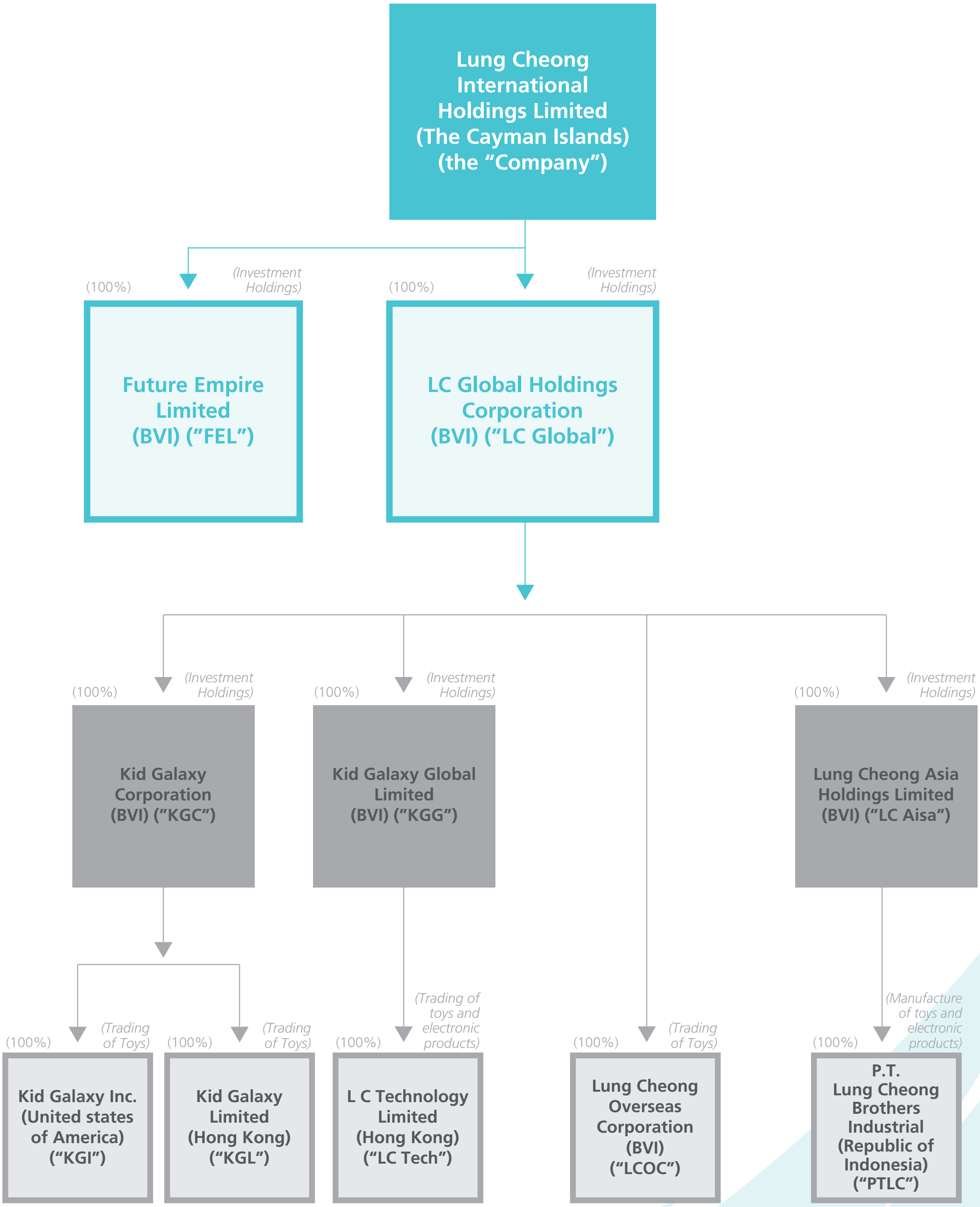
LUNG CHEONG
INTERNATIONAL HOLDINGS LIMITED

(Incorporated in the Cayman Islands with limited liability)

Stock Code: 348

Interim Report 2012/13

CORPORATE STRUCTURE
(as at 27 November 2012)



The board of directors (the "Directors") of Lung Cheong International Holdings Limited (the "Company") is pleased to announce the unaudited condensed consolidated results of the Company and its subsidiaries (the "Group") for the six months ended 30 September 2012 together with comparative figures for the corresponding period in 2011. 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 2012

