2012/2013
Annual Report

LUNG CHEONG
INTERNATIONAL HOLDINGS LIMITED

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

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

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

LEGAL ADVISERS ON CAYMAN ISLANDS LAW

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

LEGAL ADVISERS ON HONG KONG LAW

TC & Co., Solicitors
Unit 2201-2203 22/F
Tai Tung Building
8 Fleming Road
Wanchai
Hong Kong

REGISTERED OFFICE

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

HEAD OFFICE AND PRINCIPAL PLACE OF BUSINESS IN HONG KONG

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

PRINCIPAL SHARE REGISTRAR AND TRANSFER OFFICE

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

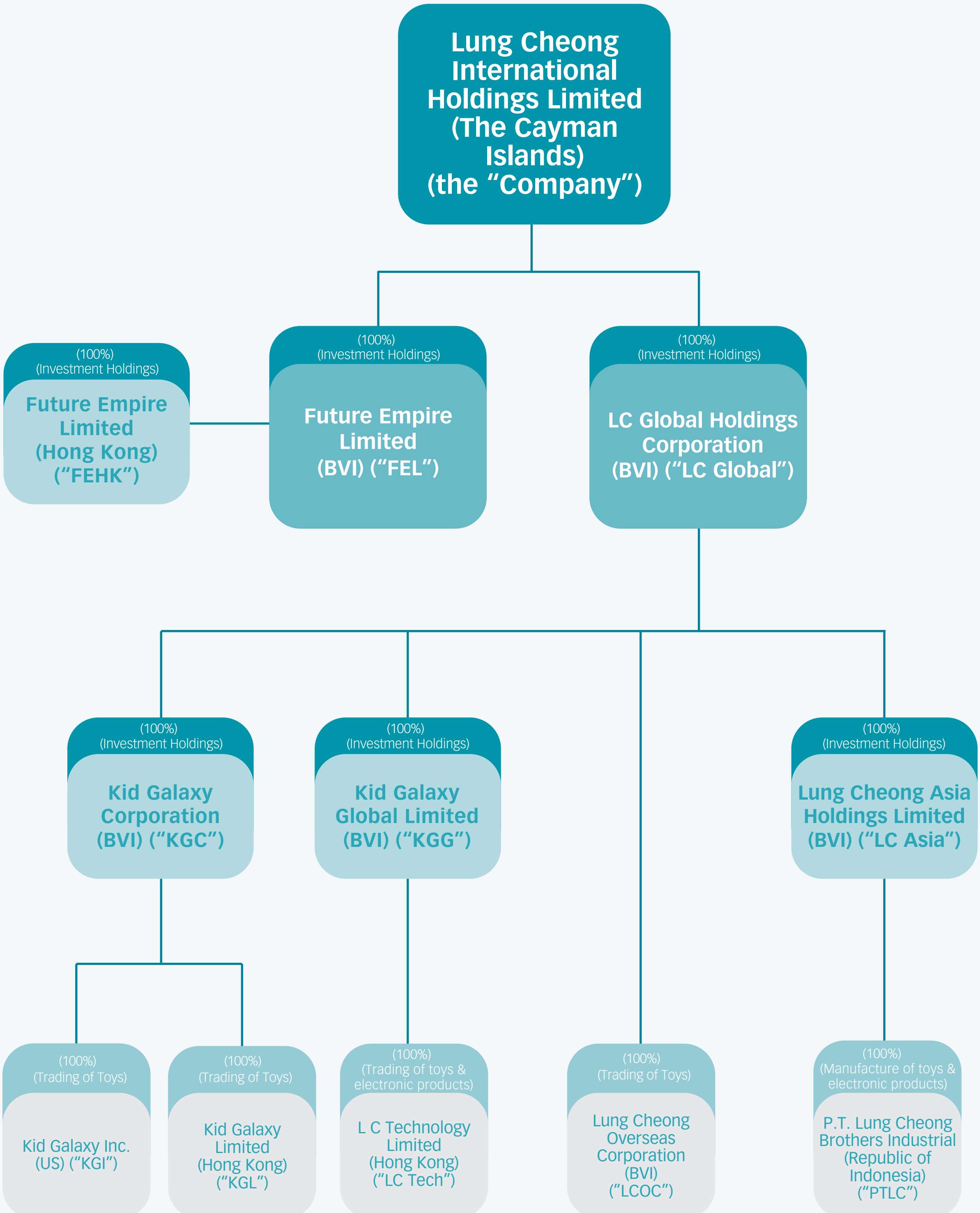
HONG KONG BRANCH SHARE REGISTRAR AND TRANSFER OFFICE

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

LISTING INFORMATION

The Stock Exchange of Hong Kong Limited
Stock Code: 348

Corporate Structure
(as at 25 June 2013)



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 2013.

RESULTS

For the year ended 31 March 2013 ("FY12/13"), the Group's turnover decreased by approximately ("approx") 50% to approx HK$209 million, compared with approx HK$420 million for the year ended 31 March 2012 ("FY11/12" and/or "Corresponding Period").

Gross profit margin for FY12/13 was approx 26% compared to approx 16% in FY11/12. Overall, profit attributable to owners of the Company was approx HK$2 million, compared with a profit of approx HK$78 million in FY11/12. The Directors do not recommend the payment of any dividend for the year ended 31 March 2013 (FY11/12:Nil).

BUSINESS REVIEW

The Group recorded a significant decrease in profit for the year ended 31 March 2013 as compared to the higher profit recorded by the Group for the year ended 31 March 2012. The decline in consolidated profit was primarily attributable to the fact that there was a one-off gain on disposal of the Company's subsidiaries ("Disposal Group") of approx HK$92 million for the year ended 31 March 2012 which did not occur for the same period in this year and partly due to the decrease in sales of the Group for the year.

For the financial year ended 31 March 2013 ("FY12/13"), the Group's core businesses are its Kid Galaxy Original Brand Manufacturing ("OBM") business and Original Equipment Manufacturing ("OEM") business, with the Indonesian factory becoming its primary OEM production base. The Directors and senior executives ("Management") believe that Indonesia's plentiful supply of labour would be beneficial as it provides the Group with a comparatively stable environment. It also reduces reliance on the manufacturing support located in the People's Republic of China ("PRC"). The said manufacturing support over time as shown in purchases from related PRC factories have been reduced from approx HK$313 million to approx HK$79 million during the comparative period under review. Turnover of the Group's manufacturing plant in Indonesia increased from approx HK$51 million for the Corresponding Period to approx HK$93 million, and accounted for approx 45% (FY11/12: 12%) of Group's turnover for the year ended 31 March 2013. During peak production time within FY12/13, the Group had over 2,800 employees at the Indonesian factory.

Chairman's Statement

In addition to a challenging market environment in FY12/13, the Group had to compete to preserve its OEM customers without a PRC manufacturing base and relying on its Indonesian production facilities. Overall, the Group's turnover recorded a significant decrease as certain customers opted to place orders with the Disposal Group directly or with other OEM competitors with PRC facilities. Benefiting from a shift in its strategy, the Group's existing core business took advantage of its reduced scale to strengthen its competitive advantages. As a result, sales with improved average selling prices and margins were secured, and the Group's gross profit margin for the Period recorded an improvement to approx 26% compared with approx 16% in the Corresponding Period.

During the year ended 31 March 2013, the Group's major export destinations were the United States of America and Canada ("America"), Europe and Korea. America continued to be the largest export destinations for the Group, accounted for approx 45% of total turnover for the year (FY11/12: 59%). Other significant overseas markets for the Group during the Period included Europe, Korea, Australia and Japan, which accounted for approx 41% (FY11/12: 28%), approx 9% (FY11/12: 0.4%), approx 1% (FY11/12: 3%) and approx 1% (FY11/12: 2%) respectively. Increased sales to Korea which accounted for 9% of sales was attributable to the Group's production of a TV animation related toys broadcasted locally during year under review.

The Group has continued its efforts in developing relationships with customers which had strong electronic and plastic toy lines targeted at the lower-priced segment. The major portion of the products being shipped were less complex, medium-to-low priced electronic and plastic products during the year ended 31 March 2013, accounted for approx 42% of sales (FY11/12: 69%). Shipment of radio control ("R/C") toys were stronger and the Group's R/C toy business segment accounted for approx 58% of total sales for the year ended 31 March 2013, higher than the approx 28% recorded in this segment as compared with that in the Corresponding Period. Fewer sales of premium priced items were resulted mainly due to economic uncertainties affecting consumers worldwide. However, amid the uncertain business environment, the Group's operations contributed approx HK$2 million in operating profit for the year ended 31 March 2013 (FY11/12: HK$79 million).

During FY12/13, Kid Galaxy enriched its product mix with new product lines such as "Big Wheelie Cycle", "Ratchet Racers", "Slick Drifter" and "Dyna Rides" receiving an encouraging market response. It has launched several new product lines during the year as a result of our strong development efforts. The Group during the year actively expanded its distribution channels in America and Europe for Kid Galaxy products by increasing its presence at exhibitions and opening new sales channels such as clubs, Television Sales networks, Internet and chain stores. With marketing programs for Kid Galaxy branded products in place, the turnover of Kid Galaxy OBM sales was higher at approx HK$110 million, compared with approx HK$89 million for the Corresponding Period. The revenue from this line of business was derived mainly from the Group's own brands such as Elite Fleet, Morphibians, GoGo Auto, World of Wheels, My First RC and the recently licensed Ford GoGo Auto.

Chairman's Statement

On 24 April 2012, the Company entered into a Placing Agreement pursuant to which the Company appointed a Placing Agent to procure not fewer than six Placees (who are Independent Third Parties) to subscribe for up to 500 million shares (the "Placing Shares"). 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. Holders of the Warrants may exercise the subscription rights attached to the Warrants, in whole or in part, at any time during the Exercise Period to subscribe for the Subscription Shares at the Subscription Price of HK$0.15 per Subscription Share (subject to adjustment). Each Warrant carries the right to subscribe for one Subscription Share. It was expected that the maximum gross proceeds and maximum net proceeds of approx HK$155 million and approx HK$152 million would be raised upon completion of the Placing and fully exercised of the Warrants (the "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 net proceeds from the full exercise of the subscription rights attached to the Warrants, amounted to approx HK$75 million. The Company intends to apply the aggregate net proceeds from the First Placing, together with the proceeds from the issue of the Subscription Shares upon full exercise of the subscription rights attached to the Warrants for the purposes set out in the announcement of the Company dated 25 April 2012 and the circular of the Company dated 16 May 2012.

Pursuant to the Rules Governing the Listing of Securities on The Stock Exchange of Hong Kong Limited (the "Stock Exchange") (the "Listing Rules"), the First Placing was approved by the Independent Shareholders at the Company's extraordinary general meeting ("EGM") held on 31 May 2012. All conditions precedent to the First Placing as set out in the Placing Agreement has been fulfilled and the completion of the First 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.

The Directors consider that the First Placing is a good opportunity to raise capital for the Company in light of the continued uncertainties in the world market. The Directors consider that it is prudent for the Group to conduct the First Placing to raise sufficient funds for general working capital and expansion of business as and when such opportunities arise and to improve the Group's financial position. The First Placing also provided the Group with an excellent opportunity to raise further substantial funds in the event the holders of the Warrants exercise their subscription rights attached to the Warrants at any time during the Exercise Period. It is noted that no warrants have been exercised during the year under review.

The net proceeds of the First Placing, of approx HK$5 million has been applied on expanding production facilities as well as replacing old with new and additional equipment for the Indonesian OEM operations. Approx HK$7 million been applied to new product development and marketing of the OBM business. With the remaining funds, approx HK$20 million has been used to reduce a shareholder's loan and to provide working capital to support the flow in the stock and accounts receivables of Kid Galaxy's OBM business and Indonesian OEM sales. An amount of approx HK$30 million has been pledged to the Bank for additional trading facilities and to fully repay the balance of shareholder's loan during the year.

PLANS AND PROSPECTS

Management takes a cautious view of the Group's business in FY12/13. As market fluctuations and economic uncertainties such as concern over the European sovereignty debt crisis may affect product demand and customer orders, Management is concerned that the global toy industry will still face challenges in financial year 2013/2014 ("FY13/14"). 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 in turn reduce the Group's profitability.

