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## THIS CIRCULAR IS IMPORTANT AND REQUIRES YOUR IMMEDIATE ATTENTION

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**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.

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### 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)**

### CONTINUING CONNECTED TRANSACTIONS

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

**VEDA | CAPITAL**  
**智 略 資 本**

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A letter from the Independent Board Committee is set out on pages 8 and 9 of this circular. A letter from Veda Capital, the independent financial adviser, containing its advice and recommendation to the Independent Board Committee and the Independent Shareholders is set out on pages 10 to 15 of this circular.

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 Thursday, 7 July 2011 at 9:30 a.m. is set out on pages 22 and 23 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.

20 June 2011

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## DEFINITIONS

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

|  |  |
|--|--|
| “Annual Caps”  | the annual aggregate maximum amount of purchase of the Products payable by the Purchaser Group to the Supplier Group under the Master Purchase Agreement   |
| “associate(s)”                                       | has the meaning ascribed to this term under the Listing Rules  |
| “Board”  | the board of Directors   |
| “Company”  | 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   |
| “connected person(s)”                                | has the same meaning as defined in the Listing Rules   |
| “Director(s)”  | the director(s) of the Company   |
| “Disposal”   | the disposal of the PRC production business as announced by the Company on 28 January 2011 and 24 March 2011   |
| “EGM”  | extraordinary general meeting of the Company for the purpose of approving the Master Purchase Agreement including the Annual Caps  |
| “Group”  | the Company and its subsidiaries as at the Latest Practicable Date   |
| “HK\$”   | Hong Kong dollars, the lawful currency of Hong Kong  |
| “Independent Board Committee”                        | an independent board committee of the Company which comprises all the independent non-executive Directors for the purpose of advising the Independent Shareholders in relation to the Master Purchase Agreement, including the Annual Caps, and the transactions contemplated thereunder |
| “Independent Financial Adviser”<br>or “Veda Capital” | Veda Capital Limited, a licensed corporation to carry on type 6 regulated activity under the SFO, the independent financial adviser to advise the Independent Board Committee and the Independent Shareholders in respect of the Master Purchase Agreement and the Annual Caps           |
| “Independent Shareholders”                           | Shareholders other than the Supplier and its associates  |
| “Indonesia”  | the Republic of Indonesia  |

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## DEFINITIONS

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|                             |   |
|-----------------------------|---|
| “Latest Practicable Date”   | 16 June 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   |
| “Listing Rules”             | the Rules Governing the Listing of Securities on the Stock Exchange   |
| “Master Purchase Agreement” | the framework purchase agreement dated 9 May 2011 entered into between the Purchaser and the Supplier in relation to the purchase of the Products from the Supplier Group by the Purchaser Group                  |
| “OBM”                       | Own Brand Manufacturing   |
| “OEM”                       | Original Equipment Manufacturing  |
| “PRC”                       | People’s Republic of China  |
| “Products”                  | consumer electronic products, radio control/wireless products, electronic and plastic toys of the Supplier Group  |
| “Purchaser”                 | LC Global Holdings Corporation, being a wholly-owned subsidiary of the Company as at the Latest Practicable Date  |
| “Purchaser Group”           | the Purchaser and its subsidiaries  |
| “RMB”                       | RMB, the lawful currency of the PRC   |
| “SFO”                       | the Securities and Futures Ordinance, Chapter 571 of the Laws of Hong Kong  |
| “Share(s)”                  | ordinary share(s) of HK\$0.10 each in the issued share capital of the Company   |
| “Shareholder(s)”            | holder(s) of Share(s)   |
| “Stock Exchange”            | The Stock Exchange of Hong Kong Limited   |
| “Supplier”                  | Lung Cheong (BVI) Holdings Limited, being ultimately held by Brisk Mark Holdings Limited which is owned as to 30% by Mr. Leung Chung Ming and 70% by Mr. Leung, Kenneth Yuk Wai as at the Latest Practicable Date |
| “Supplier Group”            | the Supplier and its subsidiaries   |
| “%”                         | percentage  |

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## LETTER FROM THE BOARD

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### 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. Wong, Andy Tze On

Mr. Wong Lam, *O.B.E., J.P.* \*

Mr. Ye Tian Liu\*

Mr. Lai Yun Hung\*

*\* Independent non-executive director*

*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

20 June 2011

*To the Shareholders*

Dear Sir or Madam,

### CONTINUING CONNECTED TRANSACTIONS

The Board announced that on 9 May 2011, the Purchaser, a wholly-owned subsidiary of the Company, and the Supplier entered into the Master Purchase Agreement pursuant to which the Supplier Group agreed to sell the Products to the Purchaser Group and the Purchaser Group agreed to purchase the Products from the Supplier Group during the period commencing 1 May 2011 until 31 March 2014.

