



Interim Report 2014/2015

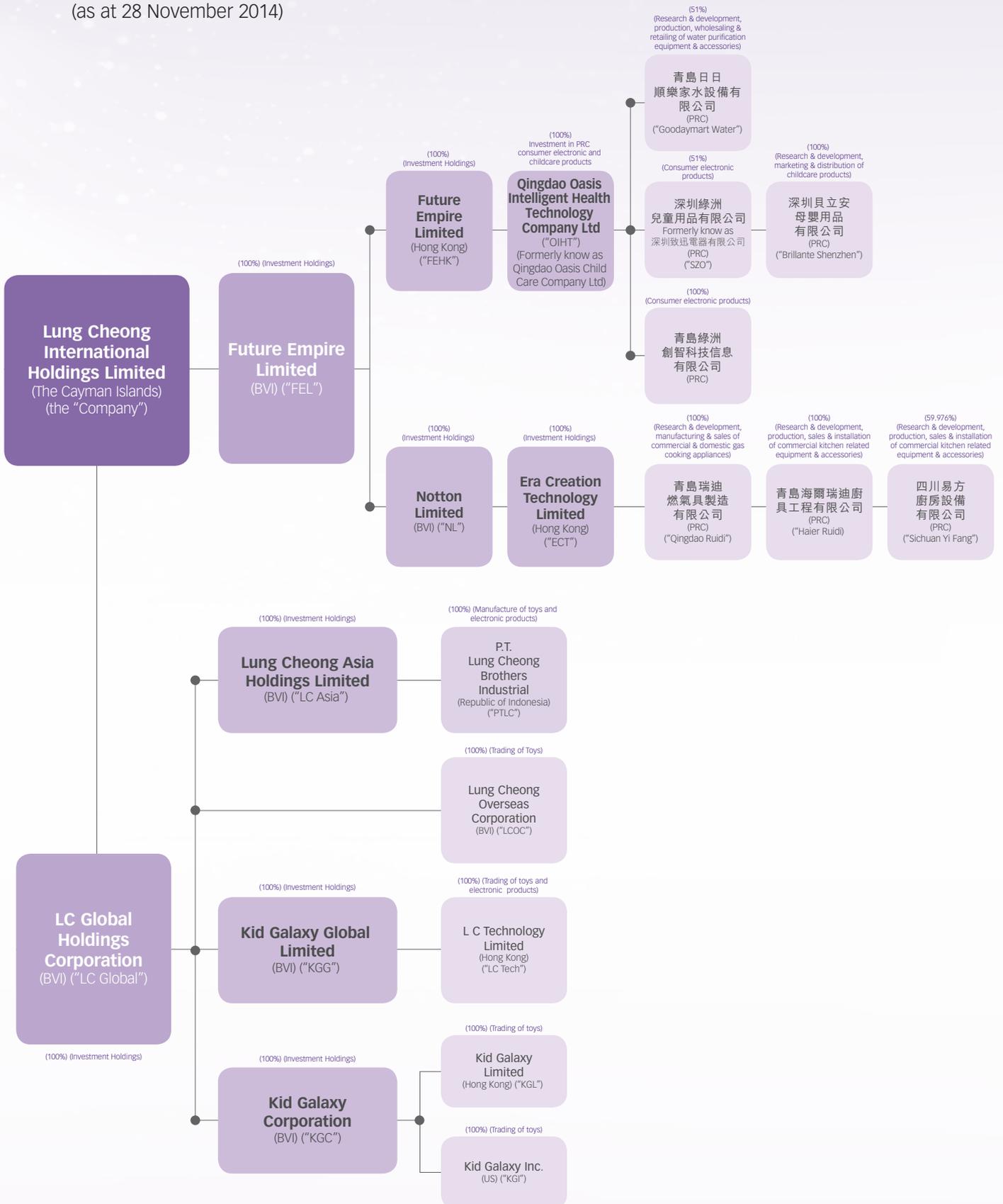


LUNG CHEONG INTERNATIONAL HOLDINGS LIMITED

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

CORPORATE STRUCTURE

(as at 28 November 2014)



The board of directors (the "Board" and/or "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 2014 together with comparative figures for the corresponding period in 2013. These interim consolidated financial statements have not been audited but have been reviewed by the Company's Audit Committee.

CONDENSED CONSOLIDATED STATEMENT OF PROFIT OR LOSS AND OTHER COMPREHENSIVE INCOME

For the Six Months Ended 30 September 2014

	Notes	Unaudited Six months ended 30 September 2014 HK\$'000	2013 HK\$'000
Turnover	2	226,624	118,132
Cost of sales		(154,788)	(85,469)
Gross profit		71,836	32,663
Other income and gains, net	2	12,097	6,616
Selling and distribution expenses		(35,081)	(12,192)
General and administrative expenses		(46,009)	(24,991)
Operating profit		2,843	2,096
Finance costs	3	(761)	(942)
Profit before income tax expense	4	2,082	1,154
Income tax expense	5	(622)	–
Profit for the period		1,460	1,154
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		(199)	(3,719)
– Valuation gain/(loss) on available-for-sale investments		10,470	(12,683)
		10,271	(16,402)
Total comprehensive income for the period		11,731	(15,248)

	Notes	Unaudited Six months ended 30 September	
		2014 HK\$'000	2013 HK\$'000
Profit for the period attributable to			
Owners of the Company		3,693	1,154
Non-controlling interests		(2,233)	–
		1,460	1,154
Total comprehensive income for the period attributable to			
Owners of the Company		13,964	(15,248)
Non-controlling interests		(2,233)	–
		11,731	(15,248)
Earnings per share attributable to the owners of the Company			
– Basic	7	0.07 cents	0.02 cents
– Diluted	7	0.06 cents	0.02 cents

CONDENSED CONSOLIDATED STATEMENT OF FINANCIAL POSITION

As at 30 September 2014

	Notes	Unaudited 30 September 2014 HK\$'000	Audited 31 March 2014 HK\$'000
ASSETS AND LIABILITIES			
Non-current assets			
Property, plant and equipment	8	68,180	50,543
Goodwill	9	104,454	100,970
Intangible assets		7,890	6,859
Deferred tax assets		12,094	11,545
		192,618	169,917
Current assets			
Inventories		83,550	55,348
Trade and other receivables, deposits and prepayments	10	86,063	38,417
Available-for-sale investments	11	236,318	250,768
Amounts due from related companies	18(b)	52,723	4,049
Tax recoverable		1,167	1,017
Cash and cash equivalents		139,775	116,139
		599,596	465,738
Current liabilities			
Trade payables	12	60,151	5,867
Other payables and accrued charges		49,831	21,908
Amounts due to related companies	18(b)	54,649	3,519
Borrowings	13	15,509	12,110
Tax payable		649	13
		180,789	43,417
Net current assets		418,807	422,321
Total assets less current liabilities		611,425	592,238

