
THIS CIRCULAR IS IMPORTANT AND REQUIRES YOUR IMMEDIATE ATTENTION

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

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

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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)

(1) CONTINUING CONNECTED TRANSACTIONS (2) RE-ELECTION OF RETIRING DIRECTOR AND (3) NOTICE OF EXTRAORDINARY GENERAL MEETING

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

VEDA | CAPITAL
智略資本

A letter from the Independent Board Committee is set out on pages 16 and 17 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 18 to 30 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 Monday, 5 January 2015 at 11:00 a.m. is set out on pages 36 and 37 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, Level 22, Hopewell Centre, 183 Queen's Road East, 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.

11 December 2014

* For identification purposes only

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DEFINITIONS

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
“EGM”	extraordinary general meeting of the Company for the purpose of approving the Master Purchase Agreement including the Annual Caps and the re-election of a Director
“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

DEFINITIONS

“Independent Financial Adviser” 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
“Latest Practicable Date”	5 December 2014, 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 23 October 2014 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, for the purpose of this Circular, shall exclude Hong Kong, Macau Special Administrative Region of the PRC and Taiwan
“Products”	consumer electronic products, radio control/wireless products, electronic and plastic toys of the Supplier Group
“Purchaser”	LC Global Holdings Corporation, a company incorporated in the British Virgin Islands with limited liability, being a wholly-owned subsidiary of the Company as at the Latest Practicable Date

DEFINITIONS

“Purchaser Group”	the Purchaser and its subsidiaries
“RMB”	Renminbi, 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, 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 Latest Practicable Date
“Supplier Group”	the Supplier and its subsidiaries
“%”	Percentage

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. Diao Yunfeng (*Chairman and Chief Executive Officer*)

Mr. Leung Lun, *M.H.*

Ms. Fang Fang

Mr. Ye Tian Liu[#]

Mr. Lai Yun Hung[#]

Dr. Ko Peter, Ping Wah[#]

Registered Office:

P.O. Box 309

Ugland House

Grand Cayman

KY1-1104

Cayman Islands

*Head office and principal place
of business in Hong Kong:*

Lung Cheong Building

1 Lok Yip Road

Fanling

New Territories

Hong Kong

[#] *Independent non-executive Director*

11 December 2014

To the Shareholders

Dear Sir or Madam,

**(1) CONTINUING CONNECTED TRANSACTIONS
(2) RE-ELECTION OF RETIRING DIRECTOR
AND
(3) NOTICE OF EXTRAORDINARY GENERAL MEETING**

1. INTRODUCTION

Reference is made to the announcement of the Company dated 23 October 2014 in relation to the continuing connected transactions contemplated under the Master Purchase Agreement.

* *For identification purposes only*

LETTER FROM THE BOARD

Reference is also made to the announcements of the Company respectively dated 24 September 2014 and 27 October 2014 for the appointment of Mr. Diao Yunfeng as an executive Director with effect from 24 September 2014 and as the chairman and the chief executive officer of the Company with effect from 27 October 2014.

The purpose of this circular is to provide you with information regarding, inter alia, (i) the Master Purchase Agreement together with the Annual Caps; (ii) the re-election of the retiring Director; and (iii) notice of EGM of the Company, to enable you to make an informed decision as to whether to vote for or against the relevant resolutions to be proposed at the EGM.

2. CONTINUING CONNECTED TRANSACTIONS

The Board announced 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 the Supplier Group during the period commencing 1 April 2014 until 31 March 2017.

Subsequent to the entering into of the Master Purchase Agreement, the Company conducted an internal review on 7 November 2014, during which it was discovered that, after the expiry of the previous master purchase agreement on 31 March 2014 and up to 23 October 2014, the purchase amount of the Products from the Supplier Group by the Purchaser Group was approximately HK\$31 million.

Given that as of 23 October 2014, one of the relevant applicable percentage ratios was more than 5% and the aggregate amount of the continuing connected transactions from 1 April 2014 to 23 October 2014 exceeded HK\$10,000,000, the continuing connected transactions as of 23 October 2014 were therefore subject to reporting, announcement, circular, annual review and Independent Shareholders' approval under Chapter 14A of the Listing Rules. The Company failed to comply with the aforesaid requirements under Chapter 14A of the Listing Rules in a timely manner.

Such non-compliance was due to inadvertent oversight of the Company. The purchase orders in the aforesaid continuing connected transactions were issued by the Purchaser Group to the Supplier Group in the financial year ended 31 March 2014 but the products had not been fully delivered to the Purchaser Group by the Supplier Group within that financial year due to alterations to the product specifications as well as adjustments to the delivery schedules. The Company inadvertently associated that the aforesaid continuing connected transactions were covered by the previous master purchase agreement which had been approved by the Independent Shareholders.

LETTER FROM THE BOARD

To avoid re-occurrence of similar incident, the Company has implemented various measures to strengthen its reporting and documentation system and internal control procedures. The Directors and senior management of the Company will closely monitor and review the continuing connected transactions of the Company from time to time, so that they will be alerted to the level of the continuing connected transactions periodically. In addition, the account and finance department will have more stringent contract review, particularly on the terms and volume of the continuing connected transactions.

