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 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.

This circular appears for information purposes only and does not constitute an invitation or offer to acquire, purchase or subscribe for the securities.

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)

CONNECTED AND SHARE TRANSACTION IN RELATION TO THE ACQUISITION OF THE REMAINING 40% INTEREST IN PT. LUNG CHEONG BROTHERS INDUSTRIAL

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

HANTEC CAPITAL LIMITED

A letter from the Independent Board Committee containing its recommendation to the independent Shareholders is set out on page 11 of this circular. A letter from Hantec Capital Limited containing its advice and recommendation to the Independent Board Committee and the independent Shareholders is set out on pages 12 to 22 of this circular.

16 October 2008

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

"Acquisition"	acquisition of approximately 40% interest in PTLC by the Purchaser from the Vendors pursuant to the Agreement
"Agreement"	the sale and purchase agreement dated 24 September 2008 entered into between the Purchaser and the Vendors in relation to the Acquisition
"Announcement"	the announcement of the Company dated 25 September 2008 relating to the Acquisition
"BKPM"	Indonesia Investment Coordinating Board
"Board"	board of Directors
"Company"	Lung Cheong International Holdings Limited, a company incorporated in the Cayman Islands with limited liabilities, the Shares of which are listed on the main board of the Stock Exchange
"Completion"	completion of the Acquisition in accordance with the Agreement
"connected persons"	has the meaning ascribed thereto under the Listing Rules
"Consideration"	HK$3,900,000, the consideration for the Acquisition pursuant to the Agreement
"Consideration Shares"	26,000,000 new Shares to be issued and allotted by the Company to the Vendors or their nominees upon Completion
"Directors"	directors of the Company
"Facility Agreement"	the facility agreement entered into between, amongst others, the Company and a syndicate of banks on 21 August 2007

"Fuxiang Agreement"	the sale and purchase agreement dated 29 September 2008 entered into between a company beneficially owned by Mr. Leung Lun and Dongguan Lung Cheong Toys Co., Ltd. in relation to the disposal of the properties known as units 402-403, 405, 413, 511-513, 611-614, 711-714 & 814, Fuxiang Building, Yinfeng Road, Huangcun District, Dongguan City, Guangdong Province, the People's Republic of China
"Fericle"	Fericle Holdings Limited, a company incorporated in the British Virgin Islands with limited liability and is beneficially owned as to 70% by Mr. Leung Lun and as to 30% by Mr. Leung Chung Ming
"Group"	the Company and its subsidiaries
"Hantec Capital"	Hantec Capital Limited, a corporation licensed to carry out type 1 (dealing in securities) and type 6 (advising on corporate finance) regulated activities under the SFO, which has been appointed as the independent financial adviser to the Independent Board Committee and the independent Shareholders in respect of the Agreement and the transaction contemplated thereunder
"Independent Board Committee"	the independent board committee comprising the independent non-executive Directors to advise the independent Shareholders in respect of the Agreement and the transaction contemplated thereunder
"Indonesia"	the Republic of Indonesia
"Last Trading Day"	24 September 2008, the last trading day on which the Shares were traded on the Stock Exchange immediately preceding the publication of the Announcement
"Latest Practicable Date"	13 October 2008, being the latest practicable date prior to the printing of this circular for ascertaining certain information in this circular
"LC Investment"	Lung Cheong Investment Limited, a company incorporated in the British Virgin Islands with limited liabilities and is beneficially owned as to 70% by Mr. Leung Lun and as to 30% by Mr. Leung Chung Ming, owns approximately 60.82% of the issued share capital of the Company as at the Latest Practicable Date

"Listing Rules"	the Rules Governing the Listing of Securities on the Stock Exchange
"Lung Cheong Toys"	Lung Cheong Toys Limited, a company incorporated in Hong Kong and a wholly-owned subsidiary of the Company
"PTLC"	PT. Lung Cheong Brothers Industrial, a company incorporated under the laws of Indonesia and is owned as to approximately 40% by the Vendors and as to approximately 60% by Lung Cheong Toys
"Purchaser"	Lung Cheong Asia Holdings Limited, a company incorporated in the British Virgin Islands and a wholly-owned subsidiary of the Company
"Sale Shares"	collectively 2,291,000 shares of Rp.1,000 each in PTLC, representing approximately 40% of the entire issued share capital of PTLC as at the date of the Agreement
"SFO"	the Securities and Futures Ordinance, Chapter 571 of the Laws of Hong Kong
"Share(s)"	ordinary share(s) with nominal value of HK$0.10 each in the share capital of the Company
"Shareholder(s)"	holder(s) of Share(s)
"Stock Exchange"	The Stock Exchange of Hong Kong Limited
"Vendors"	Mr. Jimmy Sumitro, Mr. Ng Soegiarto Hanafi, Mr. Goenarto Waluyo Ng, Mr. Norman Purnomo Ng and Mr. Amin Widdhiarta Ng; and "Vendor" means any of them
"Yuyuan Agreement"	the sale and purchase agreement dated 29 September 2008 entered into between a company beneficially owned by Mr. Leung Lun and Dongguan Lung Cheong Toys Co., Ltd. in relation to the disposal of House No. 28, Yuyuan Villa, Xinyuan Road, Lixin Village, Dongcheng District, Dongguan City, Guangdong Province, the People's Republic of China
"HK$"	Hong Kong dollars, the lawful currency of Hong Kong
"Rp."	rupiah, the lawful currency of Indonesia
"%"	per cent

LUNG CHEONG INTERNATIONAL HOLDINGS LIMITED
龍昌國際控股有限公司

(Incorporated in the Cayman Islands with limited liability)

(Stock Code: 348)

