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 2013

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 (together called the "Group") for the year ended 31 March 2013 together with the comparative figures for the year ended 31 March 2012 as follows:

CONSOLIDATED STATEMENT OF COMPREHENSIVE INCOME

For the year ended 31 March 2013

	Notes	**2013** *HK$'000*	2012 *HK$'000*
Turnover	*3*	**209,341**	419,758
Cost of sales		**(155,892)**	(354,385)
Gross profit		**53,449**	65,373
Other income, gains and losses, net	*4*	**1,536**	1,322
Selling and distribution expenses		**(18,949)**	(24,499)
General and administrative expenses		**(33,779)**	(38,334)
Impairment of goodwill		**–**	(16,740)
Gain on disposal of subsidiaries		**–**	92,049
Operating profit	*5*	**2,257**	79,171
Finance costs	*6*	**(1,076)**	(2,440)
Profit before income tax		**1,181**	76,731
Income tax credit	*7*	**1,048**	918
Profit for the year attributable to the owners of the Company		**2,229**	77,649

* *For identification purposes only*

	Notes	**2013**	2012
		HK$'000	*HK$'000*
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		**–**	17,793
Income tax relating to surplus on revaluation of land and buildings		**–**	(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	*9*	**0.07 cents**	2.63 cents
– Diluted	*9*	**0.06 cents**	N/A

STATEMENT OF FINANCIAL POSITION

As at 31 March 2013

	Notes	2013 HK$'000	2012 HK$'000
ASSETS AND LIABILITIES			
Non-current assets			
Property, plant and equipment		**41,905**	41,198
Goodwill		**2,500**	2,500
Deferred tax assets		**4,516**	3,508
		48,921	47,206
Current assets			
Inventories		**42,143**	31,602
Trade and other receivables, deposits and prepayments	*10*	**15,568**	22,026
Amounts due from related companies		**6,591**	43,013
Tax recoverable		**286**	212
Restricted bank deposits		**30,094**	–
Cash and cash equivalents		**418,175**	7,156
		512,857	104,009
Current liabilities			
Trade and other payables and accrued charges	*11*	**11,872**	12,577
Borrowings		**45,583**	15,529
Amounts due to related companies		**7,809**	43,412
Tax payable		**–**	760
		65,264	72,278
Net current assets		**447,593**	31,731
Total assets less current liabilities		**496,514**	78,937

	Notes	**2013** *HK$'000*	2012 *HK$'000*
Non-current liabilities			
Provision for long service payment		**1,846**	1,611
Loan from a shareholding company		**–**	50,000
Deferred tax liabilities		**6,676**	6,854
		8,522	58,465
Net assets		**487,992**	20,472
EQUITY			
Share capital	*12*	**345,776**	295,776
Reserves	*13*	**142,216**	(275,304)
Total equity		**487,992**	20,472

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.

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.

(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. This may include one or more statements and not a complete set of financial statements. Related notes are required for each additional statement presented.

(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.

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.

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. 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	2012
	HK$'000	*HK$'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 of which the product is shipped and location of assets, is as follows:

	Revenue	**Non-current assets** *(Note (i))*
	HK$'000	***HK$'000***
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**

	Revenue	Non-current assets *(Note (i))*
	HK$'000	*HK$'000*
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
Indonesia	816	37,964
Others	10,979	–
Total	419,758	43,698

Note:

(i) Excluding deferred tax assets.

(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	2012
	HK$'000	*HK$'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

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

4. OTHER INCOME, GAINS AND LOSSES, NET

	2013	2012
	HK$'000	*HK$'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

5. PROFIT BEFORE INCOME TAX

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

	2013	2012
	HK$'000	*HK$'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	**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	**38,186**	31,655
Research and development costs	**3,053**	1,222
Operating lease rentals in respect of land and buildings	**720**	717

6. FINANCE COSTS

	2013	2012
	HK$'000	*HK$'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

7. 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).

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

	2013	2012
	HK$'000	*HK$'000*
Hong Kong profits tax		
– under provision in prior years	**12**	751
Deferred tax credit	**(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	2012
	HK$'000	*HK$'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)

8. DIVIDENDS

The directors do not recommend any dividend in respect of the year ended 31 March 2013 (2012: Nil).

