Elite Fleet, Morphibians, GoGo Auto, KG Flyer and My First RC.

Turnover by Product Type

For the year ended 31 March

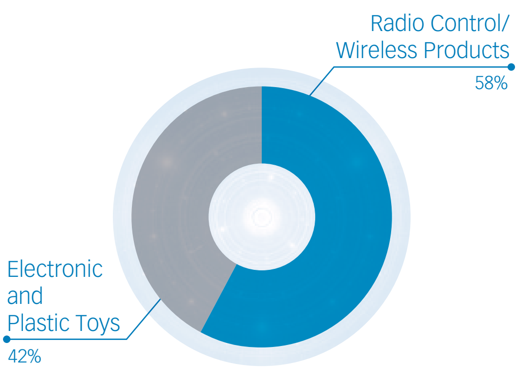
2014



Turnover by Product Type

For the year ended 31 March

2013



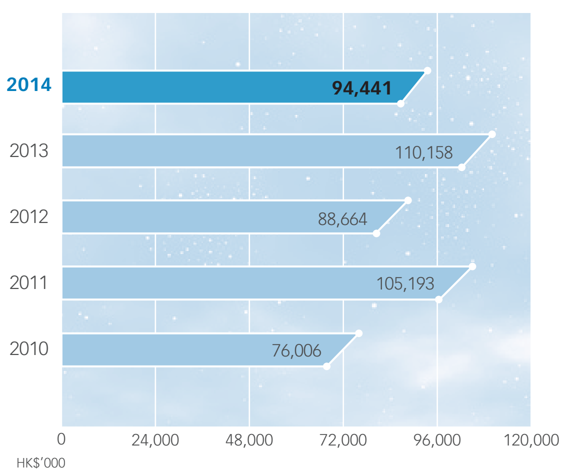
In North America, despite reduced number of specialty stores, KGI was able to maintain sales with higher margin through increased sales to internet channels and mass retail outlets. During FY13/14, Kid Galaxy enriched its product mix with new product lines such as "World of Wheels", "CyberCycle", "Spinball Racers" and "My First Rides" just to name a few. These new product lines which were being introduced during the year under review received an encouraging market response from customers in FY13/14. In the US, KGI aims to increase sales from further penetration into the mass market and internet retail networks.

Indonesia

During the year under review, due to weaken customer confidence in the Group's operations in South East Asia, the factory in Indonesia made lesser contributions to the Group's turnover. Challenges in Southern China had prompted customers to place 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. The Serang factory in Indonesia, at peak production stage during the year ended 31 March 2014, has employed over 1,600 seasonal contract labour. The revenue of Serang factory in Indonesia, during the year ended 31 March 2014 accounted for approx 40% of the sales of the Group compared to approx 45% in FY12/13.

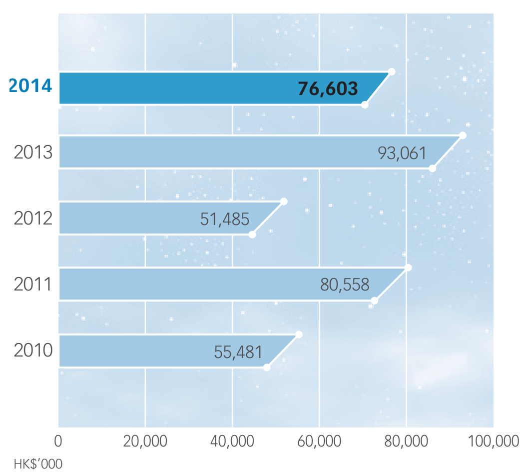
Turnover of Kid Galaxy

For the year ended 31 March



Turnover of Indonesian Production

For the year ended 31 March



Review of Operations

ENVIRONMENTAL, SOCIAL AND GOVERNANCE RESPONSIBILITY

The Group is committed to the long-term sustainability of its businesses and the communities in which it conducts business. It has adopted a proactive approach to environmental, social and governance ("ESG") responsibility and has established a working group, to be chaired by an executive Director, comprising representatives from key departments of the Company to spearhead the ESG activities of the Group. The working group focuses on initiatives related to our stakeholders, our employees, the environment, our operating practices and the community.

ENVIRONMENTAL PROTECTION

Energy saving measures are enforced in the Group's office and factory premises resulting in reduction of electricity consumption and greenhouse gas emissions.

Recycling and use of eco-friendly stationery, plus a series of measures to save paper and energy, resulted in more efficient use of resources, as well as reduction of waste.

PRODUCT SAFETY

At Lung Cheong, the safety of our toys is our number one priority. We produce some of the world's most popular toys and brands for children, and we know that with this comes the responsibility to ensure quality and safety. We strive to sustain the trust of our consumers by employing strict standards that extend from product design to manufacturing and distribution.

The basic quality policy of the Group is to make safe, environmentally friendly products that can be used with confidence, and to offer our customers worldwide the quality that they will find essential. This embodies the principles upon which our safety and quality efforts are founded. In our efforts to improve safety and quality, we comply with laws and regulations, established industry strict standards and exert and monitor controls on the use of heavy metals and phthalates.

Compliance with laws and regulations means working to maintain safety and quality in every country by complying with laws and regulations where we operate. The Group has continued to learn and apply new methods or technologies in order to place stricter safety and quality standards to prevent problems from occurring.

To control heavy metals and phthalates, we use third-party test labs to analyze products for the presence of heavy metals, such as lead, and plasticizers (phthalates). If heavy metals or phthalates are found in any product, we immediately stop and prevent it and from going to the market. The Group continuously strives to ensure product safety and quality and to implement thorough controls.

Review of Operations

The Group applies internal operation procedures designed to comply with ever changing and revised regulations and laws enforced by the US, Europe, Japan and other regulatory around the world.

RESPONSIBLE MANUFACTURING

Lung Cheong is also an active participant of the global toy industry's initiative to continuously improve factory working conditions, commonly referred to as the ICTI CARE process (ICP). The ICP is based on a code of ethical operating practices designed to promote safe and just working conditions in toy factories. The ICP provides the industry with a unified approach to responsible manufacturing. Lung Cheong has committed to manufacture our products and comply with the ICP process. The Group's Indonesian factory is registered with ICTI CARE are audited at least annually for compliance to the ICP Code of Conduct. Audits are conducted by an independent professional audit company that has been approved and trained by the ICTI CARE Foundation. Factories that completed an audit and meet the requirements of the ICP are then issued the ICP Seal of Compliance.

EMPLOYEES

As at 31 March 2014, the Group had approx 1,326 employees and contract workers based in Hong Kong headquarters, Macau office, PRC offices, 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.

In addition, Lung Cheong employees are subject to our Code of Conduct. Employees responsible for overseeing and implementing ethical sourcing practices have received training and our factory-based human resource professionals have received specific instruction regarding the prevention of forced and child labor.

APPRECIATION

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

Wong, Andy Tze On
Executive Director
27 June 2014

Management Discussion and Analysis

FINANCIAL REVIEW

Worldwide uncertainties, 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, resulted in a sales decrease from approx HK$209 million to approx HK$194 million for the year ended 31 March 2014. When comparing with the financial figures with previous years, management wish to highlight certain major differences in comparative figures mainly as a result of the new investments into Qingdao Ruidi and Qingdao Oasis Child Care Company Ltd ("new investments") during FY13/14.

Cost of goods sold ("COGS"), in line with lower sales, decreased approx 14% compared to previous financial year. Spiraling material costs, the strong Renminbi ("RMB") currency, and in addition to higher statutory minimum wage costs incurred by the Group's major supplier (being Disposal Group's PRC factories) affected the overall costs and offset the impacts of measures to reduce cost of the Group as the Group's main revenue currencies are US$, RMB and Hong Kong dollars ("HK$"). The COGS were approx HK$134 million in FY13/14 compared with approx HK$156 million in FY12/13. In FY13/14 purchases consist of materials and finished goods acquired from independent external third parties as well as the Disposal Group.

Purchases from the Disposal Group amounted to approx HK$48 million for FY13/14 (FY12/13: HK$79 million) in line with continuing connected transactions resolution approved by independent shareholders at the Company's extraordinary general meeting ("EGM") held on 7 July 2011. During FY13/14, the Group continued to occupy certain areas as its registered corporate office at Lung Cheong Building, Fanling, Hong Kong owned by the Disposal Group at no charge. This arrangement will be reviewed during FY14/15 and once a revised arrangement is in place, it will be announced and if required, to seek approval in accordance with Listing Rules.

The decreased in sales did not lead to lower gross profit, which increased to approx HK$60 million for the year versus approx HK$53 million in FY12/13. Gross profit margin, was also higher at approx 31% (FY12/13: 26%) due to higher margins of sales contribution from the new investments.

Despite the lower turnover, selling and distribution expenses for the year ended 31 March 2014 were relatively higher at approx HK$23 million, representing an increase of approx 23% against approx HK$19 million in the previous year. Commission paid on sales, licensing fees, marketing and promotional expenses, and transportation and distribution expenses of the newly invested subsidiaries contributed to this increase. During the year under review, proceeds from the First Placing of approx HK$19 million has been applied to selling and distribution, new product development and marketing of the Kid Galaxy OBM business.

General and Administrative ("G&A") expenses for the year ended 31 March 2014 amounted to approx HK$53 million, resulting in overall G&A was approx 57% higher than previous year (FY12/13: HK$34 million). The increase in G&A was mainly due to the additional G&A expenses of the new investments in FY13/14. G&A consist of mainly staff costs, depreciation of fixed assets such as molds, leasehold improvements, plant and equipment during the FY13/14. 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 of which approx HK$10 million has been applied on expanding production facilities as well as replacing old with new and additional equipment for the Indonesian OEM operations. Professional fees such as legal, consulting and accounting fees that were incurred during FY13/14 in relation to the works in conjunction with the new investments and Group restructuring also formed part of the G&A expense.

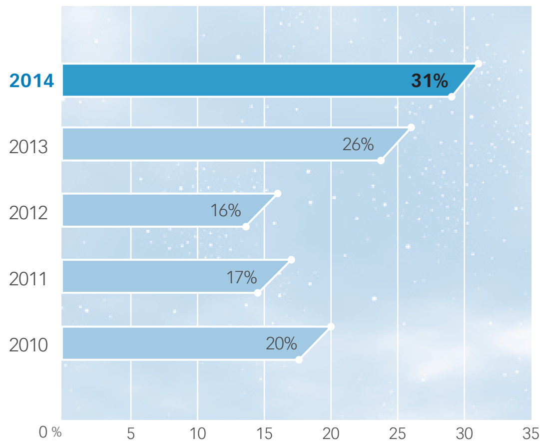
Management constantly reviewed the carrying amount of Goodwill of approx HK$101 million since the acquisition of Kid Galaxy in 2001 plus the recent new investments. No impairment were made during the year under review.

Finance costs included interest expenses, bank charges plus fees incurred for trade facilities for the year under review. Finance cost was approx HK$2 million in FY13/14 compared to approx HK$1 million in FY12/13.

All in all, the Group recorded a profit attributable to shareholders of approx HK$5 million in FY13/14 compared to a profit of approx HK$2 million in FY12/13.

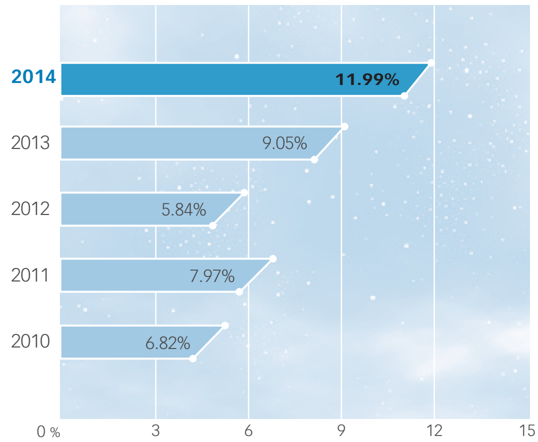
Gross Profit Ratio

As at 31 March



Selling Expense/Turnover

As at 31 March



Management Discussion and Analysis

GROUP RESOURCES AND LIQUIDITY

On 24 April 2012, the Company entered into a 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 issued unlisted Warrants, on the basis of one Warrant for each Placing Share issued, at the Issue Price of HK$0.01 per Warrant ("First Placing").

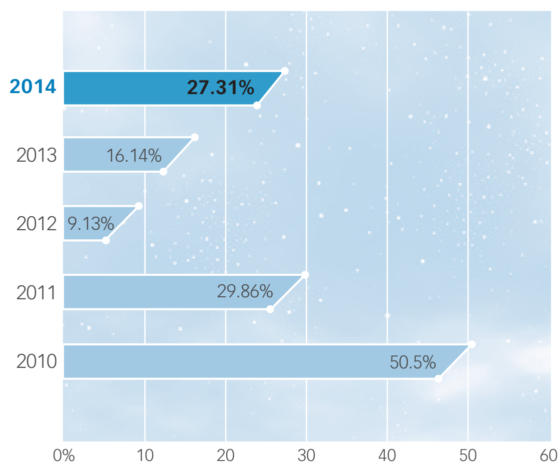
The net proceeds from the First Placing (excluding any exercise of the subscription rights attached to the Warrants) amounted to approx HK$77 million. The Company intends to apply the aggregate net proceeds from the Placing, together with the proceeds from the issue of the Subscription Shares upon full 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 First Placing was approved by the Independent Shareholders at the Company's EGM held on 31 May 2012. All conditions precedent of the First 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.

On 6 November 2012, the Company entered into a Placing Agreement relating to placing of new shares. Details of Placing of New Shares and Possible were set out in the Company's announcements dated 19 November 2012 and the circular of the Company dated 26 February 2013 ("Second Placing"). Pursuant to the Listing Rules, the Second Placing was approved by the Independent Shareholders at the Company's EGM held on 14 March 2013. All conditions precedent to the Second Placing as set out in the Placing Agreement has been fulfilled and net proceeds of approx HK$389 million has been raised upon completion of the Second Placing on 2 April 2013.

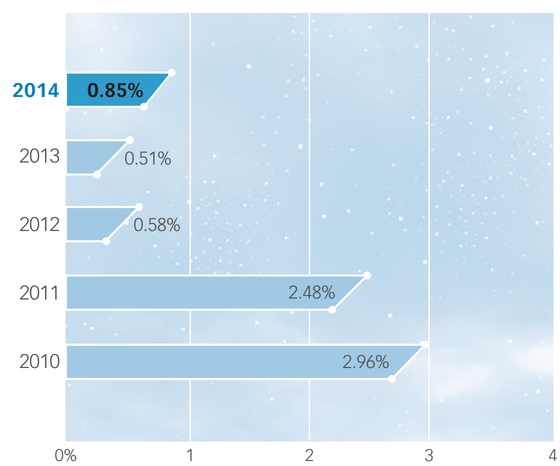
G&A/Turnover

As at 31 March



Finance Costs/Turnover

As at 31 March



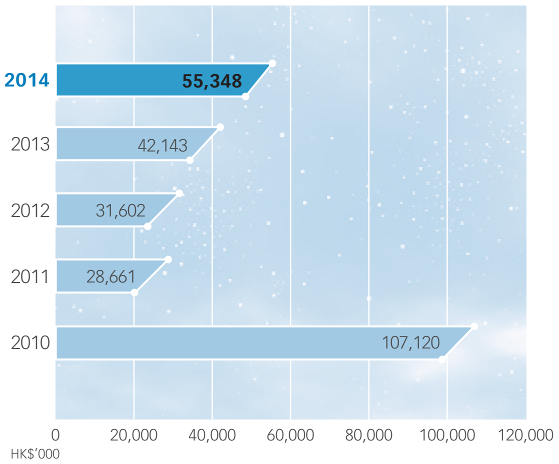
Management Discussion and Analysis

As a result of the new investments, non-current assets had increased greatly in value to approx HK$170 million as at 31 March 2014. Property, plant and equipment assets owned by the Group under non-current assets increased by approx HK$11 million to approx HK$51 million as at 31 March 2014. The increase in value was attributable mainly to additions, repair and maintenance before depreciation of approx HK$2 million of the industrial land and factory buildings in Indonesia. 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 but no appraisal was completed during the financial year under review.

