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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)

SHARE TRANSACTION INVOLVING ISSUE OF NEW SHARES UNDER GENERAL MANDATE

THE ACQUISITION

The Board is pleased to announce that on 4 July 2013 (after trading hours), the Purchaser, a wholly owned subsidiary of the Company, the Company, the Vendor and the Guarantor entered into the Acquisition Agreement, pursuant to which the Purchaser has conditionally agreed to acquire and the Vendor has conditionally agreed to sell the Sale Share, representing the entire issued share capital of the Target Company, together with the Shareholder's Loan, at an aggregate consideration of HK\$84,000,000 (subject to adjustment), which shall be satisfied by way of (i) cash in the sum of HK\$24,000,000 and (ii) HK\$60,000,000 by the issue of 200,000,000 Consideration Shares at the issue price of HK\$0.30 per Consideration Share upon Completion and satisfaction of the Profit Guarantee(s) after Completion.

The Vendor is currently the sole shareholder of the Target Company, which is an investment holding company. The Target Company, through its wholly-owned subsidiary Era Creation, holds the entire equity interest in Qingdao Ruidi, which is engaged in research, development, manufacturing and sale of commercial and domestic gas cooking appliances in the PRC. Qingdao Ruidi also owns several intellectual property rights in respect of advanced technologies in the area of gas cooking appliances. The Guarantor, being the sole shareholder and director of the Vendor, guarantees the due and punctual performance of the Vendor's entire obligations under the Acquisition Agreement.

The Vendor and the Guarantor jointly and severally provide Profit Guarantees of the Target Group in favour of the Purchaser and the Company for the year ending 31 December 2014 and the year ending 31 December 2015.

Completion is subject to the fulfilment or waiver of certain conditions precedent. Upon Completion, the Target Company will become a wholly-owned subsidiary of the Company and accordingly, the financial information of the Target Group will be consolidated into the accounts of the Group.

* *For identification purposes only*

GENERAL

As the applicable percentage ratios in respect of the Acquisition is less than 5% and the Consideration includes the issue of the Consideration Shares, the Acquisition constitutes a share transaction under the Listing Rules for the Company which is therefore required to publish an announcement under Chapter 14 of the Listing Rules.

The Board is pleased to announce that on 4 July 2013 (after trading hours), the Purchaser, a wholly owned subsidiary of the Company, the Company, the Vendor and the Guarantor entered into the Acquisition Agreement, pursuant to which the Purchaser has conditionally agreed to acquire and the Vendor has conditionally agreed to sell the Sale Share and the Shareholder's Loan.

THE ACQUISITION

The Acquisition Agreement

Details of the Acquisition Agreement are set out as follows:

Date: 4 July 2013

Parties:

Vendor : Network Star Limited, a company incorporated in BVI with limited liability and is an investment holding company

Purchaser : Future Empire Limited, a wholly owned subsidiary of the Company

The Company : Lung Cheong International Holdings Limited

Guarantor : Mr. Tang, the sole shareholder and director of the Vendor

To the best knowledge, information and belief of the Directors having made all reasonable enquiries, the Vendor and its ultimate beneficial owner are Independent Third Parties.

Subject matter of the Acquisition Agreement

Pursuant to the Acquisition Agreement, the Vendor has conditionally agreed to sell and the Purchaser has conditionally agreed to purchase the Sale Share, representing the entire issued share capital of the Target Company as at the date of the Acquisition Agreement and on the Completion Date, together with the Shareholders' Loan, free from encumbrance and together with all rights now or hereinafter attached thereto including but not limited to all dividends and distribution declared, paid or made in respect thereof on or after the Completion Date.

Upon Completion, the Target Company will become a wholly-owned subsidiary of the Company and accordingly, the financial information of the Target Group will be consolidated into the accounts of the Group. The Target Group is principally engaged in research, development, manufacturing and sale of commercial and domestic gas cooking appliances in the PRC. It also owns several intellectual property rights in respect of advanced technologies in the area of gas cooking appliances.

The consideration for the Acquisition

The total consideration for the Acquisition is HK\$84,000,000 which was arrived at after arm's length negotiations between the Company and the Vendor, with reference to, among other things, (i) the Profit Guarantees by the Vendor in respect of the audited consolidated after tax profit of the Target Group for the years ending 31 December 2014 and 2015 of not less than HK\$11,000,000 ("**2014 Profit Guarantee**") and HK\$21,000,000 ("**2015 Profit Guarantee**"), respectively; (ii) the payment term of the total Consideration; and (iii) the business development and prospects of the Target Group.