	Notes	Unaudited 30 September 2014 HK\$'000	Audited 31 March 2014 HK\$'000
Non-current liabilities			
Provision for long service payment		2,101	2,148
Borrowings	13	7,448	7,814
Other payable		7,710	7,710
Deferred tax liabilities		6,676	6,676
		23,935	24,348
Net assets			
		587,490	567,890
EQUITY			
Share capital	14	555,776	555,776
Reserves		32,190	14,705
Equity attributable to owners of the Company		587,966	570,481
Non-controlling interests		(476)	(2,591)
Total equity			
		587,490	567,890

CONDENSED CONSOLIDATED STATEMENT OF CASH FLOWS

For the Six Months Ended 30 September 2014

	Unaudited	
	Six months ended	
	30 September	
	2014	2013
	HK\$'000	HK\$'000
Net cash inflow from operating activities	6,256	20,820
Net cash inflow/(outflow) from investing activities	10,448	(341,453)
Net cash inflow/(outflow) from financing activities	5,632	(29,745)
Net increase/(decrease) in cash and cash equivalents	22,336	(350,378)
Cash and cash equivalents at 1 April	116,139	418,175
Effect on foreign exchange rate changes	1,300	(6,006)
Cash and cash equivalents at 30 September	139,775	61,791
Bank balances and cash	139,775	61,791

CONDENSED CONSOLIDATED STATEMENT OF CHANGES IN EQUITY

For the Six Months Ended 30 September 2014

	Unaudited											
	Share capital HK\$'000	Share premium HK\$'000	Shares to be issued HK\$'000	Warrant reserve HK\$'000	Share option reserve HK\$'000	Exchange fluctuation reserve HK\$'000	Investment revaluation reserve HK\$'000	Land and buildings revaluation reserve HK\$'000	Accumulated losses HK\$'000	Attributable to owners of the Company HK\$'000	Non-controlling interests HK\$'000	Total HK\$'000
As at 1 April 2014	555,776	254,569	82,000	3,830	-	(31,414)	(16,539)	28,891	(306,632)	570,481	(2,591)	567,890
Exchange difference arising from translation of foreign operations	-	-	-	-	-	(199)	-	-	-	(199)	-	(199)
Valuation gain on revaluation of available-for-sale investment	-	-	-	-	-	-	10,470	-	-	10,470	-	10,470
Profit for the period	-	-	-	-	-	-	-	-	3,693	3,693	(2,233)	1,460
Total comprehensive income for the period	-	-	-	-	-	(199)	10,470	-	3,693	13,964	(2,233)	11,731
Acquisition of a subsidiary	-	-	-	-	-	-	-	-	-	-	4,348	4,348
Equity settled share based payment	-	-	-	-	3,521	-	-	-	-	3,521	-	3,521
As at 30 September 2014	555,776	254,569	82,000	3,830	3,521	(31,613)	(6,069)	28,891	(302,939)	587,966	(476)	587,490

	Unaudited											
	Share capital HK\$'000	Share premium HK\$'000	Shares to be issued HK\$'000	Other reserve HK\$'000	Warrant reserve HK\$'000	Exchange fluctuation reserve HK\$'000	Investment revaluation reserve HK\$'000	Land & buildings revaluation reserve HK\$'000	Accumulated losses HK\$'000	Attributable to owners of the Company HK\$'000	Non-controlling interests HK\$'000	Total equity HK\$'000
As at 1 April 2013	345,776	59,498	389,000	-	4,789	(28,043)	-	28,891	(311,919)	487,992	-	487,992
Exchange difference arising from translation of foreign operations	-	-	-	-	-	(3,719)	-	-	-	(3,719)	-	(3,719)
Valuation loss on available-for-sale investments	-	-	-	-	-	-	(12,683)	-	-	(12,683)	-	(12,683)
Profit for the period	-	-	-	-	-	-	-	-	1,154	1,154	-	1,154
Total comprehensive income for the period	-	-	-	-	-	(3,719)	(12,683)	-	1,154	(15,248)	-	(15,248)
Consideration shares to be issued for business acquisitions	-	-	-	82,000	-	-	-	-	-	82,000	-	82,000
Acquisition of subsidiaries	-	-	-	-	-	-	-	-	-	-	(1,113)	(1,113)
Placement of shares	200,000	189,216	(389,000)	-	-	-	-	-	-	216	-	216
As at 30 September 2013	545,776	248,714	-	82,000	4,789	(31,762)	(12,683)	28,891	(310,765)	554,960	(1,113)	553,847

NOTES TO THE UNAUDITED CONDENSED CONSOLIDATED INTERIM FINANCIAL STATEMENTS

1. Basis of preparation 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” and other relevant HKASs, interpretation and Hong Kong Financial Reporting Standards (collectively, the “HKFRSs”) issued by the Hong Kong Institute of Certified Public Accountants (“HKICPA”) and the disclosure requirements of Appendix 16 of the Rules Governing the Listing of Securities (“Listing Rules”) on The Stock Exchange of Hong Kong Limited. Save for those new or amended HKFRSs adopted during the period as set out below, the accounting policies and basis of preparation adopted in the preparation of the condensed consolidated interim financial statements are consistent with those used in the annual financial statements for the year ended 31 March 2014.

Adoption of new or amended HKFRSs effective on or after 1 April 2014

In the current interim period, the Group has applied, for the first time, the following new and revised HKFRSs issued by the HKICPA, which are effective for the Group’s financial year beginning on 1 April 2014.

Amendments to HKAS 32	Offsetting Financial Assets and Financial Liabilities
-----------------------	-------------------------------------------------------

The adoption of the new or amended HKFRS had no material impact on the Group’s consolidated financial statements.

New or amended HKFRSs that have been issued but not yet effective

The following new or amended 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.

Amendments to HKAS 16 and HKAS 38	Clarification of Acceptable Methods of Depreciation and Amortisation ³
Amendments to HKFRS 11	Accounting for Acquisition of Interests in Joint Operations ³
HKFRS 9	Financial Instruments ⁵
HKFRS 15	Revenue from Contract with Customers ⁴
HKFRSs (Amendments)	Annual Improvements 2010-2012 Cycle ²
HKFRSs (Amendments)	Annual Improvements 2011-2013 Cycle ¹

¹ Effective for annual periods beginning on or after 1 July 2014

² Effective for annual periods beginning, or transactions occurring, on or after 1 July 2014

³ Effective for annual periods beginning on or after 1 January 2016

⁴ Effective for annual periods beginning on or after 1 January 2017

⁵ Effective for annual periods beginning on or after 1 January 2018

HKFRS 9 – Financial Instruments

HKFRS 9 issued in 2009 introduces new requirements for the classification and measurement of financial assets. HKFRS 9 was subsequently amended in 2010 to include the requirements for the classification and measurement of financial liabilities and for derecognition and further amended in 2013 to include the new requirements for general hedge accounting. Another revised version of HKFRS 9 was issued in 2014 mainly to include a) impairment requirements for financial assets and b) limited amendments to the classification and measurement requirements by introducing a “fair value through other comprehensive income” (“FVTOCI”) measurement category for certain simple debt instruments.

