LUNG CHEONG INTERNATIONAL HOLDINGS LIMITED
龍昌國際控股有限公司

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

ANNOUNCEMENT OF RESULTS FOR THE YEAR ENDED 31 MARCH 2009

RESULTS

The board of directors (the "Board") of Lung Cheong International Holdings Limited (the "Company") announces the consolidated results of the Company and its subsidiaries (the "Group") for the year ended 31 March 2009 together with the comparative figures for the year ended 31 March 2008 as follows:

CONSOLIDATED INCOME STATEMENT

For the year ended 31 March 2009

	Notes	**2009** **HK$'000**	2008 HK$'000
Turnover	4	**637,224**	799,142
Cost of sales		**(517,656)**	(603,842)
Gross profit		**119,568**	195,300
Other income and gains, net	5	**9,709**	28,002
Selling and distribution expenses		**(33,324)**	(44,026)
General and administrative expenses		**(205,379)**	(153,996)
Revaluation deficit on land and buildings		**(121,827)**	—
Impairment on property, plant and equipment		**(22,097)**	—
Impairment on trade and other receivables, deposits and prepayments		**(21,200)**	—
Write back of provision for damages under lawsuits		**—**	2,805
Operating (loss)/profit	6	**(274,550)**	28,085
Finance costs	7	**(16,515)**	(26,370)
(Loss)/profit before income tax		**(291,065)**	1,715
Income tax credit	8	**2,292**	2,728
(Loss)/profit for the year		**(288,773)**	4,443
Attributable to:			
Equity holders of the Company		**(288,773)**	4,443
Minority interest		**—**	—
		(288,773)	4,443
Dividends	9	**—**	—
(Loss)/earnings per share for (loss)/profit attributable to the equity holders of the Company			
— Basic and diluted	10	**(11.72 cents)**	0.18 cents

CONSOLIDATED BALANCE SHEET

At 31 March 2009

	Notes	2009 HK$'000	2008 HK$'000
ASSETS AND LIABILITIES			
Non-current assets			
Leasehold land and land use rights		**89,582**	97,356
Property, plant and equipment		**307,821**	441,085
Goodwill		**19,240**	19,240
Club memberships		**2,001**	2,474
Deferred tax assets		**4,113**	6,163
		422,757	566,318
Current assets			
Inventories		**204,755**	294,529
Trade and other receivables, deposits and prepayments	*11*	**99,089**	198,762
Derivative financial instruments		**544**	634
Tax recoverable		**1,893**	1,182
Cash and cash equivalents		**26,652**	51,504
		332,933	546,611
Current liabilities			
Trade and other payables and accrued charges	*12*	**125,619**	162,824
Obligations under finance leases	*14*	**6,037**	—
Derivative financial instruments		**317**	1,002
Borrowings	*13*	**250,824**	200,696
Loan from immediate holding company		**—**	50,000
Tax payable		**5,417**	3,983
		388,214	418,505
Net current (liabilities)/assets		**(55,281)**	128,106
Total assets less current liabilities		**367,476**	694,424
Non-current liabilities			
Obligations under finance leases	*14*	**10,342**	—
Borrowings	*13*	**—**	120,000
Provision for long service payment		**1,420**	1,476
Loan from immediate holding company		**50,000**	—
Deferred tax liabilities		**5,511**	10,210
		67,273	131,686
Net assets		**300,203**	562,738
EQUITY			
Share capital		**246,480**	246,480
Reserves		**53,723**	316,258
Total equity		**300,203**	562,738

NOTES TO THE FINANCIAL STATEMENTS

1. Statement of compliance and basis of preparation

(a) Statement of compliance

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

(b) Basis of preparation

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

The preparation of financial statements in conformity with HKFRS requires the use of certain critical accounting estimates. It also requires management to exercise its judgement in the process of applying the Group's accounting policies. The areas involving a higher degree of judgement or complexity, or areas where assumptions and estimates are relatively significant to the consolidated financial statements are disclosed in Note 3.

As at 31 March 2009, the Group's current liabilities exceeded its current assets by approximately HK$55,281,000, and it had outstanding short-term borrowings of approximately HK$256,861,000 which are due for repayment within the next twelve months. Included in the short-term borrowings is an outstanding syndicated loan of approximately HK$109,603,000 in respect of which the Group has breached certain covenants. Further details are set out in Note 13 to the financial statements. These conditions indicate the existence of a material uncertainty which may cast significant doubt about the Group's ability to continue as a going concern and to fulfill its financial obligations. Its ability to do so depends on the continuing supports of the banks to provide financing and the success of management's continuing efforts to improve the Group's profitability and operating cash flow.

