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 2007

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 2007 together with the comparative figures for the year ended 31 March 2006 as follows:

CONSOLIDATED INCOME STATEMENT
For the year ended 31 March 2007

	Note	**2007** HK$'000	2006 HK$'000
Turnover	3	**704,815**	750,620
Cost of sales		**(496,628)**	(534,951)
Gross profit		**208,187**	215,669
Other gains — net	4	**10,158**	3,363
Selling and distribution expenses		**(37,108)**	(40,511)
General and administrative expenses		**(142.959)**	(139,576)
Provision for damages under lawsuits	13	**(47,644)**	—
Operating (loss)/profit	5	**(9,366)**	38,945
Finance costs	6	**(27,131)**	(23,701)
(Loss)/profit before income tax		**(36,497)**	15,244
Income tax (charge)/credit	7	**(779)**	565
(Loss)/profit for the year		**(37,276)**	15,809

Attributable to:			
Equity holders of the Company		**(37,219)**	16,673
Minority interest		**(57)**	(864)
		(37,276)	15,809
Dividends	*8*	**—**	—
(Loss)/earnings per share for (loss)/profit attributable to the equity holders of the Company during the year			
— Basic	*9*	**(6.86 cents)**	3.30 cents

BALANCE SHEET

At 31 March 2007

	Note	2007 HK$'000	2006 HK$'000
ASSETS AND LIABILITIES			
Non-current assets			
Intangible assets		**21,714**	21,714
Leasehold land and land use rights		**47,415**	47,458
Property, plant and equipment		**437,042**	387,409
Available-for-sale financial assets		**—**	28,103
Deferred income tax assets		**3,239**	4,872
		509,410	489,556
Current assets			
Inventories		**241,608**	188,295
Trade and other receivables, deposits and prepayments	*10*	**194,593**	254,422
Derivative financial instruments		**369**	450
Current tax recoverable		**416**	2,512
Restricted cash	*11*	**48,138**	—
Cash and cash equivalents		**42,585**	89,752
		527,709	535,431

Current liabilities			
Trade and other payables and accrued charges	*12*	**112,100**	92,084
Provision	*13*	**47,644**	—
Derivative financial instruments		**672**	105
Borrowings		**303,297**	472,292
Current income tax liabilities		**6,957**	7,438
		470,670	571,919
Net current assets/(liabilities)		**57,039**	(36,488)
Total assets less current liabilities		**566,449**	453,068
Non-current liabilities			
Borrowings		**93,600**	—
Provision for long service payment		**1,554**	1,196
Deferred income tax liabilities		**10,037**	13,366
		105,191	14,562
Net assets		**461,258**	438,506
EQUITY			
Share capital		**72,560**	48,373
Reserves		**388,698**	390,076
Equity attributable to equity holders of the Company		**461,258**	438,449
Minority interest		**—**	57
Total equity		**461,258**	438,506

NOTES TO THE FINANCIAL STATEMENTS

1. Statement of compliance and basis of preparation

The financial statements have been prepared under the historical cost convention, as modified by the revaluation of freehold land and buildings, available-for-sale financial assets, financial assets and financial liabilities (including derivative financial instruments) at fair value through profit or loss, which are carried at fair value.

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 disclosure requirements of the Hong Kong Companies Ordinance and the disclosure provisions of the Rules Governing the Listing of Securities on the Stock Exchange of Hong Kong Limited.

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.

2. Adoption of new and revised Standards

In the current year, the Group has adopted all of the new and revised HKFRSs issued by HKICPA that are relevant to its operations and effective for annual reporting periods beginning on and after 1 December 2005, 1 January 2006 or 1 March 2006. The adoption of these new and revised HKFRSs did not result in substantial changes to the Group's accounting policies nor have affected the amounts reported for the current or prior years.

At the date of authorisation of these financial statements, the following HKFRSs which are relevant to the Group were in issue but not yet effective:

		Effective for annual periods beginning on or after
HKAS 1 (Amendment)	Capital Disclosures	1 January 2007
HKFRS 7	Financial Instruments: Disclosures	1 January 2007
HKFRS 8	Operating Segments	1 January 2009
HK(IFRIC) — Int 8	Scope of HKFRS 2	1 May 2006
HK(IFRIC) — Int 9	Reassessment of Embedded Derivatives	1 June 2006
HK(IFRIC) — Int 10	Interim Financial Reporting and Impairment	1 November 2006
HK(IFRIC) — Int 11	HKFRS 2 — Group and Treasury Share Transactions	1 March 2007
HK(IFRIC) — Int 12	Service Concession Arrangements	1 January 2008

The directors of the Company have considered these HKFRSs and anticipate that they have no material impact on how the results of operations and financial position of the Group are prepared and presented.

3. Turnover and segment information

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

	2007	2006
	HK$'000	*HK$'000*
Turnover		
Sale of goods	**651,290**	717,055
Sale of moulds	**53,525**	33,565
	704,815	750,620

Primary reporting format — business segments

The Group's turnover and results are substantially derived from manufacture of toys. Accordingly, no analysis by business segment is presented.