Goodwill associated with Kid Galaxy and the new investments made up approx HK$101 million of intangible assets as at 31 March 2014. During the year, the Group acquired Notton Limited and its wholly-owned subsidiary Era Creation Technology Limited ("Era Creation"). Era Creation holds the entire equity interest in Qingdao Ruidi, which is engaged in research, development, manufacturing and sale of commercial and residential kitchen products appliances in the PRC. Qingdao Ruidi also owns several intellectual property rights in respect of advanced technologies in the area of environmental friendly kitchen products appliances. The total consideration for the acquisition is HK$108 million, with covenant to profit guarantee for both 2014 and 2015. The Group paid the first cash installment of HK$8 million as scheduled after the acquisition closed in late August 2013 and expect to settle the second payment (HK$8 million in form of cash and 100 million ordinary shares of the Company) if the 2014 profit guarantee (HK$11 million) is reached. Moreover, the Group expects to settle the third payment (HK$8 million in form of cash and 100 million ordinary shares of the Company) if the 2015 profit guarantees (HK$21 million) is reached. The intangible asset consisting mainly of intellectual properties and trademarks for Qingdao Ruidi by the end of 30 September 2013 was approx HK$5 million. Based on the revaluation report by independent third party, this acquisition resulted an increase in goodwill of approx HK$95 million.

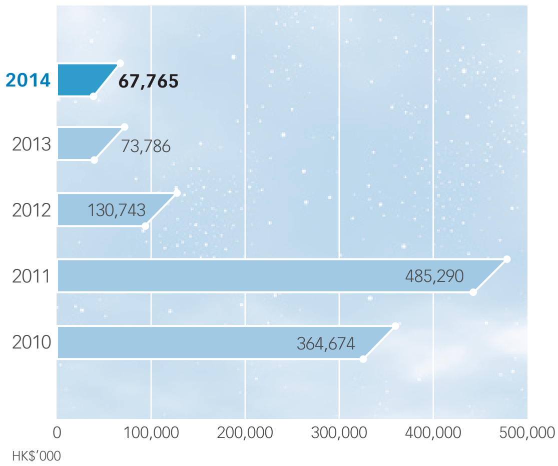
Inventories

As at 31 March



Total Liabilities

As at 31 March



Management Discussion and Analysis

During the year, the Group set up a Wholly Foreign-Owned Enterprise ("WOFE"), namely Qingdao Oasis Child Care Company Ltd ("OCC"), to invest primarily in the PRC consumer electronic and childcare products. At the end of September 2013, the Group used OCC to acquire 51% share interest in a PRC company namely Genith Shenzhen which is principally engaged in the research and development, marketing and distribution of baby appliances in the Mainland China. Based on the revaluation report by independent third party, this acquisition has resulted in an increase in goodwill of approx HK$4 million. No impairment were made during the year thus the book value of goodwill as at 31 March 2014 showed an increase of approx 40 times the previous amount recorded as at 31 March 2013.

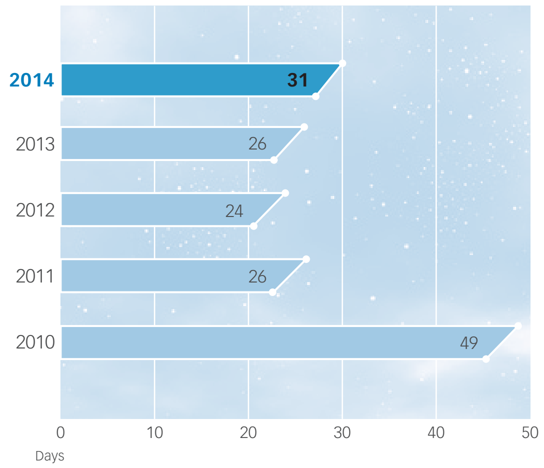
Management placed much emphasize on inventory control and will only authorise purchases in line with sales orders. The decrease in sales and the recent new investments led to changes in purchasing activities during the FY13/14. The new investments were the main reason for the change. Inventories recorded an increase of approx 31% compared to previous year end date, value of stock in warehouse increased from approx HK$42 million in FY12/13 to approx HK$55 million as at 31 March 2014. These are stock held mainly in our Indonesian factory and by an independently managed warehouse in the US and Mainland China. Stock turnover days were higher at 99 days compared with 64 days in the previous year due to recent investments.

In line with the new investments, trade receivables recorded approx 68% increase as at 31 March 2014 to approx HK$21 million, compared with approx HK$12 million at the previous year. Debtor turnover days were higher at 31 days in FY13/14 compared with 26 days in FY12/13. Including Kid Galaxy's OBM revenue, the top 5 customers accounted for approx 58% of the Group's turnover, compared to approx 50% 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.

Cash and bank balance as at 31 March 2014 were approx HK$116 million, compared with approx HK$448 million as at 31 March 2013. The increase in cash and balances were mainly due to the First Placing and Second Placing during the previous year. The Group dealt with different revenue and expenditure currencies during the FY13/14 such as HK$, US$, RMB as well as Indonesian Rupiah. As at 31 March 2014, approx HK$251 million was in the form of available-for-sale investment bond, placed with a Swiss based banking institute.

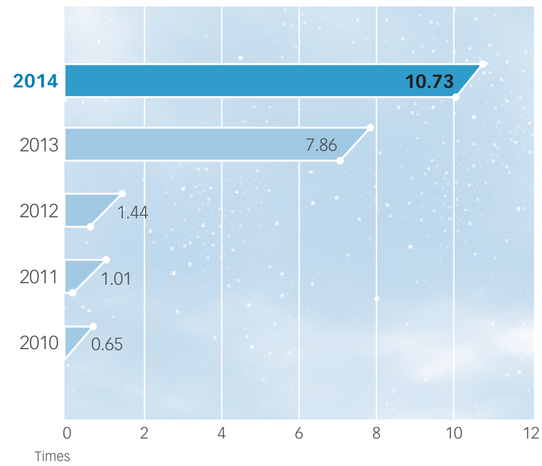
Debtor Turnover Days

As at 31 March



Current Ratio

As at 31 March



Trade payables, and other payable and accrued charges recorded a increase against the previous year. Trade payables, and other payables and accrued charges were approx HK$35 million as at 31 March 2014 compared with approx HK$12 million as at 31 March 2013. The increase in trade payables consisted mainly of payables relating to material purchases, which were in line with the trading businesses of the new investments. Creditor turnover days increased to 35 days versus 29 days at the end of the previous year.

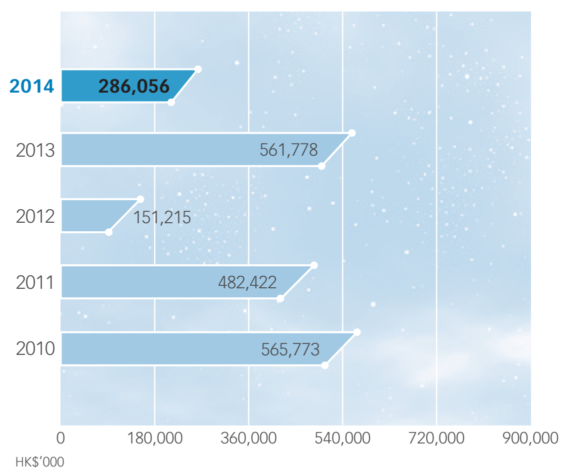
Borrowings under current liabilities decreased to approx HK$12 million as at 31 March 2014 from approx HK$46 million at 31 March 2013, attributable mainly to a banking loan and trade facility offered by a local bank to our Indonesian subsidiary. The Trade facility is secured by the Group's Indonesian property, plant and equipment.

Taking into consideration certain set offs, the total amount due from the related companies was approx HK$4 million, while on the liability section, amount due to the Disposal Group which are being classified as current liabilities accounted to approx HK$3.5 million. The net current liabilities of the Group to the related company as at 31 March 2014 show a value of approx HK$0.5 million.

As at 31 March 2014, the Group had total assets of HK$636 million which was financed by shareholders' fund, payables and financial institutions credit facilities. The Group mainly generated revenue and incurred costs in HK$, US$ and RMB and did not have any related hedges for year ended 31 March 2014. No financial instruments were used for hedging purpose. The Group adopted a prudent funding and treasury policy and managed the fluctuation exposures of exchange rate and interest rate on specific transactions.

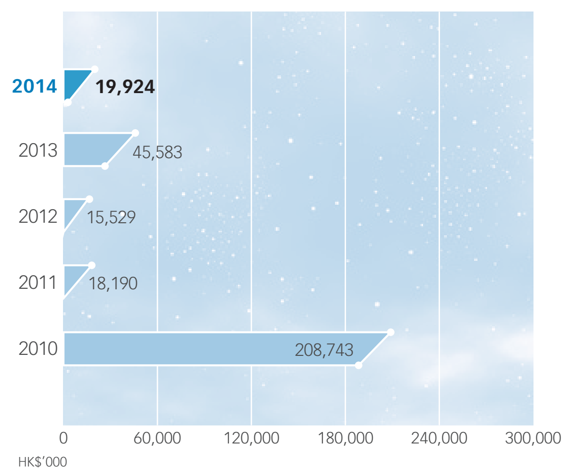
Total Assets

As at 31 March



Bank Borrowings

As at 31 March



Management Discussion and Analysis

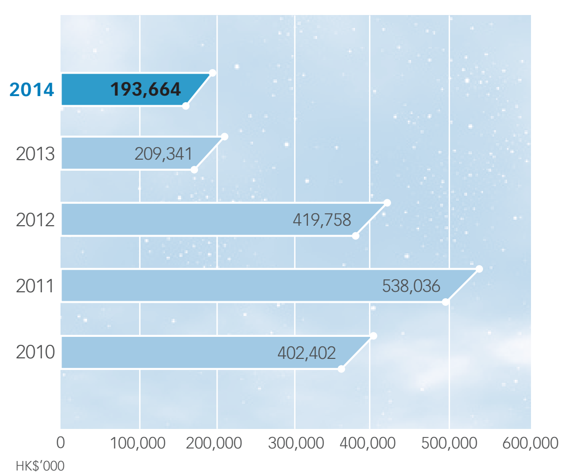
As at 31 March 2014, the Group's total borrowings amounted to about HK$20 million with about HK$12 million repayable on demand or within one year. Gearing ratio, calculated as the total bank borrowings divided by shareholders' equity was approx 4% as at 31 March 2014. All borrowings were denominated in either HK$ and US$ and bore interest at floating rates. As at 31 March 2014, the Group recorded total current assets of approx HK$466 million and total current liabilities of approx HK$43 million. The current ratio of the Group, calculated by dividing the total current assets by total current liabilities was 1,073%. The Group recorded an increase in shareholders' funds from approx HK$488 million as at 31 March 2013 to approx HK$568 million as at 31 March 2014. The increase was mainly resulting from gains from operations in FY13/14 and placing of shares.

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 2014. Foreign currency amounts have been translated at the approx exchange rates prevailing at the close of business on 31 March 2014.

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.

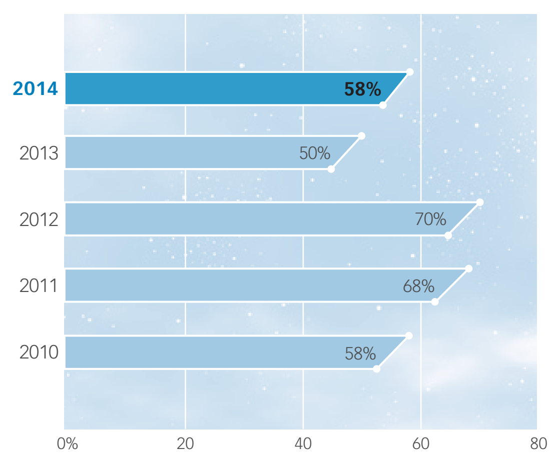
Turnover

For the year ended 31 March



Sales - Five Largest Customers Combined

For the year ended 31 March



CORPORATE GOVERNANCE PRACTICES

The Company is committed to maintain a high standard of corporate governance practices as set out in the Corporate Governance Code (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 which is explained in the relevant paragraphs in this report.

MODEL CODE FOR SECURITIES TRANSACTIONS

The Company has adopted the Model Code for Securities Transactions by Directors of Listed Issuers (the "Model Code") as set out in Appendix 10 of the Listing Rules as its own code of conduct regarding directors' dealings in the Company's securities. Having made specific enquiry to the Directors, the Directors confirmed that they have complied with the required standard set out in the Model Code 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. It focuses on the formulation of business strategy, policy and control. Day-to-day operations of the Company are delegated to the executive directors and senior management of the Group. The Board reviews and approves key matters affecting the Company's strategic policies, finances and shareholders, such as financial statements, dividend policy and major corporate activities. Decisions of the Board are communicated to the management through executive directors who have attended Board meetings.

The Board currently comprises three executive directors and three independent non-executive directors. There is no relationship (including financial, business, family or other material/relevant relationship) among members of the Board. The names and brief biographies are set out on pages 38 to 40 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. All independent non-executive directors bring independent judgement on issues of strategy, performance, risk and people through their contribution at Board meetings.

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. The Board considers that the three independent non-executive directors, representing half of the Board, are independent in character and they also meet the independence criteria set out in Rule 3.13 of the Listing Rules.

Board meetings are scheduled at approx quarterly intervals, and additional meetings will be held when required. The Directors have access to all relevant information as well as the advice and services of the company secretary of the Company. Independent professional advice may be taken by the Directors as required. There were six Board meetings held with full attendance during the year ended 31 March 2014.

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.

CHAIRMAN AND CHIEF EXECUTIVE

Code provision A.2.1 stipulates that, the roles of chairman and chief executive should be separate and should not be performed by the same individual. Throughout the period under review, Mr Leung Lun, M.H. is both the chairman and chief executive of the Company. He provides leadership to the Board and is responsible for the overall strategic planning and corporate development. 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 believes that the balance of power and authority is adequately ensured by the operations of the Board which comprises experienced and high-calibre individuals, with three of them being independent non-executive directors.

BOARD COMMITTEES

The Board has established three committees, namely, the Audit Committee, Remuneration Committee and Nomination Committee, to oversee particular aspects of the Company's affairs. All Board committees of the Company are established with defined written terms of reference. The terms of reference of the Board committees have been posted on the Company's website and the Stock Exchange's website and are available to shareholders upon request.

NUMBER OF MEETINGS ATTEND/HELD

The attendance records of each director at the meetings of the shareholders, the Board, Audit Committee, Remuneration Committee and Nomination Committee during the year are set out below:

	Board	Remuneration Committee	Nomination Committee	Audit Committee	2013 AGM
Executive Directors					
Mr Leung Lun, M.H.					
(Chairman and Chief Executive)	6/6	1/1	2/2	–	1/1
Mr Wong, Andy Tze On	6/6	–	–	–	1/1
Ms Fang Fang (appointed on 31 May 2013) [1]	6/6	1/1	1/2	–	1/1
Independent Non-executive Directors					
Mr Ye Tian Liu	6/6	1/1	2/2	2/2	1/1
Mr Lai Yun Hung	6/6	1/1	2/2	2/2	1/1
Dr Ko Peter, Ping Wah	6/6	1/1	2/2	2/2	1/1

Note:

1 Ms Fang Fang was appointed as an executive director, a member of the Remuneration Committee and Nomination Committee of the Company on 31 May 2013.

CONTINUOUS PROFESSIONAL DEVELOPMENT OF DIRECTORS

To assist directors' continuing professional development, the Company recommends directors to attend relevant seminars to develop and refresh their knowledge and skills. During the year ended 31 March 2014, the Directors have participated in continuous professional development programmes, such as external seminars organised by qualified professionals, to develop and refresh their knowledge and skills in relation to their contribution to the Board. A record of the training received by the respective directors are kept and updated by the Company.

The Directors also understand the importance of continuous professional development and are committed to participating any suitable training to develop and refresh their knowledge and skills.