Directors:
Mr. Leung Lun *(Chairman)*
Mr. Leung Chung Ming *(Managing Director)*
Mr. Zhong Bingquan
Ms. Cheng Yun Tai
Mr. Wong, Andy Tze On
Mr. Ko Peter, Ping Wah*
Mr. Wong Lam, O.B.E., J.P.**
Mr. Ye Tian Liu**
Mr. Lai Yun Hung**

** Non-executive Director*
*** Independent Non-executive Directors*

Registered Office:
Ugland House
South Church Street
P.O. Box 309
George Town
Grand Cayman
Cayman Islands
British West Indies

Head office and principal place of business in Hong Kong:
Lung Cheong Building
1 Lok Yip Road
Fanling
New Territories
Hong Kong

16 October 2008

To the Shareholders

Dear Sir or Madam,

CONNECTED AND SHARE TRANSACTION IN RELATION TO THE ACQUISITION OF THE REMAINING 40% INTEREST IN PT. LUNG CHEONG BROTHERS INDUSTRIAL

INTRODUCTION

The Company announced on 25 September 2008 that the Purchaser, a wholly-owned subsidiary of the Company, entered into the Agreement with the Vendors pursuant to which the Purchaser agreed to purchase and the Vendors agreed to sell the Sale Shares at an aggregate consideration of HK$3,900,000, which shall be satisfied by the issue and allotment of an aggregate 26,000,000 Consideration Shares to the Vendors or their nominees upon Completion.

Immediately prior to the entering into the Agreement, the Company owned approximately 60% indirect interest in PTLC through Lung Cheong Toys and the Vendors in aggregate held approximately 40% interest in PTLC. Mr. Jimmy Sumitro, being one of the Vendors, is a director of PTLC and the other four Vendors are brothers of Mr. Jimmy Sumitro. As such, the Acquisition constitutes a connected and share transaction for the Company under the Listing Rules which requires the approval of independent Shareholders pursuant to the Listing Rules.

Application had been made to the Stock Exchange for a waiver of the requirement of the independent Shareholders' approval to the Agreement be given by a majority vote at a general meeting of the Shareholders and to accept a written independent Shareholders' approval pursuant to Rule 14A.43 of the Listing Rules and the Stock Exchange has granted such a waiver to the Company.

The purpose of this circular is to provide you with further information regarding, among other things, the Agreement; the recommendation of the Independent Board Committee to the independent Shareholders in relation to the Acquisition; and the advice from Hantec Capital to the Independent Board Committee and the independent Shareholders in respect of the Acquisition.

THE AGREEMENT

Date

24 September 2008

Parties

1. Purchaser: Lung Cheong Asia Holdings Limited, a wholly-owned subsidiary of the Company

2. Vendors: Mr. Jimmy Sumitro, Mr. Ng Soegiarto Hanafi, Mr. Goenarto Waluyo Ng, Mr. Norman Purnomo Ng and Mr. Amin Widdhiarta Ng, each of them has no shareholding interest in the Company.

Assets to be sold and purchased

The Sale Shares, representing approximately 40% of the entire issued share capital of PTLC. The Vendors' original purchase cost of the 40% shareholding in PTLC represent the initial subscription fund in respect of the Sale Shares.

Consideration

The aggregate Consideration is HK$3,900,000, which shall be satisfied by the issue and allotment of the Consideration Shares at an issue price of HK$0.15 each to the Vendors or its nominees at Completion.

The issue price of HK$0.15 per Consideration Share represents (i) a premium of approximately 15.38% to the closing price of HK$0.13 per Share as quoted on the Stock Exchange on the Last Trading Day; (ii) a premium of approximately 20.39% to the average closing price of approximately HK$0.1246 per Share as quoted on the Stock Exchange for the last five trading days up to and including the Last Trading Day; and (iii) a premium of approximately 92.31% to the closing price of HK$0.078 per Share as quoted on the Stock Exchange on the Latest Practicable Date.

The Consideration Shares represent approximately 1.055% of the issued share capital of the Company as at the Latest Practicable Date and approximately 1.044% of the enlarged issued share capital of the Company immediately following the Completion. The Consideration Shares will be issued under the general mandate granted to the Directors at the annual general meeting held on 23 September 2008, which as at the Latest Practicable Date, allows the Company to allot, issue or otherwise deal with up to a maximum of 492,959,999 new Shares. The Company has applied to the Listing Committee of the Stock Exchange for the listing of, and permission to deal in, the Consideration Shares.

There is no restriction for the subsequent sale of the Consideration Shares and the Consideration Shares will rank pari passu in all respects with all other Shares in issue on Completion.

The Consideration was arrived at after arm's length negotiations between the Purchaser and the Vendors and on normal commercial terms. The Consideration was agreed with reference to the financial position and prospects of PTLC, including its net liabilities of approximately Rp.100,334.97 million (equivalent to approximately HK$84.74 million) and net asset value (excluding the long term loan due to its shareholder, Lung Cheong Toys) of approximately Rp.33,032.99 million (equivalent to approximately HK$27.90 million) as at 31 March 2008 according to its audited accounts as at 31 March 2008. Having considered the above and the factors described under the section headed "Reasons for the Acquisition" below, the Directors (including the independent non-executive Directors) are of the opinion that the Consideration is fair and reasonable and on normal commercial terms.

Completion

Completion under the Agreement will take place on or before the 7th day after the fulfillment or waiver of the conditions under the Agreement but in any event shall not be later than the date falling on 6 months after (but excluding) the date of the Agreement or at such other date as may be agreed by the parties.

After the Completion, PTLC will become a wholly-owned subsidiary of the Company.