In addition, existing OEM customers relocating production out of PRC may place orders directly with competitors with factories in Vietnam or other South East Asian countries. Some may prefer to maintain factories in PRC to carry out productions. Subsequent to the Group's disposal and changes in its business structure, Management foresees that the Group's OEM Manufacturing business may become very competitive in FY13/14. As such, measures will be taken to attract new OEM customers to place more orders directly with the Group, and allocate more production to the expanding Indonesia factory going forward.

The Group's production base in Indonesia currently enjoys favorable advantages over PRC 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 has commenced since the first half of FY13/14 and are expected to be completed in the third quarter of FY13/14. Management expects the production capacity to be double once the new factory becomes fully operational in the financial year 2014/2015.

Chairman's Statement

However the Group needs to streamline the production efficiency of the Indonesian plant aiming to lower the overall manufacturing overhead, sourcing and administrative costs. In addition, new measures will be adopted to enhance productivity. These measures include replacing machines of low efficiency and high maintenance cost, streamlining workflow, revision of work practices and parameters, and exploring opportunities for utilizing idle seasonal capacity. Management will endeavor to trim excess overheads, improve productivity and control production costs in view of the imminent raise in minimum salaries in Indonesia in the coming years.

The Group continues its belief about the importance of investing a portion of working capital in business development. To accomplish this, ongoing financial resources are being allocated to the development of business with leading OEM brands as well as expanding our OBM sales and distribution network. The Group continues to focus the financial resources and efforts in two categories of customers: growing with strategic OEM customers, providing competitive pricing during the time of uncertainties, and expanding the base of strategic OBM customers, supporting our customers with ready supply of innovative products under the Kid Galaxy brands.

Looking forward, the Group will also focus on the research and development of more OBM products, expansion of marketing tactics for Kid Galaxy products to establish a solid foundation for expanding its future distribution. Meanwhile, management has been actively looking into all possibilities of selective mergers, acquisitions and investments to further expand the Group's income base and strengthened its primarily OBM and OEM income streams so as to seek alternate sources of revenue from new ventures to add value to shareholders.

On the other hand, the Directors are concerned that the global toy industry will continue to face challenges in the future which would adversely affect the Group's financial performance. Therefore, the Directors will actively conduct strategic review of the Group's direction and seek possible acquisition opportunities which can complement the Group's existing business and its future strategic direction.

In view of the above, the Directors consider that it is prudent for the Group to conduct another placing (the "Second Placing") to raise sufficient fund in light of the uncertainties in the world markets and further Placing would will benefit the Company's long term development and broaden the Company's equity base and strengthen the financial position of the Group.

Chairman's Statement

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 Offer are set out in the Company's announcements dated 19 November 2012 and the circular of the Company dated 26 February 2013. 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 was raised upon completion of the Second Placing on 2 April 2013.

The raised Proceeds not only strengthen the Group's financial position, it also helps the Group to make prompt response to any merger and acquisition opportunity which is 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 in 1984, Haier Group of companies is headquartered in Qingdao, Shandong Province, the PRC and is today one of the world's leading white goods home appliance manufacturers. The products of Haier Group are now sold in over 100 countries. The Directors are of the opinion that by inviting Haier Electrical Appliances Second as a strategic investor, the Group can draw on the successful experience of 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 which suffers uncertainties and soft demand from the American and European markets in recent years.

APPRECIATION

On behalf of the Board, I would like to take the opportunity to thank Mr Wong Lam, O.B.E., J.P. who retired on 30 July 2012 for the contributions he made to the Company during his tenure as independent non-executive director of the Company since 12 November 1999.

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 goes to our investors, customers, financiers and suppliers for their support to the Group during the past year.

Leung Lun
Chairman and Chief Executive
25 June 2013

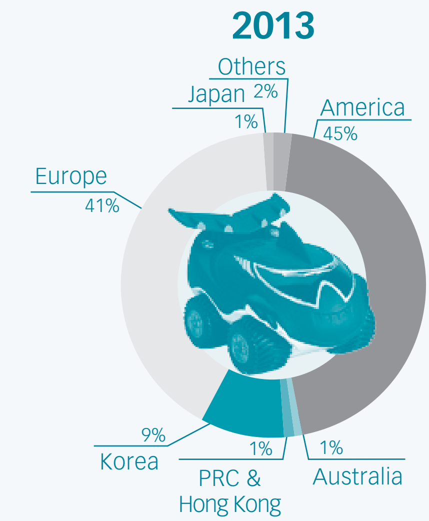
Review of Operations

MARKET REVIEW

For the year ended 31 March 2013, America remained the major export destination for the Group's products, with shipments amounting to approx HK$93 million compared to approx HK$246 million in the corresponding period last year, accounted for approx 45% (FY11/12: 59%) of the Group's total shipment. Shipments to Europe were approx HK$87 million as compared with approx HK$118 million in FY11/12, accounted for approx 41% (FY11/12: 28%) of the Group's revenue. The drop in dollar term sales was mainly attributable to the Disposal and uncertainties surrounding European countries. Exports to Japan was less than that in the previous year at approx HK$1 million (FY11/12: HK$10 million), accounted for approx 1% of the Group's total revenue compared to approx 2% in FY11/12 due to the continued sluggish Japanese economy. With its strong currency, Australian shipments were approx 1% of sales (FY11/12: 3%). Increased sales to Korea accounted for approx 9% of sales was attributable to the Group's production of a TV animation related toys boardcasted locally during year under review.

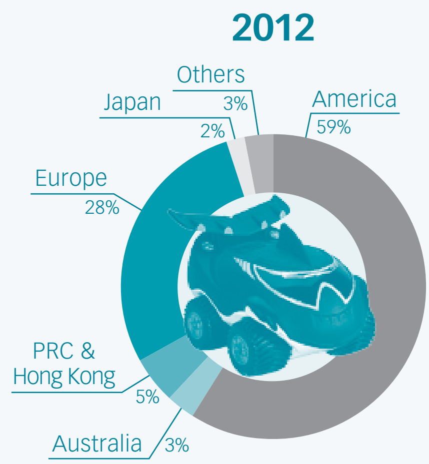
Turnover by Geographical Segment

For the year ended 31 March



Turnover by Geographical Segment

For the year ended 31 March



PRODUCT REVIEW

Electronic and Plastic Toys

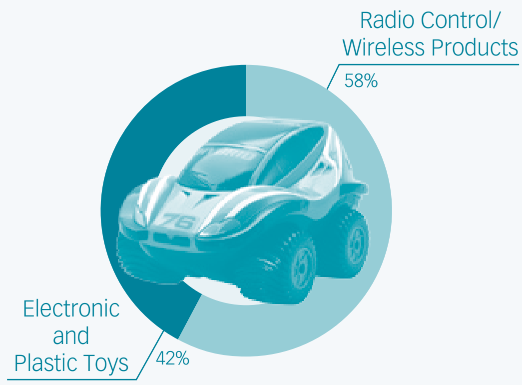
The Group's core segment recorded a decrease in sales of approx 70% from approx HK$291 million in FY11/12 to approx HK$88 million in FY12/13, accounting for approx 42% of the Group's turnover compared with approx 69% in the previous year. The decrease in turnover of this category was attributable to the decrease in orders of premium priced toys, particularly with some economies recovering from recent financial downturn. Apart from Kid Galaxy's successful penetration into newer retail channels with wider range of median priced products, during FY12/13, the Group received substantial OEM orders for a modules from a major US customer. Our existing Japan based major customer continued to place large orders for lower priced and TV animation related items during the year under review. In view of this realignment in the marketplace, the Group has invested substantially into strengthening relationships with customers in this category and for Kid Galaxy to develop more innovative median priced products going forward.

Radio Control/Wireless Products

This segment accounted for approx 58% of total turnover for the year against approx 28% of the previous year, indicating our perseverance in this segment of the market. Furthermore, revenue increased to approx HK$121 million recording approx 4% increase from approx HK$116 million last year resulting from increased orders for the financial year ended 31 March 2013. The sale of the R/C toys recorded a minor increase in sales during the year under review mainly attributable to the competitive nature of this product category at most price points. The Group's customers procuring the R/C segment continued to be spoiled by lower priced and indifferent quality products offered by competitors during the year under review.

Turnover by Product Type
For the year ended 31 March

2013

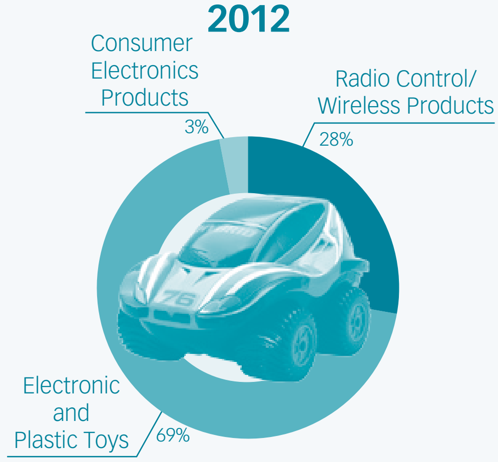


Consumer Electronic Products

Sales from this segment recorded no contribution as compared with approx HK$13 million in FY11/12. It was mainly attributable to absence of orders for these products from the Group's Indonesian factory. No revenue has been generated from consumer electronic products for the Group in FY12/13 (FY11/12: 3%). In view of the fact that no new products are being developed, no new quotations and sales of consumer electronic products are anticipated, this non toy segment will not contribute to the earnings of the Group in the coming financial years

Turnover by Product Type
For the year ended 31 March

2012



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$110 million for year ended 31 March 2013 compared to approx HK$89 million in FY11/12. Its revenue derived mainly from own brands sales such as Elite Fleet, Morphibians, GoGo Auto, KG Flyer, My First RC and recently licensed Ford brand.

Review of Operations

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. Its products received wide coverage after our various products were awarded the industries' most prominent Oppenheim Toy Portfolio Gold awards as well as one of Parents Magazine 55 Best Toys in the previous year.

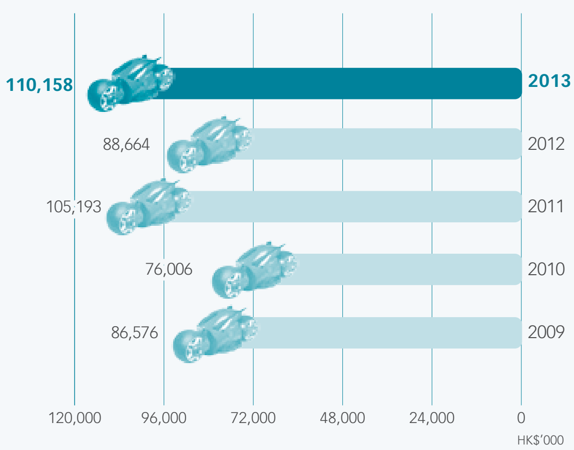
Apart from Ford, the Group continued to explore other potential licenses suitable for our current product lines as well as distribution networks in place during the year and to leverage the opportunity provided by the launch of the Ford licensed toys during FY11/12. Kid Galaxy also enriched its product mix with new product lines such as "World of Wheels", "CyberCycle", "Spinball Racers" and "My First Rides" just to name a few. These new product lines which were being introduced during the year under review received an encouraging market response from customers in FY12/13. 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, bolstered by increased customer confidence in the Group's operations in South East Asia, the factory in Indonesia made contributions to the Group's turnover. Challenges in Southern China had prompted more customers to place additional non-complex product orders with the Serang factory during the year. With major customers willing to transfer orders to and new customers willing to test the available capacity of the South East Asia facility, the Group was able to take advantage of the local flexible labour structure and increased utilization of the Serang factory. Due to the Disposal Situation in the FY12/13, it was necessary to utilize production capacity at the Group's South East Asian plant in Indonesia to satisfy OEM customers' demand. The Serang factory in Indonesia, at peak production stage during the year ended 31 March 2013, has employed over 2,800 seasonal contract labour. The revenue of Serang factory in Indonesia, during the year ended 31 March 2013 accounted for approx 45% of the sales of the Group compared to approx 12% in FY11/12.

