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 2011

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 2011 together with the comparative figures for the year ended 31 March 2010 as follows:

CONSOLIDATED STATEMENT OF COMPREHENSIVE INCOME
For the year ended 31 March 2011

	Note	**2011** *HK$'000*	2010 *HK$'000*
Turnover	*3*	**538,036**	402,402
Cost of sales		**(449,199)**	(322,586)
Gross profit		**88,837**	79,816
Other income and gains, net	*4*	**11,665**	9,102
Selling and distribution expenses		**(42,874)**	(27,433)
General and administrative expenses		**(160,644)**	(203,204)
Impairment on property, plant and equipment		**(80,366)**	(18,910)
Reversal of impairment/(impairment) on trade and other receivables		**614**	(859)
Operating loss	*5*	**(182,768)**	(161,488)
Finance costs	*6*	**(13,338)**	(11,925)
Loss before income tax		**(196,106)**	(173,413)
Income tax expense	*7*	**(1,398)**	(1,540)
Loss for the year		**(197,504)**	(174,953)

	Note	2011 HK$'000	2010 HK$'000
Other comprehensive income:			
Exchange differences arising on translation of foreign operations		**1,056**	7,527
Reversal of revaluation gain on land and buildings		**(9,341)**	—
Release of income tax relating to reversal of revaluation gain on land and buildings		**1,822**	—
Other comprehensive income for the year, net of tax		**(6,463)**	7,527
Total comprehensive income for the year		**(203,967)**	(167,426)
Loss for the year attributable to:			
Owners of the Company		**(197,504)**	(174,953)
Non-controlling interests		**—**	—
		(197,504)	(174,953)
Total comprehensive income attributable to:			
Owners of the Company		**(203,967)**	(167,426)
Non-controlling interests		**—**	—
		(203,967)	(167,426)
Loss per share attributable to the owners of the Company			
— Basic and diluted	9	**(6.68) cents**	(6.40) cents

CONSOLIDATED STATEMENT OF FINANCIAL POSITION

As at 31 March 2011

	Note	2011 *HK$'000*	2010 *HK$'000*
ASSETS AND LIABILITIES			
Non-current assets			
Leasehold land and land use rights		**—**	87,708
Property, plant and equipment		**26,600**	254,762
Goodwill		**19,240**	19,240
Club memberships		**—**	2,001
Deferred tax assets		**1,694**	2,097
		47,534	365,808
Current assets			
Inventories		**28,661**	107,120
Trade and other receivables, deposits and prepayments	*10*	**41,059**	47,151
Tax recoverable		**151**	1,836
Cash and cash equivalents		**13,723**	43,858
		83,594	199,965
Assets of a disposal group classified as held for sale	*11*	**351,294**	—
		434,888	199,965
Current liabilities			
Trade and other payables and accrued charges	*12*	**16,928**	82,537
Obligations under finance leases		**3,721**	6,330
Borrowings	*13*	**18,190**	208,743
Tax payable		**3**	6,081
		38,842	303,691
Liabilities of a disposal group classified as held for sale	*11*	**391,772**	—
		430,614	303,691
Net current assets/(liabilities)		**4,274**	(103,726)
Total assets less current liabilities		**51,808**	262,082

CONSOLIDATED STATEMENT OF FINANCIAL POSITION

As at 31 March 2011

	Note	**2011** *HK$'000*	2010 *HK$'000*
Total assets less current liabilities		**51,808**	262,082
Non-current liabilities			
Obligations under finance leases		**604**	4,625
Provision for long service payment		**1,683**	1,922
Loan from immediate holding company		**50,000**	50,000
Deferred tax liabilities		**2,389**	4,436
		54,676	60,983
Net (liabilities)/assets		**(2,868)**	201,099
EQUITY			
Share capital		**295,776**	295,776
Reserves		**(298,644)**	(94,677)
		(2,868)	201,099
Non-controlling interests		**—**	—
Total (deficit)/equity		**(2,868)**	201,099

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 all applicable HKFRSs and Hong Kong Accounting Standards ("HKAS") and Interpretations (hereinafter collectively referred to as the "HKFRSs"). 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 non-current asset (or disposal group) classified as held for sale are carried at the lower of its carrying amount and fair value less costs to sell.