The Company will ensure that the Purchaser Group will not further purchase the Products from the Supplier Group before the continuing connected transactions contemplated under the Master Purchase Agreement are approved by the Independent Shareholders at the EGM.

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

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 transaction amount, nature and specification requirements for the particular transactions.

LETTER FROM THE BOARD

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 2012, 31 March 2013 and 31 March 2014.

Year ended 31 March 2012	Year ended 31 March 2013	Year ended 31 March 2014
<i>HK\$ million</i>	<i>HK\$ million</i>	<i>HK\$ million</i>
313.0	78.9	47.7

Set out below are the historical amounts of purchase from the Supplier Group compared to the total purchases of the Group for the financial years ended 31 March 2012, 31 March 2013 and 31 March 2014

	Year ended 31 March 2012	Year ended 31 March 2013	Year ended 31 March 2014
	<i>HK\$ million</i>	<i>HK\$ million</i>	<i>HK\$ million</i>
Purchases from external suppliers	26.2 7.72%	62.6 44.24%	68.8 59.06%
Purchases from the Supplier Group	<u>313.0</u> <u>92.28%</u>	<u>78.9</u> <u>55.76%</u>	<u>47.7</u> <u>40.94%</u>
	<u><u>339.2</u></u> <u><u>100%</u></u>	<u><u>141.5</u></u> <u><u>100%</u></u>	<u><u>116.5</u></u> <u><u>100%</u></u>

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	2016	2017
	<i>(Note)</i>		
Annual Caps (<i>HK\$ million</i>)	60	75	95
	(the “ 2015 Cap ”)	(the “ 2016 Cap ”)	(the “ 2017 Cap ”)

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

LETTER FROM THE BOARD

The Annual Caps were determined with reference to (a) the estimated volume of the Products required by the Group; (b) 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 (c) the estimated costs for the supply of such Products for each of the relevant financial years under the Master Purchase Agreement.

The 2015 Cap

The 2015 Cap was determined based on the following:

- (i) The percentage of purchase from the Supplier Group to the total purchase of the Purchaser Group for the year ended 31 March 2014 was approximately 79.77%;
- (ii) The Company projects that there will be a recovery in the total sales of the Purchaser Group for the year ending 31 March 2015 when compared to that for the year ended 31 March 2014, taking into account factors such as sales and promotion programs in place, new products marketing strategies, current purchase orders received by the Purchaser Group, previous sales experiences and the recovery of the US market; and
- (iii) An increase in the projected total purchase of the Purchaser Group for the year ending 31 March 2015, taking into account factors such as expected increase in the labour cost in the PRC and the appreciation of Renminbi.

In view of (a) the above reasons; (b) the purchase orders on hand as well as marketing plans in place; and (c) the expected utilisation ratio of the 2015 Cap would be more than 90%, the Directors are of the view that the 2015 Cap has been arrived at careful consideration and is fair and reasonable and in the interests of the Company and the Shareholders as a whole.

The 2016 Cap and the 2017 Cap

The 2016 Cap and the 2017 Cap were determined based on the following:

- (i) The percentage of purchase from the Supplier Group to the total purchase of the Purchaser Group for each of the years ending 31 March 2016 and 2017 is expected to be at a similar level as that for the year ended 31 March 2014;

LETTER FROM THE BOARD

- (ii) The Company projects that there will be continuous growth in the total sales of the Purchaser Group for the years ending 31 March 2016 and 2017, respectively, primarily due to: (a) the encouraging market response from customers to the Group's newly introduced product lines; (b) the Group's objective to increase sales from further penetration into mass market and internet retail networks; and (c) the Group's prospect that the European and US markets would recover strongly (For (a) and (b) above, please refer to the annual report of the Group for the year ended 31 March 2014 for details); and
- (iii) An increase in the projected total purchase of the Purchaser Group for the years ending 31 March 2016 and 2017, taking into account factors such as expected continuing increase in the labour cost in the PRC, appreciation of Renminbi and the growth in gross domestic product of the PRC.

In view of (a) the above reasons; (b) the research and development expenses incurred and marketing plans in place to launch these new items; and (c) the expected utilisation ratios of the 2016 Cap and the 2017 Cap would be more than 90%, the Directors consider both the 2016 Cap and the 2017 Cap are fair and reasonable and in the interests of the Company and the Shareholders as a whole.

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 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.