CONDITIONS

Completion is conditional upon, among other things, the following conditions precedent having been fulfilled or, as the case may be, waived:

(1) all relevant regulatory requirements (including but not limited to those stipulated by BKPM and under the Listing Rules and all relevant regulatory requirements in Hong Kong and Indonesia) having been complied with and satisfied;

(2) all formalities (including the relevant approval, including but not limited to the Listing Committee of the Stock Exchange granting listing of, and permission to deal in, the Consideration Shares, registration and filing with the relevant Hong Kong and Indonesian authorities) necessary to effect the change in shareholding in PTLC having been completed;

(3) the warranties given by the Vendors and the Purchaser having remained true and accurate in all material respects; and

(4) no material adverse change or prospective material adverse change in PTLC's business, operations, financial conditions or prospects has occurred since the date of signing the Agreement.

The Purchaser may at any time by notice in writing waive the above conditions (save for conditions (1) and (2)). In the event that the above conditions are not fulfilled or waived on or before the date falling on 3 months from the date of the Agreement (or such other date as the parties may agree in writing), the Agreement shall be terminated and neither party shall have any rights or obligations against each other under the Agreement except for any antecedent breach.

INFORMATION ON PTLC

PTLC was established in Indonesia with an authorized share capital of Rp.10,000,000,000 divided into 10,000,000 shares of Rp.1,000 each and is principally engaged in the manufacture of plastic and electronic products.

According to the audited financial statements prepared under the generally accepted accounting principles in Indonesia as at 31 March 2008, PTLC's total value of assets was approximately Rp.52,277.81 million (equivalent to approximately HK$44.15 million and its net liabilities was approximately Rp.100,334.97 million (equivalent to approximately HK$84.74 million). The net loss for both before and after corporate income taxation and extraordinary items of PTLC for the years ended 31 March 2008 and 2007 amounted to approximately

Rp.7,635.50 million (equivalent to approximately HK$6.45 million) and approximately Rp.6,312.59 million (equivalent to approximately HK$5.41 million) respectively.

REASONS FOR THE ACQUISITION

The Group is principally engaged in development, engineering, manufacture and sales of toys and moulds whilst PTLC is engaged in the manufacture of plastic and electronic products.

In view of lower manufacturing and production costs in Indonesia as compared to other countries in Asia, the Directors decided to shift part of the Group's production of middle to low end products to manufacturing plants in Indonesia so as to take advantage of the comparative cost advantage in Indonesia. The Directors are of the view that the Acquisition provides a good opportunity for the Company to increase its interest in PTLC by acquiring the remaining 40% shareholding in PTLC and thus enable the Group to exercise absolute and more effective control over the business and operations of PTLC and further enhance its manufacturing and production capabilities of toys, moulds and electronic products, which is in line with the production strategy of the Company.

The Directors (including the independent non-executive Directors) consider the terms of the Agreement to be fair and reasonable as far as the Shareholders are concerned and that the Agreement is in the interests of the Company and the Shareholders as a whole.

LISTING RULES IMPLICATIONS

Mr. Jimmy Sumitro, being one of the Vendors, is a director of PTLC and the other four Vendors are brothers of Mr. Jimmy Sumitro. As such, the Acquisition constitutes a connected transaction for the Company under the Listing Rules.

As the applicable percentage ratios set out in the Listing Rules for the Acquisition are less than 2.5%, the Acquisition constitutes a connected and share transaction of the Company under the Listing Rules and is subject to reporting, announcement and independent shareholders' approval requirements under the Listing Rules.

Application had been made to the Stock Exchange for a waiver of the requirement of the independent Shareholders' approval to the Agreement be given by a majority vote at a general meeting of the Shareholders and to accept a written independent Shareholders' approval pursuant to Rule 14A.43 of the Listing Rules and the Stock Exchange granted such a waiver to the Company on 2 October 2008 as (i) no Shareholder has a material interest in the Agreement and is required to abstain from voting if the Company were to convene a general meeting for the approval of the Agreement; and (ii) the Company has obtained a written independent Shareholders' approval dated 26 September 2008 from LC Investment, which owns approximately 60.82% of the current issued share capital of the Company giving the right to attend and vote at the general meeting of the Company to approve the Agreement.

PROCEDURES FOR DEMANDING A POLL

Pursuant to Article 80 of the articles of association of the Company, at any general meeting a resolution put to the vote of the meeting shall be decided on a show of hands unless (before or on the declaration of the result of the show of hands or on the withdrawal of any other demand for a poll) a poll is duly demanded. A poll may be demanded by:

(i) the Chairman of the meeting; or

(ii) at least five members present in person (or, in the case of a member being a corporation, by its duly authorised representative) or by proxy and entitled to vote; or

(iii) any member or members present in person (or, in the case of a member being a corporation, by its duly authorised representative) or by proxy and representing in the aggregate not less than one-tenth of the total voting rights of all members having the right to attend and vote at the meeting; or

(iv) any member or members present in person (or, in the case of a member being a corporation, by its duly authorised representative) or by proxy and holding shares conferring a right to attend and vote at the meeting on which there have been paid up sums in the aggregate equal to not less than one-tenth of the total sum paid up on all shares conferring that right.

Unless a poll is so demanded and not withdrawn, a declaration by the Chairman that a resolution has on a show of hands been carried, or carried unanimously, or by a particular majority, or lost, and an entry to that effect in the Company's book containing the minutes of proceedings of meetings of the Company shall be conclusive evidence of that fact without proof of the number or proportion of the votes recorded in favour of or against such resolution.

RECOMMENDATIONS

Your attention is drawn to the letter from the Independent Board Committee set out on page 11 of this circular and the letter of advice from Hantec Capital which contains, among other things, their advice to the Independent Board Committee and the independent Shareholders in respect of the Acquisition, and the principal factors and reasons considered by them in arriving at such advice. The text of the letter from Hantec Capital is set out on pages 12 to 22 of this circular.

