LUNG CHEONG INTERNATIONAL HOLDINGS LIMITED
龍 昌 國 際 控 股 有 限 公 司

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

ANNOUNCEMENT OF RESULTS FOR THE YEAR ENDED 31 MARCH 2008

RESULTS

The Board of Directors (the "Board") of Lung Cheong International Holdings Limited (the "Company") announces the consolidated results of the Company and its subsidiaries (the "Group") for the year ended 31 March 2008 together with the comparative figures for the year ended 31 March 2007 as follows:

CONSOLIDATED INCOME STATEMENT
For the year ended 31 March 2008

	Notes	2008 HK$'000	2007 HK$'000
Turnover	3	**799,142**	704,815
Cost of sales		**(603,842)**	(496,628)
Gross profit		**195,300**	208,187
Other gains — net	4	**28,009**	10,643
Selling and distribution expenses		**(44,026)**	(37,108)
General and administrative expenses		**(154,003)**	(143,444)
Written back over provision/(provision) for damages under lawsuits	13	**2,805**	(47,644)
Operating profit/(loss)	5	**28,085**	(9,366)
Finance costs	6	**(26,370)**	(27,131)
Profit/(loss) before income tax		**1,715**	(36,497)
Income tax credit/(charge)	7	**2,728**	(779)
Profit/(loss) for the year		**4,443**	(37,276)

Attributable to:			
Equity holders of the Company		**4,443**	(37,219)
Minority interest		**—**	(57)
		4,443	(37,276)
Dividends	*8*	**—**	—

			(Restated)
Earnings/(loss) per share for profit/(loss) attributable to the equity holders of the Company during the year			
— Basic	*9*	**0.18 cents**	(2.29 cents)

BALANCE SHEET

At 31 March 2008

	Notes	**2008** *HK$'000*	2007 *HK$'000*
ASSETS AND LIABILITIES			
Non-current assets			
Intangible assets		**21,714**	21,714
Leasehold land and land use rights		**97,356**	47,415
Property, plant and equipment		**441,085**	437,042
Deferred income tax assets		**6,163**	3,239
		566,318	509,410
Current assets			
Inventories		**294,529**	241,608
Trade and other receivables, deposits and prepayments	*10*	**198,762**	194,593
Derivative financial instruments		**634**	369
Current tax recoverable		**1,182**	416
Restricted cash	*11*	**—**	48,138
Cash and cash equivalents		**51,504**	42,585
		546,611	527,709

Current liabilities			
Trade and other payables and accrued charges	*12*	**162,824**	112,100
Provision	*13*	**—**	47,644
Derivative financial instruments		**1,002**	672
Borrowings		**250,696**	303,297
Current income tax liabilities		**3,983**	6,957
		418,505	470,670
Net current assets		**128,106**	57,039
Total assets less current liabilities		**694,424**	566,449
Non-current liabilities			
Borrowings		**120,000**	93,600
Provision for long service payment		**1,476**	1,554
Deferred income tax liabilities		**10,210**	10,037
		131,686	105,191
Net assets		**562,738**	461,258
EQUITY			
Share capital		**246,480**	72,560
Reserves		**316,258**	388,698
Equity attributable to equity holders of the Company		**562,738**	461,258
Minority interest		**—**	—
Total equity		**562,738**	461,258

NOTES TO THE FINANCIAL STATEMENTS

1. Statement of compliance and basis of preparation

The financial statements have been prepared under the historical cost convention, as modified by the revaluation of freehold land and buildings, and derivative financial instruments which are carried at fair value.

The financial statements have been prepared in accordance with Hong Kong Financial Reporting Standards ("HKFRSs") promulgated by the Hong Kong Institute of Certified Public Accountants (the "HKICPA"). The financial statements also comply with the disclosure requirements of the Hong Kong Companies Ordinance and the disclosure provisions of the Rules Governing the Listing of Securities on the Stock Exchange of Hong Kong Limited.

2. Adoption of new and revised Standards

In the current year, the Group has adopted all of the new and revised HKFRSs issued by the HKICPA that are relevant to its operations and effective for the current accounting period of the Group. The adoption of these new and revised HKFRSs did not result in substantial changes to the Group's accounting policies.

The impact of the adoption of HKFRS 7, *Financial Instruments: Disclosures* and HKAS 1 (Amendment), *Capital Disclosures* has been to expand the disclosures provided in these financial statements regarding the Group's financial instruments and management of capital.