LETTER FROM THE BOARD

PRICING BASIS

In order to ensure the transactions under the Master Purchase Agreement are under normal commercial terms and 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, the Company will adopt the following pricing policies for the purchase of each of the Products:

- (1) The Company will carefully evaluate each of its potential suppliers based on, including but not limited to, the duration and quality of productions and the suppliers capacity as matched with the production schedules of the Company;
- (2) Before finalising its decision, the Company will approach a few independent suppliers which are considered as qualified and reliable by the Company based on its experience on the previous cooperation results apart from the Supplier Group to undergo a bidding process;
- (3) Based on the input production costs, the engineering, purchasing and sourcing departments of the Company will estimate and come up with preliminary prices before the sales and marketing department of the Company apply the mark up percentages in accordance with the Company's normal practices. The sale and marketing department of the Company will examine the prevailing market prices of similar products to ensure the pricing of the products to be within a targeted retail price range. Due to fluctuating marketing prices, the Company would make sure the ultimate targeted retail price range and the preferred gross margins are met in order to avoid buying the products which are priced out by known competitions. Lastly, the account and finance department of the Company will examine the purchasing terms and conditions and ensure the same are in line with normal market practices and standard terms no less favourable to the Company than those available from independent suppliers. Normally, among the few independent supplier candidates who undergo the bidding process, at least two quotations would be received by the Company. In case there are less than two quotations, the projected wholesale prices would determine the viability of the products. If the only quotation obtained is unable to meet the Company's targeted gross margin, the Company would not proceed with the transaction;

LETTER FROM THE BOARD

- (4) A report, which sets 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. Throughout the process, the Company will treat the Supplier Group and other independent suppliers equally, and the transactions will be negotiated on an arm's length basis, with reference to the market information gathered and factors such as the relevant transaction amount, nature and specification requirements for the particular transaction. In the event that the terms offered by the Supplier Group are no less favourable than those available from other independent suppliers, the Company will place purchase orders to the Supplier Group. However, if the Company can obtain more preferential terms from other independent suppliers, it will not place purchase orders to the Supplier Group; and
- (5) The directors and management of the Group, including the vice president of operations, vice president of marketing, vice president of sales, national sales manager, product design engineers, sales and sourcing manager and project engineer, will closely monitor the procedures for obtaining quotations to placing purchase orders, so as to ensure that the pricing policies are strictly followed. The independent non-executive Directors will also review the transactions contemplated under the Master Purchase Agreement every year pursuant to the requirements under the Listing Rules.

REASONS FOR AND 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

LETTER FROM THE BOARD

and HK\$47.7 million, respectively, showing a reduction in reliance on the Supplier Group from approximately 92% of total purchases for year ended 31 March 2012 to approximately 41% of total purchases for year ended 31 March 2014. 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, the Group will continue to purchase the Products from the PRC Factories to meet the purchase orders from its customers.

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 suitable and selective 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 more time to engage other independent subcontractors for its manufacturing requirements and/or transfer production orders to its Indonesia factory, the Directors (including the independent non-executive Directors whose recommendation is contained in the "Letter from the Independent Board Committee" on pages 16 and 17 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 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 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.

LETTER FROM THE BOARD

IMPLICATION OF THE LISTING RULES

As at the Latest Practicable Date, 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 and an executive Director, 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 at the EGM on the resolution for approving the Master Purchase Agreement including the Annual Caps. As at the Latest Practicable Date, the Supplier and its associates together held 1,079,082,240 Shares, representing approximately 19.42% of the existing share capital of the Company.

Since Mr. Leung Lun, M.H. 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.

3. RE-ELECTION OF RETIRING DIRECTOR

Mr. Diao Yunfeng (“**Mr. Diao**”) was appointed as an executive Director on 24 September 2014.

Pursuant to Article 99 of the articles of association of the Company (the “**Articles**”), any Director appointed by the Board to fill a casual vacancy shall hold office only until the next general meeting of the Company after his appointment and be subject to re-election at such meeting. Accordingly, Mr. Diao who was appointed as an executive Director on 24 September 2014 will retire at the EGM pursuant to Article 99 of the Articles and, being eligible, offer himself for re-election at the EGM.

LETTER FROM THE BOARD

Brief biographical and other details of Mr. Diao which are required to be disclosed under the Listing Rules, are set out below:

Mr. Diao, aged 42, obtained his EMBA degree from China Europe International Business School in the PRC and Bachelor degree from the Southeast University of the PRC. He was awarded as the “Outstanding Entrepreneur” of Shandong Province. Mr. Diao joined Haier Group in 1995 and is currently the vice president of Haier Group, responsible for the development and management of various emerging segments of Haier Group, including the global home electric appliances, childcare related products and intelligent healthcare products, etc.

Mr. Diao has held a number of senior positions including the director of overseas marketing management of the Haier Group and the general manager of Haier International Business Corporation Limited, and under his leadership, the overseas business of Haier achieved one milestone after another. Mr. Diao has been responsible for the development and planning of the home electric appliances business for Haier since 2011, during which he has been establishing an innovative platform for Haier childcare related products and intelligent healthcare products.

Mr. Diao was appointed for a term of three years and is subject to the general requirement of retirement by rotation and re-election at the annual general meetings in accordance with the Articles. He will be entitled to receive a Director’s fee of HK\$60,000 per annum, which was determined by the Board with reference to his duties, responsibilities and the Company’s performance and the prevailing market condition and is subject to the review by the Company’s remuneration committee from time to time.

Save as disclosed above, Mr. Diao does not hold any directorship in other public companies the securities of which are listed on any securities market in Hong Kong or overseas in the last three years or any other position with the Company and its subsidiaries or other major appointments and professional qualifications.

