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 2010

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 2010 together with the comparative figures for the year ended 31 March 2009 as follows:

CONSOLIDATED STATEMENT OF COMPREHENSIVE INCOME

For the year ended 31 March 2010

	Notes	**2010** **HK$'000**	2009 HK$'000
Turnover	3	**402,402**	637,224
Cost of sales		**(322,586)**	(517,656)
Gross profit		**79,816**	119,568
Other income and gains, net	4	**9,102**	9,709
Selling and distribution expenses		**(27,433)**	(33,324)
General and administrative expenses		**(203,204)**	(205,379)
Revaluation deficit on land and buildings		**—**	(121,827)
Impairment on property, plant and equipment		**(18,910)**	(22,097)
Impairment on trade and other receivables		**(859)**	(21,200)
Operating loss	5	**(161,488)**	(274,550)
Finance costs	6	**(11,925)**	(16,515)

	Notes	**2010** *HK$'000*	2009 *HK$'000*
Loss before income tax		**(173,413)**	(291,065)
Income tax (expense)/credit	*7*	**(1,540)**	2,292
Loss for the year		**(174,953)**	(288,773)
Other comprehensive income, after tax:			
Exchange differences arising on translation of foreign operations		**7,527**	21,730
Gain on revaluation of land and buildings, net		**—**	4,508
Other comprehensive income for the year		**7,527**	26,238
Total comprehensive income for the year		**(167,426)**	(262,535)
Loss for the year attributable to:			
Owners of the Company		**(174,953)**	(288,773)
Minority interest		**—**	—
		(174,953)	(288,773)
Total comprehensive income attributable to:			
Owners of the Company		**(167,426)**	(262,535)
Minority interest		**—**	—
		(167,426)	(262,535)
Loss per share attributable to the owners of the Company			
— Basic and diluted	*9*	**(6.40) cents**	(11.72) cents

CONSOLIDATED STATEMENT OF FINANCIAL POSITION

As at 31 March 2010

	Notes	2010 HK$'000	2009 HK$'000
ASSETS AND LIABILITIES			
Non-current assets			
Leasehold land and land use rights		**87,708**	89,582
Property, plant and equipment		**254,762**	307,821
Goodwill		**19,240**	19,240
Club memberships		**2,001**	2,001
Deferred tax assets		**2,097**	4,113
		365,808	422,757
Current assets			
Inventories		**107,120**	204,755
Trade and other receivables, deposits and prepayments	*10*	**47,151**	99,089
Derivative financial instruments		—	544
Tax recoverable		**1,836**	1,893
Cash and cash equivalents		**43,858**	26,652
		199,965	332,933
Current liabilities			
Trade and other payables and accrued charges	*11*	**82,537**	125,619
Obligations under finance leases		**6,330**	6,037
Derivative financial instruments		—	317
Borrowings	*12*	**208,743**	250,824
Tax payable		**6,081**	5,417
		303,691	388,214
Net current liabilities		**(103,726)**	(55,281)
Total assets less current liabilities		**262,082**	367,476

CONSOLIDATED STATEMENT OF FINANCIAL POSITION

As at 31 March 2010

	Notes	2010 HK$'000	2009 HK$'000
Total assets less current liabilities		**262,082**	367,476
Non-current liabilities			
Obligations under finance leases		**4,625**	10,342
Provision for long service payment		**1,922**	1,420
Loan from immediate holding company		**50,000**	50,000
Deferred tax liabilities		**4,436**	5,511
		60,983	67,273
Net assets		**201,099**	300,203
EQUITY			
Share capital		**295,776**	246,480
Reserves		**(94,677)**	53,723
		201,099	300,203
Minority interest		**—**	—
Total equity		**201,099**	300,203

NOTES TO THE FINANCIAL STATEMENTS

1. Statement of compliance and basis of measurement and going concern assumption

(a) Statement of compliance

The financial statements have been prepared in accordance with all applicable HKFRSs and Hong Kong Accounting Standards ("HKAS") and Interpretations. 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.