Summarised below are the principal terms of the Master Purchase Agreement.

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## LETTER FROM THE BOARD

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### THE MASTER PURCHASE AGREEMENT

#### Date

9 May 2011

#### Parties

Purchaser: LC Global Holdings Corporation

Supplier: Lung Cheong (BVI) Holdings Limited

#### Major terms of the Master Purchase Agreement

Pursuant to the terms of the Master Purchase Agreement, the Supplier agreed to sell the Products to the Purchaser Group and the Purchaser Group agreed to purchase the Products from the Supplier Group during the period commencing 1 May 2011 until 31 March 2014.

The prices of the Products to be offered to the Group under the Master Purchase Agreement will be determined after arm's length negotiations between the parties from time to time with reference to the prevailing market price of similar products and will be no less favourable to the Company than terms available from independent third parties to the Company having regard to the quantity, specifications and/or other conditions of the Products to be offered.

The payment terms of the individual transactions under the Master Purchase Agreement will be determined by the parties at the time of entering into transactions with reference to factors such as the relevant transaction amount, nature and specification requirements for the particular transactions.

#### Historical Transaction Value

Set out below are the historical amounts of the Products supplied and sold by the Supplier Group to the Purchaser Group for the financial years ended 31 March 2009 and 31 March 2010 and the six months ended 30 September 2010.

|  | <b>Year ended</b><br><b>31 March 2009</b><br><i>HK\$ million</i> | <b>Year ended</b><br><b>31 March 2010</b><br><i>HK\$ million</i> | <b>Six months</b><br><b>ended</b><br><b>30 September</b><br><b>2010</b><br><i>HK\$ million</i> |
|--|--|--|--|
|  | 304  | 264  | 217  |

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## LETTER FROM THE BOARD

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### Annual Caps

It is expected that the total value of the Products to be supplied and sold by the Supplier Group to the Purchaser Group pursuant to the terms of the Master Purchase Agreement shall not exceed the amounts set out below:

| Period ending 31 March     | 2012<br>(Note) | 2013 | 2014 |
|----------------------------|----------------|------|------|
| Annual Caps (HK\$ million) | 330            | 310  | 290  |

*Note:* The period commences from 1 May 2011 until 31 March 2012

The Annual Caps were determined with reference to (a) the historical figures of the transaction amounts between the Supplier Group and the Purchaser Group for the financial years ended 31 March 2009 and 31 March 2010 and the six months ended 30 September 2010 after taking into account the effects following the Disposal; (b) the estimated volume of the Products required by the Group; (c) the prevailing market prices of such Products with terms no less favourable to the Company than terms available from independent third parties to the Company having regard to the quantity, specifications and/or other conditions of the Products to be offered; and (d) the estimated costs for the supply of such Products for each of the relevant financial years under the Master Purchase Agreement.

### Conditions precedent

The Master Purchase Agreement is conditional upon:

- a. the passing of the resolution of the Independent Shareholders at the EGM to approve the entering into of the Master Purchase Agreement and the transactions contemplated thereunder; and
- b. in relation to the transactions contemplated in the Master Purchase Agreement, all relevant regulatory requirements on the part of the Supplier Group (including but not limited to those under the Listing Rules and all relevant regulatory requirements in Hong Kong) having been complied with and satisfied.

If the above conditions are not fulfilled on or before on 31 August 2011 or such later date as agreed between the Supplier and the Purchaser, the Master Purchase Agreement shall terminate with immediate effect, neither party shall have any rights or obligations against the other under the Master Purchase Agreement except for any antecedent breach.