Mr. Diao has no relationship with any director, senior management, substantial shareholder or controlling shareholder (as respectively defined in the Listing Rules) of the Company nor does he have any interest in the shares or underlying shares of the Company within the meaning of Part XV of the SFO as at the Latest Practicable Date, and save as disclosed above, there are no other matters relating to the appointment of Mr. Diao that need to be brought to the attention of the Shareholders and no other information that is required to be disclosed pursuant to Rules 13.51(2)(h) to 13.51(2)(v) of the Listing Rules.

LETTER FROM THE BOARD

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 Monday, 5 January 2015 at 11:00 a.m., or any adjournment is set out on pages 36 and 37 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, Level 22, Hopewell Centre, 183 Queen's Road East, 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 16 and 17 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 resolutions 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; and the re-election of the retiring Director.

ADDITIONAL INFORMATION

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

Yours faithfully,
By order of the Board
Lung Cheong International Holdings Limited
Leung Lun
Executive Director

LETTER FROM THE INDEPENDENT BOARD COMMITTEE



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)

11 December 2014

To the Independent Shareholders

Dear Sir or Madam,

We refer to the circular of the Company dated 11 December 2014 (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 4 to 15 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 18 to 30 of the Circular.

* *For identification purposes only*

LETTER FROM THE INDEPENDENT BOARD COMMITTEE

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. Ye Tian Liu
Independent
non-executive Director

Mr. Lai Yun Hung
Independent
non-executive Director

Dr. Ko Peter, Ping Wah
Independent
non-executive Director

LETTER FROM VEDA CAPITAL

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

VEDA | CAPITAL
智 略 資 本

Veda Capital Limited
Suite 3711, 37/F.,
Tower Two, Times Square,
1 Matheson Street, Causeway Bay,
Hong Kong

11 December 2014

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

Dear Sirs,

CONTINUING CONNECTED TRANSACTIONS

INTRODUCTION

We refer to our appointment as the independent financial adviser to the Independent Board Committee and the Independent Shareholders in respect of 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 11 December 2014 issued by the Company, of which this letter forms part. Capitalized terms used in this letter shall have the same meanings as defined in the circular unless the context requires otherwise.

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 the Supplier Group during the period commencing 1 April 2014 until 31 March 2017.

As at the Latest Practicable Date, 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 and an executive Director, 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.

LETTER FROM VEDA CAPITAL

As at the Latest Practicable Date, the Supplier and its associates together held 1,079,082,240 Shares, representing approximately 19.42% of the existing share capital of the Company. The Supplier and its associates are required to abstain from voting at the EGM on the resolution for approving the Master Purchase Agreement including the Annual Caps.

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

The Independent Board Committee, comprising all the 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. We have 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.

As at the Latest Practicable Date, we were not aware of any relationships or interest between Veda Capital and the Company or any other parties that could be reasonably be regarded as hindrance to Veda Capital's independence as defined under Rule 13.84 of the Listing Rules to act as the Independent Financial Adviser to the Independent Board Committee and the Independent Shareholders in respect of the undertaking and the transactions contemplated thereunder. We are not associated with the Company, its subsidiaries, its associates or their respective substantial shareholders or associates, and accordingly, are eligible to give independent advice and recommendations on the terms of the undertaking and the transactions contemplated thereunder. Apart from normal professional fees payable to us in connection with this appointment as the Independent Financial Adviser to the Independent Board Committee and Independent Shareholders, no arrangement exists whereby we will receive any fees from the Company, its subsidiaries, its associates or their respective substantial shareholders or associates.

BASIS OF OUR OPINION

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

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The Directors have collectively and individually accepted full responsibility for the accuracy of the information contained in the Circular and have confirmed, having made all reasonable enquiries that, to the best of their knowledge and belief, there are no other facts the omission of which would make any statements in the Circular misleading. We have no reason to believe that any information and representations relied on by us in forming our opinion is untrue, inaccurate or misleading, nor are we aware of any material facts the omission of which would render the information provided and the representations made to us untrue, inaccurate or misleading. We have not, however, conducted any independent in-depth investigation into the business affairs, financial position or future prospects of the Group, nor have we carried out any independent verification of the information provided by the Directors and management of the Company.

PRINCIPAL FACTORS AND REASONS CONSIDERED

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

Background of and reasons for the Master Purchase Agreement

(i) Background

The Board announced 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 the Supplier Group during the period commencing 1 April 2014 until 31 March 2017.

As noted from the Board Letter, subsequent to the entering into of the Master Purchase Agreement, the Company conducted an internal review on 7 November 2014, during which it was discovered that, after the expiry of the previous master purchase agreement on 31 March 2014 and up to 23 October 2014, the aggregate amount of the continuing connected transactions as of 23 October 2014 were subject to reporting, announcement, circular, annual review and Independent Shareholders' approval under Chapter 14A of the Listing Rules. The Company failed to comply with the aforesaid requirements under Chapter 14A of the Listing Rules in a timely manner (the "Non-compliance").

