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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 a 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 and the accompanying form of proxy to the purchaser or 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)

PLACING OF NEW SHARES UNDER THE SPECIFIC MANDATE AND NOTICE OF EXTRAORDINARY GENERAL MEETING

Placing Agent



睿智金融國際有限公司
VISION FINANCE INTERNATIONAL COMPANY LIMITED

Financial Adviser



長江證券融資(香港)有限公司
CHANGJIANG CORPORATE FINANCE (HK) LIMITED

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 Thursday, 14 March 2013 at 9:30 a.m. is set out on pages 20 to 21 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 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 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.

26 February 2013

* For identification purposes only

CONTENTS

	<i>Page</i>
Definitions	1
Letter from the Board	4
Notice of the EGM	20

DEFINITIONS

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

“Board”	the board of Directors
“Business Day”	any day (not being a Saturday, Sunday or public holiday) on which licensed banks in Hong Kong are open for business
“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
“Completion”	completion of the Placing in accordance with the terms and conditions of the Placing Agreement
“Director(s)”	the director(s) of the Company
“EGM”	the extraordinary general meeting of the Company to be convened and held to consider and, if thought fit, approve, among others, (i) the Placing Agreement and the transactions contemplated thereunder; and (ii) the issue and allotment of the Placing Shares under the Specific Mandate
“Executive”	the Executive Director of the Corporate Finance Division of the SFC and any of his delegates
“Group”	the Company and its subsidiaries
“Haier Electrical Appliances Second”	Haier Electrical Appliances Second Holdings (BVI) Limited, an investment holding company incorporated in the British Virgin Islands with limited liability and a wholly-owned subsidiary of Haier Investment
“Haier Investment”	青島海爾投資發展有限公司 (Qingdao Haier Investment and Development Co., Ltd.*), a limited liability company established in the PRC, an Independent Third Party
“HK\$”	Hong Kong dollars, the lawful currency of Hong Kong

DEFINITIONS

“Hong Kong”	the Hong Kong Special Administrative Region of the People’s Republic of China
“Independent Third Party(ies)”	person(s) who is(are) third party(ies) independent of the Company and connected persons (as defined under the Listing Rules) of the Company
“Last Trading Date”	6 November 2012, being the last day on which the Shares were traded on the Stock Exchange prior to the date of the Placing Agreement
“Latest Practicable Date”	22 February 2013, being the latest practicable date prior to the printing of this circular for ascertaining certain information in this circular
“Listing Committee”	the listing committee of the Stock Exchange
“Listing Rules”	the Rules Governing the Listing of Securities on the Stock Exchange
“Lung Cheong Investment”	Lung Cheong Investment Limited, being the substantial shareholder of the Company as at the date of the Placing Agreement
“OBM”	Original Brand Manufacturing
“OEM”	Original Equipment Manufacturing
“Other Placees”	Placees other than Haier Electrical Appliances Second
“Placee(s)”	any person or entity whom the Placing Agent has procured to subscribe for the Placing Shares
“Placing”	the placing of the Placing Shares to the Placee(s) pursuant to the Placing Agreement
“Placing Agent”	Vision Finance International Company Limited, a company licensed to conduct Type 1 (dealing in securities) regulated activities under the Securities and Futures Ordinance (Chapter 571 of the Laws of Hong Kong)

DEFINITIONS

“Placing Agreement”	the conditional placing agreement dated 6 November 2012 entered into between the Company and the Placing Agent in relation to the Placing
“Placing Price”	the price of HK\$0.20 per Placing Share
“Placing Shares”	up to a maximum of 2,000,000,000 new Shares to be allotted and issued pursuant to the Placing Agreement
“PRC”	mean The People’s Republic of China (which for the purpose of this circular excludes Hong Kong, Taiwan and Macau)
“Share(s)”	ordinary share(s) of nominal value of HK\$0.10 each in the issued share capital of the Company
“Shareholder(s)”	holder(s) of the Share(s)
“Specific Mandate”	the specific mandate for the issue of the Placing Shares to be granted to the Directors by the Shareholders at the EGM
“Stock Exchange”	The Stock Exchange of Hong Kong Limited
“substantial shareholder”	has the meaning ascribed thereto in the Listing Rules
“Takeovers Code”	the Hong Kong Codes on Takeovers and Mergers
“%”	per cent.