	Notes	**Unaudited Six months ended 30 September 2012** *HK$'000*	2011 *HK$'000*
Turnover	2	**145,815**	316,975
Cost of sales		**(116,150)**	(262,182)
Gross profit		**29,665**	54,793
Other income and gains, net	2	**71**	788
Selling and distribution expenses		**(11,896)**	(17,108)
General and administrative expenses		**(16,677)**	(34,378)
Impairment of goodwill		**–**	(9,620)
Gain on disposal of subsidiaries		**–**	92,049
Operating profit		**1,163**	86,524
Finance costs	3	**(878)**	(1,397)
Profit before income tax	4	**285**	85,127
Income tax expense	5	**–**	–
Profit for the period attributable to owners of the Company		**285**	85,127
Other comprehensive income for the period, net of tax:			
— Exchange differences arising from translation of foreign operations		**(679)**	(387)
— Release of exchange fluctuation reserve arising from disposal of subsidiaries		**–**	(66,918)
		(679)	(67,305)
Total comprehensive income for the period attributable to owners of the Company, net of tax		**(394)**	17,822
Earnings per share attributable to owners of the Company			
— Basic and diluted	7	**0.01 cents**	2.88 cents

CONDENSED CONSOLIDATED STATEMENT OF FINANCIAL POSITION

As at 30 September 2012

	Notes	**Unaudited 30 September 2012 HK$'000**	Audited 31 March 2012 HK$'000
ASSETS AND LIABILITIES			
Non-current assets			
Property, plant and equipment	8	**43,234**	41,198
Goodwill		**2,500**	2,500
Deferred tax assets		**3,044**	3,508
		48,778	47,206
Current assets			
Inventories		**45,770**	31,602
Trade and other receivables, deposits and prepayments	9	**68,855**	22,026
Amounts due from related companies	15	**34,372**	43,013
Tax recoverable		**271**	212
Cash and cash equivalents		**11,415**	7,156
		160,683	104,009
Current liabilities			
Trade payables	10	**11,549**	3,791
Other payables and accrued charges		**11,422**	8,786
Amounts due to related companies	15	**35,513**	43,412
Loan from immediate holding company	15	**30,000**	–
Borrowings	11	**15,470**	15,529
Tax payable		**339**	760
		104,293	72,278
Net current assets		**56,390**	31,731
Total assets less current liabilities		**105,168**	78,937

	Notes	Unaudited 30 September 2012 *HK$'000*	Audited 31 March 2012 *HK$'000*
Non-current liabilities			
Provision for long service payment		**1,540**	1,611
Loan from immediate holding company	15	**–**	50,000
Deferred tax liabilities		**6,854**	6,854
		8,394	58,465
Net assets		**96,774**	20,472
EQUITY			
Share capital		**345,776**	295,776
Reserves		**(249,002)**	(275,304)
Total equity		**96,774**	20,472

CONDENSED CONSOLIDATED STATEMENT OF CASH FLOWS

For the Six Months Ended 30 September 2012

	Unaudited Six months ended 30 September	
	2012	2011
	HK$'000	*HK$'000*
Net cash (outflow)/inflow from operating activities	**(32,427)**	10,697
Net cash outflow from investing activities	**(4,091)**	(39,002)
Net cash inflow/(outflow) from financing activities	**41,167**	(6,739)
Net increase/(decrease) in cash and cash equivalents	**4,649**	(35,044)
Cash and cash equivalents at 1 April	**7,156**	45,828
Effect on foreign exchange rate changes	**(390)**	(133)
Cash and cash equivalents at 30 September	**11,415**	10,651
Bank balances and cash	**11,415**	10,651

CONDENSED CONSOLIDATED STATEMENT OF CHANGES IN EQUITY

For the Six Months Ended 30 September 2012

	Unaudited						
	Share capital *HK$'000*	Share premium *HK$'000*	Exchange fluctuation reserve *HK$'000*	Statutory surplus reserve *HK$'000*	Land and buildings revaluation reserve *HK$'000*	Accumulated losses *HK$'000*	Total equity/ (deficit) *HK$'000*
At 1 April 2012	**295,776**	**37,657**	**(27,704)**	**–**	**28,891**	**(314,148)**	**20,472**
Exchange difference arising from translation of foreign operations	**–**	**–**	**(679)**	**–**	**–**	**–**	**(679)**
Profit for the period	**–**	**–**	**–**	**–**	**–**	**285**	**285**
	–	**–**	**(679)**	**–**	**–**	**285**	**(394)**
Placement of shares	**50,000**	**26,696**	**–**	**–**	**–**	**–**	**76,696**
At 30 September 2012	**345,776**	**64,353**	**(28,383)**	**–**	**28,891**	**(313,863)**	**96,774**

	Unaudited						
	Share capital *HK$'000*	Share premium *HK$'000*	Exchange fluctuation reserve *HK$'000*	Statutory surplus reserve *HK$'000*	Land and buildings revaluation reserve *HK$'000*	Accumulated losses *HK$'000*	Total equity/ (deficit) *HK$'000*
At 1 April 2011	295,776	37,657	39,950	28,840	17,987	(423,078)	(2,868)
Release of exchange fluctuation reserve arising from disposal of subsidiaries	–	–	(66,918)	–	–	–	(66,918)
Exchange difference arising from translation of foreign operations	–	–	(387)	–	–	–	(387)
Profit for the period	–	–	–	–	–	85,127	85,127
	–	–	(67,305)	–	–	85,127	17,822
Transfer of reverses upon disposal of subsidiaries	–	–	–	(28,840)	(2,441)	31,281	–
At 30 September 2011	295,776	37,657	(27,355)	–	15,546	(306,670)	14,954

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 2012.