The directors consider that the Group has good credit history as it has been servicing its debt obligations according to the loan repayment schedules. The loans are secured by assets of the Group. The directors are confident that the outstanding bank loans will be able to be rolled over when they are due for repayment or the Group will be able to secure additional banking facilities to meet its future working capital and financial requirements. Breaches of bank covenants under the syndicated loan have been reported to respective banks which involved in the syndicated loan on the earliest practical date. The Group is liaising with these banks to relieve some of the bank covenants of the syndicated loan. To the best estimation of the directors of the Company, their discussions will be finalised after the date of these financial statements. Up to the date of these financial statements, there is no withdrawal of banking facilities granted by any of the Group's principal banks. Management will continue to implement a number of measures aiming at improving operating margins and profits, working capital available to us and cash flows of its businesses. On the cost control front, management will continue its initiatives in closely monitoring daily operating expenses and discretionary capital expenditure.

In light of the measures described above and based on the Group's cash flow projection for the coming year, the directors are confident that the Group will have sufficient working capital to meet its financial obligations as and when they fall due and maintain its operating scale in the next twelve months from the balance sheet date. Accordingly, the directors are of the opinion that it is appropriate to prepare these financial statements on a going concern basis. These financial statements do not include any adjustments relating to the carrying amount and reclassification of assets and liabilities that might be necessary should the Group be unable to continue as a going concern.

2. Adoption of new and revised standards

In the current year, the Group has adopted all of the new and revised HKFRSs, which collective term includes all applicable individual Hong Kong Financial Reporting Standards, Hong Kong Accounting Standards ("HKASs") and Interpretations issued by the HKICPA that are relevant to its operations and effective for the current accounting period of the Group and the Company. The adoption of these new and revised HKFRSs did not result in substantial changes to the Group's accounting policies.

The adoption of HK(IFRIC) — Int 12 "Service concession arrangements", HK(IFRIC) — Int 14 "HKAS 19 — The limit on a defined benefit asset, minimum funding requirements and their interaction" and HKAS 39 & HKFRS 7 Amendments "Reclassification of financial assets" has no impact on these financial statements.

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

		Effective date
HKAS 1 (Revised)	Presentation of financial statements	(i)
HKAS 23 (Revised)	Borrowing costs	(i)
HKAS 32 & HKAS 1 (Amendments)	Puttable financial instruments and obligations arising on liquidation	(i)
HKFRS 1 & HKAS 27 (Amendments)	Cost of an investment in a subsidiary, jointly controlled entity or associate	(i)
HKFRS 8	Operating segments	(i)
HK(IFRIC) — Int 15	Agreements for the construction of real estates	(i)
HKFRS 2 (Amendment)	Vesting conditions and cancellations	(i)
	Group cash-settled share-based payment transactions	(vii)
HKFRS 7 (Amendment)	Improving disclosure about financial instruments	(i)
HKAS 27 (Revised)	Consolidated and separate financial statements	(ii)
HKAS 39 (Amendment)	Eligible hedged items	(ii)
HKFRS 1 (Revised)	First-time adoption of HKFRSs	(ii)
HKFRS 3 (Revised)	Business combinations	(ii)
HK(IFRIC) — Int 17	Distribution of non-cash assets to owners	(ii)
HK(IFRIC) — Int 13	Customer loyalty programmes	(iii)
HK(IFRIC) — Int 16	Hedges of a net investment in a foreign operation	(iv)
HK (IFRIC) — Int 9 & HKAS 39 (Amendments)	Embedded derivatives	(v)
HK(IFRIC) — Int 18	Transfers of assets from customers	(vi)
2008 Improvements to HKFRSs that may result in accounting changes for presentation, recognition or measurement	— HKAS 1, HKAS 16, HKAS 19, HKAS 20, HKAS 23, HKAS 27, HKAS 28, HKAS 29, HKAS 31, HKAS 36, HKAS 38, HKAS 39, HKAS 40 & HKAS 41	(i)
	— HKFRS 5	(ii)
2009 Improvements to HKFRSs that may result in accounting changes for presentation, recognition or measurement	— HKAS 39 (80)	(i)
	— HKAS 38, HKFRS 2, HK(IFRIC) — Int 9, HK(IFRIC) — Int 16	(ii)
	— HKAS 1, HKAS 7, HKAS 17, HKAS 36, HKAS 39, HKFRS 5 HKFRS 8	(vii)

Effective date

(i) Annual periods beginning on or after 1 January 2009
(ii) Annual periods beginning on or after 1 July 2009
(iii) Annual periods beginning on or after 1 July 2008
(iv) Annual periods beginning on or after 1 October 2008
(v) Annual periods ending on or after 30 June 2009
(vi) Transfers of assets from customers received on or after 1 July 2009
(vii) Annual periods beginning on or after 1 January 2010

The Group is in the process of making an assessment of what the impact of these new or revised Standards or Interpretations is expected to be in the period of their initial application.

