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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) SUPPLEMENTAL AGREEMENT**

**(2) DESPATCH OF CIRCULAR IN RESPECT OF  
VERY SUBSTANTIAL DISPOSAL**

**AND**

**CONNECTED TRANSACTION**

**IN RELATION TO**

**DISPOSAL OF ENTIRE INTEREST OF**

**LUNG CHEONG (BVI) HOLDINGS LIMITED AND THE LOANS**

**(3) PUBLICATION OF CERTAIN UNAUDITED FINANCIAL INFORMATION OF  
THE DISPOSAL GROUP AND UNAUDITED PROFORMA FINANCIAL INFORMATION  
OF THE REMAINING GROUP**

**SUPPLEMENTAL AGREEMENT**

On 24 March 2011, the Vendor, the Purchaser and the Warrantors entered into a Supplemental Agreement in respect of (i) the revision on payment schedule and basis on calculation of the Adjusted NAV under the Disposal Agreement; (ii) share charge; and (iii) the right to use the Trademarks upon Completion.

**DESPATCH OF THE CIRCULAR**

The Circular contains, among other things, details of the Disposal, the unaudited financial information of the Disposal Group, unaudited pro forma financial information of the Remaining Group as required under the Listing Rules and the notice convening the EGM, will be despatched to the Shareholders on 25 March 2011.

**UNAUDITED FINANCIAL INFORMATION OF THE DISPOSAL GROUP AND UNAUDITED  
PROFORMA FINANCIAL INFORMATION OF THE REMAINING GROUP**

The unaudited financial statements of the Disposal Group for the eight months ended 30 November 2010 and 30 November 2009, respectively, the unaudited financial statements of the Disposal Group for three years ended 31 March 2010 and unaudited proforma financial information of the Remaining Group as required under the Listing Rules will be disclosed in the Circular.

Reference is made to the announcements of the Company dated 28 January 2011, 22 February 2011, 11 March 2011 (the “Announcements”) in relation to the Disposal, delay in despatch of the circular in relation to the Disposal (the “Circular”) and further delay in despatch of the Circular, respectively. Unless otherwise stated, capitalised terms used herein shall have the same meaning as defined in the Announcements.

## **SUPPLEMENTAL AGREEMENT**

On 24 March 2011, the Vendor, the Purchaser and the Warrantors entered into a supplemental agreement (the “Supplemental Agreement”) in respect of (i) the revision on payment schedule and basis on calculation of the Adjusted NAV under the Disposal Agreement; (ii) share charge; and (iii) the right to use the trademarks (the “Trademarks”) of the “Lung Cheong” brand name and logo upon Completion, details of which are set out below:

### **i. Payment schedule**

Under the Supplemental Agreement, the Vendor, the Purchaser and the Warrantors agreed that the Consideration shall be payable in cash in the following schedule:

- (1) HK\$11 million shall be payable to the Vendor upon Completion; and
- (2) the remaining balance shall be payable within 3 months after the Completion Date (or such other date as the parties may agree) with the following manner. If the Consideration is more than HK\$11 million, the balance of the Consideration will be payable by the Purchaser to the Vendor or its nominee. If the Consideration is less than HK\$11 million, the amount between the Consideration and the initial payment (i.e. HK\$11 million) will be payable by the Vendor or its nominee to the Purchaser.

In the event that payment of the remaining balance of the Consideration fails to occur as a result of the default of the Purchaser, all part payment paid by the Purchaser shall be forfeited by the Vendor.

### **ii. Adjusted NAV**

For the avoidance of doubt, if the Loans are less than HK\$282 million, the Adjusted NAV will be calculated by adding the amount of HK\$282 million to the net liabilities of the Disposal Group as at the date of the Completion Accounts, any differences in amount between the Loans and HK\$282 million will be payable by the Vendor to LC(BVI) or any other member of the Disposal Group.

If the Loans are more than HK\$282 million, the Adjusted NAV will be calculated by adding such higher amount of outstanding loan to the net liabilities of the Disposal Group as at the date of the Completion Accounts.