### REASONS FOR AND BENEFITS OF ENTERING INTO THE MASTER PURCHASE AGREEMENT

Further to the Disposal as announced by the Company on 28 January 2011, the manufacturing in respect of the Group's OBM/OEM business is currently conducted at the Indonesia factory or subcontracted to the PRC factories (the "**PRC Factories**") and/or other independent third parties. Following completion of the disposal of the PRC Factories, the Group intends to reduce the reliance on the PRC Factories by (a) transferring a major portion of the Group's requisite manufacturing orders from the PRC Factories to the Indonesia factory; or (b) engaging other independent subcontractors for its manufacturing requirements.

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## LETTER FROM THE BOARD

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Currently, most of the Group's OBM/OEM business is conducted by the PRC Factories. Since the Directors are of the view that the reduction on the reliance on the PRC Factories' manufacturing capacity may require certain time and the Group may need certain time to source and identify new independent subcontractors for its OBM/OEM business according to its production requirements, costs and production capacity, the Directors considered that entering into the Master Purchase Agreement will enable the Group to maintain the normal course of business, whilst offering management sufficient time to engage other independent subcontractors for its manufacturing requirements and/or transfer production orders to its Indonesia factory.

Given that the Master Purchase Agreement was entered into during the ordinary and usual course of business of the Group which was due to the prices of the Products to be determined after arm's length negotiations between the parties from time to time with reference to the prevailing market price of similar products and on terms no less favourable to the Company than terms available from independent third parties to the Company having regard to the quantity, specifications and/or other conditions of the Products to be offered, and that the Group requires sufficient time to engage other independent subcontractors for its manufacturing requirements and/or transfer production orders to its Indonesia factory in order to reduce the reliance on the PRC Factories, the Directors (including the independent non-executive Director whose recommendation is contained in the "Letter from the Independent Board Committee" on pages 8 and 9 of this circular) consider that the terms of the Master Purchase Agreement, including the Annual Caps, are fair and reasonable and are in the interests of the Company and the Shareholders as a whole.

### INFORMATION ON THE PARTIES

The Group is principally engaged in the development, manufacture and sale of toys. Its products include radio control/wireless products, electronic and plastic toys and consumer electronic products.

The Supplier Group is principally engaged in the development, manufacturing, distribution and trading of moulds, materials, toys and related products, including but not limited to consumer electronic products, radio control/wireless products, and electronic and plastic toys.

### IMPLICATION OF THE LISTING RULES

As at the Latest Practicable Date, the Supplier is ultimately held by Brisk Mark Holdings Limited which is owned as to 30% by Mr. Leung Chung Ming and 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 of the Company, and Mr. Leung Chung Ming is a substantial Shareholder, the Supplier is therefore a connected person of the Company. As such, the transactions under the Master Purchase Agreement would constitute continuing connected transactions for the Company under Chapter 14A of the Listing Rules.

Given that the relevant applicable percentage ratios are more than 5% and the annual consideration payable under the Master Purchase Agreement by the Group exceeds HK\$10,000,000, the Master Purchase Agreement is subject to the reporting, announcement and Independent Shareholders' approval under the Listing Rules. The Supplier and its associates are required to abstain from voting on the resolution for approving the Master Purchase Agreement including the Annual Caps.



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## LETTER FROM THE BOARD

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Since Mr. Leung Lun has material interests in the transactions under the Master Purchase Agreement, he has abstained from voting on the board resolution in respect of the Master Purchase Agreement.

As at the Latest Practicable Date, the Supplier and its 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 Thursday, 7 July 2011 at 9:30 a.m., or any adjournment is set out on pages 22 and 23 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 entering into the Master Purchase Agreement" above, the Directors (including the independent non-executive Directors whose recommendation is contained in the "Letter from the Independent Board Committee" on pages 8 and 9 of this circular) consider that (a) the terms of the Master Purchase Agreement are on normal commercial terms and are fair and reasonable so far as the Independent Shareholders are concerned; and (b) the entering into of the Master Purchase Agreement 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 Master Purchase Agreement including the Annual Caps.

### 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*

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## LETTER FROM THE INDEPENDENT BOARD COMMITTEE

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### 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)**

20 June 2011

*To the Independent Shareholders*

Dear Sir or Madam,

We refer to the circular of the Company dated 20 June 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 (a) whether the terms of the Master Purchase Agreement including Annual Caps are fair and reasonable so far as the Independent Shareholders are concerned; (b) whether the entering into of the Master Purchase Agreement including Annual Caps is in the interests of the Company and the Independent Shareholders as a whole; and (c) how they should vote in respect of the relevant resolution to approve the Master Purchase Agreement including the Annual Caps 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 Master Purchase Agreement including the Annual Caps and the transactions contemplated thereunder.