Secondary reporting format — geographical segments

	Turnover 2007 *HK$'000*	Total assets 2007 *HK$'000*	Capital expenditure 2007 *HK$'000*
United States of America	**273,843**	**59,217**	**473**
Europe *(Note)*	**107,875**	**5,516**	**—**
Japan	**96,850**	**29,029**	**—**
Mainland China	**71,614**	**596,307**	**81,388**
Indonesia	**1,398**	**34,271**	**1,167**
Hong Kong	**89,456**	**298,043**	**2,873**
Others	**63,779**	**14,736**	**2**
Total	**704,815**	**1,037,119**	**85,903**

	Turnover 2006 *HK$'000*	Total assets 2006 *HK$'000*	Capital expenditure 2006 *HK$'000*
United States of America	307,521	59,134	68
Europe (Note)	112,495	5,919	—
Japan	165,683	101,468	—
Mainland China	91,965	586,877	94,817
Indonesia	1,691	22,981	1,065
Hong Kong	26,141	245,671	28,149
Others	45,124	2,937	—
Total	750,620	1,024,987	124,099

No analysis of contribution to operating profit by geographical segment has been prepared as no contribution to operating profit from any of the above segments is substantially out of line with the ratio of profit to turnover.

Note: The turnover derived from Europe represents sales of toys for shipments directly to Europe under the instructions of customers. The respective trade receivables are included in the United States of America, Japan and Hong Kong segments.

4. Other gains

	2007 ***HK$'000***	2006 *HK$'000*
Interest income	**607**	617
Net gain on derivative financial instruments:		
— forward contracts and interest swaps:		
transactions not qualifying as hedges	**939**	741
Sample income	**5,048**	1,680
Gain on disposal of subsidiaries	**1,414**	—
Other	**2,150**	325
	10,158	3,363

5. Expenses by nature

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

	2007	2006
	HK$'000	*HK$'000*
Cost of inventories sold	**360,532**	408,505
Auditors' remuneration	**1,766**	2,065
Provision for obsolete inventories	**—**	574
Amortisation of leasehold land and land use rights	**1,129**	1,120
Depreciation of property, plant and equipment	**47,223**	43,474
Write-off/impairment loss of other investments in unlisted shares overseas	**—**	1,224
Loss on disposal of listed trading securities	**—**	1,386
Employee benefit expense	**123,048**	115,798
Operating lease rentals in respect of land and buildings	**4,661**	5,573
Net exchange (gains)/losses	**(485)**	4,568

6. Finance costs

	2007	2006
	HK$'000	*HK$'000*
Interest on loans from banks and financial institutions and overdrafts wholly repayable within five years	**26,545**	22,947
Arrangement fees on bank loans	**586**	754
	27,131	23,701

7. Income tax (charge)/credit

Hong Kong profits tax has been provided at the rate of 17.5% (2006: 17.5%) on the estimated assessable profit for the year.

Taxation on profits of Mainland China subsidiaries has been calculated on the estimated assessable profit for the year at the rates of taxation as applicable to the subsidiaries.

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

	2007	2006
	HK$'000	*HK$'000*
Current income tax		
Hong Kong profits tax		
— current year	**(2,400)**	(1,687)
— over/(under) provision in prior years	**300**	(3)
Mainland China enterprise income tax		
— current	**(445)**	(993)
— overprovision in prior years	**—**	1,370
Deferred income tax	**1,766**	1,878
	(779)	565

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:

	2007	2006
	HK$'000	*HK$'000*
Loss/(profit) before income tax	**36,497**	(15,244)
Calculated at a taxation rate of 17.5% (2006: 17.5%)	**6,387**	(2,668)
Effect of different taxation rates in other countries	**(1,223)**	1,310
Income not subject to taxation	**564**	1,034
Expenses not deductible for taxation purposes	**(8,700)**	(3,882)
Tax exemption	**3,216**	3,808
Tax losses not recognised	**(758)**	(404)
(Under)/overprovision in prior years	**(265)**	1,367
Tax (charge)/credit	**(779)**	565

8. Dividends

The directors do not recommend final dividend in respect of the year ended 31 March 2007 (2006: Nil).

At the meeting held on 23 July 2007, the directors proposed to issue bonus shares to all shareholders whose names appear in the register of members of the Company on 27 August 2007 on the basis of two bonus shares, credited as fully paid, for every one existing share held, by way of capitalisation of sum standing to the credit of the Company's share premium account subject to equity shareholders' approval in the next annual general meeting.

9. (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.

	2007	2006
	HK$'000	*HK$'000*
(Loss)/profit attributable to equity holders of the Company	**(37,219)**	16,673

	2007	2006 (Restated)
Weighted average number of ordinary shares in issue	**542,365,844**	505,719,013
Basic (loss)/earnings per share (HK cents)	**(6.86)**	3.30

Basic earnings per share for the year ended 31 March 2006 is restated to take into effect the rights issue during the year.

No diluted (loss)/earnings per share for the years ended 31 March 2006 and 2007 has been presented as there were no dilutive potential ordinary shares in issue as at 31 March 2006 and 2007.

