



# LUNG CHEONG

## INTERNATIONAL HOLDINGS LIMITED

(Incorporated in the Cayman Islands with limited liability)

Stock Code: 348

Interim Report 2010/11

## CORPORATE INFORMATION

### Executive Directors

Mr Leung Lun (*Chairman*)  
Mr Leung Chung Ming (*Managing Director*)  
Mr Wong, Andy Tze On

### Independent Non-executive Directors

Mr Wong Lam, O.B.E., J.P.  
Mr Ye Tian Liu  
Mr Lai Yun Hung

### Company Secretary

Mr Mak Yee Chuen, Vincent

### Auditors

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

### Legal Advisers on Cayman Islands Law

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

### Legal Advisers on Hong Kong Law

D.S. Cheung & Co. Solicitors  
1910-1913 Hutchison House  
10 Harcourt Road  
Central  
Hong Kong

### Listing Information

The Stock Exchange of Hong Kong Limited  
Stock Code: 348

### Registered Office

Ugland House  
South Church Street  
P.O. Box 309  
George Town  
Grand Cayman  
Cayman Islands  
British West Indies

### Head Office and Principal Place of Business in Hong Kong

Lung Cheong Building  
1 Lok Yip Road  
Fanling  
New Territories  
Hong Kong  
Tel: (852) 2677 6699  
Fax: (852) 2677 6857  
website: [www.e-lci.com](http://www.e-lci.com)

### Principal Share Registrar and Transfer Office

HSBC Trustee (Cayman) Limited  
P.O. Box 484  
HSBC House  
68 West Bay Road  
Grand Cayman  
KY1-1106  
Cayman Islands  
British West Indies

### Hong Kong Branch Share Registrar and Transfer Office

Tricor Abacus Limited  
26/F Tesbury Centre  
28 Queen's Road East  
Wanchai  
Hong Kong

The board of directors (the "Directors") of Lung Cheong International Holdings Limited (the "Company") is pleased to announce the unaudited consolidated results of the Company and its subsidiaries (the "Group") for the six months ended 30 September 2010 together with comparative figures for the corresponding period in 2009. These interim consolidated accounts have not been audited but have been reviewed by the Company's Audit Committee.

## CONDENSED CONSOLIDATED STATEMENT OF COMPREHENSIVE INCOME

For The Six Months Ended 30 September 2010

	Notes	Unaudited	
		2010	2009
		HK\$'000	HK\$'000
Turnover	2	<b>313,150</b>	252,893
Cost of sales		<b>(263,210)</b>	(215,440)
Gross profit		<b>49,940</b>	37,453
Other income and gains, net	2	<b>2,373</b>	4,940
Selling and distribution expenses		<b>(20,257)</b>	(12,043)
General and administrative expenses		<b>(75,085)</b>	(61,799)
Finance costs	3	<b>(8,270)</b>	(8,180)
Loss before income tax	4	<b>(51,299)</b>	(39,629)
Income tax	5	<b>-</b>	-
Loss for the period		<b>(51,299)</b>	(39,629)
Other comprehensive income for the period, net of tax:			
– Exchange differences arising on translation of foreign operations		<b>4,985</b>	(12,737)
Total comprehensive income for the period, net of tax		<b>(46,314)</b>	(52,366)
Loss for the period attributable to owners of the Company		<b>(51,299)</b>	(39,629)
Total comprehensive income for the period attributable to owners of the Company		<b>(46,314)</b>	(52,366)
Loss per share attributable to the owners of the Company			
– Basic and diluted	7	<b>(1.73) cents</b>	(1.55) cents