The said consideration of HK\$84,000,000 is subject to adjustment for not fulfilling the 2014 Profit Guarantee and 2015 Profit Guarantee requirements by the Vendor and shall be settled by the Company in the following manner:

- (i) HK\$8,000,000 in form of cash shall be paid to the Vendor or its designated nominee(s) within five Business Days after the Completion;
- (ii) HK\$8,000,000 in form of cash and HK\$30,000,000 in form of the Consideration Shares shall be paid and issued to the Vendor or its designated nominee(s) within 10 Business Days after 2014 Profit Guarantee requirement is fulfilled (other such other date as agreed by the parties); and
- (iii) HK\$8,000,000 in form of cash and HK\$30,000,000 in form of the Consideration Shares shall be paid and issued to the Vendor or its designated nominee(s) within 10 Business Days after 2015 Profit Guarantee requirement is fulfilled (other such other date as agreed by the parties).

If the Target Group cannot fulfill the 2014 Profit Guarantee and/or the 2015 Profit Guarantee, the Company has no obligation to pay the whole or part of the payments referred in above (ii) and/or (iii) above.

Company's Due Diligence Review

The Purchaser and the Company is entitled to conduct the Due Diligence Review. The Vendor undertakes to cooperate with the Due Diligence Review.

Conditions precedent to the Completion

The completion of the Acquisition is conditional upon fulfilment of the following conditions:

- (i) all necessary consents and approvals (including those from the relevant government, regulatory bodies, authorities or third parties (including banks)) in relation to the transactions contemplated under the Acquisition Agreement having been obtained by the Vendor and such consents and approvals should be valid up to the Completion Date;
- (ii) the Vendor has already provided to the Company a Certificate of Incumbency and a Certificate of Good Standing of the Target Company and such certificates should not be dated earlier than 7 days before the Completion Date;
- (iii) the Company being satisfied with and accepting the result of the Due Diligence Review in relation to the Target Group;
- (iv) all warranties given by the Vendor shall remain true and accurate in all respect and not misleading;

- (v) there has been no material breach by the Vendor of the terms and conditions of the Acquisition Agreement before the Completion Date; and
- (vi) the Stock Exchange having granted approval for the listing of and permission to deal in the Consideration Shares.

The Company may waive any of the conditions precedents except those set out in (i) and (vi) above.

If the conditions precedent have not been fulfilled or waived by the Company on or before the Long Stop Date, the Acquisition Agreement shall lapse and thereafter none of the parties to the Acquisition Agreement shall have any rights or obligations towards any other party except in respect of any antecedent breach.

Completion

Completion shall take place after the fulfilment or waiver of the conditions precedent on the Completion Date.

Guarantee

The Guarantor guarantees the due and punctual performance of the Vendor' entire obligations under the Acquisition Agreement.

Consideration Shares

The issue price of HK\$0.30 per Consideration Share represents:

- (i) a discount of approximately 13.04% to the closing price of HK\$0.345 per Share as quoted on the Stock Exchange on the date of the Acquisition Agreement.
- (ii) a discount of approximately 12.79% to the average closing price of HK\$0.344 per Share as quoted on the Stock Exchange for the last five trading days up to and including the date prior to the date of the Acquisition Agreement;
- (iii) a discount of approximately 14.53% to the average closing price of HK\$0.351 per Share as quoted on the Stock Exchange for the last ten trading days up to and including the date prior to the date of the Acquisition Agreement; and
- (iv) a premium of approximately 233.33% over to the net asset value per Share of HK\$0.09 of the Company as at 31 March 2013.

The issue price of HK\$0.30 per Consideration Share was arrived at after arm's length negotiation between the Company and the Vendor with reference to the recent trading price of the Shares on the Stock Exchange preceding the date of the Acquisition Agreement. The Directors consider that the issue price is fair and reasonable and the issuance of the Consideration Shares at the issue price is in the interests of the Company and the Shareholders as a whole.

The Consideration Shares will be issued pursuant to the general mandate granted to the Directors at the annual general meeting of the Company held on 14 September 2012. Under the General Mandate, a maximum of 691,551,599 new Shares may be allotted and issued. As at the date of this announcement, no Share has been issued under such General Mandate. As such, the General Mandate will be sufficient for, and no further Shareholders' approval is required for, the allotment and issuance of the Consideration Shares. An application will be made to the Stock Exchange for the listing of, and permission to deal in, the Consideration Shares. The Consideration Shares, when issued upon Completion, will rank pari passu in all respects with the then existing Shares in issue.

