Chairman's State

Mr. Leung Lun, **Chairman**

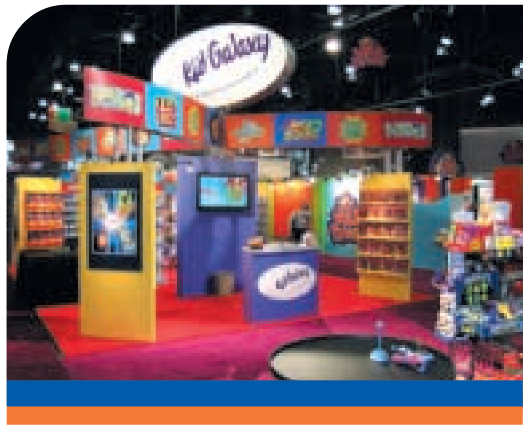
To all shareholders,

On behalf of the Board of Directors, I am pleased to announce the audited results of Lung Cheong International Holdings Limited ("the Company") and its subsidiaries (collectively referred to as "the Group") for the year ended 31 March 2004.

For the financial year 2003/04, the Group continued to perform satisfactorily and reported a turnover of HK$744 million, representing a rise of almost 4% against the HK$717 million recorded in the previous year. Profit attributable to shareholders amounted to HK$37 million against last year's HK$31 million, a growth of approximately 18%.

The Board recommended a final dividend of HK0.75 cents (2003: HK0.75 cents) per ordinary share for the year, subject to the approval of shareholders at the forthcoming annual general meeting of the Company. Together with the interim dividend of HK0.75 cents (2003: HK0.25 cents), total dividends for the year under review will amount to HK1.5 cents (2003: HK1.0 cents).

Business Review



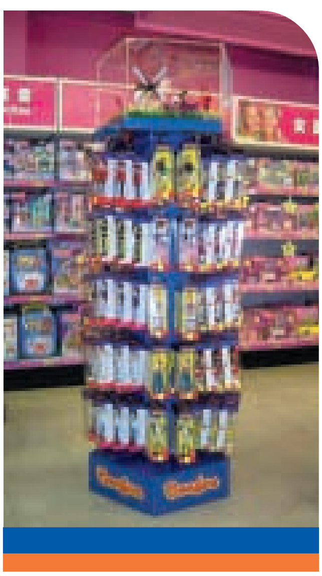
During fiscal 2003/04, the global economy was troubled by the outbreak of the Severe Acute Respiratory Syndrome ("SARS") and the aftermath of the Iraqi War. These strained situations interrupted normal product development and approval process, hence inevitably delayed the order placement schedule in the first half of the year, tightening delivery schedule in the second half. There was however minimal impact on the overall financial results, as there was no decline in the number and amount of orders.

The Group was able to achieve growth in turnover, while gross profit margins maintained at a healthy 29%. Part of the sales increase was attributable to the Group's technical expertise in innovative product developments and contribution from Original Brand Manufacturing ("OBM"). With its established design and engineering capabilities in Original Design Manufacturing ("ODM") and Original Equipment Manufacturing ("OEM") products, Standard Tooling and Products Co. Ltd. ("STP") continued to contribute strongly to the Group's overall performance.

The Group had to utilize its volume ordering ability, credit facility and inventory capability to counter the extreme fluctuation of materials prices. Through vertical integration of its manufacturing facilities and standardization of components production, the Group shortened its production lead time and enhanced efficiency, thus containing costs. The shortened shipment request by customers posed further strain on the Group's warehousing capacity, but with the support of its reliable suppliers, we managed to meet tight delivery schedules.

The Group's OEM business remained its main income stream and continued to progress steadily. With the Group's quality product and timely delivery, its relationship with major OEM customers was further strengthened. Internationally renowned companies remained its major customers, including Mattel, Taiyo and Tomy, just to name a few. The orders for pre-school electronic toys further confirmed the Group's manufacturing strength despite more stringent specifications required by these customers.

During the period under review, the Group's "sea", "land" and "air" radio control ("R/C") toys enjoyed remarkable performance, thanks to its continuous efforts in strengthening STP's value added research and development ("R&D") capabilities. Newly developed R/C toys were well received by the market, in particular those released in conjunction with worldwide advertising campaigns and popular movies. A series of other new R/C products were launched during the year for other customers such as MGA Entertainment and Spinmaster.



