THIS CIRCULAR IS IMPORTANT AND REQUIRES YOUR IMMEDIATE ATTENTION

If you are in any doubt as to any aspect of this circular or as to the action to be taken, you should consult your stockbroker or other registered dealer in securities, bank manager, solicitor, professional accountant or other professional adviser.

If you have sold or transferred all your shares in Lung Cheong International Holdings Limited, you should at once hand this circular together with the accompanying form of proxy to the purchaser or the transferee or to the bank, stockbroker or other agent through whom the sale or transfer was effected for transmission to the purchaser or transferee.

LUNG CHEONG INTERNATIONAL HOLDINGS LIMITED
龍 昌 國 際 控 股 有 限 公 司

(Incorporated in the Cayman Islands with limited liability)

(Stock Code: 348)

VERY SUBSTANTIAL DISPOSAL
AND
CONNECTED TRANSACTION
IN RELATION TO
DISPOSAL OF ENTIRE INTEREST OF LUNG CHEONG (BVI) HOLDINGS LIMITED AND THE LOANS

Independent Financial Adviser to the Independent Board Committee and the Independent Shareholders

VEDA | CAPITAL
智 略 資 本

A letter from the Independent Board Committee is set out on pages 19 to 20 of this circular. A letter from Veda Capital Limited, the independent financial adviser, containing its advice and recommendation to the Independent Board Committee and the Independent Shareholders is set out on pages 21 to 33 of this circular.

A notice convening the EGM to be held at the Unit 11, First Floor, Houston Centre, 63 Mody Road, Tsim Sha Tsui East, Kowloon, Hong Kong on Tuesday, 12 April 2011 at 3:30 p.m. is set out on pages E-1 to E-2 of this circular.

Whether or not you are able to attend the EGM, please complete the accompanying form of proxy in accordance with the instructions printed thereon and return it to the Company's branch registrar in Hong Kong, Tricor Abacus Limited, 26th Floor, Tesbury Centre, 28 Queen's Road East, Wanchai, Hong Kong as soon as possible and in any event not less than 48 hours before the time appointed for the holding of the EGM or any adjournment thereof. Completion and return of the form of proxy will not preclude you from attending and voting in person at the EGM or any adjournment thereof should you so wish.

25 March 2011

CONTENTS

In this circular, unless context otherwise requires, the following terms have the following meanings:

"Adjusted NAV"	the adjusted net asset value (being the amount after the add back of the amount of the Loans or HK$282 million, whichever is higher, to the net liabilities of the Disposal Group) as shown in the Completion Accounts
"Agreements"	the Disposal Agreement and the Supplemental Agreement, collectively
"associate(s)"	has the meaning ascribed thereto under the Listing Rules
"Board"	the board of Directors
"Business Day"	a day (other than Saturday, Sunday or public holidays) on which banks are open for general banking in Hong Kong
"BVI"	the British Virgin Islands
"Company" or "Vendor"	Lung Cheong International Holdings Limited, a company incorporated in the Cayman Islands with limited liability, whose shares are listed on the main board of the Stock Exchange
"Completion"	completion of the Disposal
"Completion Accounts"	the unaudited pro forma consolidated accounts of the Disposal Group (including the statement of comprehensive income and the balance sheet) for the period from 1 October 2010 to the date falling on the last date of the calendar month immediately before the Completion Date
"Completion Date"	the date of the Completion
"connected person(s)"	has the same meaning as defined in the Listing Rules
"Consideration"	the total consideration of HK$18 million, subject to adjustment, payable in cash by the Purchaser to the Company in respect of the Disposal pursuant to the Agreements
"Director(s)"	the director(s) of the Company
"Disposal"	the disposal of the Sale Shares and the Loans by the Company to the Purchaser pursuant to the Agreements
"Disposal Agreement"	the sale and purchase agreement dated 28 January 2011 entered into among the Purchaser, the Company, Mr. Leung Chung Ming and Mr. Leung, Kenneth Yuk Wai in respect of the Disposal

"Disposal Group"	LC(BVI) and its subsidiaries (after completion of the Reorganisation)
"EGM"	the extraordinary general meeting of the Company for the purpose of approving, inter alia, the Disposal
"Group"	the Company and its subsidiaries as at the date of this circular
"Independent Board Committee"	the independent board committee of the Company comprising all the independent non-executive Directors for the purpose of advising the Independent Shareholders in relation to the Agreements and the transactions contemplated thereunder
"Independent Shareholders"	Shareholders other than the Purchaser and its associates
"Indonesia"	the Republic of Indonesia
"Indonesia OEM "	the OEM process being handled by the Group's factory in Indonesia and which will be under the operation of the Remaining Group upon the Completion
"Latest Practicable Date"	24 March 2011, being the latest practicable date prior to the printing of this circular for the purpose of ascertaining certain information for inclusion in this circular
"LC(BVI)"	Lung Cheong (BVI) Holdings Limited, being a wholly- owned subsidiary of the Company as at the date of the circular
"Listing Rules"	the Rules Governing the Listing of Securities on the Stock Exchange
"Loans"	any loans owing by LC(BVI) or any other member of the Disposal Group to the Company and/or the Remaining Group as shown in the Completion Accounts
"OBM"	Original Brand Manufacturing
"OEM"	Original Equipment Manufacturing
"Mainland China"	the People's Republic of China, excluding Hong Kong, Macau and Taiwan
"PRC OEM"	the OEM process being handled by the Group's factories on Mainland China and will be under the operation of the Disposal Group upon the Completion

"Purchaser"	Brisk Mark Holdings Limited, a company incorporated in the British Virgin Islands with limited liability and is owned as to 30% by Mr. Leung Chung Ming and as to 70% by Mr. Leung, Kenneth Yuk Wai
"Remaining Group"	the Group excluding the Disposal Group
"Reorganisation"	the proposed reorganisation of the Group to be undertaken by the Company for the purpose of Completion
"Sale Shares"	comprising 130,660 ordinary shares of US$1.00 par value each in the share capital of LC(BVI) and representing the entire issued share capital of LC(BVI)
"SFO"	the Securities and Futures Ordinance, Chapter 571 of the Laws of Hong Kong
"Share(s)"	ordinary share(s) of HK$0.1 each in the issued share capital of the Company
"Shareholder(s)"	holder(s) of the Share(s)
"Stock Exchange"	The Stock Exchange of Hong Kong Limited
"Substantial shareholder(s)"	has the meaning ascribed thereto under the Listing Rules
"Supplemental Agreement"	the supplemental agreement dated 24 March 2011 entered into into among the Purchaser, the Company, Mr. Leung Chung Ming and Mr. Leung, Kenneth Yuk Wai in supplemental to the Disposal Agreement in respect of the Disposal
"Trademarks"	the "Lung Cheong" brand name and logo
"US"	United States of America
"Veda Capital"	Veda Capital Limited, a corporation licensed to conduct type 6 (advising on corporate finance) regulated activity under the SFO, and the independent financial adviser to the Independent Board Committee and the Independent Shareholders in respect of the Disposal
"Warrantors"	Mr. Leung Chung Ming and Mr. Leung, Kenneth Yuk Wai
"HK$"	Hong Kong dollars, the lawful currency of Hong Kong

"RMB"	Renminbi, the lawful currency of PRC
"US$"	United States dollars, the lawful currency of the United States of America
"%"	percentage

LUNG CHEONG INTERNATIONAL HOLDINGS LIMITED
龍 昌 國 際 控 股 有 限 公 司

(Incorporated in the Cayman Islands with limited liability)
(Stock Code: 348)

Directors:
Mr. Leung Lun *(Chairman)*
Mr. Leung Chung Ming *(Managing Director)*
Mr. Wong, Andy Tze On
Mr. Wong Lam, *O.B.E., J.P.***
Mr. Ye Tian Liu**
Mr. Lai Yun Hung**

*** Independent Non-executive Directors*

Registered Office:
Ugland House
South Church Street
P.O. Box 309
George Town
Grand Cayman
Cayman Islands
British West Indies

Head office and principal place of business in Hong Kong:
Lung Cheong Building
1 Lok Yip Road
Fanling
New Territories
Hong Kong

25 March 2011

To the Shareholders

Dear Sir or Madam,

VERY SUBSTANTIAL DISPOSAL
AND
CONNECTED TRANSACTION
IN RELATION TO
DISPOSAL OF ENTIRE INTEREST OF LUNG CHEONG (BVI) HOLDINGS LIMITED AND THE LOANS

The Board announced that on 28 January 2011, the Disposal Agreement was entered into among the Company, the Purchaser and the Warrantors with regard to the disposal of (i) the Sale Shares; and (ii) the Loans by the Company for an aggregate consideration of HK$18 million in cash, subject to adjustment.

As certain applicable percentage ratios for the Disposal as calculated under Rule 14.07 of the Listing Rules exceed 75%, the Disposal constitutes a very substantial disposal for the Company under the Listing Rules and is subject to the reporting, announcement and shareholders' approval requirements.

The Purchaser is owned as to 30% by Mr. Leung Chung Ming and as to 70% by Mr. Leung, Kenneth Yuk Wai. Since Mr. Leung, Kenneth Yuk Wai is a son of Mr. Leung Lun, a substantial Shareholder and an executive Director, and Mr. Leung Chung Ming is a substantial Shareholder and an executive Director, the Purchaser is therefore a connected person of the Company. As such, the transaction as contemplated under the Disposal also constitutes a connected transaction of the Company under Rule 14A.13(1)(a) of the Listing Rules. Pursuant to the Listing Rules, the Disposal will be subject to the Independent Shareholders' approval at the EGM. The Purchaser and its associates will abstain from voting in respect of the resolution for approving the Disposal and the transactions contemplated thereunder.

An independent board committee comprising all the independent non-executive Directors has been established to consider and advise the Independent Shareholders as to whether the terms of the Agreements are normal commercial terms, fair and reasonable and in the interests of the Company and the Shareholders as a whole. Veda Capital has been appointed as the independent financial adviser to advise the Independent Board Committee and the Independent Shareholders in this respect.

The purpose of this circular is to provide you with the relevant information regarding the Disposal.

THE AGREEMENTS

Date

Disposal Agreement: 28 January 2011

Supplemental Agreement: 24 March 2011

Parties

(a) Vendor: the Company

(b) Purchaser: Brisk Mark Holdings Limited

(c) Warrantors: Mr. Leung Chung Ming and Mr. Leung, Kenneth Yuk Wai

Subject of the Disposal

The Sale Shares and the Loans. According to the unaudited combined financial statements of LC(BVI) as at 30 September 2010 and as if the Reorganisation had been completed on 30 September 2010, LC(BVI) and its subsidiaries would be indebted to the Remaining Group of approximately HK$282 million.

Consideration and the payment terms

The Consideration of HK$18 million (subject to adjustments) was arrived at after arm's length negotiations between the Company and the Purchaser with reference to (i) the net liabilities of the Disposal Group of approximately HK$176 million as at 30 September 2010; (ii) the impairment loss of approximately HK$78 million on the leasehold land, land and buildings held by the Disposal Group based on the valuation by an independent valuer as at 31 December 2010; (iii) the Loans of approximately HK$282 million as at 30 September 2010 to be assigned to the Purchaser; and (iv) the provision of HK$10 million to be made by the Disposal Group in relation to the reorganisation cost to be paid or provided for on or before the Completion as a result of the Reorganisation.

For the avoidance of doubt, if the Loans are less than HK$282 million, the Adjusted NAV will be calculated by adding the amount of HK$282 million to the net liabilities of the Disposal Group as at the date of the Completion Accounts, any differences in amount between the Loans and HK$282 million will be payable by the Vendor to LC (BVI) or any other member of the Disposal Group.

If the Loans are more than HK$282 million, the Adjusted NAV will be calculated by adding such higher amount of outstanding loan to the net liabilities of the Disposal Group as at the date of the Completion Accounts.

The Consideration shall be payable in cash in the following schedule:

(1) HK$11 million shall be payable to the Vendor upon Completion; and

(2) the remaining balance shall be payable within 3 months after the Completion Date (or such other date as the parties may agree) with the following manner. If the Consideration is more than HK$11 million, the balance of the Consideration will be payable by the Purchaser to the Vendor or its nominee. If the Consideration is less than HK$11 million, the amount between the Consideration and the initial payment (i.e. HK$11 million) will be payable by the Vendor or its nominee to the Purchaser.

In the event that payment of the remaining balance of the Consideration fails to occur as a result of the default of the Purchaser, all part payment paid by the Purchaser shall be forteited by the Vendor.

Adjustment to the Consideration

(a) If the Adjusted NAV is less than HK$18 million, the Consideration shall be reduced by the amount of shortfall on a dollar-to-dollar basis.

(b) If the Adjusted NAV is equal to or less than zero, the Purchaser shall have the right to rescind the Agreements by serving a written notice onto the Vendor and neither party shall have any rights or obligations against the other under the Agreements except for any antecedent breach.

However, if the Purchaser does not exercise its right of rescission but complete the transactions under the Agreements, the Consideration payable by the Purchaser as at Completion shall be zero.

(c) If the Adjusted NAV is more than HK$18 million, the Consideration shall be increased by the amount of excess on a dollar-to-dollar basis.

According to the unaudited financial information of the Disposal Group as set out in appendix I to this circular, the Adjusted NAV was approximately HK$11 million as at 30 November 2010. Accordingly, the Consideration was approximately HK$11 million as at 30 November 2010.

Share Charge

As security for performance of the payment obligations of the Purchaser under the Agreements, the Purchaser would execute a share charge in respect of the Sale Shares in favour of the Vendor upon Completion.

Conditions precedent

The Agreements is conditional upon:

i. the Reorganisation having been completed;

ii. the passing of the resolution by the Independent Shareholders at the EGM to approve the entering into of Agreements and the transactions contemplated thereunder; and

iii. in relation to the transactions contemplated in the Agreements, all relevant regulatory requirements (including but not limited to those under the Listing Rules and all relevant regulatory requirements in Hong Kong) having been complied with and satisfied.

All the conditions precedent above are not capable of being waived. If the above conditions are not fulfilled within six months after the date of the Agreements or such later date as agreed between the Vendor and the Purchaser, the Agreements shall terminate with immediate effect, neither party shall have any rights or obligations against the other under the Agreements except for any antecedent breach.

As at the Latest Practicable Date, none of the conditions precedent have been fulfilled.

Undertakings

Pursuant to the Agreements,

1. The Purchaser and the Warrantors jointly and severally undertake with the Company that:

   (a) the Purchaser shall procure the corporate guarantees provided by the Company in favour of certain financial institutions for the benefits of the Disposal Group (the "**Corporate Guarantees**") be released or discharged on or before the date on the expiry of six months after the Completion Date (or such other date as the Company and the Purchaser to be agreed); and

(b) the Purchaser shall provide back-to-back guarantee in respect of the liabilities and obligations under the Corporate Guarantees in favour of the Company from the Completion Date up to the date of release of the Corporate Guarantees.

2. The Purchaser and the Warrantors jointly and severally undertake with the Company that each of them shall not, without the prior written consent of the Company, at any time for a term of three years after the date of the Agreements engage or have an interest in, whether directly or indirectly, in any capacity (whether as a director, shareholder, principal, partner, consultant, employee, independent contractor or otherwise) in the business of manufacturing of toys in Indonesia.

3. Mr. Leung Chung Ming undertakes to resign as a Director and director of the Remaining Group upon the Completion.

4. The Vendor undertakes to procure that all directors of the Disposal Group nominated by the Vendor shall resign from directorship of any member of the Disposal Group as at Completion.

Use of the Trademarks

The Purchaser and the Warrantors jointly and severally undertake with the Company that the Purchaser shall, immediately upon Completion, procure the Disposal Group to grant to the Company and/or the Remaining Group a right to use the Trademark for a period of up to the date on which the Company ceased to use the Trademark (or such other date as the parties may agree) and enter into the trademark licence agreement in an approved form.

Completion

Pursuant to the Agreements, the Completion shall take place within fourteen Business Days after the conditions precedent having been fulfilled or waived (as the case may be) or at such other date as the parties may agree in writing.

REASONS FOR AND BENEFITS OF THE DISPOSAL

As mentioned in the interim report of the Company for the six months ended 30 September 2010 (the "**Interim Report**") and the annual report for the year ended 31 March 2010 ("**the 2010 Annual Report**"), the Group continues to face escalating wages in the area where the Group's Mainland China factories are located and an unstable supply of migrant workers for its manufacturing plants in Mainland China. The Group's profitability had been adversely affected by the high production cost which was aggravated by the strong value of RMB and weakness of the US$. On the other hand, due to the under-utilization of certain plant and equipment in Mainland China manufacturing plants, impairments of approximately HK$19 million was made for the financial year of 2009/10. For the year ended 31 March 2010, the Group's turnover was approximately HK$402 million with a loss of approximately HK$175 million. The management of the Company considered that the Group's revenue did not match with the relative production and administration costs relating to its investments in Mainland China manufacturing plants.

In light of the operating difficulties in Mainland China and the economic uncertainties in the Group's major business sectors, in particular the demand for premium priced electronic toys, the Group has invested in the development of lower priced innovative electronic and plastic toys by taking advantage of the plentiful labour supply and competitive labour cost in its manufacturing plants in Indonesia. As mentioned in the Interim Report and the 2010 Annual Report, the Group continues to seek diversified income sources and to further reduce the Group's reliance on its primary OEM income stream. The Disposal is therefore one of the Company's stated corporate strategies. Whilst the Remaining Group will retain some of the OEM business with the Company's existing customers, it will focus on the design, development, sales and marketing of its own brands of products and gradually position the Remaining Group as an OBM operator.

Given that (i) the Disposal would release the Company from future capital requirement and management resources for the Disposal Group; (ii) the high operating cost for the Mainland China manufacturing plants as compared to that in Indonesia; and (iii) the net liabilities position of the Disposal Group, notwithstanding that the Company will suffer an expected loss of HK$10 million as a result of the Disposal, the Directors (including the independent non-executive Directors whose recommendation is contained in the "Letter from Independent Board Committee" on pages 19 to 20 of this circular) are of the view that the terms of the Agreements, including the Consideration, and transaction contemplated therein are fair and reasonable and the Disposal in the interests of Shareholders as a whole.

