



LUNG CHEONG
INTERNATIONAL HOLDINGS LIMITED
(Incorporated in the Cayman Islands with limited liability)
Stock Code: 348

2011/12 Interim Report

CORPORATE INFORMATION

Executive Directors

Mr Leung Lun (*Chairman and Chief Executive*)
Mr Wong, Andy Tze On

Independent Non-executive Directors

Mr Wong Lam, O.B.E., J.P.
Mr Ye Tian Liu
Mr Lai Yun Hung

Company Secretary

Mr Mak Yee Chuen, Vincent

Auditor

BDO Limited
25/F Wing On Centre
111 Connaught Road Central
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Legal Advisers on Cayman Islands Law

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53/F The Center
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Legal Advisers on Hong Kong Law

D.S. Cheung & Co. Solicitors
29/F
Bank of East Asia Harbour View Centre
56 Gloucester Road
Wanchai
Hong Kong

Listing Information

The Stock Exchange of Hong Kong Limited
Stock Code: 348

Registered Office

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Head Office and Principal Place of Business in Hong Kong

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Principal Share Registrar and Transfer Office

HSBC Trustee (Cayman) Limited
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Hong Kong Branch Share Registrar and Transfer Office

Tricor Abacus Limited
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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 2011 together with comparative figures for the corresponding period in 2010. 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 2011

		Unaudited Six months ended 30 September	
	Notes	2011 HK\$'000	2010 HK\$'000
Turnover	2	316,975	313,150
Cost of sales		(262,182)	(263,210)
Gross profit		54,793	49,940
Other income and gains, net	2	788	2,373
Selling and distribution expenses		(17,108)	(20,257)
General and administrative expenses		(34,378)	(75,085)
Impairment of goodwill		(9,620)	–
Gain on disposal of subsidiaries	15	92,049	–
Operating profit/(loss)		86,524	(43,029)
Finance costs	3	(1,397)	(8,270)
Profit/(loss) before income tax	4	85,127	(51,299)
Income tax expense	5	–	–
Profit/(loss) for the period attributable to owners of the Company		85,127	(51,299)
Other comprehensive income for the period, net of tax:			
– Exchange differences arising from translation of foreign operations		(387)	4,985
– Release of exchange fluctuation reserve arising from disposal of subsidiaries		(66,918)	–
		(67,305)	4,985
Total comprehensive income for the period attributable to owners of the Company, net of tax		17,822	(46,314)
Earnings/(loss) per share attributable to owners of the Company			
– Basic and diluted	7	2.88 cents	(1.73) cents

CONDENSED CONSOLIDATED STATEMENT OF FINANCIAL POSITION

As at 30 September 2011

	Notes	Unaudited 30 September 2011 HK\$'000	Audited 31 March 2011 HK\$'000
ASSETS AND LIABILITIES			
Non-current assets			
Land and buildings	8	17,981	17,533
Property, plant and equipment	9	8,178	9,067
Goodwill		9,620	19,240
Deferred tax assets		1,700	1,694
		37,479	47,534
Current assets			
Inventories		26,344	28,661
Trade and other receivables, deposits and prepayments	10	74,046	41,059
Amounts due from related companies	17	6,355	–
Tax recoverable		171	151
Cash and cash equivalents		10,651	13,723
		117,567	83,594
Assets of a disposal group classified as held for sale		–	351,294
		117,567	434,888
Current liabilities			
Trade payables	11	8,151	1,327
Other payables and accrued charges		12,583	15,601
Amounts due to related companies	17	47,997	–
Obligations under finance leases		1,932	3,721
Borrowings	12	15,240	18,190
Tax payable		10	3
		85,913	38,842
Liabilities of a disposal group classified as held for sale		–	391,772
		85,913	430,614
Net current assets		31,654	4,274
Total assets less current liabilities		69,133	51,808