We wish to draw your attention to the letter from the Board, as set out on pages 3 to 7 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 Master Purchase Agreement including the Annual Caps and the transactions contemplated thereunder, as set out on pages 10 to 15 of the Circular.

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## LETTER FROM THE INDEPENDENT BOARD COMMITTEE

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Having taken into account the advice of Veda Capital, we consider (a) the terms of the Master Purchase Agreement including the Annual Caps are on normal commercial terms and are fair and reasonable so far as the Independent Shareholders are concerned; and (b) the entering into of the Master Purchase Agreement including the Annual Caps 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 Master Purchase Agreement including the Annual Caps and the transactions contemplated thereunder.

Yours faithfully,  
the Independent Board Committee

**Mr. Wong Lam, O.B.E., J.P.**  
*Independent*  
*non-executive Director*

**Mr. Ye Tian Liu**  
*Independent*  
*non-executive Director*

**Mr. Lai Yun Hung**  
*Independent*  
*non-executive Director*

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## LETTER FROM VEDA CAPITAL

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*The following is the full text of a letter of advice from Veda Capital to the Independent Board Committee and the Independent Shareholders in relation to the Master Purchase Agreement 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

20 June 2011

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

Dear Sirs,

### CONTINUING CONNECTED TRANSACTIONS

#### I. INTRODUCTION

We refer to our appointment as the independent financial adviser to the Independent Board Committee and the Independent Shareholders in relation to the Master Purchase Agreement, details of which are set out in the letter from the Board (the “**Board Letter**”) contained in this circular (the “**Circular**”) dated 20 June 2011 issued by the Company, of which this letter forms part. Capitalised terms used in this letter shall have the same meanings as defined in the Circular unless the context requires otherwise.

The Independent Board Committee, comprising all independent non-executive Directors, has been established to advise whether the terms of the Master Purchase Agreement are in the interests of the Company and the Independent Shareholders as a whole. Veda Capital has been appointed by the Company to advise the Independent Board Committee and the Independent Shareholders as to whether the Master Purchase Agreement is on normal commercial terms, in the ordinary and usual course of business, fair and reasonable and in the interests of the Company and the Independent Shareholders as a whole.

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## LETTER FROM VEDA CAPITAL

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### II. BASIS OF OUR ADVICE

In formulating our opinion to the Independent Board Committee and the Independent Shareholders, we have relied on the statements, information, opinions and representations contained in the Circular and the information and representations provided to us by the Company, Directors and management of the Company. 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 assumed that all information, representations and opinions contained or referred to in the Circular, which have been provided by the Company, Directors and management of the Company and for which they are solely and wholly responsible, were true and accurate at the time when they were made and continue to be true at the date of the Circular.

We have no reason to believe that any information and representations relied on by us in forming our opinion are 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 Directors and management of the Company.

### III. PRINCIPAL FACTORS AND REASONS

In assessing the Master Purchase Agreement and in giving our recommendations to the Independent Board Committee and the Independent Shareholders, we have taken into account the following principal factors and reasons:

#### **Background and reasons**

The Group is principally engaged in the development, manufacture and sale of toys. Its products include radio control products, electronic and plastic toys and consumer electronic products on OBM and OEM basis.

The Supplier Group is principally engaged in the development, manufacturing, distribution and trading of moulds, materials, toys and related products, including but not limited to consumer electronic products, radio control/wireless products, and electronic and plastic toys.

Further to the Disposal as announced by the Company on 28 January 2011, the manufacturing in respect of the Group's OBM/OEM business is currently conducted at the Indonesia factory or subcontracted to the PRC Factories and/or other independent third parties. Following completion of the disposal of the PRC Factories, the Group intends to reduce the reliance on the PRC Factories by (a) transferring a major portion of the Group's requisite manufacturing orders from the PRC Factories to the Indonesia factory; or (b) engaging other independent subcontractors for its manufacturing requirements.