According to the records provided by the Directors to the Company pursuant to the CG Code, all Directors have participated in appropriate continuous professional development activities during the year under review. The individual training record of each Director for the year ended 31 March 2014 is summarized below:

	Directors' duties and responsibilities/Corporate Governance/Updates on Laws, Rules and Regulations			Business related/ Accounting/Financial/ Management or other professional skills	
	Reading materials	Attending seminars/ conferences	In-house briefings	Reading materials	Attending seminars/ conferences
Executive Directors					
Mr Leung Lun, M.H. *(Chairman and Chief Executive)*	✓	✓	✓	✓	✓
Mr Wong, Andy Tze On	✓	✓	✓	✓	✓
Ms Fang Fang (appointed on 31 May 2013)	✓	✓	✓	✓	✓
Independent Non-executive Directors					
Mr Ye Tian Liu	✓	✓	✓	✓	✓
Mr Lai Yun Hung	✓	✓	✓	✓	✓
Dr Ko Peter, Ping Wah	✓	✓	✓	✓	✓

DIRECTORS' AND SENIOR MANAGEMENT'S EMOLUMENTS

The Company has established a formal and transparent procedure for formulating policies on remuneration of directors and senior management of the Company. Details of the remuneration of each of the Directors for the year ended 31 March 2014 are set out in Note 15 to the consolidated financial statements.

The details of the five individual with highest emoluments are set out in Note 15(b) to the consolidated financial statements.

The remuneration of the senior management are set out in Note 15(c) to the consolidated financial statements.

REMUNERATION COMMITTEE

The Company has established a Remuneration Committee in 2005. The Remuneration Committee consists of three independent non-executive directors, namely Mr Ye Tian Liu, Mr Lai Yun Hung and Dr Ko Peter, Ping Wah and two executive directors, namely Mr Leung Lun, M.H. and Ms Fang Fang. Mr Ye Tian Liu is the chairman of the Remuneration Committee. The function of the Remuneration Committee is to review and make recommendations to the Board on the Company's remuneration policy for all remuneration of directors and senior management. The fees of the non-executive directors (including the independent non-executive directors) are determined by the Board.

All members of the Remuneration Committee met once during the year ended 31 March 2014 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 new share option scheme was adopted by the Company in 2012. Details of the 2012 share option scheme are set out on page 36 and page 37 of this Annual Report.

NOMINATION COMMITTEE

The Company has established a Nomination Committee in 2006. The Nomination Committee currently consists of three independent non-executive directors, namely Mr Ye Tian Liu, Mr Lai Yun Hung and Dr Ko Peter, Ping Wah and two executive directors, namely Mr Leung Lun, M.H. and Ms Fang Fang. Mr Leung Lun, M.H. 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 to complement the Group's corporate strategy.

The Company adopted a policy on board diversity on 25 June 2013.

In assessing the Board composition, the Nomination Committee will consider various aspects set out in the Board diversity policy, including but not limited to gender, age, cultural and educational background, ethnicity, professional qualifications, skills, knowledge, industry and regional experience and length of service.

On selection of candidates for directorship of the Company, the Nomination Committee would consider the candidate's character, qualifications, experience, independence and other relevant criteria necessary to complement the corporate strategy and achieve Board diversity. All appointment will be based on merit.

During the year ended 31 March 2014, the Nomination Committee conducted an annual review of the structure, size and composition of the Board and the independence pursuant to code provision A.5.2 of the CG Code and recommended to the Board the appointment of Ms Fang Fang as an executive director of the Company.

During the year ended 31 March 2014, the Nomination Committee held two meetings.

AUDIT COMMITTEE

Pursuant to the Listing Rules, an Audit Committee was established on 14 March 2000. The Audit Committee currently consists of three independent non-executive directors, namely Mr Ye Tian Liu, Mr Lai Yun Hung and Dr Ko Peter, Ping Wah. Mr Lai Yun Hung is the chairman of the Audit Committee.

By reference to "A Guide for the Formation of An Audit Committee" published by the Hong Kong Institute of Certified Public Accountants, written terms of reference which describe the authority and duties of the Audit Committee were prepared and adopted by the Board since the date of establishment. The principal activities of the Audit Committee include the review and supervision of the Group's financial reporting process (including the preparation of the half yearly and annual results, internal controls and corporate governance).

Two Audit Committee Meetings were held with full attendance during the year ended 31 March 2014 to review the half-yearly and annual financial results and reports, financial reporting, report on the Company's internal control and risk management review and processes and the re-appointment of the external auditors.

The Company's annual results for the year ended 31 March 2014 has been reviewed by the Audit Committee.

The Audit Committee also met the external auditors twice in the absence of the executive directors.

CORPORATE GOVERNANCE FUNCTIONS

The Board is responsible for performing the functions set out in code provision D.3.1 of the CG Code.

The Board reviewed the Company's corporate governance policies and practices, training and continuous professional development of directors and senior management, the Company's policies and practices on compliance with legal and regulatory requirements, the compliance of the Model Code and the Company's compliance with the CG Code and disclosure in this Corporate Governance Report.

AUDITORS' REMUNERATION

During the year ended 31 March 2014, the remuneration paid or payable to the independent auditors, BDO Limited, for services rendered in respect of the audit services and non-audit services amounted to approx HK$1 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 pages 50 to 128. The statement of the external auditors about its reporting responsibilities on the financial statements is set out on page 48 and page 49.

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. During the year under review, the Directors, through the Audit Committee, conducted a review on 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.

Mr Mak Yee Chuen, Vincent, is the Company Secretary of the Group and has day-to-day knowledge of the Company's affairs. He reports to the Chairman and the Chief Executive, Mr Leung Lun, M.H..

The biographical details of Mr Mak set out on page 39 of this Report. Mr Mak has confirmed that he has undertaken no less than 15 hours of relevant professional training during the year.

SHAREHOLDERS' RIGHTS

To safeguard shareholders' interests and rights, a separate resolution is proposed for each substantially separate issue at general meetings, including the election of individual directors. All resolutions put forward at general meetings will be voted on by poll pursuant to the Listing Rules and poll results will be posted on the websites of the Company and of the Stock Exchange after each general meeting.

The procedures for shareholders of the Company to propose a person for election as a director of the Company are available on the Company's website (www.e-lci.com).

Procedures for shareholders to convene extraordinary general meeting and putting forward proposal at general meeting

There are no provisions allowing shareholders to propose new resolutions at the general meetings under the Cayman Islands Companies Law (2012 Revision) (the "Law"). However, shareholders are requested to follow Article 72 of the Articles of Association (the "Articles") of the Company. Pursuant to article 72 of the Articles of the Company, general meetings shall be convened on the written requisition of any two or more members of the Company, or on the written requisition of any one member which is a recognised clearing house, deposited at the registered office specifying the objects of the meeting and signed by the requisitionists, provided that such requisitionists held as at the date of deposit of the requisition not less than one-tenth of the paid up capital of the Company which carries the right of voting at general meetings of the Company. Such meeting shall be held within two months after the deposit of such requisition. If the Board does not within 21 days from the date of deposit of the requisition proceed duly to convene the meeting, the requisitionists themselves or any of them representing more than one-half of the total voting rights of all of them, may convene the general meeting in the same manner, as nearly as possible, as that in which meetings may be convened by the Board provided that any meeting so convened shall not be held after the expiration of three months from the date of deposit of the requisition, and all reasonable expenses incurred by the requisitionists as a result of the failure of the Board shall be reimbursed to them by the Company.

PUTTING FORWARD ENQUIRIES TO THE BOARD

For putting forward any enquiries to the Board of the Company, shareholders may send written enquiries to the Company. The Company will not normally deal with verbal or anonymous enquiries.

Contact details

Shareholders may send their enquiries or requests as mentioned above to the Company:

Address:	Lung Cheong Building, 1 Lok Yip Road, Fanling, New Territories, Hong Kong (For the attention of Company Secretary)
Fax:	(852) 2677 6857

For the avoidance of doubt, shareholders must deposit and send the original duly signed written requisition, notice or statement, or enquiry (as the case may be) to the above address and provide their full name, contact details and identification in order to give effect thereto. Shareholders' information may be disclosed as required by law.

CONSTITUTIONAL DOCUMENTS

During the year under review, the Company has not made any changes to its Memorandum and Articles of Association. An up-to-date version of the Company's Memorandum and Articles of Association is available on the websites of the Company and the Stock Exchange.

INVESTOR RELATIONS

The Company highly values its relationship with its shareholders and other stakeholders. It has put in place an effective corporate communication system which provides transparent, regular and timely public disclosures to its shareholders and other stakeholders. The main features of the system are as follows:

- The Company maintains a corporate website www.e-lci.com on which comprehensive information about the Group, including core business, financial reports, public announcements, circulars and news of the Group, is disclosed. Shareholders can obtain corporate communication electronically via the Company's website.

- The Company establishes and maintains different communication channels with its shareholders and other stakeholders through annual reports, interim reports and other publication.

- AGM provides a useful forum for shareholders to exchange views with the Board. The respective chairmen of the Board and Audit, Remuneration and Nomination Committees (or in the absence of the chairmen of such Committees, another member of each Committee or failing this his duly appointed delegate) will endeavor to be available to answer questions raised by shareholders.

- Separate resolutions are proposed at general meetings for each substantially separate issue, including the election of individual Directors.

- Details of the proposed resolutions to be put forward at a general meeting are, where necessary or appropriate, included in a circular to the shareholders dispatched prior to the date of the relevant general meeting.

- All resolutions put to the vote of a general meeting are taken by poll. The poll results are published on the Stock Exchange's website www.hkexnews.hk and on the Company's website in accordance with Rule 13.39(5) of the Listing Rules.

In addition, the Company has established the investor relations department with designated senior management for maintaining regular dialogue with institutional investors and analysts to keep them abreast of the Company's developments. Enquiries from shareholders and other stakeholders are dealt with in an informative and timely manner.

Shareholders and other stakeholders may write directly to the Company at its principal place of business in Hong Kong for any enquiries..

Report of the Directors

The Directors submit their report together with the audited financial statements for the year ended 31 March 2014.

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, commercial kitchen and consumer electronic products.

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 50.

DIVIDENDS

The Directors view that it would not be prudent to recommend any dividend in view of the result for the year ended 31 March 2014 (2013: Nil).

RESERVES

Movements in the reserves of the Group and of the Company during the year are set out in page 53 and Note 34 to the financial statements.

SHARE CAPITAL

Details of the movements in share capital of the Company during the year ended 31 March 2014 are set out in Note 31 to the financial statements.

PROPERTY, PLANT AND EQUIPMENT

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

DONATIONS

Charitable and other donations made by the Group during the year amounted to approx HK$25,883.

EMOLUMENT POLICY

The Group's emolument policies are based on the salaries paid by comparable companies, employment conditions and responsibilities, and individual performance of the directors, senior management and general staff and are reviewed by the Remuneration Committee periodically.

The emoluments of the directors are recommended by the Remuneration Committee and are decided by the Board, having regard to the salaries paid by comparable companies, time commitment and responsibilities, and employment conditions elsewhere in the Group.

The Company has adopted a share option scheme to provide a flexible and effective means of incentivizing, rewarding, remunerating, compensating to eligible participants who contribute the success of the Group. Details of the schemes are set out in the paragraph headed "Share Option Schemes" below and Note 32 to the financial statements.

None of the directors waived any emoluments during the year ended 31 March 2014.

CLOSURE OF REGISTER OF MEMBERS

The register of members of the Company will be closed from 1 September 2014 to 3 September 2014 (both dates inclusive), during which period no transfer of shares will be effected. In order to determine the entitlement to attend and vote at the annual general meeting of the Company to be held on 3 September 2014, all transfers accompanied by the relevant share certificates must be lodged with the Company's branch share registrar in Hong Kong, Tricor Abacus Limited, at Level 22, Hopewell Centre, 183 Queen's Road East, Hong Kong not later than 4:30 p.m. on 29 August 2014.

INFORMATION ON SUBSIDIARIES

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

FIVE YEAR FINANCIAL SUMMARY

The following is a summary of the consolidated results, assets and liabilities of the Group for each of the last five years ended 31 March 2014.

	2014 HK$'000	2013 HK$'000	2012 HK$'000	2011 HK$'000	2010 HK$'000
Turnover	**193,664**	209,341	419,758	538,036	402,402
Profit/(loss) before income tax	**2,608**	1,181	76,731	(196,106)	(173,413)
Income tax credit/(expense)	**687**	1,048	918	(1,398)	(1,540)
Profit/(loss) for the year	**3,295**	2,229	77,649	(197,504)	(174,953)
Attributable to:					
Owners of the Company	**5,287**	2,229	77,649	(197,504)	(174,953)
Non-controlling interest	**(1,992)**	–	–	–	–
	3,295	2,229	77,649	(197,504)	(174,953)
Total assets	**635,655**	561,778	151,215	482,422	565,773
Total liabilities	**67,765**	73,786	130,743	485,290	364,674
Total equity/(deficit)	**567,890**	487,992	20,472	(2,868)	201,099

DISTRIBUTABLE RESERVES

As at 31 March 2013 and 2014, 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.

SHARE OPTION SCHEME

On 14 September 2012, 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 provide a flexible and effective means of incentivising, rewarding, remunerating, compensating, to eligible participants who contribute the success of the Group.

(2) Eligible persons

Any person who is an employee (whether full time or part time) holding salaried office or employment under a contract of employment or service contract or terms of employment ("Contract") with the Group or is a Director (including executive and non-executive directors) of the Group or any adviser, consultant, agent, contractor, customer and supplier of any member of the Group or any subsidiaries of the Company.

(3) Maximum number of shares

The scheme mandate limit of the Scheme was approved by a shareholders' resolution passed in the EGM of the Company held on 14 September 2012, details of which have been set out in the circular dated 29 August 2012. Accordingly, the maximum number of shares available for issue under the Scheme is 345,775,799, representing 10% of the issued ordinary share capital of the Company as at the date of the EGM.

The total number of Shares which may be issued upon exercise of all outstanding Options granted and yet to be exercised under the Scheme and all outstanding options granted and yet to be exercised under any other Scheme shall not exceed 30% of the shares in issue from time to time. No options may be granted under the Scheme and no options may be granted under any other Schemes if this will result in the limit being exceeded. 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.

(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 offer.

(6) Acceptance of offers

Offers for the grant of share options must be accepted within 21 days after the offer date. 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 whichever is the highest of (i) the closing price of the shares as stated in the daily quotation sheets issued by the Stock Exchange on the date of offer; (ii) the average closing price of the shares as stated in the Stock Exchange's daily quotation sheets for the five business days immediately preceding the offer date; and (iii) the nominal value of the shares. Details of the scheme are set out in the circular of the Company dated 29 August 2012.

(8) The remaining life of the Scheme

The Scheme will remain in force until 14 September 2022, being the date which falls ten years after the date of adoption of the Scheme.

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

Details of the share options movement and outstanding as at 31 March 2014 have been disclosed in Note 32 to the financial statements.

Report of the Directors

DIRECTORS

The Directors during the year ended 31 March 2014 and up to the date of this report were:

Executive Directors:
Mr Leung Lun, M.H. *(Chairman and Chief Executive)*
Mr Wong, Andy Tze On
Ms Fang Fang (appointed on 31 May 2013)

Independent Non-executive Directors:
Mr Ye Tian Liu
Mr Lai Yun Hung
Dr Ko Peter, Ping Wah

In accordance with Article 116 of the Company's articles of association (the "Articles"), the Directors retiring by rotation at the Annual General Meeting are Mr Ye Tian Liu and Mr Lai Yun Hung. Both Mr Ye Tian Liu and Mr Lai Yun Hung, being eligible, will offer themselves for re-election as Directors at the Annual General Meeting.

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

Executive Directors

Mr Leung Lun, M.H., aged 65, is the chairman and chief executive of the Company and the founder of the Group. Mr Leung was appointed as an executive director in July 1997. Mr Leung is also a member of the Remuneration Committee and chairman of the Nomination Committee of the Company. Mr Leung is responsible for the overall corporate policy and development strategy as well as overseeing the Group's overall management. He has nearly 50 years of experience in the toys manufacturing industry. Mr Leung is a director of the Chinese Overseas Friendship Association. He is also an honourable president of Dongguan Toys Association of China, chairman of Kowloon West Youth Care Committee, chairman of Kowloon City District Fire Safety Committee, president of Merchants Support For Rehabilitated Offenders Committee, chairman of Friends of The Community Chest Kowloon City District Committee, chairman of Hong Kong Kowloon City Industry and Commerce Association, vice president of The Hong Kong Chinese Importers' & Exporters' Association and vice president of Hong Kong Economic & Trade Association. He was named an honourable citizen of Dongguan City and Zhaoqing City by the local authority in 1996 and 2009 respectively for his contribution to the cities.