10. Trade and other receivables, deposits and prepayments

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

	2007	2006
	HK$'000	*HK$'000*
Trade receivables	**159,456**	187,043
Other receivables, deposits and prepayments	**35,137**	67,379
	194,593	254,422

At 31 March 2007, the ageing analysis of the trade receivables was as follows:

	2007	2006
	HK$'000	*HK$'000*
0 — 30 days	**52,217**	88,480
31— 60 days	**14,801**	17,813
61— 90 days	**37,716**	21,660
91— 180 days	**39,562**	53,257
181— 365 days	**4,106**	3,856
Over 365 days	**11,054**	1,977
	159,456	187,043

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 is between 30 to 90 days but business partners with strong financial background may be offered longer credit terms.

11. Restricted cash

	2007	2006
	HK$'000	*HK$'000*
Restricted cash	**48,138**	—

As at the balance sheet date, the Company placed cash of approximately HK$47,644,000 plus accrued interest of approximately HK$494,000 as the cash bond for appealing the jury's verdict against the Group in Florida, US.

12. Trade and other payables and accrued charges

	2007	2006
	HK$'000	*HK$'000*
Trade payables	**51,317**	46,592
Other payables and accrual charges	**60,783**	45,492
	112,100	92,084

At 31 March 2007, the ageing analysis of the trade payables was as follows:

	2007	2006
	HK$'000	*HK$'000*
0 — 30 days	**17,075**	18,189
31 — 60 days	**4,963**	10,563
61 — 90 days	**12,788**	6,585
91 — 180 days	**10,616**	10,285
181 — 365 days	**5,807**	853
Over 365 days	**68**	117
	51,317	46,592

13. Provision

	2007	2006
	HK$'000	*HK$'000*
Provision	**47,644**	—

In February 2002, Action Products International Inc. ("APII") filed civil lawsuits at the Circuit Court of the Alachua County (the "Circuit Court"), Florida, US against the Company, Kid Galaxy Inc. ("KGI") and Mr Tim Young ("Mr Young") and claimed an unspecified amount of damages. On 9 October 2006, the jury arrived at the decision against the Company, KGI and Mr Young and awarded APII the damages in the amount of US$5.1 million (approximately HK$40 million) (the "Damages"). On 16 October 2006, the Company filed a motion to set aside the jury's previous verdict of the Damages which was subsequently denied by the Circuit Court.

Details of the lawsuits and the previous verdicts were set out in the announcements of the Company dated 16 October 2006 and 16 November 2006.

In December 2006, the Company filed an appeal of a circuit court judgement with an appellate court known as the district court of appeal (the "Appellate Court"). Pending the outcome of the appeal process, the Company is currently placing appeal bond of approximately HK$48 million with the Circuit Court for the unfavorable judgement against the Group. The directors of the Company anticipate the Appellate Court may come to a decision by the financial year ending 31 March 2008. In accordance with the opinion of the Company's directors, the Group has made a full provision in respect of the Damages, together with the related interests and legal costs to be incurred.

14. Commitments

(a) Commitments under operating leases

At 31 March 2007, the Group had future aggregate minimum lease payments under non-cancellable operating leases in respect of land and buildings as follows:

	2007	2006
	HK$'000	*HK$'000*
Not later than one year	**3,446**	3,812
Later than one year and not later than five years	**13,180**	12,673
Over five years	**2,207**	5,291
	18,833	21,776

(b) Commitments under forward foreign currency contracts

As at 31 March 2007, the Group had maximum outstanding forward foreign currency contracts to purchase approximately US$65,700,000 (2006: approximately US$109,500,000) for approximately HK$508,661,000 (2006: approximately HK$854,100,000).

15. Subsequent events

(i) On 28 May 2007, the Group and an independent third party entered into a letter of intent whereby the Group would dispose of its entire interest in subsidiary, Liberal Cultural Studies Limited, to the independent third party at a consideration of HK$1,300,000.

(ii) On 13 May 2007, the Company and Lung Cheong Investment Limited ("LCIL"), being the controlling shareholder (as defined in the Listing Rules) of the Company, entered into a placing agreement with two placing agents, under which the placing agents would, on best-effort basis, procure purchasers to purchase up to 96,000,000 new ordinary shares of HK$0.1 each from LCIL at the price of HK$0.58 per share (the "Placing"). On the same day, LCIL and the Company entered into a subscription agreement under which LCIL conditionally agreed to subscribe up to 96,000,000 new ordinary shares from the Company at the price of HK$0.58 per share (the "Subscription"). The Placing and the Subscription were completed on 12 June 2007 and 96,000,000 ordinary shares were alloted and issued to LCIL.

CLOSURE OF REGISTER OF MEMBERS

The register of members of the Company will be closed from 24 August 2007 to 27 August 2007 (both dates inclusive), during which period no transfer of shares will be effected. In order to qualify for the proposed bonus shares, all transfers accompanied by the relevant shares certificates must be lodged with the Company's Branch Share Registrar in Hong Kong, Abacus Share Registrars Limited, at 26/F, Tesbury Centre, 28 Queen's Road East, Wanchai, Hong Kong not later than 4:30 p.m. on 23 August 2007.