The Independent Board Committee, having taken into account the advice of Hantec Capital, considers that the terms of the Agreement are on normal commercial terms, fair and reasonable and in the interest of the Company and the Shareholders as a whole.

Your attention is drawn to the information contained in the appendix to this circular.

Yours faithfully,
For and on behalf of
Lung Cheong International Holdings Limited
Wong, Andy Tze On
Executive Director

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)

16 October 2008

To the Shareholders

Dear Sir or Madam,

CONNECTED AND SHARE TRANSACTION IN RELATION TO THE ACQUISITION OF THE REMAINING 40% INTEREST IN PT. LUNG CHEONG BROTHERS INDUSTRIAL

We refer to the circular issued by the Company to the Shareholders dated 16 October 2008 (the "**Circular**") of which this letter forms part. Unless the context otherwise defines, terms used in this letter shall have the same meanings as defined in the Circular.

We have been appointed as members of the Independent Board Committee to advise the Shareholders in connection with the terms of the Acquisition. Hantec Capital has been appointed as the independent financial adviser to advise the Independent Board Committee and the Shareholders in relation to the terms of the Acquisition.

We wish to draw your attention to the letter from the Board as set out on pages 4 to 10 and the letter from Hantec Capital as set out on pages 12 to 22 of the Circular respectively.

Having considered the principal factors and reasons considered by, and the advice of Hantec Capital as set out in its letter of advice, we consider that the terms of the Agreement are on normal commercial terms, fair and reasonable and are in the interests of the Company and the Shareholders as a whole. If a general meeting of the Shareholders were to be held for the purpose of considering and, if thought fit, approving the Agreement and the transaction contemplated thereunder, we would recommend the Shareholders to vote in favour of the resolution in this regard.

Yours faithfully,
Independent Board Committee

Mr. Wong Lam, **O.B.E., J.P.**	**Mr. Ye Tian Liu**	**Mr. Lai Yun Hung**
Independent Non-executive Director	*Independent Non-executive Director*	*Independent Non-executive Director*

The following is the full text of a letter of advice from Hantec Capital to the Independent Board Committee and the independent Shareholders for the purpose of inclusion in this circular:

Hantec Capital Limited
45th Floor, COSCO Tower
183 Queen's Road Central
Hong Kong

16 October 2008

To the Independent Board Committee and the independent Shareholders

Dear Sirs,

CONNECTED AND SHARE TRANSACTION IN RELATION TO THE ACQUISITION OF THE REMAINING 40% INTEREST IN PT. LUNG CHEONG BROTHERS INDUSTRIAL

INTRODUCTION

We refer to our engagement as the independent financial adviser to the Independent Board Committee and the independent Shareholders on the Acquisition, details of which are contained in the Letter from the Board ("**the Letter from the Board**") contained in the circular (the "**Circular**") of the Company to the Shareholders dated 16 October 2008, of which this letter forms part. Terms used in this letter have the same meanings as defined in the Circular unless the context otherwise requires.

On 24 September 2008, the Purchaser, a wholly owned subsidiary of the Company, entered into the Agreement with the Vendors pursuant to which the Purchaser agreed to purchase and the Vendors agreed to sell the Sale Shares at an aggregate consideration of HK$3,900,000.

Mr. Jimmy Sumitro, being one of the Vendors, is a director of PTLC and the other four Vendors are brothers of Mr. Jimmy Sumitro. As such, the Acquisition constitutes a connected transaction for the Company under the Listing Rules. As the applicable percentage ratios set out in the Listing Rules for the Acquisition are less than 2.5%, the Acquisition constitutes a connected and share transaction of the Company under the Listing Rules and is subject to reporting, announcement and independent shareholder's approval requirements under the Listing Rules. No Shareholder is required to abstain from voting in respect of the Acquisition and the Company has received a written approval from LC Investment, which owns approximately 60.82% of the issued share capital as at the Latest Practicable Date, in accordance with the requirements of Rule 14A.43 of the Listing Rules. The Company has applied to the Stock Exchange for a waiver from strict compliance with the Listing Rules in relation to independent shareholders' approval requirement for the approval of the Acquisition and such waiver has been subsequently granted by the Stock Exchange on 2 October 2008.

The Independent Board Committee has been established to advise whether the terms of the Acquisition are fair and reasonable and whether the Acquisition is in the interests of the Company and its independent Shareholders as a whole and to advise the independent Shareholders on how to vote. The Independent Board Committee comprising Mr. Wong Lam, O.B.E., J.P., Mr. Ye Tian Liu and Mr. Lai Yun Hung, all being independent non-executive Directors, has been formed to advise the independent Shareholders in this respect.

BASIS OF OUR ADVICE

In arriving at our recommendation, we have relied on the information and facts provided by the Company and have assumed that any representations made to us are true, accurate and complete. We have also relied on the statements, information, opinions and representations contained in the Circular and the information and representations provided to us by the Directors and management of the Company. We have assumed that all information, representations and opinions contained or referred to in the Circular and all information, representations and opinions which have been provided by the Directors and management of the Company for which they are solely responsible, are true and accurate at the time they were made and will continue to be accurate at the date of the despatch of the Circular.

The Directors jointly and severally accept full responsibility for the accuracy of the information contained in the Circular and confirm, having made all reasonable enquiries, that to the best of their knowledge and belief, opinions expressed in the Circular have been arrived at after due and careful consideration and there are no other facts not contained in the Circular the omission of which would make any such statement contained in the Circular misleading. We consider that we have been provided with sufficient information on which to form a reasonable basis for our opinion. We have no reason to suspect that any relevant information has been withheld, nor are we aware of any fact or circumstance which would render the information provided and representations and opinions made to us untrue, inaccurate or misleading. Having made all reasonable enquiries, the Directors have further confirmed that, to the best of their knowledge, they believe there are no other facts or representations the omission of which would make any statement in the Circular, including this letter, misleading. We have not, however, carried out any independent verification of the information provided by the Directors and management of the Company, nor have we conducted an independent investigation into the business and affairs of the Group.