At the date of authorisation of these financial statements, the following standards and interpretations were in issue but not yet effective:

		Effective for annual periods beginning on or after
HKAS 1 (Revised)	Presentation of financial statements	1 January 2009
HKAS 23 (Revised)	Borrowing costs	1 January 2009
HKAS 27 (Revised)	Consolidated and separate financial statements	1 July 2009
HKAS 32 & 1 (Amendments)	Puttable financial instruments and obligations arising on liquidation	1 January 2009
HKFRS 2 (Amendment)	Share-based payment — vesting conditions and cancellation	1 January 2009
HKFRS 3 (Revised)	Business combinations	1 July 2009
HKFRS 8	Operating segments	1 January 2009
HK(IFRIC) — Int 12	Service concession arrangements	1 January 2008
HK(IFRIC) — Int 13	Customer loyalty programmes	1 July 2008
HK(IFRIC) — Int 14	HKAS 19 — The limit on a defined benefit asset, minimum funding requirements and their interaction	1 January 2008

The adoption of HKFRS 3 (Revised) may affect the accounting of business combinations for which the acquisition date is on or after the beginning of the first annual reporting period beginning on or after 1 July 2009. HKAS 27 (Revised) will affect the accounting treatment for changes in a parent's ownership interest in a subsidiary that do not result in a loss of control, which will be accounted for as equity transactions. The directors of the Company have considered these standards or interpretations and anticipate that these standards or interpretations have no material impact on the results of operations and financial position of the Group.

3. Turnover and segment information

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

	2008	2007
	HK$'000	*HK$'000*
Turnover		
Sale of goods	**714,839**	651,290
Sale of moulds and materials	**84,303**	53,525
	799,142	704,815

Primary reporting format — business segments

The directors of the Company consider that the operating activities of the Group constitute one business segment since they are related and are subject to common risks and returns, accordingly, no analysis by business segment is presented.

Secondary reporting format — geographical segments

	Turnover	**Total assets**	**Capital expenditure**
	2008	**2008**	**2008**
	HK$'000	***HK$'000***	***HK$'000***
United States of America	**279,668**	**47,373**	**1,470**
Europe *(Note)*	**131,847**	**—**	**—**
Japan	**101,992**	**22,445**	**—**
China	**110,674**	**753,836**	**51,855**
Indonesia	**1,355**	**49,592**	**2,776**
Hong Kong	**102,455**	**225,819**	**3,013**
Others	**71,151**	**9,043**	**2**
Total	**799,142**	**1,108,108**	**59,116**

	Turnover 2007 *HK$'000*	Total assets 2007 *HK$'000*	Capital expenditure 2007 *HK$'000*
United States of America	273,843	59,217	473
Europe *(Note)*	107,875	5,516	—
Japan	96,850	29,029	—
China	71,614	596,307	81,388
Indonesia	1,398	34,271	1,167
Hong Kong	89,456	298,043	2,873
Others	63,779	14,736	2
Total	704,815	1,037,119	85,903

No analysis of contribution to operating profit by geographical segment has been prepared as no contribution to operating profit from any of the above segments is substantially out of line with the ratio of profit to turnover.

Note: The turnover derived from Europe represents sales of toys for shipments directly to Europe under the instructions of customers. The respective trade receivables are included in the United States of America, Japan and Hong Kong segments.

4. Other gains

	2008 ***HK$'000***	2007 *HK$'000*
Interest income	**1,504**	607
Net gain on derivative financial instruments:		
— forward contracts and interest swaps:		
transactions not qualifying as hedges	**1,663**	939
Gain on disposal of a subsidiary	**3,125**	1,414
Sample income	**1,059**	5,048
Gain on disposal of property, plan and equipment	**7,209**	—
Exchange gains, net	**12,192**	485
Others	**1,257**	2,150
	28,009	10,643

5. Expenses by nature

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

	2008	2007
	HK$'000	*HK$'000*
Cost of inventories sold	**603,842**	496,628
Auditors' remuneration	**1,597**	1,766
Amortisation of leasehold land and land use rights	**1,180**	1,129
Depreciation of property, plant and equipment	**39,981**	47,223
Employee benefit expense	**155,151**	123,049
Operating lease rentals in respect of land and buildings	**4,161**	4,661

6. Finance costs

	2008	2007
	HK$'000	*HK$'000*
Interest on loans from banks and financial institutions and overdrafts wholly repayable within five years	**24,804**	26,545
Arrangement fees on bank loans	**1,566**	586
	26,370	27,131

7. Income tax credit/(charge)

Hong Kong profits tax has been provided at the rate of 17.5% (2007: 17.5%) on the estimated assessable profit for the year.

Taxation on profits of Mainland China subsidiaries has been calculated on the estimated assessable profit for the year at the rates of taxation as applicable to the subsidiaries.