3. Critical accounting estimates and judgements

In the application of the Group's accounting policies, the directors are required to make judgements, estimates and assumptions about the carrying amounts of assets and liabilities that are not readily apparent from other sources. Estimates and judgements are continually evaluated and are based on historical experience and other factors, including expectations of future events that are believed to be reasonable under the circumstances. Actual results differ from these estimates.

The Group makes estimates and assumptions concerning the future. The resulting accounting estimates will, by definition, seldom equal the related actual results. The estimates and assumptions that have a significant risk of causing a material adjustment to the carrying amounts of assets or liabilities are discussed below.

(a) Useful lives, residual values and depreciation of property, plant and equipment

The Group's management determines the estimated useful lives, residual values and related depreciation charges for its property, plant and equipment. This estimate is based on the historical experience of the actual useful lives of property, plant and equipment of similar nature and functions. Management will increase the depreciation charge where useful lives are less than previously estimated lives, it will write-off or write-down technically obsolete or non-strategic assets that have been abandoned. Actual economic lives may differ from estimated useful lives; actual residual values may differ from estimated residual values. Periodic review could result in a change in depreciable lives and residual values and therefore depreciation expense in the future periods.

(b) Impairment of property, plant and equipment and intangible assets

The impairment loss for property, plant and equipment is recognised for the amount by which the carrying amount exceeds its recoverable amount. The recoverable amount of the assets, or, where appropriate, the cash generating unit to which they belong, is the higher of its fair value less costs to sell and value in use. The recoverable amounts are determined based on fair value less costs to sell which are based on the best information available to reflect the amount obtainable at the balance sheet date, from the disposal of the asset in an arm's length transaction between knowledgeable and willing parties, after deducting the costs of disposal. For the estimation of value in use, the Group's management estimates future cash flows from the cash-generating units and chooses a suitable discount rate in order to calculate the present value of those cash flows.

(c) ***Impairment of goodwill***

The Group tests annually whether goodwill has suffered any impairment. For the purposes of impairment reviews, the recoverable amount of goodwill is determined based on value-in-use calculations. The value-in-use calculations primarily use cash flow projections based on ten-year financial budgets approved by management. There are a number of assumptions and estimates involved in the preparation of cash flow projections for the period covered by the approved budgets. Key assumptions include the expected growth in revenues, timing of future capital expenditures, growth rates and selection of discount rates to reflect the risks involved. Management prepares the financial budgets reflecting actual and prior year performance and market development expectations. Judgement is required to determine key assumptions adopted in the cash flow projections and changes to key assumptions can significantly affect these cash flow projections and therefore the results of the impairment reviews.

(d) ***Net realisable value of inventories***

Net realisable value of inventories is the estimated selling price in the ordinary course of business, less estimated costs of completion and variable selling expenses. These estimates are based on the current market condition and the historical experience of manufacturing and selling products of similar nature. It could change significantly as a result of changes in customer taste and competitor actions in response to severe industry cycle. Management reassesses the estimations at each balance sheet date.

(e) ***Trade and other receivables***

The Group's management determines the provision for impairment of trade and other receivables based on an assessment of the recoverability of the receivables. This assessment is based on the credit history of its customers and other debtors and the current market condition. Management reassesses the provision at each balance sheet date.

(f) ***Current taxes and deferred tax***

The Group is subject to income taxes in Hong Kong and Mainland China. There are certain transactions and calculations for which the ultimate tax determination is uncertain during the ordinary course of business. The Group recognises liabilities for anticipated tax issues based on estimates of whether additional taxes will be due. Where the final tax outcome of these matters is different from the amounts that were initially recorded, such differences will impact the current tax and deferred tax provisions in the period in which such determination is made.

Deferred tax assets relating to certain temporary differences and tax losses are recognised when management considers it is likely that future taxable profits will be available against which the temporary differences or tax losses can be utilised. When the expectations are different from the original estimates, such differences will impact the recognition of deferred tax assets and current tax charges in the period in which such estimates have been changed.