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As further noted from the Board Letter, the Non-compliance was due to inadvertent oversight of the Company. The purchase orders in the aforesaid continuing connected transactions were issued by the Purchaser Group to the Supplier Group in the financial year ended 31 March 2014 but the products had not been fully delivered to the Purchaser Group by the Supplier Group within that financial year due to alterations to the product specifications as well as adjustments to the delivery schedules. The Company inadvertently associated that the aforesaid continuing connected transactions were covered by the previous master purchase agreement which has been approved by the Independent Shareholder.

We also noted that the Company has implemented various measures (the “**Measures on Future Compliance**”) on future compliance with the Listing Rules in order to avoid re-occurrence of similar incident and to strengthen its reporting and documentation system and internal control procedures as follows: (i) the Directors and senior management of the Company will closely monitor and review the continuing connected transactions of the Company from time to time, so that they will be alerted to the level of the continuing connected transactions periodically; (ii) the account and finance department will have more stringent contract review, particularly on the terms and volume of the continuing connected transactions; and (iii) the Company will ensure that the Purchaser Group will not further purchase the Products from the Supplier Group before the continuing connected transactions contemplated under the Master Purchase Agreement are approved by the Independent Shareholders at the EGM.

We have enquired with the Company and are given to understand that the Non-compliance was due to the misunderstanding and unawareness of the Company that the transactions of those respective purchase orders which were issued but the products had not been fully delivered before the expiry of the previous master purchase agreement should not be covered by the previous master purchase agreement. As advised by the Company, alterations to the product specifications as well as adjustments to the delivery schedules were out of Company’s control and may happen from time to time due to the change in market conditions. Hence, the Directors and the senior management of the Company will more alert on the timing for the renewal of the Master Purchase Agreement and will renew the Master Purchase Agreement approximately six months before the expiry of the Master Purchase Agreement to make sure that all the aforesaid continuing connected transactions will be covered by new agreement which is properly approved by the Independent Shareholders (if necessary).

Having considered that (i) the Non-compliance was due to inadvertent oversight and misunderstanding of the Company as mentioned above; (ii) the late delivery of the products was due to the events that out of Company’s control and may happen from time to time due to the change in market conditions; (iii) the Directors and senior management of the Company have realised the Non-compliance and will be more aware of the timing for the renewal of the Master Purchase Agreement i.e. approximately six months before the expiry of the Master Purchase Agreement; (iv) the Directors, senior management as well as certain departments of the Company have increased

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awareness on and will closely monitor the continuing connected transactions under the Master Purchase Agreement; and (v) no transactions will be entered before the continuing connected transactions contemplated under the Master Purchase Agreement are approved by the Independent Shareholders at the EGM, we are of the view that the Measures on Future Compliance are adequate and reasonable so far as the Independent Shareholders are concerned.

(ii) Reasons

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 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.

As noted from the Board Letter, 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 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, the Group will continue to purchase the Products from the PRC Factories to meet the purchase orders from its customers.

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 suitable orders to its Indonesia factory.

Besides, as advised by the Company, some of the Products e.g. toys are exclusively developed and manufactured by the Supplier Group and the Purchaser Group may interest in those Products.

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We noted from the annual report of the Group for the year ended 31 March 2014 (the “AR2014”), the Group looks forward to enlarge its production capacity in its Indonesia plant. The construction of additional factory building of the Group’s Indonesia production facilities is expected to be in operation in the third quarter of the Group’s financial year in 2014/2015. The management of the Company expects the production capacity to be doubled once the new factory becomes fully operated for the year ended 31 March 2016.

The Group recorded a profit attributable to Shareholders of approximately HK\$5.3 million for the year ended 31 March 2014 as compared to a profit attributable to Shareholders of approximately HK\$2.2 million for the year ended 31 March 2013, representing an increase of approximately 137.2%. The Group worldwide of which the toys and consumer electronic products segments together generate approximately HK\$188.8 million and contributed as to approximately 97.5% of the Group’s turnover for the year ended 31 March 2014.

Having considered (i) the entering of the Master Purchase Agreement is in line with the principal activities of the Group; (ii) the Supplier Group has been supplying the Products to the Purchaser Group since 1 May 2011 and the Master Purchase Agreement is expected to be a continuation and renewal of the previous master purchase agreement which was expired; (iii) time required for identifying new independent subcontractors for its OBM/OEM business according to its production requirements, costs and production capacity; (iv) the core business segments of the Group, namely the toys and consumer electronic products segments, are the major contributors to the Group’s turnover for the year ended 31 March 2014; and (v) the Products exclusively developed and manufactured by the Supplier Group, we concur with the view of the Directors that the entering into of the Master Purchase Agreement shall enable the Group to maintain its normal course of business and is also in the interests of the Company and the Shareholders as a whole.

Principal terms of the Master Purchase Agreement

Date

23 October 2014

Parties

Purchaser: LC Global Holdings Corporation

Supplier: Lung Cheong (BVI) Holdings Limited

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Duration

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.

Conditions precedent

As set out in the Board Letter, the Master Purchase Agreement is condition 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 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.

Pricing basis

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.