Key requirements of HKFRS 9 are described below:

- a) All recognised financial assets that are within the scope of HKAS 39 “Financial Instruments: Recognition and Measurement” are required to be subsequently measured at amortised cost or fair value. Specifically, debt investments that are held within a business model whose objective is to collect the contractual cash flows, and that have contractual cash flows that are solely payments of principal and interest on the principal outstanding are generally measured at amortised costs at the end of subsequent accounting periods. Debt instruments that are held within a business model whose objective is achieved both by collecting contractual cash flows and selling financial assets, and that have contractual terms of the financial asset give rise on specified dates to cash flows that are solely payments of principal and interest on the principal amount outstanding, are measured at FVTOCI. All other debt investments and equity investments are measured at their fair values at the end of subsequent reporting periods. In addition, under HKFRS 9, entities may make an irrevocable election to present subsequent changes in the fair value of an equity investment (that is not held-for-trading) in other comprehensive income, with only dividend income generally recognised in profit or loss.
- b) With regard to the measurement of financial liabilities designated as at fair value through profit or loss (“FVTPL”), HKFRS 9 requires that the amount of change in the fair value of the financial liability that is attributable to changes in the credit risk of that liability is presented in other comprehensive income, unless the recognition of the effects of changes in the liability’s credit risk in other comprehensive income would create or enlarge an accounting mismatch in profit or loss. Changes in fair value attributable to a financial liability’s credit risk are not subsequently reclassified to profit or loss. Under HKAS 39, the entire amount of the change in the fair value of the financial liability designated as FVTPL was presented in profit or loss.
- c) In relation to the impairment of financial assets, HKFRS 9 requires an expected credit loss model, as opposed to an incurred credit loss model under HKAS 39. The expected credit loss model requires an entity to account for expected credit losses and changes in those expected credit losses at each reporting date to reflect changes in credit risk since initial recognition. In other words, it is no longer necessary for a credit event to have occurred before credit losses are recognised.
- d) The new general hedge accounting requirements retain the three types of hedge accounting mechanisms currently available in HKAS 39. Under HKFRS 9, greater flexibility has been introduced to the types of transactions eligible for hedge accounting, specifically broadening the types of instruments that qualify for hedging instruments and the types of risk components of non-financial items that are eligible for hedge accounting. In addition, the effectiveness test has been overhauled and replaced with the principle of an “economic relationship”. Retrospective assessment of hedge effectiveness is also no longer required. Enhanced disclosure requirements about an entity’s risk management activities have also been introduced.

Annual Improvements 2010-2012 Cycle and 2011-2013 Cycle

The amendments issued under the annual improvements process make small, non-urgent changes to a number of standards where they are currently unclear. Among them, HKAS 16 *Property, Plant and Equipment* has been amended to clarify how the gross carrying amount and accumulated depreciation are treated where an entity uses the revaluation model. The carrying amount of the asset is restated to revalued amount. The accumulated depreciation may be eliminated against the gross carrying amount of the asset. Alternatively, the gross carrying amount may be adjusted in a manner consistent with the revaluation of the carrying amount of the asset and the accumulated depreciation is adjusted to equal the difference between the gross carrying amount and the carrying amount after taking into account accumulated impairment losses.

The Group is in the process of making an assessment of the potential impact of these new or amended HKFRSs. The directors of Company do not anticipate that these new or amended HKFRSs will have any material impact on the Group's consolidated financial statements.

2. Turnover, other income and gains and segmental information

The Group is principally engaged in development, engineering, manufacturing and sale of toys, consumer electronic products and commercial kitchen products. Turnover and other income and gains, net are recognised during the period are as follows:

	Unaudited Six months ended 30 September	
	2014	2013
	HK\$'000	HK\$'000
Turnover		
Sale of goods	226,624	118,132
Other income and gains, net		
Interest income	10,141	6,038
Others	1,956	578
	12,097	6,616
	238,721	124,748

The Group has identified its operating segments 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 has identified the following reportable segment from its operations:

- Manufacturing and sale of toys
- Sale of consumer electronic products
- Manufacturing and sale of commercial kitchen products

- (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	
	2014 HK\$'000	2013 HK\$'000
Turnover		
PRC/Hong Kong	110,232	4,488
Europe (Note)	48,592	46,843
United States of America	46,496	54,041
Korea	13,451	–
Japan	2,863	318
Australia	1,416	526
Others	3,574	11,916
	226,624	118,132

Note: The products are first shipped to one of the European countries ("Shipping Port Countries") and then distributed to different European countries by the customers. The information as to where the products are finally shipped is unavailable and the cost of obtaining such information would be excessive. The Directors opined that disclosing the identities of the Shipping Port Countries is undesirable 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	
	2014 HK\$'000	2013 HK\$'000
Toys	116,392	118,091
Consumer electronic products	91,970	–
Commercial kitchen products	18,262	41
	226,624	118,132

- (c) Information on major customers is as follows:

For the period ended 30 September 2014, revenue amounting to approx HK\$29 million from one external customer had contributed to more than 13% of the Group's turnover. Other than this customer, there is no other customer whose turnover contributed to more than 10% of the Group's turnover.

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

3. Finance costs

	Unaudited Six months ended 30 September	
	2014	2013
	HK\$'000	HK\$'000
Interest on bank loans	761	942

4. Profit before income tax expense

	Unaudited Six months ended 30 September	
	2014	2013
	HK\$'000	HK\$'000
Profit before income tax expense is stated after charging the following:		
Cost of inventories sold	154,788	85,469
Depreciation of property, plant and equipment	3,126	1,808

5. Income tax expense

No Hong Kong profits tax has been provided for the six months ended 30 September 2014 and 2013 as the Group has tax losses brought forward from previous years to offset the assessable profits for the period. Taxes on profits assessable elsewhere have been calculated at the rates of tax prevailing in the countries in which the Group operates.

	Unaudited Six months ended 30 September	
	2014	2013
	HK\$'000	HK\$'000
Current tax – PRC Enterprise Income Tax – provision for the period	622	–

6. Dividends

The Directors do not recommend the payment of interim dividend for the six months ended 30 September 2014 (2013: Nil).