## CONDENSED CONSOLIDATED STATEMENT OF FINANCIAL POSITION

*As at 30 September 2010*

	Notes	Unaudited 30 September 2010 HK\$'000	Audited 31 March 2010 HK\$'000
<b>Non-current assets</b>			
Leasehold land and land use rights		86,998	87,708
Property, plant and equipment	8	245,547	254,762
Goodwill		19,240	19,240
Club memberships		2,001	2,001
Deferred tax assets		2,026	2,097
		<b>355,812</b>	365,808
<b>Current assets</b>			
Inventories		138,442	107,120
Trade and other receivables, deposits and prepayments	9	105,143	47,151
Tax recoverable		1,871	1,836
Cash and cash equivalents		56,009	43,858
		<b>301,465</b>	199,965
<b>Current liabilities</b>			
Trade payable	10	98,245	46,898
Other payable and accrued charges		72,858	35,639
Obligations under finance leases		5,788	6,330
Borrowings	13	260,824	208,743
Tax payable		6,077	6,081
		<b>443,792</b>	303,691
<b>Net current liabilities</b>		<b>(142,327)</b>	(103,726)
<b>Total assets less current liabilities</b>		<b>213,485</b>	262,082
<b>Non-current liabilities</b>			
Obligations under finance leases		2,393	4,625
Provision for long service payment		1,871	1,922
Loans from immediate holding company		50,000	50,000
Deferred tax liabilities		4,436	4,436
		<b>58,700</b>	60,983
<b>Net assets</b>		<b>154,785</b>	201,099
<b>Equity</b>			
Share capital		295,776	295,776
Reserves		(140,991)	(94,677)
<b>Total equity</b>		<b>154,785</b>	201,099

## CONDENSED CONSOLIDATED STATEMENT OF CASH FLOWS

For the Six Months Ended 30 September 2010

	Unaudited	
	Six months ended	
	30 September	
	2010	2009
	HK\$'000	HK\$'000
Net cash (outflow)/inflow from operating activities	<b>(17,210)</b>	28,763
Net cash (outflow) from investing activities	<b>(4,061)</b>	(2,502)
Net cash inflow from financing activities	<b>28,916</b>	38,571
Net increase in cash and cash equivalents	<b>7,645</b>	64,832
Cash and cash equivalents at 1 April	<b>43,858</b>	26,652
Effect on foreign exchange rate changes	<b>4,506</b>	(7,080)
Cash and cash equivalents at 30 September	<b>56,009</b>	84,404
Bank balances and cash	<b>56,009</b>	84,404

## CONDENSED CONSOLIDATED STATEMENT OF CHANGES IN EQUITY

*For the Six Months Ended 30 September 2010*

	Unaudited							
	Share capital	Share premium	Exchange fluctuation reserve	Capital reserve	Share options reserve	Buildings revaluation reserve	Retained profits/ (accumulated reserve loss)	Total equity
	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000
At 1 April 2010	295,776	37,657	38,894	28,840	-	25,506	(225,574)	201,099
Exchange difference arising from translation of accounts of overseas subsidiaries	-	-	4,985	-	-	-	-	4,985
Profit for the period	-	-	-	-	-	-	(51,299)	(51,299)
At 30 September 2010	295,776	37,657	43,879	28,840	-	25,506	(276,873)	154,785

	Unaudited							
	Share capital	Share premium	Exchange fluctuation reserve	Capital reserve	Share options reserve	Buildings revaluation reserve	Retained profits/ (accumulated reserve loss)	Total equity
	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000
At 1 April 2009	246,480	14,211	31,367	28,840	246	25,506	(46,447)	300,203
Exchange difference arising from translation of accounts of overseas subsidiaries	-	-	(12,737)	-	-	-	-	(12,737)
Loss for the period	-	-	-	-	-	-	(39,629)	(39,629)
Total income and expenses recognised for the period	-	-	(12,737)	-	-	-	(39,629)	(62,366)
Transfer to retained profits/ (accumulated loss) on lapse of share options	-	-	-	-	(246)	-	246	-
Shares for acquisition	2,600	1,820	-	-	-	-	-	4,420
Placement of shares	46,696	21,248	-	-	-	-	-	67,944
At 30 September 2009	295,776	37,279	18,630	28,840	-	25,506	(85,830)	320,201