LETTER FROM THE BOARD



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, *M.H. (Chairman and Chief Executive)*

Mr. Wong, Andy Tze On

Mr. Ye Tian Liu[#]

Mr. Lai Yun Hung[#]

Dr. Ko Peter, Ping Wah[#]

[#] *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 SAR

26 February 2013

To Shareholders of the Company,

Dear Sir or Madam,

**PLACING OF NEW SHARES
UNDER THE SPECIFIC MANDATE
AND
NOTICE OF EXTRAORDINARY GENERAL MEETING**

INTRODUCTION

On 6 November 2012, the Company entered into the Placing Agreement with the Placing Agent pursuant to which the Company appointed the Placing Agent as its sole and exclusive placing agent, on a best-effort basis, to procure not fewer than six Placees (who are Independent Third Parties) to subscribe for up to 2,000,000,000 Placing Shares at the Placing Price.

* *For identification purposes only*

LETTER FROM THE BOARD

The purpose of this circular is to provide you with further details of (i) the Placing Agreement and the transactions contemplated thereunder; (ii) the issue and allotment of the Placing Shares under the Specific Mandate; and (iii) a notice convening the EGM at which resolution will be proposed to consider, and if thought fit, approve, among other things, (a) the Placing Agreement and the transactions contemplated thereunder; and (b) the issue and allotment of the Placing Shares under the Specific Mandate.

PLACING OF 2,000,000,000 NEW SHARES

The Placing Agreement

Details of the Placing Agreement:

- Date: 6 November 2012
- Parties: (i) Issuer : the Company
(ii) Placing Agent : Vision Finance International Company Limited
- Placing Shares: A maximum of 2,000,000,000 new Shares to be allotted and issued by the Company, equivalent to approximately 57.84% of the existing issued share capital of the Company and representing approximately 36.65% of the issued share capital of the Company as enlarged by the allotment and issue of the Placing Shares. The Placing Agent has conditionally agreed to place a maximum of 2,000,000,000 Placing Shares on a best effort basis.
- Placing Price: The price of HK\$0.20 per Placing Share was determined after arm's length negotiations between the Company and the Placing Agent with reference to the then market price of the Share and the then net assets value per Share of the Company and represents:
- (i) a discount of approximately 31.03% to the closing price of HK\$0.29 per Share as quoted on the Stock Exchange on 6 November 2012, being the Last Trading Date;
 - (ii) a discount of approximately 29.08% to the average closing price of approximately HK\$0.282 per Share as quoted on the Stock Exchange for the five trading days of the Shares immediately prior to the date of the Placing Agreement;

LETTER FROM THE BOARD

- (iii) a premium of approximately 6.14 times over the unaudited net asset value per Share of approximately HK\$0.02799 as at 30 September 2012; and
- (iv) a discount of approximately 43.66% to the closing price of HK\$0.355 per Share as quoted on the Stock Exchange on the Latest Practicable Date.

The net price of each Placing Share will be approximately HK\$0.194.

Placees:

The Placing Shares are expected to be placed by the Placing Agent to not fewer than six Placees who and whose ultimate beneficial owners should be Independent Third Parties. On 6 November 2012, the Placing Agent procured a Placee, namely Haier Electrical Appliances Second, and Haier Electrical Appliances Second on the same day confirmed to the Placing Agent to subscribe for a total of 1,390,000,000 Placing Shares at the Placing Price subject to the satisfaction of conditions under the Placing Agreement as described below having become unconditional in all respects. The remaining 610,000,000 Placing Shares will be subscribed by Other Placees. Upon completion of the Placing, it is expected that save Haier Electrical Appliances Second will become a substantial shareholder of the Company holding an equity interest of approximately 25.47% in the share capital of the Company as enlarged by the allotment and issue of the Placing Shares, none of the Other Placees will become substantial shareholder.

The Placing Agent is currently seeking for Other Placees and the number of Placees is not uncertain. Should the total number of Placees is fewer than six, a separate announcement will be made to disclose the name of the Placees according to the Listing Rules.