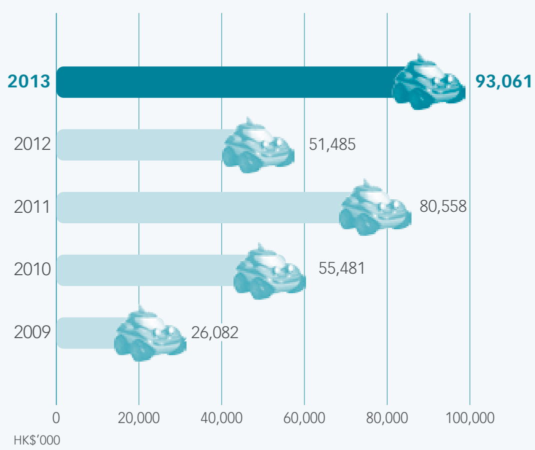
Turnover of Kid Galaxy

For the year ended 31 March



Turnover of Indonesian Production

For the year ended 31 March



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 2013, the Group had approx 843 employees and contract workers based in Hong Kong headquarters, Macau office, PRC liaison office, the Indonesian factory and the US sales office. The number of employees of the Group varies from time to time depending on production needs and they are remunerated based on industry practices.

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
25 June 2013

Management Discussion and Analysis

FINANCIAL REVIEW

Worldwide uncertainties, in particular concern over the European Sovereignty debt crisis continued to affect the Group's performance despite our streamlining of Indonesian production facilities and enlarged investment into the median priced electronic and plastic toys product segments, resulted in a sales decrease from approx HK$420 million to approx HK$209 million for the year ended 31 March 2013. 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 Disposal during FY11/12.

Cost of goods sold ("COGS"), in line with lower sales, decreased approx 56% 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$ and Hong Kong dollars ("HK$"). The COGS were approx HK$156 million in FY12/13 compared with approx HK$354 million in FY11/12. In FY12/13 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$79 million for FY12/13 (FY11/12: HK$313 million) in line with continuing connected transactions resolution approved by independent shareholders at the Company's EGM held on 7 July 2011. During FY12/13, 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 FY13/14 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 led to lower gross profit, which decreased to approx HK$53 million for the year versus approx HK$65 million in FY11/12. Gross profit margin however, was higher at approx 26% (FY11/12: 16%) due to larger portion of OBM Sales.

In view of the lower turnover, selling and distribution expenses for the year ended 31 March 2013 were relatively lower at approx HK$19 million, representing a decrease of approx 23% against approx HK$25 million in the previous year. Commission paid on sales, licensing fees, marketing and promotional expenses, and transportation and distribution expenses decreased in line with the reduced turnover. During the year under review, approx HK$7 million has been applied to new product development and marketing of the OBM business.

Management Discussion and Analysis

General and Administrative ("G&A") expenses for the year ended 31 March 2013 amounted to approx HK$34 million, resulting in overall G&A was approx 12% lower than previous year (FY11/12: HK$38 million). The large reduction in G&A was mainly due to the Disposal thus excluding a portion of the Disposal Group's G&A expenses in FY12/13. G&A consist of mainly staff costs, depreciation of fixed assets such as molds, leasehold improvements, plant and equipment during the FY12/13. 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$5 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 FY12/13 in relation to the works in conjunction with the First and Second Placings and Group restructuring also formed part of the G&A expense.

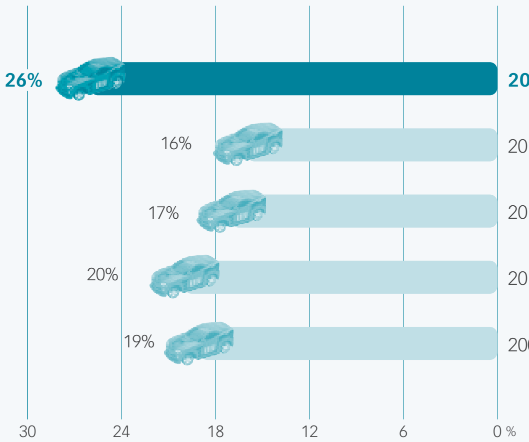
Management constantly reviewed the carrying amount of Goodwill of approx HK$23 million since the acquisition of Kid Galaxy in 2001. Due to the major reduction of customers within the specialty channel and discontinued sale of a brand of toy when Kid Galaxy was acquired, an impairment of approx HK$17 million were made to reduce the amount to approx HK$2.5 million for the year ended 31 March 2012, but no further impairment were made during the year under review.

Finance costs included interest expenses, bank charges plus fees incurred for trade facilities and equipment leasing for the year under review. Finance cost was approx HK$1 million in FY12/13 compared to approx HK$2 million in FY11/12.

All in all, the Group recorded a profit attributable to shareholders of approx HK$2 million in FY12/13 compared to a profit of approx HK$78 million in FY11/12.

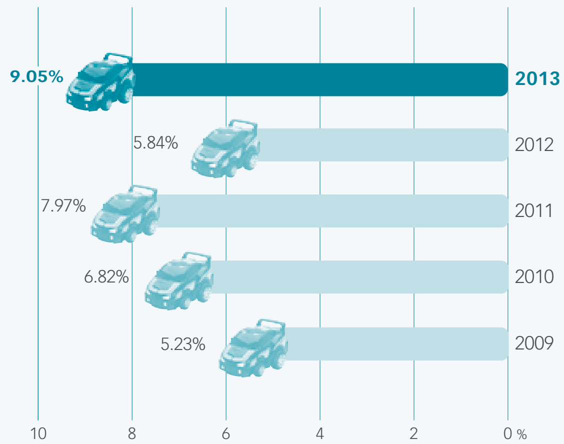
Gross Profit Ratio

For the year ended 31 March



Selling Expense/Turnover

For the year ended 31 March



GROUP RESOURCES AND LIQUIDITY

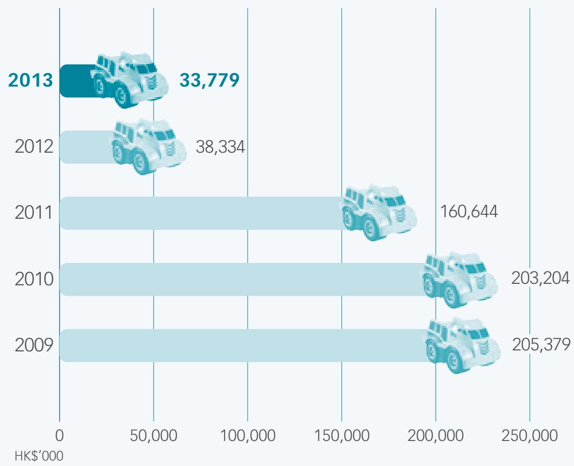
On 24 April 2012, the Company entered into a Placing Agreement with a Placing Agent to procure not fewer than six Placees to subscribe up to 500 million Shares at the Placing Price of HK$0.15 per share. In addition, the Company issued unlisted Warrants, on the basis of one Warrant for each Placing Share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

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

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

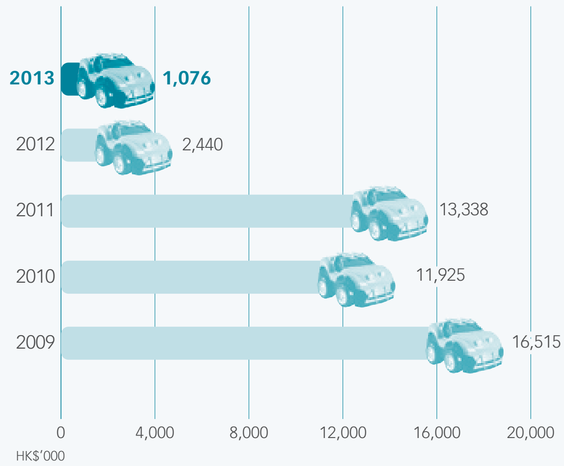
G&A

For the year ended 31 March



Finance Costs

For the year ended 31 March



Management Discussion and Analysis

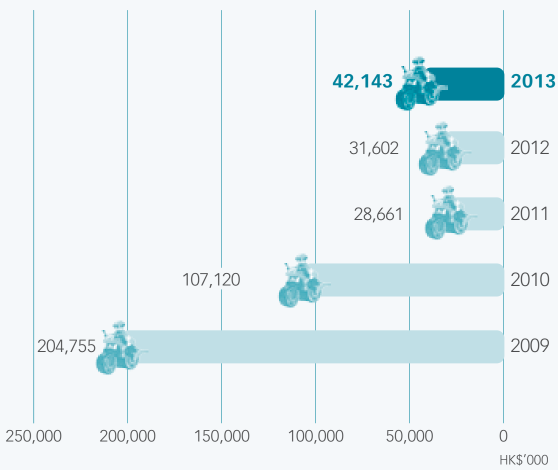
After the Disposal, non-current assets had reduced greatly in value to approx HK$47 million as at 31 March 2012. Property, plant and equipment assets owned by the Group under noncurrent assets increased by approx HK$1 million to approx HK$42 million as at 31 March 2013. The increase in value was attributable mainly to additions, repair and maintenance before depreciation of approx HK$5 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's acquisition made up approx HK$2.5 million of intangible assets as at 31 March 2013. No further impairment were made during the year thus the book value of goodwill as at 31 March 2013 remains unchanged.

Management placed much emphasize on inventory control and will only authorise purchases on receipts of sales orders. The decrease in sales and the Disposal led to changes in purchasing activities during the FY12/13. The Disposal was the main reason for the change. Inventories however recorded an increase of approx 33% compared to previous year end date, value of stock in warehouse increased from approx HK$32 million at the end of FY11/12 to approx HK$42 million as at 31 March 2013. These are stock held mainly in our Indonesian factory and by an independently managed warehouse in the US. Stock turnover days were higher at 64 days compared with 26 days in the previous year due to decrease in sales.

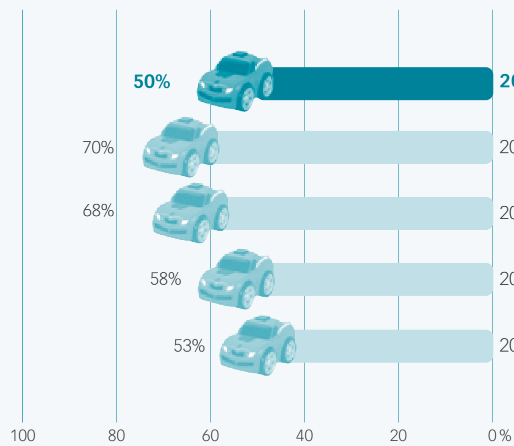
Inventories

As at 31 March



Sales - Five Largest Customers Combined

As at 31 March



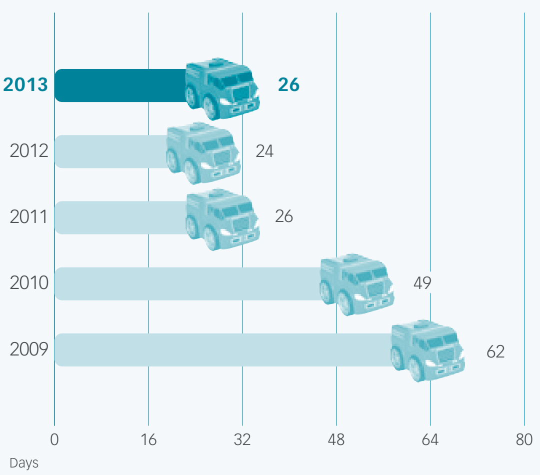
In line with the reduced turnover and tighter credit terms, trade receivables recorded an approx 31% decrease as at 31 March 2013 to approx HK$12 million, compared with approx HK$18 million at the previous year. Debtor turnover days were lower at 26 days in FY12/13 compared with 24 days in FY11/12. Including Kid Galaxy's OBM revenue, the top 5 customers accounted for approx 50% of the Group's turnover, compared to approx 70% 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 2013 were approx HK$448 million, compared with approx HK$7 million as at 31 March 2012. The increase in cash and balances were mainly due to the First Placing and Second Placing during the year under review. The Group dealt with different revenue and expenditure currencies during the FY12/13 such as HK$, US$, RMB as well as Indonesian Rupiah. As at 31 March 2013, approx HK$30 million of the cash or bank balances had been pledged to banks to secure loans and banking facilities.