## NOTES TO THE UNAUDITED CONDENSED INTERIM ACCOUNT

### 1. Basis of presentation and principal accounting policies

The unaudited condensed consolidated interim financial statements have been prepared in accordance with Hong Kong Accounting Standard (“HKAS”) 34 “Interim Financial Reporting” issued by the Hong Kong Institute of Certified Public Accountants (“HKICPA”) and with the applicable disclosure requirements of Appendix 16 of the Rules Governing the Listing of Securities (“Listing Rules”) on The Stock Exchange of Hong Kong Limited. The accounting policies and basis of preparation adopted in the preparation of the interim financial statements are consistent with those used in the annual financial statements for the year ended 31 March 2010.

In the current interim period, the Group has applied, for the first time, the following new and revised standards, amendments to HKAS and new Hong Kong (IFRIC) Interpretations (“HK(IFRIC) – Int”) (collectively referred to as “new and revised HKFRSs”) issued by the HKICPA, which are effective for the Group’s financial year beginning on 1 April 2010.

HKFRSs (Amendments)	Amendment to HKFRS 5 as part of Improvements to HKFRSs
HKFRSs (Amendments)	Improvements to HKFRSs 2009
Amendments to HKAS 32	Classification of Rights Issues
Amendment to HKAS 39	Eligible Hedged Items
Amendments to HKFRS 1	Additional Exemptions for First-time Adopters
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

The Group applies HKFRS 3 (Revised) “Business Combinations” prospectively to business combinations for which the acquisition date is on or after 1 April 2010. The requirements in HKAS 27 (Revised) “Consolidated and Separate Financial Statements” in relation to the accounting for changes in ownership interests in a subsidiary after control is obtained and for loss of control of a subsidiary are also applied prospectively by the Group on or after 1 April 2010.

As there was no transaction during the current interim period in which HKFRS 3 (Revised) and HKAS 27 (Revised) are applicable, the application of HKFRS 3 (Revised), HKAS 27 (Revised) and the consequential amendments to other HKFRSs had no effect on the condensed consolidated financial statements of the Group for the current or prior accounting periods.

Results of the Group in future periods may be affected by future transactions for which HKFRS 3 (Revised), HKAS 27 (Revised) and the consequential amendments to the other HKFRSs are applicable.

The application of the other new and revised HKFRSs had no effect on the condensed consolidated financial statements of the Group for the current or prior accounting periods.

The Group has not early adopted the following new and revised HKFRSs that have been issued but are not yet effective.

HKFRSs (Amendments) Amendments to HKFRS 1 Amendment to HK(IFRIC) – Interpretation 14 HK(IFRIC) – Interpretation 19 HKAS 24 (Revised) HKFRS 7 (Amendments) HKFRS 9	Improvements to HKFRSs 2010 <sup>1</sup> Limited Exemption from Comparative HKFRS 7 for First-time Adopters <sup>2</sup> Prepayments of a Minimum Funding Requirement <sup>3</sup>  Extinguishing Financial Liabilities with Equity Instruments <sup>2</sup> Related Party Disclosures <sup>3</sup> Disclosures – Transfers of Financial Assets <sup>4</sup> Financial Instruments <sup>5</sup>
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<sup>1</sup> Effective for annual periods beginning on or after 1 July 2010 and 1 January 2011, as appropriate

<sup>2</sup> Effective for annual periods beginning on or after 1 July 2010

<sup>3</sup> Effective for annual periods beginning on or after 1 January 2011

<sup>4</sup> Effective for annual periods beginning on or after 1 July 2011

<sup>5</sup> Effective for annual periods beginning on or after 1 January 2013

The Directors anticipate that the application of the other new and revised HKFRSs will have no material impact on the results or financial position of the Group.

## 2. Turnover, other income and gains and segmental information

The Group is principally engaged in the development, engineering, manufacture and sale of toys, moulds and materials.