LETTER FROM THE BOARD

Upon completion of the Placing Agreement, Lung Cheong Investment and Haier Electrical Appliances Second will be presumed to be parties acting in concert under class 1 of the definition of acting in concert of the Takeovers Code. The Company received confirmation(s) from Lung Cheong Investment and Haier Electrical Appliances Second respectively confirming that Lung Cheong Investment and its concert parties on the one hand and Haier Electrical Appliances Second and its concert parties on the other hand are not parties acting in concert with each other in respect of the Company upon completion of the Placing. The Company, on behalf of Lung Cheong Investment and Haier Electrical Appliances Second, has applied to the Securities and Futures Commission to rebut the above presumption and has obtained confirmation from the Commission that the presumption is not applied to Lung Cheong Investment and Haier Electrical Appliances. Therefore, Lung Cheong Investment and Haier Electrical Appliances Second are not parties in concert under the Takeover Codes.

Having considered that the Placing Price represents a significant premium to the unaudited net asset value per Share as at 30 September 2012 and the discount to the recent trading price of the Shares prior to the Last Trading Date is comparable to the discount to Share price under the Company's previous placing exercise in April 2012, the Directors are of the view that the Placing Price is fair and reasonable and is in the interests of the Company and Shareholders as a whole.

To the best of the Directors' knowledge, information and belief having made all reasonable enquiries, each of the Placing Agent and its ultimate beneficial owners are Independent Third Parties, independent of Lung Cheong Investment and Haier Electrical Appliances Second, any of the Directors, their respective associates and/or their respective concert parties.

The Placing Agent will in aggregate receive an underwriting commission of 2.5% of the amount raised from the Placing, representing an amount equal to the Placing Price multiplied by the number of Placing Shares successfully placed by the Placing Agent.

As at the Latest Practicable Date, other than Haier Electrical Appliances Second, the Placing Agent has not identified any Other Placees who have expressed their interests to take up the Placing Shares.

LETTER FROM THE BOARD

Other details:

Conditions Precedent: The Placing is conditional upon the fulfillment of the following conditions by no later than 30 April 2013 (cannot be extended without Shareholders' approval):

- (a) the passing of the following resolution(s) at the extraordinary general meeting by the Shareholders (being such Shareholders as are allowed to vote under the Listing Rules and/or the Takeovers Code) in relation to the Placing Agreement and the transactions contemplated thereunder:
 - (i) the issue and allotment under a specific mandate of 2,000,000,000 Placing Shares constituting approximately 36.65% of the issued share capital of the Company as enlarged by the allotment and issue of the Placing Shares; and
 - (ii) the Placing Agreement and the transactions contemplated thereunder.
- (b) the listing of, and permission to deal in, all the Placing Shares being granted by the Stock Exchange and such listing and permission not subsequently being revoked;
- (c) the granting of the ruling by the Executive to the application of rebutting the presumption that Haier Electrical Appliances Second and Lung Cheong Investment are concert parties with each other in respect of the Company as a result of the Placing;
- (d) the Company have sought the Stock Exchange's view on the announcement dated 6 November 2012 in respect of the Placing and, if the Company finds it necessary, having obtained the Stock Exchange's approval or clearance on that announcement;

LETTER FROM THE BOARD

- (e) Haier Electrical Appliances Second having completed and being satisfied with the results of the due diligence exercise on, *inter alia*, the assets, liabilities, operation, taxation, books and records and legal aspects of the Group within one month after the date of the Placing Agreement;

- (f) there not having been, at any time before the second Business Day immediately after 5:00 p.m. (Hong Kong time) on the Business Day immediately following the date on which the Conditions Precedent are fulfilled (or such later date as the Company and the Placing Agent may agree in writing):
 - (i) any adverse change or any development reasonably likely to involve an adverse change in the condition (financial or otherwise) of the Group which is material in the context of the Placing;

 - (ii) the occurrence of any event or the existence of any circumstance which would render any of the warranties untrue or inaccurate in any material respect; and

 - (iii) the occurrence of any breach of the undertakings of the Company as set out in the Placing Agreement.