PRINCIPAL FACTORS TAKEN INTO ACCOUNT

The principal factors and reasons that we have taken into consideration in assessing the terms of the Acquisition and arriving at our opinion are set out as follows:

1. Background and reasons for the Acquisition

The Group is principally engaged in development, engineering, manufacture and sales of toys and moulds.

(i) Background of PTLC

As set out in the Letter from the Board, PTLC was established in Indonesia with an authorized share capital of Rp.10,000,000,000 divided into 10,000,000 shares of Rp.1,000 each and is principally engaged in the manufacture of toys and electronic products. Prior to entering into the Acquisition, PTLC was owned as to 60% by the Company and 40% by the Vendors.

According to the audited financial statements prepared under the generally accepted accounting principles in Indonesia as at 31 March 2008, PTLC's total value of assets was approximately Rp.52,277.81 million (equivalent to approximately HK$44.15 million) and its net liabilities was approximately Rp.100,334.97 million (equivalent to approximately HK$84.74 million). The net loss for both before and after corporate income taxation and extraordinary items of PTLC for the years ended 31 March 2008 and 2007 amounted to approximately Rp.7,635.50 million (equivalent to approximately HK$6.45 million) and approximately Rp.6,312.59 million (equivalent to approximately HK$5.41 million) respectively.

(ii) Reasons for the Acquisition

As advised by the Company, in view of lower manufacturing and production costs in Indonesia as compared to other countries in Asia, the Directors decided to shift part of the Group's production of middle to low end products from PRC facilities to manufacturing plants in Indonesia so as to take advantage of the comparative cost advantage in Indonesia.

We have reviewed the cost structure of production in Indonesia of PTLC and that in the Group's PRC production facilities provided by the Company and noted that the production costs including transportation costs and cost of labour in Indonesia are generally lower than those in the PRC.

We have also discussed with the management of the Company and reviewed the Company's annual report of 2008 (the "AR 2008") and we noted that with more major customers are willing to transfer non-complex production orders from PRC facilities to PTLC as they were pressured from appreciation of the RMB and labour shortages in PRC, the Group is now able to relieve facilities in PRC for higher value production while taking advantage of Indonesia's more flexible costs structure and plentiful labour. The Directors expect that more new orders to be fulfilled in the coming years in PTLC and hence will maximize its utilization rate and production capacity.

In view of the above, we consider that the shift of part of the Group's production to Indonesia is in the interest of the Group and the Shareholders as a whole as the Group can make use of its production facilities in Indonesia to cater for customers that look for lower production costs while the Group can make use of its production facilities in the PRC for higher value production.

Currently PTLC is owned as to 60% by the Company and 40% by the Vendors, which the Company cannot have absolute control over its daily operation. As such, the Directors are of the view that the Acquisition provides a good opportunity for the Company to increase its interest in PTLC by acquiring the remaining 40% shareholding in PTLC and thus enable the Group to exercise absolute and more effective control over the business and operations of PTLC and further enhance its manufacturing and production capabilities of toys, moulds and electronic products to ensure that orders are meet cost-effectively by pushing more extensive utilization in PTLC where cost is lower and labour supply is ample. Given the Acquisition is in line with the business objectives and strategies of the Company, the Directors believe that the Acquisition is favorable to the growth of the Group and its long term development.

On the other hand, we note that, although the turnover and gross profit of PTLC has been increasing from approximately Rp.4,508.92 million (equivalent to approximately HK$3.81 million) and approximately Rp.1,376.34 million (equivalent to approximately HK$1.16 million) for the year ended 31 March 2007 to approximately Rp.22,713.78 million (equivalent to approximately HK$19.18 million) and approximately Rp.3,364.19 million (equivalent to approximately HK$2.84 million) for the year ended 31 March 2008 respectively, PTLC has been loss making during the corresponding periods. The gross profit margin of PTLC for the year ended 31 March 2007 and 2008 was approximately 30.5% and 14.8% respectively. The gross profit margin decreased in the year ended 31 March 2008 since the products mix of PTLC has been changed to lower-profit margin products and that PTLC has lowered the selling prices to its customers in order to provide more incentives for the customers to transfer their production orders from PRC facilities to PTLC. Accordingly, the turnover of PTLC was substantially increased in 2008 as compared to that of the previous year. As advised by the Company, the loss results of PTLC in the previous years were primarily due to the high average cost of the production of PTLC as a result of low utilization rate of the production capacity of PTLC. The Company further advised that the utilization rate of PTLC of its production capacity as at 31 March 2008 was approximately 50%, which means that PTLC still have half of its production capacity available for expansion in sales. The Directors are confident that the average cost of production can be significantly reduced should the utilization rate of the production capacity rise as some of the costs are fixed costs. Although it is uncertain as to whether PTLC can make profit and maintain profitable in the near future, we are of the view that the Acquisition facilitates the Group to shift part of its production from the PRC to Indonesia, which as a whole, is beneficial to the Group.

In view of the above, we are of the view that the Acquisition is in the interest of the Group and the Shareholders as a whole.

2. Terms of the Acquisition

(a) Consideration

The aggregate Consideration is HK$3.9 million which shall be satisfied by the issue and allotment of the Consideration Shares at an issue price of HK$0.15 each to the Vendors or its nominees at Completion.

The Consideration was arrived at after arm's length negotiations between the Purchaser and the Vendors and on normal commercial terms and was agreed with reference to the financial position and prospects of PTLC.