9. EARNINGS PER SHARE

	2013	2012
	HK cents	*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.

	2013	2012
Profit	***HK$'000***	*HK$'000*
Profit for the year attributable to 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	**179,625,730**	–
Weighted average number of ordinary shares for the purposes 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. 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.

10. TRADE AND OTHER RECEIVABLES, DEPOSITS AND PREPAYMENTS

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

	2013	2012
	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
	15,568	22,026

(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

	2013	2012
	HK$'000	*HK$'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	2012
	HK$'000	*HK$'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.

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

	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:

	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

(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.

11. TRADE AND OTHER PAYABLES AND ACCRUED CHARGES

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

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

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

12. SHARE CAPITAL

	Authorised			
	Convertible cumulative redeemable preference shares of US$100,000 each		**Ordinary shares of HK$0.10 each**	
	Number of shares		**Number of shares**	
		US$'000	*'000*	*HK$'000*
At 1 April 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$0.10 each**	
	Number of shares		**Number of shares**	
		US$'000	*'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

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 holders has made such subscription.

A sum of HK$76,543,000 in cash was received in the Placing, after the net of related expenses borne by the Company of approximately HK$1,452,000. The directors considered that the Placing was taken place for the purposes of raising sufficient fund for general working capital and expansion of business.

13. 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. The 2 billion new ordinary shares were allotted and issued on 2 April 2013. The net proceeds will be transferred from shares to be issued to share capital and share premium on 2 April 2013 accordingly.

CLOSURE OF REGISTER OF MEMBERS

The register of members of the Company will be closed from 19 August 2013 to 23 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 23 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 16 August 2013.

BUSINESS REVIEW AND PROSPECTS

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 our financial year ending 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 Indonesia's plentiful supply of labour would be beneficial while provides it with a stable environment so as to reduce reliance on the People's Republic of China ("PRC") in which, the 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 period ended 31 March 2013. During peak production time within FY12/13, the Group had over 2,800 employees at the Indonesian factory.

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, accounting 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% in (FY11/12: 28%), approx 9% (FY11/12: 0.4%), approx 1% (FY11/12: 3%) and approx 0.6% (FY11/12: 2.5%) respectively. Increased sales to Korean was attributable to the Group's production of a TV animation related toys boardcasted locally during year under review.

The Group has continued its efforts into developing relationships with customers which had strong electronic and plastic toy lines targeted at the lower-priced segment. The major portion 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, 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 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. Its revenue derived mainly from its own brands such as Elite Fleet, Morphibians, GoGo Auto, World of Wheels, My First RC and the recently licensed Ford GoGo Auto.

On 24 April 2012, the Company entered into the Placing Agreement pursuant to which the Company appointed the Placing Agent to procure not fewer than six Placees (who are Independent Third Parties) to subscribe for up to 500 million Placing Shares. In addition, the Company would issue unlisted Warrants, on the basis of one Warrant for each Placing Share issued, at the Issue Price of HK$0.01 per Warrant. Holders of the Warrants may exercise the subscription rights attached to the Warrants, in whole or in part, at any time during the Exercise Period to subscribe for the Subscription Shares at the Subscription Price of HK$0.15 per Subscription Share (subject to adjustment). Each Warrant carries the right to subscribe for one Subscription Share. It was expected 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, would amount 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 (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 was a good opportunity to raise capital for the Company in light of the continued uncertainties in the world markets, the Directors consider that it was 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 would also provide the Group an excellent opportunity to raise further substantial funds in the event the holders of the Warrants exercise their subscription rights attached to the Warrants at any time during the Exercise Period, of which no warrants were exercised during the year under review.

During the year under review from the net proceeds of the First Placing, 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 and 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 the shareholder's loan with the remaining amount raised applied as working capital to support the flow in the stock and accounts receivables of Kid Galaxy's OBM business and Indonesian OEM sales. The amount of approx HK$30 million was pledged to the Bank for additional trading facilities and to fully repay the remaining shareholder's loan during the year.

PLANS AND PROSPECTS

Management takes a cautious view of its 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 impact the Group's profitability.