	Notes	Unaudited 30 September 2011 HK\$'000	Audited 31 March 2011 HK\$'000
Non-current liabilities			
Obligations under finance leases		-	604
Provision for long service payment		1,593	1,683
Loan from immediate holding company	17	50,000	50,000
Deferred tax liabilities		2,586	2,389
		54,179	54,676
Net assets/(liabilities)			
		14,954	(2,868)
EQUITY			
Share capital		295,776	295,776
Reserves		(280,822)	(298,644)
Total equity/(deficit)			
		14,954	(2,868)

CONDENSED CONSOLIDATED STATEMENT OF CASH FLOWS

For the Six Months Ended 30 September 2011

	Unaudited	
	Six months ended	
	30 September	
	2011	2010
	HK\$'000	HK\$'000
Net cash inflow/(outflow) from operating activities	10,697	(17,210)
Net cash outflow from investing activities	(39,002)	(4,061)
Net cash (outflow)/inflow from financing activities	(6,739)	28,916
Net (decrease)/increase in cash and cash equivalents	(35,044)	7,645
Cash and cash equivalents at 1 April	45,828	43,858
Effect on foreign exchange rate changes	(133)	4,506
Cash and cash equivalents at 30 September	10,651	56,009
Bank balances and cash at 30 September	10,651	56,009
Analysis of cash and cash equivalents at 1 April		
Bank balances and cash	13,723	43,858
Bank balances and cash attributable to a discontinued operation	32,105	–
	45,828	43,858

CONDENSED CONSOLIDATED STATEMENT OF CHANGES IN EQUITY

For the Six Months Ended 30 September 2011

	Unaudited						
	Share capital HK\$'000	Share premium HK\$'000	Exchange fluctuation reserve HK\$'000	Capital reserve HK\$'000	Land and buildings revaluation reserve HK\$'000	Accumulated losses HK\$'000	Total equity/ (deficit) HK\$'000
At 1 April 2011	295,776	37,657	39,950	28,840	17,987	(423,078)	(2,868)
Release of exchange fluctuation reserve arising from disposal of subsidiaries	-	-	(66,918)	-	-	-	(66,918)
Exchange difference arising from translation of foreign operations	-	-	(387)	-	-	-	(387)
Profit for the period	-	-	-	-	-	85,127	85,127
	-	-	(67,305)	-	-	85,127	17,822
Transfer of reverses on disposal of subsidiaries	-	-	-	(28,840)	(2,441)	31,281	-
At 30 September 2011	295,776	37,657	(27,355)	-	15,546	(306,670)	14,954

	Unaudited						
	Share capital HK\$'000	Share premium HK\$'000	Exchange fluctuation reserve HK\$'000	Capital reserve HK\$'000	Land and buildings revaluation reserve HK\$'000	Accumulated losses HK\$'000	Total equity/ (deficit) HK\$'000
At 1 April 2010	295,776	37,657	38,894	28,840	25,506	(225,574)	201,099
Exchange difference arising from translation of foreign operations	-	-	4,985	-	-	-	4,985
Loss for the period	-	-	-	-	-	(51,299)	(51,299)
At 30 September 2010	295,776	37,657	43,879	28,840	25,506	(276,873)	154,785

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 preparation 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 2011.

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 2011.

HKFRSs (Amendments)	Improvements to HKFRSs
Amendments to HKFRS 2	Share-based Payment – Group Cash-settled Share-based Payment Transactions
HKAS 27 (Revised)	Consolidated and Separate Financial Statements
Amendments to HKAS 32	Classification of Rights Issues
HKFRS 3 (Revised)	Business Combinations
HK(IFRIC) – Interpretation 17	Distributions of Non-cash Assets to Owners
HK Interpretation 5	Presentation of Financial Statements – Classification by Borrower of a Term Loan that Contains a Repayment on Demand Clause
HKAS 24 (Revised)	Related Party Disclosures
HKAS 32 (Amendment)	Classification of Rights Issues
HK(IFRIC) – Interpretation 14 (Amendment)	Prepayments of a Minimum Funding Requirement
HK(IFRIC) – Interpretation 19	Extinguishing Financial Liabilities with Equity Instruments

The application of these new and revised HKFRSs had no effect on the condensed consolidated financial statements of the Group for the current or prior accounting periods.