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, we understand that the Company will carefully evaluate each of its potential suppliers based on, including but not limited to, the duration and quality of productions and the suppliers capacity as matched with the production schedules of the Company, and will then approach few

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independent supplier candidates which are considered as qualified and reliable by the Company based on its experience on the previous cooperation results aside from the Supplier Group to undergo a bidding process before finalizing its decision. As explained by the Company, based on the input production costs, the engineering, purchasing and sourcing departments of the Company will estimate and come up with preliminary prices before the sales and marketing department of the Company apply the mark up percentages in accordance to the Company's normal practices. The sale and marketing department of the Company will examine the prevailing market prices of similar products to ensure the pricing of the product to be within a targeted retail price range. Due to fluctuating marketing prices, the Company would make sure the ultimate targeted retail price range and the preferred gross margins are met in order to avoid buying the products which are priced out by known competitions. Lastly, the account and finance department of the Company will examine the purchasing terms and conditions to be in line with normal market practices and standard terms no less favourable to the Company than those available from independent suppliers; for instances, the Group is currently enjoying favorable credit terms from the Supplier Group for up to 180 days from shipment while independent third party suppliers normally require deposit and cash upon delivery. Normally, among the few independent supplier candidates who undergo the bidding process, at least two quotations would be received by the Company. As advised by the Company, in cases where there are less than two quotations or where the products are developed by the Supplier Group which also owned relevant patents, then the projected wholesale prices would determine the viability of the products. If the only quotation obtained is unable to meet the Company's targeted gross margin, the Company would not proceed with the transaction.

A report, which sets 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**").

To further assess the fairness and reasonableness of the terms of the Master Purchase Agreement, we have obtained and reviewed several sample purchase agreements entered into by the Group with other suppliers who are independent third parties of the Company and we noted that the terms offered by the Supplier Group are no less favorable than those offered by other suppliers.

Given that 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, we are of the opinion that (i) the Master Purchase Agreement is fair and reasonable and on normal commercial terms; and (ii) adequate measures and mechanism have been in place to monitor the Master Purchase Agreement in order to protect the interests of the Company and the Independent Shareholders.

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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	2015 (Note)	2016	2017
Annual Caps (<i>HK\$ million</i>)	60	75	95
	(the “ 2015 Cap ”)	(the “ 2016 Cap ”)	(the “ 2017 Cap ”)

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

As set out in the Board Letter, 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.

The 2015 Cap

We have enquired the Company for the calculation mechanism of the 2015 Cap and were advised by the Company that the 2015 Cap was determined based on:

- (i) the purchase from the Supplier Group which was accounted for approximately HK\$47.7 million, representing approximately 79.77% (the “**2014 Purchase from Supplier Group Percentage**”) of the total purchase (the “**Total Purchase**”) of approximately HK\$59.79 million by the Purchaser Group for the year ended 31 March 2014; and
- (ii) the projected total sales of the Purchaser Group (the “**2015 Projected Total Sales**”) of approximately HK\$113.3 million, which represents 20% growth to the total sales of the Purchaser Group of approximately HK\$94.4 million for the year ended 31 March 2014, based on, amongst others, new products under development, current orders placed to the Purchaser Group, previous sales experiences and the US market recovery mode. The Total Purchase accounted for approximately 63% to the total sales of the Purchaser Group for the year ended 31 March 2014. Having taken into account of the expected increase in the labour cost in the PRC and the appreciation of Renminbi, the projected percentage of total purchase from the Supplier Group to the total sales of the Purchaser Group for the year ending 31 March 2015 is 67% (the “**2015 Projected Purchase from Supplier Group Percentage**”). As a result, the projected Total Purchase for the year ending 31 March 2015 (the “**2015 Projected Total Purchase**”) is projected as approximately HK\$76 million.

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According to the 2014 Purchase from Supplier Group Percentage and the 2015 Projected Total Purchase, the Company projects the purchase from the Supplier Group for the year ending 31 March 2015 would be approximately HK\$61 million (the “**2015 Projected Purchase from Supplier Group**”) and as advised by the Company, the Purchaser Group as a role of the wholesaler, orders are often ordered in bulk and that the bulk orders will be made and received during July onwards which is around the time to prepare for the delivery during the period from October to December Christmas peak selling seasons. As further advised by the Company, majority of the sales of the Purchaser Group are for Christmas. Having understood the abovementioned ordering patterns and seasonal effect and in view of the 2015 Cap does not exceed the 2015 Projected Purchase from Supplier Group, we consider the 2015 Cap has been arrived at careful consideration of the Company and is fair and reasonable and in the interests of the Company and the Independent Shareholders as a whole.