(b) Basis of measurement and going concern assumption

The financial statements have been prepared under the historical cost convention except that the land and buildings are carried at revalued amount and certain financial instruments are carried at fair value.

The preparation of financial statements in conformity with HKFRSs 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 to the financial statements.

As at 31 March 2010, the Group's current liabilities exceeded its current assets by approximately HK$103,726,000 and it had outstanding short-term borrowings of approximately HK$215,073,000 which are due for repayment within the next twelve months. Included in the short-term borrowings is an outstanding syndicated loan of HK$68,502,000 in respect of which the Group has breached certain covenants. Further details are set out in Note 12 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 therefore, the Group may not be able to realise its assets and discharge its liabilities in the normal course of business. Its ability to do so depends on the continuing supports of the lenders and the success of management's continuing efforts to improve the Group's profitability and operating cash flows.

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 certain assets of the Group. The Directors are confident that the outstanding loans will be able to roll 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 of the syndicated loan had been reported to respective lenders on the earliest practical date. The Group is liaising with these lenders to waive some of the covenants of the syndicated loan. To the best estimation of the directors of the Company, the discussion 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 working capital 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 expenditures.

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 end of reporting period. 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 hong kong financial reporting standards ("HKFRSs")

(a) The Group has adopted the following new/revised HKFRSs issued by the Hong Kong Institute of Certified Public Accountants ("HKICPA") that are effective for the current accounting period and relevant to the Group.

HKFRSs (Amendments)	Improvements to HKFRSs issued in 2008, except for the amendment to HKFRS 5 that is effective for annual periods beginning on or after 1 July 2009
HKFRSs (Amendments)	Improvements to HKFRSs issued in 2009 in relation to the amendment to paragraph 80 of HKAS 39
HKAS 1 (Revised)	Presentation of Financial Statements
HKAS 23 (Revised)	Borrowing Costs
HKFRS 1 and HKAS 27 (Amendment)	Cost of an Investment in a Subsidiary, Jointly Controlled Entity or Associate
HKFRS 2 (Amendment)	Vesting Conditions and Cancellations
HKFRS 7 (Amendment)	Improving Disclosures about Financial Instruments
HKFRS 8	Operating Segments

The adoption of the above new/revised HKFRSs had no material effect on the reported results or financial position of the Group for both the current and prior reporting periods, except for the following changes:

HKAS 1 (Revised), Presentation of Financial Statements

The revised standard affects certain disclosures of financial statements. Under the revised standard, the Income Statement, the Balance Sheet and the Cash Flow Statement are renamed as the "Statement of Comprehensive Income", the "Statement of Financial Position" and the "Statement of Cash Flows" respectively. All income and expenses arising from transactions with non-owners are presented under the "Statement of Comprehensive Income"; while the owners' changes in equity are presented in the "Statement of Changes in Equity".

HKFRS 8, Operating Segments

HKFRS 8 replaces HKAS 14 "Segment Reporting", and requires operating segments to be identified on the basis of internal reports of the Group that are regularly reviewed by the chief operating decision-maker in order to allocate resources to the segments and to assess their performance. As the business segments reported by the Group in accordance with the requirements of HKAS 14 are the same as the operating segments provided to the chief operating decision-maker as required by HKFRS 8, there are no changes to the operating segments and the relevant segment information on the adoption of HKFRS 8.

(b) Potential impact arising on HKFRSs not yet effective

The following new or revised HKFRSs, potentially relevant to the Group's operations, have been issued but are not yet effective and have not been early adopted by the Group.

HKFRSs (Amendments)	Amendment to HKFRS 5 as part of Improvements to HKFRSs [1]
HKFRSs (Amendments)	Improvements to HKFRSs 2009 [2]
HKFRSs (Amendments)	Improvements to HKFRSs 2010 [3]
Amendments to HKFRS 2	Share-based Payment – Group Cash-settled Share-based Payment Transactions [4]
HKAS 27 (Revised)	Consolidated and Separate Financial Statements [1]
HKFRS 3 (Revised)	Business Combinations [1]
HK(IFRIC) — Interpretation 19	Extinguishing Financial Liabilities with Equity Instruments [5]
HKAS 24 (Revised)	Related Party Disclosures [6]
HKFRS 9	Financial Instruments [7]