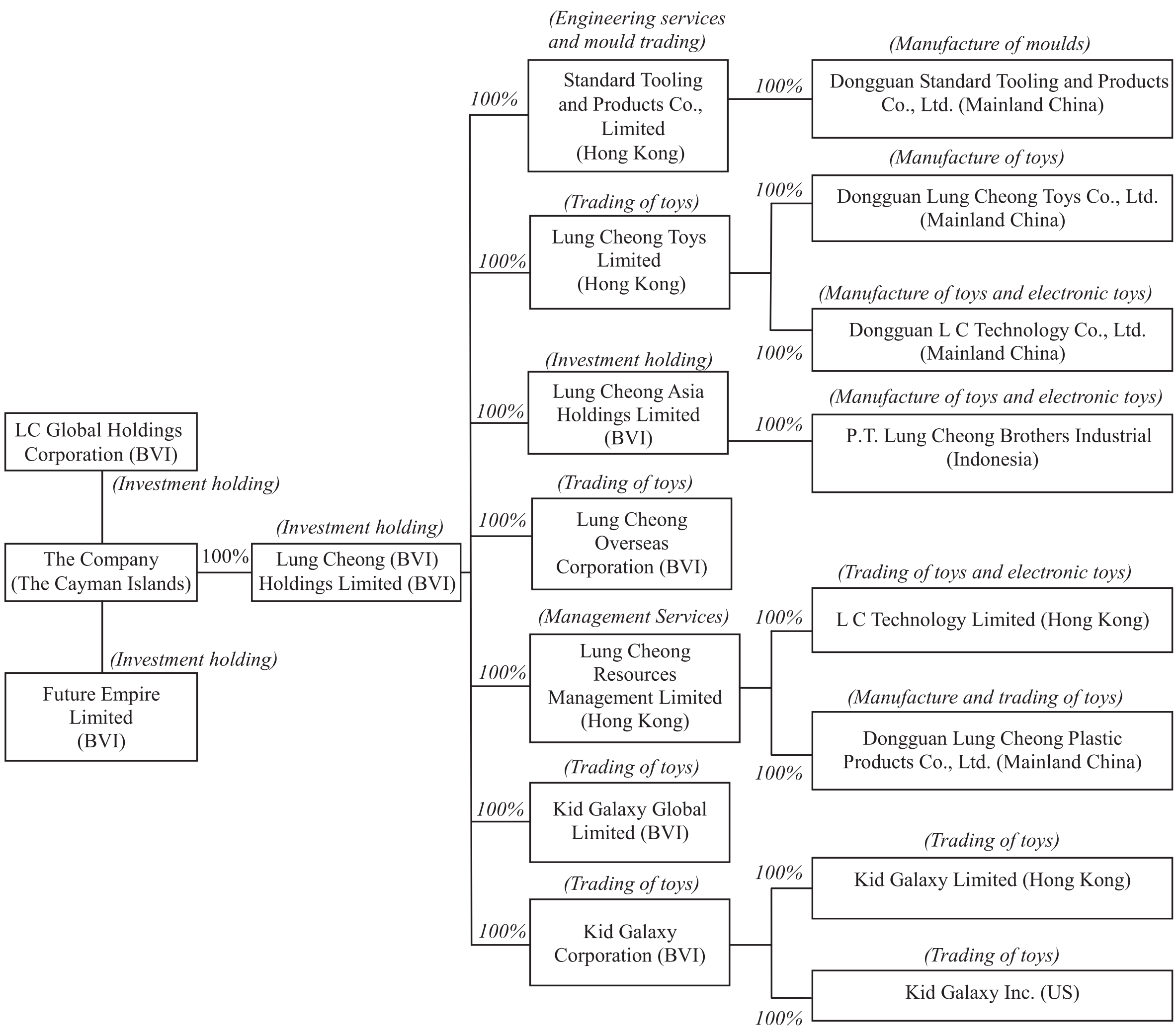
INFORMATION ON THE GROUP

The Group is principally engaged in the development, engineering, manufacture and sale of toys, moulds and materials. Its products include radio control/wireless products, electronic and plastic toys and consumer electronic products. The Group has developed over 20 proprietary brands of toys over the past ten years and the major brands are Elite Fleet, DRV, Morphibians, GoGo Auto, KG Flyer, Steel Force, World of Wheels and My First RC for sales to the North America and the European markets. The Group has also obtained the licence of the Fisher Price brand for the design, development, sales and marketing of pre-school toys mainly in the North American market for a term of two years ending on 31 December 2012. Its production is on OEM and OBM basis. The Group's production facilities are located in its two factories in Dongguan, Mainland China and a factory in Indonesia.

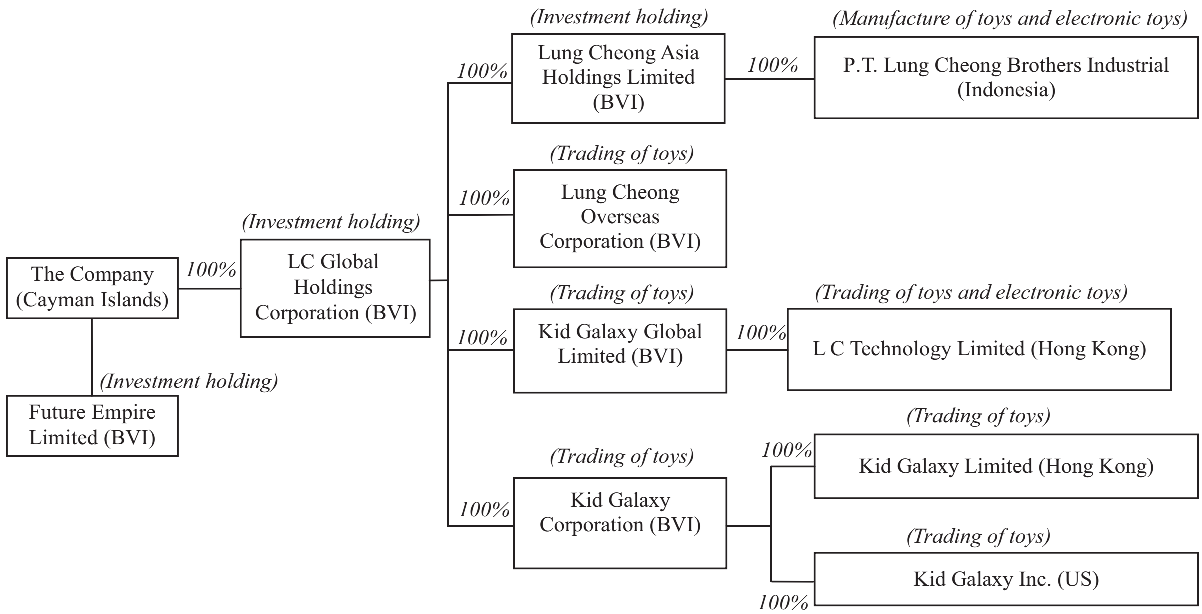
The two Mainland China factories together had approximately 2,900 workers as at 31 March 2010 with the capacity to produce approximately 23 million units per annum. The Indonesia factory had approximately 900 workers as at 31 March 2010 with the capacity to produce approximately 8 million units per annum. The capacity of these factories was calculated based on the conditions applicable during the financial year of 2009/10. However, due to the Group's sales declined in the financial year of 2009/10, only approximately 69% and 66% of production capacity in the respective factories were utilised.

The Group's structure as at the Latest Practicable Date and after the Completion are set out as below for illustrative purpose:

The Group as at the Latest Practicable Date



The Remaining Group upon the Completion



Leveraging on the Remaining Group's strengths on product design and development as well as sales and marketing which are mainly under the operations of Kid Galaxy Limited and Kid Galaxy Inc., the Remaining Group will emphasize on developing more new brands and innovative toys items with higher profit margin and further expansion for the Remaining Group's distribution channels and customer base. As mentioned in the 2010 Annual Report, the Remaining Group's success in product design and development, sales and marketing of its own brands was proven by the increase sales of the Remaining Group's own branded products in specialty stores and TV shopping channel as well as various awards obtained on its innovative designs for the year ended 31 March 2010.

The unaudited combined results of Kid Galaxy Limited and Kid Galaxy Inc. for the two years ended 31 March 2010 and the eight months ended 30 November 2010 are set out as below.

	For the eight months ended 30 November 2010 (Unaudited) *HK$'000*	For the year ended 31 March 2010 (Unaudited) *HK$'000*	For the year ended 31 March 2009 (Unaudited) *HK$'000*
Revenue	84,270	76,006	80,951
Profit/(loss) before tax	4,160	(890)	(7,231)

The unaudited results of the P.T. Lung Cheong Brothers Industrial that operates the Indonesia factory are set out as below:

	For the eight months ended 30 November 2010 (Unaudited) *HK$'000*	For the year ended 31 March 2010 (Unaudited) *HK$'000*	For the year ended 31 March 2009 (Unaudited) *HK$'000*
Revenue	69,489	55,643	27,368
Profit/(loss) before tax	343	3,625	(34,897)

Business model of the Remaining Group

Principal business

The Remaining Group will engage in the development, engineering, manufacture and sale of toys on an OBM and OEM basis. The Remaining Group's own branded toy items will be sold through its distribution channels including department stores and specialty shops and to its customers including importers and agents. Upon completion of the Reorganisation, the Remaining Group will own all product brands developed by and licensed to the Group as set out in the paragraph headed "Information on the Group" above.

Manufacturing

The Remaining Group's manufacturing process for OBM business are either carried out by the Indonesia factory or subcontracted to the Disposal Group or other independent third parties depending on factors such as customers' decision, pricing, production capabilities to meet the designs and technical support required for the products. Branded products with less complexity will be carried out in the Indonesia factory whereas products with more complicated designs other than simple electronics or are of a plastic nature and require different technical support will be subcontracted to other factories including those operated by the Dispsoal Group. The Indonesia OEM process is handled by the Indonesia factory which manufactures labour intensive products.

Currently, approximately 10% of the Remaining Group's OBM business is being handled by the Indonesia factory with the balance of approximately 90% by the Mainland China factories of the Disposal Group. For a very small quantity of products, the Remaining Group has engaged an independent subcontractor for the manufacturing process. Upon Completion, the OBM process being handled by Mainland China factories of the Disposal Group will be gradually taken over by the Remaining Group if its customers do not have any preference for Mainland China production. The major reason for customers to request for Mainland China production is to match the customers' product management and logistic arrangements. The management of the Company considers that the Indonesia factory, based on its current production capabilities, can handle most of the Remaining Group's OBM business. The Remaining Group will consider the expansion of the production capacity of the Indonesia factory when its existing capacity is fully utilized. In order to reduce its reliance on the Disposal Group on manufacturing processes, which will not be handled by the Indonesia factory, will be subcontracted to independent Mainland China manufacturers with competitive pricing and production capabilities.

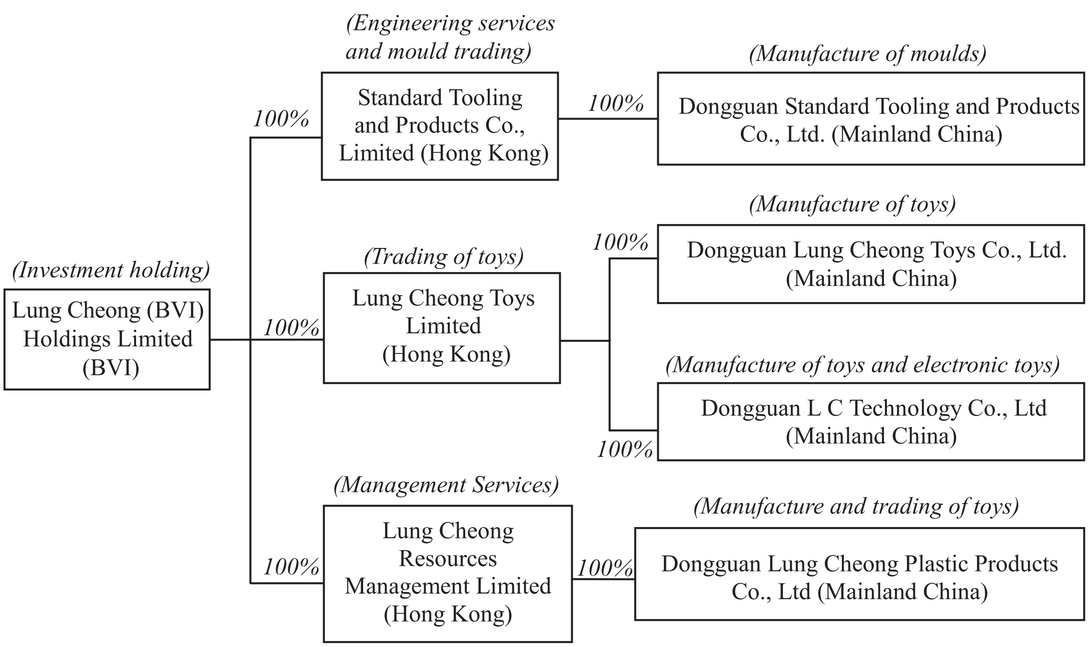
Management and staff

Operations of the Remaining Group will be managed by the existing senior management of the Group including Mr. Leung Lun (chairman of the Company and an executive Director), Mr. Wong, Andy Tze On (an executive Director) and certain senior executives in related divisions. Since the commencement of the OBM business, the Group's sales and marketing team as well as product and brand development team are independent from the Group's OEM business. All staff from the Group's sales and marketing team, the product development team and supporting staff for Indonesia OEM will stay in the Remaining Group.

INFORMATION ON THE DISPOSAL GROUP

Upon completion of the Reorganisation, the Disposal Group will continue to be engaged in the development, engineering, manufacture and sale of toys and moulds, mainly for products requiring more complex production procedures and technical supports. The Disposal Group will operate the two factories in Dongguan, Mainland China.

The Disposal Group



The financial highlights of the Disposal Group for two years ended 31 March 2010 and for the eight months ended 30 November 2010 are set out as follows:

	For the eight months ended 30 November 2010 (unaudited) *HK$'000*	For the year ended 31 March 2010 (unaudited) *HK$'000*	2009 (unaudited) *HK$'000*
Revenue	333,103	334,106	574,735
Loss before tax	154,206	155,957	250,848
Loss after tax	154,206	157,135	250,693
Total comprehensive loss	157,060	84,254	233,062
Net liabilities	270,784	113,724	29,470

According to the unaudited financial information accounts of the Disposal Group for the two years ended 31 March 2010 and the period ended 30 November 2010, approximately 97%, 95% and 96% are intra-group sales.

COMPETITION WITH AND RELIANCE ON THE DISPOSAL GROUP

Competition with the Disposal Group on OEM business

Normally, the Group's customers make the decision on whether the production of their orders should be carried out in the Group's Mainland China factories or the Indonesia factory depending on a number of factors such as the pricing, product and logistic arrangement as well as production capability of these factories. Upon the Completion, the Group's existing OEM customers may place orders with the Remaining Group and request the production to be carried out in Mainland China factories under the Disposal Group. The Remaining Group will subcontract the production to the Disposal Group at a price to be determined at arm's length negotiation. On the other hand, the Group's existing OEM customers which request PRC production may directly place orders with the Disposal Group.

The management of the Remaining Group intends to encourage the Group's existing OEM customers to allocate more OEM business from the Disposal Group to the Indonesia factory by demonstrating to the customers the benefit of plentiful supply of labour which has a lower cost in Indonesia as compared to those in Mainland China, proven production capacity and management experience in the Indonesia factory in particular to, labour intensive products with bulk purchase volume. According to the experience of the management of the Company, the labour force in Indonesia can be easily trained to take over most of the labour intensive manufacturing process. Further, pursuant to the Agreements, the Purchaser and the Warrantor undertakes with the Company not to engage in the business of manufacturing of toys in Indonesia for three years after the date of the Agreements without the consent of the Company. The Directors confirmed that the consent is unlikely to be given to the Purchaser by the Company if the Purchaser makes a request to engage in the business of manufacturing of toys in Indonesia. The Company will take the legal action against the Purchaser if the Purchaser engages in the business of manufacturing of toys in Indonesia within three years after date of Agreement without the consent of the Company.

As mentioned in the paragraph headed "Reasons for and benefits of the Disposal" above, it is the intention of the Company to focus on the design, development, sales and marketing of its own brands of products and gradually position the Remaining Group as an OBM operator. It is the Company's strategy to reduce the reliance on PRC OEM. Given the above, the Directors consider that the possible competition with the Disposal Group on OEM business, which is expected to a minimal extent, will not adversely affect the future business of the Remaining Group.

Reliance on the Disposal Group

Upon the Completion, the Disposal Group will be one of the Remaining Group's subcontractors for orders from customers who request the manufacturing process to be carried out in the Disposal Group's Mainland China factories. The Remaining Group's reliance on the Disposal Group on manufacturing will be for a reducing trend given (i) the Remaining Group intends to gradually move a major portion of the manufacturing process from the Disposal Group to its Indonesia factory on or before the expiry of one year from the Completion; (ii) the Remaining Group will engage other independent subcontractors for its manufacturing requirements; and (iii) the management and daily operations of the Remaining Group have been completely segregated from that of the Disposal Group.

INFORMATION ON THE PURCHASER

The Purchaser is engaged in investment holding and is owned as to 30% by Mr. Leung Chung Ming and as to 70% by Mr. Leung, Kenneth Yuk Wai. Since Mr. Leung, Kenneth Yuk Wai is a son of Mr. Leung Lun, a substantial Shareholder and an executive Director, and Mr. Leung Chung Ming is a substantial Shareholder and an executive Director, the Purchaser is therefore a connected person of the Company.

USE OF PROCEEDS

The Company intends to use the net proceeds for general working capital of the Company and to finance new projects if appropriate investment opportunity arises.

POSSIBLE FINANCIAL EFFECTS OF THE DISPOSAL

The Directors estimate that there would be no gain and loss arising from the Disposal as at 30 November 2010, which is determined by (i) the Consideration of HK$11 million as at 30 November 2010; (ii) the adjusted net liabilities of the Disposal Group of approximately HK$9 million based on the difference between the Loans as at 30 November 2010 of approximately HK$262 million to be assigned to the Purchaser and the sum of the net liabilities of the Disposal Group as at 30 November 2010 of approximately HK$271 million; and (iii) the difference of approximately HK$20 million between the Loans as at 30 November 2010 of approximately HK$262 million and HK$282 million would be payable by the Group to the Disposal Group. Shareholders should note that the actual loss from the Disposal may be different from the above as the then net liabilities will be different on the Completion Date.

Based on the unaudited pro forma financial information of the Remaining Group as set out in Appendix III to this circular, the financial effects of the Disposal on the Group are as follows:

(i) as stated in Appendix III to this circular, the Group's total assets would decrease by approximately HK$184.8 million from approximately HK$565.8 million to approximately HK381.0 million and the Group's total liabilities would decrease by approximately HK$183.5 million from approximately HK$364.7 million to approximately HK$181.2 million as if the Disposal had been completed on 31 March 2010; and

(ii) the Group's loss would decrease by approximately HK$157.8 million from the loss for the period ended 31 March 2010 of approximately HK$167.4 million to approximately HK$9.6 million, which excludes the gain in exchange difference on translating foreign operation.

Upon the Completion, members of the Disposal Group will cease to be subsidiaries of the Company and the Company will not have any shareholdings in LC (BVI).

IMPLICATION OF THE LISTING RULES

As certain applicable percentage ratios as calculated under Rule 14.07 of the Listing Rules exceed 75%, the Disposal constitutes a very substantial disposal for the Company under the Listing Rules and is subject to the reporting, announcement and shareholders' approval requirements.

The Purchaser is owned as to 30% by Mr. Leung Chung Ming and as to 70% by Mr. Leung, Kenneth Yuk Wai. Since Mr. Leung, Kenneth Yuk Wai is a son of Mr. Leung Lun, a substantial Shareholder and an executive Director, and Mr. Leung Chung Ming is a substantial Shareholder and an executive Director, the Purchaser is therefore a connected person of the Company. As such, the transaction as contemplated under the Disposal also constitutes a connected transaction of the Company under Rule 14A.13(1)(a) of the Listing Rules. Pursuant to the Listing Rules, the Disposal will be subject to Independent Shareholders' approval at the EGM.

Since Mr. Leung Lun and Mr. Leung Chung Ming have material interests in the transactions under the Agreements, they have abstained from voting on the board resolution in respect of the Disposal.

Mr. Leung Lun, the Purchaser including Mr. Leung Chung Ming and Mr. Leung, Kenneth Yuk Wai and their associates will abstain from voting in respect of the resolution approving the Disposal and the transactions contemplated thereunder.

As at the Latest Practicable Date, Mr. Leung Lun, Mr. Leung Chung Ming, Mr. Leung Kenneth Yuk Wai and their associates together held 1,499,082,240 Shares, representing approximately 50.68% of the existing share capital of the Company.

EGM

A notice convening the EGM to be held at Unit 11, First Floor, Houston Centre, 63 Mody Road, Tsim Sha Tsui East, Kowloon, Hong Kong on Tuesday, 12 April 2011 at 3:30 p.m. , or any adjournment is set out from pages E-1 to E-2 of this circular.