4. Turnover and segment information

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

	2009	2008
	HK$'000	*HK$'000*
Turnover		
Sale of goods	**578,627**	714,839
Sale of moulds and materials	**58,597**	84,303
	637,224	799,142

Primary reporting format — business segments

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

Secondary reporting format — geographical segments

	Turnover	**Total assets**	**Capital expenditure**
	2009	**2009**	**2009**
	HK$'000	***HK$'000***	***HK$'000***
United States of America	**199,538**	**45,893**	**523**
Europe	**100,480**	**1,867**	**—**
Japan	**83,475**	**4,709**	**—**
China	**112,051**	**516,144**	**50,501**
Indonesia	**657**	**43,709**	**630**
Hong Kong	**97,550**	**142,687**	**7,549**
Others	**43,473**	**681**	**—**
Total	**637,224**	**755,690**	**59,203**

	Turnover	Total assets	Capital expenditure
	2008	2008	2008
	HK$'000	*HK$'000*	*HK$'000*
United States of America	279,668	47,373	1,470
Europe	131,847	441	—
Japan	101,992	22,445	—
China	110,674	758,657	51,855
Indonesia	1,355	49,592	2,776
Hong Kong	102,455	225,819	3,013
Others	71,151	8,602	2
Total	799,142	1,112,929	59,116

5. Other income and gains, net

	2009	2008
	HK$'000	*HK$'000*
Exchange gains, net	**4,592**	12,192
Gain on disposal of property, plant and equipment	**—**	7,202
Gain on disposal of a subsidiary	**—**	3,125
Interest income	**80**	1,504
Net fair value gain on derivative financial instruments:		
— forward contracts and interest swaps:		
transactions not qualifying as hedges	**1,636**	1,663
Sample income	**1,536**	1,059
Others	**1,865**	1,257
	9,709	28,002

6. Expenses by nature

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

	2009	2008
	HK$'000	*HK$'000*
Cost of inventories sold	**517,656**	603,842
Auditors' remuneration	**1,515**	1,597
Amortisation of leasehold land and land use rights	**2,069**	1,180
Depreciation of property, plant and equipment	**53,675**	39,981
Loss on disposal of property, plant and equipment	**1,703**	—
Bad debts written off	**—**	1,021
Impairment on club membership	**473**	—
Write off of and impairment on inventories	**30,155**	—
Employee benefit expenses	**144,154**	154,949
Operating lease rentals in respect of land and buildings	**3,366**	4,161

7. Finance costs

	2009	2008
	HK$'000	*HK$'000*
Interest on loans and overdraft from banks and financial institutions wholly repayable within five years	**11,971**	24,804
Interest on amount due to the immediate holding company	**3,013**	—
Finance charges on obligations under finance leases	**483**	—
Arrangement fees on bank loans	**1,048**	1,566
	16,515	26,370

8. Income tax credit

No Hong Kong profits tax or Mainland China enterprise income tax have been provided as the Group sustained a loss for the year.

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

	2009	2008
	HK$'000	*HK$'000*
Current tax		
Hong Kong profits tax		
— current year	**—**	—
— under provision in prior years	**(23)**	(79)
Mainland China enterprise income tax		
— current year	**—**	(24)
— over provision in prior years	**155**	—
Deferred tax credit	**2,160**	2,831
Tax credit	**2,292**	2,728

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

	2009	2008
	HK$'000	*HK$'000*
Loss/(profit) before income tax	**291,065**	(1,715)
Tax credit/(charge) calculated at the tax rate of 16.5% (2008: 17.5%)	**48,025**	(300)
Effect of different tax rates in other countries	**15,310**	(21)
Income not subject to taxation	**566**	2,219
Expenses not deductible for taxation purposes	**(15,983)**	(1,055)
Tax exemption	**198**	8,278
Tax losses not recognised	**(46,098)**	(6,758)
Over provision in prior years	**274**	365
Tax credit	**2,292**	2,728

9. Dividends

The directors do not recommend any dividend in respect of the year ended 31 March 2009 (2008: Nil).

10. (Loss)/earnings per share

Basic

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

	2009	2008
	HK$'000	*HK$'000*
(Loss)/profit attributable to equity holders of the Company	**(288,773)**	4,443

	2009	2008
	Number of shares '000	*Number of shares '000*
Issued ordinary shares at beginning of year	**2,464,800**	725,600
Effect of placing arrangement	**—**	78,951
Effect of bonus issue	**—**	1,609,102
Weighted average number of ordinary shares in issue	**2,464,800**	2,413,653
Basic (loss)/earnings per share (HK cents)	**(11.72)**	0.18

The diluted (loss)/earnings per share for the years ended 31 March 2009 and 2008 are same as their basic (loss)/earnings per share as the conversion of the outstanding share options would have an anti-dilutive effect on the basic loss per share for the years.