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 2012.

HKFRS 1 (Amendment)	Severe Hyperinflation and Removal of Fixed Dates for First-time Adopters
HKFRS 7 (Amendments)	Disclosures — Transfers of Financial Assets

The application of these 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:

Amendments to HKFRSs	Annual Improvements 2009-2011 Cycle[2]
Amendments to HKFRS 7	Disclosures — Offsetting Financial Assets and Financial Liabilities[2]
Amendments to HKFRS 9 and HKFRS 7	Mandatory Effective Date of HKFRS 9 and Transition Disclosures[4]
Amendments to HKFRS 10, HKFRS 11 and HKFRS 12	Consolidated Financial Statements, Joint Arrangements and Disclosure of Interests in Other Entities: Transition Guidance[2]
HKFRS 9	Financial Instruments[4]
HKFRS 10	Consolidated Financial Statements[2]
HKFRS 11	Joint Arrangements[2]
HKFRS 12	Disclosure of Interests in Other Entities[2]
HKFRS 13	Fair Value Measurement[2]
Amendments to HKAS 1	Presentation of Items of Other Comprehensive Income[1]
HKAS 19 (Revised 2011)	Employee Benefits[2]
HKAS 27 (Revised 2011)	Separate Financial Statements[2]
HKAS 28 (Revised 2011)	Investments in Associates and Joint Ventures[2]
Amendments to HKAS 32	Offsetting Financial Assets and Financial Liabilities[3]
HK(IFRIC)-Int 20	Stripping Costs in the Production Phase of a Surface Mine[2]

1 Effective for annual periods beginning on or after 1 July 2012.
2 Effective for annual periods beginning on or after 1 January 2013.
3 Effective for annual periods beginning on or after 1 January 2014.
4 Effective for annual periods beginning on or after 1 January 2015.

The Directors anticipate that the application of these 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.

Turnover and revenues recognised during the period are as follows:

	Unaudited Six months ended 30 September 2012 HK$'000	2011 HK$'000
Turnover		
Sale of goods	**145,815**	312,422
Sale of moulds and materials	**–**	4,553
	145,815	316,975
Other income and gains, net		
Interest income	**48**	2
Others	**23**	786
	71	788
Total revenues	**145,886**	317,763

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 turnover by geographical region, according to the destination of orders is as follows:

	Unaudited Six months ended 30 September 2012 HK$'000	2011 HK$'000
Turnover		
United Stated of America	**62,784**	181,763
Europe (Note)	**61,859**	80,625
Australia	**1,576**	7,220
PRC/Hong Kong	**1,568**	13,002
Japan	**748**	8,700
Others	**17,280**	25,665
	145,815	316,975

Note: The countries included in this category included mainly United Kingdom, Germany and Italy. No further analysis by countries of this category is presented because the revenue from each individual country is insignificant to the total revenue.

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

	Unaudited Six months ended 30 September 2012 HK$'000	2011 HK$'000
Radio control/wireless products	**56,254**	73,928
Electronic and plastic toys	**89,561**	230,547
Consumer electronic products	**–**	12,500
	145,815	316,975

(c) Information on major customers is as follows:

For the period ended 30 September 2012, revenue from two external customers had contributed to more than 30% of the Group's revenue amounting to approx HK$45 million. Other than these customers, there is no other customer whose revenue contributed to more than 10% of the Group's revenue.

For the period ended 30 September 2011, revenue from four external customers had contributed to more than 73% of the Group's revenue amounting to approx HK$231 million. Other than these customers, there is no other customer whose revenue contributed to more than 10% of the Group's revenue.

3. Finance costs

	Unaudited Six months ended 30 September 2012 HK$'000	2011 HK$'000
Interest on loans	**878**	1,397

4. Profit before income tax

	Unaudited Six months ended 30 September 2012 HK$'000	2011 HK$'000
Profit before income tax is stated after charging the following:		
Cost of inventories sold	**116,150**	262,182
Depreciation of property, plant and equipment	**1,751**	2,052

5. Income tax expense

No income tax expense has been provided as the Group has tax losses brought forward from previous years to set off the assessable profits for the period.

6. Dividends

The Directors do not recommend the payment of interim dividend for the six months ended 30 September 2012 (2011: Nil).