CHAIRMAN'S STATEMENT

On behalf and as Chairman of the Board of Directors, I am pleased to present the audited results of Lung Cheong International Holdings Limited (the "Company") and its subsidiaries (collectively referred to as the "Group") for the year ended 31 March 2007.

The financial year under review was the most challenging and difficult period the Group had ever endured in its history. For the first time after the listing of the Company's shares on the Stock Exchange of Hong Kong Limited, it registered loss of HK$37 million attributable to equity holders of the Company as compared to profit of HK$17 million in the preceding year, attributable mainly to a provision made for damages awarded against the Group for a lawsuit against the company and its subsidiary Kid Galaxy Inc. ("KGI").

For the year ended 31 March 2007, the Group reported a turnover of HK$705 million compared to HK$751 million in the previous year. Sales were 6% lower. Excluding the non-recurring provision for lawsuit judgement of HK$48 million, profit attributable to shareholders would have been approximately HK$11 million.

Business Review

During the period under review, the Group was involved in a lawsuit relating to the acquisition of KGI in 2001 ("Lawsuit") resulting in a public jury ("Jury") finding the Group's breached of a Confidential Agreement and awarded the plaintiff US$5.1 million (approximately HK$40 million) damages ("Verdict"). The Group has filed an appeal against the verdict, but full provision for the amount plus interest in the sum of US$6 million (approximately HK$48 million) ("Provision") was made in the accounts for the financial year ended 31 March 2007. This was the main reason for the Group to experience loss in its overall results for the year ended 31 March 2007.

The other challenges the Group had to face included limited and aging production facilities, labour shortage and increased minimum wages in Guangdong Province beginning September 2006. Fluctuating raw material costs, fierce price competition, high interest rate and appreciation of the Renminbi also compounded the situation.

Overall sales came down by 6% from HK$751 million to HK$705 million due to the alteration of the shipment dates of certain products to major Japanese customers for the reason of their changes to product specifications and marketing plans. Also, the Group adopted a cautious shipment schedule in early 2007 to facilitate the relocation to the new Changping Factory.

The Group continued to derive the bulk of its revenue from sales of radio control and electronic toys. With leadership in the product categories, it was able to secure consistent orders and product development requests from well-known brands in the toy industry. Original Design Manufacturing ("ODM") business helped to stabilise the Group's gross margin amid tough competition. It was more difficult to maintain a higher margin when compared with previous years, but the Group's effort to expand into Own Brand Manufacturing ("OBM") business had mitigated pressure on its margin.

Aged facilities posed restriction on the Group's ability to meet peak season production needs and attract workers. We had to offer higher than average remunerations to attract and retain workers, resulting in higher manufacturing overhead for the year ended 31 March 2007.

Relocation to the new Changping Factory took longer than expected. The Group's overall capital expansion plan including the relocation was affected by the unfavourable ruling of the US Lawsuit resulted in a sudden credit squeeze.

In January 2007, the Group completed a one share for every two shares held rights issue, underwritten by the majority shareholder Lung Cheong Investment Ltd., and raised HK$47 million. The amount was used primarily for the Cash Bond placed with the Court in Florida, US as required for filing the appeal against the court ruling.

With a loss recorded for the financial year under review, the Directors do not recommend payment of any dividend (2006: Nil) for the year.

Plans and Prospects

The Directors expect the operating environment of the Group to remain competitive in the coming year.

Looking forward, the Group will strive to make the best of the production, warehousing and dormitory capacities of all its three factories including the new Changping Factory to meet forthcoming peak season demands. The Changping Factory is expected to be fully operational by the interim of 2007, which will increase the overall production capacity of the Group to support sales in the coming year.

The Group will eventually vacate the wholly-owned factory site at Qian Tou, Dongguan and apply for it to be re-zoned as a residential/commercial site of higher value for disposal or redevelopment. The site is right next to the Dongguan University of Technology, the only tertiary educational institution in Dongguan City.

The Directors plan to dispose of or sub-let the leased Zhou Wu Factory before the end of financial year 2007/08. We do not expect this move to have a major impact on the Group's overall production capabilities.

The new and modernized Changping Factory will allow the Group to consolidate manufacturing, design, engineering and warehousing capabilities at one location in China. The Directors believe resources can be more efficiently utilized, which will enable the Group to enjoy improved cost-effectiveness in the years to come.

The Directors are of the view that the Group's new plant would work in favour of recruitment of workers. With Changping as a key railway terminus in Guangdong, the Group has the advantage of sourcing workers from different areas in Guangdong and other provinces.

The Group runs a production plant in Indonesia. Taking into account the different constraints faced by its manufacturing facilities in China, the Group, with customers' consent, has moved more production to the Indonesian plant. The Directors expect this trend to continue with more orders to be filled by under-utilized Indonesia capacity. The Group anticipates strong contribution from our South East Asian factory to its performance in coming years.