With its strategic acquisition of Kid Galaxy Inc. ("KG") completed in December 2002, the Group was able to enjoy further contribution from its OBM business. Through KG, the Group established presence in the US market, having gained access to the market and provided services directly to customer in the country. During the year, more licenses for Bendos were obtained such as Major League Baseball ("MLB") and Major League Soccer ("MLS"). Leveraging on KG's design and marketing expertise, the Group was able to introduce to the market more innovative products. On top of launching products under the "KG Racers" brand, other new brands such as "KG Flyer", "Backyard R/C", "Bullpen R/C", "R/C Zamboni", "R/C Golf Car" and "Mighty Magz" also debuted in the market and received warm market response. These licensed and innovative products allowed the Group to further expand its US distribution channels to include sports and hardware outlets.

Through its subsidiary L C Technology Limited ("LC Tech"), the Group has successfully developed its wireless non-toy technology to produce high-end electronic products such as digital cameras, baby monitors and interactive pet toys. LC Tech achieved great status in the production of high-end radio controller with sophiscated specifications, for a world renowned hobby company, which became one of the Group's top customers. During the year under review, LC Tech recorded sales of HK$77 million, representing an increase of 55% compared to the year before.

Prospects

The financial year ahead is going to be challenging for the Group, as well as the industry as a whole. The uncertainties in the Middle East, electricity shortages in Mainland China and fluctuating material prices are likely to persist. However, the Group remains optimistic of its business developments and financial performance in the coming year. With evident signs of increasing consumer demand in markets worldwide and the Group's different initiatives to expand its various business segments, the Group is looking to broaden its revenue base and increase profitability.

In the coming year, the Group will continue to invest in R&D, high-tech design and production equipment for its ODM business. STP will devote its efforts to further developing innovative designs and maintaining strong relationship with its customers. The Group's co-operation with the Chinese University of Hong Kong in R&D is bound to enhance its competence in innovative product design and engineering, leading to a more diversified product range.

The Group is prepared to take a big leap with its ODM business. With STP's design and engineering support and LC Tech's alternate sales channels, the Group has successfully expanded its non-toy product line. To effectively serve the non-toy segment with a different clientele and manufacturing standard requirements, the Group has developed LC Tech into a separate entity with its own operation and management to focus on developing high value-added electronic products such as bluetooth related products. LC Tech has experienced significant sales growth during the past few years and we expect the non-toy segment to be one of the major growth drivers in the next few years and will bring about substantial contribution to the Group's profits.

As for its OBM business, the Group will further expand into international markets such as Europe and Asia. For example, in the local Hong Kong market, KG currently sells Bendos and other KG brands to major toy retailers. It will continue to develop more brands under KG and the established "Bendos" brand through securing additional licenses in existing and new markets. Leveraging the success of the well-established "Bendos" brand, the Group will also further expand the product range.

In March 2004, the "Bendos" brand was first introduced to a prime retail outlet in Beijing, the PRC. The Group will continue to look for appropriate locations and expand its exclusive Bendos sales channels in Mainland China. It also plans to sell other KG brands in this market, as well as upgrade and renovate existing department store counters to portray the new "Kid Galaxy" image.

Artist Impression of Proposed Changping Factory

The Group has always been committed to strengthening its production capabilities through continuous investment in enhancing our production facilities. To meet the production standards and practice requirements of customers and the anticipated customer demand for the years to come, the Group invested HK$15 million to acquire a piece of land in Changping, Dongguan for the construction of a new plant. The construction will be divided into 4 phases to be completed in 2 years, with the first phase scheduled to commence operation by the end of next year.

Upon completion of the new plant, the total production capacity of the Group will be doubled, which can adequately support the future growth of its OBM business and that of LC Tech and STP. Changping was chosen as the location of the new plant mainly due to the Group's long-term relationship with the local Dongguan government and close proximity to current facilities. At the hub of railroad networks, the new plant in Changping will become the Group's logistic and warehousing centre and sales base in the Mainland market, ideal for supporting its new strategic focus to move up the value chain and develop high value-added products.

Appreciation

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

Leung Lun
Chairman

22 July 2004