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)

UNAUDITED INTERIM RESULTS FOR THE SIX MONTHS ENDED 30 SEPTEMBER 2013

The board of directors (the "Directors") of Lung Cheong International Holdings Limited (the "Company") is pleased to announce the unaudited condensed consolidated results of the Company and its subsidiaries (the "Group") for the six months ended 30 September 2013 together with comparative figures for the corresponding period in 2012. These interim consolidated accounts have not been audited but have been reviewed by the Company's Audit Committee.

CONDENSED CONSOLIDATED STATEMENT OF COMPREHENSIVE INCOME
For the Six Months Ended 30 September 2013

		Unaudited Six months ended 30 September	
		2013	2012
	Notes	***HK$'000***	*HK$'000*
Turnover	*2*	**118,132**	145,815
Cost of sales		**(85,469)**	(116,150)
Gross profit		**32,663**	29,665
Other income and gains, net	*2*	**6,616**	71
Selling and distribution expenses		**(12,192)**	(11,896)
General and administrative expenses		**(24,991)**	(16,677)
Operating profit		**2,096**	1,163
Finance costs	*3*	**(942)**	(878)
Profit before income tax	*4*	**1,154**	285
Income tax expense	*5*	**–**	–
Profit for the period attributable to the owners of the Company		**1,154**	285

* *For identification purposes only*

	Notes	Unaudited Six months ended 30 September **2013** ***HK$'000***	2012 *HK$'000*
Other comprehensive income for the period, net of tax:			
Items that may be subsequently reclassified to profit or loss:			
– Exchange differences arising from translation of foreign operations		**(3,719)**	(679)
– Valuation loss on available-for-sale investments		**(12,683)**	–
		(16,402)	(679)
Total comprehensive income for the period attributable to the owners of the Company		**(15,248)**	(394)
Earnings per share attributable to the owners of the Company			
– Basic and diluted	*7*	**0.02 cents**	0.01 cents

CONDENSED CONSOLIDATED STATEMENT OF FINANCIAL POSITION
As at 30 September 2013

	Notes	Unaudited 30 September 2013 HK$'000	Audited 31 March 2013 HK$'000
ASSETS AND LIABILITIES			
Non-current assets			
Property, plant and equipment	8	**50,129**	41,905
Goodwill	9	**101,781**	2,500
Intangible assets		**4,747**	–
Deferred tax assets		**4,097**	4,516
		160,754	48,921
Current assets			
Inventories		**39,112**	42,143
Trade and other receivables, deposits and prepayments	10	**56,839**	15,568
Available-for-sale investments	11	**334,870**	–
Amounts due from related companies	18	**18,189**	6,591
Tax recoverable		**1,412**	286
Restricted bank deposits		**–**	30,094
Cash and cash equivalents		**61,791**	418,175
		512,213	512,857
Current liabilities			
Trade payables	12	**7,041**	6,013
Other payables and accrued charges		**32,599**	5,859
Amounts due to related companies	18	**44,709**	7,809
Borrowings	13	**19,114**	45,583
Tax payable		**7**	–
		103,470	65,264
Net current assets		**408,743**	447,593
Total assets less current liabilities		**569,497**	496,514
Non-current liabilities			
Provision for long service payment		**1,264**	1,846
Other payable		**7,710**	–
Deferred tax liabilities		**6,676**	6,676
		15,650	8,522
Net assets		**553,847**	487,992
EQUITY			
Share capital	14	**545,776**	345,776
Reserves		**8,071**	142,216
Total equity		**553,847**	487,992

NOTES TO THE UNAUDITED CONDENSED INTERIM ACCOUNT

1. Basis of presentation and principal accounting policies

The unaudited condensed consolidated interim financial statements have been prepared in accordance with Hong Kong Accounting Standard ("HKAS") 34 "Interim Financial Reporting" issued by the Hong Kong Institute of Certified Public Accountants ("HKICPA") and with the applicable disclosure requirements of Appendix 16 of the Rules Governing the Listing of Securities ("Listing Rules") on The Stock Exchange of Hong Kong Limited. The accounting policies and basis of reparation adopted in the preparation of the interim financial statements are consistent with those used in the annual financial statements for the year ended 31 March 2013.

In the current interim period, the Group has applied, for the first time, the following new and revised standards, amendments to HKAS and new Hong Kong (IFRIC) Interpretations ("HK(IFRIC)-Int") (collectively referred to as "new and revised HKFRSs") issued by the HKICPA, which are effective for the Group's financial year beginning on 1 April 2013.