The 2016 Cap and the 2017 Cap

As advised by the Company, the ratios for purchase from the Supplier Group as compared to the total purchases for the two years ending 31 March 2017 are expected to be maintained, (i.e. the 2014 Purchase from Supplier Group Percentage) for the two years ending 31 March 2017. As set out in the AR2014, the Group has received encouraging market response from customers for the new introduced product lines and has aimed to increase sales from further penetration into the mass market and internet retail networks and based on the Group’s prospect of the markets of the European countries and the United States to recover strongly, the Company projected total sales of the Purchaser Group for the year ending 31 March 2016 (the “**2016 Projected Total Sales**”) to be approximately HK\$136.0 million, which represents 20% growth to the 2015 Projected Total Sales and projected total sales of the Purchaser Group for the year ending 31 March 2017 to be approximately HK\$170.0 million (the “**2017 Projected Total Sales**”), which represents approximately 25% growth to the 2016 Projected Total Sales. Similar to the calculation of the 2015 Cap, the Group has taken into account of the expected continuing increase in the labour cost in the PRC mainly contributable to the appreciation of Renminbi and relatively high growing GDP as compared to other countries among the world, the projected percentage of total purchase from the Supplier Group to the total sales of the Purchaser Group for the year ending 31 March 2016 and 31 March 2017 will be increased to approximately 68% (the “**2016 Projected Purchase from Supplier Group Percentage**”) and approximately 70% (the “**2017 Projected Purchase from Supplier Group Percentage**”) respectively. As a result, the projected Total Purchase for the two years ending 31 March 2017 are projected as approximately HK\$92.5 million (the “**2016 Projected Total Purchase**”) and approximately HK\$119.0 million (the “**2017 Projected Total Purchase**”).

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According to the 2014 Purchase from Supplier Group Percentage and the 2016 Projected Total Purchase and 2017 Projected Total Purchase, the Company projects the purchase from the Supplier Group for the two years ending 31 March 2017 would be approximately HK\$73.8 million (the “**2016 Projected Purchase from Supplier Group**”) and HK\$94.9 million (the “**2017 Projected Purchase from Supplier Group**”) respectively. In view that the 2016 Cap is just slightly above (i.e. approximately 1.67%) the 2016 Projected Purchase from Supplier Group and the 2017 Cap is the approximate value of the 2017 Projected Purchase from Supplier Group, we consider both the 2016 Cap and 2017 Cap are fair and reasonable and in the interests of the Company and the Independent Shareholders as a whole.

We have researched on the markets of the major countries of the main geographical segments of the Purchaser Group. According to World Economic Outlook (the “**WEO**”) published by the International Monetary Fund (“**IMF**”) in April 2014, global activity has broadly strengthened and is expected to improve further in 2014-15, with much of the impetus coming from advanced economies. Global growth is projected to strengthen from approximately 3.0% in 2013 to approximately 3.6% in 2014 and approximately 3.9% in 2015 driven by reduction in fiscal tightening and highly accommodative monetary conditions. With supportive monetary conditions and a smaller drag from fiscal consolidation, annual growth is projected to rise above trend in the United States and to be close to trend in the core euro area economies.

North America

The WEO expects growth will be the strongest in the United States. The United States economy grew at a faster-than-anticipated pace in the second half of 2013, led by buoyant domestic demand, robust inventory accumulation and strong export growth. The United States recorded a growth in real GDP of approximately 1.9% in 2013 and was projected by IMF to have growths in GDP of approximately 2.8% and approximately 3.0% in 2014 and 2015 respectively. Correspondingly, the growth in real GDP in Canada is also expected to accelerate in 2014 to 2.3% in 2014 from approximately 2.0% in 2013 as a result of the recovery of the United State economy, stronger external demand and rising business investment.

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Europe

According to the WEO, the euro area has finally emerged from recession and although the durability of such recovery may not be assured, the domestic demand in the euro area has finally stabilized and turned toward positive. Growths in the European economies are uneven across countries and sectors as core countries will experience stronger growth and countries with high debt (both private and public) and financial fragmentation will experience weaker growth. Advanced European economies have collectively recorded a growth in real GDP of approximately 0.1% and are expected to resume growths in real GDP of approximately 1.5% and approximately 1.7% in 2014 and 2015 respectively. Whereas, emerging and developing European countries have collectively recorded a growth in real GDP of approximately 2.8% and are projected to have growth in GDP of approximately 2.4% and 2.9% in 2014 and 2015 respectively.

China and the labour costs

Further sourced from the WEO, China recorded a growth in real GDP of approximately 7.7% in 2013 and is projected to have growths in real GDP of approximately 7.5% and 7.3% in 2014 and 2015 respectively. The continual strong growths in GDP in China have resulted in strengthening the value of its currency throughout the years. We noted from the website of Central Intelligence Agency (“CIA”) (www.cia.gov), Renminbi (RMB) have become stronger as compared to the US dollar. Exchange rate has changed from approximately RMB6.9385 per every US dollar in 2008 to approximately RMB6.2 per every US dollar in 2013.

As stated in *The End of Cheap Labor*, an article of IMF (www.imf.org) in June 2013, the United Nations projects that aging and declining fertility will result in a smaller working-age (15-64) population in less than a decade. The core group of industrial workers (ages 25-39, born at the start of the restriction of couples to one child) will shrink even faster, and the rapidly aging population will reverse a more than half-century decline in the dependency ratio, (i.e. the number of people younger than 15 or older than 64 divided by the working-age population). The demand for and supply of registered city workers will progressively narrowed and the workers demand for higher wages and better working conditions is expected to accelerate.