Mr Wong, Andy Tze On, CPA aged 47, 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 relationship and risk management as well as corporate communications of the Group. Mr Wong holds a business degree in accounting from Curtin University of Technology, Western Australia. He is also responsible for OEM business development and overall management of the Indonesia subsidiary. He joined the Group in June 1993. He is a member of the Australian Society of Certified Practising Accountants. Mr Wong was appointed as an executive director in August 1997.

Ms Fang Fang, aged 36, was appointed as an executive director in May 2013. She is a member of the Nomination Committee and Remuneration Committee of the Company. She is responsible for overseeing the strategic development, financial planning, investor relationship, corporate and business management of the Group. Ms Fang holds a bachelor's degree in Economics from Fudan University, Shanghai and a master's degree in Sociology from The Chinese University of Hong Kong. Ms Fang has over 10 years of experience in the field of financial investment and business management. Ms Fang was a non-executive director of FDS Networks Group Limited, a company listed on the Singapore Exchange Limited, from May 2009 to January 2013. Ms. Fang is currently a licensed person to carry out Type 4 (advising on securities) and Type 9 (asset management) regulated activities under the Securities and Futures Ordinance (Chapter571 of the Laws of Hong Kong) ("SFO").

Independent Non-Executive Directors

Mr Ye Tian Liu, aged 68, 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 Remuneration Committee and member of the Audit Committee and Nomination Committees of the Company. He was formally an executive director of a locally listed company for several years. He has extensive experiences in China trade and property investment.

Mr Lai Yun Hung, aged 62, 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 Audit Committee and is also members of the Remuneration Committee and Nomination Committee of the Company. He has over 31 years of working experience in audit and tax assignments in audit firms, with exposure in listed and unlisted companies engaging in various types of 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 was also an independent non-executive director of Chi Cheung Investment Company Limited (now known as "LT Holdings Limited") (stock code: 112), until 27 March 2013, whose shares are listed on the Stock Exchange of Hong Kong Limited.

Dr Ko Peter, Ping Wah, aged 65, was appointed as an independent non-executive director in September 2012. He is a member of the Audit Committee, Nomination Committee and Remuneration Committee of the Company. He holds a Ph. D degree in business administration from the Bulacan State University, Republic of the Philippines, a master of science degree in business administration from the University of Bath, England and a bachelor's degree of law (Chinese Law) from the University of Beijing, China and higher diploma in mechanical engineering from the Hong Kong Polytechnic University. He has been registered as a Lead Auditor & Tutor of ISO9000 for 14 years and as a Quality Management Consultant and Trainer for 18 years. He has been appointed as a part-time tutor of universities in Hong Kong and overseas for many years.

Company Secretary

Mr Mak Yee Chuen, Vincent, aged 57, 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 39, 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.

Mr Ng Ki Yin, Simon, aged 60, is the managing director 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 OEM customer support, human resources, information technology, production planning, sourcing, material planning and logistic functions of the Group's South East Asia facilities. He has over 21 years of experience in manufacturing resources planning and system management both in overseas corporations and PRC companies.

Mr Bruce Oravec, aged 71, 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 the 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

Two 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. The executive directors may also receive a year end bonus and a discretionary bonus under the agreements.

None of the Independent Non-executive Directors has entered into written 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. According to the verbal arrangements, it may be terminated at any time by the Independent Non-executive Director giving not less than three months' prior written notice.

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 COMPETING BUSINESS

As at 31 March 2014, 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.

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.

Report of the Directors

DIRECTORS' INTERESTS IN EQUITY SECURITIES

At 31 March 2014, 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 SFO as recorded in the register required to be kept under section 352 of the SFO or as otherwise notified to the Company and the Stock Exchange pursuant to the Model Code for Securities Transactions by Directors of Listed Issuers contained in the Listing Rules were as follows:

Name 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 in a controlled corporation	1,299,082,240 ordinary shares (L) (Note 2)	23.37%
	Lung Cheong Investment Limited	Interest in a 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..

Save as disclosed above, as at 31 March 2014, none of the Directors or chief executive of the Company had or was deemed to have any interests or short position in the shares, underlying shares or debentures of the Company and its associated corporations (within the meaning of Part XV of the SFO), which had been recorded in the register maintained by the Company pursuant to section 352 of the SFO or which had been notified to the Company and the Stock Exchange pursuant to the Model Code.

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 its associated corporations (within the meaning of Part XV of the SFO).

SUBSTANTIAL SHAREHOLDERS

As at 31 March 2014, 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**
Haier Electrical Appliances Second Holdings (BVI) Limited	1,510,000,000 (L)	Beneficial owner	27.17%
Qingdao Haier Collective Asset Management Association	1,510,000,000 (L) (Note 2)	Interest of controlled corporation	27.17%
Qingdao Haier Investment and Development Co., Ltd.	1,510,000,000 (L) (Note 2)	Interest of controlled corporation	27.17%
Lung Cheong Investment Limited	1,299,082,240 (L)	Beneficial owner	23.37%
Rare Diamond Limited	1,299,082,240 (L) (Note 3)	Interest of controlled corporation	23.37%

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 Haier Electrical Appliances Second Holdings (BVI) Limited, the entire issued share capital of which is wholly owned by Qingdao Haier Investment and Development Co., Ltd, which in the beneficially owned as to 63.42% by Qingdao Haier Collective Asset Management Association.

3. 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.

Save as disclosed above, as at 31 March 2014, the Directors are not aware of any other person or corporation having an interest or short position in shares and underlying shares of the Company or its associated corporation(s) which would require to be recorded in the register required to be kept by the Company pursuant to Section 336 of the SFO.

PRE-EMPTIVE RIGHTS

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

MANAGEMENT CONTRACTS

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

MAJOR CUSTOMERS AND SUPPLIERS

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

	2014 **%**	2013 %
Sales		
– the largest customer	**18**	19
– five largest customers combined	**58**	50
Purchases		
– the largest supplier	**39**	34
– five largest suppliers combined	**52**	67

No directors or their associates except for Disposal Group (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

The Audit Committee had reviewed (together with the management and external auditor) the accounting principles and policies adopted by the Group and the audited consolidated financial statements for the year ended 31 March 2014.

INDEPENDENCE OF INDEPENDENT NON-EXECUTIVE DIRECTORS

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

BOARD OF DIRECTORS

Ms Fang Fang has been appointed as an executive directors, and a member of each of the Nomination Committee and Remuneration Committee of the Company with effect from 31 May 2013.

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 Leung Chung Ming 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 respectively.

For FY13/14, purchases from Disposal Group amounted to approx HK$48 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.

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 Rule 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

On 2 April 2014, the Purchaser, Qingdao Haier Ruidi Kitchen Appliance & Engineering Company Ltd ("Haier Ruidi"), an indirect wholly-owned subsidiary of the Company, entered into the Agreement with the Vendor, an independent third party, pursuant to which the Vendor agreed to sell to the Purchaser the Sale Interest, representing approx 60% of the entire equity interest of Sichuan Yi Fang Kitchen Equipment Co., Ltd. at a total consideration of RMB8 million (or equivalent to HK$10 million). The Consideration shall be satisfied by way of cash.

As the relevant percentage ratios under the Listing Rules in respect of the Acquisition exceed 5% but are less than 25%, the Acquisition constitutes a discloseable transaction (of the Company and is subject to the announcement requirement under the Listing Rules.

On 21 April 2014, Qingdao Oasis Child Care Company Ltd. ("Qingdao Oasis"), an indirect wholly-owned subsidiary of the Company, and Qingdao Goodaymart Lejia Trading Co., Ltd. ("Goodaymart"), an indirect wholly-owned subsidiary of Haier Electronics Group Co., Limited (Hong Kong Stock Code: 01169), entered into the Joint Venture ("JV") Agreement in relation to the establishment of the JV Company, which will be principally engaged in research and development, production, wholesaling and retailing of water purification equipment and accessories, installation and maintenance of water purification equipment and provision of relevant after-sale services in the PRC. The JV Company will be focused on "health and environment" and aims to become a prominent full-house water purification service provider. Upon the establishment of the JV Company, Goodaymart and Qingdao Oasis will own 51% and 49% of the shareholding interest in the JV Company respectively.

On 13 May 2014, a total of 100 million share options to subscribe for 100 million ordinary shares of HK$0.10 each of the Company were granted to the eligible participants (the "Grantees"), subject to acceptance of the Grantees, under the share option scheme adopted by the Company on 14 September 2012. Details are set out in the Company's announcement dated 13 May 2014.

SUFFICIENCY OF PUBLIC FLOAT

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

AUDITORS

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

CORPORATE GOVERNANCE

The Company's corporate governance principles and practice are set out in the Corporate Governance Report on pages 23 to 32 of this Annual Report.

On behalf of the Board
Lung Cheong International Holdings Limited

Leung Lun
Chairman and Chief Executive
27 June 2014

Independent Auditor's Report

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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 50 to 128, which comprise the consolidated and company statements of financial position as at 31 March 2014 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.

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 2014 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

Chow Tak Sing, Peter
Practising Certificate Number: P04659

Hong Kong, 27 June 2014

Consolidated Statement of Comprehensive Income

For the year ended 31 March 2014

	Notes	2014 HK$'000	2013 HK$'000
Turnover	6	**193,664**	209,341
Cost of sales		**(134,088)**	(155,892)
Gross profit		**59,576**	53,449
Other income, gains and losses, net	7	**20,791**	1,536
Selling and distribution expenses		**(23,224)**	(18,949)
General and administrative expenses		**(52,895)**	(33,779)
Operating profit		**4,248**	2,257
Finance costs	9	**(1,640)**	(1,076)
Profit before income tax	8	**2,608**	1,181
Income tax credit	10	**687**	1,048
Profit for the year		**3,295**	2,229
Other comprehensive income for the year, net of tax			
Items that may be subsequently reclassified to profit or loss:			
Exchange differences arising on translation of foreign operations		**(3,371)**	(339)
Revaluation of available-for-sale investments		**(16,539)**	–
Other comprehensive income for the year, net of tax		**(19,910)**	(339)
Total comprehensive income for the year		**(16,615)**	1,890
Profit for the year attributable to			
Owners of the Company	11	**5,287**	2,229
Non-controlling interests	33	**(1,992)**	–
		3,295	2,229
Total comprehensive income for the year attributable to			
Owners of the Company		**(14,623)**	1,890
Non-controlling interests	33	**(1,992)**	–
		(16,615)	1,890
Earnings per share attributable to owners of the Company			
– Basic	13	**0.10 cents**	0.07 cents
– Diluted	13	**0.09 cents**	0.06 cents

Consolidated Statement of Financial Position

As at 31 March 2014

	Notes	Group 2014 HK$'000	Group 2013 HK$'000	Company 2014 HK$'000	Company 2013 HK$'000
ASSETS AND LIABILITIES					
Non-current assets					
Property, plant and equipment	17	**50,543**	41,905	**–**	–
Goodwill	18	**100,970**	2,500	**–**	–
Intangible assets	19	**6,859**	–	**–**	–
Interests in subsidiaries	20	**–**	–	**558,964**	453,964
Deferred tax assets	29	**11,545**	4,516	**–**	–
		169,917	48,921	**558,964**	453,964
Current assets					
Inventories	21	**55,348**	42,143	**–**	–
Trade and other receivables, deposits and prepayments	22	**38,417**	15,568	**–**	324
Available-for-sale investments	23	**250,768**	–	**–**	–
Amounts due from related companies	24	**4,049**	6,591	**9**	8
Tax recoverable		**1,017**	286	**11**	11
Restricted bank deposits		**–**	30,094	**–**	–
Cash and cash equivalents	25	**116,139**	418,175	**159**	174
		465,738	512,857	**179**	517
Current liabilities					
Trade and other payables and accrued charges	26	**27,775**	11,872	**625**	1,412
Borrowings	27	**12,110**	45,583	**–**	–
Amounts due to related companies	24	**3,519**	7,809	**–**	–
Tax payable		**13**	–	**–**	–
		43,417	65,264	**625**	1,412
Net current assets/(liabilities)		**422,321**	447,593	**(446)**	(895)
Total assets less current liabilities		**592,238**	496,514	**558,518**	453,069

Consolidated Statement of Financial Position

As at 31 March 2014

	Notes	Group 2014 HK$'000	Group 2013 HK$'000	Company 2014 HK$'000	Company 2013 HK$'000
Non-current liabilities					
Other payable	26	**7,710**	–	**–**	–
Borrowings	27	**7,814**	–	**–**	–
Provision for long service payment	28	**2,148**	1,846	**–**	–
Deferred tax liabilities	29	**6,676**	6,676	**–**	–
		24,348	8,522	**–**	–
Net assets		**567,890**	487,992	**558,518**	453,069
EQUITY					
Share capital	31	**555,776**	345,776	**555,776**	345,776
Reserves	34	**14,705**	142,216	**2,742**	107,293
Equity attributable to owners of the Company		**570,481**	487,992	**558,518**	453,069
Non-controlling interests	33	**(2,591)**	–	**–**	–
Total equity		**567,890**	487,992	**558,518**	453,069

On behalf of the board

Leung Lun, M.H.
Director

Fang Fang
Director

Consolidated Statement of Changes in Equity

For the year ended 31 March 2014

	Share capital HK$'000 (Note 31)	Share premium HK$'000	Shares to be issued HK$'000 (Note 30)	Warrant reserve HK$'000	Exchange fluctuation reserve HK$'000	Investment revaluation reserve HK$'000	Land and buildings revaluation reserve HK$'000	Accumulated losses HK$'000	Attributable to owners of the Company HK$'000	Non-controlling interests HK$'000	Total HK$'000
At 1 April 2012	295,776	37,657	–	–	(27,704)	–	28,891	(314,148)	275,304	–	20,472
Exchange difference arising on translation of foreign operations	–	–	–	–	(339)	–	–	–	(339)	–	(339)
Profit for the year	–	–	–	–	–	–	–	2,229	2,229	–	2,229
Total comprehensive income for the year	–	–	–	–	(339)	–	–	2,229	1,890	–	1,890
Placement of shares	50,000	21,841	389,000	4,789	–	–	–	–	415,630	–	465,630
At 31 March 2013	345,776	59,498	389,000	4,789	(28,043)	–	28,891	(311,919)	487,992	–	487,992
Exchange differences arising on translation of foreign operations	–	–	–	–	(3,371)	–	–	–	(3,371)	–	(3,371)
Revaluation of available-for-sale investments	–	–	–	–	–	(16,539)	–	–	(16,539)	–	(16,539)
Profit for the year	–	–	–	–	–	–	–	5,287	5,287	(1,992)	3,295
Total comprehensive income for the year	–	–	–	–	(3,371)	(16,539)	–	5,287	(14,623)	(1,992)	(16,615)
Consideration shares to be issued for business acquisitions (Note 38(a))	–	–	82,000	–	–	–	–	–	82,000	–	82,000
Acquisition of subsidiaries	–	–	–	–	–	–	–	–	–	(599)	(599)
Placement of shares	200,000	189,216	(389,000)	–	–	–	–	–	216	–	216
Exercise of warrants	10,000	5,855	–	(959)	–	–	–	–	14,896	–	14,896
At 31 March 2014	**555,776**	**254,569**	**82,000**	**3,830**	**(31,414)**	**(16,539)**	**28,891**	**(306,632)**	**570,481**	**(2,591)**	**567,890**

Nature and purpose of reserves are disclosed in Note 34.