Assuming that no adjustment will be made to the Consideration, the number of the Consideration Shares will be 200,000,000 Shares, with the 1st and 2nd tranches Consideration Shares being 100,000,000 and 100,000,000 Shares respectively. The 200,000,000 Consideration Shares represents approximately 3.66% of the existing issued share capital of the Company, and approximately 3.53% of the issued share capital of the Company as enlarged by the issuance of the Consideration Shares. The following table shows the change in shareholding structure on the Company upon issuance of each tranche of the Consideration Shares, assuming that no adjustment will be made to the Consideration:

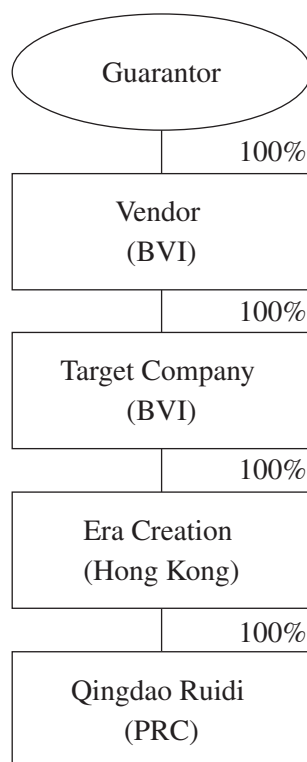
	As at the date of this announcement		After issuance of Consideration Shares	
	Number of Shares	Approximate shareholding percentage	Number of Shares	Approximate shareholding percentage
Lung Cheong Investment Limited and concert parties (<i>Note 1</i>)	1,499,082,240	27.47	1,499,082,240	26.50
Haier Electrical Appliances Second and concert parties	1,390,000,000	25.47	1,390,000,000	24.57
Public Shareholders				
Vendor	–	–	200,000,000	3.53
Other public Shareholders (<i>Note 2</i>)	2,568,675,757	47.06	2,568,675,757	45.40
Total	<u>5,457,757,997</u>	<u>100.00</u>	<u>5,657,757,997</u>	<u>100.00</u>

Notes:

1. Lung Cheong Investment Limited 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, an executive Director of the Company and 30% by Mr. Leung Chung Ming, who is the brother of Mr. Leung Lun.
2. As at the date of this announcement, 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 placees who are Independent Third parties under the placing of 500,000,000 Shares of the Company, which was completed on 13 June 2012.

INFORMATION ON THE TARGET GROUP

The following diagram illustrates the shareholding structure of the Target Group as at the date of this announcement:



The Target Company was incorporated on 10 April 2012 and Era Creation was incorporated in Hong Kong. As at the date of this announcement, both the Target Company and Era Creation are investment holding companies and are only engaged in the business of holding the entire equity interest in Qingdao Ruidi.

Qingdao Ruidi is company established in the PRC in May 2012. Qingdao Ruidi is engaged in research, development, manufacturing and sale of commercial and domestic gas cooking appliances in the PRC. It also owns several intellectual property rights in respect of advanced technologies in the area of gas cooking appliances. The Guarantor, being the sole shareholder and director of the Vendor, guarantees the due and punctual performance of the Vendor' entire obligations under the Acquisition Agreement.

Upon Completion, the Target Company will become a wholly-owned subsidiary of the Company and accordingly, the financial information of the Target Group will be consolidated into the accounts of the Group.

Neither the Target Company nor Era Creation has recorded any revenue or profit (both of them had a loss) since their respective incorporation. According to the audited accounts of Qingdao Ruidi prepared in accordance with the PRC GAAP for the year ended 31 December 2012, the net profit/loss before and after taxation of Qingdao Ruidi for the seven months ended 31 December 2012 were as follows:

	For the seven months ended 31 December 2012 (audited) (RMB') (Approx.)
Net profit/(loss) before taxation	(793,737)
Net profit/(loss) after taxation	<u>(793,737)</u>

According to the audited accounts of Qingdao Ruidi prepared in accordance with the PRC GAAP, the net asset value of Qingdao Ruidi as at 31 December 2012 was approximately RMB4,531,863, equivalent to approximately HK\$5,710,147.

INFORMATION ON THE VENDOR

To the best knowledge, information and belief of the Directors having made all reasonable enquiries, the Vendor is a company incorporated in BVI and the principal activities of the Vendor is investment holding. The Guarantor, being the sole shareholder and director of the Vendor, is a merchant.

PRINCIPAL ACTIVITIES OF THE COMPANY

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

REASONS FOR THE ACQUISITION

Environmental protection and energy saving is one of the primary tasks for the Chinese government in the next five years. Qingdao Ruidi owns proprietary technology in the gas cooking appliances industry with several intellectual property rights is well positioned in this sector. The Directors are very optimistic about its prospect.