The Group will continue to actively develop ODM business and strengthen R&D capabilities to expand its portfolio of innovative products. Our product designers and engineers will also continue to support Original Equipment Manufacturing ("OEM") customers in new product development. We expect OEM to remain as the core business of the Group in financial year 2007/08.

The Group expects its own brand segment Kid Galaxy ("KG"), with a firm foundation and the help of continuous marketing and product development efforts, to contribute positively to its overall results in the coming financial year. KG's own brand products are expected to gain market share and generate better sales in the US.

To strengthen the Group's business, the management intends to improve overall profit margin through measures including re-engineering management and production flow and rationalizing different resources of its manufacturing operations, commanded after consolidation of all its production facilities.

Regarding the Lawsuit in Florida, the Directors were advised by Orlando based law firm Lowndes, Drosdick, Doster, Kantor and Reed, P.A. ("Attorney") that the decision by the Jury upon the claims brought by Action Products International Inc. ("APII") against the Company is contrary to both the facts presented and the clear law of the State of Florida. The Company will continue to aggressively appeal the Judgement and is confident that the verdict will be eventually set aside.

In the event the appeal is unsuccessful, the Company will be required to satisfy the plaintiff's claims from the Appeal Bond. An appeal, according to our Attorney, usually takes between nine to twelve months from the filing day. The Company will make announcement(s) to inform the shareholders of any latest development as and when appropriate.

MANAGING DIRECTORS REVIEW OF OPERATIONS

Market Review

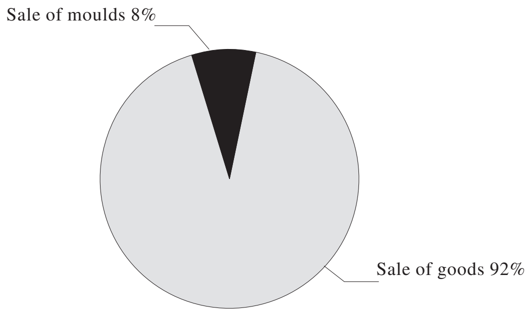
For the year ended 31 March 2007, export to the United States ("U.S.") remained strong, recording shipment value of HK$274 million, accounting for 39% (2006: 42%) of the Group's overall shipment.

Shipment to Europe remained steady at HK$108 million (2006: HK$112 million), accounting for 15% (2006: 15%) of the Group's revenue. Export to Japan shrank, however, to HK$97 million (2006: HK$166 million), or 14% of the Group's total shipment against 22% in the previous year.

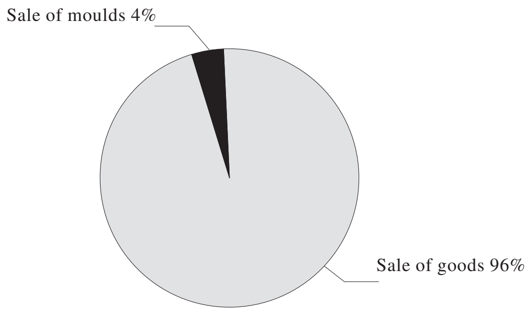
Growth in local deliveries boosted shipment to Mainland China and Hong Kong from 15% in 2006 to 23% in 2007. Some of these shipments, consolidated in Hong Kong and China, eventually headed for the US, Europe and Japanese markets as final destinations.

Turnover	**2006/2007** *(HK$'M)*	**2005/2006** *(HK$'M)*	**Change in %**
Sale of goods	651	717	-9%
Sale of moulds	54	34	60%

Turnover
(For the year ended 31 March 2007)

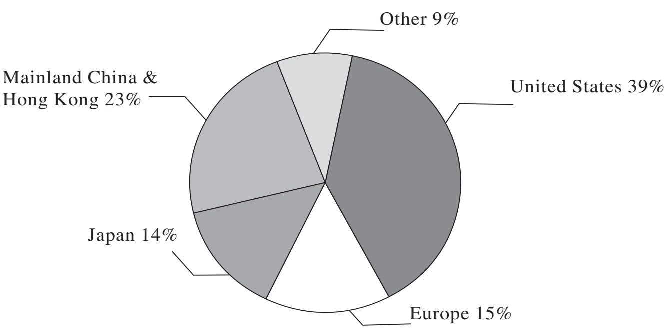


Turnover
(For the year ended 31 March 2006)

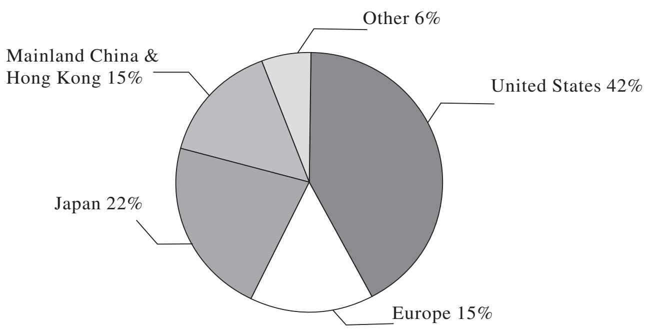


Turnover by Geographical Segment	**2006/2007** *(HK$'M)*	**2005/2006** *(HK$'M)*	**Change in %**
United States	274	308	-11%
Europe	108	112	-4%
Japan	97	166	-42%
Mainland China & Hong Kong	161	118	36%
Others	65	47	39%