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## LETTER FROM VEDA CAPITAL

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Currently, most of the Group's OBM/OEM business is conducted by the PRC Factories. Since the Directors are of the view that the reduction on the reliance on the PRC Factories' manufacturing capacity may require certain time and the Group may need certain time to source and identify new independent subcontractors for its OBM/OEM business according to its production requirements, costs and production capacity, the Directors considered that entering into the Master Purchase Agreement will enable the Group to maintain the normal course of business, whilst offering management sufficient time to engage other independent subcontractors for its manufacturing requirements and/or transfer production orders to its Indonesia factory.

Given that the Master Purchase Agreement was entered into during the ordinary and usual course of business of the Group which was due to the prices of the Products to be determined after arm's length negotiations between the parties from time to time with reference to the prevailing market price of similar products and on terms no less favourable to the Company than terms available from independent third parties to the Company having regard to the quantity, specifications and/or other conditions of the Products to be offered; and that the Group requires sufficient time to engage other independent subcontractors for its manufacturing requirements and/or transfer production orders to its Indonesia factory in order to reduce the reliance on the PRC Factories, the Directors consider that the terms of the Master Purchase Agreement, including the Annual Caps, are fair and reasonable and are in the interests of the Company and the Shareholders as a whole.

Having considered (a) the principal activities of the Company; and (b) the transitional period for the Company transferring a major portion of the Group's requisite manufacturing orders from the PRC Factories to the Indonesia factory and indentifying other independent subcontractors for its manufacturing requirements upon the Disposal, we consider that the Master Purchase Agreement is fair and reasonable, in the ordinary and usual course of business of the Company and in the interests of the Company and the Independent Shareholders.

### **Pricing basis**

As set out in the Board Letter, the prices of the Products to be offered to the Group under the Master Purchase Agreement will be determined after arm's length negotiations between the parties from time to time with reference to the prevailing market price of similar products on terms no less favourable to the Company than terms available from independent third parties to the Company having regard to the quantity, specifications and/or other conditions of the Products to be offered. As discussed with the Company, in order to ensure the transactions under the Master Purchase Agreement were priced with reference to the prevailing market price of similar products on terms no less favourable to the Company than terms available from independent third parties to the Company, a department of the Company will be designated to examine the market prices before entering into the transactions under the Master Purchase Agreement. A report which set out, among others, the proposed price of the Products to be offered to the Group by the Supplier Group and the market prices of similar products offered by independent suppliers, will be reviewed by the management of the Company and the price of the Products to be offered to the Group will be approved by the management of the Company upon review and comparison with the market prices of similar products (the "**Pricing Monitoring Mechanism**").

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## LETTER FROM VEDA CAPITAL

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We have enquired the Company to provide historical sale contracts entered into with the Supplier and with other independent suppliers for pricing terms comparison purposes. However, we were advised by the Company that given the Supplier is a wholly owned subsidiary of the Company immediately before the Disposal, there are no historical sales contracts between the Company and the Supplier as at the Latest Practicable Date. However, given that (a) the prices of the Products to be offered to the Group under the Master Purchase Agreement will be determined after arm's length negotiations between the parties from time to time with reference to the prevailing market price of similar products on terms be no less favourable to the Company than terms available from independent third parties to the Company and will be monitored by the Pricing Monitoring Mechanism; (b) the independent non-executive Directors will, pursuant to Rule 14A.37 of the Listing Rules, review, amongst other things, whether the Master Purchase Agreement is conducted on normal terms, or if there are no sufficient comparable transactions to judge whether they are on normal commercial terms, on terms no less favourable to the Group than those offered by suppliers of the Group who are independent third parties; and (c) the auditors of the Company will, pursuant to Rule 14A.38 of the Listing Rules, review for the purpose of confirming whether the continuing connected transactions entered into between the Company and the Supplier Group are conducted in accordance with the Master Purchase Agreement, we are of the opinion that (a) the Master Purchase Agreement is fair and reasonable and on normal commercial terms; and (b) adequate measures and mechanism have been in place, as required under the said Listing Rules above, to monitor the Master Purchase Agreement in order to protect the interests of the Company and the Independent Shareholders.