Amendments to HKFRSs	Annual Improvements 2009-2011 Cycle
Amendments to HKFRS 7	Disclosures – Offsetting Financial Assets and Financial Liabilities
Amendments to HKFRS 10, HKFRS 11 and HKFRS 12	Consolidated Financial Statements, Joint Arrangements and Disclosure of Interests in Other Entities: Transition Guidance
HKFRS 10	Consolidated Financial Statements
HKFRS 11	Joint Arrangements
HKFRS 12	Disclosure of Interests in Other Entities
HKFRS 13	Fair Value Measurement
Amendments to HKAS 1	Presentation of Items of Other Comprehensive Income
HKAS 19 (Revised 2011)	Employee Benefits
HKAS 27 (Revised 2011)	Separate Financial Statements
HKAS 28 (Revised 2011)	Investments in Associates and Joint Ventures
HK(IFRIC)-Int 20	Stripping Costs in the Production Phase of a Surface Mine

Other than as further explained below regarding the impact of amendments to HKAS 1 and HKFRS 13, the adoption of these new and revised HKFRSs had no material effect on the results of operations and financial position for the current or prior accounting periods which have been prepared and presented.

The HKAS 1 Amendments change the grouping of items presented in other comprehensive income. Items that could be reclassified (or recycled) to profit or loss at a future point in time (for example, net gain on hedge of a net investment, exchange differences on translation of foreign operations, net movement on cash flow hedges and net loss or gain on available-for-sale financial assets) would be presented separately from items which will never be reclassified (for example, actuarial gains and losses on defined benefit plans and revaluation of land and buildings). The amendments affected presentation only and had no impact on the Group's financial position or performance.

HKFRS 13 provides a precise definition of fair value and a single source of fair value measurement and disclosure requirements for use across HKFRSs. The standard does not change the circumstances in which the Group is required to use fair value, but provides guidance on how fair value should be applied where its use is already required or permitted under other HKFRSs.

The adoption of HKFRS 13 only affects disclosures on fair value measurements in the condensed consolidated interim financial statements. HKFRS 13 has been applied prospectively.

The Group has not early adopted the following new and revised HKFRSs that have been issued but are not yet effective:

Amendments to HKFRS 9 and HKFRS 7	Mandatory Effective Date of HKFRS 9 and Transition Disclosures[2]
HKFRS 9	Financial Instruments[2]
Amendments to HKAS 32	Offsetting Financial Assets and Financial Liabilities[1]

1 Effective for annual periods beginning on or after 1 January 2014.
2 Effective for annual periods beginning on or after 1 January 2015.

The Directors anticipate that the application of these new and revised HKFRSs will have no material impact on the results or financial position of the Group.

2. Turnover, other income and gains and segmental information

The Group is principally engaged in the development, engineering, manufacture and sale of toys. Turnover and revenues recognised during the period are as follows:

	Unaudited Six months ended 30 September	
	2013	2012
	HK$'000	*HK$'000*
Turnover		
Sale of goods	**118,132**	145,815
Other income and gains, net		
Interest income	**6,038**	48
Others	**578**	23
	6,616	71
Total revenues	**124,748**	145,886

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 has been managed as three business segments since the acquisition of Notton Limited in August 2013 and 深圳市致迅電器有限公司 ("Genith Shenzhen") in September 2013 as disclosed in Note 19.

(a) Information about the Group's turnover by geographical region, according to the destination of orders is as follows:

	Unaudited Six months ended 30 September **2013** *HK$'000*	2012 *HK$'000*
Turnover		
United Stated of America	**54,041**	62,784
Europe *(Note)*	**26,807**	39,890
Indonesia	**20,036**	22,201
PRC/Hong Kong	**4,488**	1,568
Australia	**526**	1,576
Japan	**318**	748
Others	**11,916**	17,048
	118,132	145,815

Note: 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 turnover by product type is as follows:

	Unaudited Six months ended 30 September **2013** *HK$'000*	2012 *HK$'000*
Radio control/wireless products	**28,245**	56,254
Electronic and plastic toys	**89,846**	89,561
Others	**41**	–
	118,132	145,815

(c) Information on major customers is as follows:

For the period ended 30 September 2013, revenue from three external customers had contributed to more than 58% of the Group's revenue amounting to approx HK$69 million. Other than these customers, there is no other customer whose revenue contributed to more than 10% of the Group's revenue.

For the period ended 30 September 2012, revenue from two external customers had contributed to more than 30% of the Group's revenue amounting to approx HK$45 million. Other than these customers, there is no other customer whose revenue contributed to more than 10% of the Group's revenue.

3. Finance costs

	Unaudited Six months ended 30 September	
	2013	2012
	HK$'000	*HK$'000*
Interest on bank loans	**942**	878

4. Profit before income tax

	Unaudited Six months ended 30 September	
	2013	2012
	HK$'000	*HK$'000*
Profit before income tax is stated after charging the following:		
Cost of inventories sold	**85,469**	116,150
Depreciation of property, plant and equipment	**1,808**	1,751

5. Income tax expense

No income tax expense has been provided as the Group has tax losses brought forward from previous years to set off the assessable profits for the period.