Trade payables recorded a decrease against the previous year. Trade payables, other payables and accrued charges were approx HK$12 million as at 31 March 2013 compared with approx HK$13 million as at 31 March 2012. The decrease in trade payables consisted mainly of payables relating to material purchases, which were lower and in line with the reduced turnover. Creditor turnover days decreased to 29 days versus 36 days at the end of the previous year.

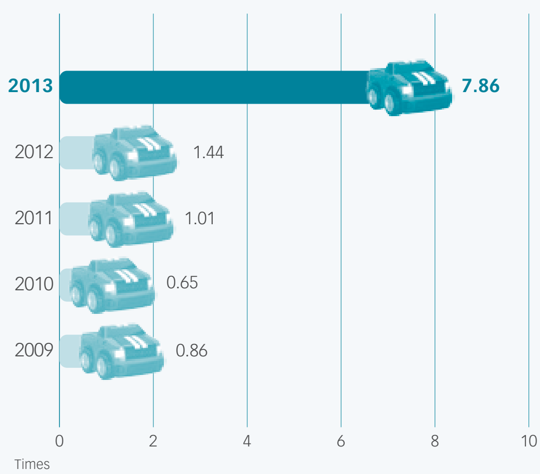
Debtor Turnover Days

As at 31 March



Current Ratio

As at 31 March



Management Discussion and Analysis

Borrowings under current liabilities increased to approx HK$46 million as at 31 March 2013 from approx HK$16 million at 31 March 2012, attributable mainly to a new banking facility for paying off a shareholder's loan and a trade facility offered by a local bank to our Indonesian subsidiary. The Trade facility is secured by the Group's Indonesian property, plant and equipment.

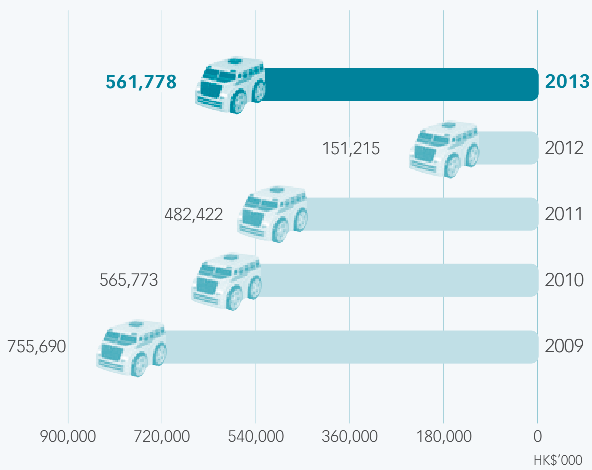
Taking into consideration certain set offs, the total amount due from the Disposal Group was approx HK$7 million, while on the liability section, amount due to the Disposal Group which are being classified as current liabilities accounted to approx HK$8 million. The net current liabilities of the Group to the Disposal Group as at 31 March 2013 show a value of approx HK$1 million.

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. Pursuant to the Listing Rules, the Second Placing was approved by the Independent Shareholders at the Company's extraordinary general meeting ("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.

As at 31 March 2013, the Group had total assets of HK$562 million which was financed by shareholders' fund, payables, amounts due to Disposal Group and financial institutions credit facilities. The Group mainly generated revenue and incurred costs in HK$, US$ and Indonesian Rupiah and did not have any related hedges for year ended 31 March 2013. 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.

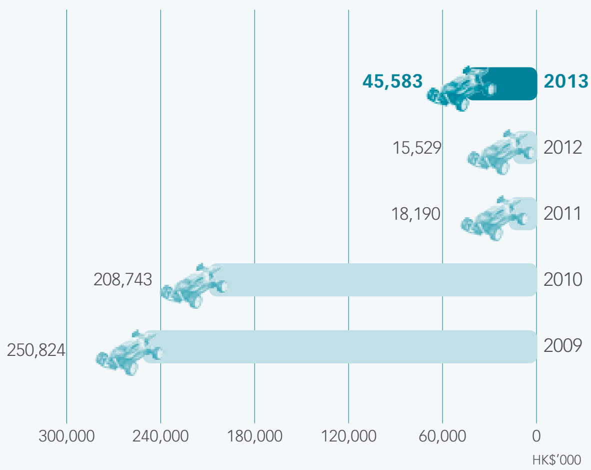
Total Assets

As at 31 March



Bank Borrowings

As at 31 March



Management Discussion and Analysis

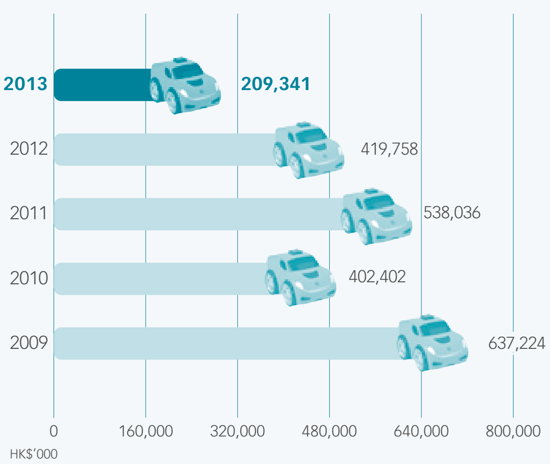
As at 31 March 2013, the Group's total borrowings amounted to about HK$46 million with about HK$46 million repayable on demand or within one year. Gearing ratio, calculated as the total bank borrowings divided by shareholders' equity was approx 9% as at 31 March 2013. All borrowings were denominated in either HK$ and US$ and bore interest at floating rates. As at 31 March 2012, the Group recorded total current assets of approx HK$513 million and total current liabilities of approx HK$65 million. The current ratio of the Group, calculated by dividing the total current assets by total current liabilities was 786%. The Group recorded an increase in shareholders' funds from approx HK$20 million as at 31 March 2012 to a surplus of approx HK$488 million as at 31 March 2013. The increase was mainly resulting from gains from operations in FY12/13 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 2013. Foreign currency amounts have been translated at the approx exchange rates prevailing at the close of business on 31 March 2013.

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.

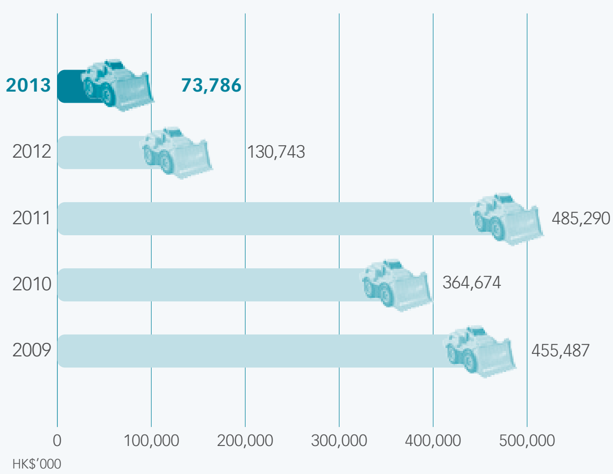
Turnover

For the year ended 31 March



Total Liabilities

As at 31 March



Corporate Governance Report

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 36 to 38 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.

Following the retirement of Mr Wong Lam, O.B.E., J.P. on 14 September 2012, the number of the independent non-executive directors and members of Audit Committee of the Company fell below the minimum number required under (a) Rule 3.10(1) of the Listing Rules, which prescribes that a listed issuer must appoint independent non-executive representing at least one third of the Board; and (b) Rule 3.21 of the Listing Rules, which prescribes that a listed issuer's Audit Committee must comprise a minimum of three members who should all be non-executive directors with at least one of whom is an independent non-executive director. On 28 September 2012, the Company appointed Dr Ko Peter, Ping Wah as an independent non-executive director and a member of Audit Committee of the Company and the relevant requirements under the Listing Rules were fulfilled since then.

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 five Board meetings held with full attendance during the year ended 31 March 2013.

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	2012 AGM	Other General Meeting(s)
Executive Directors						
Mr Leung Lun, M.H.						
(Chairman and Chief Executive)	5/5	1/1	1/1	–	1/1	3/3
Mr Wong, Andy Tze On	5/5	–	–	–	1/1	3/3
Ms Fang Fang (appointed on 31 May 2013) [1]	N/A	N/A	N/A	–	N/A	N/A
Independent Non-executive Directors						
Mr Wong Lam, O.B.E., J.P. [2]						
(retired on 14 September 2012)	2/5	1/1	1/1	1/2	1/1	2/3
Mr Ye Tian Liu	5/5	1/1	1/1	2/2	1/1	2/3
Mr Lai Yun Hung	5/5	1/1	1/1	2/2	1/1	3/3
Dr Ko Peter, Ping Wah [3]						
(appointed on 28 September 2012)	3/5	N/A	N/A	1/2	N/A	0/3

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.

2. Mr Wong Lam, O.B.E., J.P. resigned as independent non-executive director on 14 September 2012. The Board held two Board Meetings, one Remuneration Committee Meeting, one Nomination Committee Meeting, one Audit Committee Meeting, one Annual General Meeting and two Extraordinary General Meetings before his resignation.

3 Dr Ko Peter, Ping Wah was appointed as an independent non-executive director, a member of the Audit Committee, Nomination Committee and Remuneration Committees of the Company on 28 September 2012. The Company held three Board Meetings, one Audit Committee meeting and one Extraordinary General Meeting after his appointment.

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 2013, 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 2013 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)	N/A	N/A	N/A	N/A	N/A
Independent Non-executive Directors					
Mr Wong Lam, O.B.E., J.P. (retired on 14 September 2012)	✓	–	✓	✓	–
Mr Ye Tian Liu	✓	✓	✓	✓	✓
Mr Lai Yun Hung	✓	✓	✓	✓	✓
Dr Ko Peter Ping Wah (appointed on 28 September 2012)	✓	✓	✓	✓	✓

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 2013 are set out in Note 15(a) to the consolidated financial statements.

The details of the 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 2013 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 34 and page 35 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 is the chairman of the Nomination Committee. The function of the Nomination Committee is to review the structure, size and composition (including the skills, knowledge and experience) of the Board on a regular basis and make recommendations to the Board regarding any proposed changes.

During the year ended 31 March 2013, the Nomination Committee held only one meeting.

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 2013 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 2013 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 2013, 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 approximately HK$0.80 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 48 to 112. The statement of the external auditors about its reporting responsibilities on the financial statements is set out on page 46 and page 47.

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.

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.

Corporate Governance Report

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.

COMMUNICATION WITH SHAREHOLDERS

The Company endeavours to maintain an on-going dialogue with shareholders and in particular, through annual general meetings or other general meetings to communicate with the shareholders and encourage their participation. The Chairman of the Board and Chairman of the Audit Committee, Remuneration Committee and Nomination Committee will make themselves available at the annual general meeting to meet with the shareholders and answer their enquiries.

To promote effective communication, the Company maintains a website at www.e-lci.com, where up-to-date information and updates on the Company's financial information, corporate governance practices and other information are available for public access.

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.

Report of the Directors

The Directors submit their report together with the audited financial statements for the year ended 31 March 2013.

PRINCIPAL ACTIVITIES AND GEOGRAPHICAL ANALYSIS OF OPERATIONS

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

An analysis of the Group's turnover and segment information is set out in Note 6 to the financial statements.

RESULTS AND APPROPRIATIONS

The results of the Group for the year are set out in the consolidated statement of comprehensive income on page 48.

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 2013 (2012: Nil).

RESERVES

Movements in the reserves of the Group and of the Company during the year are set out in page 51 and Note 31 to the financial statements.

SHARE CAPITAL

Details of the movements in share capital of the Company during the year ended 31 March 2013 are set out in Note 29 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$56,000.

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 30 to the financial statements.

None of the directors waived any emoluments during the year ended 31 March 2013.

CLOSURE OF REGISTER OF MEMBERS

The register of members of the Company will be closed from 26 August 2013 to 30 August 2013 (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 30 August 2013, 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 26/F, Tesbury Centre, 28 Queen's Road East, Wanchai, Hong Kong not later than 4:30 p.m. on 23 August 2013.