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

	2008	2007
	HK$'000	*HK$'000*
Current income tax		
Hong Kong profits tax		
— current year	**—**	(2,400)
— (under)/over provision in prior years	**(79)**	300
Mainland China enterprise income tax		
— current	**(24)**	(445)
Deferred income tax	**2,831**	1,766
	2,728	(779)

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

	2008	2007
	HK$'000	*HK$'000*
(Profit)/loss before income tax	**(1,715)**	36,497
Calculated at a taxation rate of 17.5% (2007: 17.5%)	**(299)**	6,387
Effect of different taxation rates in other countries	**(21)**	(1,223)
Income not subject to taxation	**2,219**	564
Expenses not deductible for taxation purposes	**(1,056)**	(8,700)
Tax exemption	**8,278**	3,216
Tax losses not recognised	**(6,758)**	(758)
Over/(under) provision in prior years	**365**	(265)
Tax credit/(charge)	**2,728**	(779)

8. Dividends

The directors do not recommend final dividend in respect of the year ended 31 March 2008 (2007: Nil).

9. Earnings/(loss) per share

Basic

Basic earnings/(loss) per share is calculated by dividing the profit/(loss) attributable to equity holders of the Company by the weighted average number of ordinary shares in issue during the year.

	2008	2007
	HK$'000	*HK$'000*
Profit/(loss) attributable to equity holders of the Company	**4,443**	(37,219)

	2008	2007
	'000	*'000*
		(Restated)
Issued ordinary shares at beginning of year	**725,600**	483,733
Effect of rights issue	**—**	58,633
Effect of placing arrangement	**78,951**	—
Effect of bonus issue	**1,609,102**	1,084,732
Weighted average number of ordinary shares in issue	**2,413,653**	1,627,098
Basic earnings/(loss) per share (HK cents)	**0.18**	(2.29)

No diluted loss per share for the year ended 31 March 2008 has been presented as the share options granted during the year had no dilutive effect on the basic loss per share for the year. No diluted loss per share for the year ended 31 March 2007 had been calculated as no diluting events existed in that year.

10. Trade and other receivables, deposits and prepayments

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

	2008	2007
	HK$'000	*HK$'000*
Trade receivables	**146,121**	159,456
Other receivables, deposits and prepayments	**52,641**	35,137
	198,762	194,593

At 31 March 2008, the ageing analysis of the trade receivables was as follows:

	2008	2007
	HK$'000	*HK$'000*
0 — 90 days	**126,962**	104,734
91 — 180 days	**6,625**	39,562
181 — 365 days	**5,724**	4,106
Over 365 days	**6,810**	11,054
	146,121	159,456

The Group's sales are on letter of credit or open account terms. Credit terms are reviewed on a regular basis. The normal trade term is between 30 to 90 days but business partners with strong financial background may be offered longer credit terms.

11. Restricted cash

	2008	2007
	HK$'000	*HK$'000*
Restricted cash	**—**	48,138

As at 31 March 2007, the Company placed cash of approximately HK$47,644,000 plus accrued interest of approximately HK$494,000 as the cash bond for appealing the jury's verdict against the Group in Florida, US. The amount was applied for the settlement of the lawsuits in 2008.

12. Trade and other payables and accrued charges

	2008	2007
	HK$'000	*HK$'000*
Trade payables	**97,286**	51,317
Other payables and accrual charges	**65,538**	60,783
	162,824	112,100

At 31 March 2008, the ageing analysis of the trade payables was as follows:

	2008	2007
	HK$'000	*HK$'000*
0 — 90 days	**74,486**	34,826
91 — 180 days	**16,445**	10,616
181 — 365 days	**5,918**	5,807
Over 365 days	**437**	68
	97,286	51,317

13. Provision

	2008	2007
	HK$'000	*HK$'000*
Provision	**—**	(47,644)

In February 2002, Action Products International Inc. ("APII") filed civil lawsuits at the Circuit Court of the Alachua County (the "Circuit Court"), Florida, US against the Company, Kid Galaxy Inc. ("KGI") and Mr Tim Young ("Mr Young"). On 9 October 2006, the jury arrived at the decision against the Company, KGI and Mr Young and awarded APII the damages in the amount of US$5.1 million (approximately HK$40 million) (the "Damages").

Details of the lawsuits and the previous verdicts were set out in the announcements of the Company dated 16 October 2006, 16 November 2006 and 20 July 2007.

In December 2006, the Company filed an appeal of a circuit court judgement with an appellate court known as the district court of appeal (the "Appellate Court"). Pending the outcome of the appeal process, the Company has placed appeal bond of approximately HK$48 million with the Circuit Court for the unfavorable judgement against the Group. The Group has made a full provision in respect of the Damages, together with the related interests and costs to be incurred for the year ended 31 March 2007. In November 2007, the Company received the decision of the Appellate Court affirming the decision of the Circuit Court and ruled against the Company. The Company lost the appeal and therefore was required to pay Damages plus interests. Accordingly, the appeal bond had been released against the settlement of Damages. The amount of excess provision of approximately HK$2,805,000 was written back during the year.