As PTLC recorded net loss and net liabilities in its latest audited financial statement, i.e. for the year ended 31 March 2008, it is not applicable to use the price-to-earnings ratio or the price-to-net asset value ratio to justify the Consideration. In view of that, we resort to use the price-to-revenue ratio ("P/R ratio") for our analysis. Based on the 40% interest in PTLC to be acquired by the Company and the audited turnover of PTLC of Rp.22,713.78 million (equivalent to approximately HK$19.18 million) for the year ended 31 March 2008, the Consideration of HK$3.9 million would therefore represent a P/R ratio of approximately 0.508 times. We have identified the following companies (the "Comparable Companies") listed in Hong Kong which is principally engaged in similar business to that of PTLC, that is, the manufacture of toys. The Comparable Companies are an exhaustive list of listed toy manufacturers identified, to our best endeavour, in our research through published information and we consider them to be representative. We have examined the P/R ratio (calculated based on the turnover per their respective latest published financial statement and the market capitalization of such companies based on their closing prices as quoted on 25 September 2008, the date of announcement of the Company in relation to the Acquisition) of the Comparable Companies, which are set out in the following table:

Company name (stock code)	**Market capitalization as at 25 September 2008**	**Audited turnover**	**P/R ratio**
	HK$	*HK$*	*times*
Herald Holdings Ltd. (114)	461,107,780	1,554,006,000	0.297
Kader Holdings Co Ltd. (180)	322,724,623	721,709,000	0.447
Sewco International Holdings Ltd. (209)	71,268,800	774,362,000	0.092
RBI Holdings Ltd. (566)	317,805,426	525,902,000	0.604
Playmates Holdings Ltd. (635)	534,702,645	996,044,400	0.537
Kin Yat Holdings Limited (638)	613,224,000	1,637,242,000	0.375
Hutchison Harbour Ring Ltd. (715)	5,280,885,097	2,709,739,000	1.949
GFT Holdings Ltd. (1003)	60,079,012	132,987,000	0.452
Matrix Holdings Ltd. (1005)	264,455,856	1,218,759,000	0.217
Dream International Ltd. (1126)	80,223,480	946,328,000	0.085
Smart Union Group (Holdings) Limited (2700)	92,098,000	953,623,000	0.097
PTLC	**9,750,000**	**19,183,938**	**0.508**
		Lowest	**0.085**
		Highest	**1.949**
		Mean	**0.468**

Source: www.hkex.com.hk

As shown in the above table, the P/R ratio of the Comparable Companies are in the range of 0.085 times to 1.949 times. The average of these P/R ratios are 0.468 times. The P/R ratio in relation to the Consideration of 0.508 times fall within the range of the Comparable Companies and is slightly higher than the average.

PTLC recorded net liabilities of approximately Rp.100,334.97 million (equivalent to approximately HK$84.74 million). According to the Company, the net liabilities were resulted from the accumulated loss from operation recorded by PTLC and no further capital investment has been made by its shareholders since its incorporation. Although PTLC was in net liabilities position, we consider that the Acquisition is in the interests of the Group and the Shareholders as a whole in view that it allows the Group to exercise absolute and more effective control over the business and operations of PTLC and effectively shift part of the Group's production to Indonesia as mentioned in the section headed "Background and reasons for the Acquisition" above. In view of its benefits to the Group, we consider that the net liabilities position should not be the only yardstick to assess the fairness and reasonableness of the Consideration. Instead, the P/R ratio analysis above have shown the revenue generating capability of PTLC.

In view of the above analysis, we consider that the Consideration is fair and reasonable so far as the Group and the independent Shareholders are concerned.

(b) Consideration Shares

The Consideration will be satisfied by the issue and allotment of 26,000,000 Consideration Shares to the Vendors or its nominees. The Consideration Shares represents approximately 1.055% of the issued share capital of the Company as at the Latest Practicable Date and approximately 1.044% of the enlarged issued share capital of the Company immediately following the Completion.

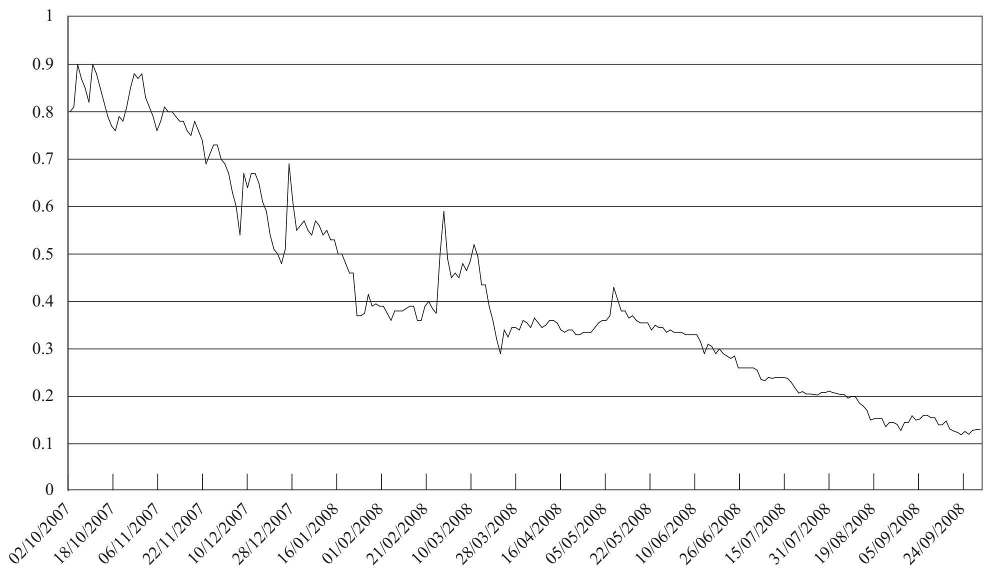
The issue price of the Consideration Shares of HK$0.15 per Consideration Share (the "Issue Price") represents:

(i) a premium of approximately 15.38% to the closing price of HK$0.13 per Share as quoted on the Stock Exchange on the Last Trading Day;

(ii) a premium of approximately 20.39% to the average closing prices of approximately HK$0.1246 per Share as quoted on the Stock Exchange for the last five trading days up to and including the Last Trading Day; and

(iii) a discount of approximately 34.21% to the audited consolidated net asset value per Share of approximately HK$0.228 as at 31 March 2008.