1 Effective for annual periods beginning on or after 1 July 2009

2 Effective for annual periods beginning on or after 1 July 2009 and 1 January 2010, as appropriate

3 Effective for annual periods beginning on or after 1 July 2010 and 1 January 2011, as appropriate

4 Effective for annual periods beginning on or after 1 January 2010

5 Effective for annual periods beginning on or after 1 July 2010

6 Effective for annual periods beginning on or after 1 January 2011

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

3. 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:

	2010	2009
	HK$'000	*HK$'000*
Sale of goods	**377,907**	578,627
Sale of moulds and materials	**24,495**	58,597
	402,402	637,224

On the adoption of HKFRS 8, the Group has identified and prepared segment information based on the regular internal financial information reported to the Group's senior management for their assessment of performance and resource allocation. The Group's operation is managed as a single business segment.

(a) Information about the Group's revenue and operations by geographical region, according to the location of customers and assets is as follows:

	Turnover	**Non-current assets**
	HK$'000	***HK$'000***
For the year ended 31 March 2010		
United States of America	**151,300**	**39,407**
Europe	**72,310**	**—**
Japan	**39,800**	**—**
China	**71,119**	**277,570**
Indonesia	**8,407**	**8,805**
Hong Kong	**31,702**	**34,398**
Others	**27,764**	**5,628**
Total	**402,402**	**365,808**

	Turnover	Non-current assets
	HK$'000	*HK$'000*
For the year ended 31 March 2009		
United States of America	199,538	22,806
Europe	100,480	—
Japan	83,475	—
China	112,051	322,080
Indonesia	657	12,345
Hong Kong	97,550	49,364
Others	43,473	16,162
Total	637,224	422,757

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

	2010	2009
	HK$'000	*HK$'000*
Radio control/wireless product	**177,808**	441,067
Electronic and plastic toys	**208,200**	115,585
Consumer electronic products	**16,394**	80,572
	402,402	637,224

(c) Information on major customers is as follows:

For the year ended 31 March 2010, revenues from three external customers had contributed to more than 49% of the Group's revenue amounting to HK$199,363,000. Other than these customers, there is no other customer whose revenue contributed to more than 10% of the Group's revenue.

For the year ended 31 March 2009, revenues from two external customers had contributed to more than 29% of the Group's revenue amounting to HK$186,244,000. Other than these customers, there is no other customer whose revenue contributed to more than 10% of the Group's revenue.

4. Other income and gains, net

	2010	2009
	HK$'000	*HK$'000*
Sample income and others	**5,826**	3,401
Exchange gains, net	**2,993**	4,592
Interest income	**283**	80
Net fair value gain on derivatives financial instruments:		
— forward contracts and interest-rate swaps transactions not qualifying as hedges	**—**	1,636
	9,102	9,709

5. Expenses by nature

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

	2010	2009
	HK$'000	*HK$'000*
Cost of inventories sold	**322,586**	517,656
Amortisation of leasehold land and land use rights	**1,874**	2,069
Auditor's remuneration	**1,601**	1,515
Depreciation of property, plant and equipment	**45,340**	53,675
Loss on disposal of property, plant and equipment	**—**	1,703
Impairment loss for trade and other receivables, deposits and prepayments	**1,370**	21,200
Recovery of impairment loss for trade receivables previously recognised	**(511)**	—
Impairment on club membership	**—**	473
Employee benefit expenses	**126,149**	144,154
Operating lease rentals in respect of land and buildings	**2,925**	3,366
Compliance and testing fee	**1,485**	2,490

6. Finance costs

	2010	2009
	HK$'000	*HK$'000*
Interest on loans and overdraft from banks and financial institutions wholly repayable within five years	**8,301**	13,019
Interest on loan from immediate holding company	**3,243**	3,013
Finance charges on obligations under finance leases	**381**	483
	11,925	16,515

7. Income tax (expense)/credit

No Hong Kong profits tax has been provided as the Group sustained a loss in Hong Kong for the year (2009: Nil).