14. Commitments

(a) Commitments under operating leases

At 31 March 2008, the Group had future aggregate minimum lease payments under non-cancellable operating leases in respect of land and buildings as follows:

	2008	2007
	HK$'000	*HK$'000*
Not later than one year	**3,778**	3,446
Later than one year and not later than five years	**12,979**	13,180
Over five years	**—**	2,207
	16,757	18,833

(b) Commitments under forward foreign currency contracts

As at 31 March 2008, the Group had maximum outstanding forward foreign currency contracts to purchase approximately US$104,100,000 (2007: approximately US$65,700,000) for approximately HK$811,980,000 (2007: approximately HK$508,661,000).

CLOSURE OF REGISTER OF MEMBERS

The register of members of the Company will be closed from 20 September 2008 to 23 September 2008 (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 23 September 2008, all transfers accompanied by the relevant shares 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 19 September 2008.

CHAIRMAN'S STATEMENT

On behalf of the Board of Directors of Lung Cheong International Holdings Limited (the "Company") and its subsidiaries (together the "Group"), I have the pleasure of presenting to you the Group's financial results for the years ended 31 March 2008.

While the past year was special as it was the 10th anniversary of listing of the Group on the Hong Kong Stock Exchange, we envisaged at the beginning of the financial year 2007/08 ("FY 07/08") that it would be another challenging year. The results presented in this report are evidence of the Group's efforts and success in tackling the difficulties encountered during the full financial period. Revenue recorded for the FY07/08 was HK$799 million, representing an increase of 13% when compared with financial year 2006/07 ("FY 06/07"), attributable to the Group's ability to take full advantage of the additional capacity provided by the new factory in Changping. For the year ended 31 March 2008, the Group reported a profit of HK$4 million. The Directors do not recommend any dividend payment (FY06/07: NIL) for the year.

Business Review

During the year under review, the aftermath of several major global toy recall incidents rocked the confidence of customers, financial institutions and investors in the toy industry. Although the Group was not involved in any of the incidents, it spent more on upgrading production facilities and extra independent testings and associated administrative works, with the aim of reassuring customers of the quality and safety of its products. The Group has always been diligent in following paint-related materials procurement procedures and kept abreast of latest directives and control on product painting and decoration processes issued by customers and local authorities.

Regarding the lawsuit filed by Action Products International Inc. ("the lawsuit") against the Company, the Group sought ruling from the District Court of Appeal, State of Florida, USA, against the decision of the Circuit Court of Alachua County finding for the plaintiff. The appeal court decided against the Company. The impact of the litigation was fully reflected in the Group's FY 06/07 results, with sufficient provisions made for covering judgement payment. The lawsuit was fully settled and concluded in the last quarter of FY 07/08.

In FY 07/08, the Group also experienced its profit margins squeezed by escalation of material costs, accelerating appreciation of the Renminbi ("RMB") against our main revenue currencies including the United States dollar ("USD") and Hong Kong dollar ("HKD"). The increase in minimum basic wage of workers in China also created additional cost burden for the Group.

In March 2008, the Group's new and modernized Changping factory opened officially, consolidating the Group's major manufacturing, design, engineering and warehousing capacities all under one roof in China. The process of combining the Group's resources facilitate operational efficiency in the long run, but resulted in additional restructuring and relocation costs during FY07/08. The consolidation process also presented the management the opportunity to dispose of certain non-core assets of the Group. The new factory, proximity to main terminus in the Guangdong Railway system in its easy access, has advantage competing for technicians and general workers from Guangdong and other provinces.

To ensure orders were met cost effectively, we pushed for more extensive utilisation of our Serang factory in Indonesia where cost is lower and labour supply is ample. Major customers were willing to transfer less complex production to our Southeast Asian plant, which allowed us to use our Dongguan facilities for higher value production.

During FY07/08, the Group had new investors pledging support to its business. On 31 May 2007, the Company entered into a top up placement arrangement involving the issue of 96,000,000 new shares raising in all approximately HK$55 million. A term loan facility of HK$200 million secured by the Group on 21 August 2007 also reflected the confidence of the banking sector in the Group. The term loan was used to repay the remaining balance of a previous HK$300 million term loan. The controlling shareholders of the Company also contributed HK$50 million in form of shareholder's loan in early March 2008 to reduce the term loan facility.

The Group endured the most challenging period in its history, incurring loss for the first time in the amount of HK$37 million in the preceding year, attributable mainly to the provision made in relation to the lawsuit. Facing hurdles including banks tightening credit policy, the Group had to depend on internally generated cash flow. Fortunately, with the support of loyal customers and suppliers, the Group made it through the testing times in solid strides.

To strengthen performance, the Group stepped up effort to grow the radio control (R/C) toy business segment, ranging from producing toy planes for outdoor play to the world's smallest indoor toy helicopter. Accordingly, the R/C toy business was the major revenue earner of the Group during the review period, claiming leadership in the sector.