6. Dividends

The Directors do not recommend the payment of interim dividend for the six months ended 30 September 2013 (2012: Nil).

7. Earnings per share

	Unaudited Six months ended 30 September	
	2013	2012
	HK cents	*HK cents*
Basic earnings per share	**0.02**	0.01
Diluted earnings per share	**0.02**	n/a

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

Profit	Unaudited Six months ended 30 September **2013** ***HK$'000***	2012 *HK$'000*
Profit for the period attributable to the owners of the Company, used in the basic and diluted earnings per share calculation	**1,154**	285

	Unaudited Six months ended 30 September **2013**	2012
Number of shares		
Weighted average number of ordinary shares for the purposes of basic earnings per share	**5,435,900,074**	3,257,208,546
Effect of dilution		
– Warrants	**296,119,527**	–
Weighted average number of ordinary shares for the purposes of diluted earnings per share	**5,732,019,601**	3,257,208,546

8. Property, plant and equipment

	HK$'000
At 1 April 2013	41,905
Additions	8,882
Acquired through business acquisitions (Note 19)	2,470
Depreciation charge	(1,808)
Exchange differences	(1,320)
At 30 September 2013	50,129

9. Goodwill

	Unaudited 30 September 2013 ***HK$'000***	Audited 31 March 2013 *HK$'000*
At 1 April	**2,500**	2,500
Acquired through business acquisitions *(Note 19)*	**99,281**	–
At 30 September and 31 March	**101,781**	2,500

10. Trade and other receivables, deposits and prepayments

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

	Unaudited 30 September 2013	Audited 31 March 2013
	HK$'000	*HK$'000*
Trade receivables	**51,505**	12,290
Other receivables, deposits and prepayments	**5,334**	3,278
	56,839	15,568

The ageing analysis of the trade receivables is as follows:

	Unaudited 30 September 2013	Audited 31 March 2013
	HK$'000	*HK$'000*
0 – 90 days	**50,021**	12,158
91 – 180 days	**1,205**	131
181 – 365 days	**260**	1
Over 365 days	**19**	–
	51,505	12,290

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

11. Available-for-sale investments

	Unaudited 30 September 2013	Audited 31 March 2013
	HK$'000	*HK$'000*
Debt securities		
– Listed in Hong Kong	**297,680**	–
– Listed outside Hong Kong	**37,190**	–
	334,870	–

12. Trade payables

The ageing analysis of the trade payables is as follows:

	Unaudited 30 September 2013 *HK$'000*	Audited 31 March 2013 *HK$'000*
0 – 90 days	**6,890**	6,004
91 – 180 days	**23**	9
181 – 365 days	**108**	–
Over 365 days	**20**	–
	7,041	6,013

13. Borrowings

The borrowings secured by the Group's land and buildings situated in Indonesia. Borrowings were repayable on demand or within one year as at the date of statement of financial position.

14. Share capital

	Authorised			
	Convertible cumulative redeemable preference shares of US$100,000 each		**Ordinary shares of HK$0.10 each**	
	Number of shares	*US$'000*	*Number of shares '000*	*HK$'000*
At 31 March and 30 September 2013	40	4,000	10,000,000	1,000,000

	Issued and fully paid			
	Convertible cumulative redeemable preference shares of US$100,000 each		**Ordinary shares of HK$0.10 each**	
	Number of shares	*US$'000*	*Number of shares '000*	*HK$'000*
At 31 March and 1 April 2013	–	–	3,457,758	345,776
Placing of new shares *(note)*	–	–	2,000,000	200,000
At 30 September 2013	–	–	5,457,758	545,776

Note:

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

A sum of HK$389,216,000 in cash (net as related expenses borned by the Company of approximately HK$10,784,000) has been raised in the Placing. The Placing was arranged for the purpose of raising sufficient fund for general working capital and the net of related expenses borned by the Company of approximately HK$10,784,000. The directors considered that the Placing was taken place for the purposes of raising sufficient fund for general working capital and expansion of business.

15. Contingent liabilities

As 30 September 2013 and 31 March 2013, the Group had no contingent liabilities.