Save for conditions (a) and (b) above, all conditions can be waived by the Placing Agent. With respect to condition (c), the rebuttal application may or may not be granted. Condition (c) shall only be waived if the consent from both Lung Cheong Investment and Haier Electrical Appliances Second is obtained. Lung Cheong Investment and Haier Electrical Appliances Second should comply with the obligation under Rule 26 of the Takeovers Code to make offer to the other Shareholders for all of their Shares should condition (c) be waived.

As at the Latest Practicable Date, the rebuttal application has been granted by the Securities and Futures Commission and therefore, condition (c) is fulfilled. Furthermore, conditions (d) and (e) are fulfilled.

LETTER FROM THE BOARD

Termination:

The Placing is subject to termination, at any time prior to the date of Completion, by reason of (i) in the reasonable opinion of the Placing Agent there shall have been since the date of the Placing Agreement any change in national or international, financial, political or economic conditions or taxation or exchange controls which would be likely to prejudice materially the consummation of the Placing; (ii) the introduction of any new law or regulation or any change in existing law or regulation (or the judicial interpretation thereof) or other occurrence of any matter whatsoever which may adversely affect the business or the financial or trading position or prospects of the Group as a whole; (iii) any material breach of any of the representations, warranties or undertakings contained in the Placing Agreement or any event rendering such representations and warranties untrue or incorrect in any material respect or there has been a material breach by the Company of any other provision of the Placing Agreement; or (iv) any material adverse change in the financial position of the Company which in the reasonable opinion of the Placing Agent is material in the context of the Placing.

Completion:

Completion of the Placing is expected to take place on the fifth Business Day following the satisfaction of the conditions of the Placing.

Completion of the Placing is subject to the satisfaction of certain conditions as described above, including the Stock Exchange granting listing of, and permission to deal in, the Placing Shares. If any of these conditions are not fulfilled or waived, the Placing will not proceed.

As the Placing may or may not proceed, Shareholders and potential investors are advised to exercise caution when dealing in the Shares.

LETTER FROM THE BOARD

Mandate to issue the Placing Shares:	The Placing Shares will be allotted under the Specific Mandate to be sought at the EGM.
Ranking of the Placing Shares:	The Placing Shares, when issued and fully paid up, will rank pari passu in all respects with the Shares in issue at the time of allotment and issue of the Placing Shares.
Application for listing:	Application will be made by the Company to the Listing Committee for the listing of, and permission to deal in, the Placing Shares.

EFFECT ON SHAREHOLDING STRUCTURE

As at the Latest Practicable Date, the Company has 3,457,757,997 Shares in issue. The shareholding structure of the Company before and after completion of the Placing (assuming no other change to the issued share capital of the Company) are as follows:

	As at the Latest Practicable Date		Immediate after completion of the Placing	
	Number of Shares held	Approximate shareholding percentage	Number of Shares held	Approximate shareholding percentage
Lung Cheong Investment and concert parties (<i>Note 1</i>)	1,499,082,240	43.35	1,499,082,240	27.47
Haier Electrical Appliances Second and concert parties (<i>Note 2</i>)	–	–	1,390,000,000	25.47
Public Shareholders				
Other public Shareholders	1,958,675,757	56.65	1,958,675,757	35.89
Other Places (<i>Note 2</i>)	–	–	610,000,000	11.17
Total	3,457,757,997	100.00	5,457,757,997	100.00

Notes:

- Lung Cheong Investment is the existing controlling shareholder of the Company and a company incorporated in the British Virgin Islands with limited liability which is wholly-owned by Rare Diamond Limited, a company incorporated in the British Virgin Islands which in turn is owned as to 70% by Mr. Leung Lun, *M.H.*, an executive Director of the Company and 30% by Mr. Leung Chung Ming, who is the brother of Mr. Leung Lun, *M.H.*
- Assuming all new Shares are successfully placed under the Placing.

LETTER FROM THE BOARD

3. As at the Latest Practicable Date, there are 500,000,000 outstanding warrants which can be, if fully exercised, convertible to 500,000,000 new Shares. The warrants were issued on the basis of one warrant for each placing share issued to the subscribers who are Independent Third Parties under the placing of 500,000,000 Shares of the Company, which was completed on 13 June 2012.

No Placee (other than Haier Electrical Appliances Second) is expected to become a substantial shareholder as a consequence of the Placing.