7. Earnings per share

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

	Unaudited Six months ended 30 September 2012 HK$'000	2011 HK$'000
Profit attributable to owners of the Company	**285**	85,127
Weighted average number of ordinary shares in issue	**3,257,208,546**	2,957,757,997
Basic earnings per share (HK cents)	**0.01**	2.88

The diluted earnings per share for the six months ended 30 September 2012 and the six months ended 30 September 2011 were the same as basic earnings per share as there was no potential ordinary share outstanding during the periods.

8. Property, plant and equipment

	HK$'000
At 1 April 2012	41,198
Additions	4,091
Depreciation charge	(1,751)
Exchange differences	(304)
At 30 September 2012	43,234

9. Trade and other receivables, deposits and prepayments

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

	Unaudited 30 September 2012 ***HK$'000***	Audited 31 March 2012 *HK$'000*
Trade receivables	**56,541**	17,859
Other receivables, deposits and prepayments	**12,314**	4,167
	68,855	22,026

The ageing analysis of the trade receivables is as follows:

	Unaudited 30 September 2012 *HK$'000*	Audited 31 March 2012 *HK$'000*
0 – 30 days	**50,070**	10,206
31 – 60 days	**4,989**	1,922
61 – 90 days	**335**	4,712
91 – 180 days	**1,047**	592
181 – 365 days	**–**	115
Over 365 days	**100**	312
	56,541	17,859

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 payment in advance up to 90 days in credit but business partners with strong financial background may be offered comparative better credit terms.

10. Trade payables

The ageing analysis of the trade payables is as follows:

	Unaudited 30 September 2012 *HK$'000*	Audited 31 March 2012 *HK$'000*
0 – 90 days	**11,549**	3,787
91 – 180 days	**–**	4
	11,549	3,791

11. Borrowings

The borrowings represent trust receipt loans at the end of reporting period. The borrowings are secured by the Group's certain property, plant and equipment. Borrowings were repayable on demand or within one year as at the date of statement of financial position.

12. Contingent liabilities

As 30 September 2012 and 31 March 2012, the Group had no contingent liabilities.

13. Commitments under operating leases

At 30 September 2012, the Group had future aggregate minimum lease payments under non-cancellable operating leases in respect of office premises as follows:

	Unaudited 30 September 2012 *HK$'000*	Audited 31 March 2012 *HK$'000*
Not later than one year	**525**	589
Later than one year but not later than five years	**504**	606
	1,029	1,195

14. Share Option Scheme

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 14 September 2012, 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 approved to a shareholders' resolution passed in the extraordinary general meeting ("EGM") of the Company held on 14 September 2012, the maximum number of shares available for issue under the Scheme is 345,775,799, representing 10% of the issued ordinary share capital of the Company as at the date of the said EGM, 14 September 2012 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. Details of the Scheme are set out in the circular of the Company dated 29 August 2012.

No share options were granted during the current and prior period.

15. Related party transactions

During the period, the Group had transactions and balances with related parties, some of which are also deemed to be connected parties pursuant to the Listing Rules. In addition, transactions between the Company and its subsidiaries, which are related parties of the Company, have been eliminated on consolidation and are not disclosed in this note. The significant transactions with these companies during the period, and balances with them at the end of reporting period, are as follows:

(a)

	Unaudited Six months ended 30 September	
	2012	2011
	HK$'000	*HK$'000*
Sales to related companies	–	78
Purchases from related companies	**81,144**	228,096

These related companies are beneficially owned by Mr. Leung Chung Ming, a substantial shareholder of the Company, and Mr. Leung Yuk Wai Kenneth, a son of Mr. Leung Lun, M.H., a substantial shareholder and executive director of the Company.

(b) Amounts due from/(to) related companies are unsecured, interest-free and repayable on demand.

(c) The loan from immediate holding company is unsecured and interest bearing at HIBOR plus certain percentage. At 31 March 2012, Lung Cheong Investment Limited had provided a letter of financial support to the Company to indicate that they had no intention to call for repayment in whole of the loan on or before 1 April 2013.

16. Subsequent event after the reporting period

The Company entered into the Placing Agreement with the Placing Agent on 6 November 2012 pursuant to which the Company appointed the Placing Agent as its sole and exclusive placing agent, on a best-effort basis, to procure not fewer than six Placees (who are Independent Third Parties) to subscribe for up to 2,000,000,000 Placing Shares at the Placing Price. On 6 November 2012, the Placing Agent procured a Placee and this Placee on the same day confirmed to the Placing Agent to subscribe a total of 1,390,000,000 Placing Shares at the Placing Price.

The Placing Shares represent approximately 57.84% of the Company's existing issued share capital and approximately 36.65% of the Company's issued share capital as enlarged by the issue of the Placing Shares. The Placing Shares will be allotted under the Specific Mandate to be sought at the EGM.