7. Earnings per share

	Unaudited Six months ended 30 September 2014 HK cents	2013 HK cents
Basic earnings per share	0.07	0.02
Diluted earnings per share	0.06	0.02

The calculation of basic and diluted earnings per share attributable to the owners of the Company is based on the following data.

Profit	Unaudited Six months ended 30 September 2014 HK\$'000	2013 HK\$'000
Profit for the period attributable to the owners of the Company, used in the basic and diluted earnings per share calculation	3,693	1,154

	Unaudited Six months ended 30 September 2014	2013
Number of shares		
Weighted average number of ordinary shares for the purposes of basic earnings per share	5,557,757,997	5,435,900,074
Effect of dilution		
– Warrants	339,598,862	296,119,527
– Share options (Note)	–	–
	339,598,862	296,119,527
Weighted average number of ordinary shares for the purposes of diluted earnings per share	5,897,356,859	5,732,019,601

Note: The share options of the Company granted during the period are treated as contingently issuable shares because their issue is contingent upon the performance assessments of the share option holders. As at 30 September 2014, no share option holders have fulfilled the requirements of their performance assessments, therefore no adjustment for the share options was made in calculating the diluted earnings per share.

8. Property, plant and equipment

	HK\$'000
As at 1 April 2014	50,543
Additions	14,780
Acquired through business acquisitions (Note 19)	6,849
Depreciation charge	(3,126)
Exchange differences	(866)
As at 30 September 2014	68,180

9. Goodwill

	Unaudited 30 September 2014 HK\$'000	Audited 31 March 2014 HK\$'000
As at 1 April	100,970	2,500
Acquired through business acquisitions (Note 19)	3,484	98,470
As at 30 September and 31 March	104,454	100,970

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 2014 HK\$'000	Audited 31 March 2014 HK\$'000
Trade receivables	69,122	20,629
Other receivables, deposits and prepayments	16,941	17,788
	86,063	38,417

The ageing analysis of the trade receivables is as follows:

	Unaudited 30 September 2014 HK\$'000	Audited 31 March 2014 HK\$'000
0 – 90 days	67,056	18,542
91 – 180 days	211	1,839
181 – 365 days	419	143
Over 365 days	1,436	105
	69,122	20,629

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 2014 HK\$'000	Audited 31 March 2014 HK\$'000
Debt securities		
– Listed in Hong Kong	107,673	112,277
– Listed outside Hong Kong	128,645	138,491
	236,318	250,768

12. Trade payables

The ageing analysis of the trade payables is as follows:

	Unaudited 30 September 2014 HK\$'000	Audited 31 March 2014 HK\$'000
0 – 90 days	58,882	5,587
91 – 180 days	376	55
181 – 365 days	645	70
Over 365 days	248	155
	60,151	5,867

13. Borrowings

	Unaudited 30 September 2014 HK\$'000	Audited 31 March 2014 HK\$'000
CURRENT		
Trust receipt loans	–	12,110
Bank loan	15,509	–
	15,509	12,110
NON-CURRENT		
Bank loan	7,448	7,814
	22,957	19,924

As at 30 September 2014 and 31 March 2014, total current and non-current trust receipt loans and bank loan were scheduled to be repaid as follows:

	Unaudited 30 September 2014 HK\$'000	Audited 31 March 2014 HK\$'000
On demand and within one year	15,509	12,110
More than one year, but not exceeding two years	2,423	1,563
More than two years, but not exceeding five years	4,472	4,689
After five years	553	1,562
	22,957	19,924

The borrowings are secured by a legal charge over the Group's land and buildings situated in Indonesia.

14. Share capital

	Authorised			
	Convertible cumulative redeemable preference shares of US\$100,000 each Number of shares	US\$'000	Ordinary shares of HK\$0.10 each Number of shares	HK\$'000
As at 31 March and 30 September 2014	40	4,000	10,000,000	1,000,000

	Issued and fully paid			
	Convertible cumulative redeemable preference shares of US\$100,000 each Number of shares	US\$'000	Ordinary shares of HK\$0.10 each Number of shares	HK\$'000
As at 31 March and 30 September 2014	–	–	5,557,758	555,776

15. Contingent liabilities

As at 30 September 2014 and 31 March 2014, the Group had no contingent liabilities.

16. Commitments

(a) Capital commitments

As at 30 September 2014, the Group had the following significant capital commitments:

Contracted but not provided for

	Unaudited 30 September 2014 HK\$'000	Audited 31 March 2014 HK\$'000
Acquisition of property, plant and equipment	722	684

(b) Operating leases commitments

As at 30 September 2014, the Group had future aggregate minimum lease payments under non-cancellable operating leases in respect of office premises as follows:

	Unaudited 30 September 2014 HK\$'000	Audited 31 March 2014 HK\$'000
Not later than one year	8,270	910
Later than one year but not later than five years	825	349
	9,095	1,259

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.

On 13 May 2014, share options of 100,000,000 were granted by the Company to the senior management and employees of the subsidiaries and consultants at the exercise price of HK\$0.87 per share.

Details of the Company's share options held by the senior management and employees of the subsidiaries and consultants are as follows:

	Exercise price (per share)	Outstanding shares	
		Unaudited Six months ended 30 September 2014 '000	2013 '000
	HK\$		
As at 1 April		–	–
Granted during the period	0.87	100,000	–
As at 30 September		100,000	–

The share options outstanding (expiry date: 12 May 2017) as at 30 September 2014 have the following vesting dates and exercise prices:

Vesting date	Unaudited Six months ended 30 September 2014	
	Exercise price HK\$	Outstanding shares '000
13 May 2015	0.87	40,000
13 May 2016	0.87	60,000
		100,000

The fair value of the share option at the granting date has been valued by an independent qualified valuer using Binomial Valuation Model is HK\$28,787,000.

The significant inputs into the model were as follows:

Stock price	HK\$0.820
Exercise price	HK\$0.870
Risk Free rate	0.593%
Contractual life	2.951 years
Expected volatility	57.98%
Early exercise behavior	2.2-2.8
Exit rate	0-20.586%

Expected volatility was determined by using the historical volatility of the Company's share price. The variables and assumptions used in computing the fair value of the share options are based on the Directors' best estimate.

The Group recognised share-based payment expenses of HK3,521,000 (2013: Nil) for the six month period ended 30 September 2014 in relation to share options granted by the Company.