Whether or not you are able to attend the meeting in person, you are requested to complete the accompanying form of proxy in accordance with the instructions printed thereon and return it to the Company's branch share registrar in Hong Kong, Tricor Abacus Limited, 26th Floor, Tesbury Centre, 28 Queen's Road East, Wanchai, Hong Kong as soon as possible and in any event not less than 48 hours before the time appointed for the holding of the EGM or any adjourned thereof. Completion and return of the form of proxy shall not preclude you from attending and voting at the EGM should you so wish.

RECOMMENDATION

Based on the reasons set out in the paragraph headed "Reasons for and benefits of the Disposal" above, the Directors (including the independent non-executive Directors whose recommendation is contained in the "Letter from the Independent Board Committee" on pages 19 to 20 of this circular) consider (i) the terms of the Agreements are on normal commercial terms and are fair and reasonable so far as the Independent Shareholders are concerned; and (ii) the entering into of the Agreements is in the interests of the Company and the Independent Shareholders as a whole. Accordingly, the Board recommends the Independent Shareholders to vote in favour of the ordinary resolution to be put forward to the Independent Shareholders at the EGM to consider and, if thought fit, to approve the Agreements and the transactions contemplated thereunder.

ADDITIONAL INFORMATION

Your attention is drawn to the additional information set out in the appendices to this circular.

Yours faithfully,
By order of the Board
Lung Cheong International Holdings Limited
Wong, Andy Tze On
Executive Director

LUNG CHEONG INTERNATIONAL HOLDINGS LIMITED
龍 昌 國 際 控 股 有 限 公 司

(Incorporated in the Cayman Islands with limited liability)

(Stock Code: 348)

25 March 2011

To the Independent Shareholders

Dear Sir or Madam,

VERY SUBSTANTIAL DISPOSAL
AND
CONNECTED TRANSACTION
IN RELATION TO
DISPOSAL OF ENTIRE INTEREST OF LUNG CHEONG (BVI) HOLDINGS LIMITED AND THE LOANS

We refer to the circular of the Company dated 25 March 2011 (the "Circular"), of which this letter forms part. Terms used in this letter shall bear the same meanings as given to them in the Circular unless the context otherwise requires.

We have been appointed as members of the Independent Board Committee to advise the Independent Shareholders as to (i) whether the terms of the Agreements are fair and reasonable so far as the Independent Shareholders are concerned; (ii) whether the entering into of the Agreements is in the interests of the Company and the Independent Shareholders as a whole; and (iii) how they should vote in respect of the relevant resolution to approve the Agreements and the transactions contemplated thereunder at the EGM. Veda Capital has been appointed as the independent financial adviser to advise the Independent Board Committee and the Independent Shareholders in relation to the Agreements and the transactions contemplated thereunder.

We wish to draw your attention to the letter from the Board, as set out on pages 5 to 18 of the Circular, and the letter from Veda Capital to the Independent Board Committee and the Independent Shareholders which contains its advice in respect of the Agreements and the transactions contemplated thereunder, as set out on pages 21 to 33 of the Circular.

Having taken into account the advice of Veda Capital, we consider (i) the terms of the Agreements are on normal commercial terms and are fair and reasonable so far as the Independent Shareholders are concerned; and (ii) the entering into of the Agreements is in the interests of the Company and the Independent Shareholders as a whole. Accordingly, we recommend the Independent Shareholders to vote in favour of the ordinary resolution to be proposed at the EGM to approve the Agreements and the transactions contemplated thereunder.

Yours faithfully,
the Independent Board Committee

Mr. Wong Lam, *O.B.E., J.P.*	Mr. Ye Tian Liu	Mr. Lai Yun Hung
Independent non-executive Director	*Independent non-executive Director*	*Independent non-executive Director*

The following is the full text of a letter of advice from Veda Capital to the Independent Board Committee and the Independent Shareholders in respect of the Agreements prepared for the purpose of inclusion in this circular.

VEDA | CAPITAL
智 略 資 本

Veda Capital Limited
Suite 3214, 32/F.,
Cosco Tower
183 Queen's Road Central
Hong Kong

25 March 2011

To the Independent Board Committee and the Independent Shareholders of Lung Cheong International Holdings Limited

Dear Sirs,

**VERY SUBSTANTIAL DISPOSAL
AND
CONNECTED TRANSACTION
IN RELATION TO
DISPOSAL OF ENTIRE INTEREST OF LUNG CHEONG (BVI)
HOLDINGS LIMITED AND THE LOANS**

INTRODUCTION

We refer to our appointment to advise the Independent Board Committee and the Independent Shareholders in respect of the fairness and the reasonableness of the Agreements, details of which are set out in the circular to the Shareholders dated 25 March 2011 (the "**Circular**"), of which this letter forms part. Terms used in this letter have the same meanings as defined in the Circular unless the context requires otherwise.

On 28 January 2011, the Disposal Agreement was entered into between the Company, the Purchaser and the Warrantors with regard to the disposal of (i) the Sale Shares; and (ii) the Loans by the Company for a consideration of HK$18 million in cash, subject to adjustments.

As certain applicable percentage ratios for the Disposal as calculated under Rule 14.07 of the Listing Rules exceed 75%, the Disposal constitutes a very substantial disposal for the Company under the Listing Rules and is subject to the reporting, announcement and shareholders' approval requirements. The Purchaser is owned as to 30% by Mr. Leung Chung Ming and as to 70% by Mr. Leung, Kenneth Yuk Wai. Since Mr. Leung, Kenneth Yuk Wai is a son of Mr. Leung Lun, a substantial Shareholder and an executive Director, and Mr. Leung Chung Ming is a substantial Shareholder and an executive Director, the Purchaser is therefore a connected person of the Company. As such, the transaction as contemplated under the Disposal also constitutes a connected transaction of the Company under Rule 14A.13(1)(a) of the Listing Rules. Pursuant to the Listing Rules, the Disposal will be subject to the Independent Shareholders' approval at the EGM.

The Independent Board Committee, comprising all the independent non-executive Directors, has been established to advise the Independent Shareholders as to (i) whether the terms of the Agreements are fair and reasonable so far as the Independent Shareholders are concerned; and (ii) whether the Agreements is in the interests of the Company and the Independent Shareholders as a whole; and (iii) how the Independent Shareholders should vote in respect of the relevant resolution to approve the Agreements at the EGM.

BASIS OF OUR OPINION

In formulating our opinion and advice, we have relied upon accuracy of the information and representations contained in the Circular and information provided to us by the Company, the Director(s) and the management. We have assumed that all statements, information and representations made or referred to in the Circular and all information and representations which have been provided by the Company, the Director(s) and the management, for which they are solely and wholly responsible, were true at the time they were made and continue to be true as at the date of the EGM. We have also assumed that all statements of belief, opinion and intention made by the Director(s) in the Circular were reasonably made after due and careful enquiry and were based on honestly-held opinions.

We have no reason to believe that any information and representations relied on by us in forming our opinion is untrue, inaccurate or misleading, nor are we aware of any material facts the omission of which would render the information provided and the representations made to us untrue, inaccurate or misleading. We have not, however, conducted any independent in-depth investigation into the business affairs, financial position or future prospects of the Group, nor have we carried out any independent verification of the information provided by the Director(s) and management of the Company.

PRINCIPAL FACTORS AND REASONS CONSIDERED

In giving our recommendation to the Independent Board Committee and the Independent Shareholders in respect of the fairness and reasonableness of the Agreements, we have taken into consideration the following factors and reasons:

Information on the Disposal Group

Pursuant to the Agreements, the Purchaser has agreed to acquire and the Company has agreed to sell: (i) the Sale Shares, representing the entire issued share capital of LC(BVI); and (ii) the Loans. According to the unaudited combined financial statements of LC(BVI) as at 30 September 2010 and as if the Reorganisation had been completed on 30 September 2010, LC(BVI) and its subsidiaries would be indebted to the Remaining Group of approximately HK$282 million

As set out in the Letter from the Board (the "**Board Letter**"), upon completion of the Reorganisation, the Disposal Group will continue to be engaged in the development, engineering, manufacture and sale of toys and moulds, mainly for products requiring more complex production procedures and technical supports. The Disposal Group will operate the two factories in Dongguan Mainland China. As extracted from Financial information of the Disposal Group in Appendix I to the Circular, the unaudited financial information of the Disposal Group for two years ended 31 March 2010 and for the eight months ended 30 November 2009 and 2010 are set out as follows:

	For the eight months ended 30 November 2010 *HK$'000*	For the eight months ended 30 November 2009 *HK$'000*	For the year ended 31 March 2010 *HK$'000*	For the year ended 31 March 2009 *HK$'000*
Turnover	333,103	243,709	334,106	574,735
Profit/(loss) before tax	(154,206)	(75,825)	(155,957)	(250,848)
Profit/(loss) after tax	(154,206)	(75,825)	(157,135)	(250,693)

As set out in Appendix I to the Circular, the net liabilities of the Disposal Group as at 30 November 2010 was approximately HK$270.78 million. As set out in the Board Letter, according to the unaudited financial information accounts of the Disposal Group for the two years ended 31 March 2010 and the period for the eight months ended 30 November 2010, approximately 97%, 95% and 96% are intra-group sales.

As can be seen from the above table, the turnover of the Disposal Group has decreased by approximately 41.87% from approximately HK$574.74 million for the year ended 31 March 2009 to approximately HK$334.11 million for the year ended 31 March 2010. As advised by the Company, such decrease in turnover was mainly attributable to the decrease in sales as a result of continual effect of financial turmoil in later part of 2008. The loss after tax of the Disposal Group has decreased by approximately 37.32% from approximately HK$250.69 million for the year ended 31 March 2009 to approximately HK$157.14 million for the year ended 31 March 2010. As advised by the Company, such decrease in loss was mainly because the Disposal Group recorded revaluation deficit of land and buildings of approximately HK$121.83 million for the year ended 31 March 2009 whilst there is no revaluation deficit of land and buildings recorded for the year ended 31 March 2010.

The turnover of the Disposal Group has increased by approximately 36.68% from approximately HK$243.71 million for the eight months ended 30 November 2009 to approximately HK$333.10 million for the eight months ended 30 November 2010. As advised by the Company, such increase in turnover was mainly attributable to the Group's investment into development of lower priced innovative electronic and plastic toys. The loss after tax of the Disposal Group has increased by approximately 103.36% from approximately HK$75.83 million for the eight months ended 30 November 2009 to approximately HK$154.21 million for the eight months ended 30 November 2010. As advised by the Company, the increase in loss was mainly because the Disposal Group recorded revaluation deficit of land and buildings of approximately HK$84.28 million for the eight months ended 30 November 2010 whilst there is no revaluation deficit of land and buildings recorded for the eight months ended 30 November 2009.

Financial information of the Group

For the year ended 31 March 2010

According to the annual report 2009/2010 of the Group (the "**AR 2010**"), the turnover of the Group was approximately HK$402.40 million for the for the year ended 31 March 2010, which represented a decrease of approximately 36.85% as compared to the turnover for the year ended 31 March 2009 of approximately HK$637.22 million. As advised by the Company, the decrease in turnover was mainly due to the decrease in sales orders as a result of the continual effect of financial tsunami in later part of 2008.

The Group recorded loss for the year of approximately HK$174.95 million for the year ended 31 March 2010 which represented a decrease in loss of approximately 39.42% as compared to the loss for the year ended 31 March 2009 of approximately HK$288.77 million. As advised by the Company, the decrease in loss was mainly due to (i) the decrease in selling and distribution expenses, general and administrative expenses, the impairment on property, plant and equipment and the impairment on trade and other receivables; and (ii) the Group did not record any revaluation deficit of land buildings for the year ended 31 March 2010 whilst the Group recorded approximately HK$121.83 million of revaluation deficit of land buildings for the year ended 31 March 2009.

We noted from AR 2010 that auditors of the Company, even though without qualifying its opinion, had expressed a material uncertainty opinion concerning the going concern basis of the Group's accounts for the year 31 March 2010 because the Group incurred a net loss of approximately HK$174.95 million during the year ended 31 March 2010 and, as of that date, the Group's current liabilities exceeded its current asset by approximately HK$103.73 million and it had short term borrowings of approximately HK$215.07 million that are due for repayment within the next twelve months.

For the six months ended 30 September 2010

According to the interim report of the Company for the six months ended 30 September 2010 (the "**IR 2010**"), the turnover of the Group was approximately HK$313.15 million for the six months ended 30 September 2010, which represented an increase of approximately 23.83% as compared to the turnover for the corresponding period in the previous year of approximately HK$252.89 million. As advised by the Company, the increase in turnover was mainly due to the increase in sales of lower priced innovative electronic and plastic toys.

The Group recorded loss attributable to Shareholders of approximately HK$51.30 million for the six months ended 30 September 2010 which represented an increase in loss of approximately 29.45% as compared to the loss for the corresponding period in the previous year of approximately HK$39.63 million. As advised by the Company, the increase in loss was mainly due to the increase in worker's remunerations in the Mainland China and increased in material costs.

Background information and reasons for the Disposal

The Group is principally engaged in the development, engineering, manufacture and sale of toys, moulds and materials. Its products include radio control/wireless products, electronic and plastic toys and consumer electronic products. The Group has developed over 20 proprietary brands of toys over the past ten years and the major brands are Elite Fleet, DRV, Morphibians, GoGo Auto, KG Flyer, Steel Force, World of Wheels and My First RC for sales to the North America and the European markets. The Group has also obtained the licence of the Fisher Price brand for the design, development, sales and marketing of pre-school toys mainly in the North American market for a term of two years ending on 31 December 2012. Its production is on OEM and OBM basis. The Group's production facilities are located in its two factories in Dongguan, Mainland China and a factory in Indonesia. Due to the Group's sales decline in the financial year of 2009/10, only approximately 69% and 66% of production capacity in the respective factories in the Mainland China and Indonesia were utilised.

As mentioned in the IR 2010 and AR 2010, the Group continues to face escalating wages in the area where the Group's Mainland China factories are located and an unstable supply of migrant workers for its manufacturing plants in Mainland China. The Group's profitability had been adversely affected by the high production cost which was aggravated by the strong value of RMB and weakness of the US$. On the other hand, due to the under-utilization of certain plant and equipment in Mainland China manufacturing plants, impairments of approximately HK$19 million was made for the financial year of 2009/10. For the year ended 31 March 2010, the Group's turnover was approximately HK$402 million with a loss of approximately HK$175 million. The management of the Company considered that the Group's revenue did not match with the relative production and administration costs relating to its investments in Mainland China manufacturing plants.

In light of the operating difficulties in Mainland China and the economic uncertainties in the Group's major business sectors, in particular the demand for premium priced electronic toys, the Group has invested in the development of lower priced innovative electronic and plastic toys by taking advantage of the plentiful labour supply and competitive labour cost in its manufacturing plants in Indonesia. As mentioned in IR 2010 and AR 2010, the Group continues to seek diversified income sources and to further reduce the Group's reliance on its primary OEM income stream. The Disposal is therefore one of the Company's stated corporate strategies. Whilst the Remaining Group will retain some of the OEM business with the Company's existing customers, it will focus on the design, development, sales and marketing of its own brands of products and gradually position the Remaining Group as an OBM operator.

As set out in the Board Letter, given that (i) the Disposal would release the Company from future capital requirement and management resources for the Disposal Group; (ii) the high operating cost for the Mainland China manufacturing plants as compared to that in Indonesia; and (iii) the net liabilities position of the Disposal Group, notwithstanding that the Company will suffer an expected loss of HK$10 million as a result of the Disposal, the Directors are of the view that the terms of the Agreements, including the Consideration, and transaction contemplated therein are fair and reasonable and the Disposal in the interests of Shareholders as a whole.

As noted from the report "China salary outlook positive for 2011" released by HayGroup, a global human resources management consulting firm with offices worldwide, on 17 September 2010, the actual average salary in the Mainland China has increased by approximately 5.3% for 2009 and by approximately 6.9% for 2010 and the salary increase forecast in the Mainland China for 2011 is estimated to be approximately 8.3%. Taking into account inflation, the real wage increase in the Mainland China was approximately 5.9% for 2009 and was approximately 3.9% for 2010 and the real wage increase in the Mainland China for 2011 is estimated to be approximately 5.0%. As noted from the website (http://dds.bps.go.id) of Badan Pusat Statistik (BPS-Statistics Indonesia), a non-departmental government institution directly responsible to the President of Indonesia, by using 2002 as a base year and comparing the real wage index of Jakarta (the capital city of Indonesia) and Banten of (i) 2002 and the average real wage index for the year 2008, the real wage index has been increased by approximately 5.5%; and (ii) 2002 and the average real wage index for the first three quarters of 2009, the real wage index has been increased by approximately 5.7%.

We noted from the IR 2010, the Company recorded cash and bank balances of approximately HK$56.01 million and borrowings under current liabilities of approximately HK$260.82 million as at 30 September 2010. We also noted from IR 2010 that the Group's alternate production base in Indonesia enjoys favorable advantages over Mainland China and other Asian countries such as plentiful supply of labour and competitive labour costs. The Group would continue its belief about the importance of investing a portion of sales in product development. Ongoing resources are being allocated to the development of innovative products to secure the Group's strength and leadership. The Group would continue to focus its resources and efforts in two categories of customers: growing with core customers, providing consistent support during the time of uncertainties, and expanding the base of strategic customers, providing outlets for its continued investment into innovative product development.

Having considered (i) the persistent loss-making position of the Disposal Group; (ii) the liquidity position of the Group as at 30 September 2010; (iii) the Disposal would allow the Group to carry less cost given the increasing trend of wages in the Mainland China and hence improve the overall financial position of the Group; (iv) the Disposal not only allows the Company to unlock the cash and the management bandwidth, but also will bring cash inflow to the Group and hence allow the Directors to focus and effectively allocate its resources to other profitable or potential business development of the Group; and (v) the Disposal is in line with the corporate strategy of the Group, we concur with the Directors that the Disposal is commercially justifiable and in the interests of the Company and the Independent Shareholders as a whole.

Consideration for the Disposal

As set out in the Board Letter, the Consideration of HK$18 million (subject to adjustments) was arrived at after arm's length negotiations between the Company and the Purchaser with reference to (i) the net liabilities of the Disposal Group of approximately HK$176 million as at 30 September 2010; (ii) the impairment loss of approximately HK$78 million on the leasehold land, land and buildings held by the Disposal Group based on the valuation by an independent valuer as at 31 December 2010; (iii) the Loans of approximately HK$282 million as at 30 September 2010 to be assigned to the Purchaser; and (iv) the provision of HK$10 million to be made by the Disposal Group in relation to the reorganisation cost to be paid or provided for on or before the Completion as a result of the Reorganisation.

Also set out in the Board Letter, if the Loans are less than HK$282 million, the Adjusted NAV will be calculated by adding the amount of HK$282 million to the net liabilities of the Disposal Group as at the date of the Completion Accounts, any differences in amount between the Loans and HK$282 million will be payable by the Vendor to LC (BVI) or any other member of the Disposal Group. If the Loans are more than HK$282 million, the Adjusted NAV will be calculated by adding such higher amount of outstanding loan to the net liabilities of the Disposal Group as at the date of the Completion Accounts.

As set out the Board Letter, the Consideration will be subject to the following adjustments:

(a) If the Adjusted NAV is less than HK$18 million, the Consideration shall be reduced by the amount of shortfall on a dollar-to-dollar basis.

(b) If the Adjusted NAV is equal to or less than zero, the Purchaser shall have the right to rescind the Agreements by serving a written notice onto the Vendor and neither party shall have any rights or obligations against the other under the Agreements except for any antecedent breach. However, if the Purchaser does not exercise its right of rescission but complete the transactions under the Agreements, the Consideration payable by the Purchaser as at Completion shall be zero.