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

The Group incurred a net loss of approximately HK$197,504,000 during the year ended 31 March 2011 and, as of that date, the Group was in net liabilities position of approximately HK$2,868,000. 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 to provide financing 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 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. 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.

(c) Functional and presentation currency

The consolidated financial statements are presented in Hong Kong dollars ("HK$"), which is the same as the functional currency of the Company.

2. ADOPTION OF HKFRSs

(a) Adoption of new/revised HKFRSs — effective on 1 April 2010

HKFRSs (Amendments)	Improvements to HKFRSs
Amendments to HKAS 39	Eligible Hedged Items
Amendments to HKFRS 2	Share-based Payment — Group Cash-settled Share-based Payment Transactions
HKAS 27 (Revised)	Consolidated and Separate Financial Statements
HKFRS 3 (Revised)	Business Combinations
HK(IFRIC) — Interpretation 17	Distributions of Non-cash Assets to Owners
HK Interpretation 5	Presentation of Financial Statements — Classification by the Borrower of a Term Loan that Contains a Repayment on Demand Clause

The adoption of these new/revised HKFRSs has no significant impact on Group's financial statements.

HKFRS 3 (Revised) — Business Combinations and HKAS 27 (Revised) — Consolidated and Separate Financial Statements

This revised HKFRS is effective prospectively for business combinations effected in financial periods beginning on or after 1 July 2009. Changes in HKFRS 3 include the valuation of non-controlling interest, the accounting for transaction costs, the initial recognition and subsequent measurement of a contingent consideration and business combinations achieved in stages. These changes impact the amount of goodwill and the results in the period that an acquisition occurs and future results. The adoption of revised HKFRS 3 has had no impact to the financial statements as there has been no business combination transaction during the year.

The revised HKAS 27 requires that a change in the ownership interest of a subsidiary (without loss of control) is accounted for as a transaction with owners in their capacity as owners, accordingly, such transactions are recognised within equity. When control is lost and any remaining interest in the entity is re-measured to fair value, and a gain or loss is recognised in profit or loss. The adoption of revised HKAS 27 has had no impact on the current year.

HKAS 17 (Amendments) — Leases

As part of Improvements to HKFRSs issued in 2009, HKAS 17 has been amended in relation to the classification of leasehold land. Before the amendment to HKAS 17, the Group was required to classify leasehold land as operating leases and to present leasehold land as prepaid lease payments in the statement of financial position. The amendment to HKAS 17 has removed such a requirement and requires that the classification of leasehold land should be based on the general principles set out in HKAS 17, that is, whether or not substantially all the risks and rewards incidental to ownership of a leased asset have been transferred to the lessee. The Group concluded that the classification of such leases as operating leases continues to be appropriate.

HK Interpretation 5 — Presentation of Financial Statements — Classification by the Borrower of a Term Loan that Contains a Repayment on Demand Clause

The Interpretation is a clarification of an existing standard, HKAS 1 Presentation of Financial Statements. It sets out the conclusion reached by the HKICPA that a term loan which contains a clause which gives the lender the unconditional right to demand repayment at any time shall be classified as a current liability in accordance with paragraph 69(d) of HKAS 1 irrespective of the probability that the lender will invoke the clause without cause. The adoption of HK Interpretation 5 has had no impact on the financial statements in current and prior years.

(b) New/revised HKFRSs that have been issued but are not yet effective

The following new/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:

		Effective date
HKFRSs (Amendments)	Improvements to HKFRSs 2010	(i) & (ii)
HK(IFRIC) — Interpretation 19	Extinguishing Financial Liabilities with Equity Instruments	(i)
HKAS 24 (Revised)	Related Party Disclosures	(ii)
Amendments to HKFRS 7	Disclosure — Transfers of Financial Assets	(iii)
HKFRS 9	Financial Instruments	(iv)

Effective date:

(i) Annual periods beginning on or after 1 July 2010
(ii) Annual periods beginning on or after 1 January 2011
(iii) Annual periods beginning on or after 1 July 2011
(iv) Annual periods beginning on or after 1 January 2013

HKAS 24 (Revised) clarifies and simplifies the definition of related parties. It also provides for a partial exemption of related party disclosure to government-related entities for transactions with the same government or entities that are controlled, jointly controlled or significantly influenced by the same government.

