

The above options granted are not recognised in the accounts until they are exercised. Rule 17.08 of the Listing Rules stipulates that the listed issuer is encouraged to disclose in its interim report the value of share options granted to the participants. The Directors consider inappropriate to value the share options as a number of factors critical for the valuation cannot be determined accurately. Any valuation of the share options based on various speculative assumptions would be meaningless and could be misleading to the shareholders.

No share options have been granted by the Company under the 2002 Scheme during the period.

DIRECTORS' INTERESTS

As at 30th September 2003, the interests and short positions of the Directors, Chief Executives and their Associates in the shares of the Company or any of its associated corporations (within the meaning of Part XV of the Securities and Futures Ordinance ("SFO")) as recorded in the register maintained by the Company pursuant to section 352 of the SFO, or as otherwise notified to the Company pursuant to the Model Code for Securities Transactions by Directors of Listed Companies contained in the Rules Governing the Listing of Securities on The Stock Exchange of Hong Kong Limited ("SEHK") ("Listing Rules"), were as follows:

Interests in ordinary shares of HK\$0.01 each of the Company

Name	Type of interest	Number of ordinary shares
Mr. LEUNG Lun	Corporate	279,300,000
Mr. LEUNG Chung Ming	Corporate	279,300,000

Note: 279,300,000 ordinary shares in the Company were owned by Lung Cheong Investment Limited ("LC Investment") which is wholly owned by Rare Diamond Limited. Rare Diamond Limited is beneficially owned as to 70% by Mr. Leung Lun and 30% by Mr. Leung Chung Ming respectively. Accordingly, Mr. Leung Lun and Mr. Leung Chung Ming are taken to be interested in those ordinary shares.

Share options granted to Directors are set out in the previous part of this report.

Apart from the above, 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 or their Associates to acquire benefits by means of the acquisition of shares in, or debentures of, the Company or any other body corporate.

Save as disclosed above, as at 30th September 2003, none of the Directors of the Company had or was deemed to have any interest or short position in the shares of the Company and its associated corporations (within the meaning of Part XV of the SFO), which has been recorded in the register maintained by the Company pursuant to section 352 of the SFO or which has been notified to the Company pursuant to the Model Code of the Listing Rules.

Furthermore, at no time during the six months ended 30th September 2003 was the Company, its subsidiaries, its fellow subsidiaries or its holding company a party to any arrangement to enable the Directors, Chief Executive and their Associates (including their spouses or children under 18 years of age) to acquire benefits by means of acquisition of shares in, or debentures of the Company or any of its associated corporations.

On 26th June 2001, the Company entered into a transferable term loan agreement (“First Syndication Loan”) which imposes an obligation for the controlling shareholders of the Company, Mr. Leung Lun and Mr. Leung Chung Ming and their respective family members/associates (as defined under the Listing Rules) to maintain in aggregate at least 51% of the total issued voting share capital of the Company as at the date of the Loan Agreement and from time to time so long as the loan remains outstanding.

Pursuant to another loan facility agreement (“Second Syndication Loan”) entered into by the Company and a group of financial institution on 3rd December 2002. Mr. Leung Lun and Mr. Leung Chung Ming are required to jointly hold at least 45% of the issued share capital of the Company.

SUBSTANTIAL SHAREHOLDERS’ INTERESTS

At 30th September 2003, the register of substantial shareholders maintained under Section 336 of the SFO shows that the company had not been notified of any substantial shareholders’ interests and short positions, being 5% or more of the company’s issued share capital, other than those of the directors and chief executives as disclosed above.

CONNECTED TRANSACTION

At 30th September 2003, a wholly-owned subsidiary of the Company, Lung Cheong Toys Limited (“LC Toys”) had long-term loans and deferred trading balances amounted in aggregate to HK\$60,648,000, plus accrued interest, due by PT Lung Cheong Brothers Industrial (“PTLC”), a 60% owned subsidiary of LC Toys. The balance of the 40% interest in PTLC is owned by independent third parties who are not connected with the Directors, Chief Executives or substantial shareholders of the Company and its subsidiaries, other than PTLC, or any of their respective associates. The long-term loans were advanced to finance the set up of the production facilities of PTLC. The amounts are unsecured, bearing interest at the rate of 10% per annum and have no fixed repayment terms. LC Toys does not intend to demand repayment of the advances in the foreseeable future.

AUDIT COMMITTEE

The Audit Committee has reviewed with management the accounting principles and practices adopted by the Group and discussed internal control and financial reporting matters, including a review of the unaudited condensed accounts for the six months ended 30th September 2003 approved by the Directors.

PURCHASE, SALE OR REDEMPTION OF SHARES

The Company has not redeemed any of its shares during the period. Neither the Company nor any of its subsidiaries has purchased or sold any of the Company’s shares during the period.