

The Stock Exchange of Hong Kong Limited takes no responsibility for the contents of this announcement, makes no representation as to its accuracy or completeness and expressly disclaims any liability whatsoever for any loss howsoever arising from or in reliance upon the whole or any part of the contents of this announcement.



LUNG CHEONG INTERNATIONAL HOLDINGS LIMITED

(incorporated in the Cayman Islands with limited liability)

CONNECTED TRANSACTION

It has recently come to the attention of the Directors that the Company had overlooked the disclosure requirement stipulated under Rule 14.25(2)(a) of the Listing Rules in respect of certain advances made to a previously non wholly owned subsidiary of the Company in the annual report of the Company for the year ended 31st March, 2002.

The Stock Exchange has indicated that it reserves the right to take disciplinary action against the Company and its Directors in respect of the breach of Rule 14.25(2)(a) of the Listing Rules.

In preparing the interim results of the Company for the six months ended 30th September, 2002, it has come to the attention of the Directors that the Company had inadvertently omitted to include details of certain advances made to Kid Galaxy in the annual report of the Company for the year ended 31st March, 2002.

Kid Galaxy is now a wholly owned subsidiary of the Company. It and its subsidiaries are principally engaged in the trading of children's bendable figures under the brand "Bendos" and accessories. Before it became a wholly owned subsidiary of the Company on 3rd December, 2002, Kid Galaxy was owned as to 60% by the Company and as to 40% by the Vendor. The Vendor was a passive investor with no representative on the board of Kid Galaxy. Kid Galaxy had, during the time as a non-wholly owned subsidiary of the Company, been run by the management of the Company and during which period, the working capital of Kid Galaxy was principally financed by Advances from LC Toys, a wholly owned subsidiary of the Company. LC Toys commenced extending Advances to Kid Galaxy in February 2002. The Vendor had not matched its contribution of the Advances proportional to its equity interest in Kid Galaxy. The Advances were extended by LC Toys on normal commercial terms, with interest charged at 10% per annum. For the periods from 19th June,

2001 (date of incorporation of Kid Galaxy) to 31st March, 2002 and six months ended 30th September, 2002, LC Toys had extended the following Advances to Kid Galaxy for working capital purposes:

	Outstanding balance as at	
	31st March, 2002	30th September, 2002
	<i>HK\$</i>	<i>HK\$</i>
Advances	<u>31,094,592</u>	<u>14,689,998</u>
Maximum Advances during the period	<u>31,094,592</u>	<u>15,495,314</u>
Interest charged at 10% per annum during the period	<u>266,657</u>	<u>696,961</u>

Given that the Advances bore interest at 10% per annum, which was determined after arm's length negotiation between the parties, the Directors are of the view that the Advances were made on normal commercial terms and were fair and reasonable.

Save for it being a substantial shareholder of Kid Galaxy, the Vendor was otherwise not connected with the Company as it was not a chief executive or director or substantial shareholder of the Company or any of its subsidiaries. The Advances by LC Toys to Kid Galaxy thus fall within Rule 14.25(2)(a) of the Listing Rules and details of the Advances for the period ended 31st March, 2002 should have been included in the annual report of the Company for the year ended 31st March, 2002. The Company will include details on the Advances in the interim report of the Company for the six months ended 30th September, 2002. The Stock Exchange has indicated that it reserves the right to take disciplinary action against the Company and its Directors in respect of the breach of Rule 14.25(2)(a) of the Listing Rules.

The Company will ensure that it will comply with the disclosure requirement under Rule 14.25(2)(a) of the Listing Rules in respect of the Advances made by LC Toys to Kid Galaxy for the period up to 3rd December, 2002 (being the date Kid Galaxy became a wholly owned subsidiary of the Company) in the next annual report of the Company.

TERMS USED IN THE ANNOUNCEMENT

“Acquisition Agreement”	the sale and purchase agreement dated 3rd December, 2002 between a wholly owned subsidiary of the Company and the Vendor relating to the acquisition by the said subsidiary of the 40% equity interest in Kid Galaxy held by the Vendor
“Advances”	the advances made by LC Toys to Kid Galaxy before it became a wholly owned subsidiary of the Company
“Company”	Lung Cheong International Holdings Limited, a company incorporated in the Cayman Islands with limited liability with its shares listed on the Stock Exchange
“Director(s)”	director(s) of the Company
“Group”	the Company and its subsidiaries
“Kid Galaxy”	Kid Galaxy Corporation, an indirect wholly owned subsidiary of the Company
“Listing Rules”	the Rules Governing the Listing of Securities on the Stock Exchange
“LC Toys”	Lung Cheong Toys Limited, a wholly owned subsidiary of the Company
“Stock Exchange”	The Stock Exchange of Hong Kong Limited
“Vendor”	Success Harmony Ltd., the 40% equity owner of Kid Galaxy prior to completion of the Acquisition Agreement

By Order of the Board
Leung Lun
Chairman

Hong Kong S.A.R., 18th December, 2002

Please also refer to the published version of this announcement in The Standard.