The amount of tax (expense)/credit in the consolidated statement of comprehensive income represents:

	2010	2009
	HK$'000	*HK$'000*
Current tax		
Hong Kong profits tax		
— under provision in prior years	**—**	(23)
Mainland China enterprise income tax		
— current year	**(1,178)**	—
— over provision in prior years	**—**	155
Deferred tax (expense)/credit	**(362)**	2,160
Income tax (expense)/credit	**(1,540)**	2,292

8. Dividends

The directors do not recommend any dividend in respect of the year ended 31 March 2010 (2009: Nil).

9. Loss per share

Basic

The calculation of basic loss per share is based on the loss attributable to owners of the Company of HK$174,953,000 (2009: HK$288,773,000) and the weighted average number of 2,732,010,550 (2009: 2,464,800,000) ordinary shares in issue during the year.

Diluted

The diluted loss per share for the years ended 31 March 2010 and 2009 are same as their basic loss 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.

10. Trade and other receivables, deposits and prepayments

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

	2010	2009
	HK$'000	*HK$'000*
Trade receivables	**52,803**	87,107
Less: Allowance for doubtful debts	**(16,063)**	(15,204)
	36,740	71,903
Other receivables, deposits and prepayments	**16,407**	33,182
Less: Provision for impairment	**(5,996)**	(5,996)
	10,411	27,186
	47,151	99,089

(a) At 31 March 2010, the ageing analysis of the trade receivables net of allowance for doubtful debts was as follows:

	2010	2009
	HK$'000	*HK$'000*
0-90 days	**31,255**	57,789
91-180 days	**3,103**	3,874
181-365 days	**507**	7,536
Over 365 days	**1,875**	2,704
	36,740	71,903

11. Trade and other payables and accrued charges

	2010	2009
	HK$'000	*HK$'000*
Trade payables	**46,898**	67,462
Other payables and accrued charges	**35,639**	58,157
	82,537	125,619

At 31 March 2010, the ageing analysis of the trade payables was as follows:

	2010	2009
	HK$'000	*HK$'000*
0-90 days	**26,832**	24,716
91-180 days	**15,387**	31,368
181-365 days	**4,044**	6,621
Over 365 days	**635**	4,757
	46,898	67,462

12. Borrowings

	2010	2009
	HK$'000	*HK$'000*
Trust receipt loans	**79,604**	128,145
Loans from banks and financial institutions	**129,139**	122,679
	208,743	250,824

i) At 31 March 2010, the borrowings were repayable as follows:

	2010	2009
	HK$'000	*HK$'000*
On demand or within one year	**208,743**	250,824

ii) All borrowings at 31 March 2010 were interest bearing at variable rate. The average effective interest rates at the end of reporting period were as follows:

	2010		2009	
	HKD	***USD***	*HKD*	*USD*
Bank borrowings	**2.4%**	**3.3%**	2.4%	3.3%

iii) The Group had breached certain covenants in connection with a syndicated loan granted since 2007. The directors of the Company consider the syndicate loan of HK$68,502,000 (2009: HK$109,603,000) is due on demand. Further details are set out in Note 1(b) to the financial statements.

13. Commitments under operating leases

At 31 March 2010, the Group had future aggregate minimum lease payments under non-cancellable operating leases in respect of land and buildings as follows:

	2010	2009
	HK$'000	*HK$'000*
Not later than one year	**3,498**	3,634
Later than one year and not later than five years	**4,841**	8,481
	8,339	12,115

Operating lease payments represent rentals payable by the Group on its leased properties. Leases are negotiated for an average term of two years and rentals are fixed over the terms of the leases.

14. Acquisition of additional interest in a subsidiary

On 24 September 2008, Lung Cheong Asia Holdings Limited, a wholly-owned subsidiary of the Company, entered into an agreement with minority shareholders (the "Vendors") of P.T. Lung Cheong Brothers Industrial (the "PTLC"), a 60% owned subsidiary of the Group to acquire the remaining 40% equity interest of the issued share capital of PTLC at a consideration of HK$3,900,000 (the "Acquisition") which to be satisfied by the issue and allotment of shares of the Company at an issued price of HK$0.15 each to the Vendors. Further details are set out in the Company's announcement and circular dated 25 September 2008 and 16 October 2008 respectively.