INFORMATION ON SUBSIDIARIES

Particulars of the subsidiaries are set out in Note 19 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 2013.

	2013 HK$'000	2012 HK$'000	2011 HK$'000	2010 HK$'000	2009 HK$'000
Turnover	**209,341**	419,758	538,036	402,402	637,224
Profit/(loss) before income tax	**1,181**	76,731	(196,106)	(173,413)	(291,065)
Income tax (expense)/credit	**1,048**	918	(1,398)	(1,540)	2,292
Profit/(loss) for the year	**2,229**	77,649	(197,504)	(174,953)	(288,773)
Attributable to:					
Owners of the Company	**2,229**	77,649	(197,504)	(174,953)	(288,773)
	2,229	77,649	(197,504)	(174,953)	(288,773)
Total assets	**561,778**	151,215	482,422	565,773	755,690
Total liabilities	**73,786**	130,743	485,290	364,674	455,487
Total equity/(deficit)	**487,992**	20,472	(2,868)	201,099	300,203

DISTRIBUTABLE RESERVES

As at 31 March 2012 and 2013, 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 employeemnt ("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 2013 have been disclosed in Note 30 to the financial statements.

Report of the Directors

DIRECTORS

The Directors during the year ended 31 March 2013 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
Mr Wong Lam, O.B.E., J.P. (retired on 14 September 2012)
Dr Ko Peter, Ping Wah (appointed on 28 September 2012)

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 Leung Lun, M.H and Mr Wong, Andy Tze On. Pursuant to Article 99 of the Articles, Dr Ko Peter, Ping Wah and Ms Fang Fang, who were appointed by the board of Directors on 28 September 2012 and 31 May 2013 respectively, shall hold office until the forthcoming annual general meeting of the Company (the "Annual General Meeting"). Mr Leung Lun, M.H., Mr Wong, Andy Tze On, Dr Ko Peter, Ping Wah and Ms Fang Fang, 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 64, 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 Company's Remuneration Committee and chairman of the Nomination Committee. Mr Leung is responsible for the overall corporate policy and development strategy as well as overseeing the Group's overall management. He has nearly 49 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, president of Merchants Support For Rehabilitated Offenders Committee, chairman of Friends of The Communitry 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 46, is the executive director responsible for formulation of the corporate strategies, corporate and business management, financial planning and management of the Group. He is also responsible for listing compliance, financier and investor relationship management as well as corporate communications of the Group. Mr Wong holds a business degree in accounting from Curtin University of Technology, Western Australia. He is also reponsible 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 35, was appointed as an executive director on 31 May 2013. She is a member of the Nomination Committee and Remuneration Committee of the Company. She is a director of Futures Empire Limited (Incorporated in Hong Kong), a wholly owned subsidiary of the Company, since May 2013 responsible for overseeing the strategic development 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 development. 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 (Chapter 571 of the Laws of Hong Kong) ("**SFO**").

Independent Non-Executive Directors

Mr Ye Tian Liu, aged 67, was appointed as an independent non-executive director in November 1999. Mr Ye holds a master's degree in business administration. Mr Ye is also the chairman of the Company's Remuneration Committee and member of the Audit Committee and Nomination Committees. He was formally an executive director of a locally listed company for several years. He has extensive experiences in China trade and investment.

Mr Lai Yun Hung, aged 61, is a partner of Lai & Wong, Certified Public Accountants as well as the managing director of Lai & C.K. Wong CPA Limited. Mr Lai chairs the Company's Audit Committee and is also members of the Remuneration Committee and Nomination Committees of the Company. He has over 30 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, until 27 March 2013, whose shares are listed on the Stock Exchange of Hong Kong Limited.

Dr Ko Peter, Ping Wah, aged 64, was appointed as an independent non-executive director on 28 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 13 years and as a Quality Management Consultant and Trainer for 17 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 56, 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 38, 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 59, is the director and head of operations of P.T. Lung Cheong Brothers Industrial, in charge of expanding Indonesian business and production. He holds a bachelor of science degree in business management. He joined the Group in June 1994. Mr Ng is responsible for managing the 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 20 years' of experience in manufacturing resources planning and system management both in overseas corporations and PRC companies.

Mr Bruce Oravec, aged 70, 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 CONTRACTS

On 7 March 2008, the Company and Lung Cheong Investment Limited ("LCI") entered into a loan agreement pursuant to which LCI agreed to grant a loan of HK$50 million (the "Loan") to the Company for partial repayment of the loan granted under the facility agreement entered into between, amongst others, the Company and a syndicate of banks on 21 August 2007. LCI is the controlling shareholder of the Company and is wholly owned by a company beneficially owned by Mr Leung Lun, M.H., an executive director of the Company and Mr Leung Chung Ming, a former Director of the Company. The above details and subsequent extension are set out in the announcements of the Company dated 10 March 2008 and 25 September 2008. The Loan was fully repaid during FY12/13.

DIRECTORS' INTERESTS IN COMPETING BUSINESS

As at 31 March 2013, 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.

DIRECTORS' INTERESTS IN EQUITY SECURITIES

At 31 March 2013, 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	1,499,082,240 ordinary shares (L) (Note 2)	27.47%
	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 2013, 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 2013, the following persons, other than a director or chief executive of the Company, had an interest in the shares and underlying shares of the Company as recorded in the register required to be kept under section 336 of the SFO:

Name of shareholder	Number of ordinary shares of HK$0.10 each (Note 1)	Capacity	Approximate percentage of interest
Lung Cheong Investment Limited	1,499,082,240 (L)	Beneficial owner	27.47%
Rare Diamond Limited	1,499,082,240 (L) (Note 2)	Interest of controlled corporation	27.47%
Haier Electrical Appliances Second Holdings (BVI) Limited	1,390,000,000 (L)	Beneficial owner	25.47%
Qingdao Haier Investment and Development Co., Ltd.	1,390,000,000 (L) (Note 3)	Interest of controlled corporation	25.47%

Notes:

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

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

3. 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.

Save as disclosed above, as at 31 March 2013, 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.

Report of the Directors

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:

	2013 **%**	2012 %
Sales		
– the largest customer	**19**	25
– five largest customers combined	**50**	70
Purchases		
– the largest supplier	**34**	90
– five largest suppliers combined	**67**	96

No directors or their associates (as defined in the Listing Rules) and no shareholders (which to the knowledge of the directors own more than 5% of the Company's share capital) had an interest in the major suppliers or customers noted above.

AUDIT COMMITTEE

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 2013.

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 FY12/13, purchases from Disposal Group amounted to approx HK$79 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 paragraph 14A.38 of the Listing Rules. A copy of the auditor's letter has been provided by the Company to the Stock Exchange.

SUBSEQUENT EVENT

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 Offer are set out in the Company's announcements dated 19 November 2012 and the circular of the Company dated 26 February 2013. 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 was raised upon completion of the Second Placing on 2 April 2013.

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 22 to 30 of this Annual Report.

On behalf of the Board
Lung Cheong International Holdings Limited

Leung Lun
Chairman and Chief Executive
25 June 2013

Independent Auditor's Report

BDO

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

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

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

香港
干諾道中111號
永安中心25樓

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

We have audited the consolidated financial statements of Lung Cheong International Holdings Limited (the "Company") and its subsidiaries (collectively referred to as the "Group") set out on pages 48 to 112, which comprise the consolidated and company statements of financial position as at 31 March 2013 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 2013 and of the Group's profit and cash flows for the year then ended in accordance with Hong Kong Financial Reporting Standards and have been properly prepared in accordance with the disclosure requirements of the Hong Kong Companies Ordinance.

BDO Limited
Certified Public Accountants

Ng Wai Man
Practising Certificate Number: P05309

Hong Kong, 25 June 2013

Consolidated Statement of Comprehensive Income

For the year ended 31 March 2013

	Notes	**2013 HK$'000**	2012 HK$'000
Turnover	6	**209,341**	419,758
Cost of sales		**(155,892)**	(354,385)
Gross profit		**53,449**	65,373
Other income, gains and losses, net	7	**1,536**	1,322
Selling and distribution expenses		**(18,949)**	(24,499)
General and administrative expenses		**(33,779)**	(38,334)
Impairment of goodwill	18	**–**	(16,740)
Gain on disposal of subsidiaries		**–**	92,049
Operating profit		**2,257**	79,171
Finance costs	9	**(1,076)**	(2,440)
Profit before income tax	8	**1,181**	76,731
Income tax credit	10	**1,048**	918
Profit for the year attributable to the owners of the Company	11	**2,229**	77,649
Other comprehensive income:			
Release of exchange fluctuation reserve upon disposal of subsidiaries		**–**	(66,918)
Exchange differences arising on translation of foreign operations		**(339)**	(736)
Surplus on revaluation of land and buildings	17	**–**	17,793
Income tax relating to surplus on revaluation of land and buildings	27	**–**	(4,448)
Other comprehensive income for the year, net of tax		**(339)**	(54,309)
Total comprehensive income for the year attributable to the owners of the Company		**1,890**	23,340
Earnings per share attributable to the owners of the Company			
– Basic	13	**0.07 cents**	2.63 cents
– Diluted	13	**0.06 cents**	n/a

Statements of Financial Position

As at 31 March 2013

	Notes	Group 2013 HK$'000	Group 2012 HK$'000	Company 2013 HK$'000	Company 2012 HK$'000
ASSETS AND LIABILITIES					
Non-current assets					
Property, plant and equipment	17	**41,905**	41,198	**–**	–
Goodwill	18	**2,500**	2,500	**–**	–
Interests in subsidiaries	19	**–**	–	**453,964**	43,828
Deferred tax assets	27	**4,516**	3,508	**–**	–
		48,921	47,206	**453,964**	43,828
Current assets					
Inventories	20	**42,143**	31,602	**–**	–
Trade and other receivables, deposits and prepayments	21	**15,568**	22,026	**324**	509
Amounts due from related companies	22	**6,591**	43,013	**11**	43
Tax recoverable		**286**	212	**8**	9
Restricted bank deposits	23	**30,094**	–	**–**	–
Cash and cash equivalents	23	**418,175**	7,156	**174**	229
		512,857	104,009	**517**	790
Current liabilities					
Trade and other payables and accrued charges	24	**11,872**	12,577	**1,412**	650
Borrowings	25	**45,583**	15,529	**–**	–
Amounts due to related companies	22	**7,809**	43,412	**–**	3,943
Tax payable		**–**	760	**–**	–
		65,264	72,278	**1,412**	4,593
Net current assets/(liabilities)		**447,593**	31,731	**(895)**	(3,803)
Total assets less current liabilities		**496,514**	78,937	**453,069**	40,025

Statements of Financial Position

As at 31 March 2013

	Notes	Group 2013 HK$'000	Group 2012 HK$'000	Company 2013 HK$'000	Company 2012 HK$'000
Total assets less current liabilities		**496,514**	78,937	**453,069**	40,025
Non-current liabilities					
Provision for long service payment	26	**1,846**	1,611	**–**	–
Loan from a shareholding company	34(b)	**–**	50,000	**–**	50,000
Deferred tax liabilities	27	**6,676**	6,854	**–**	–
		8,522	58,465	**–**	50,000
Net assets/(liabilities)		**487,992**	20,472	**453,069**	(9,975)
EQUITY					
Share capital	29	**345,776**	295,776	**345,776**	295,776
Reserves	31	**142,216**	(275,304)	**107,293**	(305,751)
Total equity/(deficit)		**487,992**	20,472	**453,069**	(9,975)

On behalf of the board

Leung Lun, M.H.
Director

Wong, Andy Tze On
Director

Consolidated Statement of Changes in Equity

For the year ended 31 March 2013

	Share capital HK$'000 (Note 29)	Share premium HK$'000	Shares to be issued HK$'000 (Note 28)	Warrant reserve HK$'000	Exchange fluctuation reserve HK$'000	Statutory surplus reserve HK$'000	Land and buildings revaluation reserve HK$'000	Accumulated losses HK$'000	Total HK$'000
At 1 April 2011	295,776	37,657	–	–	39,950	28,840	17,987	(423,078)	(2,868)
Release of exchange fluctuation reserve arising from disposal of subsidiaries	–	–	–	–	(66,918)	–	–	–	(66,918)
Exchange differences arising on translation of foreign operations	–	–	–	–	(736)	–	–	–	(736)
Surplus on revaluation of land and buildings	–	–	–	–	–	–	17,793	–	17,793
Income tax relating to surplus on revaluation of land and buildings	–	–	–	–	–	–	(4,448)	–	(4,448)
Profit for the year	–	–	–	–	–	–	–	77,649	77,649
Total comprehensive income for the year	–	–	–	–	(67,654)	–	13,345	77,649	23,340
Transfer of reserves upon disposal of subsidiaries	–	–	–	–	–	(28,840)	(2,441)	31,281	–
At 31 March 2012 and 1 April 2012	295,776	37,657	–	–	(27,704)	–	28,891	(314,148)	20,472
Exchange difference arising on translation of foreign operations	–	–	–	–	(339)	–	–	–	(339)
Profit for the year	–	–	–	–	–	–	–	2,229	2,229
Total comprehensive income for the year	–	–	–	–	(339)	–	–	2,229	1,890
Placing of new shares and warrants (Note 29)	50,000	21,841	389,000	4,789	–	–	–	–	465,630
At 31 March 2013	**345,776**	**59,498**	**389,000**	**4,789**	**(28,043)**	**–**	**28,891**	**(311,919)**	**487,992**

Nature and purpose of reserves are disclosed in Note 31.