11. Trade and other receivables, deposits and prepayments

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

	2009	2008
	HK$'000	*HK$'000*
Trade receivables	**87,107**	146,121
Less: Allowance for doubtful debts	**(15,204)**	—
	71,903	146,121
Other receivables, deposits and prepayments	**33,182**	52,641
Less: Provision for impairment	**(5,996)**	—
	27,186	52,641
	99,089	198,762

Prepayments include interest expenses of HK$3,243,000 (2008: HK$Nil) paid on loan from immediate holding company.

(a) The average credit period to the Group's trade debtors is 30 days.

(b) At 31 March 2009, the ageing analysis of the trade receivables was as follows:

	2009	2008
	HK$'000	*HK$'000*
0-90 days	**57,789**	126,962
91-180 days	**3,874**	6,625
181-365 days	**7,536**	5,724
Over 365 days	**2,704**	6,810
	71,903	146,121

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 backgrounds may be offered longer credit terms.

12. Trade and other payables and accrued charges

	2009	2008
	HK$'000	*HK$'000*
Trade payables	**67,462**	97,286
Other payables and accrual charges	**58,157**	65,538
	125,619	162,824

At 31 March 2009, the ageing analysis of the trade payables was as follows:

	2009	2008
	HK$'000	*HK$'000*
0-90 days	**24,716**	74,486
91-180 days	**31,368**	16,445
181-365 days	**6,621**	5,918
Over 365 days	**4,757**	437
	67,462	97,286

13. Borrowings

	2009	2008
	HK$'000	*HK$'000*
Non-current		
Loans from banks and financial institutions	**—**	120,000
Current		
Trust receipt loans	**128,145**	118,514
Loans from banks and financial institutions	**122,679**	82,182
	250,824	200,696
Total borrowings	**250,824**	320,696

(a) At 31 March 2009, the borrowings were repayable as follows:

	2009	2008
	HK$'000	*HK$'000*
On demand or within one year	**250,824**	200,696
After one year but within two years	**—**	45,000
After two years but within five years	**—**	75,000
	250,824	320,696

(b) All borrowings at 31 March 2009 were interest bearing at variable rate. The average effective interest rates at the balance sheet date were as follows:

	2009		2008	
	HKD	***USD***	*HKD*	*USD*
Bank borrowings	**2.4%**	**3.5%**	3.3%	3.7%

(c) During the year, the Group had breached certain covenants in connection with a syndicated loan granted since 2007. The directors of the Company considered the loan was due on demand, if any, and had, therefore, reclassified the non-current portion of the syndicated loan in the amount approximately HK$68,500,000 to current portion. Further details are set out in Note 1(b) to the financial statements.

14. Obligations under finance leases

At 31 March, 2009, the Group had obligations under finance leases repayable as follows:

	Minimum lease payment		Present value of minimum lease payments	
	2009	2008	**2009**	2008
	HK$'000	*HK$'000*	***HK$'000***	*HK$'000*
Within one year	**6,403**	—	**6,037**	—
In the second to fifth year inclusive	**10,594**	—	**10,342**	—
	16,997	—	**16,379**	—
Less: Future finance charges	**(618)**	—		
Present value of lease obligations	**16,379**	—		

It is the Group's policy to lease certain of its property, plant and equipment under finance leases. The average lease terms are 3 to 4 years. All leases are on a fixed repayment basis and no arrangements have been entered into for contingent rental payments.

The Group's obligations under finance leases are secured by the lessors' title to the leased assets.

15. Commitments

(a) Commitments under operating leases

At 31 March 2009, the Group had future aggregate minimum lease payments under non-cancellable operating leases in respect of land and buildings as follows:

	2009	2008
	HK$'000	*HK$'000*
Not later than one year	**3,634**	3,778
Later than one year and not later than five years	**8,481**	12,979
	12,115	16,757

(b) Derivative financial statements

As at 31 March 2009, the Group had outstanding forward foreign currency contracts to purchase approximately US$37,500,000 (2008: approximately US$104,100,000) for approximately HK$292,500,000 (2008: approximately HK$811,980,000).

16. Extracts from independent auditors' report

Extracts from independent auditors' report is set out as follows:

Opinion

In our opinion, the financial statements give a true and fair view of the state of affairs of the Company and the Group as at 31 March 2009 and of the loss and cash flows of the Group for the year then ended in accordance with Hong Kong Financial Reporting Standards and have been properly prepared in accordance with the disclosure requirements of the Hong Kong Companies Ordinance.