Turnover by Geographical Segment
(For the year ended 31 March 2007)



Turnover by Geographical Segment
(For the year ended 31 March 2006)



Product Review

Radio Control/Wireless

The Group's core business segment accounted for 57% of its turnover for the year, stable when compared to 58% last year. Revenue was HK$403 million, 7% less than the HK$434 million recorded last year, mainly due to major Japanese customers postponing shipment of the Group's products for its newly developed fuel operated vehicles and robotics to the following financial period.

Continuous success of the Group's certain innovative and licensed radio control products for automobiles, boats, airplanes and flying super hero testifies to the Group's manufacturing strengths and quality outputs in the wireless segment.

The Group during this financial year invested into tooling for all different size of vehicle chassis ranging from very small to large scaled vehicle. This investment should pave the way to the Group to expand sales, strengthen and protect its position within the radio control cars segment.

Electronic and Plastic Toys

The electronic and plastic toys segment recorded an increase of 5% in sales from HK$176 million in 2006 to HK$185 million in 2007. The segment accounted from 26% of the Group's turnover compared to 23% in the previous year. The increased revenue of the segment was a result of increased orders from leading US and Japanese customers for toys for pre-school children. These orders often come with stringent quality requirements.

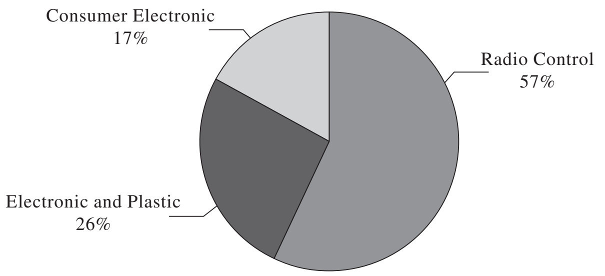
On the licensed business front, during the period under review, certain licensed sports products performed below expectations. The Group is now reviewing the prospects of all its sports licenses in particular that for Bendos figures. Revenue growth of the segment partly from Kid Galaxy, came in the past year mainly from new brands such as Elite Fleet, Interactive R/C, Morphibians, Mad Dog Motors, GoGo Auto,and My First RC, etc.

Consumer Electronic Products

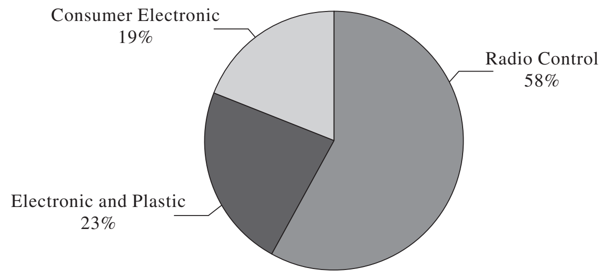
Sales contribution from the segment decreased from HK$141 million in 2006 to HK$117 million. Revenue for consumer electronic products accounted for 17% of the Group's total turnover (2006: 19%). A range of educational and construction based robotics, Bluetooth earphones and automatic vacuum machines are the earning contributors of the non-toy segment.

Turnover by Product Type	**2006/2007** *(HK$'M)*	**2005/2006** *(HK$'M)*	**Change in %**
Radio Control Toys	403	434	-7%
Electronic and Plastic Toys	185	176	5%
Consumer Electronic Products	117	141	-18%

Turnover by Product Type
(For the year ended 31 March 2007)



Turnover by Product Type
(For the year ended 31 March 2006)



Divisional and Resources Review

China

Relocation of facilities of the Qian Tou plant to the new Changping Factory commenced early 2007 and will continue in the coming year.

The new factory will have production, warehouse, office and dormitory facilities spanning a total of approximately 90,000 square meters, and will boost the Group's production and operational efficiency markedly when it is fully operational. For the financial year under review, however, the Group had to rely on the two existing factories in Dongguan for production.

Indonesia

During this year under review, the Group's factory in Indonesia did not contribute significantly to the Group's turnover, the reason being customers were concerned about the uncertain political and social situations in the country and were reluctant to have their orders met by the factory. However, persistent appreciation of the Renminbi and labour shortage in Southern China had convinced a few customers to use facilities of the plant to produce certain non-complex products starting early 2007.

USA

The New Hampshire operation consists mainly of marketing, product design, sales and fulfillment in the US market. KGI, which was relocated to a more efficient new office in Manchester, has started to report encouraging results. Its own brand subsidiary recorded sales of HK$48 million, compared with HK$32 million made last year.

Litigation in Florida, USA

On 9 October 2006, the jury in the Circuit Court of Alachua County, Florida, US (the "Circuit Court") ruled against the company and commanded it to pay damages in the amount of US$5.1 million (approximately HK$40 million) to APII. On 16 October 2006, the Company filed a motion with the Circuit Court to set aside the jury's verdict but was subsequently denied. Details of the Lawsuits and the previous verdicts were set out in the announcements of the company dated 16 October 2006 and 16 November 2006.