Plans and Prospects

The management is cautiously optimistic about the general outlook of the Group's business going forward. Notwithstanding uncertainties in the market, the management believes with the Changping factory in operation, it has a solid platform to seize opportunities for growth. Dongguan City, where the factory is located, is expected to continue to be one of the most efficient hubs for large scale high-tech electronic toy manufacturing in China, with the support of an unmatched supply chain characterized by efficient labour and technical expertise. The management expects that tight supply of migrant workers to ease as less capable competitors are ousted from the area.

Looking to the financial year 2008/09 ("FY08/09"), the Group need to deal with fluctuating costs of raw materials such as plastic, packaging, electronic components and metal parts. In addition, the management will have to address the reduction of rebate of export value added tax which took effect recently and the pressure from continuous appreciation of the RMB. Persistently high and climbing oil prices will have adverse impact on the Group's material, utility and transportation costs. Besides, the looming U.S. sub-prime mortgage of crisis, will continue to affect our major export market, tightened credit policy threatening a slump in local consumption sentiment. The Strong Euro and fresh orders from European customers could possibly counter the softening US sales.

However, the management remains confident of the Group's ability to seize this unique opportunity to consolidate its market leadership amid exit of weaker players. To improve operational efficiency, the Group will continue to control costs and invest in its facilities and staff to improve productivity and maintain competitiveness. We earmarked around HK$15 million during the second quarter of FY07/08 for improving on-site laboratory and production equipment.

The New China Labour Law which taken effect on 1 January 2008 pushed up the Group's overall labour costs. Upward adjustment of minimum wages have led to increase in other labour cost constituents including social security contributions and other fringe benefits. Efforts of local authorities to boost welfare of workers will gradually increase the burden of manufacturing cost on the Group. Heeding the situation, the Group will continue to offer above average remunerations to attract and retain workers until such time when labour supply improves.

As far as the industry is concerned, there is growing pressure on overseas customers to share the increased manufacturing cost. While absorbing increase in sourced materials, the Group has tried to pass and had passed reasonable portion of the increased cost by raising product prices.

The Group's leading position in radio control and electronic toys business continued to bolster overall sales, consistently bringing in orders and product development requests from well-known toy brands. Original Design Manufacturing ("ODM") will help stabilised the Group's gross margin in the competitive market. It is, however, more difficult to maintain higher margins compared with previous years. At its efforts to expand Own Brand Manufacturing ("OBM"), the Group expects OBM arm, Kid Galaxy to contribute strongly to its future results.

The Group will continue to operate the two existing Dongguan factories and also the Indonesian factory. The wholly-owned Qih Tou Factory industrial site is going through re-zoning procedures to be converted into residential/commercial usage, which ought to fetch higher return for the Group. The industrial property is at a good location, right next to the Dongguan City University of Technology. The management will re-evaluate alternatives for the leased Zhou Wu Factory before the end of the FY08/09. Restructuring of the Dongguan plants is underway and expected to continue in the FY08/09. We do not expect the restructuring exercise will result in any major impact on the Group's overall production capabilities.

With more major customers permitting allocation of production of their products to our Indonesian facility, the Directors see more new orders to be fulfilled in the coming year with capacity in Indonesia. The Indonesian operation is expected to deliver strong performance in the years to come. The Group adheres to and fully supports the Code of Business Practice of the International Council of Toy Industries ("ICTI"). Both its Dongguan and Indonesia factories have passed the ICTI audit or the ICTI CARE process.

The Group will continue to pursue various initiatives to enhance productivity and cost effectiveness. Not resting on its laurels, the Group will seek strategic business opportunities to achieve top and bottom line growth. The management will strive for better returns to shareholders. Moving forward, it will implement various business plans and cost control measures such as consolidating and growing through strategic investments, partnerships and acquisitions in the coming financial periods.

In conclusion, I would like to thank my fellow Board members and senior management, and all of Lung Cheong's employees for their contribution and dedication to the Group, which had enabled us to overcome the challenges encountered during the year. My appreciation also goes to our investors, bankers and shareholders for their support to the Group during difficult times in the past year.

MANAGING DIRECTORS REVIEW OF OPERATIONS

Market Review

For the year ended 31 March 2008, the Group's export to the US remained strong, with shipment value reaching HK$280 million from HK$274 million in the corresponding period last year, accounting for 35% (FY06/07: 39%) of the Group's total shipment. Penetration of direct TV marketing channels, retail chains and speciality stores by Kid Galaxy Inc. ("KGI") all contributed to growth in sales in the market.

Shipment to Europe grew to HK$132 million as compared with HK$108 million in FY06/07, accounting for 16% (FY06/07: 15%) of the Group's revenue, attributable partly to the strong Euro currency. Export to Japan was also steady at HK$102 million (FY06/07: HK$97 million), making up 13% of the Group's total revenue compared to 14% last year.

Consistently large local deliveries translated into increased shipment to China and Hong Kong accounting to HK$161 million in FY06/07 compared with HK$213 million in FY07/08. Some of those shipments however were destined for the US, Europe and Japanese market eventually via Hong Kong and China after consolidation at various ports in Southern China.