### Annual Caps

It is expected that the total value of the Products to be supplied and sold by the Supplier Group to the Purchaser Group pursuant to the terms of the Master Purchase Agreement shall not exceed the amounts set out below:

| Period ending 31 March     | 2012<br>(Note)          | 2013                    | 2014                    |
|----------------------------|-------------------------|-------------------------|-------------------------|
| Annual Caps (HK\$ million) | 330<br>(the "2012 Cap") | 310<br>(the "2013 Cap") | 290<br>(the "2014 Cap") |

*Note:* The period commences from 1 May 2011 until 31 March 2012

As set out in the Board Letter, the Annual Caps were determined with reference to (a) the historical figures of the transaction amounts between the Supplier Group and the Purchaser Group for the financial years ended 31 March 2009 and 31 March 2010 and the six months ended 30 September 2010 after taking into account the effects following the Disposal; (b) the estimated volume of the products required by the Group; (c) the prevailing market prices of such products on terms no less favourable to the Company than terms available from independent third parties to the Company having regard to the quantity, specifications and/or other conditions of the Products to be offered; and (d) the estimated costs for the supply of such products for each of the relevant financial years under the Master Purchase Agreement.

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## LETTER FROM VEDA CAPITAL

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### *2012 Cap*

We have enquired the Company for the calculation mechanism of the 2012 Cap and was advised by the Company that the 2012 Cap was determined based on:

- (i) the purchase from the Supplier Group which was accounted for approximately HK\$384 million, representing approximately 86% (the “**2011 Purchase from Supplier Group Percentage**”) of the total purchase (the “**Total Purchase**”) of approximately HK\$444 million by the Purchaser Group for the year ended 31 March 2011; and
- (ii) the projected total sales of the Purchaser Group (the “**2012 Projected Total Sales**”) of approximately HK\$514 million based on the verbal/written indications. The Total Purchase accounted for an average of approximately 84% (the “**Total Purchase to Total Sales Percentage**”) to the total sales of the Purchaser Group (the “**Total Sales**”) for the three years ended 31 March 2011 and accordingly, the projected Total Purchase for the year ending 31 March 2012 (the “**2012 Projected Total Purchase**”) is projected as approximately HK\$432 million.

According to the 2011 Purchase from Supplier Group Percentage and the 2012 Projected Total Purchase, the Company projects that the purchase from Supplier Group for the year ending 31 March 2012 would be approximately HK\$372 million, or approximately HK\$341 million for the 11 months ending 31 March 2012 (the “**2012 Projected Purchase from Supplier Group**”) on a pro rata basis since the 2012 Cap commences in May 2011 upon completion of the Disposal. As advised by the Company, by adopting a more prudent approach, instead of rounding down the 2012 Cap to HK\$340 million, the 2012 Cap was set at HK\$330 million. In view that the 2012 Cap does not exceed the 2012 Projected Purchase from Supplier Group, we consider the 2012 Cap has been arrived at a prudent approach and is fair and reasonable and in the interests of the Company and the Independent Shareholders as a whole.

### *2013 Cap and 2014 Cap*

We have reviewed the purchase from Supplier Group (the “**Purchase from Supplier Group**”) and the Total Purchase for the three years ended 31 March 2011 and noted that the Purchase from Supplier Group accounted for an average of approximately 89% of the Total Purchase. The Company has advised us of their intention to reduce their reliance on the Supplier Group of at least HK\$20 million every year. With reference to the existing manufacturing requirements, the Company would like to transfer production orders (the “**Production Orders**”) to the Indonesia factory or other independent subcontractors at a similar cost and quality so that by the year ending 31 March 2014, the percentage of Purchase from Supplier Group would gradually decrease to below 60%. Accordingly, the 2013 Cap and 2014 Cap were set at HK\$310 million and HK\$290 million respectively. As advised by the Company, it has commenced identifying independent subcontractors and has requested quotes for the production fee of certain projects from those potential subcontractors. In view that the Company has commenced identifying other subcontractors and it is at the Company’s sole discretion to decide the allocation of the Production Orders to the Supplier Group, the Indonesia factory or other independent subcontractors, we consider the Company’s assumption to reduce Purchase from Supplier Group by HK\$20 million every year is fair and reasonable.