Consolidated Statement of Cash Flows

For the year ended 31 March 2013

	Notes	2013 HK$'000	2012 HK$'000
Operating activities			
Profit before income tax		**1,181**	76,731
Adjustments for:			
Interest income		**(30)**	(7)
Interest expense and finance charges		**1,076**	2,440
Depreciation of property, plant and equipment		**3,620**	4,007
Provision for long service payment		**325**	20
Impairment on goodwill		**–**	16,740
Impairment on trade and other receivables, net		**214**	446
Provision for obsolete inventories		**602**	–
(Gain)/loss on disposal of property, plant and equipment		**(371)**	405
Gain on disposal of subsidiaries		**–**	(92,049)
Operating cash flows before changes in working capital		**6,617**	8,733
Inventories		**(10,187)**	(2,579)
Trade and other receivables, deposits and prepayments		**6,437**	20,904
Amounts due from related companies		**36,422**	(61,924)
Trade and other payables and accrued charges		**(1,058)**	(5,432)
Amounts due to related companies		**(35,603)**	43,412
Cash generated from operations		**2,628**	3,114
Interest received		**30**	7
Overseas income tax paid		**(911)**	(121)
Net cash generated from operating activities		**1,747**	3,000

Consolidated Statement of Cash Flows

For the year ended 31 March 2013

	Notes	2013 HK$'000	2012 HK$'000
Investing activities			
Purchase of property, plant and equipment		**(4,696)**	(2,148)
Increase in restricted bank deposits		**(30,094)**	–
Proceeds from disposal of property, plant and equipment		**371**	541
Net cash outflow from disposal of subsidiaries		**–**	(37,314)
Net cash used in investing activities		**(34,419)**	(38,921)
Financing activities			
Interest and finance charge paid		**(1,076)**	(2,440)
Placing of new shares and warrants	29	**76,630**	–
Consideration of placing shares received in advance	28	**389,000**	–
New loans from banks and financial institutions		**45,696**	24,590
Repayment of borrowings		**(15,600)**	(20,604)
Repayment of loan from a shareholding company		**(50,000)**	–
Capital element of finance lease obligations		**–**	(4,359)
Net cash generated from/(used in) financing activities		**444,650**	(2,813)
Net increase/(decrease) in cash and cash equivalents		**411,978**	(38,734)
Effect of foreign exchange rate changes		**(959)**	61
Cash and cash equivalents at beginning of year		**7,156**	45,829
Cash and cash equivalents at end of year	23	**418,175**	7,156

1. ORGANISATION AND OPERATIONS

Lung Cheong International Holdings Limited (the "Company") is a limited liability company incorporated in the Cayman Islands. Its shares are listed on the Main Board of The Stock Exchange of Hong Kong Limited ("Stock Exchange"). The address of the registered office is at P.O. Box 309, Ugland House, South Church Street, George Town, Grand Cayman, Cayman Islands, British West Indies and the principal place of business of the Company is at Lung Cheong Building, 1 Lok Yip Road, Fanling, New Territories, Hong Kong.

The Company is an investment holding company and its subsidiaries (collectively the "Group") are principally engaged in development, engineering, manufacture and sale of toys during the year ended 31 March 2013. The principle activities of its subsidiaries are set out in Note 19 to the financial statements.

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

(a) Adoption of new/revised HKFRSs – Effective 1 April 2012

Amendments to HKFRS 7	Disclosures – Transfers of Financial Assets

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

Amendments to HKFRS 7 – Disclosures – Transfers of Financial Assets

The amendments to HKFRS 7 expand the disclosure requirements for transfer transactions of financial assets, in particular where the reporting entity has continuing involvement in financial assets that it has derecognised. The newly required disclosures allow users of financial statements to better understand the risks to which the reporting entity remains exposed. And such information is relevant in assessing the amount, timing and uncertainty of the entity's future cash flows.

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

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

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

HKFRSs (Amendments)	Annual Improvements to HKFRSs 2009-2011 Cycle[2]
Amendments to HKAS 1 (Revised)	Presentation of Items of Other Comprehensive Income[1]
Amendments to HKFRS 7	Disclosures – Offsetting Financial Assets and Financial Liabilities[2]
HKFRS 9	Financial Instruments[4]
HKFRS 10	Consolidated Financial Statements[2]
HKFRS 12	Disclosure of Interests in Other Entities[2]
HKFRS 13	Fair Value Measurement[2]
Amendments to HKAS 32	Offsetting Financial Assets and Financial Liabilities[3]
HKAS 27 (2011)	Separate Financial Statements[2]

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

HKFRSs (Amendments) – Annual Improvements 2009-2011 Cycle

The improvements made amendments to below standards potentially relevant to the Group's financial statements.

(i) *HKAS 1 Presentation of Financial Statements*

The amendments clarify that the requirement to present a third statement of financial position when an entity applies an accounting policy retrospectively or makes a retrospective restatement or reclassification of items in its financial statements is limited to circumstances where there is a material effect on the information in that statement of financial position. The date of the opening statement of financial position is the beginning of the preceding period and not, as at present, the beginning of the earliest comparative period. The amendments also clarify that, except for disclosures required by HKAS 1.41-44 and HKAS 8, the related notes to the third statement of financial position are not required to be presented. An entity may present additional voluntary comparative information as long as that information is prepared in accordance with HKFRS (as defined in Note 3(a)). This may include one or more statements and not a complete set of financial statements. Related notes are required for each additional statement presented.

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

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

HKFRSs (Amendments) – Annual Improvements 2009-2011 Cycle – *Continued*

(ii) *HKAS 16 Property, Plant and Equipment*

The amendments clarify that items such as spare parts, stand-by equipment and servicing equipment are recognised as property, plant and equipment when they meet the definition of property, plant and equipment. Otherwise, such items are classified as inventory.

(iii) *HKAS 32 Financial Instruments: Presentation*

The amendments clarify that income tax relating to distributions to holders of an equity instrument and to transaction costs of an equity transaction should be accounted for in accordance with HKAS 12 Income Taxes. Depending on the circumstances these items of income tax might be recognised in equity, other comprehensive income or in profit or loss.

(iv) *HKAS 34 Interim Financial Reporting*

The amendments clarifies that in interim financial statements, a measure of total assets and liabilities for a particular reportable segment need to be disclosed when the amounts are regularly provided to the chief operating decision maker and there has been a material change in the total assets and liabilities for that segment from the amount disclosed in the last annual financial statements.

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

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

Amendments to HKFRS 7 – Disclosures – Transfers of Financial Assets

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

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

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

HKFRS 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.

HKFRS 10 – Consolidated Financial Statements

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

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

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

HKFRS 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.

HKFRS 13 – Fair Value Measurement

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

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.

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

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

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 and going concern assumption

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

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

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

In the Company's statement of financial position, investments in subsidiaries are stated at cost less impairment loss, if any. The results of subsidiaries are accounted 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	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.

4. SIGNIFICANT ACCOUNTING POLICIES – *Continued*

(h) Financial assets – *Continued*

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 receivables.

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 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.

iii) Pension obligations

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

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

4. SIGNIFICANT ACCOUNTING POLICIES – *Continued*

(q) Borrowing costs

Borrowing costs that are directly attributable to the acquisition, construction or production of an asset that necessarily takes a substantial period of time to get ready for its intended use or sale are capitalised as part of the cost of that asset. The capitalistion of such borrowing costs ceases when the assets are substantially ready for their intended use or sale.

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

All other borrowing costs are recognised in profit or loss in the period in which they are incurred.

(r) Related parties

(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.

(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;

4. SIGNIFICANT ACCOUNTING POLICIES – *Continued*

(r) Related parties – *Continued*

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

(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.

(s) Revenue recognition

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

i) 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

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

	2013 HK$'000	2012 HK$'000
Sale of toys	**209,341**	413,123
Sale of moulds and materials	**–**	6,635
Total revenue	**209,341**	419,758

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

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

	Revenue HK$'000	**Non-current assets HK$'000 (Note (i))**
For the year ended 31 March 2013		
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*

(a) 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: – *Continued*

	Revenue HK$'000	Non-current assets HK$'000 (Note (i))
For the year ended 31 March 2012		
United States of America and Canada	246,014	3,309
Europe (Note (ii))	117,886	–
China	19,150	–
Australia	12,938	–
Japan	10,306	–
Hong Kong	1,669	2,425
Korea	1,462	–
Indonesia	816	37,964
Others	9,517	–
Total	419,758	43,698

Note:

(i): Deferred tax assets are excluded.

(ii): The products are first imported to one of the European countries ("Shipping Port Countries") and then are 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.

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

	2013 HK$'000	2012 HK$'000
Radio control/wireless products	**120,944**	115,890
Electronic and plastic toys	**88,397**	290,526
Consumer electronic products	**–**	13,342
	209,341	419,758

6. TURNOVER AND SEGMENT INFORMATION – *Continued*

(c) Information on major customers is as follows:

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

	2013 **HK$'000**	2012 HK$'000
Customer A	**40,366**	103,735
Customer B	**22,092**	103,263
Customer C	**21,944**	56,806

Revenues from the largest three external customers had contributed to more than 40% (2012: 62%) of the Group's turnover amounting to HK$84,402,000 (2012: HK$263,804,000). 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

	2013 **HK$'000**	2012 HK$'000
Sample income and others	**1,596**	1,059
Interest income	**30**	7
Exchange losses, net	**(90)**	(218)
Sales of scrap materials	**–**	474
	1,536	1,322

8. PROFIT BEFORE INCOME TAX

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

	2013 HK$'000	2012 HK$'000
Carrying amount of inventories sold	**155,290**	354,385
Write-down of inventories	**602**	–
Costs of inventories recognised as expenses	**155,892**	354,385
Auditors' remuneration	**785**	841
Depreciation of property, plant and equipment (Note 17)	**3,620**	4,007
(Gain)/loss on disposal of property, plant and equipment	**(371)**	405
Impairment loss for trade receivables, net	**214**	446
Employee benefits expense (Note 14)	**38,186**	31,655
Research and development costs	**3,053**	1,222
Operating lease rentals in respect of land and buildings	**720**	717

9. FINANCE COSTS

	2013 HK$'000	2012 HK$'000
Interest on loans from banks wholly repayable within five years	**1,076**	1,527
Interest on loan from a shareholding company	**–**	844
Finance charges on obligations under finance leases	**–**	69
	1,076	2,440

10. INCOME TAX CREDIT

Neither Hong Kong profits tax nor overseas income taxes has been provided as the Company and its subsidiaries either sustained a loss or had sufficient tax losses carried forward to deduct the assessable profits for the year (2012: Nil).