The amendments to HKFRS 7 improve the derecognition disclosure requirements for transfer transactions of financial assets and allow users of financial statements to better understand the possible effects of any risks that may remain with the entity on transferred assets. The amendments also require additional disclosures if a disproportionate amount of transfer transactions are undertaken around the end of a reporting period.

Under HKFRS 9, financial assets are classified into financial assets measured at fair value or at amortised cost depending on the entity's business model for managing the financial assets and the contractual cash flow characteristics of the financial assets. Fair value gains or losses will be recognised in profit or loss except for those non-trade equity investments, which the entity will have a choice to recognise the gains and losses in other comprehensive income. HKFRS 9 carries forward the recognition and measurement requirements for financial liabilities from HKAS 39, except for financial liabilities that are designated at fair value through profit or loss, where the amount of change in fair value attributable to change in credit risk of that liability is recognised in other comprehensive income unless that would create or enlarge an accounting mismatch. In addition, HKFRS 9 retains the requirements in HKAS 39 for derecognition of financial assets and financial liabilities.

The Group is in the process of making an assessment of the potential impact of these new/revised HKFRSs and the directors so far concluded that the application of these new/revised HKFRSs will have no material impact on results and the financial position of the Group.

3. TURNOVER AND SEGMENT INFORMATION

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

	2011	2010
	HK$'000	*HK$'000*
Sale of goods	**532,726**	377,907
Sale of moulds and materials	**5,310**	24,495
Total revenue	**538,036**	402,402

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:

	Revenue	**Non-current assets**
	HK$'000	***HK$'000***
For the year ended 31 March 2011		
United States of America and Canada	**301,835**	**21,031**
Europe	**116,857**	**—**
Japan	**26,451**	**—**
China	**24,653**	**—**
Indonesia	**20,214**	**21,705**
Hong Kong	**7,211**	**4,798**
Others	**40,815**	**—**
Total	**538,036**	**47,534**

	Revenue	Non-current assets
	HK$'000	*HK$'000*
For the year ended 31 March 2010		
United States of America and Canada	151,300	39,407
Europe	72,310	—
Japan	39,800	—
China	71,119	277,570
Indonesia	8,408	8,805
Hong Kong	31,702	34,398
Others	27,763	5,628
Total	402,402	365,808

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

	2011	2010
	HK$'000	*HK$'000*
Radio control/wireless product	**197,694**	177,808
Electronic and plastic toys	**315,045**	208,200
Consumer electronic products	**25,297**	16,394
	538,036	402,402

(c) Information on major customers is as follows:

For the year ended 31 March 2011, revenues from three external customers had contributed to more than 59% of the Group's revenue amounting to HK$317,444,000. 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 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.

4. OTHER INCOME AND GAINS, NET

	2011	2010
	HK$'000	*HK$'000*
Sample income and others	**6,410**	5,826
Exchange gains, net	**4,993**	2,993
Interest income	**262**	283
	11,665	9,102

5. EXPENSES BY NATURE

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

	2011	2010
	HK$'000	*HK$'000*
Cost of inventories sold	**449,199**	322,586
Amortisation of leasehold land and land use rights	**1,932**	1,874
Auditors' remuneration	**1,467**	1,601
Depreciation of property, plant and equipment	**26,177**	45,340
Loss on disposal of property, plant and equipment	**33**	—
Impairment loss on trade and other receivables	**49**	1,370
Recovery of impairment loss on trade and other receivables previously recognised	**(663)**	(511)
Employee benefits expense	**155,602**	126,149
Operating lease rentals in respect of land and buildings	**2,837**	2,925
Compliance and testing fee	**2,229**	1,485

6. FINANCE COSTS

	2011	2010
	HK$'000	*HK$'000*
Interest on loans and overdraft from banks and financial institutions wholly repayable within five years	**10,969**	8,301
Interest on loan from immediate holding company	**2,102**	3,243
Finance charges on obligations under finance leases	**267**	381
	13,338	11,925

7. INCOME TAX EXPENSE

No Hong Kong profits tax has been provided as the Group sustained a loss in Hong Kong for the year (2010: Nil).