It is expected that the net proceeds from the Placing will amount to approximately HK$388 million. The Company intends to apply the aggregate net proceeds from the Placing towards business development of the Group into the new area and any future possible acquisitions and strategic investment which may bring in revenue when such opportunities arise and to improve the Group's financial position. Details of Placing of New Shares and Possible Offer are set out in the Company's announcement dated 19 November 2012.

INTERIM DIVIDEND

The Directors do not recommend the payment of an interim dividend for the six months ended 30 September 2012 (2011: Nil).

RESULTS, BUSINESS REVIEW AND PROSPECTS

Results

For the period ended 30 September 2012 (the "Period"), the Group's turnover decreased by approximately ("approx") 54% to approx HK$146 million, compared with approx HK$317 million for the period ended 30 September 2011 (the "Corresponding Period"). Gross profit margin for the Period was approx 20% compared to approx 17% in the Corresponding Period. Overall, profit attributable to owners of the Company was approx HK$285,000 compared with a profit of approx HK$85 million in the Corresponding Period.

Business Review

The Group recorded a significant decrease in profit for the six months ended 30 September 2012 as compared to the profit recorded by the Group for the six months ended 30 September 2011. The decline in consolidated profit was primarily attributable to the fact that there was a one-off gain on disposal of the Company's subsidiaries ("Disposal Group") of approx HK$92 million for the six months ended 30 September 2011 which did not occur for the same period in this year and partly due to the decrease in sales of the Group for the Period.

For our new financial year ending 31 March 2013 ("FY12/13"), the Group's core business are its Kid Galaxy Original Brand Manufacturing ("OBM") business and Original Equipment Manufacturing ("OEM") business, with the Indonesian factory becoming its primary production base. The Directors and senior executives ("Management") believes Indonesia's plentiful supply of labour would be beneficial and provides it with a stable environment to reduce reliance on the People's Republic of China ("PRC") manufacturing support over time as shown in purchases from related PRC factories have been reduced from approx HK$228 million to approx HK$81 million during the comparative periods under review. Turnover of the Group's manufacturing plant in Indonesia increased from approx HK$33 million for the Corresponding Period to approx HK$63 million, and accounted for approx 43% (2011: 10%) of Group's turnover for the period ended 30 September 2012. During peak production time within the Period, the Group had over 2,800 employees at the Indonesian factory.

In addition to a challenging market environment in FY12/13, the Group had to compete to preserve its OEM customers without a PRC manufacturing base and relying on its Indonesian production facilities. Overall, the Group's turnover recorded a decrease as certain customers opted to place orders with the Disposal Group directly or with other OEM competitors with PRC facilities. Benefiting from a shift in its strategy, the Group's existing core business took advantage of its reduced scale to strengthen its competitive advantages. As a result, sales with improved average selling prices and margins were secured, and the Group's gross profit margin for the Period recorded an improvement to approx 20% compared with approx 17% in the Corresponding Period.

During the six months ended 30 September 2012, the Group's major export destinations were the United States of America ("US"), Europe, Australia and Japan. US continued to be the largest export destinations for the Group, accounting for approx 43% of total turnover the Period (2011: 57%). Other significant overseas markets for the Group during the Period included Europe, Australia and Japan, which accounted for approx 42% in (2011: 25%), approx 1% (2011: 2%) and approx 1% (2011: 3%) respectively.

The Group's continued its efforts into developing relationships with customers whom had strong electronic and plastic toy lines targeted at the lower-priced segment. The major portion shipped were less complex, medium-to-low priced electronic and plastic products during six months ended 30 September 2012, decreased to approx 61% of sales (2011: 73%). Shipment of radio control ("R/C") toys were stronger, the Group's R/C toy business segment accounted for approx 39% of total sales for the six months ended 30 September 2012, higher than the approx 23% recorded in this segment as compared with that in the Corresponding Period. Fewer sales of premium priced items were mainly due to economic uncertainties affecting consumers worldwide. However, amid the uncertain business environment, the Group's operations contributed approx HK$1 million in operating profit for six months ended 30 September 2012 (2011: HK$87 million).

During the Period, Kid Galaxy enriched its product mix with new product lines such as "Big Wheelie Cycle", "Ratchet Racers", "Slick Drifter" and "Dyna Rides" receiving an encouraging market response. It has launched several new product lines during the Period as a result of our strong development efforts. The Group during the Period actively expanded its distribution channels in the US and Europe for Kid Galaxy products by increasing its presence at exhibitions and opening new sales channels such as clubs, Television Sales networks, Internet and chain stores. With marketing programs for Kid Galaxy branded products in place, the turnover of Kid Galaxy OBM sales was higher at approx HK$77 million, compared with approx HK$55 million for the Corresponding Period. Its revenue derived mainly from its own brands such as Elite Fleet, Morphibians, GoGo Auto, World of Wheels, My First RC and the recently licensed Ford GoGo Auto.