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	
Type of transaction		2014 HK\$'000	2013 HK\$'000
Companies controlled by a director's close family members	Purchases	27,122	29,990
Companies related to our substantial shareholder	Sales	40,446	–
	Purchases	29,523	–

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

19. Business acquisition during the period

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

	HK\$'000
Property, plant and equipment	6,849
Inventories	957
Trade and other receivables, deposits and prepayment	1,610
Cash and cash equivalent	1,782
Trade payables	(334)
	10,864
Non-controlling interests	(4,348)
	6,516
Goodwill arising on acquisition	3,484
Total consideration	10,000
Satisfied by:	
– Cash consideration	10,000
Cash flow	
Cash payment	10,000
Cash and cash equivalent acquired	(1,782)
Net cash outflow arising from acquisition	8,218

On 4 April 2014, the Group acquired approximately 59.976% of the equity interests of 四川易方廚房設備有限公司 (Sichuan Yi Fang Kitchen Equipment Co., Ltd.*) ("Sichuan Yi Fang"), a company whose principal activities are research and development, production, sales and installation of commercial kitchen related equipment and accessories in the PRC. The acquisition was made with the aims to enhance the Group's exposure in developing the commercial kitchen design, planning and project management business in the PRC.

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 approximately HK\$170,000 have been expensed and are included in administrative expenses.

Since the acquisition date, Sichuan Yi Fang has contributed revenue of HK\$3,698,000 and a loss of HK\$1,992,000 to the Group's revenue and profit respectively.

The directors consider that there will be no material impact on the Group's revenue and profit if the acquisition occurred on 1 April 2014 because the acquisition date was close to 1 April 2014.

INTERIM DIVIDEND

The Directors do not recommend the payment of an interim dividend for the six months ended 30 September 2014 (2013: Nil).

RESULTS, BUSINESS REVIEW AND PROSPECTS

Results

For the period ended 30 September 2014 (the "Period"), the Group's turnover increased by approximately ("approx") 92% to approx HK\$227 million, compared with approx HK\$118 million for the period ended 30 September 2013 (the "Corresponding Period"). Gross profit margin for the Period was approx 32% compared to approx 28% in the Corresponding Period. Overall, profit attributable to owners of the Company was approx HK\$3.7 million compared with a profit of approx HK\$1.2 million in the Corresponding Period.

Business Review

The Group recorded a significant increase in revenue for the Period compared to the revenue by the Group for the Corresponding Period. The increase is mainly due to the launch of three new businesses, namely commercial kitchen, baby appliance and water purifier.

The profit attributable to owners of the Company for the Period was increased from approx HK\$1.2 million in the Corresponding Period to approx HK\$3.7 million for the current period. The increase was mainly resulted from the interest income generated from the available-for-sale financial assets.

During the Period, the Group granted 100 million share options and incurred the share-based payments expenses amounted to HK\$3.5 million. Excluding the share-based payment expenses, the profit attributable to owners of the Company for the Period would increase to approx HK\$7.2 million.

On 2 April 2013, the Company completed a round of new share placing and raised approx HK\$389 million net proceeds (the "Proceeds"). 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 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 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.

Since then, the Management has been actively seeking new revenue source and investment opportunities. 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. For further details of the acquisition, please refer to the announcement dated 4 July 2013.

Since the completion of acquisition, the Group has optimized the management structure, upgraded the manufacturing technology, integrated and expanded sales channels of Qingdao Ruidi. In addition, the Group is acutely aware of the huge Equipment Procurement Construction (“EPC”) opportunities arising from the commercial kitchen (i.e. kitchen of hotels, restaurants, colleges, hospitals, militaries, government agencies, etc) and quickly seized them. Therefore, the Group successfully transformed Qingdao Ruidi from a purely cooking appliances manufacturer and distributor into a commercial kitchen total solution provider and EPC contractor. For this purpose, a wholly owned subsidiary of Qingdao Ruidi, 青島海爾瑞迪廚具工程有限公司 (“Haier Ruidi”) was set up in late 2013.

To further improve geographical coverage and business service quality, on 4 April 2014, Haier Ruidi acquired approx 59.976% of the equity interest of Sichuan Yi Fang at a total consideration of RMB8 million (or equivalent to HK\$10 million). Sichuan Yi Fang is principally engaged in research and development, production, sale and installation of commercial kitchen related equipment and accessories in the PRC, this acquisition resulted an increase in goodwill of approx HK\$3 million.

During the Period, the Group has initiated several commercial kitchen EPC projects, including a few high-end hotel kitchen renovation projects and we have received very positive feedbacks. With current backlog on hand, the Directors are very confident on this business and expecting more substantial revenue to be generated in the second half of FY2014/2015.

In late 2013, the Group set up a Wholly Foreign-Owned Enterprise, Qingdao Oasis Intelligent Health Technology Company Ltd (“OIHT”) (formerly known as Qingdao Oasis Child Care Company Ltd), to invest primarily in the PRC consumer electronic and childcare products. In addition, at the end of September 2013, the Group used OIHT 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.

Baby appliances is an emerging sub-market for consumer electronic products, 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 pre-school toy industry prepared us well for this new development. After the acquisition, OIHT and its non-wholly owned subsidiary, Brillante Shenzhen, have been working closely in terms of the management structure optimization, Research and Development (“R&D”) enhancement, product line expansion, sales channels development and integration. In addition, OIHT was authorized to use the trademarks of “Haier” and “海爾” on all the childcare related products manufactured and traded by OIHT at nil consideration during the Period. The childcare related products include but not limited to baby care kit (electric steriliser, baby bottle & food warmer, infant formula preparation kit, food warmer, baby food processor), baby washing machine, baby air-conditioner, baby air-purifier, baby water purifier, baby refrigerator, children hair grooming products and related childcare electronic products.

During the Period, we further optimized our own mother and baby interactive platform: Haier 優知媽咪 滙 (<http://baby.haier.com>) and has accumulated decent registered users and active daily visitors. With our continuous efforts, we would expect a massive growth from this platform in the foreseeable future and we would further leverage and monetize the valuable resource in the years to come.

In addition, during the Period, the Group started a soft launch of the large baby appliance, i.e. baby air-conditioner. The Management is optimistic of this sector and expect a much bigger turnover in the second half of FY2014/2015.

On 21 April 2014, OIHT and Qingdao Goodaymart Lejia Trading Co., Ltd (“Goodaymart”), an indirect wholly-owned subsidiary of Haier Electronics Group., Ltd (1169.HK), entered into a joint venture agreement in relation to the establishment of the 青島日日順樂家水設備有限公司 (“Goodaymart Water”) in July 2014. Goodaymart Water is principally engaged in research and development, production, wholesaling and retailing of water purification equipment and accessories, installation and maintenance of water purification equipment and provision of relevant aftersales services in the PRC. Goodaymart Water will be focused on “health and environment” and aims to become a prominent full-house water purification service provider. Upon the establishment of the Goodaymart Water, Goodaymart and OIHT will own 51% and 49% of the shareholding interest in the Goodaymart Water respectively. In addition, on 7 August 2014, OIHT and Goodaymart entered into a Supplemental Agreement to the effect that upon the establishment of the Goodaymart Water, OIHT and Goodaymart will own 51% and 49% of the shareholding interest in the Goodaymart Water respectively.