As at the Latest Practicable Date, the authorized share capital of the Company include 10,000,000,000 Shares and 40 convertible non-voting preference shares non-voting of US\$100,000 each, the Company has a total of 3,457,757,997 Shares in issue and 500,000,000 warrants carrying rights to subscribe for 500,000,000 Shares. Save as aforesaid, the Company has no other relevant securities (as defined in Note 4 to Rule 22 of the Takeovers Code) of the Company as at the date hereof.

BUSINESS OF THE COMPANY

The Group is principally engaged in the manufacturing, marketing and trading of toys.

REASONS FOR THE PLACING AND USE OF PROCEEDS

It is expected that the maximum gross proceeds and maximum net proceeds of approximately HK\$400 million and approximately HK\$388 million will be raised upon completion of the Placing.

The Directors are concerned that the global toy industry will continue to face challenges in the future due to the volatility of raw materials prices, ever increasing energy and labour costs, the weakness of the US dollar against the PRC Renminbi and the fluctuation of the Indonesia Rupiah which would adversely affect the Group's financial performance. The Directors have been actively exploring all possibilities of selective mergers, acquisitions and divestments to reduce the Group's reliance on its toy business so as to seek alternate sources of revenue from new ventures to add value to Shareholders. Since 2011, the Company has been in contact with a toy marketer with sales focus in North America and a outdoor children toy brand. As both potential projects would involve cash injection and at the relevant times the Group considered that it had no spare cash resources to invest in the marketer or the brand, discussions were suspended in a preliminary stage.

In view of the above, the Directors consider that it is prudent for the Group to conduct the Placing to raise sufficient fund in light of the uncertainties in the world markets and the Placing will benefit the Company's long term development and broaden the Company's equity base and strengthen the financial position of the Group. It can also make prompt response to any merger and acquisition opportunity which is beneficial to the Group as a whole. Furthermore, the Placing Agent has procured Haier Electrical Appliances Second as a strategic investor of the Company. Haier Electrical Appliances Second is a wholly owned subsidiary of Haier Investment which is

LETTER FROM THE BOARD

one of the major investment companies within Haier Group of companies. Founded in 1984, Haier Group of companies is headquartered in Qingdao, Shandong Province, the PRC and is today one of the world's leading white goods home appliance manufacturers. The products of Haier Group are now sold in over 100 countries. The Directors are of the opinion that by inviting Haier Electrical Appliances Second as strategic investor, the Group can draw on the successful experience of Haier Group of companies in particular, in building up a well-known worldwide brand name and efficient manufacturing management and worldwide distribution channel, and to improve its business strategy towards the competitive toy manufacturing industry in recent years due to the uncertainties and soft demand from North American and European markets. The Directors consider the terms of the Placing Agreement which have been arrived at after arm's length negotiations between the Company and the Placing Agent are fair and reasonable and the Placing Agreement is in the interests of the Company and the Shareholders as a whole.

Up to the Latest Practicable Date, other than the projects disclosed above in this section, the Company:

- (i) does not have any intention to discontinue the existing toy business;
- (ii) has not entered into, and has no intention to enter into, any agreement, arrangement, understanding or negotiation to dispose of or discontinue its existing toy business or relevant material assets; and
- (iii) has no intention to undergo any substantial changes of members of the Board or substantial changes of its management team as a result of the Placing.

It is expected that the net proceeds from the Placing will amount to approximately HK\$388 million. The Company intends to apply the aggregate net proceeds from the Placing towards business development of the Group in the new area and any future possible acquisitions and strategic investment which may bring in revenue when such opportunities arise and to improve the Group's financial position:

- (a) approximately HK\$5 million will be used for the feasibility study of using the Company's current manufacturing and operation facilities or to expand and upgrade the current facilities in Indonesia (if necessary) to produce higher margin products with more electronic contents and extend our engineering and production capabilities in producing complex premium consumer electronic products. It is expected that completion of the feasibility study will take place within one year from its commencement. The scope of the feasibility study will include, *inter alia*, reviewing the Company's current manufacturing and operation facilities, examining whether the current manufacturing and operation facilities reach to an optimum and

