

Managing Director



Mr Leung Chung Ming,
Managing Director

Markets

For the year ended 31 March 2005, sales to the US dropped from 50% to 44%. Management attributes the decrease to major toy retailers repositioning exercise. Sales to Japan accounted for 21%, higher than previous year's 13% with the Group's major customers strengthening their sales in their local market.

Exports to Europe decreased to 15% from last year's figure of 19%. Sales in Mainland China remained stable at 8% compared to 7% of the Group's total turnover.

In the local Hong Kong and Mainland China markets, intensive marketing campaigns were launched in early 2005 and our distribution network was significantly expanded there after for the recently licensed "Sonic X" and "Yamucha's" products. These markets are expected to contribute more to the Group in the coming year.

Managing Director's Review of Operations

Business Review

Radio control toys

The Radio control segment continued its consistent performance for the year under review. The Group's commitment to developing and introducing new ranges of radio control cars, boats and planes for its major wireless toy customers as well as under Kid Galaxy branded lines, contributed strongly to this segment. These licensed radio control toys relating to popular movies and TV animation, KG branded Backyard RC, My First RC Buggies, Go Go Auto and Morphibians with land and water play patterns were well received by the market. The newly released Detachable Recreational Vehicle ("DRV") flying toy line is expected to grow within the sales channel established by KG Racers and My First RC products the last couple of years. Sales of radio control toys amounted to HK\$421 million against HK\$450 million of the previous year. The Group was contracted as the sole producer for a range of wireless robotic product launched by a major US based electronic retailer with over 7,000 stores.



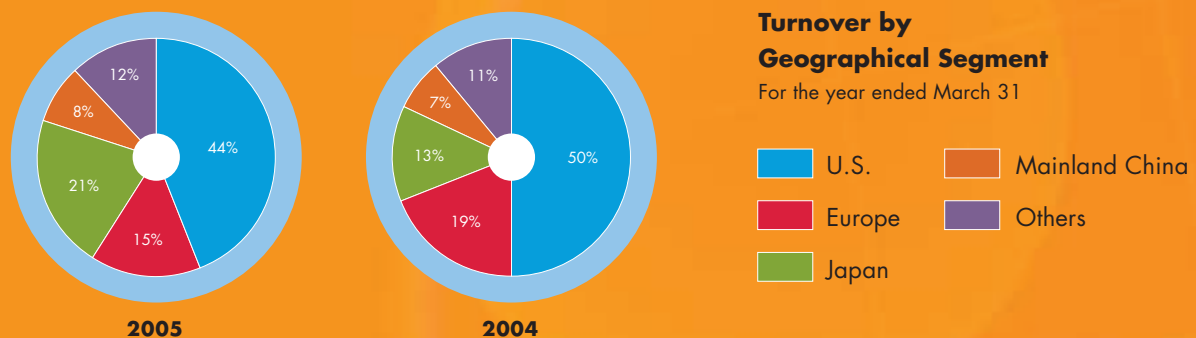
Hong Kong Toy Fair, 11-14 January 2005



Nuremberg Toy Fair, 10-15 February 2005

Electronic and plastic toys

Electronic and plastic toys accounted for 31% of the Group's turnover. This business segment reported an increase in turnover to HK\$242 million which was mainly due to the increased orders from the Group's two major pre-school electronic and plastic customers from the US and Japan. The requirements for this category are very stringent as Lung Cheong have always been entrusted with our quality for this specialized segment of the toy market.



Managing Director's Review of Operations

Beside the pre-school products, Kid Galaxy had further penetrated in the US sport retail segment with the continued popularity of the licensed Major League Baseball ("MLB") and Major Soccer League ("MLS") Bendos lines. The unfortunate cancellation of the National Hockey League ("NHL") season has had an impact on the sale of NHL licensed products during this financial year.

Consumer electronics products

The successful introduction of wireless Bluetooth earphones contributed to this segment's growth.

During this financial 2004/05, a series of Bluetooth earphones were developed and introduced to the North America and European market with very encouraging results. Sales for the year amounted to HK\$111 million, representing 15% of total turnover. This line of Bluetooth products, in addition to the high end hobbyist wireless controller contributed for a worldwide renowned hobby company, contributed strongly to this non-toy segment of the Group.

New Business

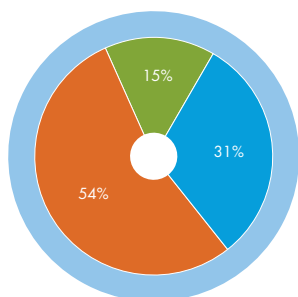
The Group undertook new business ventures in the financial year 2004/05. One new revenue stream being explored is the licensing of toy and other merchandising for the local Hong Kong and Mainland China markets. In addition to the previously obtained licenses such as Hikarian, Mado King Granzort and major US sporting licenses, the Group has added "Legend of Nezha" and "Sonic X" to our list of popular licenses. Since these are newly created divisions, operating mainly under the Group's wholly owned subsidiaries namely LC Entertainment and Kid Galaxy, we expect this licensing business to commence contribution to the Group in the coming financial year.



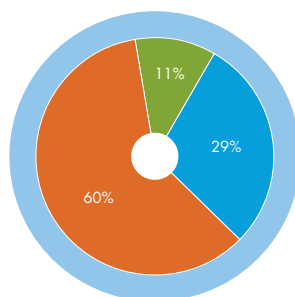
"Sonic X" Press Conference, 28 November 2004



"Legend of Nezha" Press Conference, 7 April 2005



2005



2004

Turnover by Product

- Electronic & Plastic Toys
- Consumer Electronics
- Radio Control Toys

Managing Director's Review of Operations

Employee and Share Option Scheme



Governmental Officials of the State Intellectual Property Office visited Dongguan factory, April 2004

As at 31 March 2005, the Group had approximately 6,400 employees of which 68, 6110, 211 and 11 employees were based in Hong Kong headquarter, the Dongguan factories, the Indonesian factory and the US office respectively. The number of people employed by the Group varies from time to time depending on production needs and staff are remunerated based on industry practices.

The Group operates different remuneration schemes for different employees. Apart from pension funds and year end bonuses, in-house and external training programs are offered. Details of share option scheme granted to the Group's employees are set out in pages 18 to 20 of this report.

Appreciation

On behalf of the Board, I would like to thank our long term customers, suppliers and licensors for their continued support, some perhaps over the last forty years. I would like to extend my appreciation to our management and staff for their hard work and dedication, despite another challenging year in the toy business.

A handwritten signature in black ink, which appears to read "Leung Chung Ming".

Leung Chung Ming
Managing Director

27 July 2005



Hong Kong Licensing Show, 5-7 July 2005