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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**

The Board is pleased to announce that on 23 October 2014, 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 Supplier Group during the period commencing 1 April 2014 until 31 March 2017.

#### **LISTING RULES IMPLICATION**

The Supplier is 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, M.H., a substantial shareholder, an executive Director, the Chairman and the Chief Executive of the Company, and Mr. Leung Chung Ming is the brother of Mr. Leung Lun, M.H., 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, circular, annual review 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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Summarised below are the principal terms of the Master Purchase Agreement.

\* *For identification purposes only*

# THE MASTER PURCHASE AGREEMENT

## Date

23 October 2014

## 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 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 April 2014 until 31 March 2017.

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 transactions amount, nature and specification requirement for the particular transactions.

## 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	2015 (Note)	2016	2017
Annual Caps (HK\$ million)	60	75	95

Note: The period commences from 1 April 2014 until 31 March 2015

The Annual Caps were arrived at based upon (a) the estimated volume of the products required by the Group; (b) the prevailing market prices of the 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 (c) 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:

- i. the passing of the resolution of the Independent Shareholders at the EGM to approve the entering into the Master Purchase Agreement and the transactions contemplated thereunder; and
- ii. 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 January 2015 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 THE BENEFITS OF ENTERING INTO THE MASTER PURCHASE AGREEMENT

The manufacturing of the Group's OBM/OEM business are mainly conducted at its Indonesia factory and subcontracted to the PRC factories owned and operated by the Supplier Group (the "**PRC Factories**"). The Supplier Group has been manufacturing and supplying the Products to the Purchaser Group as external supplier since 1 May 2011 after its disposal from the Group. In order to reduce its reliance on the PRC Factories, the Group has been since then transferring a major portion of its requisite manufacturing orders from the PRC Factories to the Indonesia factory and engaging other independent subcontractors for manufacturing and supply of the Products.

The Master Purchase Agreement is in fact a continuation and renewal of the previous master purchase agreement which commenced from 1 May 2011 and expired on 31 March 2014. The annual aggregate amount of purchase of the Products paid by the Purchaser Group to the Supplier Group under the previous master purchase agreement for the three years ended 31 March 2012, 31 March 2013 and 31 March 2014 amounted to approximately HK\$313.0 million, HK\$78.9 million and HK\$47.7 million, respectively. Details of the previous master purchase agreement have been disclosed in an announcement and a circular of the Company dated 9 May 2011 and 20 June 2011, respectively.

The Directors are of the view that the Group's reliance on the PRC Factories' manufacturing capacity had been reduced to a large extent. On the one hand, the Group will continue to source and identify new independent subcontractors for its OBM/OEM business according to its production requirements, costs and production capacity. On the other hand, before the Group can completely cease its reliance on the Supplier Group, it will continue to purchase the Products from the PRC Factories if it finds necessary.

The Directors considered entering into the Master Purchase Agreement will enable the Group to maintain the normal course of business, whilst offering management more 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, the Directors (excluding the independent non-executive Directors, who will form their view after considering the advice from an independent financial adviser to be appointed) consider that the terms of the Master Purchase Agreement, including the Annual Caps, are fair and reasonable and is in the interest of the Company and Shareholders as a whole.

## **INFORMATION ON THE PARTIES**

The principal activity of the Company is investment holding. The principal activities of its subsidiaries are development, engineering, manufacturing and sale of toys, commercial kitchen and consumer electronic products.

The Supplier Group is principally engaged in the manufacturing, distribution and trading of 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**

The Supplier is 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, M.H., a substantial Shareholder, an executive Director, the Chairman and the Chief Executive of the Company, and Mr. Leung Chung Ming is the brother of Mr. Leung Lun, M.H., 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, circular, annual review 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.

## **GENERAL**

A circular containing, among other things, details of the Master Purchase Agreement, a letter from the independent financial adviser containing its advice to the Independent Board Committee on the Master Purchase Agreement, including the Annual Caps, the recommendation of the Independent Board Committee regarding the Master Purchase Agreement, including the Annual Caps, to the Independent Shareholders and the notice of the EGM is expected to be despatched to the Shareholders on or before 13 November 2014 in accordance with the Listing Rules.

## **DEFINITIONS**

In this announcement, the following expression shall, unless the context requires otherwise, 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, the shares of which are listed on the main board of the Stock Exchange
“connected person(s)”	has the meaning ascribed thereto under the Listing Rules
“Director(s)”	the director(s) of the Company
“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 date of this announcement
“Hong Kong”	the Hong Kong Special Administrative Region of the PRC
“HK\$”	Hong Kong dollars, the lawful currency of Hong Kong
“Independent Board Committee”	the independent board committee of the Company to be established and will comprise 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 Shareholders”	Shareholders other than the Supplier and its respective associates
“Indonesia”	the Republic of Indonesia
“Listing Rules”	the Rules Governing the Listing of Securities on the Stock Exchange
“Master Purchase Agreement”	the framework purchase agreement dated 23 October 2014 entered into between the Purchaser and the Supplier in relation to the purchase of the Products by the Purchaser Group from the Supplier Group
“OBM”	Original Brand Manufacturing
“OEM”	Original Equipment Manufacturing
“PRC”	means The People’s Republic of China which for the purpose of this announcement, shall exclude Hong Kong, Macau Special Administrative Region of PRC and Taiwan
“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 date of this announcement
“Purchaser Group”	the Purchaser and its subsidiaries

“RMB”	RMB, the lawful currency of PRC
“Share(s)”	ordinary share(s) of HK\$0.1 each in the issued share capital of the Company
“Shareholder(s)”	shareholder(s) of the Company
“Stock Exchange”	The Stock Exchange of Hong Kong Limited
“substantial shareholder(s)”	has the meaning ascribed thereto under the Listing Rules
“Supplier”	Lung Cheong (BVI) Holdings Limited, a company incorporated in the British Virgin Islands with limited liability, being 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 date of this announcement
“Supplier Group”	the Supplier and its subsidiaries
“%”	per cent.

On behalf of the Board of  
**Lung Cheong International Holdings Limited**  
**Leung Lun**  
*Chairman and Chief Executive*

Hong Kong, 23 October 2014

*As at the date of this announcement, the executive Directors are Mr. Leung Lun, M.H. (Chairman and Chief Executive), Mr. Diao Yunfeng and Ms. Fang Fang; and the independent non-executive Directors are Mr. Ye Tian Liu, Mr. Lai Yun Hung and Dr. Ko Peter, Ping Wah.*