Turnover	**2007/2008** *(HK$'M)*	**2006/2007** *(HK$'M)*	**Change in %**
Sale of goods	714,839	651,290	10%
Sale of moulds & materials	84,303	53,525	58%

Turnover by Geographical Segment	**2007/2008** *(HK$'M)*	**2006/2007** *(HK$'M)*	**Change in %**
United States	279,668	273,843	2%
Europe	131,847	107,875	22%
Japan	101,992	96,850	5%
China & Hong Kong	213,129	161,070	32%
Others	72,506	65,177	11%

Product Review

Radio Control Toys

The Group's core expertise segment accounted for 62% of total turnover for the year against 57% of the previous year, indicating sustainable growth. Revenue amounted to HK$494 million, a 23% increase from HK$403 million last year thanks to increased orders from major customers.

The success of certain new, innovative and hobby grade radio control products ranging from multi-channel transmitter automobiles, boats, aerodynamic planes and light-weight insects that can fly and be enjoyed both in and outdoor reflected the manufacturing strengths and quality of the Group's wireless segment.

Electronic and Plastic Toys

The segment recorded an increase of 20% in sales from HK$185 million in FY06/07 to HK$221 million in FY07/08, accounting for 28% of the Group's turnover compared to 26% in the previous year. The success of the category was attributable to increased orders from leading US and Japanese pre-school toy customers. These customers have stringent requirements on product quality, particularly after recent toy recall incidents. The segment grew because our customers had confidence in ordering less complex products from our Indonesian factory.

Consumer Electronic Products

Sales contribution from the segment decreased from HK$117 million in FY06/07 to HK$84 million mainly as a result of the Group discontinued production of Bluetooth earphones and digital cameras. Revenue from consumer electronic products accounted for 11% of the Group's total turnover (FY2006/07: 17%). Robotics with competition, educational and construction applications contributed to the earnings of this non-toy segment of the Group.

Investment in research and development of robotics has started to bear fruits. The Group commenced production of the world's smallest and most advanced humanoid robot iSobot and a more sophisticated Robot X at its Changping factory in the second half of FY07/08.

Turnover by Product Type	**2007/2008** *(HK$'M)*	**2006/2007** *(HK$'M)*	**Change in %**
Radio Control Toys	494	403	23%
Electronic and Plastic Toys	221	185	20%
Consumer Electronic Products	84	117	(28%)

Divisional and Resources Review

China

Relocation of production to the new Changping factory was completed in the last quarter of FY07/08 with the official grand opening ceremony in March 2008. The Group operated three production plants to take full advantage of its production capacity before facilities were redeployed in the Qian Tou factory in the third quarter of FY07/08. With the new Changping factory commenced production in early FY07/08, the Group uses capacity of the Zhou Wu facility for supporting peak-season orders.

Changping is a key railway terminus in Guangdong province. The new factory of the Group has a total floor area of approximately 90,000 square metres for production, warehousing, office and dormitory uses. The Group has begun to streamline production in China, consolidating operations to modernize at the Changping factory while redeploying Qian Tou to reduce overhead.

Indonesia

During this year under review, bolstered by increased customer confidence in the Group's operations in Southeast Asia, the factory in Indonesia made strong contribution to the Group's turnover. Pressure from appreciation of the RMB and labour shortages in Southern China had prompted more customers to permit the Group placing additional non-complex product orders with the Indonesia Factory during the year.

To ensure it can meet orders cost-effectively, the Group has been engaging its Indonesian factory more extensively. With major customers willingly transferred orders to the Southeast Asian facility, the Group was able to relieve facilities in China for higher value production while taking advantage of Indonesia's more flexible costs structure and plentiful labour. Utilisation rate of the Indonesian plant thus increased markedly relative to the previous year.

United States

The Manchester operation, KGI mainly takes care of marketing, product design, sales and fulfillment in the North American market. After moving to a new location in New Hampshire, KGI has performed well with sales increased to last year's HK$48 million compared to HK$57 million for year ended 31 March 2008. KGI derived its revenue mainly from its own brands such as GoGo Auto, KG Flyer and My First RC, etc.

KGI was able to increase sales from success in utilising speciality stores and TV shopping channel. Its products are popular also because of their award-winning innovative designs. KGI is the recipient of many prominent national toy awards, namely the "Oppenheim Toy Portfolio Gold Award" from Oppenheim Toy Portfolio, "100 Best Children's Products 2007" from Dr. Toy Award and "Toy of the Year Award", "Preferred Choice Award" and "Seal OF Excellence Award" at the 2007 Creative Child Awards.

Litigation in Florida, United States

On 9 October 2006, the Jury in the Circuit Court of the Alachua County, Florida, US (the "Circuit Court") arrived at a decision against the Group in the amount of US$5.1 million (approximately HK$40 million). Details of the Lawsuits and the previous verdicts were set out in the announcements of the Group dated 16 October 2006, 16 November 2006 and 20 July 2007.