(c) If the Adjusted NAV is more than HK$18 million, the Consideration shall be increased by the amount of excess on a dollar-to-dollar basis.

As set out in the Board Letter, according to the unaudited financial information of the Disposal Group as set out in Appendix I to the Circular, the Adjusted NAV was approximately HK$11 million as at 30 November 2010. Accordingly, the Consideration was approximately HK$11 million as at 30 November 2010.

We have considered adopting the price-to-earnings approach and net assets approach in evaluation of the Disposal. Given the Disposal Group was loss-making for the year ended 31 March 2010, we consider comparable analysis with price-to-earnings approach is not applicable.

Based on the net liabilities of the Disposal Group as at 30 November 2010 of approximately HK$271 million and the Loan of approximately HK$282 million, the adjusted net asset value of the Disposal Group will be approximately HK$11 million (the "**Derived NAV**"). Accordingly, the consideration of approximately HK$11 million as at 30 November 2010 based on the Adjusted NAV as at 30 November 2010 represent 1.00 times (the "**PBR**") of the Derived NAV.

In order to access the fairness and reasonableness of the PBR, we have identified all comparable companies (the "**Industry Comparables**") being listed companies on the Stock Exchange (on Growth Enterprise Market or Main Board of the Stock Exchange) engaging in businesses similar to those of the Disposal Group including, but not limited to, the business of development, engineering, manufacture and sale of toys and moulds and with not less than 50% of their respective revenue are generated from the segment in relation to toy business (based on the latest annual reports of the Industry Comparables published before 28 January 2011, being the date of the Disposal Agreement). To the best of our knowledge, we have identified 5 Industry Comparables by searching through published information on the Stock Exchange's website. The PBRs are based on their respective market capitalizations as at 28 January 2011, being the date of the Disposal Agreement, and the net asset value as set out in their latest annual/interim reports published before 28 January 2011. In view that (i) the Industry Comparables are engaged in similar business of the Disposal Group with not less than 50% of their respective revenue are generated from the segment in relation to toy business; (ii) the PBRs of the Industry Comparables are determined with reference to the date of the Disposal Agreement; and (iii) notwithstanding the Industry Comparables have different profitability, the analyses on PBR is mainly focus on the book values of the Industry Comparables, we consider the Industry Comparables are fair and representative samples. Independent Shareholders should note that the stated PBRs of the respective companies could be sensitive to, amongst other things, each of their particular businesses, financial position and market price performance of the shares of the respective companies and therefore, the PBRs of the Industry Comparables listed below are for information and reference purposes only.

Industry Comparables (Stock code)	Principal business	Market capitalization *(HK' million)* *(Note 1)*	Net assets value *(HK' million)* *(Note 2)*	Profit attributable to equity holders *(HK' million)* *(Note 3)*	PBR *(times)*
Dream International Limited (1126)	Design, development, manufacturing and sales of plush stuffed toys; steel and plastic toys	1,062.02	530.97	74.62	2.00
Kader Holdings Co. Limited (180)	Manufacture and sale of plastic, electronic and stuffed toys and model trains, property investment, investment holding and trading	309.42	864.84	175.39	0.36
Matrix Holdings Limited (1005)	Manufacture and distribution of gifts, novelties items and infant and pre-school children toys	1,025.70	482.70	76.87	2.13
Playmates Holdings Limited (635)	Design, development, marketing and distribution of toys and family entertainment activity products, property investment and management and restaurant operation	789.48	2,031.56	239.41	0.39
China Tycoon Beverage Holdings Limited (formerly known as Sewco International Holdings Limited) (209)	Manufacturing and trading of hard and stuffed toys	1,567.14	533.62	Loss	2.94
Maximum					**2.94**
Minimum					**0.36**
Mean					**1.56**
Disposal Group					**1.00**

Notes:

1. Market capitalizations as at 28 January 2011, being the date of the Disposal Agreement.
2. The net asset value set out in latest annual/interim reports of the Industry Comparables published before 28 January 2011.
3. The profit attributable to equity holders as set out in latest annual reports of the Industry Comparables published before 28 January 2011.

As illustrated in the above table, the PBR based on the Derived NAV, being 1.00 times, falls within the range of the PBRs of the Industry Comparables from approximately 0.36 times to approximately 2.94 times. In light of the above and the Consideration will adjusted with the Adjusted NAV on a dollar to dollar basis, we consider the Consideration and the adjustment mechanism thereof are fair and reasonable so far as the Independent Shareholders are concerned.

Undertakings

We noted from the Board Letter that pursuant to the Agreements,

1. The Purchaser and the Warrantors jointly and severally undertake with the Company that:

   (a) the Purchaser shall procure the corporate guarantees provided by the Company in favour of certain financial institutions for the benefits of the Disposal Group (the "**Corporate Guarantee**") be released or discharged on or before the date on the expiry of six months after the Completion Date (or such other date as the Company and the Purchaser to be agreed); and

   (b) the Purchaser shall provide back-to-back guarantee in respect of the liabilities and obligations under the Corporate Guarantee in favour of the Company from the Completion Date up to the date of release of the Corporate Guarantees.

2. The Purchaser and the Warrantors jointly and severally undertake with the Company that each of them shall not, without the prior written consent of the Company, at any time for a term of three years after the date of the Agreements engage or have an interest in, whether directly or indirectly, in any capacity (whether as a director, shareholder, principal, partner, consultant, employee, independent contractor or otherwise) in the business of manufacturing of toys in Indonesia (the "**Competition Undertaking**").

3. Mr. Leung Chung Ming undertakes to resign as a Director and director of the Remaining Group upon the Completion.

4. The Vendor undertakes to procure that all directors of the Disposal Group nominated by the Vendor shall resign from directorship of any member of the Disposal Group as at Completion.

As discussed with the Company, as additional time is required for the application process for the transfer of the guarantor of the Corporate Guarantee and hence it is expected the Corporate Guarantee given by the Company will remain in place immediately upon Completion. We were given to understand by the Company, in order to ensure the undertakings in respect of the Corporate Guarantee would be workable, the Company has negotiated with the financial institutions for the timing of releasing the Corporate Guarantee. As advised by the Company, the aggregate Corporate Guarantee amounted to approximately HK$382 million, of which approximately HK$284 million has been released or discharged as at the Latest Practicable Date and one of the financial institutions has proposed to the Company to release the Corporate Guarantee by 30 June 2011.

Pursuant to the Competition Undertaking, the Purchaser and the Warrantor undertakes with the Company not to engage in the business of manufacturing of toys in Indonesia for three years after the date of the Agreements without the consent of the Company. As set out in the Board Letter, the Directors confirmed that the consent is unlikely to be given to the Purchaser by the Company if the Purchaser makes a request to engage in the business of manufacturing of toys in Indonesia and the Company will take the legal action against the Purchaser if the Purchaser engages in the business of manufacturing of toys in Indonesia within three years after date of Agreements without the consent of the Company. We have reviewed recent connected and disposal transactions conducted by listed companies and aware that it is not a common practice in those transactions to have the purchaser and warrantor to undertake to the vendor that they will not have an interest in the remaining business of the listed companies. However, in view that the Competition Undertaking will reduce the competition and therefore in the favor of the Company, we consider the Competition Undertaking is in the interest of the Company and the Independent Shareholders as a whole. Having considered the abovementioned undertakings would (i) protect the Company from the liabilities arised from the Corporate Guarantee by providing back-to-back guarantee from the Purchaser to the Company up to the date of release of the Corporate Guarantee; and (ii) reduce the competition of the Remaining Group, we considered the abovementioned undertakings are fair and reasonable and in the interests of the Company and the Independent Shareholders as a whole.

Financial effect of the Disposal

(i) Net assets

As set out in Appendix III to the Circular, the audited consolidated net asset value of the Group was approximately HK$201.10 million as at 31 March 2010 and upon Completion, the pro forma consolidated net asset value of the Group after the Disposal will decrease by approximately 0.62% to approximately HK$199.86 million.

Given the benefits to the Company from the Disposal as set out under the section headed "Background information and reasons for the Disposal", we consider such decrease in net assets is acceptable.

(ii) Working capital

As advised by the Company, the working capital of the Group is expected to be increased by the net proceeds from the Disposal.

(iii) Earnings

As set out in Board Letter, the Directors estimate that there would be no gain and loss arising from the Disposal as at 30 November 2010, which is determined by (i) the Consideration of HK$11 million as at 30 November 2010; (ii) the adjusted net liabilities of the Disposal Group of approximately HK$9 million based on the difference between the Loans as at 30 November 2010 of approximately HK$262 million to be assigned to the Purchaser and the sum of the net liabilities of the Disposal Group as at 30 November 2010 of approximately HK$271 million; and (iii) the difference of approximately HK$20 million between the Loans as at 30 November 2010 of approximately HK$262 million and HK$282 million would be payable by the Group to the Disposal Group. Shareholders should note that the actual loss from the Disposal may be different from the above as the then net liabilities will be different on the Completion Date.

Recommendation

Having considered the above-mentioned principal factors and reasons, in particular, taking into account that:

(i) the persistent loss-making and net liabilities position of the Disposal Group;

(ii) the liquidity position of the Group as at 30 September 2010;

(iii) the Disposal would allow the Group to carry less cost given the increasing trend of wages in the Mainland China and hence improve the overall financial position of the Group;

(iv) the Disposal not only allows the Company to unlock the cash and the management bandwidth, but also will bring cash inflow to the Group and hence allow the Directors to focus and effectively allocate its resources to other profitable or potential business development of the Group;

(v) the Disposal is in line with the corporate strategy of the Group;

(vi) the PBR based on the Derived NAV falls within the range of the PBRs of the Industry Comparables; and

(vii) the Consideration will be adjusted with the Adjusted NAV on a dollar to dollar basis, we consider (i) the terms of the Agreements are on normal commercial terms and are fair and reasonable so far as the Independent Shareholders are concerned; and (ii) the Agreements is in the interests of the Company and the Independent Shareholders as a whole. We would therefore recommend the Independent Shareholders and advise the Independent Board Committee to recommend the Independent Shareholders to vote in favour of the resolution to approve the Agreements to be proposed at the EGM.

Yours faithfully,
For and on behalf of
Veda Capital Limited

Hans Wong
Chairman

Julisa Fong
Managing Director

SUMMARY OF UNAUDITED COMBINED FINANCIAL INFORMATION ON THE DISPOSAL GROUP

Set out below are the unaudited combined statements of financial position of the Disposal Group as at 31 March 2008, 2009 and 2010, and 30 November 2010 and the unaudited combined statements of comprehensive income, changes in equity and cash flows of the Disposal Group for each of the years ended 31 March 2008, 2009 and 2010, and the eight months ended 30 November 2009 and 2010, which have been prepared in accordance with the basis set out in note 2 to the financial information of the Disposal Group. The auditor of the Company has reviewed the financial information of the Disposal Group in accordance with the Hong Kong Standard on Review Engagements 2410 "Review of Interim Financial Information Performed by the Independent Auditor of the Entity" issued by the Hong Kong Institute of Certified Public Accountants.

The review conclusion is unmodified but an emphasis of matter paragraph is added to highlight as at 30 November 2010, the Disposal Group had combined net liabilities of approximately HK$270,784,000, which indicated the existence of a material uncertainty which may cast significant doubt about the Disposal Group's ability to continue as a going concern.

UNAUDITED COMBINED STATEMENTS OF COMPREHENSIVE INCOME FOR THE YEARS ENDED 31 MARCH 2008, 2009 AND 2010 AND THE EIGHT MONTHS ENDED 30 NOVEMBER 2009 AND 2010

	Year ended 31 March			Eight months ended 30 November	
	2008	2009	2010	2009	2010
	HK$'000	*HK$'000*	*HK$'000*	*HK$'000*	*HK$'000*
Turnover	726,270	574,735	334,106	243,709	333,103
Cost of sales	(614,597)	(514,081)	(318,627)	(218,538)	(325,959)
Gross profit	111,673	60,654	15,479	25,171	7,144
Other revenue and other gains and losses	90,809	25,607	19,952	14,711	14,557
Selling and distribution expenses	(24,278)	(9,480)	(6,069)	(4,542)	(5,213)
General and administrative expenses	(136,918)	(161,551)	(173,994)	(108,852)	(82,996)
Revaluation deficit of land and buildings	—	(121,827)	—	—	(84,283)
Impairment on property, plant and equipment	—	(22,097)	(6,790)	—	—
Impairment on trade and other receivables	—	(7,941)	(402)	—	—
Operating profit/(loss)	41,286	(236,635)	(151,824)	(73,512)	(150,791)
Finance costs	(23,806)	(14,213)	(4,133)	(2,313)	(3,415)
Profit/(loss) before income tax	17,480	(250,848)	(155,957)	(75,825)	(154,206)
Income tax credit/(expense)	2,741	155	(1,178)	—	—
Profit/(loss) for the year/period	20,221	(250,693)	(157,135)	(75,825)	(154,206)
Other comprehensive income, after tax					
Gain/(loss) on revaluation of land and buildings, net	—	974	—	—	(2,854)
Contribution from holding company	—	—	73,535	—	—
Exchange differences arising on translation of foreign operations	38,994	16,657	(654)	(9,577)	—
Other comprehensive income for the year/period	38,994	17,631	72,881	(9,577)	(2,854)
Total comprehensive income for the year/period	59,215	(233,062)	(84,254)	(85,402)	(157,060)

UNAUDITED COMBINED STATEMENTS OF FINANCIAL POSITION AS AT 31 MARCH 2008, 2009 AND 2010 AND 30 NOVEMBER 2010

	As at 31 March			As at 30 November
	2008	2009	2010	2010
	HK$'000	*HK$'000*	*HK$'000*	*HK$'000*
Non-current assets				
Leasehold land and land use rights	93,428	89,582	87,708	86,459
Property, plant and equipment	407,721	259,220	222,195	115,155
Club memberships	2,474	2,001	2,001	2,001
Deferred tax assets	1,742	1,006	—	—
	505,365	351,809	311,904	203,615
Current assets				
Inventories	248,853	165,475	73,949	65,800
Trade and other receivables, deposits and prepayments	153,447	61,880	11,136	16,124
Derivative financial instruments	634	544	—	—
Tax recoverable	102	1,760	1,760	1,760
Cash and cash equivalents	43,760	17,074	28,261	37,484
	446,796	246,733	115,106	121,168
Current liabilities				
Trade and other payables and accrued charges	147,722	94,648	66,326	74,711
Obligations under finance leases	—	140	259	406
Derivative financial instruments	1,002	317	—	—
Borrowings	137,342	116,328	108,441	250,057
Amounts due to holding company and fellow subsidiaries	454,963	408,201	357,215	261,890
Tax payable	3,987	5,424	6,074	6,074
	745,016	625,058	538,315	593,138
Net current liabilities	(298,220)	(378,325)	(423,209)	(471,970)
Total assets less current liabilities	207,145	(26,516)	(111,305)	(268,355)
Non-current liabilities				
Obligations under finance leases	—	—	336	345
Provision for long service payment	77	127	261	262
Deferred tax liabilities	3,476	2,827	1,822	1,822
	3,553	2,954	2,419	2,429
Net assets/(liabilities)	203,592	(29,470)	(113,724)	(270,784)
Equity				
Share capital	1,010	1,010	1,010	1,010
Reserves	202,582	(30,480)	(114,734)	(271,794)
Total equity	203,592	(29,470)	(113,724)	(270,784)

UNAUDITED COMBINED STATEMENTS OF CHANGES IN EQUITY FOR THE YEARS ENDED 31 MARCH 2008, 2009 AND 2010 AND THE EIGHT MONTHS ENDED 30 NOVEMBER 2009 AND 2010

	Share capital	Exchange fluctuation reserve	Statutory surplus reserve	Land and buildings revaluation reserve	Retained profits/ (accumulated losses)	Total equity
	HK$'000	*HK$'000*	*HK$'000*	*HK$'000*	*HK$'000*	*HK$'000*
At 1 April 2007	1,010	10,916	28,840	9,128	149,483	199,377
Total comprehensive income for the year	—	38,994	—	—	20,221	59,215
Dividend paid	—	—	—	—	(55,000)	(55,000)
At 31 March 2008	1,010	49,910	28,840	9,128	114,704	203,592
Total comprehensive income for the year	—	16,657	—	974	(250,693)	(233,062)
Transfer between reserves upon disposal of properties	—	—	—	(142)	142	—
At 31 March 2009	1,010	66,567	28,840	9,960	(135,847)	(29,470)
Total comprehensive income for the year	—	(654)	—	—	(83,600)	(84,254)
At 31 March 2010	1,010	65,913	28,840	9,960	(219,447)	(113,724)
Total comprehensive income for the period	—	—	—	(2,854)	(154,206)	(157,060)
At 30 November 2010	1,010	65,913	28,840	7,106	(373,653)	(270,784)
At 1 April 2009	1,010	66,567	28,840	9,960	(135,847)	(29,470)
Total comprehensive income for the period	—	(9,577)	—	—	(75,825)	(85,402)
At 30 November 2009	1,010	56,990	28,840	9,960	(211,672)	(114,872)

UNAUDITED COMBINED STATEMENTS OF CASH FLOWS FOR THE YEARS ENDED 31 MARCH 2008, 2009 AND 2010 AND THE EIGHT MONTHS ENDED 30 NOVEMBER 2009 AND 2010

	Year ended 31 March			Eight months ended 30 November	
	2008	**2009**	**2010**	**2009**	**2010**
	HK$'000	*HK$'000*	*HK$'000*	*HK$'000*	*HK$'000*
Operating activities					
Profit/(loss) before income tax	17,480	(250,848)	(155,957)	(75,825)	(154,206)
Adjustment for:					
Interest income	(144)	(69)	(277)	(185)	(100)
Interest expense	4,117	6,442	4,133	2,756	3,415
Depreciation of property, plant and equipment	33,738	41,716	34,330	22,505	24,341
Provision for severance payments	—	—	3,451	—	—
(Reversal of provision)/provision for long service payment	(120)	50	134	—	1
Revaluation deficit of land and buildings	—	121,077	—	—	84,283
Impairment on property, plant and equipment	—	22,097	6,790	—	—
Impairment on trade and other receivables, deposits and prepayments	—	7,941	402	—	—
Impairment on club membership	—	473	—	—	—
Amortisation of leasehold land and land use rights	1,096	2,069	1,874	1,249	1,249
(Gain)/loss on disposal on property, plant and equipment	(5,130)	5,102	—	—	(1,700)
Fair value loss/(gain) on derivative financial instruments	65	(595)	(127)	(127)	—
Operating profit/(loss) before working capital changes	51,102	(44,545)	(105,247)	(49,627)	(42,717)
Inventories	(38,257)	83,378	91,526	44,053	8,149
Trade and other receivables, deposits and prepayments	(51,091)	83,626	50,342	3,754	(4,988)
Trade and other payables and accrued charges	42,451	(53,074)	(55,523)	(26,135)	8,385
Trust receipt bank loans	13,312	18,092	(31,773)	(853)	47,707
Cash generated from/(used in) operations	17,517	87,477	(50,675)	(28,808)	16,536
Interest received	144	69	277	185	100
Income tax (paid)/refunded	(2,552)	21	(528)	—	—
Net cash generated from/(used in) operating activities	15,109	87,567	(50,926)	(28,623)	16,636

UNAUDITED COMBINED STATEMENTS OF CASH FLOWS *(Continued)*
FOR THE YEARS ENDED 31 MARCH 2008, 2009 AND 2010
AND THE EIGHT MONTHS ENDED 30 NOVEMBER 2009 AND 2010

	Year ended 31 March			Eight months ended 30 November	
	2008	**2009**	**2010**	**2009**	**2010**
	HK$'000	*HK$'000*	*HK$'000*	*HK$'000*	*HK$'000*
Investing activities					
Purchase of property, plant and equipment	(52,062)	(30,306)	(3,387)	(3,387)	(3,873)
Proceeds from disposal of derivative financial instruments	—	—	354	354	—
Proceeds from disposal of property, plant and equipment	6,366	4,136	—	—	1,752
Net cash used in investing activities	(45,696)	(26,170)	(3,033)	(3,033)	(2,121)
Financing activities					
Interest paid	(4,117)	(6,442)	(4,133)	(2,756)	(3,415)
New loans from banks and financial institutions	11,512	—	71,727	61,091	134,091
Repayment of loans borrowed from banks and financial institutions	(37,330)	(39,106)	(24,091)	(2,273)	(40,182)
Capital element of financial lease rental payment	—	(28)	(253)	(172)	(461)
Increase/(decrease) in amounts due to holding company and fellow subsidiaries	129,763	(46,762)	22,549	42,945	(95,325)
Dividend paid	(55,000)	—	—	—	—
Net cash generated from/(used in) financing activities	44,828	(92,338)	65,799	98,835	(5,292)
Net increase/(decrease) in cash and cash equivalents	14,241	(30,941)	11,840	67,179	9,223
Cash and cash equivalents at beginning of year/period	28,278	43,760	17,074	17,074	28,261
Effect of exchange rate changes on cash and cash equivalents	1,241	4,255	(653)	(9,576)	—
Cash and cash equivalents at end of year/period	43,760	17,074	28,261	74,677	37,484

NOTES TO THE UNAUDITED COMBINED FINANCIAL INFORMATION FOR THE YEARS ENDED 31 MARCH 2008, 2009 AND 2010 AND THE EIGHT MONTHS ENDED 30 NOVEMBER 2009 AND 2010

1. GENERAL INFORMATION

On 28 January 2011, the Company entered into a sale and purchase agreement with Brisk Mark Holdings Limited ("BMH") and BMH's shareholders, with regard to the disposal of the entire issued share capital of Lung Cheong (BVI) Holdings Limited ("LC(BVI)"), together with its subsidiaries (hereinafter referred to the "Disposal Group") and any loans owing by Disposal Group to the Company and its subsidiaries excluding the Disposal Group, for a consideration of HK$18 million, subject to adjustments. Upon completion of the Disposal, the Disposal Group will cease to be the subsidiaries of the Company.