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## LETTER FROM VEDA CAPITAL

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We have reviewed the Total Sales and Total Purchase for the three years ended 31 March 2011 and noted that the average annual growth rates for the three years ended 31 March 2011 in respect of Total Sales and Total Purchase were approximately 29.53% and 48.02% respectively. The Company also advised that they are optimistic with the Total Sales remaining at a growth rate of approximately 20% to 30% for the two years ending 31 March 2014. However, having considered the real gross domestic products growth rate of approximately 2.7% and 1.8% of the Group's major markets in North America and Europe respectively for the year 2010 (as shown in the "World Factbook" at Central Intelligence Agency at [www.cia.gov](http://www.cia.gov)) and their inflation rates of approximately 1.5% and 2.2% respectively, we have taken a prudent estimation of the annual growth rate of the Purchaser Group of 5% (the "**Estimated Annual Growth Rate**").

Based on the 2012 Projected Total Sales and Estimated Annual Growth Rate, the Total Sales is expected to increase to approximately HK\$540 million for the year ending 31 March 2013 and approximately HK\$567 million for the year ending 31 March 2014. With reference to the Total Purchase to Total Sales Percentage, Total Purchase is expected to increase to approximately HK\$454 million for the year ending 31 March 2013 and approximately HK\$476 million for the year ending 31 March 2014. Given the Group intends to reduce the reliance on the Supplier Group gradually, by assuming the Purchase from Supplier Group represents approximately 70% and approximately 60% respectively of the Total Purchase for the year ending 31 March 2013 and 31 March 2014, the Purchase from Supplier Group for the two years ending 31 March 2014 would be approximately HK\$318 million and HK\$286 million respectively, which are in line with the 2013 Cap and 2014 Cap. In view that the Company has commenced identifying other subcontractors and it is at the Company's sole discretion to decide the allocation of the Production Orders to the Supplier Group, the Indonesia factory or other independent subcontractors, we consider the Company's assumption in respect of the Purchase from Supplier Group represents approximately 70% and approximately 60% respectively of the Total Purchase for the years ending 31 March 2013 and 31 March 2014 is fair and reasonable.

In view of the above mentioned, we consider the proposed Annual Caps are fair and reasonable and in the interests of the Company and the Independent Shareholders as a whole.

#### IV. RECOMMENDATION

Taking into consideration of the above-mentioned principal factors and reasons, we consider that the Master Purchase Agreement is fair and reasonable so far as the Independent Shareholders are concerned and is in the interests of the Company and the Independent Shareholders as a whole. We also consider that the Master Purchase Agreement is on normal commercial terms and in the ordinary and usual course of business of the Group. Accordingly, we recommend the Independent Shareholders, as well as the Independent Board Committee to advise the Independent Shareholders, to vote in favour of the relevant resolution to be proposed at the EGM to approve the Master Purchase Agreement.

Yours faithfully,  
For and on behalf of  
**Veda Capital Limited**  
**Hans Wong** **Julisa Fong**  
*Chairman* *Managing Director*

## 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<br>(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)<br>(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%  |

*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 the 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 at 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:

| <b>Name of Shareholder</b>     | <b>Nature of interest</b>          | <b>Number of Shares or underlying Shares<br/>(Note 1)</b> | <b>Approximate % of issued share capital as at the Latest Practicable Date</b> |
|--------------------------------|------------------------------------|---|--|
| 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)<br>(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 at 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 service 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. MATERIAL ADVERSE CHANGE**

On 28 January 2011 and 24 March 2011, the Company as a vendor, Brisk Mark Holdings Limited as a purchaser and Mr. Leung Chung Ming and Mr. Leung, Kenneth Yuk Wai as warrantors entered into a disposal agreement and a supplemental agreement respectively in respect of the disposal of the PRC business and relevant loans of approximately HK\$282 million, subject to adjustment. Details of these agreements were set out in the announcements of the Company dated 28 January 2011 and 24 March 2011. Following the disposal of the PRC business and relevant loans, the revenue of the Group would decrease substantially since the Group is no longer to be engaged in the business of manufacturing toys in the PRC regions and the revenue generated from the PRC regions would decrease accordingly. In addition, the total assets of the Group would also decrease substantially as the major manufacturing plant of the Group has been disposed of.

Save as disclosed above, 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.

**5. COMPETING INTERESTS**

As at the Latest Practicable Date, none of the 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.