Revenues recognised during the period are as follows:

	Unaudited Six months ended 30 September	
	2010 HK\$'000	2009 HK\$'000
Turnover		
Sale of goods	<b>308,058</b>	246,617
Sale of moulds and materials	<b>5,092</b>	6,276
	<b>313,150</b>	252,893
Other income and gains, net		
Interest income	<b>138</b>	260
Others	<b>2,235</b>	4,680
	<b>2,373</b>	4,940
Total revenues	<b>315,523</b>	257,833

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.

Information about the Group's turnover by geographical region, according to the destination of orders is as follows:

	Unaudited Six months ended 30 September	
	2010 HK\$'000	2009 HK\$'000
Turnover		
North America	<b>155,257</b>	97,052
Europe	<b>83,504</b>	55,121
Hong Kong/China	<b>25,322</b>	34,039
Indonesia	<b>18,686</b>	1,865
Japan	<b>15,304</b>	32,952
Others	<b>15,077</b>	31,864
	<b>313,150</b>	252,893

### 3. Finance costs

	Unaudited Six months ended 30 September	
	2010 HK\$'000	2009 HK\$'000
Interest on loans	<b>7,745</b>	7,654
Arrangement fees	<b>525</b>	526
	<b>8,270</b>	8,180

### 4. Loss before income tax

	Unaudited Six months ended 30 September	
	2010 HK\$'000	2009 HK\$'000
Loss before income tax is stated after charging the following:		
Depreciation of property, plant and equipment	<b>13,763</b>	25,784
Amortisation of leasehold land and land use rights	<b>710</b>	1,192

**5. Income tax**

No income tax has been provided as the Group sustained a loss for the period (2009: Nil).

**6. Dividends**

The Directors do not recommend the payment of interim dividend for the six months ended 30 September 2010 (2009: Nil).

**7. Loss per share**

Basic loss per share is calculated by dividing the loss attributable to owners of the Company by weighted average number of ordinary shares in issue during the period.

	<b>Unaudited Six months ended 30 September</b>	
	<b>2010</b>	<b>2009</b>
	<b>HK\$'000</b>	<b>HK\$'000</b>
Loss attributable to owners of the Company	<b>(51,299)</b>	(39,629)
Weighted average number of ordinary shares in issue	<b>2,957,757,997</b>	2,555,625,330
Basic loss per share (HK cents)	<b>(1.73)</b>	(1.55)

The diluted loss per share for the six months ended 30 September 2010 and the six months ended 30 September 2009 were the same as their basic loss per share as the conversion of the outstanding share options during the period ended 30 September 2009 would have an anti-dilutive effect on the basic loss per share for the period while there is no outstanding share option during the period ended 30 September 2010.

**8. Property, plant and equipment**

	HK\$'000
At 1 April 2010	254,762
Additions	4,091
Depreciation	(13,763)
Disposal	(52)
Exchange adjustment	509
At 30 September 2010	245,547

**9. Trade and other receivables, deposits and prepayments**

The carrying amounts of trade and other receivables, deposits and prepayments net of allowance for doubtful debts and impairment are as follows:

	<b>Unaudited</b> <b>30 September</b> <b>2010</b> <b>HK\$'000</b>	Audited 31 March 2010 HK\$'000
Trade receivables	<b>99,463</b>	36,740
Other receivables, deposits and prepayments	<b>5,680</b>	10,411
	<b>105,143</b>	47,151

The ageing analysis of the trade receivables net of allowance for doubtful debts is as follows:

	<b>Unaudited</b> <b>30 September</b> <b>2010</b> <b>HK\$'000</b>	Audited 31 March 2010 HK\$'000
0 – 90 days	<b>91,613</b>	31,255
91 – 180 days	<b>6,153</b>	3,103
181 – 365 days	<b>429</b>	507
Over 365 days	<b>1,268</b>	1,875
	<b>99,463</b>	36,740

The Group's sales are on letter of credit or open account terms. Credit terms are reviewed on a regular basis. The normal trade term ranges from 0 to 90 days but business partners with strong financial background may be offered longer credit terms.