2. BASIS OF PRESENTATION OF THE UNAUDITED COMBINED FINANCIAL INFORMATION

The unaudited combined financial information has been prepared in accordance with the paragraph 68(2)(a)(i) of Chapter 14 of the Rules Governing the Listing of Securities on The Stock Exchange of Hong Kong Limited, and solely for the purpose of inclusion in the circular to be issued by the Company in connection with the Disposal.

The amounts included in the unaudited combined financial information for the three years ended 31 March 2010 and the eight months ended 30 November 2010 (the "Relevant Periods") have been prepared using the same accounting policies of the Company and its subsidiaries adopted in the preparation of its consolidated financial statements for the respective years and periods in the Relevant Periods, which conform with Hong Kong Financial Reporting Standards issued by the Hong Kong Institute of Certified Public Accountants.

The unaudited combined financial information does not contain sufficient information to constitute a complete set of financial statements as defined in HKAS 1 "Presentation of Financial Statements". In addition, for the purpose of the preparation of the unaudited combined financial information, the comparative financial information in respect of the year ended 31 March 2007 has not been presented.

In preparing the unaudited combined financial information, the directors of LC(BVI) have given due and careful consideration to the LC(BVI)'s future liquidity in light of the net liabilities position of approximately HK$29,470,000, HK$113,724,000 and HK$270,784,000 as at 31 March 2009 and 2010, and 30 November 2010 respectively. The unaudited financial information has been prepared on a going concern depend on the continuing supports of the lenders and new shareholders to provide financing and the success of the new management's efforts to improve the profitability and operating cash flows.

1. INDEBTEDNESS STATEMENT

At the close of business on 31 January 2011, being the latest practicable date for the purpose of this statement of indebtedness prior to the printing of this circular, the Group had outstanding bank borrowings of approximately HK$347,748,000 comprising unsecured term loans of approximately HK$100,231,000, unsecured trust receipt loans of approximately HK$57,855,000, secured term loans of approximately of HK$160,832,000 and secured trust receipt loans of approximately HK$28,830,000.

At 31 January 2011, the unsecured term loans of approximately HK$47,304,000 were guaranteed by two directors of the Company and the secured term loans and secured trust receipt loans were secured by (a) leasehold land and land use rights and land and buildings with carrying amount of approximately HK$155,832,000; (b) bank deposits of approximately HK$8,690,000; and (c) personal guarantee by a director of the Company. In addition, as at 31 January 2011, the Group had outstanding unsecured loan from the immediate holding company of HK$50,000,000 and obligations under finance leases of approximately HK$6,849,000 of which were secured by property, plant and equipment with carrying amount of approximately HK$16,514,000.

Save as aforesaid or as otherwise disclosed herein, the Group did not have any debt securities issued and outstanding, or authorized or otherwise created but unissued, any term loans (secured, unsecured, guaranteed or not), any other borrowings or indebtedness in the nature of borrowing including bank overdrafts and liabilities under acceptances (other than normal trade bills) or acceptance credits or hire purchase commitments (whether secured or unsecured, guaranteed or not), any mortgages or charges, or other material contingent liabilities or guarantee at the close of business on 31 January 2011.

Foreign currency amounts have been translated at the approximate exchange rates prevailing at the close of business on 31 January 2011.

2. WORKING CAPITAL

The Directors are of the opinion that, after taking into account the Group's internal resources, cash flow from operations and cash proceed from the Disposal, the Group, after completion for the Disposal, will have sufficient working capital to satisfy its present requirements for the next twelve months from the date of this circular in the absence of unforeseen circumstances.

3. FINANCIAL AND TRADING PROSPECTS

Globally, the toy industry is recuperating after the world economy cooled and demand for non-essential items fell. We continue focus our resources and efforts in two categories of customers: growing with core customers, providing consistent support during the time of uncertainties, and expanding the base of strategic customers, providing outlets for continued investment into innovative product development.

To reduce over reliance on any particular geographical regions, the Remaining Group steps up its business development into new markets, specifically with new distributors of Kid Galaxy products in European markets. The Remaining Group has obtained the license of Fisher Price brand for Kid Galaxy's pre-school toys for the US market which has been released in the recent toy fairs as part of the strategy to expand our distribution channels. Europe is an important growth market that the Remaining Group will capitalise on. Our distribution network in Europe has expanded with the increasing number of exhibitions organized in order to promote local sales. In addition to the traditional department stores, the Remaining Group is opening new sales channels such as supermarkets, wholesalers, Internet and other speciality retailers. With Kid Galaxy products marketing programs in place, product line is expected to grow and its revenue will be fostered by more US and international promotions.

The Remaining Group continues its belief about the importance of investing in research and development. Ongoing resources are being allocated to the development of wireless and innovative products to secure our strength and leadership. The Remaining Group assesses the supply and demand of our target markets constantly and is equipped to pro-actively regulate capacity. The Remaining Group will endeavour to trim overheads significantly, improve product creativity and control costs while the toy industry rides out the storm.

The Remaining Group's alternate production base in Indonesia currently enjoys favorable advantages over Mainland China and other Asian countries such as lower labour costs, plentiful supply of labour and competitive local currencies, the Rupiah. If the positive environment continues, the Remaining Group looks forward to optimistic growth in Indonesia. The management of the Remaining Group remains confident of the Remaining Group's ability to seize this unique opportunity to consolidate its market position amid exit of weaker players.

Management expected to have improvements in the financial results of the Remaining Group in the current financial year when compared with the year ended 31 March 2010. After Completion, in the absence of any unforeseeable circumstances, the Remaining Group will have sufficient internal resources to finance further development. A task group will continue actively looking into the possibilities of mergers, acquisitions and divestments to broaden the income stream for the Remaining Group. The Remaining Group can now be more focused and allocate more resources in the research and development of more OBM products and expand marketing tactics for Kid Galaxy products, and the Remaining Group may further expand and improve its Indonesian facilities to cope with the growing demand of labour intensive products and to establish a solid foundation for the future development.

4. MANAGEMENT DISCUSSION AND ANALYSIS OF THE REMAINING GROUP

For the period of eight months ended 30 November 2010

Results

For the eight months ended 30 November 2010, the Remaining Group's turnover increased to approximately ("approx") HK$424 million, compared with approx HK$293 million in the corresponding period last year. Gross profit decreased approx 4% compared to previous corresponding period while net profit of the Remaining Group was approx HK$12 million for the period of eight months ended 30 November 2010.

For the eight months ended 30 November 2010, with the Remaining Group's major export destinations being United States ("US") of America and Canada (collectively "North America"), Europe and Japan, and the markets remain competitive and challenging. The after effects of the financial tsunami and muted worldwide economies have made customers conservative in placing orders in particular the premium priced electronic toys segment. Fewer sales of premium priced items were mainly due to economic uncertainties affecting the products of our customers in these markets. However, amid this uncertain business environment, the Remaining Group's overall financial position for the period of eight months ended 30 November 2010 remained stable.

During the period of eight months ended 30 November 2010, North America continued to be the largest export area for the Remaining Group, accounting for approx 50% of total turnover. Other significant overseas markets for the Remaining Group included Europe and Japan, which accounted for approx 27% and approx 5% respectively.

The Remaining Group's recent investments into the development of lower priced innovative electronic and plastic toys have been rewarded in this financial period as more of the products shipped were mainly less complex, medium to low priced products accounting for approx 59% of sales in this period. Shipment of radio control toys continued to be low, therefore the Remaining Group's dedicated efforts toward the radio control ("R/C") toy business segment continued to be affected. Overall, the Remaining Group's R/C toy business accounted for approx 38% of total sales during the period of eight months ended 30 November 2010, lower than the approx 65% recorded in this segment as compared with that in the previous financial period.

The Remaining Group continued to strive for profitability under the strong value of Renminbi ("RMB"), weakness of the US$, high and unstable crude oil price and general increase in costs of materials. The Remaining Group had to weather the limited scope of price increases due to the economic slowdown in our major markets. Amid this competitive business environment and relatively higher cost of goods sold, the Remaining Group's gross profit was approx HK$70 million and gross margin for the period was approx 17% whereas gross profit of HK$73 million and gross margin of approx 25% in the corresponding period ended 30 November 2009.

Due to the challenging environment in the first half of financial year 2010/2011 ("FY10/11"), it was necessary to increase production capacity at the Remaining Group's South East Asian plant in Indonesia to alleviate partial cost pressure. The Serang factory in Indonesia, at peak production stage during the period of eight months ended 30 November 2010, was employing record number of seasonal contract labour. The revenue of Serang factory in Indonesia, during the period of eight months ended 30 November 2010 accounted for approx 16% of the sales of the Remaining Group.

Capital structure, liquidity and financial resources of the Remaining Group

As at 30 November 2010, the Remaining Group had total assets of HK$212 million which was financed by shareholders' fund, major shareholder's loan, payables, amounts due to disposed group and financial institutions credit facilities. The Remaining Group mainly generated revenue and incurred costs in HK$, US$ and Rupiah and did not have any related hedges for eight months ended 30 November 2010. No financial instruments were used for hedging purpose. The Remaining Group adopted a prudent funding and treasury policy and managed the fluctuation explosures of exchange rate and interest rate on specific transactions.

Bank balances and cash of the Remaining Group as at 30 November 2010 amounted to about HK$28 million, which consists of approx HK$19 million in HK dollars, approx HK$7 million in US dollars and approx HK$2 million in Rupiah, none of which had been pledged to banks. As at 30 November 2010, the Remaining Group's total borrowings including shareholders loan of HK$50 million amounted to about HK$121 million with about HK$69 million repayable on demand or within one year and about HK$52 million repayable after one year, All borrowings denominated in Hong Kong and bore interest at floating rates. The gearing ratio calculated as the total borrowings less cash and cash balances and divided by Shareholder's equity, was 138%.

As at 30 November 2010, the Remaining Group recorded total current assets of approx HK$161 million and total current liabilities of approx HK$168 million. The current ratio of the Remaining Group, calculated by dividing the total current assets by total current liabilities was 96%. The Remaining Group recorded a decrease in shareholders' funds from approx HK$201 million as at 31 March 2010 to approx HK$67 million as at 30 November 2010. The decrease was mainly resulting from loss from operations and impairment on revaluation of properties.

The result led to inability to meet certain financial covenants of a term loan. The Remaining Group's operation relied upon the support from financial institutions. Facilities are provided on the basis of which certain financial and operational undertakings are complied with. Management been liaising with these financial institutions to obtain the relief of certain financial covenants and planning for the full repayment of a term loan facility from alternate financing methods or disposal of non strategic assets. In the opinion of the Board, the Remaining Group has sufficient financial resources to meet the future operational needs. Owing to the full repayment of a term loan facility on 21 February 2011, the obligations under the financial covenants of such term loan shall cease and any non compliances with the financial covenants and/or undertaking are no longer applicable.

Charges on assets

As at 30 November 2010, the Remaining Group did not have fixed assets and current assets which were pledged.

Material acquisition and disposal

For the eight months ended 30 November 2010, the Remaining Group had no significant investment held.

Contingent liabilities

As at 30 November 2010, the Remaining Group had contingent liabilities in respect of guarantee given to banks and financial institutions for general facilities amounting to HK$382 million.

Commitments

As at 30 November 2010, the Remaining Group had no future plans for material investment or capital assets.

Employees

As at 30 November 2010, the Remaining Group had approx 1,000 employees and contract workers based in Hong Kong, the Indonesian factory and the US office respectively. The number of employees of the Remaining Group varies from time to time depending on production needs and they are remunerated based on industry practices.

For the year ended 31 March 2010

Results

The financial turmoil that started in later part of 2008 continued to affect the Remaining Group's performance despite our expansion and consistent investment into the high-end electronic toys and non-toys product segments resulting in a slight sales increase of approx 3% to approx HK$385 million for the year ended 31 March 2010.

Cost of goods sold ("COGS"), consist of slight increases in purchases compared to previous financial year, consisted of relatively high material costs, written off and impaired inventories, escalated administrative costs and strong RMB which affect the overall costs of the Remaining Group which main revenue currencies are United States dollars ("US$") and Hong Kong dollars ("HK$") and set off the impacts of measures implemented to reduce costs. The COGS were approx HK$320 million in financial year 2009/2010 ("FY09/10") compared with approx HK$314 million in financial year 2008/2009 ("FY08/09").

The decreased in sales of high margin products continued to apply pressure on gross profit. It increased to approx HK$64 million for the year versus approx HK$59 million in FY08/09. Gross profit margin however, was steady at approx 17% (FY08/09: 16%).

Amid the higher turnover, selling and distribution expenses for the year ended 31 March 2010 was approx HK$21 million, representing a decrease of approx 10% against approx HK$24 million in the previous year. Commission paid on sales, marketing and promotional expenses, transportation and distribution expenses were in line with turnover.

General and Administrative ("G&A") expenses for the year ended 31 March 2010 amounted to approx HK$43 million (FY08/09: HK$61 million) which was approx 11% of sales (FY08/09: 16%). G&A included staff costs and depreciation of fixed assets.

Exceptional costs during the financial period included impairment on property, plant and equipment amounted to approx HK$12 million. Impairment was made on molds, leasehold improvements, plant and equipment not fully utilized during the FY09/10 as well as uncertain utilization going forward.

Finance costs include interest expenses, bank charges plus fees incurred for trade facilities and the remaining term loan showed a higher overall interest expense for the year ended 31 March 2010. Finance cost was approx HK$8 million in FY09/10 compared to approx HK$3 million in FY08/09.

All in all, the Remaining Group recorded loss attributable to owners of approx HK$10 million in FY09/10 compared to a loss of approx HK$50 million in FY08/09.

Capital structure, liquidity and financial resources of the Remaining Group

Shareholders' funds as at 31 March 2010 were approx HK$201 million, approx 33% less than approx HK$300 million in the previous year. The net assets per share were lowered by approx 40% from approx HK12 cents to approx HK7 cents because of the loss incurred in FY09/10. As at 31 March 2010, the Remaining Group had a total of 2,957,757,997 shares in issue.

As at 31 March 2010, the Remaining Group had total assets of HK$307 million which was financed by shareholders' fund, major shareholder's loan, payables, amounts due to disposed group and financial institutions credit facilities. The Remaining Group mainly generated revenue and incurred costs in HK$, USD$ and Rupiah and did not have any related hedges for period ended 31 March 2010. No financial instruments were used for hedging purpose. The Remaining Group adopted a prudent funding and treasury policy and managed the fluctuation exposures of exchange rate and interest rate on specific transactions.

Bank balances and cash of the Remaining Group as at 31 March 2010 amounted to about HK$16 million, which consists of approx HK$12 million in HK dollars, approx HK$3 million in US dollars and approx HK$1 million in Rupiah, none of which had been pledged to banks. As at 31 March 2010, the Remaining Group's total borrowings including shareholders loan of HK$50 million amounted to about HK$160 million with about HK$106 million repayable on demand or within one year and about HK$52 million repayable after one year, All borrowings denominated in Hong Kong and bore interest at floating rates. The Remaining Group's gearing ratio, being net debt to equity was approx 72%.

Fixed assets reduced in value by approx HK$16 million to approx HK$33 million as at 31 March 2010. Property, plant and equipment under non-current assets decreased from approx HK$49 million to approx HK$33 million. The reduction in value were attributable mainly to depreciation of land and buildings as well as impairment of property, plant and equipment as a result of the Remaining Group's periodic management assessment of the current state of the toy manufacturing industry and overall under utilization of production facilities. There were no formal appraisal of any of the Remaining Group's properties in Hong Kong, Indonesia and Mainland China as at 31 March 2010.

Goodwill associated with Kid Galaxy's acquisition and club memberships made up approx HK$19 million of intangible assets. No additions, revaluations or adjustments were made during the year thus the HK$19 million reflect the book value of goodwill and known market values of certain club memberships owned by the Remaining Group as at 31 March 2010.

The effort to control inventories continued and the slight increase in sales led to an approx 2% decrease in purchasing activities during the FY09/10. The uncertaint effect of the world's economies during the FY09/10 caused the Remaining Group to reduce trade with a few customers while certain customers reduced orders. Impairments were made for these reductions, suspensions, delays and cancellations of orders as well as for obsolete, damaged and specific materials ordered for discontinued products, cancelled projects and non-complied inventories. Inventory recorded a decrease of approx 16% compared to previous year end date, value of stock in warehouse decreased from approx HK$39 million at the end of FY08/09 to approx HK$33 million as at 31 March 2010.

Trade receivables were steady as at 31 March 2010 at approx HK$36 million, compared with approx HK$37 million at the previous year. Net impairment of trade and other receivables amounting to approx HK$0.9 million was made during the FY09/10 due to certain customers being affected by the current financial tsunami.

Excluding Kid Galaxy's Own Brand Manufacturing ("OBM") revenue, the top 5 customers accounted for approx 58% of the Remaining Group's turnover, compared to 53% in the previous financial year. Management regularly evaluates the Remaining Group's customers, assesses their known financial position and credit risks. In view of the current financial uncertainties affecting most customers, Management plans to control risks by working with financially proven customers with good trading records. The Remaining Group dealt with different revenue and expense currencies during the FY09/10 such as HK$, US$ as well as Indonesian Rupiah.

Trade payables recorded a decrease against the previous year. Trade, other payables and accrued charges were approx HK$16 million as at 31 March 2010 compared with approx HK$31 million as at 31 March 2009. The decrease in trade payables consisted mainly of reduction in purchases, which also indicated shortened credit terms from suppliers.