**6. DIRECTORS' INTEREST IN ASSETS AND CONTRACTS OF SIGNIFICANCE**

On 29 September 2008, Dongguan Lung Cheong Toys Co., Ltd., a subsidiary of the Company, as a vendor and a company beneficially owned by Mr. Leung Lun as a purchaser entered into two sale and purchase agreements with a consideration of RMB1.6 million and RMB2.4 million in relation to the disposal of two properties in the PRC, details of which were set out in the announcement of the Company dated 10 October 2008.

On 28 January 2011 and 24 March 2011, the Company as a vendor, Brisk Mark Holdings Limited as a purchaser and Mr. Leung Chung Ming and Mr. Leung, Kenneth Yuk Wai as warrantors entered into a disposal agreement and a supplemental agreement respectively in respect of the disposal of the PRC business and relevant loans of approximately HK\$282 million, subject to adjustment. Details of these agreements were set out in the announcements of the Company dated 28 January 2011 and 24 March 2011.

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 to 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 continued support will be made and there will be 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.

**7. EXPERT AND CONSENT**

- (a) The following is the qualification of the expert who has been named in this circular and have given opinion and advice which is contained in this circular:

| <b>Name</b>  | <b>Qualification</b>   |
|--------------|--|
| Veda Capital | Veda Capital Limited, a corporation licensed under the SFO to carry on type 6 (advising on corporate finance) regulated activity |

- (b) As at the Latest Practicable Date, 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.
- (c) 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.
- (d) As at the Latest Practicable Date, 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.

**8. MISCELLANEOUS**

The English version of this circular shall prevail over the Chinese version for the purpose of interpretation.

**9. 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:

- (a) the Master Purchase Agreement;
- (b) the disposal agreement dated 28 January 2011 and the supplemental agreement dated 24 March 2011 entered into among the Purchaser, the Company, Mr. Leung Chung Ming and Mr. Leung, Kenneth Yuk Wai in respect of the disposal of the entire issued share capital of Lung Cheong (BVI) Holdings Limited and the loans owing by members of Lung Cheong (BVI) Holdings Limited to the Group;

- (c) the loan agreement and the extension agreement entered into between the Company and Lung Cheong Investment Limited, 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 and to extend the maturity date for repayment of the loan and all amounts outstanding under the loan agreement to 6 March 2009;
- (d) the letter of recommendation from the Independent Board Committee, the text of which is set out on pages 8 and 9 of this circular;
- (e) the letter of advice from Veda Capital, the text of which is set out on pages 10 to 15 of this circular;
- (f) the written consent referred to under the paragraph headed “Expert and consent” in this appendix; and
- (g) this circular.

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## NOTICE OF EXTRAORDINARY GENERAL MEETING

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### 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 Thursday, 7 July 2011 at 9:30 a.m. for the purpose of considering and, if thought fit, passing with or without amendment, the following ordinary resolution:

#### ORDINARY RESOLUTION

**“THAT**

- (i) the master purchase agreement dated 9 May 2011 entered into between LC Global Holdings Corporation (“**LC Global**”), a subsidiary of the Company, and Lung Cheong (BVI) Holdings Limited (the “**Master Purchase Agreement**”) (a copy of which has been produced to the Meeting and marked “A” and initialed by the chairman of the Meeting for the purpose of identification) in relation to, among other matters, the supply of consumer electronic products, radio control/wireless products, electronic and plastic toys for a term up to 31 March 2014 and the transactions contemplated thereunder be and are hereby approved, ratified and confirmed;
- (ii) the proposed annual caps in relation to the transactions under the Master Purchase Agreement for the period commencing from 1 May 2011 to 31 March 2014 and each of the period/years ending 31 March 2012, 31 March 2013 and 31 March 2014 will not exceed HK\$330,000,000, HK\$310,000,000 and HK\$290,000,000 respectively be and are hereby approved; and
- (iii) the Directors be and are hereby authorised to execute such other documents, do all other acts and things and take such action as they may consider necessary, desirable or expedient to implement and/or give effect to or otherwise in connection with the Master Purchase Agreement and any or all the matters contemplated in the Master Purchase Agreement and this resolution.”

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

Hong Kong, 20 June 2011



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## NOTICE OF EXTRAORDINARY GENERAL MEETING

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*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. 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.
2. 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.
3. As at the date hereof, the executive Directors are Mr. Leung Lun, 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.
4. In case of any inconsistency, the English text of this notice shall prevail over the Chinese text.