Emphasis of matter

Without qualifying our opinion, we draw attention to Note 1(b) to the financial statements which indicates that the company incurred a net loss of approximately HK$288,773,000 during the year ended 31 March 2009 and, as of that date, the Group's current liabilities exceeded its current assets by approximately HK$55,281,000 and it had outstanding short-term bank borrowings of approximately HK$256,861,000 which are due for repayment within the next twelve months. These conditions indicate the existence of a material uncertainty which may cast significant doubt about the Group's ability to continue as a going concern.

CLOSURE OF REGISTER OF MEMBERS

The register of members of the Company will be closed from 22 September 2009 to 25 September 2009 (both dates inclusive), during which period no transfer of shares will be effected. In order to determine the entitlement to attend and vote at the annual general meeting of the Company to be held on 25 September 2009, all transfers accompanied by the relevant share certificates must be lodged with the Company's branch share registrar in Hong Kong, Tricor Abacus Limited, at 26/F, Tesbury Centre, 28 Queen's Road East, Wanchai, Hong Kong not later than 4:30 p.m. on 21 September 2009.

MANAGEMENT DISCUSSION AND ANALYSIS

Results

For the year ended 31 March 2009, the Group's turnover decreased by approximately 20% to approximately HK$637 million, compared with approximately HK$799 million for the corresponding period of last year. Gross profit margin was lowered at approximately 19% compared to approximately 24% for the year ended 31 March 2008. Loss attributable to equity holders of the Company was approximately HK$289 million, whereas the Group recorded a profit of approximately HK$4 million for financial year 2007/2008 ("FY 07/08").

During the period under review, the United States of America ("USA") continued to be the largest market of the Group, accounting for approximately 31% of the Group's total turnover (2008: 35%). The other significant export markets for the Group included Europe and Japan, which remained stable at approximately 16% (2008: 16%) and 13% (2008: 13%) respectively.

Business Review

Founded over 45 years ago, the Group has developed from a small scaled sub-contractor to a full fledged manufacturer. The Group has since public listing in 1997, weathered through the Asia financial crisis and Hong Kong flu epidemic, but the second half of financial year 2008/2009 ("FY 08/09") was the toughest second half we have ever experienced. We envisaged at the beginning of FY 08/09 that it would be another challenging year, but the financial tsunami is like nothing we could have prepared for, let alone being able to gauge it's sudden and lightning impact and damage to the world's economies within such short time and not knowing how long it will take for consumer confidence to normalize.

The results presented in this announcement are evidence of the Group's efforts in tackling the difficulties encountered during FY 08/09. Revenue recorded for FY 08/09 was approximately HK$637 million representing a major decrease of approximately 20% when compared with FY 07/08, attributable to the financial tsunami that was ignited in the later part of 2008 which had led to sudden reduction of orders, delay and termination of productions previously planned.

The toy manufacturing industry was particularly hard hit by dramatic closures and highly publicized liquidation of many toy producers in the Guangdong Province. This has led to further loss of confidence in the industry by suppliers and financers. The tightening of credit from suppliers and restrictive facilities from financial institutions have limited the Group's previous policies of providing attractive credit terms to customers. This revised credit policy has led the Group to reduce trade or discontinue the businesses with certain customers. These actions caused the impairment of leasehold improvements, inventories, production facilities and molds previously invested to meet orders from certain customers.

Our business is concentrated among a selective number of customers. For FY 07/08, approximately 50% of our total revenue was derived from five major customers. Despite our ongoing efforts to expand our customer base, a substantial part of our sales continued to be made to these major customers. The climate during the second half of FY 08/09 has created uncertainties for certain customers, resulting in the Group losing one of its major customers and some major customers reducing, suspending, delaying or canceling their orders in a material way, thus our sales was materially and adversely affected. The Group had to make provision for debts from certain customers who are suffering from the financial impact on their businesses and could not pay for the goods purchased from the Group amounting to approximately HK$15 million. These uncertainties resulted in impairment of certain under-utilised trade marks, abandoned or under performing licenses and molds.

This restructuring process resulted in the concentration of businesses with fewer major customers. Efforts to enlarge the customer base was not rewarding at the time due to uncertainties surrounding the toy market. The Group was also losing certain business in segments where able competitors were offering more attractive prices and payment terms. Turbulence in the toy manufacturing sector had impacted on the Group's suppliers supporting ability in term of credit. Suppliers tended to demand advance payment or reduced credit terms. This increased the pressure on the Group's funding. In return, the Group had to request its customers to revive or shorten previous payment terms in order to match its fund flow.