Borrowings under current liabilities decreased from approx HK$134 million as at 31 March 2009 to approx HK$100 million at 31 March 2010, attributable mainly to periodic repayment of a term loan. Borrowings consist of loans from banks and financial institutions.

The Remaining Group's continued operations rely upon the support from financial institutions. Overall the result led to inability to meet certain financial covenants of the term loan leading to the classification of long term portion of a term loan to short term loan. Management been liaising with financial institutions to obtain the relief of these covenants.

On 18 September 2009, the Company entered into a Placing Agreement in which the Placing Agent has procured to place 466,958,000 existing shares at a price of HK$0.15 per share. The subscription shares of 466,958,000 shares represent approx 18.75% of the existing issued share capital of the Company as at the date and approx 15.79% of the issued share capital of the Company as enlarged by the subscription. The net proceeds of approx HK$68 million were used for the general working capital of the Group as set out in the announcement dated 18 September 2009.

The Remaining Group continued to review the viability of certain non core assets, maximize utilization of its core assets and develop appropriate banking facilities to finance anticipated future growth in sales. The Remaining Group had sufficient financial resources to meet operational needs and financial obligations in the coming year.

Charges on assets

As at 31 March 2010, the Remaining Group did not have fixed assets and current assets which were pledged.

Material acquisition and disposal

As at 31 March 2010, the Remaining Group had no significant investment plans.

Contingent liabilities

As at 31 March 2010, the Remaining Group had contingent liabilities in respect of guarantee given to banks and financial institutions for general facilities amounting to HK$382 million.

Commitments

As at 31 March 2010, the Remaining Group had no future plans for material investment or capital assets.

Employee

As at 31 March 2010, the Remaining Group had approx 980 employees and contract workers based in Hong Kong, the Indonesian factory and the US office respectively. The Remaining Group has seasonal fluctuations in the numbers of workers employed in its production plants, while the number of management and administrative staff remains stable. The number of employees of the Remaining Group varies from time to time depending on production needs and they are remunerated based on industry practices.

For the year ended 31 March 2009

Results

The financial turmoil in later part of 2008 affected the Remaining Group's strategies and it's position in the high end electronic toys and non-toys product segments but the allocation of invoicing customers from one subsidiary from Disposed Group to another subsidiary within the Remaining Group, resulting in a sales increase of approximately ("approx ") 55% to approx HK$373 million for the year ended 31 March 2009 ("FY08/09").

Cost of goods sold ("COGS"), consisted of relatively high material costs, written off and impaired inventories and appreciation of RMB which further affect the sales of the Remaining Group which main revenue currencies are United States dollars ("US$") and Hong Kong dollars ("HK$") and set off the impacts of measures implemented to reduce costs. COGS were approx HK$314 million in FY08/09 compared with approx HK$157 million in financial year 2007/2008 ("FY07/08").

Despite an increase in Remaining Group's sales, gross profit was lowered to approx HK$59 million for the year versus approx HK$84 million in FY07/08. Gross profit margin decreased to approx 16% (FY07/08: approx 35%).

Selling and distribution expenses for the year ended 31 March 2009 was approx HK$24 million, representing an increase of approx 21% against approx HK$20 million in the previous year. Commission payment on sales, marketing and promotional expenses and transportation and distribution expenses formed major portion of the expense.

General and Administrative ("G&A") expenses for the year ended 31 March 2009 amounted to approx HK$61 million. Increase in overall G&A was more than doubled over previous year (FY07/08: approx HK$20 million) due to increased in staff costs, depreciation of fixed asset, net treatment of foreign currency exchange, insurance, compliance and testing expenses.

Exceptional costs during the financial period include revaluation deficit on land and buildings, impairment on property, plant and equipment, allowance for doubtful debts to the amount of approx HK$15 million and impairment of certain trademarks and licenses amounted to approx HK$6 million.

Finance costs include interest expenses, bank charges plus fees incurred for trade facilities and the remaining term loan showed a lower overall interest expense for the year ended 31 March 2009. Finance cost was approx HK$3 million in FY08/09 compared to approx HK$3 million in FY07/08. All in all, the Remaining Group recorded a loss of approx HK$50 million in FY08/09 compared to a profit of approx HK$44 million in FY07/08.

Capital structure, liquidity and financial resources of the Remaining Group

Shareholders' funds as at 31 March 2009 were approx HK$300 million, approx 47% less than approx HK$563 million in the previous year. The net assets per share were lowered by approx 47% from approx HK23 cents to approx HK12 cents because of the loss incurred in FY08/09. As at 31 March 2009, the Remaining Group had a total of 2,464,799,997 shares in issue.

As at 31 March 2009, the Remaining Group had total assets of HK$410 million which was financed by shareholders' fund, major shareholder's loan, payables, amounts due to disposed group and financial institutions credit facilities. The Remaining Group mainly generated revenue and incurred costs in HK$, USD$ and Rupiah and did not have any related hedges for period ended 31 March 2009. No financial instruments were used for hedging purpose. The remaining Group adopted a prudent funding and treasury policy and managed the fluctuation exposures of exchange rate and interest rate on specific transactions.

Bank balances and cash of the Remaining Group as at 31 March 2009 amounted to about HK$10 million, which consists of approx HK$7 million in HK dollars, approx HK$2 million in US dollars and approx HK$1 million in Rupiah, none of which had been pledged to banks. As at 31 March 2009, the Remaining Group's total borrowings including shareholders loan of HK$50 million amounted to about HK$200 million with about HK$140 million repayable on demand or within one year and about HK$60 million repayable after one year, All borrowings denominated in Hong Kong and US dollars, which consists of approx HK$181 million in HK dollars and approx HK$19 million in US dollars, and bore interest at floating rates. The Remaining Group's gearing ratio, being net debt to equity was approx 63%.

Fixed assets increased in value by approx HK$37 million to approx HK$49 million as at 31 March 2009 being property, plant and equipment under non-current assets. The increased in value were attributable mainly to additional plant and equipment investment. There was a disposal of the Kid Galaxy showroom in Hong Kong by the Remaining Group in the amount of approx HK$8 million for the year ended 31 March 2009.

Goodwill associated with Kid Galaxy's acquisition and club memberships made up approx HK$19 million of intangible assets. No adjustments were made from previous year's approx HK$19 million reflecting the current market values of certain club memberships owned by the Remaining Group as at 31 March 2009.

The effort to control inventories continued despite increased in sales, led to an approx 14% decrease in purchasing activities during the FY08/09. The uncertainties effect of the world's economies during the second half of FY08/09 caused the Remaining Group to halt trades with few customers while certain customers reduced orders. Provisions were made for these terminations, reductions, suspensions, delays and cancellations of orders as well as for obsolete, damaged and non-complied inventories. Inventory value decreased from approx HK$46 million at the end of FY07/08 to approx HK$40 million as at 31 March 2009.

Trade receivables recorded an approx 18% decrease as at 31 March 2009 to approx HK$37 million, compared with approx HK$45 million at the previous year. Allowance for doubtful debts of approx HK$15 million was made during the FY08/09 due to certain customers being affected by the current financial tsunami. Management regularly evaluates the Remaining Group's customers, assesses their known financial position and credit risks but the financial turmoil leads to higher risk for doubtful debts. In view of the ongoing uncertain economic climate, management attempts to have more customers covered by export credit insurance despite additional insurance expenses.

The was a reduction in cash and bank balances were partly applied in repaying loan during the FY08/09. The Remaining Group dealt with different revenue and expenses currencies during the FY08/09 such as HK$, US$ as well as Indonesian Rupiah.

The result led to inability to meet certain financial covenants of the term loan, thus the re-classification of long term portion of the term loan of approx HK$69 million to short term loan as at 31 March 2009 amounting to HK$134 million.

Trade payables recorded an increase against the previous year. Trade, other payables and accrued charges were approx HK$31 million as at 31 March 2009 compared with approx HK$15 million as at 31 March 2008. The trade payables consisted mainly of purchases in line with sales.

Charges on assets

As at 31 March 2009, the Remaining Group did not have fixed assets and current assets which were pledged.

Material acquisition and disposal

The Remaining Group's alternate production base in Indonesia currently enjoys favorable advantages over Mainland China and other Asian countries such as lower labour costs, plentiful supply of labour and competitive local currencies, the Rupiah. The positive environment led the Remaining Group to the acquisition of the remaining 40% equity interests of the subsidiary, which had been completed by issuing 26,000,000 shares of the Company, details of which are set out in the announcement dated 25 September 2008. Save as disclosed herein this section. As at 31 March 2009, the Remaining Group had no other significant investment plan.

Contingent liabilities

As at 31 March 2009, the Remaining Group had contingent liabilities in respect of guarantee given to banks and financial institutions for general facilities amounting to HK$382 million.

Commitments

As at 31 March 2009, the Remaining Group had no future plans for material investment or capital assets.

Employees

As at 31 March 2009, the Remaining Group had approx 270 employees based in Hong Kong, the Indonesian factory and the USA office respectively. The number of employees of the Remaining Group varies from time to time depending on production needs and they are remunerated based on industry practices.

For the year ended 31 March 2008

Results

The Remaining Group's turnover was approx HK$241million for the year ended 31 March 2008. The escalation of material costs and steep appreciation of the RMB against revenue currencies such as US and HK dollars reflected in the costs of sales, fully offset gains in sales and the impacts of measures implemented to enhance productivity.

Increased R/C sales, ODM products and incremental increases in Kid Galaxy OBM sales contributed to supporting the Remaining Group's gross margin despite heavy pricing pressure, resulting in gross profit at HK$84 million for the year. Gross profit margin was 35%. The Remaining Group continued to rely on higher ODM and OBM sales to improve and maintain high gross margin.

Selling and distribution expenses for the year ended 31 March 2008 amounted to HK$20 million, mainly attributable to commission payments and marketing and promotional expenses. Transportation and distribution expenses were pushed up by higher fuel costs during the financial period. General and Administrative ("G&A") expenses for the year ended 31 March 2008 amounted to HK$20 million or approx 8% of turnover. The main constituents of G&A expenses were staff costs, depreciation of fixed asset and utilities expenses. Additional costs during the financial period included the charge of the market value of share options when they were granted.

Overall, the Remaining Group recorded an operating profit of HK$44 million after a write back of a provision for litigation payments provided in the previous financial year.

Finance costs inclusive of interest expenses, bank charges plus fees incurred for a new term loan for the year ended 31 March 2008 was approx HK$3 million in financial year 2007/2008 ("FY07/08"). The management believes the current tight credit environment may continue and interest rates could turn on the upward trend.

All in all, the Remaining Group achieved net profit attributable to shareholders of HK$44 million in FY07/08. The Directors, however, did not recommend any final dividend payment for the year ended 31 March 2008. They see the need to retain funds to support implementation of business plans and as buffer considering the economic climate then.

Capital structure, liquidity and financial resources of the Remaining Group

Shareholder funds as at 31 March 2008 were HK$563 million, 22% more than HK$461 million in the previous year. The net assets per share were lowered by 64% from HK64 cents to HK23 cents because of the issue of 96,000,000 new shares on 31 May 2007 to independent external investors and result of a bonus issuance during FY07/08. The HK$55 million proceeds were used to repay previous term loan and as working capital. As at 31 March 2008, the Remaining Group had a total of 2,464,799,997 shares in issue.

As at 31 March 2008, the Remaining Group had total assets of HK$646 million which was financed by shareholders' fund, major shareholder's loan, payables, amounts due to disposed group and financial institutions credit facilities. The Remaining Group mainly generated revenue and incurred costs in HK$, USD$ and Rupiah and did not have any related hedges for period ended 31 March 2008. No financial instruments were used for hedging purpose. The remaining Group adopted a prudent funding and treasury policy and managed the fluctuation exposures of exchange rate and interest rate on specific transactions.

Bank balances and cash of the Remaining Group as at 31 March 2008 amounted to about HK$8 million, which consists of HK$5 million in HK dollars, approx HK$1 million in US dollars and approx HK$2 million in Rupiah, none of which had been pledged to banks. As at 31 March 2008, the Remaining Group's total borrowings including shareholders loan of HK$50 million amounted to about HK$233 million with about HK$63 million repayable on demand or within one year and about HK$170 million repayable after one year, All borrowings denominated in Hong Kong and US dollars,which consists of approx HK$211 million in HK dollars and approx HK$22 million in US dollars, and bore interest floating rates. The Remaining Group's gearing ratio, being net debt to equity was approx 40%.

Non-current assets were approx HK$61 million as at 31 March 2008. Property, plant and equipment under non-current assets were HK$37 million, consisting mainly of the Indonesian factory plus annual moulds investment for ODM and OBM businesses. Goodwill associated with Kid Galaxy's acquisition and club membership made up HK$19 million of intangible assets.

Management efforts to control inventories continued, but anticipating more orders and rise in raw material prices, the Remaining Group purchased certain critical materials before year end date. Some existing customers delayed shipment of products because of change in product specifications and sales plans resulting in inventory amounting to HK$46 million as at 31 March 2008.

Trade receivables, other receivables, deposits and prepayment, consisted mainly of deposits and prepayment for new equipment, moulds and materials for meeting production needs in the coming financial year, at 31 March 2008 were approx HK$45 million. The management regularly evaluate the Remaining Group's customers, assess their known financial position and credit risks. Few clients were covered by limited export credit insurance in view of uncertain economic climate.

Trade payables and other payables were HK$15 million as at 31 March 2008. The trade payables consisted mainly of materials purchased for current use and advanced purchases to protect margins.

Borrowings under current liabilities, was mainly used to finance account receivables and inventories were HK$63 million as at 31 March 2008, attributable mainly to availability of a new term loan facility allowing the Remaining Group to repay certain portion of the previous short term loan during the financial year. Major shareholder's loan of HK$50 million also made up part of the borrowings as at 31 March 2008. Details of the shareholder's loan was set out in the announcement of the Company dated 10 March 2008. Long term bank loans due within the next 12 months amounted to HK$120 million as at 31 March 2008.

On 31 May 2007, the Company entered into a top up placement arrangement involving the issue of 96,000,000 new shares raising in all approx HK$55 million. A term loan facility of HK$200 million ("The Facility Agreement") secured by the Group on 21 August 2007 also reflected the confidence of the banking sector in the Group. The term loan was used to repay the remaining balance of a previous HK$300 million term loan. The controlling shareholders of the Company also contributed HK$50 million in form of shareholder's loan in early March 2008 to reduce the term loan facility.

Charges on assets

As at 31 March 2008, the Remaining Group had fixed assets which was pledged.

The Facility Agreement is granted for a term of 42 months and is guaranteed by the Certain subsidiaries of the Remaining Group. Save for the guarantee, the Facility is secured by legal charges over the Remaining Group's Hong Kong Property.

Material acquisition and disposal

As at 31 March 2008, the Remaining Group had no significant investment plans.

Contingent liabilities

As at 31 March 2008, the Remaining Group had no significant contingent liabilities or outstanding litigation.

Commitments

As at 31 March 2008, the Remaining Group had provisions or covenants in the Facility Agreement requiring, amongst other things, (a) the Major Shareholders in aggregate shall beneficially own at least 45% of the issued share capital of the Company, and manage and control the Group; and each of the Major Shareholders shall individually and beneficially own at least 10% of the issued share capital of the Company during the term of the Facility Agreement; and (b) the Company has to dispose of the Hong Kong Property on or before 31 December 2008 for partial repayment of the Facility if the outstanding Loan is not reduced to less than HK$120 million. Apart from the aforesaid, the Remaining Group had no future plans for material investment or capital assets.

Employees

As at 31 March 2008, the Remaining Group had approx 271 employees based in the Hong Kong headquarters, the Indonesian factory and the US office respectively. The number of people employed by the Remaining Group varies from time to time depending on production needs and staff are remunerated based on industry practices.

1. ACCOUNTANT'S REPORT ON THE UNADUITED PRO FORMA FINANCIAL INFORMATION ON THE REMAINING GROUP

The following is the full text of a report from the Company's reporting accountant, BDO Limited, Certified Public Accountants, Hong Kong for incorporation in this Circular.

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25 March 2011

TO THE BOARD OF DIRECTORS OF LUNG CHEONG INTERNATIONAL HOLDINGS LIMITED

We report on the unaudited pro forma financial information of Lung Cheong International Holdings Limited (the "Company") and its subsidiaries (hereinafter collectively referred to the "Group"), comprising unaudited pro forma consolidated statements of financial position as at 31 March 2010, unaudited pro forma consolidated statement of comprehensive income and unaudited pro forma consolidated statement of cash flows for the year ended 31 March 2010, which has been prepared by the directors of the Company for illustrative purposes only, to provide information about how the disposal of the Group's entire equity interest in Lung Cheong (BVI) Holdings Limited and its subsidiaries (the "Disposal Group") (the Group excluding the Disposal Group hereinafter referred to as the "Remaining Group") might have affected the financial information presented, for inclusion in Appendix III to the circular dated 25 March 2011 (the "Circular").

The basis of preparation of the unaudited pro forma financial information is set out on the pages III-3 to III-9 of the Circular.

Respective responsibilities of directors of the Company and reporting accountants

It is the responsibility solely of the directors of the Company to prepare the unaudited pro forma financial information in accordance with Rule 4.29 of the Rules Governing the Listing of Securities on the Stock Exchange of Hong Kong Limited (the "Listing Rules") and with reference to Accounting Guideline 7 "Preparation of Pro Forma Financial Information for Inclusion in Investment Circulars" issued by the Hong Kong Institute of Certified Public Accountants.

It is our responsibility to form an opinion, as required by Rule 4.29(7) of the Listing Rules, on the unaudited pro forma financial information and to report our opinion to you. We do not accept any responsibility for any reports previously given by us on any financial information used in the compilation of the unaudited pro forma financial information beyond that owed to those to whom those reports were addressed by us at the dates of their issue.

Basis of opinion

We conducted our engagement in accordance with Hong Kong Standard on Investment Circular Reporting Engagements 300 "Accountants' Reports on Pro Forma Financial Information in Investment Circulars" issued by the Hong Kong Institute of Certified Public Accountants. Our work consisted primarily of comparing the unadjusted financial information with source documents, considering the evidence supporting the adjustments and discussing the unaudited pro forma financial information with the directors of the Company. This engagement did not involve independent examination of any of the underlying financial information.

We planned and performed our work so as to obtain the information and explanations we considered necessary in order to provide us with sufficient evidence to give reasonable assurance that the unaudited pro forma financial information has been properly compiled by the directors of the Company on the basis stated, that such basis is consistent with the accounting policies of the Group and that the adjustments are appropriate for the purpose of the unaudited pro forma financial information as disclosed pursuant to Rule 4.29(1) of the Listing Rules.

The unaudited pro forma financial information is for illustrative purpose only, based on the judgements and assumptions of the directors of the Company, and because of its hypothetical nature, does not provide any assurance or indication that any event will take place in future and may not be indicative of:

— the financial position of the Group as at 31 March 2010 or any future date; or

— the results and cash flows of the Group for the year ended 31 March 2010 or any future period.

Opinion

In our opinion:

(a) the unaudited pro forma financial information has been properly compiled by the directors of the Company on the basis stated;

(b) such basis is consistent with the accounting policies of the Group; and

(c) the adjustments are appropriate for the purposes of the unaudited pro forma financial information as disclosed pursuant to Rule 4.29(1) of the Listing Rules.