The amount of tax expense in the consolidated statement of comprehensive income represents:

	2011	2010
	HK$'000	*HK$'000*
Current tax		
Hong Kong profits tax	**—**	—
Mainland China enterprise income tax		
— current year	**(1,356)**	(1,178)
— over provision in prior year	**20**	—
Deferred tax expense	**(62)**	(362)
Income tax expense	**(1,398)**	(1,540)

8. DIVIDENDS

The directors do not recommend any dividend in respect of the year ended 31 March 2011 (2010: 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$197,504,000 (2010: HK$174,953,000) and the weighted average number of 2,957,758,000 (2010: 2,732,010,550) ordinary shares in issue during the year.

Diluted

The diluted loss per share for the year ended 31 March 2011 is same as the basic loss per share as there is no potential ordinary share outstanding during the year.

The diluted loss per share for the year ended 31 March 2010 is same as the 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 year.

10. TRADE AND OTHER RECEIVABLES, DEPOSITS AND PREPAYMENTS

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

	2011	2010
	HK$'000	*HK$'000*
Trade receivables	**46,690**	52,803
Less: Allowance for doubtful debts	**(8,195)**	(16,063)
	38,495	36,740
Other receivables, deposits and prepayments	**8,560**	16,407
Less: Provision for impairment	**(5,996)**	(5,996)
	2,564	10,411
	41,059	47,151

At 31 March 2011, the ageing analysis of the trade receivables net of allowance for doubtful debts was as follows:

	2011	2010
	HK$'000	*HK$'000*
0-90 days	**31,133**	31,255
91-180 days	**2,456**	3,103
181-365 days	**4,126**	507
Over 365 days	**780**	1,875
	38,495	36,740

11. ASSETS AND LIABILITIES OF A DISPOSAL GROUP CLASSIFIED AS HELD FOR SALE

Pursuant to an agreement dated 28 January 2011 and a supplemental agreement dated 24 March 2011 entered between the Company and Brisk Mark Holdings Limited, which is owned by Mr. Leung Chung Ming and Mr. Leung, Kenneth Yuk Wai, the Company would dispose of its entire interests in the subsidiaries which are mainly engaged in manufacture of toys and moulds in the Mainland China (the "Disposal"). Details are set out in the Company's announcement and circular dated 28 January 2011 and 25 March 2011 respectively.

12. TRADE AND OTHER PAYABLES AND ACCRUED CHARGES

	2011	2010
	HK$'000	*HK$'000*
Trade payables	**1,327**	46,898
Other payables and accrued charges	**15,601**	32,188
Provision of long severance payments	**—**	3,451
	16,928	82,537

At 31 March 2011, the ageing analysis of the trade payables was as follows:

	2011	2010
	HK$'000	*HK$'000*
0-90 days	**1,150**	26,832
91-180 days	**161**	15,387
181-365 days	**16**	4,044
Over 365 days	**—**	635
	1,327	46,898

13. BORROWINGS

	2011	2010
	HK$'000	*HK$'000*
Current		
Trust receipt loans	**18,190**	79,604
Loans from banks and financial institutions	**—**	129,139
Total borrowings	**18,190**	208,743

i) At 31 March 2011, the borrowings were repayable as follows:

	2011	2010
	HK$'000	*HK$'000*
On demand or within one year	**18,190**	208,743

ii) All borrowings at 31 March 2011 were interest bearing at variable rate. The average effective interest rates at the end of reporting period were as follows:

	2011		2010	
	HKD	***USD***	*HKD*	*USD*
Bank borrowings	**3.9%**	**N/A**	2.4%	3.3%

14. COMMITMENTS UNDER OPERATING LEASES

At 31 March 2011, the Group had future aggregate minimum lease payments under non-cancellable operating leases in respect of land and buildings as follows:

	2011	2010
	HK$'000	*HK$'000*
Not later than one year	**322**	3,498
Later than one year and not later than five years	**705**	4,841
	1,027	8,339

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.

15. SUBSEQUENT EVENT AFTER THE REPORTING PERIOD

The ordinary resolution of approving the Disposal was duly passed by way of poll by the shareholders at the extraordinary general meeting held on 12 April 2011. At the date of approval of this financial statements, the management is still in the process of preparing the completion account of the disposed group for the finalisation of consideration. Therefore, the Company is not yet in a position to disclose neither the final result of this Disposal attributable to the Company nor other relevant financial information of the Group subsequent to the Disposal.