LETTER FROM THE BOARD

need expansion, examining the possibility of using, upgrading, expanding, or re-engineering the current facilities to produce higher margin products and complex premium consumer electronic products. The feasibility study will also revisit the previous expansion plan as disclosed in the Company's circular dated 16 May 2012. Approximately HK\$75 million will be used for carrying out the suggestions made in the feasibility study, details of which are summarised in the table below:

Scope of feasibility study	Upon conclusion of the feasibility study	
	Estimated fund to be allotted to carry out the suggestions	Expected time of completion of carrying out the suggestions
(1) Examine whether the current manufacturing and operation facilities reach to an optimum and the need for expansion and revisit the previous expansion plan as disclosed in the Company's circular dated 16 May 2012	Up to HK\$50 million, of which: (i) approximately HK\$20 million will be used to construct new production facilities on existing vacant industrial land in Indonesia; (ii) approximately HK\$10 million will be used to upgrade and improve the existing facilities with a view to reach an optimum; and (iii) approximately HK\$20 million will be used to construct another new factory on the remaining vacant land in Indonesia	Within 1-2 years from completion of placing
(2) Examine the possibility of using, upgrading, expanding or re-engineering the current facilities to produce higher margin products and complex premium consumer electronic products	Up to HK\$25 million; of which (i) approximately HK\$5 million will be used to re-engineer the manufacturing process; and (ii) approximately HK\$20 million will be used to upgrade and restructure the current facilities to cater for production of higher margin products	Within 1-2 years from completion of placing

LETTER FROM THE BOARD

If the findings of the feasibility study support the previous expansion plan as set out in (1) above, the annual production capacity of these new Indonesian factories and expanded production facilities are expected to be approximately four times to the existing annual production capacity of the existing factory in Indonesia.

Should the suggestions made in the feasibility study do not require the entire allocated proceeds of HK\$75 million, the remaining fund will be used for the purpose of (c) below;

- (b) approximately HK\$5 million will be used for performing a detail strategic review of the Company's operation, in particular the Group's OBM, ODM and Kid Galaxy business, improving the strategic direction towards opening new markets or distribution channels by developing more innovative products, stronger brand names or acquire popular licenses and if necessary to re-engineering the Company's business. The strategic review is independent of the feasibility study as described in (a) above. The strategic review will be a high level strategic direction of the Company and is independent of what the Company currently has and the scope of the strategic review is not just restricted to the current products currently manufactured by the Company. Approximately HK\$5 million will be used for the research and development of new lines of products and/or the related brand building or acquisitions, sales, marketing and promotion. Approximately HK\$60 million will be used for the possible acquisition of new product lines in high technology industry and related sales, marketing and promotion. The Company estimates that it is able to develop or acquire not more than 30 lines of products or brands within 2 to 3 years. The new products and/or brands under review are not restricted to the products currently manufactured by the Company, but also included high technology products of higher margin with an objective to increase in sales, turnover and margin of the Company;

- (c) approximately HK\$150 million will be used for possible acquisitions which can complement the Company's existing business and the future strategic direction as stated in (b) above. The Company intends to identify appropriate acquisition opportunities within the two year period after completion of the Placing. As the performance of the Hong Kong financial market was not that good in 2012 and uncertainties over the global market persists, the Directors are of the opinion that the Placing will be a great opportunity to the Group to obtain cash resources for future opportunities even the Placing Price is at a discount of approximately 31.03% to the closing price of the Share on the Last Trading Day. Furthermore, Haier Electrical Appliances Second is seen as a strategic investor rather than a financial investor of the

LETTER FROM THE BOARD

Group as the Directors believe that it can help the Company to position themselves accurately in the market. Nevertheless, as disclosed above, the Company had considered one or two potential projects in 2011 and 2012 but the discussions were suspended in a preliminary stage due to the shortage of cash position of the Group, the Placing will help the Company to make prompt response to any merger and acquisition opportunity which is beneficial to the Group as a whole; and

- (d) approximately HK\$88 million will be used for working capital of the Group, of which approximately HK\$50 million will be used to support the increase in stock to cope with the organic growth of the business of the Company and the balance of approximately HK\$38 million will be used for carrying out the plan as described in (a), (b) or possible acquisitions in (c) above.

Up to the Latest Practicable Date, the Company has not entered into any agreement, arrangements, understanding, intention or negotiation in relation to acquisition of assets or business (including but not limited to that with Haier Electrical Appliances Second).