**10. Trade payables**

The ageing analysis of the trade payables is as follows:

	<b>Unaudited</b> <b>30 September</b> <b>2010</b> <b>HK\$'000</b>	Audited 31 March 2010 HK\$'000
0 – 90 days	<b>82,408</b>	26,832
91 – 180 days	<b>12,858</b>	15,387
181 – 365 days	<b>2,855</b>	4,044
Over 365 days	<b>124</b>	635
	<b>98,245</b>	46,898

**11. Contingent liabilities**

At 30 September 2010 and 30 September 2009, the Group had no material contingent liabilities.

**12. Commitments under operating leases**

At 30 September 2010, the Group had future aggregate minimum lease payments under non-cancellable operating leases in respect of land and buildings as follows:

	<b>Unaudited 30 September 2010 HK\$'000</b>	Audited 31 March 2010 HK\$'000
Not later than one year	<b>1,801</b>	3,498
Later than one year but not later than five years	<b>13</b>	4,841
	<b>1,814</b>	8,339

**13. Borrowings**

As at 30 September 2010, the Group utilised banking and other facilities of approximately HK\$260,824,000 (31 March 2010: HK\$208,743,000) as in form of a syndication loan and general banking facilities.

Few facilities are secured by the Group's certain land use rights and buildings, and are all supported by a corporate guarantee executed by the Company. Borrowings were repayable on demand or within one year as at the date of statement of financial position.

**14. Share based payment**

The Company operates a share option scheme (the "Scheme") for the purpose of providing incentives and rewards to eligible participants who contribute to the success of the Group's operation. The Scheme, which was adopted by an ordinary resolution of the shareholders on 3 September 2002, constitutes a share option scheme governed by Chapter 17 of the Listing Rules.

Under the Scheme, share options can be exercised at any time during the periods to be determined and notified by the Directors to the grantees at the time of making offers to grant share options to them, provided that such periods shall not exceed the period of ten years from the date of grant. The scheme mandate limit of the Scheme was refreshed pursuant to a shareholders' resolution passed in the annual general meeting ("AGM") of the Company held on 25 September 2009, the maximum number of shares available for issue under the Scheme is 295,775,799, representing 10% of the issued ordinary share capital of the Company as at the date of the said AGM, 25 September 2009 and thereafter. The subscription price for the shares under the Scheme shall be a price determined by the Directors at its discretion, provided that it shall not be less than the highest of (i) the closing price of the shares stated in the daily quotation sheets of the Stock Exchange of Hong Kong Limited ("Stock Exchange") on the date of grant; (ii) the average closing price of the shares stated in the Stock Exchange's daily quotation sheets for the five business days immediately preceding the date of grant of share options and (iii) the nominal value of the shares.

All previously issued share options expired as at 30 September 2009. No share options were granted after the above said AGM and no share options were outstanding and existed as at 30 September 2010.

## INTERIM DIVIDEND

The Directors do not recommend the payment of an interim dividend for the six months ended 30 September 2010 (2009: Nil).

## RESULTS, BUSINESS REVIEW AND PROSPECTS

### Results

For the six months ended 30 September 2010, the Group's turnover increased by 24% to approximately ("approx") HK\$313 million, compared with approx HK\$253 million for the corresponding period last year. Gross profit margin increased slightly to 16% while loss attributable to equity holders of the Group was approx HK\$51 million, compared with a loss of approx HK\$40 million in the corresponding period ended 30 September 2009.

### Business Review

For the six months ended 30 September 2010, with the Group's major export destinations being United States ("US") of America and Canada ("North America"), Europe and Japan, markets environment remains competitive and challenging. The after effects of the financial tsunami and muted worldwide economies have made customers conservative in placing orders in particular 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 financial position for the period under review remained stable.