For the year ended 31 March 2009, the Group's manufacturing plant in Mainland China had to cope with the increase in wages, social security contributions and other welfare benefits, which were common to all manufacturers particularly those located in the Pearl River Delta Region. With the implementation of the new Labour Contract Law in the Mainland China , a complementing social security system among workers was adopted, resulting in the amount of contributions to various schemes being increased in line with the wage increases. Furthermore, insufficient supply of migrant workers in the region during the period had pushed up the wage levels of these workers. Competition among manufacturers for workers had made it necessary for the Group to offer higher wages in order to attract new workers or retain existing employees which added to the cost of goods sold.

Amid sluggishness of the USA and European markets, the tougher testing requirements and slack economy made customers more conservative in placing orders. The Group continued to strive for profitability under the prolonged appreciation of Renminbi ("RMB"), high and unstable crude oil price and general increase in costs of materials. The Group had to weather the high production costs and the limited scope of price increases due to economic slowdown in our major markets. Amid this deteriorating business environment, the Group's overall gross margin was further lowered by a further approximately HK$19 million provision made for reduced, suspended, delayed or canceled orders as well as obsolete, damaged and non compliance materials. This led to an increase in overall cost of goods sold and brought the overall gross margin down to approximately 19% (2008: 24%).

The Group's continued and substantial investment into research and development of wireless and robotic innovations did not contribute as much as anticipated during the year under review, since demands for high priced radio control ("R/C") toys softened tremendously during the second half of FY 08/09. Although the Group's R/C toy business accounted for approximately 69% of total sales during the period under review, revenue from this segment was lowered by more than approximately 10% when compared to FY 07/08.

The Group has been operating the two existing Dongguan factories and also the Indonesian factory. The new Changping factory has been fully operating to date. The wholly-owned Qian Tou factory industrial site is going through re-zoning procedures to convert it into residential/commercial use. The industrial property is at a good location, right next to the Dongguan University of Technology. It ought to fetch a higher return, as the Group intends to its subsequent disposal or redevelopment. However, due to the Group's policy of valuating properties periodically, valuation around year end date resulted in more than HK$120 million of impairment due to the current distress industrial property market.

The Group endured the most challenging period in its 45 years history, incurring loss to such an extent for the first time in the amount of approximately HK$289 million in the preceding year, attributable mainly to the provision made in relation to properties as well as other exceptional factors. Fortunately, with the support of loyal customers and suppliers, the Group made it through the testing times in solid strides. In view of the coming challenges, the directors do not recommend any dividend payment (FY 07/08: NIL) for the year.

Plans and Prospects

Prospects

Globally, the toy industry is expecting a difficult year ahead as the world economy cools and demand for non-essential items falls. Management believes that toys would not be as negatively affected as traditional gifts for birthdays, parties, achievements and festive seasons will stay in places of the Group's major export markets but probably at lesser priced points compared to the past years. However, the USA, Europe and Japan high unemployment and distress property market conditions will continue to deter the sales of high priced electronic toys where it accounts for the Group major source of revenue. Although the Group has been the designated preferred supplier of certain major toy companies, management is unable to ascertain if forecast orders will be delivered as planned due to the weaknesses of these traditional markets. One comforting factor is that the Group deals with market leaders in these categories which are expected to maintain performance or market leadership and repeat previous successes.

To reduce over reliance on any particular geographical regions, the Group steps up its forward business development plans to expand into new markets, and continue to develop its businesses in certain areas of Europe. Specifically, the new distributors in European markets across all Kid Galaxy brands and educational robotic products will continue to grow in Mainland China. The Group has invested into licensing the Fisher Price brand for Kid Galaxy's pre-school R/C toys which is planned for release in the forthcoming toy fairs. A major Japanese customer has placed substantial orders for a Movie related licensed toy products with the Group, these transforming toys should account for a major portion of revenue in the forthcoming financial period.

However, as a category market leader like the Group, which has scalable production capacity and is capable of delivering quality products, the management looks forward to growing reputation of our capabilities in the consolidating market. The Group will have to go through consolidation of its customer base by putting its focus of resources, risks and survival management of two categories of customers: core customers which provide consistent support during the time uncertainties and strategic customers which provide outlets for the continued investment into innovative product development. In addition, seeing signs of certain macroeconomic factors improving, such as slower appreciation of the RMB and the prices of materials being stabilized, the Group remains cautiously optimistic about the market environment in the new financial year.