In view of (i) the recovery in North America and Europe market; (ii) the growth in GDP and the expected increase in labour costs which may increase the price of the Products; and (iii) the Company expects to purchase toys which are exclusively developed and manufactured by the Supplier Group, we consider the proposed Annual Caps have been arrived at careful consideration of the Company and are fair and reasonable and in the interests of the Company and the Independent Shareholders as a whole.

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RECOMMENDATION

Having considered the above 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 favor 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
Julisa Fong
Managing Director

Note: Ms. Julisa Fong is a licensed person under the SFO to engage in Type 6 (advising on corporate finance) regulated activities and has over 18 years of experience in investment banking and corporate finance.

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 <i>(Note 1)</i>	Approximate % of issued share capital as at the Latest Practicable Date
Mr. Leung Lun, M.H.	The Company	Interest of controlled corporation	1,079,082,240 ordinary shares (L) <i>(Note 2)</i>	19.42%
	Lung Cheong Investment Limited	Interest of controlled corporation	1,000 ordinary shares (L)	100.00%
	Rare Diamond Limited	Beneficial owner	70 ordinary shares (L)	70.00%
Ms. Fang Fang	The Company	Beneficial owner	12,000,000 ordinary shares (L)	0.21%

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, M.H. and as to 30% by Mr. Leung Chung Ming, who is the brother of Mr. Leung Lun, M.H..

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:

Name of Shareholder	Nature of interest	Number of Shares or underlying Shares <i>(Note 1)</i>	Approximate % of issued share capital as at the Latest Practicable Date
Haier Electrical Appliances Second Holdings (BVI) Limited	Beneficial owner	1,510,000,000 (L)	27.17%

Name of Shareholder	Nature of interest	Number of Shares or underlying Shares (Note 1)	Approximate % of issued share capital as at the Latest Practicable Date
Qingdao Haier Collective Asset Management Association	Interest of controlled corporation	1,510,000,000 (L) (Note 2)	27.17%
Qingdao Haier Investment and Development Co., Ltd.	Interest of controlled corporation	1,510,000,000 (L) (Note 2)	27.17%
Lung Cheong Investment Limited	Beneficial owner	1,079,082,240 (L)	19.42%
Rare Diamond Limited	Interest of controlled corporation	1,079,082,240 (L) (Note 3)	19.42%

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 Haier Electrical Appliances Second Holdings (BVI) Limited, the entire issued share capital of which is wholly owned by Qingdao Haier Investment and Development Co., Ltd, which is in turn beneficially owned as to 63.42% by Qingdao Haier Collective Asset Management Association.
3. 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, M.H. and as to 30% by Mr. Leung Chung Ming, who is the brother of Mr. Leung Lun, M.H..

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

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 2014, 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, apart from the Supplier and its subsidiaries, the Directors were not aware of any business or interest of each Director, management shareholder and their respective associate, that competes or may compete with the business of the Group and any other conflict of interest which any such person have or may have with the Group.

6. DIRECTORS' INTEREST IN ASSETS AND CONTRACTS OF SIGNIFICANCE

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 2014, the date to which the latest published audited consolidated accounts of the Group were made up.

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:

Veda Capital, a licensed corporation to carry on type 6 (advising on corporate finance) regulated activity under the SFO.

- (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 2014, 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 letter of recommendation from the Independent Board Committee, the text of which is set out on pages 16 and 17 of this circular;
- (c) the letter of advice from Veda Capital, the text of which is set out on pages 18 to 30 of this circular;
- (d) the written consent referred to under the paragraph headed “Expert and consent” in this appendix; and
- (e) this circular.

NOTICE OF EXTRAORDINARY GENERAL MEETING



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 Monday, 5 January 2015 at 11:00 a.m. for the purpose of considering and, if thought fit, passing with or without amendment, the following ordinary resolutions:

ORDINARY RESOLUTIONS

1. “**THAT**

- (i) the master purchase agreement dated 23 October 2014 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 2017 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 April 2014 to 31 March 2017 and each of the years ending 31 March 2015, 31 March 2016 and 31 March 2017 will not exceed HK\$60 million, HK\$75 million and HK\$95 million, respectively, be and are hereby approved; and

* *For identification purposes only*

NOTICE OF EXTRAORDINARY GENERAL MEETING

- (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.”
2. “**THAT** Mr. Diao Yunfeng be and is hereby re-elected as an executive Director of the Company and the Board be authorised to fix the remuneration of Mr. Diao Yunfeng.”

By order of the Board
Lung Cheong International Holdings Limited
Leung Lun
Executive Director

Hong Kong, 11 December 2014

Registered Office:

P.O. Box 309
Ugland House
Grand Cayman
KY1-1104
Cayman Islands

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 Level 22, Hopewell Centre, 183 Queen's Road East, 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. Diao Yunfeng, Mr. Leung Lun, M.H., 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.
4. In case of any inconsistency, the English text of this notice shall prevail over the Chinese text.