During the period under review, North America continued to be the largest export area for the Group, accounting for 50% of total turnover (2009: 38%). Other significant overseas markets for the Group included Europe and Japan, which accounted for 27% (2009: 22%) and 5% (2009: 13%) respectively.

The Group's recent investments into the development of lower priced innovative electronic and plastic toys have been rewarded in this financial period as more products shipped were mainly less complex, medium to low priced products accounting for approx 59% of sales in this period. 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 38% of total sales during the review period, lower than the 65% recorded in this segment as compared with that in the previous financial period.

For the period ended 30 September 2010, the Group's manufacturing plants in Mainland China had to cope with an increase in worker's remunerations common to all manufacturers, particularly those located in the Pearl River Delta Region. Furthermore, insufficient supply of migrant workers into the region during the period 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 relatively high direct labour, general and administration costs during period under review.

The Group continued to strive for profitability under the strong value of Renminbi (“RMB”), weakness of the United States dollars (“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 period is kept steady at approx 16% (2009: 15%).

Due to the challenging manufacturing environment in the People’s Republic of China (“PRC”) in the first half of financial year 2010/2011 (“FY10/11”), it was necessary to increase 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 period under review accounted for approx 18% (2009: 8%) of Group’s turnover.

The Group continued to operate the two existing Dongguan factories being Changping and Zhou Wu during the period under review. However, due to reduced orders in FY09/10, production was partially consolidated within the Changping factory with certain production segments remaining in the Zhou Wu factory. For the period under review, the Group’s increased revenue and margin did not match with the increased production and administration costs relating to our investments into Changping factory and depreciation of newly added equipment and molds in recent years, plus capital expenditures on internal quality control laboratories, upgrading production facilities to meet stringent requirements and modernization of equipment during the period under review.

## 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 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\$, appreciation of the RMB, labour shortages and the periodic increase in statutory minimum wages leading to increasing production costs are expected to affect the Group’s Mainland China operations. Despite these challenges, shipment in the first half of FY10/11 has been strong with both Changping and Zhou Wu factories operating at nearly 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 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 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 to 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 will step up its business development into new markets, specifically with new distributors of Kid Galaxy products in European markets. Kid Galaxy, which accounted for over 18% (2009: 17%) of the Group's turnover for the current period, has licensed the Fisher Price brand for pre-school toys for major markets. The licensed products have been launched and receiving favorable response in our expanded distribution channels. Mainland China is another important growing 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 the government in order to promote local sales. In addition to the traditional department store counters, the Group is exploring new sales channels such as supermarkets, wholesalers, Internet and other specialty retailers. Our educational robotic product sales will continue to grow as more schools offer the subject of robotics study to students and the sales will be fostered by competitions organised by local and international institutions.

The Group continues to streamline the production efficiency of the two existing Dongguan plants 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 utilising idle capacity. The Group has endeavor to trim overheads significantly, improve productivity and control production costs while the toy industry rides out the storm.

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")/Original Equipment Manufacturing ("OEM") income stream. Decisions were made that all tooling and engineering operations previously under Standard Tooling and Products Co. Ltd ("STP") had been consolidated into the Changping factory. Realignment and consolidation of sales channels to Hong Kong and Mainland China are in the process in order to reduce operating costs.

Furthermore, 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 at a total consideration of HK\$6 billion ("proposed acquisition"). This proposed acquisition is subject to the satisfaction of a due diligence review and the negotiation and finalisation of the terms and conditions of a formal agreement.

Through this proposed acquisition, the Group would acquire all equity interests of target companies under HNA Group which are engaged in the aircraft leasing business. If materialized, the alternate source of revenue and profit guarantee from this new venture would add value to stakeholders thereon. Details of the proposed acquisition are further set out in the announcement on 13 July 2010.