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

HKFRS 1 (Amendment)	Severe Hyperinflation and Removal of Fixed Dates for First-time Adopters ¹
HKFRS 7 (Amendments)	Disclosures – Transfers of Financial Assets ¹
HKFRS 9	Financial Instruments ⁴
HKFRS 10	Consolidated Financial Statements ⁴
HKFRS 11	Joint Arrangements ⁴
HKFRS 12	Disclosure of Interests in Other Entities ⁴
HKFRS 13	Fair Value Measurement ⁴
HKAS 1 (Amendments)	Presentation of Financial Statements ³
HKAS 12 (Amendments)	Deferred Tax: Recovery of Underlying Assets ²
HKAS 19 (Revised 2011)	Employee Benefits ⁴

¹ Effective for annual periods beginning on or after 1 July 2011

² Effective for annual periods beginning on or after 1 January 2012

³ Effective for annual periods beginning on or after 1 July 2012

⁴ Effective for annual periods beginning on or after 1 January 2013

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, moulds and materials.

Turnover and revenues recognised during the period are as follows:

	Unaudited Six months ended 30 September	
	2011 HK\$'000	2010 HK\$'000
Turnover		
Sale of goods	312,422	308,058
Sale of moulds and materials	4,553	5,092
	316,975	313,150
Other income and gains, net		
Interest income	2	138
Others	786	2,235
	788	2,373
Total revenues	317,763	315,523

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 turnover by geographical region, according to the destination of orders is as follows:

	Unaudited Six months ended 30 September	
	2011 HK\$'000	2010 HK\$'000
Turnover		
North America	181,763	155,257
Europe	80,625	83,504
Mainland China	11,857	17,079
Indonesia	9,363	8,243
Japan	8,700	15,304
Hong Kong	1,145	18,686
Others	23,522	15,077
	316,975	313,150

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

	Unaudited Six months ended 30 September	
	2011 HK\$'000	2010 HK\$'000
Radio control/wireless products	73,928	118,988
Electronic and plastic toys	230,547	183,909
Consumer electronic products	12,500	10,253
	316,975	313,150

c) Information on major customers is as follows:

For the period ended 30 September 2011, revenue from four external customers had contributed to more than 73 % of the Group's revenue amounting to HK\$231,455,000. 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 2010, revenue from three external customers had contributed to more than 58% of the Group's revenue amounting to HK\$182,574,000. 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	
	2011 HK\$'000	2010 HK\$'000
Interest on loans	1,397	7,745
Arrangement fees	-	525
	1,397	8,270

4. Profit/(loss) before income tax

	Unaudited Six months ended 30 September	
	2011 HK\$'000	2010 HK\$'000
Profit/(loss) before income tax is stated after charging the following:		
Cost of inventories sold	262,182	263,210
Depreciation of property, plant and equipment	1,980	13,763
Amortisation of land and buildings	72	710

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 (2010: Nil).

6. **Dividends**

The Directors do not recommend the payment of interim dividend for the six months ended 30 September 2011 (2010: Nil).

7. **Earnings/(loss) per share**

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

	Unaudited Six months ended 30 September	
	2011 HK\$'000	2010 HK\$'000
Profit/(loss) attributable to owners of the Company	85,127	(51,299)
Weighted average number of ordinary shares in issue	2,957,757,997	2,957,757,997
Basic earnings/(loss) per share (HK cents)	2.88	(1.73)

The diluted earnings/(loss) per share for the six months ended 30 September 2011 and the six months ended 30 September 2010 were the same as basic earnings/(loss) per share as there was no diluting event existed during the periods.