10. INCOME TAX CREDIT – *Continued*

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

	2013 **HK$'000**	2012 HK$'000
Hong Kong profits tax		
– under provision in prior years	**12**	751
Deferred tax credit (Note 27)	**(1,060)**	(1,669)
Income tax credit	**(1,048)**	(918)

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:

	2013 **HK$'000**	2012 HK$'000
Profit before income tax	**1,181**	76,731
Income tax expense calculated at the tax rate of 16.5% (2012: 16.5%)	**195**	12,661
Effect of different tax rates in other countries	**128**	(3,918)
Income not subject to taxation	**(57)**	(16,594)
Expenses not deductible for taxation purposes	**154**	245
Utilisation of previously unrecognised tax losses	**(612)**	(840)
Under provision in prior years	**12**	751
Temporary difference not recognised and others	**(868)**	6,777
Income tax credit	**(1,048)**	(918)

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 2013 includes a loss of approximately HK$2,586,000 (2012: HK$40,898,000) 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 2013 (2012: Nil).

13. EARNINGS PER SHARE

	2013 HK cents	2012 HK cents
Basic earnings per share	**0.07**	2.63
Diluted earnings per share	**0.06**	n/a

The calculation of basic and diluted earnings per share is based on the profit for the year attributable to the owners of the Company, and the weighted average number of ordinary shares in issue during the year.

Profit	**2013 HK$'000**	2012 HK$'000
Profit for the year attributable to the owners of the Company, used in the basic and diluted earnings per share calculation	**2,229**	77,649

	2013	2012
Number of shares		
Weighted average number of ordinary shares for the purposes of basic earnings per share	**3,357,757,997**	2,957,757,997
Effect of dilution		
– Warrants (Note 29)	**179,625,730**	–
Weighted average number of ordinary shares for the purposes of diluted earnings per share	**3,537,383,727**	2,957,757,997

After the reporting period, the Company issued 2 billion new ordinary shares for cash (Note 28). If these shares had been issued before the end of the reporting period, the number of ordinary shares or potential ordinary shares outstanding at the end of the period would have been changed significantly.

14. EMPLOYEE BENEFITS EXPENSE

Employee benefits expense excluding directors' emoluments comprises:

	2013 HK$'000	2012 HK$'000
Wages and salaries	**35,016**	28,734
Other staff benefits	**2,961**	2,636
Pension costs (Note 16)	**209**	285
	38,186	31,655

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:

	2013 HK$'000	2012 HK$'000
Fees for independent non-executive directors	**240**	180
Other emoluments:		
Basic salaries, bonus, housing and other allowances and benefits in kind	**3,324**	3,515
Provident fund scheme contributions (Note 16)	**51**	49
	3,615	3,744

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 2013 and 2012.

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

(a) Directors' emoluments – *Continued*

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	**–**	**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

The emolument of each director for the year ended 31 March 2012 is set out below:

Name of director	Fees HK$'000	Basic salaries and bonus HK$'000	Housing and other allowances and benefits in kind HK$'000	Provident fund scheme contributions HK$'000	Total HK$'000
Mr Leung Lun	–	1,500	780	12	2,292
Mr Leung Chung Ming#	–	155	–	1	156
Mr Wong, Andy Tze On	–	720	360	36	1,116
Mr Wong Lam	60	–	–	–	60
Mr Ye Tian Liu	60	–	–	–	60
Mr Lai Yun Hung	60	–	–	–	60
	180	2,375	1,140	49	3,744

\# Resigned on 9 May 2011

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

(b) Five highest paid individuals

The five individuals whose emoluments were the highest in the Group for the year include two (2012: two) directors whose emoluments are disclosed in the analysis presented above. The emoluments payable to the remaining three (2012: three) individuals during the year are as follows:

	2013 HK$'000	2012 HK$'000
Basic salaries, bonus, housing and other allowances and benefits in kind	**2,097**	2,000
Provident fund scheme contributions	**83**	100
	2,180	2,100

The emoluments of these three (2012: 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 bands:

	2013 No. of individuals	2012 No. of individuals
Nil to HK$1,000,000	**3**	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 monthly income, as defined in the MPF Ordinance, up to a maximum of HK$1,000 (a maximum of HK$1,250 since 1 June 2012) are respectively made by the Group and the employee. The contributions are fully and immediately vested in the employees as accrued benefits once they are paid to the approved trustee of the MPF Scheme.

The Group also contributes to defined contribution schemes for its employees in the United States of America. Contributions are made at a certain percentage of the basic salaries of employees.

The total amount of retirement benefit costs charged to the Group's profit or loss for the year ended 31 March 2013 was HK$260,000 (2012: HK$334,000).

17. PROPERTY, PLANT AND EQUIPMENT

Group	Land and buildings HK$'000	Leasehold improvements HK$'000	Plant and machinery HK$'000	Furniture, fixtures and equipment HK$'000	Motor vehicles HK$'000	Moulds HK$'000	Total HK$'000
At 1 April 2011							
Cost or valuation	18,710	384	14,782	10,369	567	43,236	88,048
Accumulated depreciation and impairment	(1,177)	(204)	(11,004)	(6,181)	(566)	(42,316)	(61,448)
Net book amount	17,533	180	3,778	4,188	1	920	26,600
Net book amount at 1 April 2011	17,533	180	3,778	4,188	1	920	26,600
Additions	530	34	323	109	134	1,018	2,148
Disposals	–	–	–	(955)	–	–	(955)
Depreciation charge	(145)	(97)	(1,766)	(1,646)	(19)	(334)	(4,007)
Revaluation surplus, net (note b)	17,793	–	–	–	–	–	17,793
Exchange differences	(156)	–	(216)	(8)	(1)	–	(381)
Net book value at 31 March 2012	35,555	117	2,119	1,688	115	1,604	41,198
At 31 March 2012							
Cost or valuation	35,555	418	14,043	6,632	624	32,161	89,433
Accumulated depreciation and impairment	–	(301)	(11,924)	(4,944)	(509)	(30,557)	(48,235)
Net book amount	35,555	117	2,119	1,688	115	1,604	41,198
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 amount	35,237	41	3,552	1,010	329	1,736	41,905

17. PROPERTY, PLANT AND EQUIPMENT – *Continued*

Notes:–

(a) As at 31 March 2013 and 2012, 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$2,464,000 (2012: HK$2,724,000) had they been stated at cost less accumulated depreciation and accumulated impairment losses.

18. GOODWILL

	Group	
	2013 HK$'000	2012 HK$'000
At beginning of year	**2,500**	19,240
Impairment loss recognised in profit or loss	**–**	(16,740)
At end of year	**2,500**	2,500

Impairment test for goodwill

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

The recoverable amount of this cash-generating unit ("CGU") is determined based on value-in-use calculations. These calculations use cash flow projections based on financial budgets approved by management covering a five-year period.

Key assumptions used for value-in-use calculations:

	2013	2012
Growth rate	**2-3%**	2%
Discount rate	**19%**	12%

18. GOODWILL – *Continued*

In determining the forecast sale of the toys trading business in the USA, the management extrapolated 2-3% growth in the five-year financial budgets and 3% thereafter (2012: 2% growth in the five-year financial budgets and 2% thereafter). The discount rate used is pre-tax and reflects specific risks relating to the relevant markets.

Management reassessed the recoverable amount of goodwill as at 31 March 2013 by reference to the discounted cash flow calculation with the above estimations and was of the opinion that the remaining goodwill arising from the acquisition of the toys trading business in the USA was recoverable.

19. INTERESTS IN SUBSIDIARIES

	Company	
	2013	2012
	HK$'000	HK$'000
Unlisted investments, at cost	**473,812**	780
Amounts due from subsidiaries (note)	**389,618**	416,430
Amounts due to subsidiaries (note)	**(36,466)**	(382)
	826,964	416,828
Less: provision for impairment loss	**(373,000)**	(373,000)
	453,964	43,828

Note:

The amounts due from/(to) subsidiaries are interest-free, unsecured and quasi-equity in nature.

19. INTERESTS IN SUBSIDIARIES – *Continued*

Particulars of the subsidiaries of the Company at 31 March 2013 and 2012 are as follows:

Name of company	Place of incorporation and operations	Particulars of issued share capital/ registered capital	Effective percentage holding 2013	Effective percentage holding 2012	Nature of business
Shares held directly:					
LC Global Holdings Corporation	British Virgin Islands	Ordinary US$50,001 (2012: US$50,000)	**100**	100	Investment holding
Future Empire Limited	British Virgin Islands	Ordinary US$50,000	**100**	100	Investment holding
Shares 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 (2012: US$1)	**100**	100	Investment holding
Kid Galaxy Corporation	British Virgin Islands	Ordinary US$11 (2012: US$10)	**100**	100	Investment holding
Lung Cheong Asia Holdings Limited	British Virgin Islands	Ordinary US$50,001 (2012: US$50,000)	**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	Ordinary US$100,010	**100**	100	Trading of toys
L C Technology Limited	Hong Kong	Ordinary HK$30,010,000 (2012: HK$10,000)	**100**	100	Trading of toys and electronic products
Kid Galaxy Limited	Hong Kong	Ordinary HK$10,010,000 (2012: HK$10,000)	**100**	100	Trading of toys

20. INVENTORIES

	Group	
	2013	2012
	HK$'000	HK$'000
Raw materials	**7,518**	4,705
Work-in-progress	**16,268**	11,846
Finished goods	**18,357**	15,051
	42,143	31,602

21. TRADE AND OTHER RECEIVABLES, DEPOSITS AND PREPAYMENTS

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

	Group		Company	
	2013	2012	**2013**	2012
	HK$'000	HK$'000	**HK$'000**	HK$'000
Trade receivables	**13,185**	18,540	**–**	–
Less: Allowance for doubtful debts	**(895)**	(681)	**–**	–
	12,290	17,859	**–**	–
Other receivables, deposits and prepayments	**3,278**	4,167	**324**	509
	15,568	22,026	**324**	509

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

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

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

Allowance of doubtful debts on trade receivables

	Group	
	2013 **HK$'000**	2012 HK$'000
At beginning of year	**681**	8,195
Amounts written off for the year	**–**	(7,960)
Recovery of loss previously recognised	**(681)**	–
Addition to impairment loss	**895**	446
At end of year (note (i))	**895**	681

Provision for impairment on other receivables, deposits and prepayments

	2013 **HK$'000**	2012 HK$'000
At beginning of year	**–**	5,996
Amounts written off for the year	**–**	(5,996)
At end of year	**–**	–

Note:

(i) At 31 March 2013, the Group's trade receivables of approximately HK$895,000 (2012: HK$681,000) were individually determined to be impaired.

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

(c) At 31 March 2013, the ageing analysis of the trade receivables net of allowance for doubtful debts was as follows:

	Group	
	2013	2012
	HK$'000	HK$'000
0-90 days	**12,158**	16,840
91-180 days	**131**	592
181-365 days	**1**	115
Over 365 days	**–**	312
	12,290	17,859

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.

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

	Group	
	2013	2012
	HK$'000	HK$'000
Not past due	**11,383**	13,240
Within 30 days past due	**239**	3,646
31 to 90 days past due	**536**	522
Over 90 days past due	**132**	451
	907	4,619
	12,290	17,859

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

(e) Trade receivables that were neither past due nor impaired relate to customers for whom there was no recent history of default.

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

22. AMOUNTS DUE FROM/(TO) RELATED COMPANIES

(a) Amounts due from related companies

	As at 31 March 2013 HK$'000	As at 31 March 2012 HK$'000	As at 1 April 2011 HK$'000	**Maximum balances outstanding during the year ended 31 March 2013 HK$'000**	Maximum balances outstanding during the year ended 31 March 2012 HK$'000
Amounts due from related companies					
Lung Cheong (BVI) Holdings Limited	**11**	1,591	–	**1,591**	1,591
Lung Cheong Toys Limited	**6,580**	26,055	–	**44,829**	94,155
Lung Cheong Resources Management Limited	**–**	692	–	**1,092**	1,185
Lung Cheong Digitech (HK) Company Limited	**–**	4,011	–	**4,011**	4,050
Dongguan Lung Cheong Toys Co., Ltd.	**–**	757	–	**757**	757
Dongguan L C Technology Co., Ltd.	**–**	9,907	–	**20,913**	9,907
	6,591	43,013	–	**73,193**	111,645

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

23. RESTRICTED BANK DEPOSITS AND CASH AND CASH EQUIVALENTS

The restricted bank deposits as at 31 March 2013 are denominated in RMB and pledged to secure the Group's credit facilities granted by banks.