16. Commitments

(a) Capital commitments

At 30 September 2013, the Group had the following significant capital commitments:

Authorised but not contracted for

	Unaudited 30 September 2013	Audited 31 March 2013
	HK$'000	*HK$'000*
Acquisition of property, plant and equipment	**2,574**	5,887

(b) Operating leases commitments

At 30 September 2013, the Group had future aggregate minimum lease payments under non-cancellable operating leases in respect of office premises as follows:

	Unaudited 30 September 2013	Audited 31 March 2013
	HK$'000	*HK$'000*
Not later than one year	**5,311**	280
Later than one year but not later than five years	**2,127**	383
	7,438	663

17. Share Option Scheme

The Company operates a share option scheme (the "Scheme") for the purpose of providing incentives and rewards to eligible participants who contribute to the success of the Group's operation. The Scheme, which was adopted by an ordinary resolution of the shareholders on 14 September 2012, constitutes a share option scheme governed by Chapter 17 of the Listing Rules.

Under the Scheme, share options can be exercised at any time during the periods to be determined and notified by the Directors to the grantees at the time of making offers to grant share options to them, provided that such periods shall not exceed the period of ten years from the date of grant. The scheme mandate limit of the Scheme was approved by an ordinary resolution passed in the extraordinary general meeting ("EGM") of the Company held on 14 September 2012, the maximum number of shares available for issue under the Scheme is 345,775,799, representing 10% of the issued ordinary share capital of the Company as at the date of the said EGM, 14 September 2012 and thereafter. The subscription price for the shares under the Scheme shall be a price determined by the Directors at their discretion, provided that it shall not be less than the highest of (i) the closing price of the shares stated in the daily quotation sheets of the Stock Exchange of Hong Kong Limited ("Stock Exchange") on the date of grant; (ii) the average closing price of the shares stated in the Stock Exchange's daily quotation sheets for the five business days immediately preceding the date of grant of share options. A nominal consideration HK$1.00 is payable for each of the share option granted.

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

18. Related party transactions

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

(a)

	Unaudited Six months ended 30 September	
	2013	2012
	HK$'000	*HK$'000*
Purchases from related companies controlled by a director's close family members	**29,990**	81,144

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

19. Business acquisitions during the period

The following table summarises the considerations paid for business acquisitions completed in the current period, and the amounts of the assets acquired and liabilities assumed recognised at the respective acquisition date:

	Notton Limited	**Genith Shenzhen**	**Total**
	Note (a)	*Note (b)*	
	HK$'000	*HK$'000*	*HK$'000*
Property, plant and equipment	2,215	255	2,470
Intangible assets	4,708	–	4,708
Inventories	3,166	2,166	5,332
Trade and other receivables, deposits and prepayment	909	4,156	5,065
Tax recoverable	404	514	918
Trade payables	(172)	(341)	(513)
Other payables and accrued charges	(1,689)	(9,768)	(11,457)
Amounts due to related companies	(38)	–	(38)
	9,503	(3,018)	6,485
Non-controlling interests	–	1,113	1,113
	9,503	(1,905)	7,598
Goodwill arising on acquisition	94,935	4,346	99,281
Total consideration	104,438	2,441	106,879
Satisfied by:			
– Cash consideration	7,019	2,441	9,460
– Contingent consideration			
– Cash	15,419	–	15,419
– Ordinary share	82,000	–	82,000
	104,438	2,441	106,879
Cash flow			
Cash payment	8,000	3,188	11,188
Cash and cash equivalent acquired	(981)	(747)	(1,728)
Net cash outflow arising from acquisition	7,019	2,441	9,460

a) Acquisition of Notton Limited

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

As at the date of these financial statements, the Group has not finalised the fair value assessments for the identifiable assets acquired and liabilities assumed relating to the acquisition. The relevant fair values of net assets acquired stated above are on a provisional basis.

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

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

The fair value of the shares to be issued was determined by reference to their quoted market price of HK$0.41 at the date of acquisition.

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

The contribution to the Group's revenue and profits after tax since the date of acquisition is immaterial.

b) Acquisition of Genith Shenzhen

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

As at the date of these financial statements, the Group has not finalised the fair value assessments for the identifiable assets acquired and liabilities assumed relating to the acquisition. The relevant fair values of net assets acquired stated above are on a provisional basis.

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

The contribution to the Group's revenue and profits after tax since the date of acquisition is immaterial.

INTERIM DIVIDEND

The Directors do not recommend the payment of an interim dividend for the six months ended 30 September 2013 (2012: Nil).

RESULTS, BUSINESS REVIEW AND PROSPECTS

Results

For the period ended 30 September 2013 (the "Period"), the Group's turnover decreased by approximately ("approx") 19% to approx HK$118 million, compared with approx HK$146 million for the period ended 30 September 2012 (the "Corresponding Period"). Gross profit margin for the Period was approx 28% compared to approx 20% in the Corresponding Period. Overall, profit attributable to owners of the Company was approx HK$1.1 million compared with a profit of approx HK$285,000 in the Corresponding Period.