On 24 April 2012, the Company entered into the Placing Agreement pursuant to which the Company appointed the Placing Agent to procure not fewer than six Placees (who are Independent Third Parties) to subscribe for up to 500 million Placing Shares. In addition, the Company would issue unlisted Warrants, on the basis of one Warrant for each Placing Share issued, at the Issue Price of HK$0.01 per Warrant. Holders of the Warrants may exercise the subscription rights attached to the Warrants, in whole or in part, at any time during the Exercise Period to subscribe for the Subscription Shares at the Subscription Price of HK$0.15 per Subscription Share (subject to adjustment). Each Warrant carries the right to subscribe for one Subscription Share. It was expected the maximum gross proceeds and maximum net proceeds of approx HK$155 million and approx HK$152 million would be raised upon completion of the Placing and fully exercised of the Warrants (the "Placing").

The net proceeds from the Placing (excluding any exercise of the subscription rights attached to the Warrants) amounted to approx HK$77 million. The net proceeds from the full exercise of the subscription rights attached to the Warrants, would amount to approx HK$75 million. The Company intends to apply the aggregate net proceeds from the Placing, together with the proceeds from the issue of the Subscription Shares upon full exercise of the subscription rights attached to the Warrants for the purposes set out in the announcement of the Company dated 25 April 2012 and the circular of the Company dated 16 May 2012.

Pursuant to the Listing Rules, the Placing was approved by the Independent Shareholders at the Company's extraordinary general meeting ("EGM") held on 31 May 2012. All conditions precedent to the Placing as set out in the Placing Agreement have been fulfilled and the completion of the Placing took place on 13 June 2012. 500 million Placing Shares with an aggregate of 500 million unlisted Warrants attached have been successfully placed by the Placing Agent to not fewer than six Placees at the Placing Price of HK$0.15 per Placing Share and Issue Price of HK$0.01 per Warrant in accordance with the terms and conditions of the Placing Agreement.

The Directors consider that the Placing was a good opportunity to raise capital for the Company in light of the continued uncertainties in the world markets, the Directors consider that it was prudent for the Group to conduct the Placing to raise sufficient funds for general working capital and expansion of business as and when such opportunities arise and to improve the Group's financial position. The Placing would also provide the Group an excellent opportunity to raise further substantial funds in the event the holders of the Warrants exercise their subscription rights attached to the Warrants at any time during the Exercise Period.

During the period under review from the net proceeds of the Placing, approx HK$5 million has been applied on replacing old with new equipment for the Indonesian OEM operations and approx HK$3 million been applied to new product development of the OBM business. In view of the loan not yet due for repayment, with the remaining funds, approx HK$20 million has been used to reduce the shareholder's loan with the remaining amount raised applied as working capital to support the growth in the stock and accounts receivables of Kid Galaxy's OBM business and Indonesian OEM sales.

Inventories recorded an increase of approx 44% compared to previous year end date, value of stock in warehouse increased from approx HK$32 million as at 31 March 2012 to approx HK$46 million as at 30 September 2012. These are finished goods and materials held mainly in our Indonesian factory and by an independently managed warehouse in the US.

In line with the increased turnover of both the Indonesian factory and Kid Galaxy's OBM business, trade receivables recorded an approx 217% increase as at 30 September 2012 to approx HK$57 million, compared with approx HK$18 million as at 31 March 2012.

PLANS AND PROSPECTS

Management takes a cautious view of its business in FY12/13. As market fluctuations and economic uncertainties such as concern over the European sovereignty debt crisis may affect product demand and customer orders, Management is concerned that the global toy industry will still face challenges in FY12/13. Factors such as increased competition from electronic and mobile tablets, the volatility of raw materials prices, ever increasing energy costs, the weakness of consumer spending, imminent increase in minimum salaries in the PRC as well as Indonesia and fluctuation of the Indonesian Rupiah and the US dollar ("US$")may lead to increasing production costs which would impact the Group's profitability.

In addition, existing OEM customers may place orders directly with competitors with factories in Vietnam or prefer production to be carried out in PRC factories. Subsequent to the Group's disposal and changes in its business structure, Management foresees that its total sales and turnover will be affected in FY12/13. As such, measures will be taken to attract OEM customers to place more orders directly with the Group, and allocate more production to the Indonesia factory.

The Group's production base in Indonesia currently enjoys favorable advantages over PRC and most Asian countries due to plentiful supply of labour. The positive environment seems sustainable and the Group looks forward to optimistic growth in our Indonesian plant. Management remains confident of the Group's ability to seize this unique opportunity to consolidate its market position amid the exit of weaker players.