Consolidated Statement of Cash Flows

For the year ended 31 March 2014

	Notes	2014 HK$'000	2013 HK$'000
Operating activities			
Profit before income tax		**2,608**	1,181
Adjustments for:			
Interest income		**(19,279)**	(30)
Interest expense and finance charges		**1,640**	1,076
Depreciation of property, plant and equipment		**4,148**	3,620
Addition to provision for long service payment		**571**	325
Amortisation of intangible assets		**289**	–
Impairment on trade and other receivables, net		**41**	214
Provision for obsolete stock		**–**	602
Gain on disposal of property, plant and equipment		**(287)**	(371)
Gain on disposal of available-for-sale investments		**(1,594)**	–
Operating cash flows before changes in working capital		**(11,863)**	6,617
Inventories		**(9,825)**	(10,187)
Trade and other receivables, deposits and prepayments		**(19,990)**	6,437
Amounts due from related companies		**3,030**	36,422
Trade and other payables and accrued charges		**(7,940)**	(1,058)
Amounts due to related companies		**(4,328)**	(35,603)
Cash (used in)/generated from operations		**(50,916)**	2,628
Interest received		**19,279**	30
Overseas income tax paid		**(5,184)**	(911)
Net cash (used in)/generated from operating activities		**(36,821)**	1,747

Consolidated Statement of Cash Flows

For the year ended 31 March 2014

	Notes	2014 HK$'000	2013 HK$'000
Investing activities			
Purchase of property, plant and equipment		**(10,989)**	(4,696)
Purchase of available-for-sale investments		**(278,838)**	–
Acquisition of subsidiaries		**(9,460)**	–
Additions to intangible assets		**(2,469)**	–
Decrease/(increase) in restricted bank deposits		**30,094**	(30,094)
Proceeds from disposal of property, plant and equipment		**305**	371
Proceeds from disposal of available-for-sale investments		**13,125**	–
Net cash used in investing activities		**(258,232)**	(34,419)
Financing activities			
Interest and finance charge paid		**(1,640)**	(1,076)
Placing of new shares		**216**	76,630
Exercise of warrants		**14,896**	–
Consideration of placing shares received in advance		**–**	389,000
New loans from banks and financial institutions		**19,924**	45,696
Repayment of borrowings		**(41,146)**	(15,600)
Repayment of loan from a shareholding company		**–**	(50,000)
Net cash (used in)/generated from financing activities		**(7,750)**	444,650
Net (decrease)/increase in cash and cash equivalents		**(302,803)**	411,978
Effect of foreign exchange rate changes		**767**	(959)
Cash and cash equivalents at beginning of year		**418,175**	7,156
Cash and cash equivalents at end of year	25	**116,139**	418,175

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 (the "Stock Exchange"). The address of its registered office is at "Ugland House, South Church Street, P.O. Box 309, George Town, Grand Cayman, Cayman Islands, British West Indies" and its principal place of business 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, consumer electronic products and commercial kitchen products during the year ended 31 March 2014. The principal activities of its subsidiaries are set out in Note 20 to the financial statements.

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

(a) Adoption of new/revised HKFRSs – Effective 1 April 2013

HKFRSs (Amendments)	Annual Improvements to HKFRSs 2009-2011 Cycle
Amendments to HKAS 1 (Revised)	Presentation of Items of Other Comprehensive Income
Amendments to HKFRS 7	Offsetting Financial Assets and Financial Liabilities
HKFRS 10	Consolidated Financial Statements
HKFRS 12	Disclosure of Interests in Other Entities
HKFRS 13	Fair Value Measurement
HKAS 19 (2011)	Employee Benefits
HKAS 27 (2011)	Separate Financial Statements

The adoption of these HKFRSs has no material impact on the Group's consolidated financial statements.

HKFRSs (Amendments) – Annual Improvements to HKFRSs 2009-2011 Cycle
HKAS 1 has been amended to clarify that an opening statement of financial position is required only when a retrospective application of an accounting policy, a retrospective restatement or reclassification has a material effect on the information presented in the opening position. Further, this opening statement of financial position does not have to be accompanied by comparative information in the related notes. This is consistent with the Group's existing accounting policy.

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 or loss in the future and those that may not. Tax on items of other comprehensive income is allocated and disclosed on the same basis.

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

(a) Adoption of new/revised HKFRSs – Effective 1 April 2013 – *Continued*

Amendments to HKFRS 7 – Offsetting Financial Assets and Financial Liabilities

HKFRS 7 is amended to introduce disclosures for all recognised financial instruments that are set off under HKAS 32 and those that are subject to an enforceable master netting agreement or similar arrangement, irrespective of whether they are set off under HKAS 32.

The adoption of the amendments has no impact on these financial statements as the Group has not offset financial instruments, nor has it entered into a master netting agreement or a similar arrangement.

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 accounting requirements in HKAS 27 (2008) on other consolidation related matters are carried forward unchanged. The Group has changed its accounting policy in determining whether it has control of an investee and therefore is required to consolidate that interest. The adoption of HKFRS 10 does not change any of the control conclusion reached by the Group in respect of its involvement with other entities as at 1 April 2013.

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

(a) Adoption of new/revised HKFRSs – Effective 1 April 2013 – *Continued*

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.

As the new standard affects only disclosure, there is no effect on the Group's financial position and performance.

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 is applied prospectively.

HKFRS 13 did not materially affect any fair value measurements of the Group's assets and liabilities and therefore has no effect on the Group's financial position and performance. The standard requires additional disclosures about fair value measurements. Comparative disclosures have not been presented in accordance with the transitional provisions of the standard.

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

(a) Adoption of new/revised HKFRSs – Effective 1 April 2013 – *Continued*

HKAS 19 (2011) – Employee Benefits

HKAS 19 (2011) abandons the corridor approach with the result that changes in defined benefit obligations and the fair value of plan assets are recognised in the period in which they occur. The revised standard requires the changes in the Group's net defined benefit liability (or asset) to be separated into three components: service cost (including current and past service cost and settlements) recognised in profit or loss; net interest on the net defined benefit liability recognised in profit or loss; and re-measurements of the defined benefit liability (or asset) recognised in other comprehensive income. The revised standard distinguishes between short-term and long-term employee benefits based on the expected date of settlement. The previous standard used the term "due to be settled". HKAS 19 (2011) provides additional guidance on the definition of termination benefits. Benefits that are conditional on future service being provided including those that increase if additional service is provided are not termination benefits. The revised standard requires that a liability for termination benefits is recognised on the earlier of the date when the entity can no longer withdraw the offer of those benefits and the date the entity recognises any related restructuring costs.

The Group has amended its accounting policies for short-term employee benefits and termination benefits, however the adoption of the revised standard has no effect on the Group's financial position or performance.

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

(b) New/revised HKFRSs that have been issued and have been early adopted

Amendments to HKAS 36 – Recoverable Amount Disclosures

The amendments limit the requirements to disclose the recoverable amount of an asset or cash generating unit (CGU) to those periods in which an impairment loss has been recognised or reversed, and expand the disclosures where the recoverable amount of impaired assets or CGUs has been determined based on fair value less costs of disposal. The amendments are effective for annual periods commencing on or after 1 January 2014. The Group has early adopted the amendments to HKAS 36 in the current period.

(c) 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 HKAS 32	Offsetting Financial Assets and Financial Liabilities[1]
HKFRS 9	Financial Instruments[4]
Amendments to HKFRS 9, HKFRS 7 and HKAS 39	Hedge Accounting[4]
Amendments to HKFRS 10, HKFRS 12 and HKAS 27 (2011)	Investment entities[1]
Amendments to HKAS 19 (2011)	Defined Benefit Plans: Employee Contributions[2]
Amendments to HKAS 39	Novation of Derivatives and Continuation of Hedge Accounting[1]
HK (IFRIC) 21	Levies[1]
HKFRSs (Amendments)	Annual Improvements 2010-2012 Cycle[3]
HKFRSs (Amendments)	Annual Improvements 2011-2013 Cycle[2]

1 Effective for annual periods beginning on or after 1 January 2014
2 Effective for annual periods beginning on or after 1 July 2014
3 Effective for annual periods beginning, or transactions occurring, on or after 1 July 2014
4 No mandatory effective date yet determined but is available for adoption

Amendments to HKAS 32 – Offsetting Financial Assets and Financial Liabilities

The amendments clarify the offsetting requirements by adding appliance guidance to HKAS 32 which clarifies when an entity "currently has a legally enforceable right to set off" and when a gross settlement mechanism is considered equivalent to net settlement.

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

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

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.

Amendments to HKFRS 9, HKFRS 7 and HKAS 39 – Hedge Accounting

The amendments overhaul hedge accounting to allow entities to better reflect their risk management activities in financial statements. Changes included in HKFRS 9 to address the own credit risk issue on financial liabilities designated at fair value through profit or loss can be applied in isolation without the need to change any other accounting for financial instruments. The amendments also remove the 1 January 2015 effective date for HKFRS 9.

Amendments to HKFRS 10, HKFRS 12 and HKAS 27 (2011) – Investment Entities

The amendments apply to a particular class of businesses that qualify as investment entities. An investment entity's business purpose is to invest funds solely for returns from capital appreciation, investment income or both. It evaluates the performance of its investments on a fair value basis. Investment entities could include private equity organisations, venture capital organisations, pension funds and investment funds.

The amendments provide an exception to the consolidation requirements in HKFRS 10 "Consolidated Financial Statements" and require investment entities to measure particular subsidiaries at fair value through profit or loss rather than to consolidate them. The amendments also set out the disclosure requirements for investment entities. The amendments are applied retrospectively subject to certain transitional provisions.

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

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

Amendments to HKAS 19 (2011) – Defined Benefit Plans: Employee Contributions

The amendments permit contributions that are independent of the number of years of service to be recognised as a reduction in the service cost in the period in which the service is rendered instead of allocating the contributions to periods of service.

Amendments to HKAS 39 – Novation of Derivatives and Continuation of Hedge Accounting

The amendments provide relief from discontinuing hedge accounting when novation of a hedging instrument to a central counterparty meets specified criteria.

HK (IFRIC) 21 – Levies

HK (IFRIC) 21 clarifies that an entity recognises a liability to pay a levy imposed by government when the activity that triggers payment, as identified by the relevant legislation, occurs.

Annual Improvements 2010-2012 Cycle and 2011-2013 Cycle

The amendments issued under the annual improvements process make small, non-urgent changes to a number of standards where they are currently unclear. Among them HKAS 16 "Property, Plant and Equipment" has been amended to clarify how the gross carrying amount and accumulated depreciation are treated where an entity uses the revaluation model. The carrying amount of the asset is restated to revalued amount. The accumulated depreciation may be eliminated against the gross carrying amount of the asset. Alternatively, the gross carrying amount may be adjusted in a manner consistent with the revaluation of the carrying amount of the asset and the accumulated depreciation is adjusted to equal the difference between the gross carrying amount and the carrying amount after taking into account accumulated impairment losses.

The Group is in the process of making an assessment of the potential impact of these pronouncements. The directors so far concluded that the application of these new pronouncements will have no material impact on the Group's financial statements.

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 (the "Listing Rules").

(b) Basis of measurement

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

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.

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.

4. SIGNIFICANT ACCOUNTING POLICIES – *Continued*

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

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.

(b) Subsidiaries

A subsidiary is an investee over which the Company is able to exercise control. The Company controls an investee if all three of the following elements are present: power over the investee, exposure, or rights, to variable returns from the investee, and the ability to use its power to affect those variable returns. Control is reassessed whenever facts and circumstances indicate that there may be a change any of these elements of control.

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 for by the Company on the basis of dividend received and receivable.

4. SIGNIFICANT ACCOUNTING POLICIES – *Continued*

(c) Property, plant and equipment

Buildings comprise mainly factories, showrooms and offices. Freehold land and buildings are carried at revalued amount, being fair value, based on periodic, but at least triennial, valuations by external independent valuers, less any subsequent accumulated depreciation and subsequent accumulated impairment losses. Any accumulated depreciation at the date of revaluation is eliminated against the gross carrying amount of the asset and the net amount is restated to the revalued amount of the asset.

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

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

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

Depreciation of property, plant and equipment, 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	2-5 years
Motor vehicles	5 years
Moulds	5 years

4. SIGNIFICANT ACCOUNTING POLICIES – *Continued*

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

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.

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.

4. SIGNIFICANT ACCOUNTING POLICIES – *Continued*

(e) Research and development costs

Expenditure on internally developed products is capitalised if it can be demonstrated that:

– it is technically feasible to develop the product for it to be sold;

– adequate resources are available to complete the development;

– there is an intention to complete and sell the product;

– the Group is able to sell the product;

– sale of the product will generate future economic benefits; and expenditure on the project can be measured reliably.

Capitalised development costs are amortised over the periods the Group expects to benefit from selling the products developed. The amortisation expense is recognised in profit or loss.

Development expenditure not satisfying the above criteria and expenditure on the research phase of internal projects are recognised in profit or loss as incurred.

(f) Impairment of tangible and intangible assets excluding goodwill

At the end of each reporting period, the Group reviews the carrying amounts of its tangible and intangible assets to determine whether there is any indication that those assets have suffered an impairment loss or an impairment loss previously recognised no longer exists or may have reduced. If any such indication exists, the recoverable amount of the asset is estimated in order to determine the extent of the impairment loss (if any). Where it is not possible to estimate the recoverable amount of an individual asset, the Group estimates the recoverable amount of the cash-generating unit to which the asset belongs. Where a reasonable and consistent basis of allocation can be identified, corporate assets are also allocated to individual cash-generating units, or otherwise they are allocated to the smallest group of cash-generating units for which a reasonable and consistent allocation basis can be identified.

Recoverable amount is the higher of fair value less costs to sell and value in use. In assessing value in use, the estimated future cash flows are discounted to their present value using a pre-tax discount rate that reflects current market assessments of the time value of money and the risks specific to the asset for which the estimates of future cash flows have not been adjusted.

4. SIGNIFICANT ACCOUNTING POLICIES – *Continued*

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

If the recoverable amount of an asset (or cash-generating unit) is estimated to be less than its carrying amount, the carrying amount of the asset (or cash-generating unit) is reduced to its recoverable amount. An impairment loss is recognised immediately in profit or loss, unless the relevant asset is carried at a revalued amount, in which case the impairment loss is accounted for in accordance with the relevant accounting policy for that relevant asset.

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

(g) Inventories

Inventories are stated at the lower of cost and net realisable value. Cost is determined using the weighted average 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.

(h) Financial assets

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

The Group's financial assets include trade and other receivables, amounts due from related companies, restricted bank deposits and cash and bank balances, and are classified into loans and receivable.

4. SIGNIFICANT ACCOUNTING POLICIES – *Continued*

(h) Financial assets – *Continued*

i) Loans and receivables

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

ii) Impairment of financial assets

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

Objective evidence of impairment could include:

– significant financial difficulty of the issuer or counterparty; or

– default or delinquency in interest or principal payments; or

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

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

An impairment loss on loans and receivables 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.

4. SIGNIFICANT ACCOUNTING POLICIES – *Continued*

(h) Financial assets – *Continued*

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

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

Impairment losses are written off against the corresponding assets directly, except for impairment losses recognised in respect of trade and other receivables, 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.

4. SIGNIFICANT ACCOUNTING POLICIES – *Continued*

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

i) Classification as debt or equity

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

ii) Equity instruments

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

iii) Financial liabilities

The Group's financial liabilities include trade and other payables, borrowings and amounts due to related companies, and are classified as financial liabilities at amortised cost. Financial liabilities at amortised cost are initially measured at fair value, net of transaction costs and are subsequently measured at amortised cost, using the effective interest method.

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

iv) Derecognition of financial liabilities

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

(j) Cash and cash equivalents

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

4. SIGNIFICANT ACCOUNTING POLICIES – *Continued*

(k) Leases

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

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

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

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

(l) Financial guarantee contracts issued

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

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

4. SIGNIFICANT ACCOUNTING POLICIES – *Continued*

(l) 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(m) 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.

(m) Provisions and contingent liabilities

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

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

(n) Income taxes

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

i) Current tax

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

4. SIGNIFICANT ACCOUNTING POLICIES – *Continued*

(n) 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.

4. SIGNIFICANT ACCOUNTING POLICIES – *Continued*

(o) Foreign currencies

The individual financial statements of each group entity are presented in the currency of the primary economic environment in which the entity operates ("functional currency"). In preparing the financial statements of the individual entities, transactions in currencies other than the entity's functional currency ("foreign currency") 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.

4. SIGNIFICANT ACCOUNTING POLICIES – *Continued*

(p) Employee benefits

i) Employee leave entitlements

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

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

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

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.

(q) 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.

4. SIGNIFICANT ACCOUNTING POLICIES – *Continued*

(r) 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.

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

4. SIGNIFICANT ACCOUNTING POLICIES – *Continued*

(s) Related parties – *Continued*

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

(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.

(t) 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.

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

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.

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.

6. TURNOVER AND SEGMENT INFORMATION

Operating segments are reported in a manner consistent with the internal reporting, in accordance with the Group's internal organisation and reporting structure, provided to the chief operating decision-maker to make strategic decisions.

The Group has three reportable segments. The segments are managed separately as each business offers different products and requires different business strategies. The following summary describes the operations in each of the Group's reportable segments:

- Manufacturing and sale of toys
- Sale of consumer electronic products
- Manufacturing and sale of commercial kitchen products

Inter-segment transactions are priced with reference to prices charged to extend parties for similar order.