8. **Land and buildings**

	HK\$'000
At 1 April 2011	17,533
Additions	554
Depreciation charge	(72)
Exchange differences	(34)
At 30 September 2011	17,981

9. **Property, plant and equipment**

	HK\$'000
At 1 April 2011	9,067
Additions	1,134
Depreciation charge	(1,980)
Exchange differences	(43)
At 30 September 2011	8,178

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 2011 HK\$'000	Audited 31 March 2011 HK\$'000
Trade receivables	70,894	38,495
Other receivables, deposits and prepayments	3,152	2,564
	74,046	41,059

The ageing analysis of the trade receivables is as follows:

	Unaudited 30 September 2011 HK\$'000	Audited 31 March 2011 HK\$'000
0 – 90 days	65,937	31,133
91 – 180 days	3,827	2,456
181 – 365 days	918	4,126
Over 365 days	212	780
	70,894	38,495

The Group's sales are on letter of credit or open account terms. Credit terms are reviewed on a regular basis. The normal trade term ranges from 0 to 90 days but business partners with strong financial background may be offered better credit terms.

11. Trade payables

The ageing analysis of the trade payables is as follows:

	Unaudited 30 September 2011 HK\$'000	Audited 31 March 2011 HK\$'000
0 – 90 days	8,146	1,150
91 – 180 days	–	161
181 – 365 days	–	16
Over 365 days	5	–
	8,151	1,327

12. Borrowings

The borrowings represent trust receipt loans at the end of reporting period. The borrowings are secured by the Group's certain land and buildings. Borrowings were repayable on demand or within one year as at the date of statement of financial position.

13. Contingent liabilities

As 30 September 2011 and 31 March 2011, the Group had no contingent liabilities, except for the corporate guarantee provided by the Company in respect of the finance leases of the Group.

14. Commitments under operating leases

At 30 September 2011, the Group had future aggregate minimum lease payments under non-cancellable operating leases in respect of land and buildings as follows:

	Unaudited 30 September 2011 HK\$'000	Audited 31 March 2011 HK\$'000
Not later than one year	637	322
Later than one year but not later than five years	896	705
	1,533	1,027

15. Gain on disposal of subsidiaries

Pursuant to an agreement dated 28 January 2011 and a supplemental agreement dated 24 March 2011 (the "Agreements") entered between the Company and Brisk Mark Holdings Limited (the "Purchaser"), which is owned by Mr. Leung Chung Ming and Mr. Leung Yuk Wai Kenneth, the Company would dispose of its entire interests in certain subsidiaries (the "Disposal Group") to the Purchaser. The details of the disposal are set out in the circular of the Company dated 25 March 2011. The disposal was completed on 12 April 2011, the date on which the control of the Disposal Group was passed to the Purchaser. The net liabilities of the Disposal Group at the date of disposal were as follows:

	Unaudited HK\$'000	Unaudited HK\$'000
Leasehold land and land use rights	88,141	
Property, plant and equipment	126,698	
Club memberships	2,001	
Inventories	84,517	
Trade and other receivables, deposits and prepayments	13,884	
Tax recoverable	1,760	
Cash and cash equivalents	37,314	
Trade and other payables and accrued charges	(90,550)	
Obligations under finance leases	(564)	
Borrowings	(300,618)	
Tax payable	(6,363)	
Provision for long service payment	(262)	(44,042)
		(66,918)
Release of exchange fluctuation reserve		18,911
Balance payable by the Company (Note)		92,049
Gain on disposal of subsidiaries		-
Nil consideration		-
Net cash outflow arising on disposal:		
Cash and cash equivalents disposed of		37,314

Note: Pursuant to the Agreements, as the net amount due from Disposal Group of approximately HK\$263,089,000, is less than HK\$282,000,000 as at 12 April 2011, the difference of approximately HK\$18,911,000 will be payable by the Company to the Disposal Group.