However the Group needs to streamline the production efficiency of the Indonesian plant aiming to lower the overall manufacturing overhead, sourcing and administrative costs. In addition, new measures will be adopted to enhance productivity. These measures include replacing machines of low efficiency and high maintenance cost, streamlining workflow, revision of work practices and parameters, and exploring opportunities for utilizing idle seasonal capacity. Management will endeavor to trim excess overheads, improve productivity and control production costs in view of the imminent raise in minimum salaries for the country in the coming year.

The Group continues its belief about the importance of investing a portion of working capital in business development. Ongoing financial resources are being allocated to the development of business with leading OEM brands as well as our OBM sales distribution and network. We continue to focus our financial resources and efforts in two categories of customers: growing with strategic OEM customers, providing competitive credit terms during the time of uncertainties, and expanding the base of strategic OBM customers, supporting our customers with ready supply of finished products under the Kid Galaxy brands. These plans can now be carried out effectively with additional funds from the Placing of shares completed during the Period.

Looking forward, the Group will focus on the research and development of more OBM products, expansion of marketing tactics for Kid Galaxy products to establish a solid foundation for future development. Management will actively look into all possibilities of selective mergers, acquisitions and divestments to further reduce the Group's reliance on primarily OBM and OEM income streams so as to seek alternate sources of revenue from new ventures to add value to shareholders. During the Period, the Company has been actively engaged in negotiations of different possible opportunities and raised funds for the Group's development. Furthermore on 6 November 2012, the Company entered into a placing agreement relating to placing of new shares. Details of Placing of New Shares and Possible Offer are set out in the Company's Announcement dated 19 November 2012.

GROUP RESOURCES AND LIQUIDITY

As at 30 September 2012, the Group's cash and bank balances were approx HK$11 million (31 March 2012: HK$7 million). The Group's total borrowings excluding shareholder's loan were approx HK$15 million (31 March 2012: HK$16 million). The gearing ratio, calculated as the total borrowings less cash and bank balances and divided by shareholders' equity, was approx 4.2% (31 March 2012: 41%). As at 30 September 2012, the Group recorded total current assets of approx HK$161 million (31 March 2012: HK$104 million) and total current liabilities approx HK$104 million (31 March 2012: HK$72 million. The current ratio of the Group, calculated by dividing the total current assets by the current liabilities, was approx 154% (31 March 2012: 144%). The Group recorded an increase in shareholders' funds from approx HK$20 million as at 31 March 2012 to a net asset position of approx HK$97 million as at 30 September 2012. The increase was mainly resulting from the Placing of shares plus contributions from operations.

Overall, the Group's operations have stabilized. The financial position has improved compared to the previous reported financial periods. Barring unforeseen challenges, in the opinion of the Directors, the Group has sufficient financial resource to meet its normal operational needs.

FOREIGN CURRENCY RISKS

The Group's exposure to currency risk attributable to the trade and other receivables, bank balances, trade and other payables and bank borrowings, which are dominated in currencies other than the functional currency of the entity to which they related. The Group currently does not have a foreign currency hedging policy. However, the Group's management monitors foreign exchange exposure and will consider hedging significant foreign currency exposure should the need arise.

SIGNIFICANT INVESTMENTS AND ACQUISITIONS

The Group did not have any significant investments or acquisitions or sales of subsidiaries during the Review Period.

EMPLOYEES

As at 30 September 2012, the Group had approx 2,765 employees and contract workers based in Hong Kong headquarters, Macau office, PRC liaison office, the Indonesian factory and the US sales office. The number of employees of the Group varies from time to time depending on production needs and they are remunerated based on industry practices.

SHAREHOLDING STRUCTURE

As at 30 September 2012, the Company has 3,457,757,997 Shares in issue. The shareholding structure of the Company after the Placing (assuming no other change to the issued share capital of the Company) are as follows:

	Number of Shares held	**Approximate shareholding percentage**
Lung Cheong Investment Limited	1,499,082,240	43.35%
Public Shareholders	1,958,675,757	56.65%
Total	3,457,757,997	100.00%

As at 30 September 2012, there are 500,000,000 outstanding warrants which can be, if fully exercised, convertible to 500,000,000 new Shares. The warrants were issued on the basis of one warrant for each placing share issued to the subscribers who are Independent Third Parties under the placing of 500,000,000 Shares of the Company, which was completed on 13 June 2012.

SUBSTANTIAL SHAREHOLDERS

At 30 September 2012, 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	43.35%
Rare Diamond Limited	1,499,082,240 (L) (Note 2)	Interest of controlled corporation	43.35%

Notes:

1. The letter "L" represents the entity's interests in the shares and underlying shares of the Company.

2. 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, M.H., an executive director of the Company and 30% by Mr. Leung Chung Ming, who is the brother of Mr. Leung Lun, M.H..