(a) Segment revenue and results

For the year ended 31 March 2014

	Toys HK$'000	Consumer electronic products HK$'000	Commercial kitchen products HK$'000	Reportable segment total HK$'000
Revenue to external customers	173,290	15,497	4,877	193,664
Segment profit/(loss) before income tax	3,394	(7,546)	(2,614)	(6,766)

6. TURNOVER AND SEGMENT INFORMATION – *Continued*

(a) Segment revenue and results – *Continued*

For the year ended 31 March 2013

	Toys HK$'000	Consumer electronic products HK$'000	Commercial kitchen products HK$'000	Total HK$'000
Revenue to external customers	209,341	–	–	209,341
Segment profit before income tax expenses	3,767	–	–	3,767

	2014 HK$'000	2013 HK$'000
Reportable segment (loss)/profit	**(6,766)**	3,767
Interest income	**18,627**	22
Gain on disposal of available-for-sale investments	**1,594**	–
Staff cost	**(5,061)**	(1,320)
Legal and professional fee	**(2,349)**	(1,097)
Unallocated corporate expenses	**(3,437)**	(191)
Profit before income tax	**2,608**	1,181

6. TURNOVER AND SEGMENT INFORMATION – *Continued*

(b) Segment assets and liabilities

The following is an analysis of the Group's assets and liabilities by reportable segment:

	2014 HK$'000	2013 HK$'000
Segment assets		
Toys	**140,642**	169,085
Consumer electronic products	**112,273**	–
Commercial kitchen products	**128,335**	–
Segment assets	**381,250**	169,085
Available-for-sale investments	**250,768**	–
Cash and cash equivalents	**222**	390,218
Unallocated corporate assets	**3,415**	2,475
Consolidated total assets	**635,655**	561,778

	2014 HK$'000	2013 HK$'000
Segment liabilities		
Toys	**43,402**	71,172
Consumer electronic products	**6,681**	–
Commercial kitchen products	**17,636**	–
Segment liabilities	**67,719**	71,172
Other payables	**45**	1,413
Unallocated corporate liabilities	**1**	1,201
Consolidated total liabilities	**67,765**	73,786

6. TURNOVER AND SEGMENT INFORMATION – *Continued*

(c) Other segment information included in segment results or segment assets

For the year ended 31 March 2014

	Toys HK$'000	Consumer electronic products HK$'000	Commercial kitchen products HK$'000	Unallocated HK$'000	Total HK$'000
Interest income	(287)	(347)	(18)	(18,627)	(19,279)
Finance costs	1,612	28	–	–	1,640
Income tax charge/(credit)	1,376	(1,427)	(636)	–	(687)
Depreciation of property, plant and equipment	3,468	358	322	–	4,148
Amortisation of intangible assets	–	–	289	–	289
Impairment loss for trade receivables, net	41	–	–	–	41
Gain on disposal of property, plant and equipment	(287)	–	–	–	(287)
Gain on disposal of available-for-sale investments	–	–	–	(1,594)	(1,594)
Additions to non-current assets	10,170	731	88	–	10,989

6. TURNOVER AND SEGMENT INFORMATION – *Continued*

(c) Other segment information included in segment results or segment assets – *Continued*

For the year ended 31 March 2013

	Toys HK$'000	Consumer electronic products HK$'000	Commercial kitchen products HK$'000	Unallocated HK$'000	Total HK$'000
Interest income	(8)	–	–	(22)	(30)
Finance costs	1,076	–	–	–	1,076
Income tax credit	(1,048)	–	–	–	(1,048)
Depreciation of property, plant and equipment	3,620	–	–	–	3,620
Impairment loss for trade receivables, net	214	–	–	–	214
Write-down of inventories	602	–	–	–	602
Gain on disposal of property, plant and equipment	(371)	–	–	–	(371)
Additions to non-current assets	4,696	–	–	–	4,696

6. TURNOVER AND SEGMENT INFORMATION – *Continued*

(d) Geographical information

Information about the Group's revenue and non-current assets by geographical region, according to the location which the product is shipped and the location of assets, is as follows:

For the year ended 31 March 2014

	Revenue HK$'000	**Non-current assets HK$'000 (Note (i))**
United States of America and Canada	**89,836**	**3,419**
Europe (Note (ii))	**64,528**	**–**
China	**20,519**	**108,726**
Australia	**1,966**	**–**
Japan	**1,846**	**–**
Hong Kong	**1,380**	**1,534**
Korea	**433**	**–**
Indonesia	**–**	**44,693**
Others	**13,156**	**–**
Total	**193,664**	**158,372**

For the year ended 31 March 2013

	Revenue HK$'000	Non-current assets HK$'000 (Note (i))
United States of America and Canada	93,410	3,115
Europe (Note (ii))	86,714	–
Korea	19,422	–
China	2,713	–
Australia	2,024	–
Japan	1,164	–
Hong Kong	381	1,996
Indonesia	244	39,294
Others	3,269	–
Total	209,341	44,405

6. TURNOVER AND SEGMENT INFORMATION – *Continued*

(d) Geographical information – *Continued*

Note:

(i) Excluding deferred tax assets.

(ii) The products are first shipped to one of the European countries ("Shipping Port Countries") and then distributed to different European countries by the customers. The information of European countries to where the products are finally shipped is not available and the cost to develop it would be excessive. The directors are of the opinion that the Shipping Port Countries included in this category are not disclosed as such disclosure might be misleading.

(e) 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:

	2014 **HK$'000**	2013 HK$'000
Customer A	**35,496**	40,366
Customer B	**32,227**	22,092
Customer C	**19,729**	21,944

Revenues from the largest three external customers had contributed to more than 45% (2013: 40%) of the Group's turnover amounting to HK$87,452,000 (2013: HK$84,402,000). Other than these customers, there is no other customer whose revenue contributed to more than 10% of the Group's turnover.

7. OTHER INCOME, GAINS AND LOSSES, NET

	2014 **HK$'000**	2013 HK$'000
Interest income	**19,279**	30
Sample income and others	**2,679**	1,596
Exchange losses, net	**(1,167)**	(90)
	20,791	1,536

8. PROFIT BEFORE INCOME TAX

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

	2014 HK$'000	2013 HK$'000
Write-down of inventories	–	602
Carrying amount of inventories sold	134,088	155,290
Costs of inventories recognised as expenses	134,088	155,892
Auditors' remuneration	1,021	785
Depreciation of property, plant and equipment	4,148	3,620
Amortisation of intangible assets	289	–
Gain on disposal of property, plant and equipment	(287)	(371)
Gain on disposal of available-for-sale investments	(1,594)	–
Impairment loss for trade receivables, net	41	214
Employee benefits expense	41,450	38,186
Research and development costs (included in general and administrative expenses)	3,387	3,053
Operating lease rentals in respect of land and buildings	1,501	720

9. FINANCE COSTS

	2014 HK$'000	2013 HK$'000
Interest on loans from banks wholly repayable within five years	1,640	1,076

10. INCOME TAX CREDIT

No Hong Kong profits tax, overseas income taxes nor the People's Republic of China (the "PRC") income taxes has been provided as the Company and its subsidiaries were sustained a loss, had no assessable profits or had sufficient tax losses carried forward to deduct the assessable profits for the year (2013: Nil).

10. INCOME TAX CREDIT – *Continued*

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

	2014 **HK$'000**	2013 HK$'000
Hong Kong profits tax		
– under provision in prior years	**–**	12
	–	12
Deferred tax credit	**(687)**	(1,060)
Income tax credit	**(687)**	(1,048)

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

	2014 **HK$'000**	2013 HK$'000
Profit before income tax	**2,608**	1,181
Income tax charge calculated at the tax rate of 16.5% (2013: 16.5%)	**430**	195
Effect of different tax rates in other countries	**(1,062)**	128
Income not subject to taxation	**(365)**	(57)
Expenses not deductible for taxation purposes	**16**	154
Utilisation of previously unrecognised tax losses	**(326)**	(612)
Under provision in prior years	**–**	12
Temporary difference not recognised and others	**620**	(868)
Income tax credit	**(687)**	(1,048)

11. PROFIT ATTRIBUTABLE TO THE OWNERS OF THE COMPANY

The consolidated profit for the year attributable to the owners of the Company for the year ended 31 March 2014 includes a profit of approximately HK$8,337,000 (2013: loss of HK$2,586,000) which has been dealt with in the financial statements of the Company.

12. DIVIDENDS

The directors do not recommend any dividend in respect of the year ended 31 March 2014 (2013: Nil).

13. EARNINGS PER SHARE

	2014 **HK cents**	2013 HK cents
Basic earnings per share	**0.10**	0.07
Diluted earnings per share	**0.09**	0.06

The calculation of basic and diluted earnings per share attributable to owners of the Company is based on the following data.

	2014 **HK$'000**	2013 HK$'000
Profit		
Profit for the year attributable to owners of the Company, used in the basic and diluted earnings per share calculation	**5,287**	2,229

	2014	2013
Number of shares		
Weighted average number of ordinary shares for the purposes of basic earnings per share	**5,383,730,600**	3,357,757,997
Effect of dilution		
– Warrants	**304,603,669**	179,625,730
Weighted average number of ordinary shares for the purposes of diluted earnings per share	**5,688,334,269**	3,537,383,727

14. EMPLOYEE BENEFITS EXPENSE

Employee benefits expense excluding directors' emoluments comprises:

	2014 HK$'000	2013 HK$'000
Wages and salaries	**37,376**	35,016
Other staff benefits	**3,303**	2,961
Pension costs – defined contribution plans (Note 16)	**771**	209
	41,450	38,186

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:

	2014 HK$'000	2013 HK$'000
Fees for independent non-executive directors	**180**	240
Other emoluments:		
Basic salaries, bonus, housing and other allowances and benefits in kind	**3,980**	3,324
Provident fund scheme contributions	**64**	51
	4,224	3,615

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 2014 and 2013.

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

(a) Directors' emoluments – *Continued*

The emolument of each director for the year ended 31 March 2014 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, M.H.	–	1,500	780	15	2,295
Mr Wong, Andy Tze On	–	720	360	36	1,116
Ms Fang Fang*	–	620	–	13	633
Mr Ye Tian Liu	60	–	–	–	60
Mr Lai Yun Hung	60	–	–	–	60
Dr Ko Peter, Ping Wah	60	–	–	–	60
	180	2,840	1,140	64	4,224

* Appointed on 31 May 2013

The emolument of each director for the year ended 31 March 2013 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, M.H.	–	1,500	780	15	2,295
Mr Wong, Andy Tze On	–	684	360	36	1,080
Mr Wong Lam#	60	–	–	–	60
Mr Ye Tian Liu	60	–	–	–	60
Mr Lai Yun Hung	60	–	–	–	60
Dr Ko Peter, Ping Wah*	60	–	–	–	60
	240	2,184	1,140	51	3,615

Resigned on 14 September 2012
* Appointed on 28 September 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 three (2013: two) directors whose emoluments are disclosed in the analysis presented above. The emoluments payable to the remaining two (2013: three) individuals during the year are as follows:

	2014 HK$'000	2013 HK$'000
Basic salaries, bonus, housing and other allowances and benefits in kind	**1,617**	2,097
Provident fund scheme contributions	**60**	83
	1,677	2,180

The emoluments of these two (2013: three) highest paid individuals fell within the band of Nil to HK$1,000,000 for both years.

(c) Senior management's emolument

The emoluments paid or payable to members of senior management were within the following band:

	2014 No. of individuals	2013 No. of individuals
Nil to HK$1,000,000	**2**	3

16. PENSION COSTS

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$1,250 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 the United States of America and PRC. 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 2014 was HK$835,000 (2013: HK$260,000).

17. PROPERTY, PLANT AND EQUIPMENT

Group	**Land and buildings** HK$'000	**Construction in progress** HK$'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 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 value	35,555	–	117	2,119	1,688	115	1,604	41,198
Net book amount at 1 April 2012	35,555	–	117	2,119	1,688	115	1,604	41,198
Additions	–	–	–	3,579	188	252	677	4,696
Depreciation charge	(138)	–	(76)	(1,972)	(856)	(34)	(544)	(3,620)
Exchange differences	(180)	–	–	(174)	(10)	(4)	(1)	(369)
Net book value at 31 March 2013	35,237	–	41	3,552	1,010	329	1,736	41,905
At 31 March 2013								
Cost or valuation	35,272	–	418	16,359	6,779	664	29,738	89,230
Accumulated depreciation and impairment	(35)	–	(377)	(12,807)	(5,769)	(335)	(28,002)	(47,325)
Net book value	35,237	–	41	3,552	1,010	329	1,736	41,905
Net book amount at 1 April 2013	35,237	–	41	3,552	1,010	329	1,736	41,905
Additions	–	5,462	131	3,476	1,031	–	889	10,989
Disposals	–	–	–	–	(18)	–	–	(18)
Acquired through business combinations (Note 38)	–	–	96	902	348	238	1,693	3,277
Depreciation charge	(85)	–	(105)	(1,995)	(766)	(102)	(1,095)	(4,148)
Exchange differences	(431)	(156)	–	(807)	(21)	(47)	–	(1,461)
Net book value at 31 March 2014	34,729	5,306	163	5,128	1,584	418	3,223	50,543
At 31 March 2014								
Cost or valuation	34,841	5,306	645	19,930	8,119	855	32,320	102,016
Accumulated depreciation and impairment	(120)	–	(482)	(14,802)	(6,535)	(437)	(29,097)	(51,473)
Net book value	34,721	5,306	163	5,128	1,584	418	3,223	50,543

17. PROPERTY, PLANT AND EQUIPMENT – *Continued*

Notes:–

(a) As at 31 March 2014 and 2013, the land and buildings represent a freehold land and certain factories situated in Indonesia.

(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$2,007,000 (2013: HK$2,464,000) had they been stated at cost less accumulated depreciation and accumulated impairment losses.

18. GOODWILL

	2014 **HK$'000**	2013 HK$'000
At beginning of year	**2,500**	2,500
Acquired through business combinations (Note 38)	**98,470**	–
At end of year	**100,970**	2,500

Goodwill acquired in business combination is allocated, at acquisition, to the cash-generating unit ("CGUs") that are expected to benefit from that business combination. As at 31 March 2014, the goodwill arose from the acquisitions of three CGUs which are engaged in manufacturing and sale of commercial kitchen products, sale of consumer electronic products, and trading of toys respectively.

	2014 **HK$'000**	2013 HK$'000
Commercial kitchen products	**95,006**	–
Consumer electronic products	**3,464**	–
Toys	**2,500**	2,500
	100,970	2,500

18. GOODWILL – *Continued*

Commercial kitchen products and consumer electronic products

The directors determined the respective recoverable amount of the CGUs of the commercial kitchen products and the consumer electronic products as at 31 March 2014 from their fair value less costs to sell based on the valuations performed by an independent firm of professional valuers using the income approach method.

The income approach method is based on the projection of future cash flows of the commercial kitchen products business and the consumer electronic products business prepare from the forecasts covering a five-year period. Cash flow beyond the five-year period are extrapolated as no growth for the commercial kitchen products business in the PRC and the consumer electronic products business in the PRC

Management expected the growth of commercial kitchen products business and consumer electronic products business will become obvious in the coming five-year period because of the government policies regarding the heat efficiency requirement for commercial kitchen products and the relaxation of one-child policy. Therefore, the forecasts reflect the expected growth in sales and profits covering the five-year period.

The discount rates of 13% adopted in the future cash flows projections of the CGUs of commercial kitchen products and consumer electronic products respectively are post-tax and reflect specific risks relating to the relevant markets.

Toys

The recoverable amount of the CGU of the toys trading business in the USA is determined based on value-in-use calculations. The calculations use cash flow projections based on financial budgets approved by management covering a five-year period. Cash flow beyond the five-year period is extrapolated using estimated weighted average growth rates of 3% (2013: 3%), which do not exceed the long-term growth rate for the industry in the corresponding country.

The discount rate of 19% (2013: 19%) adopted in the value-in-use calculations of the CGU of toys trading business is pre-tax and reflect specific risks relating to the relevant markets.

Management individually reassessed the recoverable amount of each goodwill as at 31 March 2014 by reference to the discounted cash flow calculation with the above estimations and was of the opinion that the remaining goodwill arising from the acquisitions were recoverable.