In view of the blossoming of the new business ventures of the Group, the traditional toy segment continued to contribute partially but overall only accounted for approx 51% of the turnover for the Period compared to 100% of sales in the Corresponding Period.

With the expanded and additional production facilities which will be completed stage by stage at the Indonesian factory, sales during the Period under review grew approx 41% compared to the Corresponding Period. The growth was mainly attributable to the added production capacity plus increase in orders from existing and new Original Equipment Manufacturing (“OEM”) customers with toy products destined for Europe, Korea and Japan markets.

The remaining Original Brand Manufacturing (“OBM”) toy segment did not perform as sales were approx 15% less than the Corresponding Period despite the additional investments utilizing all the intended fund from the 2012 Placing in research and product development plus marketing and promotional activities. The lower Kid Galaxy sales were mainly attributable to continued weakness in the specialty toy market in the U.S. and continued weakness of the international markets.

On 13 May 2014, the Group granted a total of 100,000,000 share options with the exercise price of HK\$0.87 per share. The vesting of share options will be subject to achievement of individual performance targets during a two-year assessment period.

References are made to 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”). Unless defined otherwise, capitalized terms used herein shall have the same meanings as those defined in the 2013 Placing Circular.

The Company set out below the update on the use of proceeds from the 2013 Placing.

Placing and Net proceeds	Intended use of proceeds from the 2013 Placing as mentioned in the 2013 Placing Announcement and the 2013 Placing Circular	Actual use of proceeds from the 2013 Placing as at the date of this report
<p>The 2013 Placing Approximately HK\$389 million</p>	<p>(a) Approximately HK\$5 million will be used for the feasibility study of using the Company's current manufacturing and operations facilities or to expand and upgrade the current facilities in Indonesia (if necessary);</p> <p>approximately HK\$75 million will be used for carrying out the suggestion made in the feasibility study.</p> <p>(b) (i) Approximately HK\$5 million will be used for performing a detail strategic review of the Company's operation;</p> <p>(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; and</p> <p>(iii) approximately HK\$60 million will be used for the possible acquisition of new product lines.</p>	<p>Approximately HK\$600,000 has been used for the feasibility study.</p> <p>Approximately HK\$1.2 million has been used for performing a detail strategic review of the Company's operation.</p> <p>Approximately HK\$42.9 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 PRC.</p> <p>Approximately HK\$9.6 million has been used to set up a joint venture company, which is principally engaged in research and development, production, wholesaling, retailing of water purification equipment and accessories, installation and maintenance of water purification equipment and provision of relevant aftersales services in the PRC. The Directors believe that the business segment of baby appliances and water purifiers can complement the Group's existing business while further expand the Group's income base and add value to the shareholders of the Company.</p>

Placing and Net proceeds	Intended use of proceeds from the 2013 Placing as mentioned in the 2013 Placing Announcement and the 2013 Placing Circular	Actual use of proceeds from the 2013 Placing as at the date of this report
(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 to enter the commercial kitchen industry. Approximately HK\$23.7 million was used to expand the registered capital of Qingdao Ruidi, the operating subsidiary of Notton in the PRC. Approximately HK\$12.5 million has been used to set up a new subsidiary under Qingdao Ruidi for commercial kitchen design, planning and project management. Approximately HK\$10 million has been used to acquire 59.976% share interest of Sichuan Yi Fang Kitchen Equipment Co., Ltd. Which is principally engaged in research and development, production, sale and installation of commercial kitchen related equipment and accessories in the PRC.
(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\$20 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 market as the working capital needs increase. The HK\$350 million we originally placed in the bank, approx HK\$236 million of which was in the form of bonds, the rest of HK\$114 million together with the coupon income it generated has been wired out of that Swiss-based banking institute for operation.

The Company will not change the intended use of proceeds as disclosed in the 2013 Placing Circular. As at 30 September 2014, the Group had approx HK\$10 million non-cash valuation gain on available-for-sale investments as shown in our condensed consolidated statement of comprehensive income. Management will continue to closely monitor and carefully manage the investments.

PLANS AND PROSPECTS

Toy Business

The Indonesian factory construction and renovation are expected to fully completed, utilizing all the proceeds from the 2012 Placing as intended before the financial year ending 31 March 2015. Management expects the growth in sales to continue in the second half of FY2014/2015 but gross margin would be affected. The imminent increase in the minimum wages beginning in 2015 plus the additional social and health benefits imposed will increase overall labor costs which ultimately affects our gross margin resulting in gross margin of this segment the lowest among the Group's multiple revenue segments going forward.

To improve the gross margin in the OEM toys manufacturing segment, one of the option is to invest further on factory expansion and production equipment. Management would have to review this segment from time to time to assess whether further investments are justifiable or whether other financing arrangements to support the needed growth should be considered.

As for the Kid Galaxy OBM toy segment, the Management has to constantly review whether further investments are viable in view of the decrease in sales in the first half and the slow recovery of the markets which Kid Galaxy is currently selling in, as the international markets outside the U.S., namely Europe and Asia, which has not contributed much over the last few financial years. Although gross margin is comparable to the Group's newer business segments, but constants requirement of investments into new product development, tooling, marketing and promotion costs are clouding this segment's future.

The Group has been undertaking business reengineering in the past year, which is transforming the Group from a pure toy manufacturer into a multiple revenue streams group. Besides the legacy business, the Group successfully entered commercial kitchen, baby appliance and water purifier businesses during the Period and the Management endeavors to explore more opportunities in these high growth areas with attractive investment return to better unlock shareholder value.

Commercial Kitchen

Commercial kitchen is very fragmented in PRC with no major players in the market. Market growth is driven by increasing demand for dining out as living standard rises, higher environmental standard and fuel cost saving motive. Based on Bosi Data R&D, the market is growing 20% per annum over the last 6 years and is expected to reach RMB50 billion in 2015. The Group's patented advanced infra technology for gas cooking appliances is able to offer the best energy efficiency in the market (70% as compared to the government standard of 45%), which allows more than 50% saving in gas consumption in comparison with traditional blast gas kitchen range. Our products have low Carbon Monoxide emission (20 times less than the national standard), and have quietness and even heating distribution ability. In addition, the Management expects the new government regulation on minimum heat efficiency requirement for commercial kitchen appliances to be implemented in the foreseeable future. With our proprietary products and strong execution ability, the Group has successfully bid a few sizable commercial kitchen EPC projects and the revenue will be booked in second half of FY2014/2015.