## GROUP RESOURCES AND LIQUIDITY

As at 30 September 2010, the Group's cash and bank balances were approx HK\$56 million (31 March 2010: approx HK\$44 million). The Group's total borrowings were approx HK\$319 million (31 March 2010: approx HK\$270 million). The gearing ratio, calculated as the total borrowings less cash and bank balances and divided by shareholders' equity, was 170% (31 March 2010: 112%). As at 30 September 2010, the Group recorded total current assets of approx HK\$301 million (31 March 2010: approx HK\$200 million) and total current liabilities of approx HK\$444 million (31 March 2010: approx HK\$304 million). The current ratio of the Group, calculated by dividing the total current assets by total current liabilities, was 68% (31 March 2010: 66%). The Group recorded an decrease in shareholders' funds from approx HK\$201 million as at 31 March 2010 to approx HK\$155 million as at 30 September 2010. The decrease was mainly resulting from loss from operations.

Overall, total current assets were lower at approx HK\$301 million compared with approx HK\$392 million in the previous corresponding date. The result led to inability to meet certain financial covenants of a term loan. The Group's operation is relied upon the support from financial institutions. Facilities are provided on the basis of which certain financial and operational undertakings are complied with. Management is liaising with these financial institutions to obtain the relief of certain financial covenants and planning for the full repayment of a term loan facility from alternate financing methods or disposal of non strategic assets. In the opinion of the Board, the Group has sufficient financial resources to meet the future operational needs.

## EMPLOYEE

As at 30 September 2010, the Group had approx 5,460 employees and contract workers. Approx 54, 3,886, 1,508 and 12 of the workforce were based in Hong Kong, the Dongguan factories, 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.

## SUBSTANTIAL SHAREHOLDERS

At 30 September 2010, the following persons, other than a Director or chief executive of the Company, had an interest in the shares and underlying shares of the Company as recorded in the register required to be kept under section 336 of the Securities and Futures Ordinance (Chapter 571 of Laws of Hong Kong) ("SFO"):

Name of shareholder	Number of ordinary shares (Note 1)	Capacity	Approximate percentage of interest
Lung Cheong Investment Limited	1,499,082,240 (L)	Beneficial owner	50.68%
Rare Diamond Limited	1,499,082,240 (L) (Note 2)	Interest of controlled corporation	50.68%

Notes:

- The letter "L" represents the entity's interests in the shares and underlying shares of the Company.
- These shares were registered in the name of Lung Cheong Investment Limited, the entire issued share capital of which is owned by Rare Diamond Limited. Rare Diamond Limited is beneficially owned as to 70% by Mr Leung Lun and 30% by Mr Leung Chung Ming.

Save as disclosed above, no other person, other than a Director or chief executive of the Company, had any interest in the shares and underlying shares of the Company as recorded in the register required to be kept under section 336 of the SFO.

## DIRECTORS' INTERESTS IN EQUITY SECURITIES

At 30 September 2010, the interests and short positions of each Director and chief executive of the Company in the shares, underlying shares or debentures of the Company and its associated corporations (within the meaning of Part XV of the SFO as recorded in the register required to be kept under section 352 of the SFO or as otherwise notified to the Company and the Stock Exchange pursuant to the Model Code for Securities Transactions by Directors of Listed Issuers (the "Model Code") were as follows:

Name	Name of company	Capacity	Number and class of shares or underlying shares (Note 1)	Percentage of approximate the issued share capital as at 30 September 2010
Leung Lun	The Company	Interest of controlled corporation	1,499,082,240 ordinary shares (L) (Note 2)	50.68%
	Lung Cheong Investment Limited	Interest of controlled corporation	1,000 ordinary shares (L)	100.00%
	Rare Diamond Limited	Beneficial interest	70 ordinary shares (L)	70.00%
Leung Chung Ming	The Company	Interest of controlled corporation	1,499,082,240 ordinary shares (L) (Note 2)	50.68%
	Lung Cheong Investment Limited	Interest of controlled corporation	1,000 ordinary shares (L)	100.00%
	Rare Diamond Limited	Beneficial interest	30 ordinary shares (L)	30.00%

Notes:

- The letter "L" represents the Director's interests in the shares and underlying shares of the relevant company.
- These shares were held by Lung Cheong Investment Limited, a company wholly owned by Rare Diamond Limited. Rare Diamond Limited is beneficially owned as to 70% by Mr Leung Lun and 30% by Mr Leung Chung Ming.