19. INTANGIBLE ASSETS

Patents	**Group** HK$'000
Cost:	
At 1 April 2012 and 31 March 2013	–
Acquired through business combinations (Note 38)	4,679
Additions	2,469
At 31 March 2014	7,148
Accumulated amortisation:	
At 1 April 2012 and 31 March 2013	–
Charge for the year	289
At 31 March 2014	289
Carrying amount:	
At 31 March 2014	6,859
At 31 March 2013	–

Patents are measured initially at cost and amortised on straight-line method over their estimated useful lives of 10 years, less any impairment losses. Amortisation charge for the year is included in "general and administrative expenses" in the consolidated statement of comprehensive income.

20. INTERESTS IN SUBSIDIARIES

	Company 2014 HK$'000	2013 HK$'000
Unlisted investments, at cost	**473,812**	473,812
Amounts due from subsidiaries (note)	**494,496**	389,618
Amounts due to subsidiaries (note)	**(36,344)**	(36,466)
	931,964	826,964
Less: provision for impairment loss	**(373,000)**	(373,000)
	558,964	453,964

Note:

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

The amounts due to subsidiaries are interest-free, unsecured and will not be repayable within one year.

20. INTERESTS IN SUBSIDIARIES – *Continued*

Particulars of the subsidiaries of the Company at 31 March 2014 and 2013 are as follows:

Name of company	Place of incorporation and operations	Particulars of issued share capital/ registered capital	Effective percentage holding 2014	Effective percentage holding 2013	Nature of business
Shares held directly:					
LC Global Holdings Corporation	British Virgin Islands	Ordinary US$50,001	**100**	100	Investment holding
Future Empire Limited	British Virgin Islands	Ordinary US$50,000	**100**	100	Investment holding
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$2	**100**	100	Investment holding
Kid Galaxy Corporation	British Virgin Islands	Ordinary US$11	**100**	100	Investment holding
Lung Cheong Asia Holdings Limited	British Virgin Islands	Ordinary US$50,001	**100**	100	Investment holding
Lung Cheong Overseas Corporation	British Virgin Islands	Ordinary US$50,000	**100**	100	Trading of toys
Kid Galaxy Inc.	United States of America ("USA")	Ordinary US$100,010	**100**	100	Trading of toys
LC Technology Limited	Hong Kong	Ordinary HK$30,010,000	**100**	100	Trading of toys and electronic products

20. INTERESTS IN SUBSIDIARIES – *Continued*

Name of company	Place of incorporation and operations	Particulars of issued share capital/ registered capital	Effective percentage holding 2014	Effective percentage holding 2013	Nature of business
Shares/investments held indirectly: – *Continued*					
Kid Galaxy Limited	Hong Kong	Ordinary HK$10,010,000	**100**	100	Trading of toys
Future Empire Limited	Hong Kong	Ordinary HK$1	**100**	–	Investment holdings
Notton Limited	British Virgin Islands	Ordinary US$1	**100**	–	Investment holdings
Era Creation Technology Limited	Hong Kong	Ordinary HK$1	**100**	–	Investment holdings
Qingdao Oasis Child Care Company Limited	The People Republic of China ("PRC")	Ordinary US$3,000,000	**100**	–	Trading of consumer electronic products
Qindao Ruidi Gas Appliances Manufacturing Limited ("Qingdao Ruidi")	PRC	Ordinary RMB15,030,000	**100**	–	Research, development, manufacturing & sales of commercial and domestic gas cooking appliances
Qingdao Haier Rudi Kitchen Appliances & Engineering Company Limited	PRC	Ordinary RMB10,000,000	**100**	–	Research, development, production, sales and installation of commercial kitchen related equipment and accessories
深圳致迅電器有限公司 ("Genith Shenzhen")	PRC	Ordinary RMB5,000,000	**51**	–	Trading of consumer electronic products
深圳貝立安母嬰用品有限公司 ("Brillante Shenzhen")	PRC	Ordinary RMB2,000,000	**51**	–	Research & development, marketing & distribution of childcare products

21. INVENTORIES

	Group	
	2014 **HK$'000**	2013 HK$'000
Raw materials	**11,522**	7,518
Work-in-progress	**18,179**	16,268
Finished goods	**25,647**	18,357
	55,348	42,143

22. TRADE AND OTHER RECEIVABLES, DEPOSITS AND PREPAYMENTS

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

	2014 **HK$'000**	2013 HK$'000	**2014** **HK$'000**	2013 HK$'000
Trade receivables	**20,670**	13,185	**–**	–
Less: Allowance for doubtful debts	**(41)**	(895)	**–**	–
	20,629	12,290	**–**	–
Other receivables, deposits and prepayments	**17,788**	3,278	**–**	324
	38,417	15,568	**–**	324

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

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

Allowance for doubtful debts on trade receivables

	Group	
	2014	2013
	HK$'000	HK$'000
At beginning of year	**895**	681
Amounts written off for the year	**(895)**	–
Recovery of loss previously recognised	**–**	(681)
Addition to impairment loss	**41**	895
At end of year (Note (i))	**41**	895

Note:

(i) At 31 March 2014, the Group's trade receivables of approximately HK$41,000 (2013: HK$895,000) were individually determined to be impaired.

(b) At 31 March 2014, the ageing analysis of the trade receivables, net of allowance for doubtful debts, was as follows:

	Group	
	2014	2013
	HK$'000	HK$'000
0-90 days	**18,542**	12,158
91-180 days	**1,839**	131
181-365 days	**143**	1
Over 365 days	**105**	–
	20,629	12,290

The Group's sales are on letter of credit or open account terms. Credit terms are reviewed on a regular basis. The normal trade terms include letter of credit, deposits before shipments and credit period ranging from 30 to 90 days but business partners with strong financial backgrounds may be offered longer credit terms.

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

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

	Group	
	2014	2013
	HK$'000	HK$'000
Not past due	**17,578**	11,383
Within 30 days past due	**1,893**	239
31 to 90 days past due	**437**	536
Over 90 days past due	**721**	132
	3,051	907
	20,629	12,290

(d) 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.

23. AVAILABLE-FOR-SALE INVESTMENTS

	Group	
	2014 **HK$'000**	2013 HK$'000
Debt securities – at fair value		
– Listed in Hong Kong	**112,277**	–
– Listed outside Hong Kong	**138,491**	–
	250,768	–

24. AMOUNTS DUE FROM/(TO) RELATED COMPANIES

(a) Amounts due from related companies

	As at 31 March 2014 HK$'000	As at 31 March 2013 HK$'000	As at 1 April 2012 HK$'000	Maximum balances outstanding during the year ended 31 March 2014 HK$'000	Maximum balances outstanding during the year ended 31 March 2013 HK$'000
Amounts due from related companies					
Lung Cheong (BVI) Holdings Limited	**11**	11	1,591	**11**	1,591
Lung Cheong Toys Limited	**618**	6,580	26,055	**6,580**	44,829
Lung Cheong Resources Management Limited	**–**	–	692	**–**	1,092
Lung Cheong Digitech (HK) Company Limited	**–**	–	4,011	**–**	4,011
Dongguan Lung Cheong Toys Co., Ltd.	**–**	–	757	**–**	757
Dongguan L C Technology Co., Ltd.	**2,015**	–	9,907	**2,651**	20,913
Laiyang Haier Electrical Co. Ltd.	**1,405**	–	–	**1,405**	–
	4,049	6,591	43,013	**10,647**	73,193

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

25. CASH AND CASH EQUIVALENTS

Cash and cash equivalents represent the bank balances and cash which earn interest on floating rates based on daily bank deposit rates. The carrying amount of the bank balances and cash approximate to their fair value.

26. TRADE AND OTHER PAYABLES AND ACCRUED CHARGES

	Group		Company	
	2014	2013	**2014**	2013
	HK$'000	HK$'000	**HK$'000**	HK$'000
CURRENT				
Trade payables	**5,867**	6,013	**–**	–
Other payables and accrued charges	**21,908**	5,859	**625**	1,412
	27,775	11,872	**625**	1,412
NON-CURRENT				
Other payable	**7,710**	–	**–**	–
	35,485	11,872	**625**	1,412

At 31 March 2014, the ageing analysis of the trade payables was as follows:

	Group	
	2014	2013
	HK$'000	HK$'000
0-90 days	**5,587**	6,004
91-180 days	**55**	9
181-365 days	**70**	–
Over 365 days	**155**	–
	5,867	6,013

27. BORROWINGS

	Group	
	2014	2013
	HK$'000	HK$'000
CURRENT		
Trust receipt loans	**12,110**	15,487
Bank loan	**–**	30,096
	12,110	45,583
NON-CURRENT		
Bank loan	**7,814**	–
	19,924	45,583

At 31 March, total current and non-current trust receipt loans and bank loan were scheduled to repay as follows:

	2014	2013
	HK$'000	HK$'000
On demand and within one year	**12,110**	45,583
More than one year, but not exceeding two years	**1,563**	–
More than two years, but not exceeding five years	**4,689**	–
After five years	**1,562**	–
	19,924	45,583

27. BORROWINGS – *Continued*

(a) All borrowings were interest bearing at variable rate. The average effective interest rates per annum at the end of reporting period were as follows:

	2014		2013	
	HKD	**USD**	HKD	USD
Trust receipt loans	**N/A**	**6.75%**	N/A	6.75%
Bank loan	**N/A**	**6.75%**	2.20%	N/A

(b) As at 31 March 2014, the Group's bank borrowings and banking facilities are secured by a legal charge over Group's land and buildings situated in Indonesia, with carrying value of HK$34,721,000. As at 31 March 2013, the Group's bank borrowings and banking facilities were secured by a legal charge over Group's land and buildings situated in Indonesia, with carrying value of HK$35,237,000, bank deposits of HK$30,094,000, and corporate guarantees from group companies.

(c) At 31 March 2014, the Group had a total banking facilities of approximately HK$33,172,000 (2013: HK$91,172,000) of which HK$13,248,000 (2013: HK$45,589,000) had not been utilised.

28. PROVISION FOR LONG SERVICE PAYMENT

	Group	
	2014	2013
	HK$'000	HK$'000
At beginning of year	**1,846**	1,611
Addition	**571**	325
Exchange differences	**(269)**	(90)
At end of year	**2,148**	1,846

The amounts represent the provision for long service payment for the Group's employees in Hong Kong and Indonesia. It is regulated by the Labour Law in Hong Kong and Indonesia respectively.

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:

	Available-for-sale investments HK$'000	Cumulative tax losses HK$'000	Others HK$'000	Total HK$'000
At 1 April 2012	–	3,415	893	4,308
Credited to profit or loss (Note 10)	–	849	211	1,060
Exchange difference	–	–	(53)	(53)
At 31 March 2013	–	4,264	1,051	5,315
Acquired through business combinations (Note 38)	–	2,661	–	2,661
Credited to profit or loss (Note 10)	–	687	–	687
Credited to equity	3,268	–	–	3,268
Exchange difference	–	–	(156)	(156)
At 31 March 2014	3,268	7,612	895	11,775

Deferred tax liabilities:

	Revaluation of properties HK$'000
At 1 April 2012	7,654
Exchange difference	(179)
At 31 March 2013	7,475
Exchange difference	(569)
At 31 March 2014	6,906

Net deferred tax assets/(liabilities):

At 31 March 2014	4,869
At 31 March 2013	(2,160)

29. DEFERRED TAX – *Continued*

For the purpose of presentation in consolidated statement of financial position, certain deferred tax assets and liabilities have been offset. The following in the analysis of the deferred tax balances for financial reporting purposes:

	Group	
	2014 HK$'000	2013 HK$'000
Deferred tax assets	**11,545**	4,516
Deferred tax liabilities	**(6,676)**	(6,676)
	4,869	(2,160)

Deferred tax assets are recognised for estimated 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 estimated losses amounting to approximately HK$17,782,000 (2013: HK$25,499,000) that can be carried forward against future taxable income. All tax losses may be carried forward indefinitely except for the amount of approximately HK$6,950,000 (2013: HK$20,997,600) which will expire from 2022 to 2034.

30. SHARES TO BE ISSUED

On 6 November 2012, the Company entered into a placing agreement with the placing agent to procure not fewer than six placees (who are independent third parties) to subscribe for up to 2 billion placing shares at the placing price of HK$0.2 per share.

The net proceeds from the placing, net of issuing expenses, amounted to approximately HK$389 million were received on 26 March 2013. All the precedent conditions for the placing and the subscription were satisfied and completed before 31 March 2013. On 2 April 2013, the 2 billion new ordinary shares were allotted and issued and the balance of shares to be issued of HK$389,000,000 was transferred to share capital and share premium accordingly.

31. SHARE CAPITAL

	Authorised			
	Convertible cumulative redeemable preference shares of US$100,000 each		**Ordinary shares of HK$0.10 each**	
	Number of shares	US$'000	**Number of shares** '000	HK$'000
At 1 April 2012, 31 March 2013 and 2014	40	4,000	10,000,000	1,000,000

31. SHARE CAPITAL – *Continued*

	Issued and fully paid			
	Convertible cumulative redeemable preference shares of US$100,000 each		Ordinary shares of HK$0.10 each	
	Number of shares	US$'000	Number of shares '000	HK$'000
At 1 April 2012	–	–	2,957,758	295,776
Placing of new shares	–	–	500,000	50,000
At 31 March 2013	–	–	3,457,758	345,776
Placing of new shares (note)	–	–	2,000,000	200,000
Exercise of warrants	–	–	100,000	10,000
At 31 March 2014	–	–	5,557,758	555,776

Note:

On 2 April 2013, the issued ordinary shares of the Company were increased from HK$345,776,000 to HK$545,776,000 through a placing exercise (the "Placing") for the issue of 2,000,000,000 ordinary shares with par value of HK$0.1 each.

A sum of HK$389,216,000 in cash was received in the Placing, after the net of related expenses borne by the Company of approximately HK$10,784,000. The directors considered that the Placing was taken place for the purposes of raising sufficient fund for general working capital and expansion of business.

32. SHARE OPTION SCHEME

On 14 September 2012, the renewal of 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 extraordinary general meeting of the Company last held on 14 September 2012 (the "EGM"). The maximum number of shares available for issue under the Scheme is 345,775,799, representing 10% of the issued ordinary share capital of the Company as at the date of the EGM, 14 September 2012 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.

32. SHARE OPTION SCHEME – *Continued*

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

As at 31 March 2014 and 2013, there was no outstanding share options previously granted under the Scheme.

33. NON-CONTROLLING INTERESTS

"Genith Shenzhen" and its subsidiary, 51% owned by the Company, have material non-controlling interests ("NCI"). Summarised financial information in relation to the NCI of "Genith Shenzhen" and its subsidiary, before intra-group elimination is presented below:

For the period from date of acquisition to 31 March	**2014 HK$'000**
Revenue	**17,130**
Loss for the period	**(4,065)**
Total comprehensive income for the period	**(4,065)**
Loss and total comprehensive income for the period allocated to NCI	**(1,992)**
For the period from date of acquisition to 31 March	
Cash flow used in operating activities	**(9,316)**
Cash flow used in investing activities	**(344)**
Cash flow generated from financing activities	**13,245**
Net cash inflow	**3,585**
As at 31 March	
Non-current assets	**6,752**
Current assets	**24,656**
Current liabilities	**(36,697)**
Net liabilities	**(5,289)**
Accumulated non-controlling interests	**(2,591)**

34. 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.

Warrant reserve

Warrant reserve represents the amount of proceeds on issue of warrants.

Exchange fluctuation reserve

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

Investment revaluation reserve

Investment revaluation reserve represents change in fair value of available-for-sale financial assets.

Statutory surplus reserve

The statutory surplus reserve is required by the relevant laws applicable to the Group's subsidiaries established in China and can be utilised to offset the prior years' losses of the China subsidiaries.

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).

Accumulated losses

It represents the cumulative net gains and losses recognised in profit or loss.