Consumer Electronic Product

(i) Baby Appliance

The market for childcare related products and services is huge and fast growing in China, based on the research from CRCCI, the market is approx RMB1.4 trillion in 2013. The recent easing of one-child policy provides more catalysts and the market is expected to be approx RMB2.6 trillion by 2017.

Since the Group entered the baby appliance market in late 2013, the Management has been actively developing and expanding the small baby appliance (i.e. steam cooker, electric sterilizer, bottle & food warmer etc) product line. A new full series of small baby appliance under the brand name of "Haier" "海爾" will be officially launched in the second half of FY2014/2015 and we expect a satisfactory result.

Meanwhile, the Group has further leveraged Haier's world class strength in white appliance, and prepared to launch a series of large baby appliances innovatively adapted from big white appliances such as baby washing machine, baby air-conditioner, baby refrigerator, etc. We kicked off a soft launch of the large baby appliances sales during the Period with very positive feedback and we expect a lot more new products to be launched shortly. We believe we are the only one in the market to provide large baby appliances in sizable volume with a complete catalogue. Overall, with our full spectrum of product line (from small to large), strong brand name ("Haier" and "海爾") and extensive distribution channels, the Management is very confident that this business will bring substantial revenue while enhance the profitability of the Group as a whole.

On 5 August 2014, OIHT entered into the Memorandum of Understanding with BabyTree (Beijing) Consulting Co., Ltd ("Babytree"), the biggest mother and child services platform in the world. Its mother and child community website (www.Babytree.com) has 22 million registered users and 90 million individual visitors per month, covering over 85% of the internet user families in China which includes pregnant women and children under 6 years old. Both OIHT and Babytree agreed to cooperate in the research and development, manufacture, testing, sales and marketing and after-sales service of smart devices for mother and child, primarily the smart digital cloud frame, the baby monitor and preschool education projector, etc. The Directors are of the view that those registered users and visitors from Babytree are potential customers for mother and child smart devices and further believe that the Group will be able to leverage on the expertise of Babytree in web application development and online marketing. With Haier's strong brand name in appliance and unparalleled distribution network, the Board is very optimistic about the prospect of this cooperation.

(ii) Water Purifier

Water purifier in China is a sun-rising market which is characterized by high growth yet fragmentation. In China, consumers are increasingly concerned about water quality due to water pollution caused by various factors. The demand for clean water is increasingly strong and growing fast. Per China Market Monitor Report, the water purifier market penetration rate in developed countries is over 80% whereas only 4% in China, the market size is approx RMB18 billion in 2013 and is expected to reach RMB400 billion by 2020.

Water purifier is a great business with high growth and high profitability. In addition, apart from one time revenue generated from device sale, recurring revenue can also be generated from the replacement of filters which have a lifespan from 6 months to 36 months depending on water quality, daily usage and the function of filter. The Group is pleased to enter this market in time with a strong JV partner, who plays a leading role in the appliance logistics, distribution, installation and after-sales service. With our strong brand name (“Haier” and “海爾”), high grade technology (Besides our own proprietary technology, Haier Group has signed a strategic cooperation agreement with Dow Chemical, to further strengthen the filter quality), unique nationwide water quality database and unparalleled distribution network, the Management is excited about the prospect of this business and the stable cash flow it will generate.

GROUP RESOURCES AND LIQUIDITY

As at 30 September 2014, the Group’s cash and bank balances were approx HK\$140 million (31 March 2014: HK\$116 million). Group’s total borrowings were approx HK\$23 million (31 March 2014: HK\$20 million). The gearing ratio, calculated as the total borrowings divided by shareholders’ equity, was 4% (31 March 2014: 4%). As at 30 September 2014, the Group recorded total current assets of approx HK\$600 million (31 March 2014: HK\$466 million) and total current liabilities approx HK\$181 million (31 March 2014: HK\$43 million). The current ratio of the Group, calculated by dividing the total current assets by the current liabilities, was approx 331% (31 March 2014: 1,084%). The Group recorded an increase in equity from approx HK\$568 million as at 31 March 2014 to a net asset position of approx HK\$587 million as at 30 September 2014. The increase was mainly resulted from the non-cash valuation gain on available-for-sale investments.

Inventories recorded an increase of approx 51% compared to previous year end date of 31 March 2014 and the value of stock in warehouse increased from approx HK\$55 million as at 31 March 2014 to approx HK\$84 million as at 30 September 2014. These are finished goods and materials held mainly in our Indonesian factory and by an independently managed warehouse in the U.S. and Mainland China.

In line with the new businesses expansion, trade receivables recorded an approx 2.3 times increase as at 30 September 2014 to approx HK\$69 million, compared with approx HK\$21 million as at 31 March 2014.

Overall, the Group’s operations have been 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 resources to meet its normal operational and expansion needs.

FOREIGN CURRENCY RISKS

The Group’s exposure to currency risk attributable to trade and other receivables, bank balances, trade and other payables and bank borrowings, are denominated in currencies other than the functional currency of the entity to which they related. The Group currently does not have a foreign currency hedging policy. However, the Management will monitor the foreign exchange exposure and will consider hedging significant foreign currency exposure should the need arise.

SIGNIFICANT INVESTMENTS AND ACQUISITIONS

Saved from those mentioned in this report, the Group did not have any other significant investments or acquisitions or sales of subsidiaries during the Period.

EMPLOYEES

As at 30 September 2014, the Group had approx 3,003 employees and contract workers based in Hong Kong headquarters, Macau office, PRC offices, the Indonesian factory and the U.S. 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.

SUBSTANTIAL SHAREHOLDERS

As at 30 September 2014, 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 Part XV of the Securities and Futures Ordinance ("SFO"):

Name of shareholder	Number of ordinary shares of HK\$0.10 each (Note 1)	Capacity	Approximate percentage of interest
Haier Electrical Appliances Second Holdings (BVI) Limited	1,510,000,000 (L)	Beneficial owner	27.17%
Qingdao Haier Collective Asset Management Association	1,510,000,000 (L) (Note 2)	Interest of controlled corporation	27.17%
Qingdao Haier Investment and Development Co., Ltd.	1,510,000,000 (L) (Note 2)	Interest of controlled corporation	27.17%
Lung Cheong Investment Limited	1,079,082,240 (L)	Beneficial owner	19.42%
Rare Diamond Limited	1,079,082,240 (L) (Note 3)	Interest of controlled corporation	19.42%

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 Haier Electrical Appliances Second Holdings (BVI) Limited, the entire issued share capital of which is wholly-owned by Qingdao Haier Investment and Development Co., Ltd, which is beneficially owned as to 63.42% by Qingdao Haier Collective Asset Management Association.
3. These shares were registered in the name of Lung Cheong Investment Limited, the entire issued share capital of which is owned by Rare Diamond Limited. Rare Diamond Limited is beneficially owned as to 70% by Mr. Leung Lun, M.H., an executive director of the Company, and 30% by Mr. Leung Chung Ming, who is the brother of Mr. Leung Lun, M.H..