16. Share based payment

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 3 September 2002, 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 refreshed pursuant to a shareholders' resolution passed in the annual general meeting ("AGM") of the Company held on 25 September 2009, the maximum number of shares available for issue under the Scheme is 295,775,799, representing 10% of the issued ordinary share capital of the Company as at the date of the said AGM, 25 September 2009 and thereafter. The subscription price for the shares under the Scheme shall be a price determined by the Directors at its discretion, provided that it shall not 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 and (iii) the nominal value of the shares.

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

As at 30 September 2011 and 31 March 2011, there was no outstanding share options previously granted under the Scheme.

17. Related party transactions

During the period, the Group had transactions and balance 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 these companies during the period, and balances with them at the end of reporting period, are as follows:

(a)	Unaudited	
	For the six months ended	
	2011	2010
	HK\$'000	HK\$'000
Sales to related companies	78	–
Purchases from related companies	228,096	–

These related companies are beneficially owned by Mr. Leung Chung Ming, a substantial shareholder of the Company, and Mr. Leung Yuk Wai Kenneth, a son of Mr. Leung Lun, a substantial shareholder and executive director of the Company.

- (b) Amounts due from/(to) related companies are unsecured, interest-free and have no fixed term of repayment.
- (c) The loan from immediate holding company is unsecured and interest bearing at HIBOR plus certain percentage. At 30 September 2011, Lung Cheong Investment Limited had provided a letter of financial support to the Company to indicate that they had no intention to call for repayment in whole of the loan on or before 1 October 2012.

INTERIM DIVIDEND

The Directors do not recommend the payment of an interim dividend for the six months ended 30 September 2011 (2010: Nil).

RESULTS, BUSINESS REVIEW AND PROSPECTS

Results

For the six months ended 30 September 2011 (the "Period"), the Group's turnover slightly increased by 1% to approximately ("approx") HK\$317 million, compared with approx HK\$313 million for the corresponding period last year. Gross profit margin increased to approx 17% and profit attributable to owners of the Company was approx HK\$85 million, compared with a loss of approx HK\$51 million in the corresponding period ended 30 September 2010 ("Corresponding Period").

Business Review

In April 2011 the Group completed the disposal of Lung Cheong (BVI) Holdings Limited (the "Disposal Group"). It was then released from the relatively high operating costs for the People's Republic of China ("PRC") manufacturing plants and the net liabilities position of the Disposal Group. Currently, the Group's core business are its Original Brand Manufacturing ("OBM") business and Original Equipment Manufacturing ("OEM") business, with Indonesia becoming its primary manufacture area.

When finalizing the Completion Accounts of Disposal Group as at 12 April 2011 (i.e. the "Completion Date"), it is noted that the net liabilities of the Disposal Group as at the Completion Date increased when compared to the net liabilities of the Disposal Group as at 30 November 2010 due to continuing losses of the Disposal Group for the period from 1 December 2010 to Completion Date. Accordingly, there were no consideration received from the Purchaser but a gain of approx HK\$25 million on the Disposal resulted.

The gain on disposal also included the exchange gain of approx HK\$67 million released from the exchange fluctuation reserve which represented the cumulative exchange differences arising from translation of currency relating to PRC operation of the Disposal Group since incorporation. The exchange gain released from the exchange fluctuation reserve is the reclassification adjustment to the consolidated financial statements of the Group in accordance with Hong Kong Financial Reporting Standards. The exchange difference under "reserves" in the consolidated statement of financial position was a cumulative result of the net assets in the PRC operation of the Disposal Group since incorporation of which the Group had actually recognized in its financial statements in prior years. However, the release of exchange gain has no effects on the net assets values to the Group and the release of exchange gain has no cash flow effects on the Group as result of the Disposal.