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 2011 and of the Group's loss and cash flows 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$197,504,000 during the year ended 31 March 2011 and, as of the date, the Group was in net liabilities position of approximately HK$2,868,000. 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 16 August 2011 to 19 August 2011 (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 19 August 2011, 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 15 August 2011.

BUSINESS REVIEW AND PROSPECTS

Results

For the year ended 31 March 2011 ("FY10/11"), the Group's turnover increased by 34% to approximately ("approx") HK$538 million, compared with approx HK$402 million for the year ended 31 March 2010 ("FY09/10").

Gross profit margin for FY10/11 decreased to 17% compared to 20% in FY09/10. However, loss attributable to owners of the Company was approx HK$198 million, compared with a loss of approx HK$175 million in FY09/10.

In view of the results, the Directors do not recommend the payment of any dividend for the year ended 31 March 2011 (FY09/10: Nil).

Business Review

It has been a year of great challenges for the Group amid a resurgent, yet highly volatile global market, the Group has continued with its strategic refocusing, forging ahead with its roadmap to identify new opportunities, develop and expand its core business, while near-completing the divestment of its more competitive business interests.

For FY10/11, with the Group's major export destinations being the United States ("US") of America and Canada ("North America"), Europe and Japan, the market environment remains competitive and challenging. The after effects of the financial tsunami and muted worldwide economies have made customers conservative in placing orders, especially in the premium priced electronic toys segment. Fewer sales of premium priced items were mainly due to economic uncertainties affecting the products of our customers in these markets. However, amid this uncertain business environment, the Group's overall sales for the year recorded an increase. During FY10/11, North America continued to be the largest export area for the Group, accounting for approx. 56% of total turnover (FY09/10: 38%). Other significant overseas markets for the Group included Europe and Japan, which accounted for approx 22% (FY09/10: 18%) and approx 5% (FY09/10: 10%) respectively. The Group's investments into the development of lower priced innovative electronic and plastic toys and strengthening the customer base in this segment have been rewarded as a great portion of products shipped during this financial year were mainly less complex, medium to low priced products which accounted for approx 59% of sales in FY10/11. Shipment of radio control toys continued to be low, therefore the Group's dedicated efforts toward the radio control ("R/C") toy business segment continued to be affected. Overall, the Group's R/C toy business accounted for 37% of total sales during FY10/11, lower than the 44% recorded in this segment in the previous financial year.

For FY10/11 the Group's manufacturing plants in Mainland China had to cope with an increase in worker's remunerations which affected all manufacturers, particularly those located in the Pearl River Delta Region. Furthermore, insufficient supply of migrant workers into the region during the year had pushed up the wage levels and overtime expenses of the Group. Competition among manufacturers for staff and workers had made it necessary for the Group to offer higher wages and better benefits in order to attract new employees and to retain existing employees. This resulted in lower gross margin due to relatively high direct labour, general and administration costs during year under review.

The Group continued to strive for profitability under the strong value of the Renminbi ("RMB"), weakness of the United States dollar ("US$"), 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 the economic slowdown in our major markets. Amid this competitive business environment and relatively higher cost of goods sold, the Group's gross margin for the year was lower at approx 17% (FY09/10: 20%). Due to the challenging manufacturing environment in the People's Republic of China ("PRC") in the FY10/11, it was necessary to utilize more of the production capacity at the Group's South East Asian plant in Indonesia to alleviate partial cost pressure. The Serang factory in Indonesia, at peak production stage during the period under review, was employing record number of seasonal contract labour. The PRC factories employed fewer workers as compared with the same period in previous years. The Serang factory in Indonesia, during the year under review contributed to approx 15% (FY09/10: 14%) of Group's turnover.

During the year under review, the Group operated the two existing PRC factories being Changping and Zhou Wu. However, due to increased orders in FY10/11, major production processes were consolidated within the Changping factory and certain production processes remained in the Zhou Wu factory. For the year under review, the Group's increased revenue and lower gross margin did not match with the increased selling and distribution expenses amounting to approx HK$43 million and administration costs amounting to approx HK$161 million in FY10/11 relating to our investments into the Changping factory and depreciation of newly added equipment and moulds in recent years, plus capital expenditures on internal quality control laboratories, upgrading production facilities to meet stringent requirements and modernization of equipment over the years.