The Company is under general obligation to disclose any inside information that needs to be disclosed under Part XIVA of the Securities and Future Ordinance (Chapter. 571 of the Laws of Hong Kong) and Rule 13.09 of the Listing Rules. Furthermore, should any agreement, arrangements, understandings, intention or negotiation in relation to acquisition of assets or business be entered into which constitute a notifiable transaction under Chapter 14 and/or connected transaction under Chapter 14A of the Listing Rules, required information will be disclosed and if appropriate, Shareholders' approval may have to be sought, according to the requirements as stipulated under the Listing Rules.

All proceeds from the Placing will be placed in a designated account after deducting related expenses, working capital and initially approved usage as disclosed in this circular. The use of proceeds from the Placing will be under strict monitoring of the Board and any materials change in intended use will require approval from the Board. The Company will make further announcement to disclose and seek Shareholders' approval for any material change in use of the proceeds and the reason thereof.

As per the unaudited interim report for the half year ended 30 September 2012, the cash position of the Company was approximately HK\$11,415,000. The Company cash position will increase to approximately HK\$399,415,000 after Completion of the Placing. Under such circumstance, the cash position represents approximately 66.9% of the total assets and approximately 82.4% of the net assets, based on the total assets and net assets as published in the unaudited interim report for the half year ended 30 September 2012 as enlarged by the net proceeds.

LETTER FROM THE BOARD

FUND RAISING DURING THE PAST TWELVE MONTHS

Saved as disclosed below, the Company has not conducted any equity fund raising activity during the past twelve (12) months immediately preceding the date of this announcement:

Date of announcement:	24 April 2012 (the “2012 Placing Announcement”)
Date of circular:	16 May 2012 (the “2012 Placing Circular”)
Event:	Placing of 500,000,000 Shares at a price of HK\$0.15 per share with one warrant attached to each placing share (the “2012 Placing”)
Net proceeds raised:	approximately HK\$78 million (with all warrants exercised approximately HK\$153 million)

**Intended use of proceeds
from the 2012 Placing as
mentioned in the 2012**

**Placing Announcement
and the 2012 Placing Circular**

**Actual use of proceeds from the 2012 Placing as at
the date of this announcement**

- | | | |
|-----|--|--|
| (a) | approximately HK\$23 million will be used for the construction of new production facilities on existing vacant industrial land, upgrading and improvement of existing facilities of the Group; | Approximately HK\$5 million has been applied on replacing old equipment with new equipment and the balance has been temporarily used to finance the growth in stock and account receivables of the Indonesian operations and OEM business. The turnover of the Group’s manufacturing plant in Indonesia increased from approximately HK\$33 million for the six months ended 30 September 2011 to approximately HK\$63 million for the corresponding period ended in 2012 and accounted for approximately 43% (2011: 10%) of the Group’s turnover for the period ended 30 September 2012. Therefore, funds would be diverted back to it’s original plan when sufficient resources to support the coming growth in sales inclusive of stock and account receivables are in place. |
|-----|--|--|

LETTER FROM THE BOARD

**Intended use of proceeds
from the 2012 Placing as
mentioned in the 2012**

**Placing Announcement
and the 2012 Placing Circular**

**Actual use of proceeds from the 2012 Placing as at
the date of this announcement**

- | | |
|--|---|
| (b) approximately HK\$15 million will be used to promote and market the Group's newly developed products, invest into research and develop more innovative electronic and high-tech consumer products; | Approximately HK\$3 million has been applied to new product development of the OBM business with the remaining has been temporarily utilized for financing the stock and accounts receivables of Kid Galaxy's OBM business. The turnover of the Group's OBM sales increased from approximately HK\$55 million for the six months ended 30 September 2011 to approximately HK\$77 million for the corresponding period ended in 2012 and accounted for approximately 52% (2011: 17%) of the Group's turnover for the period ended 30 September 2012. Therefore, funds would be diverted back to its original intended use when sufficient resources are in place to support the current growth in stock and account receivables as a result of sales increase. |
| (c) approximately HK\$15 million will be used for settling the bank borrowings of the Group; and | Loan has been repaid. |
| (d) approximately HK\$24 million will be used for working capital for the existing business of the Company | Approximately HK\$20 million has been used to repay shareholder's loan and the remaining was used for working capital for the existing business of the Company. As shareholder's loan is part of the working capital of the Group, repaying shareholder's loan was still within the ambit of the definition of working capital. |