Save as disclosed above, none of the Director or the chief executive of the Company had any interests and short positions in the shares or underlying shares of the Company and its associated corporations (within the meaning of Part XV of the SFO as recorded in the register required to be kept under section 352 of the SFO or as otherwise notified to the Company and the Stock Exchange pursuant to the Model Code.

Apart from the Scheme, at no time during the period was the Company, its holding companies or its subsidiaries a party to any arrangements to enable the Directors, chief executives of the Company and their associates to acquire benefits by means of the acquisition of shares in, or debentures of, the Company or any other body corporate.

Pursuant to the term facilities agreement entered into by the Company and a group of financial institutions on 21 August 2007 amounting to HK\$200 million, Mr Leung Lun and Mr Leung Chung Ming are required to jointly hold at least 45% of the issued share capital of the Company and Mr Leung Lun and Mr Leung Chung Ming are individually required to own at least 10% of the issued share capital of the Company.

## DIRECTORS' INTERESTS IN CONTRACTS

### Extension date for repayment of loan granted to the Company by Lung Cheong Investment Limited ("LCI")

Reference is made to the announcement dated 10 March 2008, an extension agreement dated 24 September 2008 and a letter of support to the Company by LCI on 31 March 2010, LCI have no intention or any need to call for repayment in whole of the amount for the Company. Management has obtained consent from LCI that continuous support will be made and no recall for repayment in whole of the amount for a year till 1 October 2011.

## PURCHASE, SALE OR REDEMPTION OF LISTED SECURITIES

Neither the Company, nor any of its subsidiaries purchased, redeemed or sold any of the Company's listed securities throughout the accounting period covered by the interim report.

## DIRECTOR'S INTEREST IN COMPETING BUSINESS

As at 30 September 2010, the Directors were not aware of any business or interest of each Director, management shareholder and their respective associate, that competes or may compete with the business of the Group and any other conflict of interest which any such person have or may have with the Group.

## CODE ON CORPORATE GOVERNANCE PRACTICES

In the opinion of the Directors, the Company has complied with the code provisions as set out in Appendix 14 of the Listing Rules throughout the accounting period covered by the interim report.

## MODEL CODE FOR SECURITIES TRANSACTIONS

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 accounting period covered by the interim report.

## AUDIT COMMITTEE

The Company has an audit committee in compliance with Rule 3.21 of the Listing Rules for the purpose of reviewing and providing supervision over the Group's financial reporting process including a review of the unaudited condensed interim financial statements for the six months ended 30 September 2010, this interim report and the Group's 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](http://www.hkex.com.hk) under "Latest Listed Companies Information" and the website of the Company at [www.e-lci.com](http://www.e-lci.com) under "Investor Relations".

## APPRECIATION

The Board would like to announce that Mr. Zhong Bingquan and Ms. Cheng Yun Tai have retired as directors of the Company with effect from 31 August 2010 due to increased commitments in their own businesses . Dr. Ko Peter, Ping Wah has also retired as non-executive director of the Company in order to concentrate on his professional commitments. He also ceased to be a member of the Audit Committee, Remuneration Committee and Nomination Committee of the Company with effect from 31 August, 2010. Further details are set out in the Company's announcement on 31 August 2010.

The Board would like to extend its gratitude to Mr. Zhong, Ms. Cheng and Dr. Ko for their valuable efforts and contributions to the Company during their respective terms of tenure.

On behalf of the Board of

**Lung Cheong International Holdings Limited**

**Leung Lun**

*Chairman*

26 November 2010