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.

24. TRADE AND OTHER PAYABLES AND ACCRUED CHARGES

	Group		Company	
	2013 HK$'000	2012 HK$'000	**2013 HK$'000**	2012 HK$'000
Trade payables	**6,013**	3,791	**–**	–
Other payables and accrued charges	**5,859**	8,786	**1,412**	650
	11,872	12,577	**1,412**	650

At 31 March 2013, the ageing analysis of the trade payables was as follows:

	Group	
	2013 HK$'000	2012 HK$'000
0-90 days	**6,004**	3,787
91-180 days	**9**	4
	6,013	3,791

25. BORROWINGS

	Group	
	2013	2012
	HK$'000	HK$'000
Trust receipt loans	**15,487**	15,529
Bank loan	**30,096**	–
	45,583	15,529

The borrowings based on the agreed terms of repayment granted by banks are repayable within one year.

(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:

	2013		2012	
	HK$	**US$**	HK$	US$
Trust receipt loans	**n/a**	**6.75%**	n/a	6.75%
Bank loan	**2.20%**	**n/a**	n/a	n/a

(b) As at 31 March 2013, the Group's bank borrowings and banking facilities are secured by a legal charge over the Group's land and buildings situated in Indonesia, with carrying value of HK$35,237,000, bank deposit of HK$30,094,000 and corporate guarantees from group companies. As at 31 March 2012, the Group's bank borrowings and banking facilities were secured by a legal charge over the Group's land and buildings situated in Indonesia, with a carrying value of HK$35,555,000.

(c) At 31 March 2013, the Group had a total banking facilities of approximately HK$91,172,000 (2012: HK$15,600,000) of which HK$45,589,000 (2012: HK$71,000) had not been utilised.

26. PROVISION FOR LONG SERVICE PAYMENT

	Group	
	2013	2012
	HK$'000	HK$'000
At beginning of year	**1,611**	1,683
Addition	**325**	20
Exchange differences	**(90)**	(92)
At end of year	**1,846**	1,611

The amount as at 31 March 2013 represents 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.

27. DEFERRED TAX

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

Deferred tax assets:

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

27. DEFERRED TAX – *Continued*

Deferred tax liabilities:

	Revaluation of properties HK$'000
At 1 April 2011	3,385
Charged to equity	4,448
Exchange difference	(179)
At 31 March 2012	7,654
Exchange difference	(179)
At 31 March 2013	7,475

Net deferred tax liabilities:

At 31 March 2013	(2,160)
At 31 March 2012	(3,346)

	Group	
	2013 **HK$'000**	2012 HK$'000
Deferred tax assets	**4,516**	3,508
Deferred tax liabilities	**(6,676)**	(6,854)
	(2,160)	(3,346)

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$25,499,000 (2012: HK$41,905,000) that can be carried forward against future taxable income. All tax losses may be carried forward indefinitely except for the amount of approximately HK$20,997,600 (2012: HK$19,913,000) which will expire from 2023 to 2033.

28. 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 was transferred to share capital and share premium accordingly.

29. 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 2011, 31 March 2012 and 2013	40	4,000	10,000,000	1,000,000

	Issued and fully paid			
	Convertible cumulative redeemable preference shares of US$100,000 each		**Ordinary shares of HK$0.10 each**	
	Number of shares	US$'000	**Number of shares** '000	HK$'000
At 1 April 2011 and 31 March 2012	–	–	2,957,758	295,776
Placing of new shares (note)	–	–	500,000	50,000
At 31 March 2013	–	–	3,457,758	345,776

29. SHARE CAPITAL – *Continued*

Note:

On 13 June 2012, the share capital of the Company were increased from HK$295,776,000 to HK$345,776,000 through a placing exercise (the "Placing") for the issue of 500,000,000 ordinary shares with par value of HK$0.1 each and 500,000,000 unlisted warrants attached at a consideration of HK$0.15 per share and HK$0.01 per warrant respectively. The 500,000,000 unlisted warrants are transferable and the holders of the warrants may exercise the subscription rights, in whole or in part, at any time within four years commencing from the date of the issue of the warrants. Each warrant carries the right to subscribe for one ordinary share with par value of HK$0.1 each at a consideration of HK$0.15 per share. Up to the date of this report, no warrant holder made such subscription.

A sum of HK$76,630,000 in cash was received in the Placing, after the net of related expenses borne by the Company of approximately HK$3,370,000. The directors considered that the Placing was taken place for the purposes of raising sufficient fund for general working capital and expansion of business.

30. 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.

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

As at 31 March 2013 and 2012, there was no outstanding share options previously granted under the Scheme.

31. 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

It arises from the issue of warrants less the expenses incurred on warrants issue. Upon exercise of warrant, warrant reserve would transfer to share premium.

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).

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.

31. RESERVES – *Continued*

Company

	Share premium HK$'000	Shares to be issued HK$'000 (Note 28)	Warrant reserve HK$'000	Accumulated losses HK$'000	Total HK$'000
At 1 April 2011	**124,958**	**–**	**–**	**(389,811)**	**(264,853)**
Loss and total comprehensive income for the year	–	–	–	(40,898)	(40,898)
At 31 March 2012 and 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 (Note 29)	21,841	389,000	4,789	–	415,630
At 31 March 2013	**146,799**	**389,000**	**4,789**	**(433,295)**	**107,293**

32. CONTINGENT LIABILITIES

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

At 31 March 2013 and 2012, the Group had no contingent liabilities.

33. COMMITMENTS

(a) Capital Commitments

At 31 March 2013, the Group had the following significant capital commitments:

Authorised but not contracted for

	2013 HK$'000	2012 HK$'000
Acquisition of property, plant and equipment	**5,887**	–

(b) Operating lease commitments

At 31 March 2013, the Group had future aggregate minimum lease payments under non-cancellable operating leases in respect of land and buildings as follows:

	2013 HK$'000	2012 HK$'000
Not later than one year	**280**	589
Later than one year but not later than five years	**383**	606
	663	1,195

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.

34. 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 have been eliminated on consolidation and are not disclosed in this note. The significant transactions with related parties during the year, and balances with them at the end of reporting period, are as follows:

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

Related party relationship	**Type of transaction**	**Transaction amount**	
		2013 **HK$'000**	2012 HK$'000
Company controlled by a director's close family members	Sales	**–**	88
Companies controlled by a director's close family members	Purchase	**78,927**	312,967

(b) The loan from a shareholding company was unsecured and interest bearing at Hong Kong Interbank Offered Rate in 2012. During the year, the loan was fully settled and no interest expenses was paid.

(c) 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:

	2013 **HK$'000**	2012 HK$'000
Short-term benefits	**1,695**	1,598
Provident fund scheme contributions	**59**	52
	1,754	1,650

35. 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 25 and loan from a shareholding company, less of cash and cash equivalents, and equity attributable to the owners of the Company, comprising share capital and reserves as disclosed in Notes 28, 29 and 31, respectively.

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

The net debts to equity ratio at the end of reporting period was as follows:

	2013 **HK$'000**	2012 HK$'000
Debts	**45,583**	65,529
Cash and cash equivalents	**(418,175)**	(7,156)
Net debts	**(372,592)**	58,373
Equity	**487,992**	20,472
Net debts to equity ratio	**N/A**	285%

36. 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 18% (2012: 14%) and 42% (2012: 47%) of the total trade receivables was due from the Group's largest debtor and the five largest debtors respectively.

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

In addition, 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. As at 31 March 2012, the Group did not have concentration of credit risk on its liquid funds.

(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.

36. FINANCIAL RISK MANAGEMENT – *Continued*

Financial risk factors – *Continued*

(b) Liquidity risk – *Continued*

Group

	Carrying amount HK$'000	Total contractual undiscounted cash flow HK$'000	Within 1 year or on demand HK$'000	More than 1 year but less than 2 years HK$'000
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$'000	More than 1 year but less than 2 years HK$'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	–

36. FINANCIAL RISK MANAGEMENT – *Continued*

Financial risk factors – *Continued*

(b) Liquidity risk – *Continued*

Group

	Carrying amount HK$'000	Total contractual undiscounted cash flow HK$'000	Within 1 year or on demand HK$'000	More than 1 year but less than 2 years HK$'000
2012				
Trade and other payables and accrued charges	12,577	12,577	12,577	–
Borrowings	15,529	15,529	15,529	–
Amounts due to related companies	43,412	43,412	43,412	–
Loan from a shareholding company	50,000	50,844	844	50,000
	121,518	122,362	72,362	50,000

Company

	Carrying amount HK$'000	Total contractual undiscounted cash flow HK$'000	Within 1 year or on demand HK$'000	More than 1 year but less than 2 years HK$'000
2012				
Trade and other payables and accrued charges	650	650	650	–
Amounts due to related companies	3,943	3,943	3,943	–
Loan from a shareholding company	50,000	50,844	844	50,000
	54,593	55,437	5,437	50,000
Financial guarantees issued – maximum amount guaranteed	–	–	–	–

36. 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
At 31 March 2013	**45,583**	**46,973**	**46,973**	**–**
At 31 March 2012	15,529	16,291	16,291	–

(c) Interest rate risk

The Group's interest rate risk arises primarily from borrowings. All of the Group's borrowings at 31 March 2013 were issued at variable rates and expose the Group to cash flow interest rate risk. The interest rates and terms of repayment of the Group's borrowings are disclosed in Notes 25 and 34(b) to the financial statements. The Group currently does not use any derivative contracts to hedge its exposure to interest rate risk. However, the management will consider hedging significant interest rate exposure should the need arise.

At 31 March 2013, 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$227,000 (2012: HK$328,000).

36. 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 2012.

(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 Indonesia Rupiah ("IDR"). 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 exposure at the end of reporting period to currency risk arising from forecast transactions or recognised assets or liabilities denominated in a currency other than the functional currency of the entity to which they relate.

	2013			2012		
	IDR'000	**RMB'000**	**US$'000**	IDR'000	RMB'000	US$'000
Trade and other receivables	**20,940,847**	**5**	**6,843**	19,775,525	–	6,498
Restricted bank deposits	**–**	**24,000**	**–**	–	–	–
Cash and cash equivalents	**–**	**–**	**374**	–	–	387
Trade and other payables	**(25,087,204)**	**–**	**–**	(28,642,958)	–	–
Borrowings	**–**	**–**	**(2,000)**	–	–	(2,000)
Overall net exposure	**(4,146,357)**	**24,005**	**5,217**	(8,867,433)	–	4,885

36. 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.

	2013		2012	
	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
IDR	**5%**	**(166)**	5%	(313)
	(5%)	**166**	(5%)	313
RMB	**5%**	**1,482**	5%	–
	(5%)	**(1,482)**	(5%)	–
US$	**5%**	**775**	5%	538
	(5%)	**(775)**	(5%)	(538)

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

The stated changes represent management's assessment of reasonably possible changes in foreign exchange rates over the period until the end of next annual reporting period. In this respect, it is assumed that the pegged rate between the Hong Kong dollars and the United States dollars would be materially unaffected by any changes in movement in value of the United States dollars against other currencies. Results of the analysis as presented in the above table represent an aggregation of the effects on each of the group entities' profit 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 2012.

36. FINANCIAL RISK MANAGEMENT – *Continued*

Financial risk factors – *Continued*

(e) Fair values

All financial instruments are carried at amounts not materially different from their fair values as at 31 March 2013 and 2012.

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

37. 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 2013 and 2012 may be categorised as follows:

	2013 HK$'000	2012 HK$'000
Financial assets		
Loans and receivables (including cash and cash equivalents)	**470,428**	72,195
Financial liabilities		
Financial liabilities measured at amortised cost	**65,264**	121,518

38. APPROVAL OF FINANCIAL STATEMENTS

These financial statements were approved and authorised for issue by the Board of Directors on 25 June 2013.

LUNG CHEONG
INTERNATIONAL HOLDINGS LIMITED

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

www.e-lci.com