The Company filed an appeal against the verdict on 4 December 2006. Pending hearing or Court finding of the appeal, the Company has posted a cash bond (the "Appeal Bond") with the Circuit Court in an amount equal to the damages plus two years of interest at 9% per annum totalling US$6.0 million (approximately HK$48 million). The provision was made in the accounts of the Group for the year ended 31 March 2007.

MANAGEMENT DISCUSSION & ANALYSIS

Financial Review

The 2006/07 annual report and this result announcement must be read in conjunction with notes which governed the presentation of the financial statements, for both the current and corresponding periods.

The Group's restrictive aged facilities, relocation to new factory and delayed shipment by a couple of major customers resulted in lower sales by 6% to HK$705 million for the year ended 31 March 2007.

The increased in material costs, wages of production workers and appreciation of the Chinese Yuan against the US currency, which is one of the Group's main source of revenue currency keep a tight lid on the cost of goods sold.

Increased ODM revenue and improvement from Kid Galaxy OBM sales contributed to stabilizing the Group's gross margin despite tough pricing competition in the OEM segment, resulting in gross profit decreased marginally from HK$216 million in 2005/06 to HK$208 million in 2006/07, but gross margin steady at 30% (2006: 29%). The Group will continue to rely on higher ODM/OBM sales to improve and maintain high gross margin.

Selling and distribution expenses for the year ended 31 March 2007 amounted to HK$37 million. The decrease of 8% in selling expenditures compared to previous year HK$41million was mainly attributable to reduced marketing expenses and lower licensing fees due to discontinued certain sports related licenses. High fuel costs kept transportation and distribution expenses relatively high.

General and administrative expenses ("G&A") for the year ended 31 March 2007 remained constant at around HK$143 million, or 20% of turnover (2006: 19%). Other expenses forming the G&A are staff costs, depreciation of fixed asset and net treatment of foreign exchange. The Group also made a provision of HK$48 million for the lowsuit damages during the year. Overall, the Group suffered an operating loss of HK$9 million compared to operating profit of HK$39 million in the previous year.

Interest rates remained high throughout the year under review. Finance cost increased 15% from HK$24 million in 2005/06 to HK$27 million in 2006/07; further denting the Group's operating loss level. The Directors however believe the interest expenses in 2006/07 financial year should have peaked now that we have commenced repayment of certain long term loan and disposal of non-core assets.

All in all, the Group recorded its first loss since listed on the Hong Kong Stock Exchange to the amount of HK$37 million.

The Directors feel that it would not be prudent to recommend any dividend in view of the negative result for the year ended 31 March 2007.

At the meeting held on 23 July 2007, in return for the support of our shareholders and investors for years, the Board proposed to issue bonus shares to all shareholders whose names appear in the register of members of the Company on 27 August 2007 on the basis of two bonus shares, credited as fully paid, for every one existing share held, by way of capitalisation of sum standing to the credit of the Company's share premium account subject to shareholders' approval in the next annual general meeting.

Group Resources as Liquidity

Equity attributable to equity holders of the Company as at 31 March 2007 were HK$461 million, recording the 5% increase over previous year's HK$438 million. The net assets increased due to HK$47 million raised from a one for every two shares held rights issue completed in January 2007. The issue of 241,866,666 new shares took the Group's total shares issued to 725,599,999 as at 31 March 2007. The net assets per share decreased by 26% from HK87 cents (restated for right issue) to HK64 cents due to the loss of HK$37 million incurred during the year.

Property, plant and equipment, leasehold land and land use rights increased by HK$50 million to HK$484 million as at 31 March 2007. Capital expenditures of renovating the new Changping Factory plus new molds for the Group's ODM and OBM business were the main additions to the property, plant and equipment within non-current asset, increasing from HK$387 million to HK$437 million as at 31 March 2007.

Goodwill associated with Kid Galaxy's acquisition and club memberships make up HK$22 million of intangible assets. Available-for-sales financial assets of HK$28 million was disposed of along with the divestment of a wholly owned subsidiary namely Fericle Holdings Ltd ("Fericle") in March 2007. The sole asset consists of investment in life insurance policies of the Group's key executives. Details of the disposal was set out in the announcement of the Company dated 16 March 2007.

Management's effort to control inventories following previous year's success took a setback as the Group's major customers delayed shipment of their products due mainly to alteration to product specifications and sales plans. These delays directly impacted on the Group inventories, causing it to increase from HK$188 million in 2006 to HK$242 million as at 31 March 2007. Most of these products were shipped in the first quarter of the 2007/08 financial year. As a result of this delay, stock turnover were higher at 111 days compared to 100 days in the previous year.

Trade receivables recorded a 15% decrease as at 31 March 2007 to HK$159 million, compared to HK$187 million at the previous year end date. Debtor turnover remained steady at 90 days in 2006/07. Management would constantly evaluate its customers, known financial position and assess credit risks. Thus few clienteles are covered by expert credit insurance to a certain level.