During the Period, the Group's major export destinations were United States ("US") of America and Canada ("North America"), Europe and Japan. Despite a challenging market environment, the Group was able to preserve its main customers due to its long-standing reputation and unparalleled experience in the industry. Therefore, the Group's turnover recorded a slight increase. 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 was enhanced.

Further, North America continued to be the largest export destinations for the Group, accounting for approx 57% of total turnover (2010: 50%). Other significant overseas markets for the Group included Europe and Japan, which accounted for approx 25% (2010: 27%) and approx 3% (2010: 5%) respectively. The Group's continued investments into the development of innovative electronic and plastic toys targeted at the lower-priced segment have been rewarded in this Period. The major portion shipped were less complex, medium-to-low priced products during the Period, increased to approx 73% of sales (2010: 59%). Shipment of radio control toys continued to be low, therefore the Group's radio control ("R/C") toy business segment continued to be affected. Overall, the Group's R/C toy business accounted for approx 23% of total sales during the Period, lower than the approx 38% 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 the products of our customers world wide. However, amid this uncertain business environment, the Group's operations contributed approx HK\$3 million (2010: loss \$51 million) in operating profit for the Period.

However, due to delayed orders caused by subdued worldwide economies and the ongoing debt crisis in Europe, turnover of the Group's manufacturing plants in Indonesia decreased from approx HK\$55 million for the Corresponding Period to approx HK\$33 million, and accounted for approx 10% (2010: 18%) of Group's turnover. Attributed to higher average selling prices, the Group's gross profit margin for the Period, was approx 17%, an slightly increased from approx 16% in the Corresponding Period. Purchases from the Disposal Group amounted to approx HK\$228 million for the Period. The Directors and senior executives ("Management") believes Indonesia's plentiful supply of labour and reasonable labour costs would eventually be beneficial to the Group, and provides it with a stable environment to reduce reliance on PRC manufacturing plant of the Disposal Group.

The Group's strategy is to focus on the design, development, sales and marketing of its own brands of products and gradually positioning itself as an OBM operator. During the Period, Kid Galaxy enriched its product mix with new product lines such as "Big Wheelie Cycle", "Ratchet Racers", "Slick Drifter" and "Dyna Rides" received an encouraging market response. It has launched several new product lines as a result of our strong development efforts.

Apart from continuous research and development, the Group has also actively expanded its distribution channels in North America and Europe for Kid Galaxy products by increasing its attendance at exhibitions and opening new sales channels such as supermarkets, wholesalers, Internet and other specialty retailers. With marketing programs for Kid Galaxy products in place, the turnover of Kid Galaxy products was approx HK\$55 million, remain constant compared with approx HK\$56 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.

However, in view of the relatively heavy investment in developing and promoting new products which affected OBM margins during the Period, plus the uncertainties potentially affecting Kid Galaxy primary market being North America as well as weakening European economies due to few nations' debt issues, being Kid Galaxy's major developing market, an impairment of goodwill relating to the previous acquisition of Kid Galaxy amounting to approx HK\$10 million has been provided during the Period under review.

PLANS AND PROSPECTS

Management takes a cautious view of its business for the second half of financial year 2011/2012 ("FY11/12"). As market fluctuations and economic uncertainties such as the European debt crisis affect product demand and the amount of customer orders, Management is concerned that the global toy industry will still face challenges in the second half of FY11/12. Factors such as the volatility of raw materials prices, ever increasing energy costs, the weakness of the US dollar and fluctuation of the Indonesian Rupiah may lead to increasing production costs which would impact the Group's operations.

In addition, as existing OEM customers may place orders directly with the Disposal Group or request production to be carried out in the PRC factories, subsequent to the Group's disposal and changes in its business structure, Management foresees that its total sales and turnover will be affected in remaining period. As such, measures will be taken to attract existing OEM customers to place orders directly with the Group, and allocate more production to the Indonesia factory. At the same time, the Management will aim to lower the overall manufacturing overhead, transportation and administrative costs in order to maintain its margins, as well as enhance the production efficiency of the Indonesian plant.