The Group filed an appeal against the decision of the Circuit Count during FY07/08. However, on 30 November 2007, the District Court of Appeal, State of Florida, USA, affirmed the decision of the Circuit Court. The impact of the litigation was entirely reflected in the Group's results for the year ended 31 March 2007, judgement payment and legal fees were fully reflected during this financial period. Details of the outcome of the lawsuit was set out in the announcement of the Company dated 4 December 2007.

MANAGEMENT DISCUSSION & ANALYSIS

Financial Review

The Group's brand new and enlarged facilities contributing to sales increased by 13% to HK$799 million for the year ended 31 March 2008. Others revenues consist of net treatment of foreign exchange, interest income, net gains from derivative financial instruments and net income from disposal of various non-core assets.

The escalation of material costs, higher mandatory wages for workers and steep appreciation of the RMB against revenue currencies such as US and HK dollars, fully offset gains in sales and the impacts of measures implemented to enhance productivity.

Increased R/C sales, ODM products and increment in Kid Galaxy OBM sales contributed to supporting the Group's gross margin despite heavy pricing pressure, resulting in gross profit staying relatively steady at HK$195 million for the year versus HK$208 million in FY06/07. Gross profit margin, however, decreased to 24% (FY06/07: 30%). The Group will continue to rely on higher ODM and OBM sales to improve and maintain high gross margin.

Selling and distribution expenses for the year ended 31 March 2008 amounted to HK$44 million, representing an increase of 19% against HK$37 million in the previous year. The rise was mainly attributable to increased commission payment and marketing and promotional expenses. Transportation and distribution expenses were pushed up by high fuel costs.

General and Administrative ("G&A") expenses for the year ended 31 March 2008 amounted to HK$154 million against HK$143 million in the previous year, or 19% of turnover (FY06/07: 20%). The main constituents of G&A expenses were staff costs, depreciation of fixed asset, electricity and utilities expenses. Additional costs during the financial period included the charge of the market value of share options when they were granted and the restructuring costs associated with relocation of production to the new Changping factory. Overall, the Group recorded an operating profit of HK$28 million compared to operating loss of HK$9 million in the previous year. Provision for litigation payments was the mainly cause of loss in the previous year.

Finance costs inclusive of interest expenses, bank charges plus fees incurred for a new term loan was explained by the high overall costs for the year under review despite the decrease in borrowing. Finance cost was HK$26 million in FY07/08 compared to HK$27 million in FY06/07. The management believes the current tight credit environment will continue and interest rates could turn on the upward trend.

All in all, the Group achieved net profit attributable to shareholders of HK$4 million in FY07/08 compared to a loss of HK$37 million in FY06/07. The Directors, however, do not recommend any final dividend payment for the year under review. They see the need to retain funds to support implementation of business plans and as buffer considering the current economic climate.

Group Resources and Liquidity

Shareholder funds as at 31 March 2008 were HK$563 million, 22% more than HK$461 million in the previous year. The net assets per share were lowered by 64% from HK64 cents to HK23 cents because of the issue of 96,000,000 new shares on 31 May 2007 to independent external investors and result of bonus issue during FY07/08. The HK$55 million proceeds were used to repay previous term loan and as working capital. As at 31 March 2008, the Group had a total of 2,464,799,997 shares in issue.

Fixed assets increased from HK$484 million to HK$538 million as at 31 March 2008. Property, plant and equipment under non-current assets increased from HK$437 million to HK$441 million, attributable mainly to capital expenditures in relation to works at the new Changping factory plus annual molds investment for ODM and OBM businesses.

Goodwill associated with Kid Galaxy's acquisition and club membership made up HK$22 million of intangible assets. Leasehold land and land use rights of the Group total HK$97 million as at 31 March 2008.

Management effort to control inventories continued, but anticipating more orders and rise in raw material prices, the Group purchased certain critical materials before year end date. Some existing customers delayed shipment of products because of change in product specifications and sales plans, altogether pushed up inventory from HK$242 million at the end of FY06/07 to HK$295 million as at 31 March 2008. Stock turnover were higher at 122 days compared to 111 days in the previous year.

Trade receivables recorded a slight decrease as at 31 March 2008 to HK$146 million, compared to HK$159 million at the previous year end date despite the increase in sales. The management will regularly evaluate the Group's customers, assess their known financial position and credit risks. More clients are covered by limited export credit insurance in view of current uncertain economic climate.

Other receivables, deposits and prepayment increased from HK$35 million at year end date in FY06/07 to HK$53 million as at 31 March 2008. They consisted mainly of deposits and prepayment for new equipment, molds and material for meeting production needs in the coming financial year.