As reported in the interim report of the Company for the six months ended 30 September 2010 (the "Interim Report") and the annual report for the year ended 31 March 2010 ("the 2010 Annual Report"), the Group continues to face escalating wages in the area where the Group's Mainland China factories are located and an unstable supply of migrant workers for its manufacturing plants. The Group's profitability had been adversely affected by the high production cost which was aggravated by the strong value of RMB and weakness of the US$. On the other hand, due to the under-utilization of certain plant and equipment in Mainland China manufacturing plants, Management of the Company considered that the Group's revenue did not generate income that matched with the costs relating to its recent investments in its Mainland China manufacturing plants.

In light of the operating difficulties in Mainland China and the economic uncertainties in the Group's major business sectors, the Group entered into a disposal agreement and supplemental agreement ("Disposal Agreements") on 28 January 2011 and 24 March 2011 respectively for the disposal of the entire issued capital of Lung Cheong (BVI) Holdings Limited ("LC (BVI)"); and loans owing by LC (BVI) or any other member of the disposed group to the Company and/or the remaining group for an aggregate consideration of HK$18 million in cash , subject to adjustment ("Disposal"). As part of the disposal, a revaluation on property, plant and equipment was required, resulting in an impairment of HK$80 million in FY10/11. Details of the Disposal are further set out in the announcement dated 25 March 2011. Pursuant to the Listing Rules, the Disposal was approved by the Independent Shareholders at the Company's Extraordinary General Meeting held on 12 April 2011.

On 12 July 2010, the Group, through its wholly-owned subsidiary, Future Empire Limited signed a Letter of Intent on Equity Transfer ("Letter of Intent") with Robust Hero Limited, an indirectly wholly-owned subsidiary of HNA Group Co., Ltd ("HNA Group"), the fourth largest airline in Mainland China, in order to acquire all equity interests and the aircraft leasing business of HNA Group (Hong Kong) Co., Limited and Hong Kong International Aviation Leasing Company Limited (the "Target Companies") under HNA Group, details of the proposed acquisition are further set out in the announcement dated 13 July 2010 ("proposed acquisition"). This proposed acquisition was subject to the satisfaction of a due diligence review and the negotiation and finalisation of the terms and conditions of a formal agreement. The proposed acquisition did not materialize, as both parties could not reach a final agreement within six months of the Letter of Intent per the announcement dated 12 January 2011.

PLANS AND PROSPECTS

Globally, the toy industry continues to recuperate as demand for non-essential items recovers. Management is concerned that the recent financial crisis in a few European countries and the aftermath of the Japanese earthquake may slowdown the overall global economic recovery. Furthermore, factors such as the volatility of raw materials prices, ever increasing energy costs, the weakness of the US$ and appreciation of the Indonesian currency the Rupiah, may lead to increasing production costs which are expected to affect the Group's operations. Despite these challenges, shipment in the early stages of financial year 2011/2012 ("FY11/12") have been steady with the Group being involved in the production of toys relating to a major block buster movie sequel as well as top selling electronic bug toys.

As mentioned in the Interim Report and the 2010 Annual Report, the Group continues to seek diversified income sources and to further reduce the Group's reliance on its primary Original Equipment Manufacturing ("OEM") income stream. The Disposal is therefore one of the Company's stated corporate strategies. Whilst the Remaining Group will retain some of the OEM business with the Company's existing customers, it will focus on the design, development, sales and marketing of its own Kid Galaxy brand of products and gradually position the Remaining Group as an Own Brand Manufacturing ("OBM") operator.

The Disposal would release the Company from future capital requirement and management resources for the Disposal Group plus the high operating cost for the Mainland China manufacturing plants as compared to that in Indonesia. 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 our Indonesian plant. The Management remains confident of the Group's ability to seize this unique opportunity to consolidate its market position amid exit of weaker players with production facilities solely based in Mainland China in particular Guangdong Province.

The Group continues to streamline the production efficiency of the Indonesian plant 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 cost, streamlining workflow, revision of work practice and parameters, and exploring opportunities for utlitising idle seasonal capacity. The Group will endeavor to trim overheads, improve productivity and control production costs while the toy industry rides out the storm.

