



CHAIRMAN'S STATEMENT



Mr. Leung Lun
Chairman of the Group

To all shareholders,

On behalf of the Board of Directors, I am pleased to announce the audited results for Lung Cheong International Holdings Limited ("the Company") and its subsidiaries (collectively referred to as "the Group") for the year ended 31 March 2002.

For the financial year 2001/02, the Group continued to perform well and reported a turnover of HK\$657 million, a 1.6% growth against HK\$647 million recorded last year. Profit attributable to shareholders amounted to HK\$31 million against last year's figure of HK\$23 million, rising by 36.5%.

The Board has recommended a final dividend of HK0.5 cents (2001: HK0.25 cents) per ordinary share for the year, subject to the approval of shareholders at the forthcoming annual general meeting of the Company (the "AGM"). Together with the interim dividend of HK0.25 cents (2001: HK0.5 cents), total dividends for the year under review will amount to HK0.75 cents (2001: HK0.75 cents).

Business Review

The financial year 2001/02 presented both challenges and opportunities for the Group and we entered the year confident that we would succeed by becoming a leaner and more productive company. Despite the unfavourable economic environment particularly in the United States ("U.S."), we achieved our goal of increasing profit margin from 3.5% to 4.7%, and also becoming a much stronger and more diversified company than we were just a year ago.

We continued to apply resources to research and development ("R&D") of existing and new technologies through Standard Tooling and Products Co., Limited ("STP"), further reinforcing the Group's objective to launch more innovative and marketable products. As promised in our Interim Report, we continued to look for licensed products with high potential returns. Finally, we said we would develop our own brands. We are therefore very pleased with the initial successes of Kid Galaxy Inc. ("Kid Galaxy") and StatCard Entertainment, Inc. ("StatCard"). We intend to continue with this diversification strategy.

Our production capacities were better utilized with the increased range of products. At the same time, we implemented prudent cost control measures to optimize efficiencies, with the ultimate goal of maximizing benefits for the Group. The centralization of operations in Dongguan was completed at the end of December 2001, lowering production costs and enhancing our competitive edge.

The Group continued to maximize efforts to enhance the development of our Original Equipment Manufacturing ("OEM") and Original Design Manufacturing ("ODM") businesses. We maintained close relationships with our major customers, keeping abreast of market conditions in the development of our ODM businesses. The Group has launched many successful and creative products. Recent accomplishments have been recognized with the awards won by its newly engineered products - the radio control "Skateboarder" and "KG Racer Automites". The turnover of radio control and wireless toys, a major contributor to the Group's turnover, saw satisfactory growth during the year.



CHAIRMAN'S STATEMENT



The China market is playing an increasingly important role to the Group. The sale of licensed products proceeded beyond expectation due to our active promotion and marketing campaigns in the market. In view of the continued success of the "Hikarian" figures, "Mado King Granzort" was launched on the Mainland in May 2001. The sale of the figures has been greatly boosted by the TV cartoon broadcasts in China's major cities. Sale of "Mado King Granzort" figures is nudging the million units since launch.

In light of China's huge business growth potential, particularly after its entry to the World Trade Organization, we have increased our efforts and resources to expand this market. We aim to achieve better penetration and visibility for our products through the establishment of direct retail outlets. In July 2001, we opened our first pilot specialty retail outlet in Guangzhou.

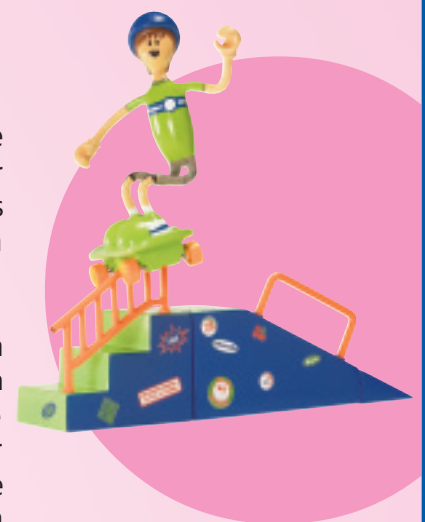
In addition to our efforts to strengthen the existing core businesses, the Group actively explored business opportunities to accelerate growth. In January 2002, the Group acquired the Kid Galaxy business, the popular "Bendos" brand with a well established network of over 2,500 outlets in the U.S.. This acquisition enabled the Group to enter the gift market and to facilitate direct access to the U.S., opening up new business horizons. The Group will continue to use the Bendos brand and develop new brands to penetrate the specialty toy and gift markets.