Business Review

The Group recorded a slight increase in profit for the six months ended 30 September 2013 as compared to the profit recorded by the Group for the six months ended 30 September 2012. The increase in consolidated profit was primarily attributable to interest income from the Group's available-for-sale investments and bank deposits of approx HK$6 million for the six months ended 30 September 2013 which did not occur for the same period in previous year.

For our new financial year ending 31 March 2014 ("FY13/14"), the Group's core business are its Kid Galaxy Original Brand Manufacturing ("OBM") business and Original Equipment Manufacturing ("OEM") business, with the Indonesian factory becoming its primary production base. The Directors and senior executives ("Management") believes Indonesia's plentiful supply of labour continued to be beneficial and provides the Group with a stable environment to reduce its reliance on the People's Republic of China ("PRC") manufacturing support over time. The purchases from related PRC factories have been reduced from approx HK$81 million to approx HK$30 million during the comparative periods under review. Turnover of the Group's manufacturing plant in Indonesia decreased slightly from approx HK$63 million for the Corresponding Period to approx HK$61 million, and accounted for approx 51% (2012: 43%) of Group's turnover for the period ended 30 September 2013. During peak production time within the Period, the Group had over 1,600 employees at the Indonesian factory. However, weakness of the Rupiah has resulted in exchange loss of approx HK$4 million during the Period under review.

In addition to a challenging market environment in FY13/14, the Group had to compete to preserve its OEM customers without a PRC manufacturing base and to rely on its Indonesian production facilities. Overall, the Group's turnover recorded a decrease as certain customers opted to place orders 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 28% compared with approx 20% in the Corresponding Period.

During the six months ended 30 September 2013, the Group's major export destinations were the United States of America ("US"), Europe and Indonesia. US continued to be the largest export destinations for the Group, accounting for approx 46% of total turnover the Period (2012: 43%). Other significant overseas markets for the Group during the Period included Europe which accounted for approx 23% (2012: 27%) lower due to the region's economic uncertainties. Indonesia accounted for approx 17% (2012: 15%) of the local delivery to one of our major customer for electronic components of their major products which eventually destined for European and other markets.

The Group's continued its efforts into developing relationships with customers who had strong electronic and plastic toy lines targeted at the median-priced segment. The major portion shipped were less complex, medium priced electronic and plastic products during six months ended 30 September 2013, increased to approx 76% of sales (2012: 61%). Shipment of radio control ("R/C") toys were weaker, the Group's R/C toy business segment accounted for approx 24% of total sales for the six months ended 30 September 2013, lower than the approx 39% recorded in this segment as compared with that in the Corresponding Period. Due to the economic uncertainties affecting consumers worldwide, there were fewer sales of premium priced items. However, amid the uncertain business environment, the Group's operations contributed approx HK$2 million in operating profit for six months ended 30 September 2013 (2012: HK$1 million).

During the Period, Kid Galaxy enriched its product mix with new product lines receiving an encouraging market response. It has launched several new product lines during the Period as a result of our strong development efforts. The Group has also actively expanded its distribution channels in the US but faced difficulties in the much weaker European markets. Kid Galaxy continued to increase its presence at exhibitions and open new sales channels such as clubs, Television Sales networks, Internet and chain stores. In spite of the marketing programs for Kid Galaxy branded products in place, the turnover of Kid Galaxy OBM sales has decreased to approx HK$57 million, compared with approx HK$77 million for the Corresponding Period.

The Directors considered that the Hong Kong active financial market was a good opportunity to raise capital for the Company in light of the continued uncertainties in the world markets. The Directors considered that it was prudent for the Group to conduct Placings 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.

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 have already been set out in the Company's announcements dated 19 November 2012 and the circular of the Company dated 26 February 2013 (the "2013 Placing"). Pursuant to the Listing Rules, the 2013 Placing was approved by the Independent Shareholders at the Company's EGM held on 14 March 2013. All conditions precedent to the 2013 Placing as set out in the Placing Agreement has been fulfilled and net proceeds of approx HK$389 million has been raised upon completion of the 2013 Placing on 2 April 2013.

The Proceeds not only strengthen the Group's financial position, it also helps the Group to make prompt response to any merger and acquisition opportunity which is beneficial to the Group as a whole. Furthermore, the Placing Agent has procured Haier Electrical Appliances Second Holdings (BVI) Limited ("Haier Electrical Appliances Second") as a strategic investor of the Company. Haier Electrical Appliances Second is a wholly owned subsidiary of Qingdao Haier Investment and Development Co., Ltd. ("Haier Investment") which is one of the major investment companies within Haier Group of companies. Founded in 1984, the Haier Group of companies is headquartered in Qingdao, Shandong Province, the PRC and is one of the world's leading white goods home appliance manufacturers. The products of the Haier Group are sold in over 100 countries. The Directors are of the opinion that by inviting Haier Electrical Appliances Second as a strategic investor, the Group can draw on the successful experience of the Haier Group of companies in particular, in building up a wellknown worldwide brand name and efficient manufacturing management and worldwide distribution channel, and to improve its business strategy towards the competitive toy manufacturing industry.