On 23 September 2008, a resolution was duly passed by the independent shareholders and the Acquisition was subsequently completed on 25 June 2009. The market price of the Company's share as at the date of completion was HK$0.17 per share. An aggregate of 26,000,000 ordinary shares of HK$0.10 each were allotted and issued to the Vendors as consideration of HK$4,420,000 of the Acquisition. At the date of completion, HK$2,600,000 and HK$1,820,000 was credited to share capital and share premium, respectively. The transaction with minority interest has been accounted for as equity transaction, accordingly, differences between the consideration and the carrying value of minority interest were recognised directly in equity and attributed to the owners of the Company.

15. Subsequent event after the reporting period

On 12 July 2010, the Group entered into a letter of intent with an independent third party in relation to the possible acquisition of group of entities which principally engage in aircraft leasing business with total consideration of HK$6,000,000,000. This possible acquisition is subject to the satisfaction of a due diligence review and the negotiation and finalization of the terms and conditions of a formal agreement. Further details are set out in the Company announcement dated 13 July, 2010.

16. Extract from independent auditor's report

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 2010 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 matters

Without qualifying our opinion, we draw attention to Note 3(b) to the financial statements which indicates that the Group incurred a net loss of approximately HK$174,953,000 during the year ended 31 March 2010 and, as of that date, the Group's current liabilities exceeded its current assets by approximately HK$103,726,000 and it had outstanding short-term borrowings of approximately HK$215,073,000 that are due for repayment within the next twelve months. These conditions, along with other matters set forth in Note 3(b), 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 26 August 2010 to 31 August 2010 (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 31 August 2010, 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 25 August 2010.

MANAGEMENT DISCUSSION AND ANALYSIS

Results

For the year ended 31 March 2010, the Group's turnover decreased to approximately HK$402 million, compared with approximately HK$637 million for the corresponding period of last year. Gross profit margin steady at at approximately 20% compared with approximately 19% for the year ended 31 March 2009. Loss attributable to equity holders of the Company was approximately HK$175 million, compared to a loss of approximately HK$289 million recorded for financial year 2009/2010 ("FY 09/10"). In view of the results, the directors do not recommend any dividend payment for the year (FY 08/09: NIL).

Business Review

Listed on the Hong Kong Stock Exchange since September 1997, the Group has weathered through the Asia financial crisis and Hong Kong flu epidemic. The FY 09/10 was one of the most challenging period the Group has ever experienced. Although we envisaged at the beginning of FY 09/10 that it would be a competitive year, the financial tsunami continued to affect the Group's major markets being United States ("US"), Europe and Japan, where business environment remained cautious. The slack worldwide economies made customers more conservative in placing orders in particular the higher priced electronic toys. The toy manufacturing industry was particularly hard hit as demand for non-essential consumer items fell and concentrated expenditures on lower priced point electronic and plastic toys. The Group recorded approximately 80% increase of sales in this segment.

The results presented in this report are evidence of the difficulties encountered during FY 09/10. Revenue for FY 09/10 decreased by approximately 37% when compared with that for FY 08/09, mainly attributable to the financial tsunami that ignited in 2008 which caused almost 60% reduction of orders for the Group's primary revenue source, radio control ("R/C") toys and wireless premium hobby products. The global financial crisis had adversely impact certain customers' abilities to maintain category position, passing on cost increases and continue ordering high-end quality Original Design Manufacturing ("ODM") products. These inabilities eventually led weaker customer to exit the R/C business and reduction of business with R/C segment customers that seek low margin products.

For the year ended 31 March 2010, the Group's manufacturing plants in Mainland China had to cope with the increase in wages, which were common to all manufacturers particularly those located in the Pearl River Delta Region with the implementation of the new Labour Contract Law. 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 staff and workers had made it necessary for the Group to offer higher wages in order to attract new, retain and relocate existing employees resulted in relatively high direct labour, general and administration costs during FY09/10.