The chart below shows the daily closing prices of the Shares as quoted on the Stock Exchange from 1 October 2007 to 25 September 2008, the date of announcement of the Company in relation to the Acquisition (the "Review Period"):



Source: hkex.com.hk

During the Review Period, the Shares have been traded generally in a downward trend with the highest closing price of HK$0.9 recorded on 4 October 2007 and the lowest closing price of HK$0.119 recorded on 18 August 2008.

The table below illustrates the liquidity of the Shares during the Review Period:

	Average daily trading volume for the month/period (Shares)	Percentage of the average daily trading volume to the number of the issued Shares as at the Latest Practicable Date
2007		
October	9,381,095	0.38%
November	5,426,227	0.22%
December	10,613,158	0.43%
2008		
January	2,538,182	0.10%
February	15,649,471	0.63%
March	16,650,737	0.68%
April	2,656,524	0.11%
May	3,534,500	0.14%
June	1,750,500	0.07%
July	1,554,909	0.06%
August	633,684	0.03%
September (up to 25 September 2008)	1,069,222	0.04%

From the above table, we note that the liquidity of the Shares was generally thin and in a declining trend during the Review Period. In view of such declining liquidity and the declining closing price of the Shares, we consider that the Share performance may continue to deteriorate and we are of the view that it is reasonable to adopt recently traded share prices as a basis for arriving the Issue Price. Notwithstanding that the Issue Price represents a discount to the audited consolidated net asset value per Share as at 31 March 2008 and is lower than the closing price of the Shares in some trading days during the Review Period, we consider that the Issue Price is fair and reasonable so far as the Company and the independent Shareholders are concerned in view that the Issue Price represents a premium to the closing price on the Last Trading Day and the average closing price for the last five trading days up to and including the Last Trading Day.

3. Dilution of the shareholding interests in the Company

The table below demonstrates the shareholding structure of the Company immediately before and after the issue and allotment of the Consideration Shares assuming that there is no change in the shareholding structure of the Company from the Latest Practicable Date:

	As at the Latest Practicable Date		**Immediately after the issue and allotment of Consideration Shares**	
	Shares	*%*	*Shares*	*%*
LC Investment	1,499,082,240	60.82	1,499,082,240	60.18
Public Shareholders	965,717,760	39.18	965,717,760	38.77
The Vendors	—	—	26,000,000	1.04
Total	2,464,800,000	100.00	2,490,800,000	100.00

As shown in the above table, the shareholding interests of the existing public Shareholders will be decreased slightly from approximately 39.18% to 38.77% immediately after the issue and allotment of the Consideration Shares, representing a dilution of approximately 1.05%. After taking into account that (i) the terms of the Agreement were fairly and reasonably set; (ii) the reasons and benefits of the Acquisition; and (iii) the shareholding interests of the existing public Shareholders will be diluted in proportion to their respective shareholdings in the Company, we are of the view that the dilution effect to the public Shareholders is acceptable.

4. Financial effect of the Acquisition on the Group

Upon Completion, the accounts of PTLC will continue to be consolidated into the financial statements of the Company and PTLC will be accounted for as a wholly owned subsidiary of the Group.

(i) Earnings

As set out in the Letter from the Board, PTLC recorded net loss of approximately Rp.7,653.50 million (equivalent to approximately HK$6.45 million) for the year ended 31 March 2008. In view of its loss making position, we are of the view that the Acquisition will not bring immediate positive contribution to the earnings of the Group.

(ii) Cash and liquidity position

As the Consideration will be satisfied wholly by the issue and allotment of the Consideration Shares, the Group's cash and liquidity condition would have no material change upon Completion.

(iii) Net assets value

Since the Consideration will be satisfied by the issue and allotment of the Consideration Shares, the net asset value of the Group is expected to be increased upon Completion. However, a goodwill would arise as a result of the Acquisition since PTLC was in net liabilities position. The goodwill may be subject to impairment or write-off. On the other hand, since the Issue Price is at a discount to the net asset value per Share as at 31 March 2008, the net asset value per Share would be decreased as a result of the issue of the Consideration Shares.

RECOMMENDATION

Having taken into account the principal factors and reasons referred to the above, we are of the opinion that the terms of the Acquisition are fair and reasonable so far as the independent Shareholders are concerned and the Acquisition is in the interests of the Company and the Shareholders as a whole. If a general meeting of the Shareholders is to be held for the purpose of considering and, if thought fit, approving the Acquisition, we would advise the Independent Board Committee to recommend the independent Shareholders, as well as the independent Shareholders, to vote in favour of the ordinary resolution(s) in respect of approving the Acquisition.