References are made to the circular of the Company dated 16 May 2012 (the "2012 Placing Circular") in respect of the placing of 500,000,000 new shares with warrants attached under the specific mandate (the "2012 Placing") and the circular of the Company dated 26 February 2013 (the "2013 Placing Circular") in respect of the placing of 2,000,000,000 new shares under the specific mandate (the "2013 Placing"), which together with the 2012 Placing Circular referred to as (the "Placing Circulars"). Unless defined otherwise, capitalized terms used herein shall have the same meanings as those defined in the Placing Circulars.

The Company set out below the update on the use of proceeds from the 2012 Placing and the 2013 Placing (the "Placings").

Placing and Net proceeds	Intended use of proceeds as announced	Actual use of proceeds
The 2012 Placing Approximately HK$77 million	(a) Approximately HK$23 million will be used for the construction of new production facilities on existing vacant industrial land, upgrading and improvement of existing facilities of the Group.	Approximately HK$13 million has been applied on replacing old equipment with new equipment and construction of a new factory/ warehouse building in Indonesia. The balance has been temporarily used to finance the growth in stock and account receivables of the Group's Indonesian operations and OEM business. Therefore, funds would be diverted back to its original plan when sufficient resources or credit facilities to support the coming growth in sales inclusive of stock and account receivables are in place.
	(b) Approximately HK$15 million will be used to promote and market the Group's newly developed products, invest into research and develop more innovative electronic and high-tech consumer products.	Approximately HK$9 million has been applied to new product development, marketing and promotion as well as new testing requirements of the OBM business with the remaining has been temporarily utilized for financing the stock and accounts receivables of Kid Galaxy's OBM business. Funds would be diverted back to its original intended use when sufficient resources and credit facilities are in place to support the current growth in stock and account receivables as a result of sales increase.
	(c) Approximately HK$15 million will be used for settling the bank borrowings of the Group.	Used as intended and the Group's bank borrowings has been repaid.
	(d) Approximately HK$24 million will be used for working capital for the existing business of the Company	Approximately HK$20 million has been used to repay shareholder's loan and the remaining was used for working capital for the existing business of the Group.

As mentioned above, the Company's use of certain proceeds from the 2012 Placing are temporary measures during the interim period and the Company will stick to its intended use of proceeds as disclosed in the 2012 Placing Circular.

Placing and Net proceeds	Intended use of proceeds as announced	Actual use of proceeds
The 2013 Placing Approximately HK$388 million	(a) Approximately HK$5 million will be used for the feasibility study of using the Company's current manufacturing and operation facilities or to expand and upgrade the current facilities in Indonesia (if necessary); approximately HK$75 million will be used for carrying out the suggestion made in the feasibility study	Approximately HK$500,000 has been used for the feasibility study
	(b) (i) approximately HK$5 million will be used for performing a detail strategic review of the Company's operation; (ii) approximately HK$5 million will be used for the research and development of new lines of products and/or the related brand building or acquisitions, sales, marketing and promotion; (iii) approximately HK$60 million will be used for the possible acquisition of new product lines;	Approximately HK$800,000 has been used for performing a detail strategic review of the Company's operation. Approximately HK$7.8 million has been used to set up a company, which is principally engaged in consumer electronic products; and approximately HK$12.7 million has been used to acquire 51% share interest in a company, which is principally engaged in the research and development, marketing & distribution of baby appliances in the People's Republic of China. The Directors believe that the business segment of baby appliances can complement the Group's existing business while further expand the Group's income base and add value to the shareholders of the Company.
	(c) approximately HK$150 million will be used for possible acquisitions	Approximately HK$8 million has been paid as part of the consideration for the acquisition of Notton Limited
	(d) approximately HK$88 million will be used for the working capital of the Group, of which approximately HK$50 million will be used to support the increase in stock to cope with the organic growth of the business of the Company and the balance of approximately HK$38 million will be used for carrying out the plan as described in (a), (b) or possible acquisition in (c) above.	Approximately HK$7 million has been used for the working capital of the Group.

As disclosed in the announcement of the Company dated 31 May 2013, the Company placed approx HK$350 million in its private banking account with a Swiss Based banking institute and approx HK$344 million has been applied in investing in high yield bonds issued by listed issuers in the open bond market. The Company's investment in the bond market is merely a temporary cash management exercise during the interim period and the Management has been liquidating the bond portfolio at proper price recently, as at the date of this announcement, of the HK$350 million we originally placed in the bank, approx HK$70 million is in form of cash, and approx HK$286 million is in form of bond.