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 CONTRACTS

On 7 March 2008, the Company and Lung Cheong Investment Limited ("LCI") entered into a loan agreement pursuant to which LCI agreed to grant a loan of HK$50 million to the Company for partial repayment of the loan granted under the facility agreement entered into between, amongst others, the Company and a syndicate of banks on 21 August 2007. LCI is the controlling shareholder of the Company and is wholly owned by a company beneficially owned by Mr. Leung Lun, M.H., an executive director of the Company and Mr. Leung Chung Ming, a former Director of the Company. The above details and subsequent extension are set out in the announcements of the Company dated 10 March 2008 and 25 September 2008 and Note 15 to the financial statement.

DIRECTOR'S INTEREST IN COMPETING BUSINESS

As at 30 September 2012, apart from the Disposal Group, 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.

DIRECTORS' INTERESTS IN EQUITY SECURITIES

At 30 September 2012, the interests and short positions of each Director and chief executive of the Company 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 of Hong Kong Limited ("Stock Exchange") pursuant to the Model Code for Securities Transactions by Directors of Listed Issuers (the "Model Code") contained in the Listing Rules were as follows:

Name of Director	Name of company	Capacity	Number and class of securities (Note 1)	Approximate percentage on the issued share capital of the same class of securities
Leung Lun	The Company	Interest of controlled corporation	1,499,082,240 ordinary shares (L) (Note 2)	43.35%
	Lung Cheong Investment Limited	Interest of controlled corporation	1,000 ordinary shares (L)	100%
	Rare Diamond Limited	Beneficial interest	70 ordinary shares (L)	70%

Notes:

1. The letter "L" represents the Director's interests in the shares and underlying shares of the relevant company.

2. 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, M.H., an executive director of the Company and 30% by Mr. Leung Chung Ming, who is the brother of Mr. Leung Lun, M.H..

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 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.

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.

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 save for the deviation from code provision A.2.1.

Under the code provision A.2.1, the roles of chairman and chief executive should be separate and should not be performed by the same individual, Mr. Leung Lun, M.H. is both the Chairman and Chief Executive of the Company throughout the period under review. The Board believes that vesting the roles of both Chairman and Chief Executive in the same person provides the Company with strong and consistent leadership enabling the Company to operate efficiently. The Board considers that such an arrangement will not impair the balance of power and authority between the Board and the management of the Company.

COMPLIANCE WITH RULES 3.10(1) AND 3.21 OF THE LISTING RULES

Following the retirement of Mr. Wong Lam, O.B.E., J.P. on 30 July 2012, the number of the independent non-executive directors and members of Audit Committee of the Company fell below the minimum number required under (a) Rule 3.10(1) of the Rules Governing the Listing of Securities on The Stock Exchange of Hong Kong Limited (the "Listing Rules"), which prescribes that a listed issuer must have at least three independent non-executive directors; and (b) Rule 3.21 of the Listing Rules, which prescribes that a listed issuer's Audit Committee must comprise a minimum of three members who should all be non-executive directors with at least one of whom is an independent non-executive director. On 28 September 2012, the Company appointed Dr. Ko Peter, Ping Wah as an independent non-executive director and a member of audit committee of the Company and the relevant requirements under the Listing Rules were fulfilled since then.

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 2012, 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 under "Latest Listed Companies Information" and the website of the Company at www.e-lci.com under "Investor Relations".

APPRECIATION

The Board would like to take the opportunity to thank Mr. Wong Lam, O.B.E., J.P. who retired on 30 July 2012 for the contributions he made to the Company during his tenure as Independent non-executive director of the Company since 12 November 1999.

On behalf of the Board of
Lung Cheong International Holdings Limited

Leung Lun
Chairman and Chief Executive

27 November 2012

CORPORATE INFORMATION

Executive Directors
Mr Leung Lun, M.H. *(Chairman and Chief Executive)*
Mr Wong, Andy Tze On

Independent Non-executive Directors
Mr Ye Tian Liu
Mr Lai Yun Hung
Dr Ko Peter, Ping Wah

Audit Committee
Mr Lai Yun Hung *(Chairman)*
Mr Ye Tian Liu
Dr Ko Peter, Ping Wah

Nomination Committee
Leung Lun, M.H. *(Chairman)*
Mr Ye Tian Liu
Mr Lai Yun Hung
Dr Ko Peter, Ping Wah

Remuneration Committee
Mr Ye Tian Liu *(Chairman)*
Mr Lai Yun Hung
Mr Leung Lun, M.H.
Dr Ko Peter, Ping Wah

Company Secretary
Mr Mak Yee Chuen, Vincent

Auditor
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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
29/F
Bank of East Asia Harbour View Centre
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Wanchai
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Cayman Islands
British West Indies

Hong Kong Branch Share Registrar and Transfer Office
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28 Queen's Road East
Wanchai
Hong Kong

Listing Information
The Stock Exchange of Hong Kong Limited
Stock Code: 348