Save as disclosed above, as at 30 September 2014, the Directors are not aware of any other person or corporation having an interest or short position in shares and underlying shares of the Company or its associated corporation(s) which would require to be recorded in the register required to be kept by the Company pursuant to section 336 of Part XV of the SFO.

SHARE OPTION SCHEME

The Company operates a share option scheme (the "Scheme") for 10 years from 14 September 2012 to 14 September 2022 and for the purpose of providing incentives and rewards to eligible participants who contribute to the success of the Group's operation. Further details of the Scheme are set out in note 17 to the condensed consolidated interim financial statements and the circular of the Company date 29 August 2012.

On 13 May 2014, share options of 100,000,000 were granted by the Company to the senior management and employees of the subsidiaries, and consultants at exercise price HK\$0.87 per share.

The following table lists the details of movement in the options granted and outstanding under the Scheme during the Period:

Category of participants	Number of share options				Outstanding as at 30 September 2014	Exercise price HK\$	Closing price immediately before the date of grant HK\$	Weighted average closing price immediately before exercise HK\$	Date of grant	Exercise period
	Outstanding as at 1 April 2014	Granted during the period	Exercised during the period	Cancelled/lapsed during the period						
Senior management of the subsidiaries (Note 1)	-	25,000,000	-	-	25,000,000	0.87	0.86	-	13 May 2014	13 May 2014 – 12 May 2017
Employees of the subsidiaries (Note 1)	-	24,000,000	-	-	24,000,000	0.87	0.86	-	13 May 2014	13 May 2014 – 12 May 2017
Consultants (Note 1)	-	51,000,000	-	-	51,000,000	0.87	0.86	-	13 May 2014	13 May 2014 – 12 May 2017
Total	-	100,000,000	-	-	100,000,000					

Note:

- The options are vested in two tranches in the proportion of 40% and 60% on 13 May 2015 and 13 May 2016 respectively.

DIRECTOR'S INTEREST IN COMPETING BUSINESS

As at 30 September 2014, the Directors were not aware of any business or interest of each Director, management shareholder and their respective associate, that competes or may compete with the business of the Group and any other conflict of interest which any such person have or may have with the Group.

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

DIRECTORS' INTERESTS IN EQUITY SECURITIES

As at 30 September 2014, the interests and short positions of each Director and chief executive of the Company in the shares or underlying shares of the Company and its associated corporations within the meaning of Part XV of the SFO as recorded in the register required to be kept under section 352 of Part XV 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 Appendix 10 of 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	1,079,082,240 ordinary shares (L) (Note 2)	19.42%
	Lung Cheong Investment Limited	Interest of controlled corporation	1,000 ordinary shares (L)	100%
	Rare Diamond Limited	Beneficial interest	70 ordinary shares (L)	70%
Fang Fang	The Company	Beneficial interest	12,000,000 ordinary shares (L)	0.21%

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, M.H., an executive director of the Company and 30% by Mr. Leung Chung Ming, who is the brother of Mr. Leung Lun, M.H..

Save as disclosed above, 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 section 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.

DISCLOSURE OF DIRECTORS' INFORMATION PURSUANT TO RULE 13.51B(1) OF THE LISTING RULES

Change of Directors

On 24 September 2014, Mr. Wong, Andy Tze On tendered his resignation as an Executive Director of the Company and Mr. Diao Yunfeng was appointed as an Executive Director of the Company.

Changes of Chairman and Chief Executive Officer and Composition of the Nomination Committee

On 27 October 2014, Mr. Diao Yunfeng, an Executive Director of the Company, was appointed to replace Mr. Leung Lun, M.H., an Executive Director, as the Chairman and Chief Executive Officer and Chairman of the Nomination Committee of the Company. Mr. Leung Lun, M.H. continues to serve the Company as an Executive Director.

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 2014, 50 million shares were issued by the Company on exercise of subscription rights under the warrants from 2012 Placing.

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. was both the Chairman and Chief Executive of the Company throughout the period under review until 26 October 2014. From 27 October 2014, Mr. Diao Yunfeng succeeded Mr. Leung Lun, M.H.. The Board believes that vesting the roles of both Chairman and Chief Executive Officer 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 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 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 financial statements.

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 2014, this interim report and the Group's internal controls.

On behalf of the Board of
Lung Cheong International Holdings Limited

Diao Yunfeng
Chairman and Chief Executive Officer

Hong Kong, 28 November 2014

CORPORATE INFORMATION

Executive Directors

Mr. Diao Yunfeng
(Chairman and Chief Executive Officer)
Mr. Leung Lun, M.H.
Ms. Fang Fang

Independent Non-executive Directors

Mr. Ye Tian Liu
Mr. Lai Yun Hung
Dr. Ko Peter, Ping Wah

Audit Committee

Mr. Lai Yun Hung *(Chairman)*
Mr. Ye Tian Liu
Dr. Ko Peter, Ping Wah

Nomination Committee

Mr. Diao Yunfeng *(Chairman)*
Mr. Ye Tian Liu
Mr. Lai Yun Hung
Dr. Ko Peter, Ping Wah
Ms. Fang Fang

Remuneration Committee

Mr. Ye Tian Liu *(Chairman)*
Mr. Lai Yun Hung
Mr. Leung Lun, M.H.
Dr. Ko Peter, Ping Wah
Ms. Fang Fang

Company Secretary

Mr. Mak Yee Chuen, Vincent

Auditor

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

Legal Advisers on Cayman Islands Law

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

Legal Advisers on Hong Kong Law

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

Registered Office

P.O. Box 309
Ugland House
Grand Cayman
KY1-1104
Cayman Islands

Head Office and Principal Place of Business in Hong Kong

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

Principal Share Registrar and Transfer Office

Maples Fund Services (Cayman) Limited
P.O. Box 1093
Boundary Hall
Cricket Square
Grand Cayman
Cayman Islands
KY1-1102

Hong Kong Branch Share Registrar and Transfer Office

Tricor Abacus Limited
Level 22, Hopewell Centre
183 Queen's Road East
Hong Kong

Listing Information

The Stock Exchange of Hong Kong Limited
Stock Code: 348