The Company will stick to the intended use of proceeds as disclosed in the 2013 Placing Circular. As at 30 September 2013, the Group had approx HK$12.6 million non-cash valuation loss on available-for-sale investments as shown in our condensed consolidated statement of comprehensive income. However, as at the end of 30 October 2013, this marked to market loss narrowed to approx HK$8 million. Management will continue to closely monitor and carefully manage the investments.

During the period ended 30 September 2013, the Group recorded approx HK$7 million in other income. Among which, approx HK$6 million was coupon income from investment in the bond market. We would expect more coupon revenue in the second half of FY13/14.

During the Period the Group acquired Notton Limited and its wholly-owned subsidiary Era Creation Technology Limited ("Era Creation"). Era Creation holds the entire equity interest in 青島瑞迪燃氣具製造有限公司 ("Qingdao Ruidi"), which is engaged in research, development, manufacturing and sale of commercial and residential gas cooking appliances in the PRC. Qingdao Ruidi also owns several intellectual property rights in respect of advanced technologies in the area of environment friendly gas cooking appliances. The total consideration for the acquisition is HK$84 million, with reference to profit guarantee for both 2014 and 2015. The Group paid the first cash installment of HK$8 million as scheduled after the acquisition closed in late August 2013 and expect to settle the second payment (HK$8 million in form of cash and 100,000,000 ordinary shares of the Company) if the 2014 profit guarantee (HK$11 million) is met. Moreover, the Group expects to settle the third payment (HK$8 million in form of cash and 100,000,000 ordinary shares of the Company) if the 2015 profit guarantee (HK$21 million) is met.

The balance of intangible asset consists mainly of intellectual properties and trademarks for Qingdao Ruidi by the end of 30 September 2013 was approx HK$5 million. The intangible asset has been valued at cost basis and Management plans to conduct revaluation by the end of FY13/14 and periodically thereafter. This acquisition resulted an increase in goodwill of approx HK$95 million.

Since the completion of acquisition on 19 August 2013, the Group has optimized the management structure, upgraded the manufacturing technology, integrated and expanded sales channels of Qingdao Ruidi. The overall operational efficiency has been remarkably improved. However due to a short period of ownership since acquisition, Qingdao Ruidi generated a small loss during the period under review.

During the Period the Group set up a Wholly Foreign-Owned Enterprise ("WOFE") to invest primaily in the PRC consumer electronic and childcare products. At the end of September 2013, the Group used this WOFE to acquire 51% share interest in a PRC company namely Brillante Shenzhen which is principally engaged in the research and development, marketing and distribution of baby appliances in Mainland China. This acquisition has resulted in an increase in goodwill of approx HK$4 million.

PLANS AND PROSPECTS

Management takes a cautious view of its business in FY13/14. 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 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 have an adverse impact on the Group's profitability.

In addition, existing OEM customers may place orders directly with competitors with factories in Vietnam or prefer production to be carried out in PRC factories. Subsequent to the Group's disposal of its PRC manufacturing segment and changes in its business structure, Management foresees that the Group's total sales and turnover may continue to be affected in FY13/14. As such, measures have already been adopted to attract OEM customers to place more orders directly with the Group, and allocate more production to the Indonesia factory.

The Group's production base in Indonesia currently enjoys favorable advantages over PRC with plentiful supply of labour. The Group looks forward to optimistic growth in its Indonesian plant and enlarges its production capacity as the Group foresees there is sustainable positive environment. Management remains confident in the Group's ability to seize this unique opportunity to consolidate its manufacturing position amid the exit of weaker players. Construction of additional factory building of our Indonesia production facilities has commenced since the first half of FY13/14 and are expected to be completed in the third quarter of FY13/14. Management expects the production capacity to double once the new factory becomes fully operational in the financial year 2014/2015.

However the Group needs to streamline the production efficiency of its Indonesian plant to lower the overall manufacturing overhead, sourcing and administrative costs. In addition, new measures have already been adopted to enhance productivity. These measures include replacing machines of low efficiency and high maintenance cost, streamlining workflow, revising work practices and parameters, and exploring opportunities with the view to fully utilise 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 for the country in 2014.

The Group believes in the importance of investing a portion of its working capital in business development. Ongoing financial resources are being allocated to the development of business with leading OEM brands as well as our OBM sales distribution and network. We continue to focus our 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 finished products under the Kid Galaxy brands. These plans can now be carried out effectively with additional funds from the Placing of shares completed during the Period.