Cash and bank balances as at 31 March 2008 were HK$52 million, compared to HK$43 million as at 31 March 2007. The HK$48 million restricted cash in FY06/07 year end date was used to settle litigation cost and damage payment against the Group in Florida, US. The balance refunded from the Florida Court after settlement was used to cover legal and professional fees relating to the lawsuit.

Overall, total current assets was steady at HK$547 million compared to HK$528 million in the previous year end date. Current ratio improved from 112% in the previous year to 131% as at 31 March 2008.

Trade payables recorded an increase against the previous year. Trade payables were HK$97 million and other payables were HK$66 million compared to HK$51 million and HK$61 million respectively as at 31 March 2007. The increase in trade payables consisted mainly of increase in materials in stock for future use and advanced purchases to protect margin. Creditor turnover days increased to 57 days versus 43 days at the end of the previous year.

Borrowings under current liabilities decreased from HK$303 million as at 31 March 2007 to HK$251 million at 31 March 2008, attributable mainly to availability of a new term loan facility allowing the Group to repay certain portion of the previous short term loan during the financial year. Major shareholder's loan of HK$50 million also made up part of the borrowings as at 31 March 2008.

Trust receipts loan was up from HK$94 million as at 31 March 2007 to HK$119 million at 31 March 2008 and was mainly used to finance account receivables and increase in inventories. Long term bank loans due within the next 12 months amounted to HK$30 million as at 31 March 2008.

The gearing ratio, calculated as the total borrowings less cash and bank balances and divided by shareholders' equity, was lowered to 57% as at 31 March 2008 compared to 77% in 2007.

Notwithstanding unforeseeable circumstances, the Group will continue to dispose of non-core assets and reduce borrowings. The Board is confident that the Group has sufficient financial resources to meet operational needs in the coming year.

EMPLOYEE

As at 31 March 2008, the Group had approximately 6,500 employees of which 60, 6, 229, 200 and 11 employees were based in Hong Kong headquarter, the Dongguan factories, the Indonesian factory and the US office respectively. The number of people employed by the Group varies from time to time depending on production needs and staff are remunerated based on industry practices.

MODEL CODE OF SECURITIES TRANSACTIONS BY DIRECTORS

The Company has adopted the Model Code for securities transactions by Directors of Listed Issuers as set out in Appendix 10 (the "Model Code") to the Listing Rules as its own code of conduct for dealing in securities of the Company by the Directors. Based on specific enquiry with the Directors, all the Directors confirmed that they have complied with the required standards as set out in the Model code during the year ended 31 March 2008.

PURCHASE, SALE OR REDEMPTION OF LISTED SECURITIES

Neither the Company, nor any of its subsidiaries purchased, redeemed or sold any of the Company's shares during the year.

CORPORATE GOVERNANCE

The Company is committed to maintain a high standard of corporate governance practices as set out in the Code on Corporate Governance Practices (the "CG Code") in Appendix 14 of the Rules Governing the Listing of Securities of The Stock Exchange of Hong Kong Limited and the Company has complied with the code provisions set out in the CG Code.

A detailed Corporate Governance Report setting out the Group's framework of governance and explanation about how the provisions of the CG Code have been applied will be included in the Company's Annual Report 2007/2008.

AUDIT COMMITTEE

Pursuant to the Listing Rules, an audit committee was established on 14 March 2000. The Committee comprises three independent non-executive directors, namely Mr YE Tian Liu, Mr WONG Lam, O.B.E., J.P., and Mr LAI Yun Hung and a non-executive director, namely Mr KO Peter, Ping Wah.

By reference to "A Guide for the Formation of An Audit Committee" published by the Hong Kong Institute of Certified Public Accountants, written terms of reference which describe the authority and duties of the audit committee were prepared and adopted by the Board of the Company since the date of establishment. The principal activities of the Audit Committee include the review and supervision of the Group's financial reporting process and internal controls. The Company's annual result for the year ended 31 March 2008 have been reviewed by the Audit Committee of the Company.

PUBLICATION OF RESULTS ANNOUNCEMENT

The results announcement is published on the website of Hong Kong Exchanges and Clearing Limited at www.hkex.com.hk under "Latest Listed Companies Information" and the website of the Company at www.e-lci.com under "Investor Relations".

APPRECIATION

On behalf of the Board, I would like to take this opportunity to express my sincere gratitude to our long term customers, suppliers, licensors and business partners for their continual support over the past year. I would also like to extend my appreciation to our management and staff for their hard work and dedication, despite the challenging year in the toys business.

By Order of the Board
Leung Lun
Chairman

Hong Kong, 24th July 2008

As at the date of this announcement, the directors of the Company are Mr. Leung Lun, Mr. Leung Chung Ming, Mr. Zhong Bingquan, Ms. Cheng Yun Tai, Mr. Wong, Andy Tze On, Mr. Ye Tian Liu, Mr. Wong Lam, O.B.E., J.P., Mr. Ko Peter, Ping Wah and Mr. Lai Yun Hung.