Yours faithfully,
For and on behalf of
BDO Limited
Certified Public Accountants
Hong Kong

NG Wai Man
Practising Certificate Number P05309

2. UNAUDITED PRO FORMA FINANCIAL INFORMATION

Introduction

The following is a summary of an illustrative and unaudited pro forma consolidated statement of financial position, pro forma consolidated statement of comprehensive income and pro forma consolidated statement of cash flows (collectively referred to as the "Pro Forma Financial Information") of the Remaining Group, which have been prepared on the basis of notes set out below for the purpose of illustrating the effect of the proposed disposal (the "Disposal") of the Group's entire equity interest in Lung Cheong (BVI) Holdings Limited and its subsidiaries (collectively referred to as the "Disposal Group"), as if the Disposal was taken place on 31 March 2010 for the pro forma consolidated statement of financial position and as if the Disposal had been taken place at the commencement of the year ended 31 March 2010 for the pro forma consolidated statement of comprehensive income and pro forma consolidated statement of cash flows.

This unaudited Pro Forma Financial Information has been prepared for illustrative purposes only, based on the judgements, estimations and assumptions of the Directors, and because of its hypothetical nature, it may not give a true picture of the financial position of the Group as at 31 March 2010 or at any future date or the results and cash flows of the Group for the year ended 31 March 2010 or for any future period.

The unaudited Pro Forma Financial Information of the Remaining Group should be read in conjunction with the audited consolidated financial information of the Group for the year ended 31 March 2010 as disclosed in the 2010 annual report of the Company and other financial information included elsewhere in this Circular.

(I) Unaudited pro forma consolidated statement of financial position of the Remaining Group

The unaudited pro forma consolidated statement of financial position of the Remaining Group as at 31 March 2010 has been prepared based on the audited consolidated statement of financial position of the Group as at 31 March 2010, which have been extracted from the annual report of the Company for the year then ended, after making pro forma adjustments relating to the Disposal that are directly attributable to the transaction and factually supportable.

	The Group as at 31 March 2010	Pro forma adjustments		Pro forma The Remaining Group as at 31 March 2010
	HK$'000	*HK$'000*	*HK$'000*	*HK$'000*
		(Note 1)	*(Note 2)*	
Non-current assets				
Leasehold land and land use rights *(Note 3)*	87,708	(87,708)		—
Property, plant and equipment *(Note 3)*	254,762	(222,195)		32,567
Goodwill	19,240	—		19,240
Club memberships	2,001	(2,001)		—
Deferred tax assets	2,097	—		2,097
	365,808	(311,904)		53,904
Current assets				
Inventories	107,120	(73,949)		33,171
Trade and other receivables, deposits and prepayments	47,151	(11,136)		36,015
Tax recoverable	1,836	(1,760)		76
Amount due from Disposal Group	—	357,215	(357,215)	—
Cash and cash equivalents	43,858	(28,261)	242,251	257,848
	199,965	242,109		327,110
Current liabilities				
Trade and other payables and accrued charges	82,537	(66,326)		16,211
Obligations under finance leases	6,330	(259)		6,071
Borrowings	208,743	(108,441)		100,302
Tax payable	6,081	(6,074)		7
	303,691	(181,100)		122,591
Net current (liabilities)/assets	(103,726)	423,209		204,519
Total assets less current liabilities	262,082	111,305		258,423

	The Group as at 31 March 2010	Pro forma adjustments		Pro forma The Remaining Group as at 31 March 2010
	HK$'000	*HK$'000*	*HK$'000*	*HK$'000*
		(Note 1)	*(Note 2)*	
Non-current liabilities				
Obligations under finance leases	4,625	(336)		4,289
Provision for long service payment	1,922	(261)		1,661
Loans from immediate holding company	50,000	—		50,000
Deferred tax liabilities	4,436	(1,822)		2,614
	60,983	(2,419)		58,564
Net assets/(liabilities)	201,099	113,724		199,859
Equity				
Share capital	295,776			295,776
Reserves	(94,677)		(1,240)	(95,917)
Total equity	201,099			199,859

Notes:

(1) The adjustment represents the exclusion of the assets and liabilities attributable to the Disposal Group from the consolidated statement of financial position of the Group as at 31 March 2010, and the reinstatement of the balances between the Remaining Group and Disposal Group as at 31 March 2010, assuming the Disposal was taken place on 31 March 2010.

(2) The adjustment represents the adjusted consideration received by the Remaining Group and the assignment of the amount due to Remaining Group to the purchaser. The adjusted consideration is calculated as follows:

	HK$'000	*HK$'000*
Consideration		18,000
Adjustment to the consideration		
— Net liabilities of the Disposal Group as at 31 March 2010	(113,724)	
— Amount due to Remaining Group as at 31 March 2010	357,215	
Adjusted net assets value	243,491	
Estimated legal and professional fees and related expenses in relation to the Disposal	(1,240)	
Consideration	(18,000)	224,251
Adjusted consideration		242,251

As at 30 November 2010, the net liabilities of the Disposal Group reduced to HK$270,784,000. The financial effect of the Disposal is to be determined based on adjustments in total consideration, estimated legal and professional fees and related expenses in relation to the Disposal and the carrying amount of net asset value of the Disposal Group at the completion date and is therefore subject to change upon completion of the Disposal. The amounts shown in this adjustment are for illustrative purpose only.

(3) In respect of the pro forma consolidated statement of financial position of the Remaining Group, the lease payments of the Indonesia factory for the land portion cannot be allocated reliably between the land and buildings elements, and therefore, the entire lease payments are included in the cost of the land and buildings and classified as property, plant and equipment.

(II) Unaudited pro forma consolidated statement of comprehensive income of the Remaining Group

The unaudited pro forma consolidated statement of comprehensive income of the Remaining Group has been prepared based on the audited consolidated statement of comprehensive income of the Group for the year ended 31 March 2010, which have been extracted from the annual report of the Company for the year then ended, after making pro forma adjustments relating to the Disposal that are directly attributable to the transaction and factually supportable.

	Audited results of the Group for the year ended 31 March 2010	Pro forma adjustments		Pro forma results of the Remaining Group for the year ended 31 March 2010
	HK$'000	*HK$'000*	*HK$'000*	*HK$'000*
		(Note 4)	*(Note 5)*	
Turnover	402,402	(334,106)	316,887	385,183
Cost of sales	(322,586)	318,627	(316,887)	(320,846)
Gross profit	79,816	(15,479)		64,337
Other revenue and other gains and losses	9,102	(19,952)	13,922	3,072
Selling and distribution expenses	(27,433)	6,069		(21,364)
General and administrative expenses	(203,204)	173,994	(13,922)	(43,132)
Impairment on property, plant and equipment	(18,910)	6,790		(12,120)
Impairment on trade and other receivables	(859)	402		(457)
Operating loss	(161,488)	151,824		(9,664)
Finance costs	(11,925)	4,133		(7,792)
Loss before income tax	(173,413)	155,957		(17,456)
Income tax credit	(1,540)	1,178		(362)
Loss for the year	(174,953)	157,135		(17,818)
Other comprehensive income, after tax				
Contribution from holding company	—	(73,535)	73,535	—
Exchange differences arising on translation of foreign operations	7,527	654		8,181
Other comprehensive income for the year	7,527	(72,881)		8,181
Total comprehensive income for the year	(167,426)	84,254		(9,637)

Notes:

(4) The adjustment represents the exclusion of the income and expenses attributable to the Disposal Group from the consolidated statement of comprehensive income of the Group for the year ended 31 March 2010. The adjustment is not expected to have a continuing effect on the Group.

(5) The adjustment represents the reversal of eliminated inter-company transactions between the Disposal Group and the Remaining Group for the year ended 31 March 2010. The adjustment is not expected to have a continuing effect on the Group.

(III) Unaudited pro forma consolidated statement of cash flows of the Remaining Group

The unaudited pro forma consolidated statement of cash flows of the Remaining Group has been prepared based on the audited consolidated statement of cash flows of the Group for the year ended 31 March 2010, which have been extracted from the annual report of the Company for the year then ended, after making pro forma adjustments relating to the Disposal that are directly attributable to the transaction and factually supportable.

	Audited cash flows of the Group for the year ended 31 March 2010	Pro forma adjustments		Pro forma cash flows of the Remaining Group for the year ended 31 March 2010
	HK$'000	*HK$'000*	*HK$'000*	*HK$'000*
		(Note 6)	*(Note 7)*	
Operating activities				
Loss before income tax	(173,413)	155,957		(17,456)
Adjustment for:				
Interest income	(283)	277		(6)
Interest expense	11,925	(4,133)		7,792
Depreciation of property, plant and equipment	45,340	(34,330)		11,010
Provision for severance payments	3,451	(3,451)		—
Provision for long service payment	150	(134)		16
Impairment on property, plant and equipment	18,910	(6,790)		12,120
Impairment on trade and other receivables, deposits and prepayments	859	(402)		457
Amortisation of leasehold land and land use rights	1,874	(1,874)		—
Gain on disposal on property, plant and equipment	(86)	—		(86)
Fair value gain on derivative financial instruments	(127)	127		—
Operating (loss)/profit before working capital changes	(91,400)	105,247		13,847
Inventories	97,635	(91,526)		6,109
Trade and other receivables, deposits and prepayments	47,836	(50,342)		(2,506)
Trade and other payables and accrued charges	(47,217)	55,523		8,306
Trust receipt bank loans	(48,541)	31,773		(16,768)
Cash (used in)/generated from operations	(41,687)	50,675		8,988
Interest received	283	(277)		6
Income tax paid	(648)	528		(120)
Net cash (used in)/generated from operating activities	(42,052)	50,926		8,874

	Audited cash flows of the Group for the year ended 31 March 2010	Pro forma adjustments		Pro forma cash flows of the Remaining Group for the year ended 31 March 2010
	HK$'000	*HK$'000*	*HK$'000*	*HK$'000*
		(Note 6)	*(Note 7)*	
Investing activities				
Purchase of property, plant and equipment	(5,907)	3,387		(2,520)
Proceeds from disposal of derivative financial instruments	354	(354)		—
Proceeds from disposal of property, plant and equipment	86	—		86
Net cash used in investing activities	(5,467)	3,033		(2,434)
Financing activities				
Interest paid	(8,682)	4,133		(4,549)
Issue of shares in placing arrangement	68,322	—		68,322
New loans from banks and financial institutions	83,091	(71,727)		11,364
Repayment of loans borrowed from banks and financial institutions	(76,631)	24,091		(52,540)
Capital element of financial lease rental payment	(6,132)	253		(5,879)
Increase in amount due from Disposal Group	—	(22,549)		(22,549)
Net cash generated from/(used in) financing activities	59,968	(65,799)		(5,831)
Net increase in cash and cash equivalents	12,449	(11,840)		609
Cash and cash equivalents at beginning of year	26,652	(17,074)	377,491	387,069
Effect of exchange rate changes on cash and cash equivalents	4,757	653		5,410
Cash and cash equivalents at end of year	43,858	(28,261)		393,088

Notes:

(6) The adjustment represents the exclusion of the cash flows attributable to the Disposal Group from the consolidated statement of cash flows of the Group for the year ended 31 March 2010. The adjustment is not expected to have a continuing effect on the Group.

(7) The adjustment represents the adjusted consideration received by the Remaining Group and the assignment of the amount due to Remaining Group to the purchaser as if the Disposal had been taken place at the commencement of the year ended 31 March 2010. The adjusted consideration is calculated as follows:-

	HK$'000	*HK$'000*
Consideration		18,000
Adjustment to the consideration		
— Net liabilities of the Disposal Group as at 31 March 2009	(29,470)	
— Amount due to Remaining Group as at 31 March 2009	408,201	
Adjusted net assets value	378,731	
Estimated legal and professional fees and related expenses in relation to the Disposal	(1,240)	
Consideration	(18,000)	359,491
Adjusted consideration received		377,491

As at 30 November 2010, the net liabilities of the Disposal Group reduced to HK$270,784,000. The financial effect of the Disposal is to be determined based on adjustments in total consideration, estimated legal and professional fees and related expenses in relation to the Disposal and the carrying amount of net asset value of the Disposal Group at the completion date and is therefore subject to change upon completion of the Disposal. The amounts shown in this adjustment are for illustrative purpose only. The adjustment is not expected to have a continuing effect on the Group.

The following is the text of a letter, summary of value and valuation certificate, prepared for the purpose of incorporation in this circular received from Asset Appraisal Ltd., an independent valuer, in connection with its valuation as at 31 December 2010 of the property interests held by the Group.

Asset Appraisal Limited
資產評值顧問有限公司

Rm 802 8/F On Hong Commercial Building
No.145 Hennessy Road Wanchai HK
香港灣仔軒尼詩道145號安康商大廈8樓802室
Tel: (852) 2529 9448 Fax: (852) 3521 9591

25 March 2011

The Board of Directors
Lung Cheong International Holdings Limited
Lung Cheong Building
No.1 Lok Yip Road
On Lok Tsuen
Fanling, New Territories
Hong Kong

Dear Sirs,

Re: Valuation of property interests situated in the People's Republic of China and in Hong Kong

In accordance with the instructions from Lung Cheong International Holdings Limited (referred to as the "Company") to value the property interests (referred to as the "properties") held by the Company or its subsidiaries (altogether referred to as the "Group") situated in the People's Republic of China (the "PRC") and in Hong Kong, we confirm that we have carried out inspections of the properties, made relevant enquiries and obtained such further information as we consider necessary for the purpose of providing you with our opinion of the market values of the properties as at 31 December 2010 (the "date of valuation").

Basis of Valuation

Our valuation of the properties represents the market value which we would define as intended to mean "the estimated amount for which a property should exchange on the date of valuation between a willing buyer and a willing seller in an arm's-length transaction after proper marketing wherein the parties had each acted knowledgeably, prudently, and without compulsion".

Valuation Methodology

The properties are valued by the comparison method where comparison based on prices realised or market prices of comparable properties is made. Comparable properties of similar size, character and location are analysed and carefully weighed against all the respective advantages and disadvantages of each property in order to arrive at a fair comparison of capital value.'

Assumptions

Our valuation has been made on the assumption that owners sell the properties on the market in their existing state without the benefit of deferred terms contracts, leaseback, joint ventures, management agreements or any similar arrangement which would serve to affect the value of the properties.

Other special assumptions for our valuation (if any) would be stated out in the footnotes of the valuation certificate attached herewith.

Titleship

We have been provided with copies of legal documents regarding the properties. However, we have not verified ownership of the properties and the existence of any encumbrances that would affect ownership of them.

We have also relied upon the legal opinion provided by the PRC legal advisers, namely Guangdong Guanxin Law Office (廣東莞信律師事務所), to the Company on the relevant laws and regulations in the PRC, on the nature of land use rights in the properties situated in the PRC.

Limiting Conditions

No allowance has been made in our report for any charges, mortgages or amounts owing on the properties nor for any expenses or taxation which may be incurred in effecting a sale. Unless otherwise stated, it is assumed that the property is free from encumbrances, restrictions and outgoings of an onerous nature, which could affect its value. Our valuation have been made on the assumption that the seller sells the property on the market without the benefit of a deferred term contract, leaseback, joint venture, management agreement or any similar arrangement, which could serve to affect the values of the properties.

We have relied to a very considerable extent on the information given by the Company and have accepted advice given to us on such matters as tenure, planning approvals, statutory notices, easements, particulars of occupancy, lettings, and all other relevant matters.

We have not carried out detailed site measurements to verify the correctness of the site areas in respect of the properties but have assumed that the site and floor areas shown on the title documents and official site plans handed to us are correct. All legal documents have been used as reference only and all dimensions, measurements and areas are approximations.

We have carried out inspections of the properties. However, no structural survey has been made. In the course of our inspection, we did not note any serious defects. We are unable to report whether the buildings and structures of the properties are free of rot, infestation or any other structural defects. No test was carried out on any of the services of the buildings and structures of the properties.

We must point out that we have not carried out site investigations to determine the suitability of ground conditions or the services for any property development of the properties. Our valuation is on the basis that these aspects are satisfactory and that no extraordinary expenses or delays will be incurred during construction period.

We have had no reason to doubt the truth and accuracy of the information provided to us by the Company. We have also sought confirmation from the Company that no material factors have been omitted from the information supplied. We consider that we have been provided with sufficient information to reach an informed view, and we have no reason to suspect that any material information has been withheld.

In valuing the properties, we have complied with all the requirements contained in Chapter 5 of the Rules Governing the Listing of Securities on the Main Board and Practice Note 12 to the Rules Governing the Listing of Securities issued by The Stock Exchange of Hong Kong Limited; the HKIS Valuation Standards on Properties (First Edition 2005) published by The Hong Kong Institute of Surveyors effective from 1 January 2005.

We have valued the properties in Hong Kong Dollars (“HK”). The conversion of Renminbi (“RMB”) into HK$ are based on the factor of HK$1.00 to RMB 0.85 with reference to the prevailing exchange rate on the valuation date.

Our summary of valuation and valuation certificate are attached herewith.

Yours faithfully,
for and on behalf of
Asset Appraisal Ltd.

Tse Wai Leung
MFin BSc MRICS MHKIS RPS(GP)
Director

Tse Wai Leung is a member of the Royal Institution of Chartered Surveyors, a member of The Hong Kong Institute of Surveyors, a Registered Professional Surveyor in General Practice and a qualified real estate appraiser in the PRC. He is on the list of Property Valuers for Undertaking Valuations for Incorporation or Reference in Listing Particulars and Circulars and Valuations in Connection with Takeovers and Mergers of the Hong Kong Institute of Surveyors, Registered Business Valuer under the Hong Kong Business Forum and has over 10 years' experience in valuation of properties in Hong Kong, in Macau and in the PRC.

SUMMARY OF VALUATION

Group I — Property interests held and occupied by the Group in Hong Kong

Property		Market Value in existing state as at 31 December 2010
1.	Lung Cheong Building No.1 Lok Yip Road On Lok Tsuen Fanling New Territories Hong Kong	HK$27,200,000
2.	Unit D on 1st Floor and Flat Roof Wing Hay Court No.9 (formerly Nos.3-13) Wo Fung Street Fanling New Territories Hong Kong	HK$1,870,000
	Sub-total:	**HK$29,070,000**

Group II — Properties interests held and occupied by the Group in the PRC

3.	Lung Cheong Industrial Village Hantang Street Qiantou Town Fucheng District Dongguan City Guangdong Province the PRC.	HK$29,500,000
4.	Lung Cheong Industrial City, Qiaoli Village, Changping Town Dongguan City Guangdong Province the PRC.	HK$145,200,000
	Sub-total:	**HK$174,700,000**
	Grand Total:	**HK$203,770,000**

VALUATION CERTIFICATE

Group I — Property interests held and occupied by the Group in Hong Kong

Property	Description and tenure	Particulars of occupancy	Market Value in Existing state as at 31 December 2010
1. Lung Cheong Building No.1 Lok Yip Road On Lok Tsuen Fanling New Territories Hong Kong Fanling Sheung Shui Town Lot No.105	The property comprises a parcel of land with an area of 4,933.14 square feet (458.3 square metres) on which a 6-storey industrial building is erected. The building was completed in 1993. Ground floor of the subject building accommodates a total of two carparking spaces, one lorry carparking space and loading/unloading area whilst the upper floors are designated for workshop use. The total gross floor area of the property is 24,211.79 square feet (2,249.33 square metres). The floor height of Ground Floor of the subject building is 6.1 metres (20 feet). The floor height and the floor loading capacity of each of the 1st to 5th Floor of the subject building are 3.55 metres (11.65 feet) and 1,000KG m2 (200lbs sq. ft.) respectively. The property is held under New Grant No.12471 for terms commencing on 30 January 1991 and expiring on 30 June 2047. The current ground rent payable is 3% of the rateable value of the property per annum.	As at the valuation dates, the property was occupied by the Company as warehouses and ancillary offices.	HK$27,200,000

Notes:

The registered owner of the property is Lung Cheong Toys Limited which is a wholly-owned subsidiary of the Company vide Memorial No.299198 dated 29 October 1993.