The Directors are also of the view that the Profit Guarantees provide an opportunity for the Group to broaden its revenue source and income base. In consideration of the benefits of the Acquisition, the Directors (including the independent non-executive Directors) believe that the terms of the Acquisition Agreement are fair and reasonable and in the interests of the Company and the Shareholders as a whole.

GENERAL

As the applicable percentage ratios in respect of the Acquisition is less than 5% and where the Consideration includes the issue of the Consideration Shares, the Acquisition constitutes a share transaction under the Listing Rules for the Company and is therefore required to publish an announcement under Chapter 14 of the Listing Rules.

DEFINITIONS

In this announcement, the following expressions have the meanings set out below unless the context requires otherwise.

“Acquisition”	the acquisition of the Sale Share and the Shareholder’s Loan by the Company from the Vendor pursuant to the Acquisition Agreement
“Acquisition Agreement”	the conditional agreement dated 4 July 2013 entered into between the Vendor, the Purchaser, the Guarantor and the Company in relation to the Acquisition
“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
“BVI”	the British Virgin Islands
“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 Acquisition in accordance with the Acquisition Agreement
“Completion Date”	the date of Completion, which will be within seven Business Days (or such other day as agreed by the parties) after the fulfillment or waiver (as the case may be) of the conditions precedent
“Consideration”	the consideration payable by the Purchaser and/or the Company for the Acquisition
“Consideration Share(s)”	Share(s) that may be issued by the Company to settle part of the Consideration
“Director(s)”	the director(s) of the Company

“Due Diligence Review”	a due diligence review to be conducted on the Target Group, including but not limited to the legal and financial positions, the intellectual property rights and the assets of the Target Group and its compliance with relevant laws, rules and regulations
“Era Creation”	Era Creation Technology Limited (創時科技有限公司), a company incorporated in Hong Kong with limited liability and wholly owned by Target Company
“General Mandate”	the general mandate granted to the Directors by the Shareholders at the annual general meeting of the Company on 14 September 2012 to allot, issue and deal with up to 20% of the then issued share capital of the Company as at the date of the said meeting
“Group”	the Company and its subsidiaries
“Guarantor” or “Mr. Tang”	Mr. Tang Kai Hong, the sole beneficial owner of the Vendor
“HK\$”	Hong Kong dollars, the lawful currency of Hong Kong
“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
“Listing Committee”	the listing committee of the Stock Exchange
“Listing Rules”	the Rules Governing the Listing of Securities on the Stock Exchange
“Long Stop Date”	31 December 2013 (or such other date as agreed by the parties to the Acquisition Agreement)
“PRC”	the People’s Republic of China, but for the purpose of this announcement, excludes Hong Kong, the Macau Special Administrative Region and Taiwan
“Profit Guarantees”	the 2014 Profit Guarantee and the 2015 Profit Guarantee; the term “Profit Guarantee” shall mean any of them
“Purchaser”	Future Empire Limited, a company incorporated in BVI with limited liability and wholly owned by the Company
“Qingdao Ruidi”	青島瑞迪燃气具制造有限公司 (Qingdao Ruidi Gas Appliances Manufacturing Ltd.), a foreign investment company established in the PRC and wholly owned by Era Creation

“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 Shares(s)
“Shareholder’s Loan”	the loan due from the Target Group to the Vendor or its ultimate shareholder at Completion, the amount of which was HK\$14,500,000 as at the date of the Acquisition Agreement
“Stock Exchange”	The Stock Exchange of Hong Kong Limited
“Target Company”	Notton Limited, a company incorporated in BVI with limited liability and wholly owned by the Vendor
“Target Group”	Target Company and its subsidiaries
“Vendor”	Network Star Limited, a company incorporated in BVI with limited liability holding the entire equity interest in the Target Company as at the date of the Acquisition Agreement
“2014 Profit Guarantee”	shall have the meaning ascribed to it in the section headed “Consideration” above
“2015 Profit Guarantee”	shall have the meaning ascribed to it in the section headed “Consideration” above
“%”	per cent.

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

Hong Kong, 4 July 2013

As at the date of this announcement, the board of directors of the Company comprises three executive directors, namely Mr. Leung Lun (Chairman and Chief Executive), Mr. Wong Andy Tze On and Ms. Fang Fang; and three independent non-executive directors, namely Mr. Ye Tian Liu, Mr. Lai Yun Hung and Dr. Ko Peter, Ping Wah.