Other receivables, deposits and prepayment showed a reduction from HK$67 million at year end date in 2006 to HK$35 million as at 31 March 2007. Thus consists main of deposits and prepayment for new equipment and material for coming financial year production needs.

Cash and bank balances as at 31 March 2007 were HK$43 million, about half of the HK$90 million shown as at 31 March 2006. Apart from utilizing funds to lower borrowings and season needs, HK$48 million shown as restricted cash has been applied as the cash bond for appealing the jury's verdict against the Group in Florida, US. The appeal bond is placed with the Circuit Court interest bearing account pending the outcome of the appeal process. The Directors anticipate having the Appellate Court's decision before the end of 2007/08 financial year.

Overall, total current assets were steady at HK$528 million compared to HK$535 million in the previous year end date. Current ratio shown an improvement from previous year is 94% to 112% as at 31 March 2007.

Trade payables and other payables both recorded an increase from previous year. Trade payables were HK$51 million and other payables were HK$61 million as at 31 March 2007 compared to HK$47 million and HK$45 million respectively. In addition, provision of HK$48 million was made for the Lawsuit. Creditor turnover days of 46 days were similar at previous year end date.

Borrowings under current liabilities showed a major decrease from HK$472 million as at 31 March 2006 to HK$303 million at 31 March 2007. This decrease was mainly due to reclassification of bank loan to long term and repayment of portion of the long term loan during the financial year.

Trust receipts loan shown an increase from HK$57 million as at 31 March 2006 to HK$94 million at 31 March 2007 mainly utilized to finance the increased inventories. Long term bank loans were HK$94 million as at 31 March 2007. Bank loan of HK$27 million utilized to finance investment for sales were reduced along with the disposal of Fericle.

The gearing ratio, calculated as the total borrowings less cash and bank balances and divided by shareholders' equity, was lowered at 77% as at 31 March 2007 compared to 87% in 2006.

On 13 June 2007, the first quarter of the new financial year 2007/08, the Group placed 96 million shares to independent external investors and raised HK$55 million. The proceeds collected were applied to further reduce borrowings and for working capital.

Bearing unforeseen circumstances, and the Group's commitment to seek alternative financing, dispose of non-core assets and further reduce borrowings, the Board is confident that the Group has sufficient financial resources to meet forthcoming operational needs.

EMPLOYEE

As at 31 March 2007, the Group had approximately 6,053 employees of which 70, 5,771, 203 and 9 employees were based in Hong Kong headquarter, the Dongguan factories, the Indonesian factory and the US office respectively. The number of people employed by the Group varies from time to time depending on production needs and staff are remunerated based on industry practices.

MODEL CODE OF SECURITIES TRANSACTIONS BY DIRECTORS

The Company has adopted the Model Code for securities transactions by Directors of Listed Issuers as set out in Appendix 10 (the "Model Code") to the Listing Rules as its own code of conduct for dealing in securities of the Company by the Directors. Based on specific enquiry with the Directors, all the Directors confirmed that they have complied with the required standards as set out in the Model code during the year ended 31 March 2007.

PURCHASE, SALE OR REDEMPTION OF LISTED SECURITIES

Neither the Company, nor any of its subsidiaries purchased, redeemed or sold any of the Company's shares during the year.

CORPORATE GOVERNANCE

The Company is committed to maintain a high standard of corporate governance practices as set out in the Code of Corporate Governance Practice (the "CG Code") in Appendix 14 of the Rules Governing the Listing of Securities of The Stock Exchange of Hong Kong Limited.

A detailed Corporate Governance Report setting out the Group's framework of governance and explanation about how the provisions of the Code have been applied will be included in the Company's Annual Report 2006/07.

AUDIT COMMITTEE

Pursuant to the Listing Rules, an audit committee was established on 14 March 2000. The Committee comprises three independent non-executive directors, namely Mr YE Tian Liu, Mr WONG Lam, O.B.E., J.P., and Mr LAI Yun Hung (newly appointed in September 2004) and a non-executive director, namely Mr KO Peter, Ping Wah.

By reference to "A Guide for the Formation of An Audit Committee" published by the Hong Kong Institute of Certified Public Accountants, written terms of reference which describe the authority and duties of the audit committee were prepared and adopted by the Board of the Company since the date of establishment. The principal activities of the Audit Committee include the review and supervision of the Group's financial reporting process and internal controls.

PUBLICATION OF RESULTS ANNOUNCEMENT

The results announcement is published on the website of Hong Kong Exchanges and Clearing Limited at www.hkex.com.hk under "Latest Listed Companies Information" and the website of the Company at www.e-lci.com under "Results Announcement".

APPRECIATION

On behalf of the Board, I would like to take this opportunity to express my sincere gratitude to our long term customers, suppliers, licensors and business partners for their continual support over the past year. I would also like to extend my appreciation to our management and staff for their hard work and dedication, despite the challenging year in the toy business.

By Order of the Board
Leung Lun
Chairman

Hong Kong, 23 July 2007

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