The Company does not consider that each of the above-mentioned actual use of proceeds from the 2012 Placing to be a change in use of proceeds from those stated in the 2012 Placing Announcement and the 2012 Placing Circular as temporary allocation of proceeds were applied to finance growth which was the major intentions of the 2012 Placing in the first place. The proceeds from the 2012 Placing were applied to support urgent working capital needs during peak production and shipping months which was previously unplanned for and thus the Directors are of the view that there has been no change in use of proceeds from their intentions.

LETTER FROM THE BOARD

The temporarily use of proceeds as working capital of the Group to support peak season production and shipment needs will eventually be refreshed when accounts receivables are fully recovered and stock are made into finished goods and are then shipped. The Directors expect a portion of these proceeds would be reverted back to its original use in the last quarter of financial year ended 31 March 2013 and thereafter.

EGM

The EGM will be convened to consider and, if thought fit, approve, among other things, (i) the Placing Agreement and the transactions contemplated thereunder; and (ii) the issue and allotment of the Placing Shares under the Specific Mandate. To the best knowledge of the Directors, none of the Shareholders have a material interest in the transactions contemplated under the Placing Agreement. Accordingly, no Shareholder will be required to abstain from voting at the EGM in respect of the resolution(s) relating to the Placing and the Specific Mandate.

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 Company. 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.

RECOMMENDATION

The Directors (including the independent non-executive Directors) are of the opinion that the Placing and terms of the Placing Agreement are fair and reasonable and are in the interests of the Company and the Shareholders as a whole. Accordingly, the Directors (including the independent non-executive Directors) recommend that all Shareholders should vote in favour of the resolution proposed at the EGM.

Yours faithfully
On behalf of the Board of
Lung Cheong International Holdings Limited
Leung Lun
Chairman

NOTICE OF THE EGM



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 OF EXTRAORDINARY GENERAL MEETING

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, 14 March 2013 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 placing agreement dated 6 November 2012 entered into between the Company as issuer and Vision Finance International Company Limited as placing agent in relation to the placing of up to a maximum of 2,000,000,000 new shares of HK\$0.10 each (the “**Placing Shares**”) in the share capital of the Company at a placing price of HK\$0.20 per Placing Share (the “**Placing Agreement**”) (a copy of which marked “A” has been produced to the meeting and signed by the chairman of the meeting for the purpose of identification) and all transactions contemplated thereunder be and are hereby approved, confirmed and ratified;
- (ii) conditional upon, among others, the Listing Committee of The Stock Exchange of Hong Kong Limited granting the listing of, and permission to deal in, the Placing Shares and fulfillment of conditions set out in the Placing Agreement, the issue and allotment of the Placing Shares, pursuant to and subject to the terms and conditions of the Placing Agreement, be and are hereby approved; and

* *For identification purposes only*

NOTICE OF THE EGM

- (iii) the Directors be and are hereby authorised to exercise all the powers of the Company and take all steps as might in the opinion of the Directors be desirable, necessary or expedient in connection with the implementation of the transactions contemplated under the Placing Agreement as well as in relation to the issue and allotment of the Placing Shares, including, without limitation to, the execution, amendment, supplement, delivery, submission and implementation of any further documents or agreements.”

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

Hong Kong, 26 February 2013

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 resolutions at the meeting will be taken by poll pursuant to the Rules Governing the Listing of Securities on The Stock Exchange of Hong Kong Limited (the "Listing Rules") and the results of the poll will be published on the websites of Hong Kong Exchange and Clearing Limited and the Company in accordance with the Listing Rules.
4. As at the date hereof, the executive Directors are Mr. Leung Lun, *M.H.* and Mr. Wong, Andy Tze On and the independent non-executive Directors are Mr. Ye Tian Liu, Mr. Lai Yun Hung and Dr. Ko Peter, Ping Wah.
5. In case of any inconsistency, the English text of this notice shall prevail over the Chinese text.