The Group plans to reallocate resources and scale down production aggressively in the new financial year as a way to control operating costs are in place. The Group will endeavor to trim overheads significantly, improve productivity and control production costs as the toy industry rides out the storm. In order to improve the overall toy manufacturing production efficiency, the Group has to review the viability of the Group's leased Zhou Wu production plant going forward. Reduced scale of the plant will result in saving, in transportation and administrative costs, but may prejudice the Group's overall capacity with expected capacity shortages in future. Management will need to enhance facility utilization and production efficiency of the two existing Dongguan plants. The Group will continue to restructure production with lowering manufacturing costs as the goal.

The Group's alternate production base in Indonesia enjoys the lower labour costs. The Indonesian factory currently enjoys favorable advantages over the Mainland China and other Asian countries due to plentiful supply of labour and the competitive local currencies, the Rupiah. However, the continuance of this positive environment will depend largely on the continued stability as shown in outcome of the country's presidential election, but over shadowed by the recent explosion incidents in its capital, Jakarta. The Group has completed the acquisition of the remaining 40% of the subsidiary by issuing 26,000,000 shares in the company, details of which are set out on the announcement dated 24 September 2008.

Looking ahead, operational conditions are challenging and manufacturing costs seem to be declining or stabilizing. The world's economies have been hard hit by the fallout of the financial crisis leading it into unprecedented credit crunch. The Group would still be facing adverse factors, such as the potential appreciation of the RMB and increasing costs in administering the testing of toys to enhance products safety. Hopefully the stability in crude oil price would continue, so that raw material costs would be reduced or stabilized accordingly. Management remains confidence of the Group's ability to seize this unique opportunity to consolidate its market leadership amid exit of weaker players.

GROUP RESOURCES AND LIQUIDITY

As at 31 March 2009, the Group's cash and bank balances amounted approximately HK$27 million (2008: approximately HK$52 million). The Group's total borrowings amounted approximately HK$317 million (2008: HK$371 million). The gearing ratio, calculated as the total borrowings less cash and bank balances and divided by shareholders' equity, was approximately 97% (2008: approximately 57%). As at 31 March 2009, the Group recorded total current assets of approximately HK$333 million (2008: approximately HK$547 million) and total current liabilities of approximately HK$388 million (2008: approximately HK$419 million). The current ratio of the Group, calculated by dividing the total current assets by total current liabilities, was approximately 0.86 (2008: approximately 1.31). The Group recorded a decrease in shareholders' funds from approximately HK$563 million as at 31 March 2008 to approximately HK$300 million as at 31 March 2009. The decrease was mainly derived from operating loss, revaluation deficit on land and buildings and impairment of on property, plant and equipment.

The Group's continued operation relies upon the support from the financial institutions. Facilities are provided on the basis that certain financial and operational undertakings are complied with. Breaches of bank covenants under the syndicated loan have all been reported to the respective banks at the earliest possible opportunity. In view of the current economy climate, the Group is liaising with these banks to request a waiver of the relevant financial covenants on the term loan and trade facilities. In the opinion of the Board, the Group will soon finalize the request with the support of the banks and is able to obtain sufficient financial resources to meet its future operational needs.

EMPLOYEES

As at 31 March 2009, the Group had approximately 4,170 employees. Approximately 60, 3,899, 200 and 11 employees were based in Hong Kong, the Dongguan factories, the Indonesian factory and the USA 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 practice.

MODEL CODE OF SECURITIES TRANSACTIONS BY DIRECTORS

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

PURCHASE, SALE OR REDEMPTION OF LISTED SECURITIES

Neither the Company, nor any of its subsidiaries has purchased, redeemed or sold any of the Company's shares during the period under review.

CORPORATE GOVERNANCE

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

A detailed Corporate Governance Report setting out the Group's framework of governance and explanation about how the provisions of the CG Code have been applied will be included in the Company's Annual Report 2008/2009.

AUDIT COMMITTEE

The Audit Committee of the Company comprises three independent non-executive directors, namely Mr YE Tian Liu, Mr WONG Lam, O.B.E., J.P., and Mr LAI Yun Hung and a non-executive director, namely Mr KO Peter, Ping Wah.

The principal activities of the Audit Committee of the Company include the review and supervision of the Group's financial reporting process and internal controls. The Company's annual result for the year ended 31 March 2009 have been reviewed by the Audit Committee.

PUBLICATION OF RESULTS ANNOUNCEMENT

This 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

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

By Order of the Board
Leung Lun
Chairman

Hong Kong, 31st July 2009

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