In addition, environmental protection and energy saving are one of the primary tasks for the Chinese government in the next five years. Management clearly sees this direction and acquired Qingdao Ruidi during the Period. Qingdao Ruidi which owns proprietary technology in the gas cooking appliances industry with several intellectual property rights, not only save large amount of energy, but also managed to minimize the exhaust emission during cooking. Management is optimistic that this will be a trend with long-term prospects.

Furthermore, after the acquisition, the Group conducted further research and assessment on PRC commercial kitchen market as a whole and believed that the Qingdao Ruidi is well positioned as a total solution service provider for commercial kitchen as we can produce proprietary energy-saving gas cooking appliances, which are the most important component for commercial kitchen. Qingdao Ruidi recently launched this business and has already obtained some orders. Management is confident about the future of this business and we believe it will further strengthen the revenue resources of the Group while generating material earnings.

Baby appliances is an emerging sub-market for consumer electronic products lately, which has been growing rapidly. Different from normal consumer electronic products, customers in particular parents set high demands on safety and quality for baby appliances. Management believes that our decades of experience in baby toy industry prepared us well for this new development. Moreover, the recent easing of one-child policy provides more catalysts and we believe the PRC baby appliance market is greatly under-penetrated. The Management is very optimistic that Brillante's new product lines can complement the Group's existing business while further expand the Group's income base and add value to the shareholders of the Group.

The Group's investment in the bond market is merely a temporary cash management exercise during the interim period. The Management has started to trim the bond portfolio in the beginning the Second half of FY13/14 and the Group will stick to the intended use of proceeds as disclosed in the 2013 Placing Circular dated 26 February 2013.

Looking forward, the Group will focus on the research and development of more OBM products and the expansion of marketing tactics for Qingdao Ruidi commercial kitchen, Brillante baby appliances and Kid Galaxy products to establish a solid foundation for future development. Management will actively look into all possibilities of selective mergers, acquisitions and divestments to further reduce the Group's reliance on primarily Kid Galaxy OBM and Indonesian OEM income streams so as to seek alternate sources of revenue from new ventures to add value to shareholders. During the Period, the Company has been actively engaged in negotiations of different possible investment and acquisition opportunities for the Group's future development.

GROUP RESOURCES AND LIQUIDITY

As at 30 September 2013, the Group's cash and bank balances were approx HK$62 million (31 March 2013: HK$418 million). The Group's total borrowings were approx HK$19 million (31 March 2013: HK$46 million). The gearing ratio, calculated as the total borrowings divided by shareholders' equity, was 4% (31 March 2013: 9%). As at 30 September 2013, the Group recorded total current assets of approx HK$512 million (31 March 2013: HK$513 million) and total current liabilities approx HK$103 million (31 March 2013: HK$65 million. The current ratio of the Group, calculated by dividing the total current assets by the current liabilities, was approx 495% (31 March 2013: 786%). The Group recorded a rigor increase in equity from approx HK$488 million as at 31 March 2013 to a net asset position of approx HK$554 million as at 30 September 2013. The increase was mainly resulting from the goodwill arising from recent acquisitions.

Inventories recorded a decrease of approx 7% compared to previous year end date of 31 March 2013 and the value of stock in warehouse decreased from approx HK$42 million as at 31 March 2013 to approx HK$39 million as at 30 September 2013. These are finished goods and materials held mainly in our Indonesian factory and by an independently managed warehouse in the US.

In line with the peak season shipments of both the Indonesian factory and Kid Galaxy's OBM business, trade receivables recorded an approx 3.8 times increase as at 30 September 2013 to approx HK$58 million, compared with approx HK$13 million as at 31 March 2013.

Overall, the Group's operations have strengthened. The financial position has improved vastly 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 normal operational and expansion needs.

EMPLOYEES

As at 30 September 2013, the Group had approx 1,169 employees and contract workers based in Hong Kong headquarters, Macau office, PRC factory, 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.

PURCHASE, SALE OR REDEMPTION OF LISTED SECURITIES

Neither the Company, nor any of its subsidiaries purchased, redeemed or sold any of the Company's listed securities throughout the accounting period covered by the interim report. As at 28 November 2013, 100 million shares were issued by the Company on exercise of subscription rights under the warrants.

CODE ON CORPORATE GOVERNANCE PRACTICES

In the opinion of the Directors, the Company has complied with the code provisions as set out in Appendix 14 of the Listing Rules throughout the accounting period covered by the interim report 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 considers that such an arrangement will not impair the balance of power and authority between the Board and the management of the Company.

MODEL CODE FOR SECURITIES TRANSACTIONS

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

AUDIT COMMITTEE

The Company has an audit committee in compliance with Rule 3.21 of the Listing Rules for the purpose of reviewing and providing supervision over the Group's financial reporting process including a review of the unaudited condensed interim financial statements for the six months ended 30 September 2013, this interim report and the Group's internal controls.

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".

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

28 November 2013

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