VALUATION CERTIFICATE

Property	Description and tenure	Particulars of occupancy	Market Value in Existing state as at 31 December 2010
2. Unit D on 1st Floor and Flat Roof Wing Hay Court No.9 (formerly Nos.3-13) Wo Fung Street Fanling New Territories Hong Kong 16/725th shares of and in the Lot Nos.4990, 4991, 4992, 4993, 4994 and 4995 in Demarcation District No.51.	The property comprises a residential unit with a flat roof on 1st Floor of a 12-storey commercial/residential building completed in 1993. The total gross floor area of the property is approximately 723 square feet (67.17 square metres) plus a flat roof area of 889 square feet (82.59 square metres). The property is held under New Grant Nos.9294, 9295, 9316, 9317, 9414, and 9500 for terms of 99 years less the last three days all commencing on 1 July 1898 and is statutorily extended until 30 June 2047. The current ground rent payable is 3% of the rateable value of the property per annum.	As at the valuation dates, the property was occupied by the Company as staff quarters.	HK$1,870,000

Notes:

The registered owner of the property is Lung Cheong Toys Limited which is a wholly-owned subsidiary of the Company vide Memorial No.312898 dated 31 March 1994.

VALUATION CERTIFICATE

Group II — Properties interests held and occupied by the Group in the PRC

Property	Description and tenure	Particulars of occupancy	Market Value in Existing state as at 31 December 2010
3. Lung Cheong Industrial Village Hantang Street Qiantou Town Fucheng District Dongguan City Guangdong Province the PRC.	The property comprises a parcel of land with an area of 17,883 square metres. As at the date of our inspection, a total of three 3-storey industrial buildings (Block Nos. 2 to 4), a 6-storey industrial building (Block No. 1), two 6-storey dormitory buildings (Block Nos. 6 and 7) and a 7-storey dormitory building (Block No. 5) were erected. The aforesaid buildings were fully completed in 1995. As specified in the Building and Land Ownership Certificates, the total gross floor area (G.F.A.) of the aforesaid is 22,810.41 square metres. The property is held for a term of 50 years commencing in August 1995 and expiring in August 2045.	As at the valuation date, the property was vacant.	HK$29,500,0000

Notes:

1. As stipulated in Land Use Certificate (ref. no. 東府國用(1995)字第特298號) dated 30 August 1995, the land use rights in the property are held by Dongguan Lung Cheong Toys Co., Ltd. (東莞龍昌玩具有限公司) which is a wholly-owned subsidiary of the Company for a term of 50 years commencing in August 1995 and expiring in August 2045.

2. As stipulated in seven sets of Building and Land Ownership Certificate (ref. nos. 粵房字第0110930號 to 粵房字第0110936號) all dated 2 February 1996, the aforesaid buildings are held by Dongguan Lung Cheong Toys Co., Ltd. (東莞龍昌玩具有限公司).

3. We have been provided with a legal opinion regarding the property interests by the Company's PRC legal advisers, which contains, *inter alia*, the followings:

   (i) The land use rights in the property with the area of 17,883 square metres are held by Dongguan Lung Cheong Toys Co., Ltd. {東莞龍昌玩具有限公司} for industrial use for a term expiring in August 2045;

   (ii) the aforesaid buildings erected in the subject land are held by Dongguan Lung Cheong Toys Co., Ltd. (東莞龍昌玩具有限公司); and

   (iii) the Land Use Certificate and the Building Ownership Certificates of the property as mentioned in notes 1 and 2 above are pledged to Shenzhen Development Bank Shenzhen Wangzhou Branch.

Property	Description and tenure	Particulars of occupancy	Market Value in Existing state as at 31 December 2010
4. Lung Cheong Industrial City, Qiaoli Village, Changping Town Dongguan City Guangdong Province the PRC.	The property comprises a parcel of land with an area of 53,333.30 square metres. As at the date of our inspection, a total of three 4-storey industrial buildings, two 3-storey industrial building, four 6-storey dormitory buildings, a 3-storey office building, a 6-storey office building and a single-storey transformer room were erected. The aforesaid buildings were fully completed in 2005. As specified in the Building and Land Ownership Certificates, the total gross floor area (G.F.A.) of the aforesaid buildings is 76,770.89 square metres. The property is held for a term expiring on 31 March 2055.	The property is occupied by the Group as workshops, warehouses, dormitory and ancillary offices.	HK$145,200,000

Notes:

1. As stipulated in Land Use Certificate (ref. no. 東府國用(2005)第特679號) dated 29 June 2005, the land use rights in the property are held by Dongguan L C Technology Co., Ltd. (東莞龍昌數碼科技有限公司) which is a wholly-owned subsidiary of the Company for a term expiring on 31 March 2055.

2. As stipulated in twelve sets of Building and Land Ownership Certificate (ref. nos. 粵房地權證莞字第2700083019號 to 粵房地權證莞字第2700083022號, 粵房地權證莞字第2700083026號, 粵房地權證莞字第2700083029號 to 粵房地權證莞字第2700083032號 and 粵房地權證莞字第2700083034號 to 粵房地權證莞字第2700083036號) all dated 17 November 2009, the aforesaid buildings are held by Dongguan L C Technology Co., Ltd. (東莞龍昌數碼科技有限公司).

3. We have been provided with a legal opinion regarding the property interests by the Company's PRC legal advisers, which contains, inter alia, the followings:

   (i) The land use rights in the property with the area of 53,333.30 square metres are held by Dongguan L C Technology Co., Ltd. (東莞龍昌數碼科技有限公司) for industrial use for a term expiring on 31 March 2055;

   (ii) the aforesaid buildings erected in the subject land are held by Dongguan L C Technology Co., Ltd. (東莞龍昌數碼科技有限公司); and

   (iii) the Land Use Certificate and the Building and Land Ownership Certificates of the property as mentioned in notes 1 and 2 above have been pledged to China Everbright Bank Corporation Limited Dongguan Branch.

1. RESPONSIBILITY STATEMENT

This circular, for which the Directors collectively and individually accept full responsibility, includes particulars given in compliance with the Listing Rules for the purpose of giving information with regard to the Group. The Directors having made all reasonable enquiries, confirm that to the best of their knowledge and belief the information contained in this circular is accurate and complete in all material respects and not misleading or deceptive, and there are no other matters the omission of which would make any statement herein or this circular misleading.

2. DISCLOSURE OF INTERESTS

Interests of Directors

As at the Latest Practicable Date, the interests or short positions of the Directors and the chief executive of the Company and their respective associates in the Shares, underlying shares and debentures of the Company or any of its associated corporation(s) (within the meaning of Part XV of the SFO) which (a) were required to be notified to the Company and the Stock Exchange pursuant to Divisions 7 and 8 of Part XV of the SFO (including interests and short positions which they were taken or deemed to have under such provisions of the SFO); or (b) were required, pursuant to Section 352 of the SFO, to be entered in the register referred to therein; or (c) were required to be notified to the Company and the Stock Exchange pursuant to the Model Code for Securities Transactions by Directors of Listed Issuers (the "Model Code"), were as follows:

Name of Director	Name of company	Nature of interest	Number and class of shares or underlying shares *(Note 1)*	Approximate % of issued share capital as at the Latest Practicable Date
Leung Lun	The Company	Interest of controlled corporation	1,499,082,240 ordinary shares (L) *(Note 2)*	50.68%
	Lung Cheong Investment Limited	Interest of controlled corporation	1,000 ordinary shares (L)	100.00%
	Rare Diamond Limited	Beneficial interest	70 ordinary shares (L)	70.00%

Name of Director	Name of company	Nature of interest	Number and class of shares or underlying shares *(Note 1)*	Approximate % of issued share capital as at the Latest Practicable Date
Leung Chung Ming	The Company	Interest of controlled corporation	1,499,082,240 ordinary shares (L) *(Note 2)*	[3] 50.68%
	Lung Cheong Investment Limited	Interest of controlled corporation	1,000 ordinary shares (L)	100.00%
	Rare Diamond Limited	Beneficial interest	30 ordinary shares (L)	30.00%

Notes:

1. The letter "L" represents the Director's long position in the shares or underlying shares of the relevant company.

2. These shares were held by Lung Cheong Investment Limited, a company wholly owned by Rare Diamond Limited. Rare Diamond Limited is beneficially owned as to 70% by Mr. Leung Lun and as to 30% by Mr. Leung Chung Ming.

Save as disclosed above, as at the Latest Practicable Date, none of the Directors or chief executive of the Company or their respective associates had any interests or short positions in the Shares, underlying shares and debentures of the Company or any of its associated corporation(s) (within the meaning of Part XV of the SFO) which (a) were required to be notified to the Company and the Stock Exchange pursuant to Divisions 7 and 8 of Part XV of the SFO (including interests and short positions which they were taken or deemed to have under such provisions of the SFO); or (b) were required, pursuant to section 352 of the SFO, to be entered in the register referred to therein; or (c) were required to be notified to the Company and the Stock Exchange pursuant to the Model Code and none of the Directors or proposed Directors is a director or employee of the Company which has an interest or short position in the shares and underlying shares of the Company which would fall to be disclosed to the Company under the provisions of Divisions 2 and 3 of Part XV of the SFO.

Substantial Shareholders

As the Latest Practicable Date, so far as is known to the Directors and the chief executive of the Company, the following persons (other than the Directors or the chief executive of the Company) had an interest or a short position in the Shares or underlying Shares of the Company which would fall to be disclosed to the Company under the provisions of Divisions 2 and 3 of Part XV of the SFO, or who were, directly or indirectly, interested in 10% or more of the nominal value of any class of share capital carrying rights to vote in all circumstances at general meetings of any other member of the Group:

Name of Shareholder	Nature of interest	Number of Shares or underlying shares	Approximate % of issued share capital as at the Latest Practicable Date
Lung Cheong Investment Limited	Beneficial interest	1,499,082,240 (L)	50.68%
Rare Diamond Limited	Interest of controlled corporation	1,499,082,240 (L) *(Note 2)*	50.68%

Notes:

1. The letter "L" represents the entity's long position in the shares or underlying shares of the Company.

2. These Shares were registered in the name of Lung Cheong Investment Limited, the entire issued share capital of which is owned by Rare Diamond Limited. Rare Diamond Limited is beneficially owned as to 70% by Mr. Leung Lun and as to 30% by Mr. Leung Chung Ming.

Save as disclosed above, as the Latest Practicable Date, so far as is known to the Directors and the chief executive of the Company, no other person (other than the Directors or the chief executive of the Company) had any interest or a short position in the Shares or underlying Shares of the Company which would fall to be disclosed to the Company under the provisions of Divisions 2 and 3 of Part XV of the SFO, or who were, directly or indirectly, interested in 10% or more of the nominal value of any class of share capital carrying rights to vote in all circumstances at general meetings of any other member of the Group.

3. SERVICE CONTRACTS

As at the Latest Practicable Date, none of the Directors had any existing or proposed services contracts with the Company or any member of the Group which does not expire or which is not determinable by the Group within one year without payment of compensation (other than statutory compensation).

4. LITIGATION

As at the Latest Practicable Date, no member of the Group was engaged in any litigation or arbitration of material importance and no litigation or claim of material importance is known to the Directors to be pending or threatened by or against any member of the Group.

5. MATERIAL CONTRACTS

The following contracts, not being contracts entered into in the ordinary course of business, were entered into by the Group during the period commencing two years preceding the Latest Practicable Date and are or may be material:

(a) the Agreements

6. MATERIAL ADVERSE CHANGE

As at the Latest Practicable Date, the Directors are not aware of any material adverse change in the financial or trading position of the Group since 31 March 2010, the date to which the latest published audited financial statements of the Group were made up.

7. COMPETING INTERESTS

As at the Latest Practicable Date, none of Directors or their respective associates had any interests in a business which is considered to compete or is likely to compete, directly or indirectly, with the business of the Group.

8. OTHER INTERESTS OF THE DIRECTORS

On 29 September 2008, Dongguan Lung Cheong Toys Co., Ltd., a subsidiary of the Company, as vendor and a company beneficially owned by Mr. Leung Lun entered into the Fuxiang Agreement with the consideration of RMB1.6 million and the Yuyuan Agreement with the consideration of RMB2.4 million in relation to the disposal of properties in the People's Republic of China, details of which were set out in the announcement of the Company dated 10 October 2008.

Save as disclosed above, none of the Directors had any interests, either directly or indirectly, in any assets which had been acquired or disposed of by or leased to any member of the Group, or which were proposed to be acquired or disposed of by or leased to any member of the Group since 31 March 2010, the date to which the latest published audited consolidated accounts of the Group were made up.

On 7 March 2008 and 24 September 2008, the Company and Lung Cheong Investment Limited entered into a loan agreement and an extension agreement respectively pursuant to which Lung Cheong Investment Limited agreed to grant a loan of HK$50 million to the Company for partial repayment of the loan granted under the facility agreement entered into between, among others, the Company and a syndicate of banks on 21 August 2007 (the "Facility Agreement"); and extend the maturity date for repayment of the loan and all amounts outstanding under the loan agreement to 6 March 2009. The management of the Company has obtained consent from Lung Cheong Investment Limited that continues support will be made and no recall for repayment in whole of the amount for a year till 1 October 2011.

Save as disclosed above, none of the Directors was materially interested in any contract or arrangement entered into by any member of the Group, which was subsisting as at the Latest Practicable Date, and was significant in relation to the business of the Group.

9. EXPERTS AND CONSENTS

(i) The following are the qualifications of the experts who have been named in this circular and have given opinions and advice which are contained in this circular:

Name	Qualifications
BDO Limited ("BDO")	Certified Public Accountants
Veda Capital	Veda Capital Limited, a corporation licensed under the SFO to carry on type 6 (advising on corporate finance) regulated activity
Asset Appraisal Limited ("Asset Appraisal")	Chartered Surveyors

(ii) As at the Latest Practicable Date, BDO, Asset Appraisal and Veda Capital did not have any shareholding, directly or indirectly, in any member of the Group or any right (whether legally enforceable or not) to subscribe for or to nominate persons to subscribe for securities in any member of the Group.

(iii) Each of BDO, Asset Appraisal and Veda Capital has given and has not withdrawn its written consent to the issue of this circular, with the inclusion therein of its letter or the references to its name in the form and context in which it appears.

(iv) As at the Latest Practicable Date, BDO, Asset Appraisal and Veda Capital did not have any direct or indirect interest in any asset which has been acquired, or disposed of by, or leased to any member of the Group, or was proposed to be acquired, or disposed of by, or leased to any member of the Group since 31 March 2010, the date to which the latest published audited financial statements of the Group were made up.

10. MISCELLANEOUS

(i) The registered office of the Company is located at Ugland House, South Church Street, P.O. Box 309, George Town, Grand Cayman, Cayman Islands, British West Indies.

(ii) The head office and principal place of business of the Company in Hong Kong is Lung Cheong Building, 1 Lok Yip Road, Fanling, New Territories, Hong Kong.

(iii) The company secretary of the Company is Mr. Mak Yee Cheen, Vincent, is a fellow member of the Hong Kong Institute of Certified Public Accountants and the Association of Chartered Certified Accountants.

(iv) The branch share registrar and transfer office of the Company is Tricor Abacus Limited at 26th Floor, Tesbury Centre, 28 Queen's Road East, Wanchai, Hong Kong.

(v) the registered office of the Purchaser is situated at P.O. Box 957 Offshore Incorporations Centre, Road Town, Tortola, British Virgin Islands.

(vi) In the event of inconsistence, the English text of this circular shall prevail over the Chinese text.

11. DOCUMENTS AVAILABLE FOR INSPECTION

Copies of the following documents are available for inspection during normal business hours from 9:00 a.m. to 5:00 p.m. on any weekday except Saturdays, Sundays and public holidays at the head office and principal place of business of the Company in Hong Kong at Lung Cheong Building, 1 Lok Yip Road, Fanling, New Territories, Hong Kong, from the date of this circular up to and including the date of the EGM:

(i) the memorandum and articles of association of the Company;

(ii) the annual reports of the Company for the two years ended 31 March 2010;

(iii) the interim report of the Company for the six months ended 30 September 2010;

(iv) the letter of recommendation from the Independent Board Committee, the text of which is set out on pages 19 to 20 of this circular;

(v) the letter of advice from Veda Capital, the text of which is set out on pages 21 to 23 of this circular;

(vi) the report from BDO Limited in respect of the unaudited pro forma financial information of the Remaining Group, the text of which is set out in Appendix II to this circular;

(vii) the written consents referred to under the paragraph headed "Experts and consents" in this appendix;

(viii) the material contracts referred to in the paragraph headed "Material Contracts" in this appendix; and

(ix) this circular.

LUNG CHEONG INTERNATIONAL HOLDINGS LIMITED
龍昌國際控股有限公司

(Incorporated in the Cayman Islands with limited liability)
(Stock Code: 348)

NOTICE IS HEREBY GIVEN that an extraordinary general meeting of Lung Cheong International Holdings Limited (the "**Company**") will be held at Unit 11, First Floor, Houston Centre, 63 Mody Road, Tsim Sha Tsui East, Kowloon, Hong Kong on Tuesday, 12 April 2011 at 3:30 p.m. for the purpose of considering and, if thought fit, passing with or without amendment, the following ordinary resolution:

ORDINARY RESOLUTION

"**THAT** the sale and purchase agreement dated 28 January 2011 (as supplemented by a supplemental agreement dated 24 March 2011) (the "**Agreements**") entered into among Brisk Mark Holdings Limited, Lung Cheong International Holdings Limited, Mr. Leung Chung Ming and Mr. Leung, Kenneth Yuk Wai, copy of which has been produced to this meeting marked "A" and initialled by the chairman of this meeting for the purpose of identification, and the transactions contemplated thereunder be and are hereby approved, ratified and confirmed; and the directors of the Company be and are hereby authorized to make any amendments, as they deem desirable or necessary, to the Agreements and the transactions contemplated thereunder, and to do all such acts, matters and things and to execute such documents as they may in their absolute discretion consider necessary, expedient or desirable to give effect to and implement the Agreements and the transactions contemplated thereunder."

By order of the Board
Lung Cheong International Holdings Limited
Wong, Andy Tze On
Executive Director

Hong Kong, 25 March 2011

Registered Office:
Ugland House
South Church Street
P.O. Box 309
George Town
Grand Cayman
Cayman Islands
British West Indies

Head Office and Principal Place of Business in Hong Kong:
Lung Cheong Building
1 Lok Yip Road
Fanling
New Territories
Hong Kong

Notes:

1. The register of members of the Company will be closed from 7 April 2011 to 12 April 2011 (both dates inclusive), during which period no transfer of shares will be effected.

2. In order to be entitled to attend and vote at the meeting, all transfers accompanied by the relevant shares certificates must be lodged with the Company's branch share registrar in Hong Kong, Tricor Abacus Limited, at 26th Floor, Tesbury Centre, 28 Queen's Road East, Wanchai, Hong Kong not later than 4:30 p.m. on 6 April 2011.

3. Any member of the Company entitled to attend and vote at the meeting is entitled to appoint one or more proxies (who must be an individual or individuals) to attend and vote instead of him. A proxy need not be a member of the Company.

4. To be valid, the form of proxy and the power of attorney or other authority, if any, under which it is signed, or a notarially certified copy of such power or authority must be lodged with the Company's branch share registrar in Hong Kong, Tricor Abacus Limited, at 26th Floor, Tesbury Centre, 28 Queen's Road East, Wanchai, Hong Kong not less than 48 hours before the time appointed for holding the meeting or any adjournment thereof.

5. As at the date hereof, the executive Directors are Mr. Leung Lun, Mr. Leung Chung Ming, Mr. Wong, Andy Tze On and the independent non-executive Directors are Mr. Ye Tian Liu, Mr. Wong Lam, O.B.E., J.P. and Mr. Lai Yun Hung.

6. In case of any inconsistency, the English text hereof shall prevail over the Chinese text.