The Group continued to strive for profitability under the strong value 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 had 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 impacted by provision made for obsolete, damaged and specified materials catered for delayed, discontinued products, cancellation projects and orders. This led to relative high cost of goods sold and keep the gross margin steady at approximately 20% (FY 08/09: 19%).

During the period under review, the US continued to be the largest market of the Group, accounting for approximately 38% of the Group's total turnover (FY 08/09: 31%). The other significant export markets for the Group included Europe and Japan, which remained stable at approximately 18% (FY 08/09: 16%) and approximately 10% (FY 08/09: 13%) respectively. The lower sales value of higher priced point complex items were mainly due to economic uncertainties affecting the Group's customers' premium products in these markets.

The Group has been operating the two existing Dongguan factories being Changping and Zhou Wu and the Indonesian factory during the year under review. However, due to reduced orders in the final quarter of FY09/10, production were temporary consolidated within the Changping factory resulted in having to impair redundant facilities and compensate employees who wished to remain in the Zhou Wu area. Pursuant to the Group's policy of evaluating the useful lives and utilization rate of the Group's assets such as molds and production facilities periodically, management assessment resulted in more than HK$19 million of impairment on property, plants and equipment that were under utilized in FY09/10. For the period under review, the Group's lower revenue for the period did not match with the relative production and administration costs relating to our investments into Changping factory and depreciation of newly added equipment and molds in recent years, thus capital expenditures on internal quality control laboratories, upgrading production facilities and modernization of equipment during the period under review was lowered to approximately HK$7 million.

Due to the challenging manufacturing environment in the Mainland China in the FY 09/10, the relocation of more production to the Group's South East Asian plant in Indonesia was necessary. By doing so, the Group has alleviated part of the cost pressure. The Serang factory in Indonesia, at peak production stage during the period under review accounted for approximately 14% (FY 08/09: 4%) of Group's turnovers, was employing over a thousand workers, including seasonal contract labour. The Mainland China factories employed fewer workers compared to the same period of previous years.

On 18 September 2009, the Company entered into a Placing Agreement in which the Placing Agent has procured to place 466,958,000 existing shares at a price of HK$0.15 per share. The subscription shares of 466,958,000 shares represent approximately 18.75% of the existing issued share capital of the Company as at the date and approximately 15.79% of the issued share capital of the Company as enlarged by the subscription. The net proceeds of approximately HK$68 million were used for the general working capital of the Group as set out in the announcement dated 18 September 2009.

In FY 09/10, the toy industry endured the most challenging period in the Group's over 45 years history. The Group incurred loss in the amount of approximately HK$175 million, attributable mainly to impairment, provisions as well as other exceptional factors. Fortunately, with the support of committed investors, loyal customers and suppliers, the Group made it through the testing times in solid strides.

Plans and Prospects

Globally, the toy industry continues its reform triggered by recent years toy recalls and taking time to recuperate as demand for non-essential items recovers. Management is concerned that the recent financial crisis in few European countries may slowdown overall economy recovery. Furthermore, factors such as the volatility of raw materials prices, ever increasing energy costs, the appreciation of the RMB, labour shortages and the periodic increase in statutory minimum wages leading to increasing labour costs are expected to affect the Group's Mainland China operations. Despite these challenges, shipment in the first quarter of financial year 2010/2011 ("FY 10/11") has been strong with both Changping and the reopened Zhou Wu factories operating at near full capacity.

The Group's alternate production base in Indonesia currently enjoys favorable advantages over Mainland China and other Asian countries such as plentiful supply of labour and competitive labour costs. The positive environment seems to continue and the Group looks forward to optimistic growth in Indonesia's profitability. The Management remains confident of the Group's ability to seize this unique opportunity to consolidate its production position amid exit of weaker players with production facilities solely based in Guangdong Province.

The Group continues its belief about the importance of investing a portion of sales in product development. Ongoing resources are being allocated to the development of innovative products to secure our strength and leadership. We continue focus our resources and efforts in two categories of customers: growing with core customers, providing consistent support during the time of uncertainties, and expanding the base of strategic customers, providing outlets for our continued investment into innovative product development.