Looking forward, the Group will focus on the research and development of more OBM products, expand marketing tactics for Kid Galaxy products to establish a solid foundation for the future development. Management will actively look into all possibilities of mergers, acquisitions and divestments to further reduce the Group's reliance on primarily OBM and OEM income streams so as to seek alternate sources of revenue from new ventures to add value to shareholders.

GROUP RESOURCES AND LIQUIDITY

As at 30 September 2011, the Group's cash and bank balances were approx HK\$11 million (31 March 2011: approx HK\$14 million). The Group's total borrowings excluding shareholder's loan were approx HK\$17 million (31 March 2011: approx HK\$22 million). The gearing ratio, calculated as the total borrowings less cash and bank balances and divided by shareholders' equity, was approx 44% (31 March 2011: Nil). As at 30 September 2011, the Group recorded total current assets of approx HK\$118 million (31 March 2011: approx HK\$435 million) and total current liabilities approx HK\$86 million (31 March 2011: approx HK\$431 million). The current ratio of the Group, calculated by dividing the total current assets by the current liabilities, was approx 137% (31 March 2011: 68%). The Group recorded an increase in shareholders' funds from a deficit of approx HK\$3 million as at 31 March 2011 to a net asset position of approx HK\$15 million as at 30 September 2011. The increase was mainly resulting from a gain on disposal plus profit from operations.

Overall, the Group's operation has turned around and returned to profitability. The financial position has improved compared to the previous reported financial year end date. Bearing unforeseen challenges, in the opinion of the Directors, the Group has sufficient financial resource to meet its normal operational needs.

EMPLOYEE

As at 30 September 2011, the Group had approx 1,193 employees and contract workers. Approx 18, 1,164 and 11 of the workforce were based in Hong Kong, the Indonesian factory and the US office respectively. The number of employees of the Group varies from time to time depending on production needs and they are remunerated based on industry practices.

SUBSTANTIAL SHAREHOLDERS

At 30 September 2011, the following persons, other than a Director or chief executive of the Company, had an interest in the shares and underlying shares of the Company as recorded in the register required to be kept under section 336 of the Securities and Futures Ordinance (Chapter 571 of Laws of Hong Kong) ("SFO"):

Name of shareholder	Number of ordinary shares (Note 1)	Capacity	Approximate percentage of interest
Lung Cheong Investment Limited	1,499,082,240 (L)	Beneficial owner	50.68%
Rare Diamond Limited	1,499,082,240 (L) (Note 2)	Interest of controlled corporation	50.68%
Leung Chung Ming	1,499,082,240 (L) (Note 2)	Interest of controlled corporation	50.68%

Notes:

1. The letter "L" represents the entity's interests in the shares and underlying shares of the Company.
2. These shares were registered in the name of Lung Cheong Investment Limited, the entire issued share capital of which is owned by Rare Diamond Limited. Rare Diamond Limited is beneficially owned as to 70% by Mr. Leung Lun and 30% by Mr. Leung Chung Ming.

Save as disclosed above, no other person, other than a Director or chief executive of the Company, had any interest in the shares and underlying shares of the Company as recorded in the register required to be kept under section 336 of the SFO.

DIRECTORS' INTERESTS IN EQUITY SECURITIES

At 30 September 2011, the interests and short positions of each Director and chief executive of the Company in the shares or underlying shares of the Company and its associated corporations (within the meaning of Part XV of the Securities and Futures Ordinance (Chapter 571 of Laws of Hong Kong) ("SFO")) as recorded in the register required to be kept under section 352 of the SFO or as otherwise notified to the Company and The Stock Exchange of Hong Kong Limited ("Stock Exchange") pursuant to the Model Code for Securities Transactions by Directors of Listed Issuers (the "Model Code") contained in the Listing Rules were as follows:

Name of Director	Name of company	Capacity	Number and class of securities (Note 1)	Approximate percentage on the issued share capital of the same class of securities
Leung Lun	The Company	Interest of controlled corporation	1,499,082,240 ordinary shares (L) (Note 2)	50.68%
	Lung Cheong Investment Limited	Interest of controlled corporation	1,000 ordinary shares (L)	100%
	Rare Diamond Limited	Beneficial interest	70 ordinary shares (L)	70%

Notes:

- The letter "L" represents the Director's interests in the shares and underlying shares of the relevant company.
- These shares were held by Lung Cheong Investment Limited, a company wholly owned by Rare Diamond Limited. Rare Diamond Limited is beneficially owned as to 70% by Mr. Leung Lun and 30% by Mr. Leung Chung Ming respectively.

Save as disclosed above, none of the Director or the chief executive of the Company had any interests and short positions in the shares or underlying shares of the Company and its associated corporations (within the meaning of Part XV of the SFO as recorded in the register required to be kept under 352 of the SFO or as otherwise notified to the Company and the Stock Exchange pursuant to the Model Code).

Apart from the Scheme, at no time during the period was the Company, its holding companies or its subsidiaries a party to any arrangements to enable the Directors, chief executives of the Company and their associates to acquire benefits by means of the acquisition of shares in, or debentures of, the Company or any other body corporate.

DIRECTORS' INTERESTS IN CONTRACTS

On 7 March 2008, the Company and Lung Cheong Investment Limited ("LCI") entered into a loan agreement pursuant to which LCI agreed to grant a loan of HK\$50 million to the Company for partial repayment of the loan granted under the facility agreement entered into between, amongst others, the Company and a syndicate of banks on 21 August 2007. LCI is the controlling shareholder of the Company and is wholly owned by a company beneficially owned by Mr. Leung Lun, a director of the Company and Mr. Leung Chung Ming, a former Director of the Company. The above details and subsequent extension are set out in the announcements of the Company dated 10 March 2008 and 25 September 2008 and Note 38(a) to the financial year 2010/2011 Annual Report.

Reference is made to the announcement dated 10 March 2008, an extension agreement dated 24 September 2008 and a letter of support to the Company by LCI on 30 September 2011, LCI have no intention or any need to call for repayment in whole of the amount for the Company. Management has obtained consent from LCI that continuous support will be made and no recall for repayment in whole of the amount for a year till 1 October 2012.

Save as mentioned above and in note 17 of this report, no contracts of significance in relation to the Company's business to which the Company, any of its holding companies or subsidiaries was a party, and in which a Director had a material interest, whether directly or indirectly, or a controlling shareholder or any of its subsidiaries is a party, subsisted at the end of the year or at any time during the year.

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.

DIRECTOR'S INTEREST IN COMPETING BUSINESS

As at 30 September 2011, apart from the Disposal Group, the Directors were not aware of any business or interest of each Director, management shareholder and their respective associate, that competes or may compete with the business of the Group and any other conflict of interest which any such person have or may have with the Group.

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.

Upon resignation of Mr Leung Chung Ming on 9 May 2011, Mr Leung Lun, Chairman of the Company, takes up the role of the Chief Executive of the Company. 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 2011, 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".

APPRECIATION

The conditions precedent under the Disposal Agreements on 28 January 2011 and 24 March 2011 respectively had been fulfilled and were completed on 29 April 2011. In accordance with terms of the Disposal Agreements, Mr. Leung Chung Ming has resigned as an executive director of the Company with effect from 9 May 2011 in order to devote his full attention on the business of the disposed Group. Further details was set out in the Company's announcement on 9 May 2011. The Board would like to extend its gratitude for his valuable efforts and contributions to the Company during his tenure.

On behalf of the Board of

Lung Cheong International Holdings Limited

Leung Lun

Chairman

29 November 2011