Additionally, our synergistic partnership with StatCard, a US based innovator of Smart Trading Card entertainment technology, in early 2002 marked a major milestone in our strategy to create a new source of future income. Through the investment in StatCard, the Group was given the manufacturing rights and orders for the smart cards, readers and its gaming accessories, and was also granted the exclusive licence to distribute StatCard products in the Asia Pacific region. This includes the pioneering Smart Trading Card launched recently in the U.S. in January 2002, which offers consumers a fresh approach to entertainment by integrating interactive on-line entertainment, trading cards, and smart cards for the first time.

Prospects

The persistent performance of our radio control products are expected to generate stable and significant income for the Group. Given the promising responses to our newly developed radio control range, we will continue to leverage our wireless technology to develop more innovative and sophisticated products to sustain satisfactory performance in this category.

In view of the immense opportunities in the Mainland, the Group has been actively seeking ways to increase market share. In June 2002, the Group reached a licensing agreement with Tomy (Hong Kong) Company Limited ("Tomy"), for the manufacturing and sales rights for the "Super Armored Cop" toy figures, together with a licensing agreement with Animation International Limited ("AI") for the licence to publish the related comic book series in China. Based on our proven success in launching and marketing licensed products, "Hikarian" and "Mado King Granzort", and our established network of over 400 retail outlets throughout China, we are confident that "Super Armored Cop" will be another major success for the Group.





CHAIRMAN'S STATEMENT

Our two strategic ventures last year demonstrate the Group's commitment to diversify the product range and create new income streams. Bendos are expected to be introduced to Asia Pacific in the second half of 2002. Leveraging the Group's strong R&D capabilities, more creative Bendos will be launched. The outlook for Bendos is extremely promising. Aggressively pursuing the U.S. market and expanding into international markets will deliver further growth in the years ahead.



Considering the increasing popularity of interactive entertainment, in particular on-line games, the Group is preparing to launch StatCard in Asia by the end of 2002. We believe that the new StatCard on-line gaming platform and games will place us in a unique position to generate revenues from the fast growing interactive gaming industry. At the same time, our extensive ODM experience and strong capabilities in R&D will enable us to create more sophisticated products and gaming accessories to meet changing market needs. This business is expected to start benefiting the Group next year.

Our consolidated manufacturing facilities in China and Indonesia will allow us to continue to provide consumers with top-quality and competitive products. Our creative business strategies and sufficient funding will enable us to seize every new opportunity to enhance synergies with our partners and between our businesses, contributing to our continuous growth. We believe that we have laid solid foundations and set up strategic building blocks for long term growth. We are committed to investing only in those businesses, which we are confident will provide promising return for the Group. The acquisition of Kid Galaxy is but one example. We will continue to search for other opportunities to develop the business through acquisitions and mergers.

The board sees many exciting and challenging opportunities for the future. The strategies that have helped Lung Cheong to achieve the successes it has enjoyed will remain in place to ensure that we continue to deliver reasonable returns to our shareholders as we become a major force in both the traditional toy industry and the digital entertainment world.

Appreciation

On behalf of the Board, I would like to extend my sincere gratitude to my fellow directors and colleagues for their commitment and contribution to the Group throughout the year. I would also like to take this opportunity to express my appreciation to our shareholders, investors and financiers for their continuing confidence and support during the past year and in the future.



Leung Lun
Chairman
22 July 2002