To reduce over reliance on any particular geographical regions, the Group steps up its business development into new markets, specifically with new distributors of Kid Galaxy products in European markets. Kid Galaxy, which accounted for over 19% (FY 08/09: 13%) of the Group's turnover in FY09/10, has licensed the Fisher Price brand for pre-school toys for major markets. The licensed products have been released and receiving favorable respond in our expanded distribution channels. Mainland China is another important growth market that the Group will capitalize on. Our distribution network in Mainland China has expanded with the increasing number of exhibitions organized and sponsored by government in order to promote local sales. In addition to the traditional department store counters, the Group is opening new sales channels such as supermarkets, wholesalers, Internet and other specialty retailers. Our educational robotic product line will continue to grow as more schools offer the subject of robotic study to students and its revenue will be fostered by local and international competitions.

The Group will consolidate the production efficiency of the two existing Dongguan plants into one eventually, aiming to lower the overall manufacturing overhead, transportation and administrative costs. Besides, measures will continue to be adopted to enhance productivity. These measures include replacing machines of low efficiency and high maintenance effort, streamlining workflow, revision of work practice and parameters, and exploring opportunities for utlitising the idle capacity. The Group will endeavor to trim overheads significantly, improve productivity and control production costs while the toy industry rides out the storm.

The Group continues to seek diversified income source. An executive team has been setup since December 2009 to look into possibility of mergers, acquisitions and divestments and to further reduce the Group reliance on primary ODM/Original Equipment Manufacturing ("OEM") income stream. The executive team has engaged professionals with the purpose of reengineering the Group into profitable structure.

The Board wish to advise that on 12 July 2010, the Company and Future Empire Limited (the Purchaser), a company incorporated in the British Virgin Islands with limited liability and a newly incorporated wholly-owned subsidiary of the Company entered into a Letter of Intend with an independent third party, which sets out the parties' intention in relation to the proposed acquisition of the entire equity interests in Flying Pace Limited, which principally engages in aircraft leasing business. Details of the Proposed Acquisition are further set out in the Announcement dated 13 July 2010.

GROUP RESOURCES AND LIQUIDITY

As at 31 March 2010, the Group's cash and bank balances amounted approximately HK$44 million (2009: HK$27 million). The Group's total borrowings amounted approximately HK$270 million (2009: HK$317 million). The gearing ratio, calculated as the total borrowings less cash and bank balances and divided by shareholders' equity, was approximately 111% (2009: 97%). As at 31 March 2010, the Group recorded total current assets of approximately HK$200 million (2009: HK$333 million) and total current liabilities of approximately HK$303 million (2009: HK$388 million). The current ratio of the Group, calculated by dividing the total current assets by total current liabilities, was approximately 0.66 (2009: 0.86). The Group recorded a decrease in shareholders' funds from approximately HK$300 million as at 31 March 2009 to approximately HK$201 million as at 31 March 2010. The decrease was mainly derived from operating loss and impairment 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 have all been reported to the respective lenders at a timely manner. The Group has been liaising with lenders to obtain waivers for these relevant financial covenants. In the opinion of the Board, the Group may soon finalize the request with the support of the lenders and is able to obtain sufficient financial resources to meet its future operational needs.

EMPLOYEES

As at 31 March 2010, the Group had approximately 3,891 employees and contract workers. Approximately 56, 2,904, 919 and 12 workforce 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 2009/2010.

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 Dr KO Peter, Ping Wah.

The principal activities of the Audit Committee of the Company include the review and supervision of the Group's financial reporting process and internal controls. The Company's annual result for the year ended 31 March 2010 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, which had enabled us to overcome the challenges encountered during the year. My appreciation also goes to our investors, customers, bankers and suppliers for their support to the Group during challenging times in the year past.

By Order of the Board
Leung Lun
Chairman

Hong Kong, 23 July 2010

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., Dr. Ko Peter, Ping Wah and Mr. Lai Yun Hung.