

Chairman's Statements



Mr Leung Lun, Chairman

To all shareholders,

As Chairman of the Group, I am pleased to present the audited results of Lung Cheong International Holdings Limited ("the Company") and its subsidiaries (collectively referred to as "the Group") for the year ended 31 March 2005.

For the year ended 31 March 2005, the Group reported a turnover of HK\$775 million, compared to HK\$744 million for the corresponding period in the previous year, rising by 4.1%. However, profit attributable to shareholders amounted to HK\$20 million against last year's figure of HK\$37 million. Basic earnings per share for the year were HK4.2 cents (2004: HK8.3 cents).

The directors recommended a final dividend of HK0.50 cents (2004: HK0.75 cents) per ordinary share. Together with the interim dividend of HK0.50 cents (2004: 0.75 cents) per ordinary share paid on 21 December 2004, these would be total dividend of HK1.00 cent (2004: 1.50 cents) per ordinary share.

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Business Review

The global political and economic environments continue to evolve from time to time. We, as a Group, has to learn and adapt to keep up with the market changes, despite being a forty year old corporation.

U.S. Toy Fair, 20-23 February 2005



Looking back to the financial year ended 31 March 2005, we had to deal with extreme swing in plastic resin prices, mirroring the fluctuation in oil prices. Prices of other components such as metal parts and packaging material also increased during this period.

Closer to home, we had to manage shortage of energy that threatened to put the brakes on our natural robust production output. Previous investments into power generators minimized the energy shortages impact and production had to be managed to ensure that orders were shipped without delayed.

The Group's Original Equipment Manufacturing ("OEM") business continued to perform well as shown with the addition of a major US electronic retail chain store as a customer. Continued investment into the Original Design Manufacturing ("ODM") business contributed to the Group's expansion strategy but due to the tough pricing competition in the market, it had been difficult to achieving higher gross margin for ODM products compared to previous years.

Apart from toys, we also branched into non-toy products such as educational and professional wireless robotic and Bluetooth earphones. The robotics products were shipped at the end of the financial year and has received overwhelming response from customers.

Kid Galaxy, the Group's Original Brand Manufacturing ("OBM") arm, had a minor setback as the National Hockey League ("NHL") one of its popular licensed products, cancelled a whole season of competition. In addition, the North American toy retail industry went through a major restructuring. During the year, major toy retailers were either conservative in their buying pattern, or restructuring their position within the toy market.



HK\$300 million Term and Revolving facilities agreement, Signing Ceremony 7 December, 2004

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40th Anniversary dinner, 14 January 2005

Back in China, we had to deal with shortage of workers, and demanding local labor and environmental compliance codes. There were certainly a decrease in workers from the Northern and Inland China in the period in review. Thanks to the effort by the local Dongguan Government, promoting the city had helped attract new workers. Internally, we had to offer improved remuneration packages, living and working environment in order to capture and maintain these workers.

Major buyers' continuous demand for supplies to comply with stringent labor and environmental laws and regulations also put a strain on the Group's administration cost. These compliance requirements will continue to change in accordance with local authorities' by-laws, and the Group will continue to have to invest in these areas in order to qualify as supplier to these customers.

Major buyers' continuous demand for supplies to comply with stringent labor and environmental laws and

Prospects

Looking forward, based on our substantial achievements in ODM segment, the Group will continue to actively develop the ODM business and strengthen existing research and development capabilities to increase our product range. The encouraging result in higher end wireless products is driving the Group into placing greater emphasis in developing this huge potential market.

Planning ahead, we hope to relocate and consolidate the Group's design, engineering and manufacturing facilities in Changping before this financial year ends. We strongly believe that once we are able to operate within one single facility, resources can be utilized more efficiently. The recently announced 2% appreciation of the Renminbi will however slightly burden the Group's capital investment expenditures in the coming year.

As for the two existing factories in Dongguan, after relocation, Zhou Wu will continue to support the Group's future seasonal production needs while the Qih Tau industrial land and building will be either be disposed or rezoned, and redeveloped subject to the property market conditions then.

The Directors feel that some of the issues faced by the Group may be dealt with after relocation. Changping being a major railway terminus for workers connecting to the Guangdong Province should provide the Group with the opportunity to capture workers on arrival, especially being a new factory.

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However, we expect to invest extensively into new power generators in order to assure the operations are not effected by the continued shortage of energy anticipate to affect factories in China in the next few years. A Term and Revolving facilities agreement is in place to finance the above plan but management are aware that we will no longer enjoy the low interest rate that we experienced in the last two financial years.

The Group's product design and engineering arm, STP continues to introduce more innovative toys and support our OEM customers in the new products development. We expect this to form the base of the Group's 2005/06 business.

The Group's own brand business should perform better in this coming financial year as the National Hockey League is expected to play in the coming season. Kid Galaxy's self developed brands such as KG Racers and My First R/C are expected to contribute as some major toy retailers have ordered and testing these products in their channels.

The Directors' decision to expand the Group's business relating to the toy industry are showing positive response. The Group's wholly owned subsidiary, LC Entertainment, have added "Yamucha's" to the "Sonic X" and "Legend of Nezha" licenses it previously obtained for the Mainland China and Hong Kong market.

Kid Galaxy will add other famous sport related licenses to its Bendos and wireless toy lines, agreements with these major sport licensors are expected to be completed before the interim report of this coming financial year period.

I would like to thank my fellow directors and senior management, not forgetting all Lung Cheong's employees for their commitment to ensuring we master every challenge faced by the Group. My appreciation also goes out to our bankers and business partners for their invaluable support, some for the last forty years.



Leung Lun
Chairman

27 July 2005



Launch of "Yamucha's", 6 July 2005