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. The turnover of Kid Galaxy, closed to 20% (FY09/10: 19%) of the Group's turnover for the current financial year. The Group has developed over 20 proprietary brands of toys over the past ten years and the major brands are Elite Fleet, DRV, Morphibians, GoGo Auto, KG Flyer, Steel Force, World of Wheels and My First RC (website: www.kidgalaxy.com) for sales to the North American and the European markets. The Group has also obtained the license of the Fisher Price brand for the design, development, sales and marketing of pre-school toys mainly in the North American market. The branded toys and licensed products have been launched and received favorable response in our expanded distribution channels. Europe is another important growing market that the Group will capitalize on. Our distribution network in Europe has expanded with the increasing number of exhibitions organized and sponsored by the distributors, importers and agents in order to promote sales. In addition to the traditional department store counters, the Group is exploring new sales channels in North America such as supermarkets, wholesalers, Internet and other specialty retailers. Our sales will continue to grow as more brands and new toy innovations are developed and the sales will be fostered by promotion programs by Kid Galaxy sales and marketing teams.

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 to focus our resources and efforts in two categories of customers: growing with strategic OEM 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 under the Kid Galaxy brands.

The Group will engage in the development, engineering, manufacture and sale of toys on an OBM and OEM basis. The Group's own branded toy items will be sold through its distribution channels including department stores and specialty shops and to its customers including importers and agents. Upon completion of the Reorganisation and considering that the Group's disposed of its entire interests in LC (BVI) and most of its subsidiaries ("Disposed Segment") as set out in our announcement dated 25 March 2011, it is evident that Kid Galaxy OBM and Indonesia OEM are becoming the main contributor towards the Group's profits and corroborates our belief that the Group's readjustment of strategic focus will eventually bear fruits.

Despite the inconclusive proposed acquisition, a task group is actively looking into all possibility of mergers, acquisitions and divestments to further reduce the Group's reliance on primary Original Design Manufacturing ("ODM") and OEM income stream and to seek alternate source of revenue from new venture would add value to stakeholders thereon.

GROUP RESOURCES AND LIQUIDITY

For the year ended 31 March 2011, the Group's turnover increased by approx 34% to approx HK$538 million, compared with approx HK$402 million in the corresponding year. Gross profit margin decreased to approx 17% compared to previous corresponding year's 20% while net loss of the Group was approx HK$198 million for the year ended 31 March 2011. For the year ended 31 March 2011, with the Group's major export destinations being US of North America, Europe and Japan, and the markets remain competitive and challenging. However, amid this uncertain business environment, the Group's overall financial position for the year ended 31 March 2011 remained stable.

As at 31 March 2011, the Group's total borrowings including shareholders loan of HK$50 million amounted to about HK$366 million with about HK228 million repayable on demand or within one year and about HK$138 million repayable after one year. All borrowings denominated in Hong Kong dollars and RMB and bore interest at floating rates. The Group recorded total current assets of approx HK$435 million and total current liabilities of approx HK$431 million. The current ratio of the Group, calculated by dividing the total current assets by total current liabilities was 101%. The Group recorded a decrease in shareholders' funds from approx HK$201 million as at 31 March 2010 to a deficit of approx HK$3 million as at 31 March 2011. The decrease was mainly resulting from loss from operations and impairment on revaluation of properties on disposal. Bearing unforeseen circumstance upon completion of the Disposal, shareholders' fund would show a net asset position in next reporting period.

EMPLOYEES

As at 31 March 2011, the Group had approx 4,562 employees and contract workers. Approx 57, 3,782, 711, and 12 of the workforce were based in Hong Kong headquarters, the PRC plants, the Indonesian factory and the US office respectively. The number of employees of the Group varies from time to time depending on production needs and they are remunerated based on industry practices.

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 2010/2011.

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.

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 2011 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".

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

28 June 2011

As at the date of this announcement, the directors of the Company are Mr. Leung Lun, Mr. Wong, Andy Tze On, the independent non-executive Director are Mr. Ye Tian Liu, Mr. Wong Lam, O.B.E., J.P., and Mr. Lai Yun Hung.