Yours faithfully,
For and on behalf of
Hantec Capital Limited
Kinson Li
Director

1. RESPONSIBILITY STATEMENT

This circular includes particulars given in compliance with the Listing Rules for the purpose of giving information with regard to the Group. The Directors collectively and individually accept full responsibility for the accuracy of the information contained in this circular and confirm, 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 statement contained herein 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 *(Note 1)*	Approximate % of issued share capital as at the Latest Practicable Date
Leung Lun	The Company	Interest of controlled corporation	1,499,082,240 ordinary shares (L) *(Note 2)*	60.82%
	LC Investment	Interest of controlled corporation	1,000 ordinary shares (L)	100.00%
	Rare Diamond Limited	Beneficial interest	70 ordinary shares (L)	70.00%

Name of Director	Name of company	Nature of interest	Number and class of shares or underlying shares *(Note 1)*	Approximate % of issued share capital as at the Latest Practicable Date
Leung Chung Ming	The Company	Interest of controlled corporation	1,499,082,240 ordinary shares (L) *(Note 2)*	60.82%
	LC Investment	Interest of controlled corporation	1,000 ordinary shares (L)	100.00%
	Rare Diamond Limited	Beneficial interest	30 ordinary shares (L)	30.00%

Notes:

1. The letter "L" represents the Director's long position in the shares or underlying shares of the relevant company.

2. These shares were held by LC Investment, a company wholly owned by Rare Diamond Limited. Rare Diamond Limited is beneficially owned as to 70% by Mr. Leung Lun and as to 30% by Mr. Leung Chung Ming.

Save as disclosed above, as at the Latest Practicable Date, none of the Directors or 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.

Substantial Shareholders

As 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	Approximate % of issued share capital as at the Latest Practicable Date
LC Investment	Beneficial interest	1,499,082,240 (L)	60.82%
Rare Diamond Limited	Interest of controlled corporation	1,499,082,240 (L) *(Note 2)*	60.82%

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 LC Investment, the entire issued share capital of which is owned by Rare Diamond Limited. Rare Diamond Limited is beneficially owned as to 70% by Mr. Leung Lun and as to 30% by Mr. Leung Chung Ming.

Save as disclosed above, as 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 services 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 2008, the date to which the latest published audited financial statements of the Group were made up.

5. COMPETING INTERESTS

As at the Latest Practicable Date, none of Directors or their respective associates had any interests in a business which is considered to compete or is likely to compete, directly or indirectly, with the business of the Group.

6. OTHER INTERESTS OF THE DIRECTORS

On 29 September 2008, Dongguan Lung Cheong Toys Co., Ltd., a subsidiary of the Company, as vendor and a company beneficially owned by Mr. Leung Lun entered into the Fuxiang Agreement and the Yuyuan Agreement in relation to the disposal of properties in the People's Republic of China, details of which were set out in the announcement of the Company dated 10 October 2008.

Save as disclosed above, none of the Directors had any interests, either directly or indirectly, in any assets which had been acquired or disposed of by or leased to any member of the Group, or which were proposed to be acquired or disposed of by or leased to any member of the Group since 31 March 2008, the date to which the latest published audited consolidated accounts of the Group were made up.

On 7 March 2008 and 24 September 2008, the Company and LC Investment entered into a loan agreement and an extension agreement respectively pursuant to which LC Investment agreed to grant a loan of HK$50 million to the Company for partial repayment of the loan granted under the Facility Agreement; and extend the maturity date for repayment of the loan and all amounts outstanding under the loan agreement to 6 March 2009.

Pursuant to two second collateral insurance assignments entered into by Fericle, Fericle agreed to assign to the security trustee under the Facility Agreement (for the benefits of the lenders) all its right, title, interests and benefit under the insurance policies held by Fericle as a continuing security for all liabilities of, among others, the Company under the Facility Agreement, subject to the existing collateral assignments. In consideration of Fericle agreeing to continue its provision of security under the second collateral insurance assignments, the Company agrees to pay all expenses in connection with or incidental to the second collateral insurance assignments, including the payment of the insurance premium or interest under the insurance policies up to the date of release of the second collateral insurance assignments.

Save as disclosed above, none of the Directors was materially interested in any contract or arrangement entered into by any member of the Group, which was subsisting as at the Latest Practicable Date, and was significant in relation to the business of the Group.

7. EXPERT AND CONSENT

The following is the qualification of the expert who has given opinion or advice which is contained in this circular:

Name	Qualification
Hantec Capital	a corporation licensed to carry on type 1 (dealing in securities) and type 6 (advising on corporate finance) regulated activities under the SFO.

Hantec Capital has given and has not withdrawn its written consent to the issue of this circular with reference to its name and its letter in the form and context in which it appears.

As at the Latest Practicable Date, Hantec Capital did not have any shareholding, directly or indirectly, in any member of the Group or the right (whether legally enforceable or not) to subscribe for or to nominate persons to subscribe for shares in any member of the Group.

As at the Latest Practicable Date, Hantec Capital did not have any interest, either direct or indirect, in any assets which had been, since 31 March 2008 (being the date to which the latest published audited consolidated financial statements of the Group were made up), acquired or disposed of by or leased to or were proposed to be acquired or disposed of by or leased to any member of the Company.

8. DOCUMENTS AVAILABLE FOR INSPECTION

Copy of the following documents are available for inspection during 9:00 a.m. to 5:00 p.m. on any weekday (except for Saturdays and public holidays) at the office of the Company at Lung Cheong Building, 1 Lok Yip Road, Fanling, New Territories, Hong Kong up to and including 31 October 2008:

(a) the Agreement;

(b) the Facility Agreement;

(c) the Fuxiang Agreement;

(d) the Yuyuan Agreement;

(e) the letter from the Independent Board Committee, the text of which is set out on page 11 of this circular;

(f) the letter of advice from Hantec Capital, the text of which is set out on pages 12 to 22 of this circular; and

(g) written consent of Hantec Capital, referred to in the paragraph headed “Expert and Consent” in this Appendix.

9. MISCELLANEOUS

The English text of this circular shall prevail over the Chinese text in case of inconsistency.