34. RESERVES – *Continued*

Company

	Share premium HK$'000	Shares to be issued HK$'000	Warrant reserve HK$'000	Accumulated losses HK$'000	Total HK$'000
At 1 April 2012	124,958	–	–	(430,709)	(305,751)
Loss and total comprehensive income for the year	–	–	–	(2,586)	(2,586)
Placing of new shares and warrants	21,841	389,000	4,789	–	415,630
At 31 March 2013 and 1 April 2013	146,799	389,000	4,789	(433,295)	107,293
Profit and total comprehensive income for the year	–	–	–	8,337	8,337
Consideration shares to be issued for business acquisitions	–	82,000	–	–	82,000
Placement of new shares	189,216	(389,000)	–	–	(199,784)
Exercise of warrants	5,855	–	(959)	–	4,897
At 31 March 2014	**341,870**	**82,000**	**3,830**	**(424,958)**	**2,742**

35. CONTINGENT LIABILITIES

At 31 March 2014, no guarantees were granted by the Company. At 31 March 2013, the Company had provided guarantees to banks and financial institutions in respect of credit facilities granted to its subsidiaries amounting to HK$58,000,000.

At 31 March 2014 and 2013, the Group had no contingent liabilities.

36. COMMITMENTS

(a) Capital Commitments

At 31 March 2014, the Group had the following significant capital commitments:

Acquisition of property, plant and equipment

	2014 HK$'000	2013 HK$'000
Authorised but not contracted for	**–**	5,887
Contracted for but not provided	**684**	–

(b) Operating lease commitments

At 31 March 2014, the Group had future aggregate minimum lease payments under non-cancellable operating leases in respect of land and buildings as follows:

	2014 HK$'000	2013 HK$'000
Not later than one year	**910**	280
Later than one year but not later than five years	**349**	383
	1,259	663

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

37. 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, 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	
		2014 **HK$'000**	2013 HK$'000
Companies related to our substantial shareholder	Sales	**2,031**	–
Companies controlled by a director's close family members	Purchase	**47,691**	78,927

(b) Key management personnel compensation

The key management personnel includes the directors, whose emoluments is disclosed in Note 15(a), and key management of the Company during the year. The emoluments of the key management were as follows:

	2014 **HK$'000**	2013 HK$'000
Short-term benefits	**1,695**	1,695
Post-employment benefits	**59**	59
	1,754	1,754

38. BUSINESS ACQUISITIONS DURING THE YEAR

The following table summarises the considerations paid for business acquisitions completed in the current period, and the fair value of identifiable assets and liabilities of the acquirees at the respective acquisition date:

	Notton Limited Note (a) HK$'000	Genith Shenzhen Note (b) HK$'000	Total HK$'000
Property, plant and equipment	2,483	794	3,277
Intangible assets	4,679	–	4,679
Deferred tax assets	808	1,853	2,661
Inventories	2,199	5,157	7,356
Cash and cash equivalents	981	747	1,728
Trade and other receivables, deposits and prepayments	1,523	2,490	4,013
Amounts due from related companies	–	488	488
Trade payables	(170)	(341)	(511)
Other payables and accrued charges	(2,052)	(12,063)	(14,115)
Amounts due to related companies	(38)	–	(38)
	10,413	(875)	9,538
Non-controlling interests	–	599	599
	10,413	(276)	10,137
Goodwill arising on acquisition	95,006	3,464	98,470
Total consideration	105,419	3,188	108,607
Satisfied by:			
– Cash consideration	8,000	3,188	11,188
– Contingent consideration			
– Cash	15,419	–	15,419
– Ordinary shares	82,000	–	82,000
	105,419	3,188	108,607

38. BUSINESS ACQUISITIONS DURING THE YEAR – *Continued*

(a) Acquisition of Notton Limited

On 19 August 2013, the Group acquired 100% of the equity interests of Notton Limited, a company whose principal activity is investment holding. Notton Limited, through its wholly-owned subsidiary Era Creation Technology Limited, holds the entire equity interest of 青島瑞迪燃氣具製造有限公司 ("Qingdao Ruidi"), which is engaged in research, development, manufacturing and sale of commercial kitchen products in the PRC. The acquisition was made with the aims to enhance the Group's exposure in the commercial kitchen products industry.

The above consideration includes a cash consideration of HK$8,000,000 paid at the acquisition date and a performance-based contingent consideration of HK$8,000,000 in cash and 100,000,000 ordinary shares of the Company, if the profit of Notton Limited and its subsidiaries for the year ending 31 December 2014 reaches HK$11,000,000 and another HK$8,000,000 in cash and 100,000,000 ordinary shares of the Company, if the profit of Notton Limited and its subsidiaries for the year ending 31 December 2015 reaches HK$21,000,000.

At the acquisition date, the fair value of the contingent consideration in cash of HK$15,419,000 was estimated by applying the discount rate of 2.5% per annum and the fair value of the contingent consideration shares of HK$82,000,000 was determined by reference to the quoted market price of the Company's share of HK$0.41 each at the date of acquisition.

The acquisition-related costs of HK$111,000 have been expensed and are included in general and administrative expenses.

The fair value of trade and other receivables amounted to HK$1,523,000. The gross amount of these receivables is HK$1,523,000. None of these receivables have been impaired and it is expected that the full contractual amounts can be collected.

Since the acquisition date, Notton Limited has contributed revenue of HK$4,877,000 and loss of HK$2,614,000 to Group's revenue and profit. If the acquisition had occurred on 1 April 2013, the Group's revenue and profit would have been HK$194,507,000 and HK$386,000 respectively. The pro forma information is for illustrative purposes only and is not necessarily an indication of revenue and results of operations of the Group that actually would have been achieved had the acquisition been completed on 1 April 2013, nor is it intended to be a projection of future performance.

38. BUSINESS ACQUISITIONS DURING THE YEAR – *Continued*

(b) Acquisition of Genith Shenzhen

On 22 September 2013, the Group acquired 51% of the equity interests of Genith Shenzhen, a company whose principal activity is research and development, marketing and distribution of consumer electronic products and childcare products. The acquisition was made with the aims to enhance the Group's exposure in the consumer electronic products and childcare products industry.

The acquisition-related costs of HK$115,000 have been expensed and are included in general and administrative expenses.

The fair value of trade and other receivables amounted to HK$2,490,000. The gross amount of these receivables is HK$2,490,000. None of these receivables have been impaired and it is expected that the full contractual amounts can be collected.

The Group has elected to measure the non-controlling interest in Genith Shenzhen at the proportionate share of the acquiree's identifiable net assets.

Since the acquisition date, Genith Shenzhen has contributed revenue of HK$17,130,000 and loss of HK$4,065,000 to Group's revenue and profit. If the acquisition had occurred on 1 April 2013, the Group's revenue and loss would have been HK$202,351,000 and HK$1,833,000 respectively. The pro forma information is for illustrative purposes only and is not necessarily an indication of revenue and results of operations of the Group that actually would have been achieved had the acquisition been completed on 1 April 2013, nor is it intended to be a projection of future performance.

39. CAPITAL RISK MANAGEMENT

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

The capital structure of the Group consists of net debts, which include the borrowings disclosed in Note 27, less of cash and cash equivalents and available-for-sale investments, and equity attributable to owners of the Company, comprising share capital and reserves as disclosed in Notes 30, 31 and 34, 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.

39. CAPITAL RISK MANAGEMENT – *Continued*

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

	2014 HK$'000	2013 HK$'000
Debts	**19,924**	45,583
Cash and cash equivalents	**(116,139)**	(418,175)
Available-for-sale investment	**(250,768)**	–
Net debts	**(346,983)**	(372,592)
Equity	**567,890**	487,992
Net debts to equity ratio	**N/A**	N/A

40. FINANCIAL RISK MANAGEMENT

Financial risk factors

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

(a) Credit risk

The Group's credit risk is primarily attributable to its restricted bank deposits, cash and cash equivalents 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 11% (2013: 18%) and 41% (2013: 42%) of the total trade receivables was due from the Group's largest debtor and the five largest debtors respectively.

40. FINANCIAL RISK MANAGEMENT – *Continued*

Financial risk factors – *Continued*

(a) Credit risk – *Continued*

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.

In addition, as at 31 March 2014, the Group did not have concentration of credit risk on its liquid funds. The Group had concentration of credit risk on its liquid funds as 96% of bank balances were placed with one bank as at 31 March 2013. However, the credit risk on liquid funds is limited because the counterparty is a bank with high credit rating assigned by international credit-rating agencies.

(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 derivative and non-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.

40. FINANCIAL RISK MANAGEMENT – *Continued*

Financial risk factors – *Continued*

(b) Liquidity risk – *Continued*

Group

	Carrying amount HK$'000	Total contractual undiscounted cash flow HK$'000	Within 1 year or on demand HK$'000	Over 1 year HK$'000
2014				
Trade and other payables and accrued charges	35,485	36,065	28,065	8,000
Borrowings	19,924	21,586	12,110	9,476
Amounts due to related companies	3,519	3,519	3,519	–
	54,199	61,170	43,694	17,476

Company

	Carrying amount HK$'000	Total contractual undiscounted cash flow HK$'000	Within 1 year or on demand HK$'000	Over 1 year HK$'000
2014				
Trade and other payables and accrued charges	625	625	625	–
Financial guarantees issued – maximum amount guaranteed	–	–	–	–

40. FINANCIAL RISK MANAGEMENT – *Continued*

Financial risk factors – *Continued*

(b) Liquidity risk – *Continued*

Group

	Carrying amount HK$'000	Total contractual undiscounted cash flow HK$'000	Within 1 year or on demand HK$'000	Over 1 year HK$'000
2013				
Trade and other payables and accrued charges	11,872	11,872	11,872	–
Borrowings	45,583	45,583	45,583	–
Amounts due to related companies	7,809	7,809	7,809	–
	65,264	65,264	65,264	–

Company

	Carrying amount HK$'000	Total contractual undiscounted cash flow HK$'000	Within 1 year or on demand HK$'000	Over 1 year HK$'000
2013				
Trade and other payables and accrued charges	1,412	1,412	1,412	–
Financial guarantees issued – maximum amount guaranteed	–	58,000	58,000	–

40. FINANCIAL RISK MANAGEMENT – *Continued*

Financial risk factors – *Continued*

(b) Liquidity risk – *Continued*

The following table summarises the maturity analysis of bank borrowings with a repayment on demand clause based on agreed scheduled repayments set out in the loan agreements. The amounts include interest payments computed using contractual rates. As a result, these amounts were greater than the amounts disclosed in the "on demand" time band in the maturity analysis contained in above table. Taking into account the Group's financial position, the directors do not consider that it is probable that the bank will exercise its discretion to demand immediate repayment. The directors believe that such bank borrowings will be repaid in accordance with the scheduled repayment dates set out in the loan agreements.

Group

	Carrying amount HK$'000	Total contractual undiscounted cash flow HK$'000	Within 1 year or on demand HK$'000	More than 1 year but less than 2 years HK$'000	More than 2 years but less than 5 years HK$'000	More than 5 years HK$'000
At 31 March 2014	**19,924**	**20,709**	**12,897**	**1,562**	**4,688**	**1,562**
At 31 March 2013	45,583	46,973	46,973	–	–	–

(c) Interest rate risk

The Group's interest rate risk arises primarily from borrowings. All of the Group's borrowings at 31 March 2014 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 Note 27 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 2014, it is estimated that a general increase/decrease of 50 basis points in interest rates, with all other variables held constant, would decrease/increase the Group's profit for the year and increase/decrease the Group's accumulated losses by approximately HK$100,000 (2013: HK$227,000).

40. FINANCIAL RISK MANAGEMENT – *Continued*

Financial risk factors – *Continued*

(c) *Interest rate risk* – *Continued*

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/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 2013.

(d) *Foreign exchange risk*

The Group is exposed to foreign exchange risk arising from various currency exposures, primarily with respect to United States dollars ("US$"), Renminbi ("RMB") and Hong Kong Dollar. 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.

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

	2014			2013		
	HK$'000	**RMB'000**	**US$'000**	HK$'000	RMB'000	US$'000
Trade and other receivables	**15,415**	**36,666**	**6,307**	20,038	5	6,843
Restricted bank deposits	**–**	**–**	**–**	–	24,000	–
Cash and cash equivalents	**–**	**43,831**	**2,484**	–	–	374
Available-for-sale investment	**–**	**58,412**	**22,915**	–	–	–
Amount due from related parties	**–**	**828**	**–**	–	–	–
Trade and other payables	**(16,432)**	**–**	**–**	(16,726)	–	–
Amount due to related parties	**–**	**(2,371)**	**–**	–	–	–
Borrowings	**–**	**–**	**(2,554)**	–	–	(2,000)
Overall net exposure	**(2,632)**	**137,366**	**29,152**	3,312	24,005	5,217

40. FINANCIAL RISK MANAGEMENT – *Continued*

Financial risk factors – *Continued*

(d) ***Foreign exchange risk*** – *Continued*

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

	2014		2013	
	Increase/ (decrease) in foreign exchange rates	**Increase/ (decrease) in profit for the year HK$'000**	Increase/ (decrease) in foreign exchange rates	Increase/ (decrease) in profit for the year HK$'000
HK$	**5%**	**(66)**	5%	2,854
	(5%)	**66**	(5%)	(2,854)
RMB	**5%**	**3,747**	5%	1,482
	(5%)	**(3,747)**	(5%)	(1,482)
US$	**5%**	**2,166**	5%	775
	(5%)	**(2,166)**	(5%)	(775)

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 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 2013.

40. FINANCIAL RISK MANAGEMENT – *Continued*

Financial risk factors – *Continued*

(e) Fair values

The fair value of financial assets and financial liabilities are determined as follows:

– the fair value of the financial assets and financial liabilities with standard terms and conditions and traded in active liquid markets are determined with reference to quoted market bid prices and ask prices respectively;

– the fair value of other financial assets and financial liabilities (excluding derivative financial instruments) are determined in accordance with generally accepted pricing models based on discounted cash flow analysis using prices from observable current market transactions; and

– the fair value of available-for-sale investments is calculated using quoted prices.

The directors consider that the carrying amounts of financial assets and financial liabilities recorded at amortised cost in the consolidated financial statements approximate their fair values due to their short term maturities.

(i) Recurring fair value measurements recognised in the consolidated statement of financial position

The following table provides an analysis of financial instruments that are measured subsequent to initial recognition at fair value, grouped into Level 1 based on the degree to which the fair value is observable.

– Level 1 fair value measurements are those derived from quoted prices (unadjusted) in active market for identical assets or liabilities.

	2014 HK$'000	2013 HK$'000
Available-for-sale investments	**250,768**	–

(ii) The directors considered that the carrying amounts of financial assets and financial liabilities carried at amortised cost approximate to their fair value.

41. SUMMARY OF FINANCIAL ASSETS AND FINANCIAL LIABILITIES BY CATEGORY

The carrying amounts of the Group's financial assets and financial liabilities as recognised at 31 March 2014 and 2013 may be categorised as follows:

	2014 HK$'000	2013 HK$'000
Financial assets		
Loans and receivables (including cash and cash equivalents)	**158,605**	470,428
Available-for-sale investment	**250,768**	–
Financial liabilities		
Financial liabilities measured at amortised cost	**58,941**	65,264

42. EVENT AFTER THE END OF REPORTING PERIOD

Pursuant to announcement dated 2 April 2014, one subsidiary of the Group named Qingdao Haier Ruidi Kitchen Appliance & Engineering Company Ltd, an indirect wholly-owned subsidiary of the Company entered into the Agreement to acquire Sichuan Yi Fang Kitchen Equipment Co., Ltd. approximately 59.976% of the entire equity interest at a total consideration of RMB8,000,000 (or equivalent to HK$10,000,000). The Consideration shall be satisfied by way of cash. As at the date of these financial statements, the Group has not finalised the fair value assessments for the identifiable assets acquired and liabilities relating to the acquisition.

Pursuant to announcement dated 22 April 2014, Qingdao Oasis, an indirect wholly-owned subsidiary of the Company, and Goodaymart, an indirect wholly-owned subsidiary of Haier Electronics, entered into the JV Agreement in relation to the establishment of the JV Company, which will be principally engaged in research and development, production, wholesaling and retailing of water purification equipment and accessories, installation and maintenance of water purification equipment and provision of relevant after-sale services in the PRC. The JV Company will be focused on "health and environment" and aims to become a prominent full-house water purification service provider. Upon the establishment of the JV Company, Goodaymart and Qingdao Oasis will own 51% and 49% of the shareholding interest in the JV Company respectively.

43. APPROVAL OF FINANCIAL STATEMENTS

These financial statements were approved and authorised for issue by the Board of Directors on 27 June 2014.

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