In addition, existing OEM customers allocating 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 production to be carried out in PRC factories. Subsequent to the Group's disposal and changes in its business structure, Management foresees that its OEM Manufacturing business may be very competitive in FY13/14. As such, measures will be taken to attract OEM customers to place more orders directly with the Group, and allocate more production to the 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 our 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 market 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 production capacity to be double once the new factory is fully operational in the financial year 2014/2015.

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 credit terms 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 the future strategic direction.

In view of the above, the Directors consider that it was 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.

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 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 was raised upon completion of the Second Placing on 2 April 2013.

The raised Proceeds not only strengthen the Group's financial position, it can also equip 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 as a strategic investor of the Company. Haier Electrical Appliances Second is a wholly owned subsidiary of 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 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 in recent years due to the uncertainties and soft demand from the American and European markets.

GROUP RESOURCES AND LIQUIDITY

As at 31 March 2013, the Group's cash and bank balances were approx HK$418 million (31 March 2012: HK$7 million). The Group's total bank borrowings were approx HK$46 million (31 March 2012: HK$16 million). The gearing ratio, calculated as the total bank borrowings divided by shareholders' equity, was approx 9% (31 March 2012: 76%). As at 31 March 2013, the Group recorded total current assets of approx HK$513 million (31 March 2012: HK$104 million) and total current liabilities approx HK$65 million (31 March 2012: HK$72 million. The current ratio of the Group, calculated by dividing the total current assets by the current liabilities, was approx 786% (31 March 2012: 144%). The Group recorded an increase in shareholders' funds from approx HK$20 million as at 31 March 2012 to a net asset position of approx HK$488 million as at 31 March 2013. The increase was mainly resulting from the Placing of shares plus contributions from operations.

Overall, the Group's operations have strengthened. The financial position has improved tremendously compared to the previous reported financial periods. Barring unforeseen challenges, in the opinion of the Directors, the Group has sufficient financial resource to meet its operational and expansion needs.

SIGNIFICANT INVESTMENTS AND ACQUISITIONS

The Group did not have any significant investments or acquisitions or sales of subsidiaries during the Review Period.

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.

MODEL CODE OF SECURITIES TRANSACTIONS BY DIRECTORS

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

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.

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 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.

Under the code provision A.2.1, the roles of chairman and chief executive should be separate and should not be performed by the same individual, Mr. Leung Lun, M.H. is both the Chairman and Chief Executive of the Company throughout the period under review. 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 3 of them being Independent Non-Executive Directors.

Following the retirement of Mr. Wong Lam, O.B.E., J.P. on 30 July 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 have at least three independent non-executive Directors; 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. Rule 3.10A of the Listing Rules prescribes that a listed issuer must appoint independent non-executive directors representing at least one third of the Board. Following the appointment of Dr. Ko Peter, Ping Wah as an independent non-executive Director, one half of the Board's members consists of independent non-executive Directors.

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 2012/2013.

RELATED PARTY TRANSACTIONS

During the year, the Group had transactions and balances with related parties, some of which are also deemed to be connected parties pursuant to the Listing Rules, Besides, transactions between the Company and its subsidiaries, which are related parties of the Company, have been eliminated on consolidation and are not disclosed in this note. The significant transactions with related parties companies during the year, and balances with them at the end of reporting period, are as follows:

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

Related party relationship	Type of transaction	Transaction amount	
		2013	2012
		HK$'000	*HK$'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

AUDIT COMMITTEE

The Audit Committee of the Company comprises three independent non-executive directors, namely, Mr. Lai Yun Hung, Mr. Ye Tian Liu and Dr. Ko Peter, Ping Wah.

The principal activities of the Audit Committee of the Company 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 2013 have been reviewed by the Audit Committee.

PUBLICATION OF RESULTS ANNOUNCEMENT

This results announcement has been 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".

On behalf of the Board of
Lung Cheong International Holdings Limited
Leung Lun
Chairman

Hong Kong, 25 June 2013

As at the date of this announcement, the executive Directors are Mr. Leung Lun, M.H. (Chairman and Chief Executive), Mr. Wong, Andy Tze On and Ms. Fang Fang; and independent non-executive Directors are Mr. Ye Tian Liu, Mr. Lai Yun Hung and Dr. Ko Peter, Ping Wah.