### **iii. Share Charge**

Under the Supplemental Agreement, as security for performance of the payment obligations of the Purchaser, the Purchaser would execute a share charge in respect of the Sale Shares in favour of the Vendor upon Completion.

#### **iv. Use of the Trademarks**

The Purchaser and the Warrantors jointly and severally undertake with the Company that the Purchaser shall, immediately upon Completion, procure the Disposal Group to grant to the Company and/or the Remaining Group a right to use the Trademark for a period of up to the date on which the Company ceased to use the Trademark (or such other date as the parties may agree) and enter into the trademark licence agreement in an approved form.

#### **REASONS FOR AND BENEFITS OF ENTERING INTO THE SUPPLEMENTAL AGREEMENT**

Given the current uncertain economic condition in the world, the Directors consider it is in the interest of the Company to receive part of the payments from the Purchaser upon Completion by entering into the Supplemental Agreement, so that it can improve the liquidity and financial position of the Group. In addition, the revised payment schedule can protect the Group if tightening of the global credit market takes place in the following months and the arrangement in respect of share charge can protect the Group in event that the Purchase fails to perform its payment obligation under the Supplemental Agreement. Based on above, the Directors believe that the terms of the Supplemental Agreement are fair and reasonable and in the interest of the Shareholders as a whole.

#### **DESPATCH OF THE CIRCULAR**

It is announced that the Circular in relation to, inter alia, the very substantial disposal and connected transaction in relation to disposal of entire interest of Lung Cheong (BVI) Holdings Limited and the Loans will be despatched to the Shareholders on 25 March 2011. The Circular contains, among other things, details of the Disposal, the unaudited financial information of the Disposal Group, unaudited pro forma financial information of the Remaining Group as required under the Listing Rules and the notice convening the EGM. The EGM will be held on 12 April 2011, details of which are set out in the notice of EGM in the Circular.

#### **UNAUDITED FINANCIAL INFORMATION OF THE DISPOSAL GROUP AND UNAUDITED PROFORMA FINANCIAL INFORMATION OF THE REMAINING GROUP**

The Circular contains unaudited financial information of the Disposal Group for the eight months ended 30 November 2010 and 30 November 2009, the unaudited financial statements of the Disposal Group for three years ended 31 March 2010, unaudited proforma financial information of the Remaining Group and the management discussion and analysis of the Remaining Group.

##### **i. Unaudited financial information of the Disposal Group**

Set out below is a summary of the unaudited financial information of the Group for the eight months ended 30 November 2010 and 30 November 2009, respectively, and the unaudited financial statements of the Disposal Group for three years ended 31 March 2010. This summary should be read in conjunction with the financial information set out in Appendix I to the Circular.

**UNAUDITED COMBINED STATEMENTS OF COMPREHENSIVE INCOME  
FOR THE YEARS ENDED 31 MARCH 2008, 2009 AND 2010  
AND THE EIGHT MONTHS ENDED 30 NOVEMBER 2009 AND 2010**

	Year ended 31 March			Eight months ended 30 November	
	2008	2009	2010	2009	2010
	<i>HK\$'000</i>	<i>HK\$'000</i>	<i>HK\$'000</i>	<i>HK\$'000</i>	<i>HK\$'000</i>
Turnover	726,270	574,735	334,106	243,709	333,103
Cost of sales	<u>(614,597)</u>	<u>(514,081)</u>	<u>(318,627)</u>	<u>(218,538)</u>	<u>(325,959)</u>
Gross profit	111,673	60,654	15,479	25,171	7,144
Other revenue and other gains and losses	90,809	25,607	19,952	14,711	14,557
Selling and distribution expenses	(24,278)	(9,480)	(6,069)	(4,542)	(5,213)
General and administrative expenses	(136,918)	(161,551)	(173,994)	(108,852)	(82,996)
Revaluation deficit of land and buildings	—	(121,827)	—	—	(84,283)
Impairment on property, plant and equipment	—	(22,097)	(6,790)	—	—
Impairment on trade and other receivables	—	(7,941)	(402)	—	—
Operating profit/(loss)	41,286	(236,635)	(151,824)	(73,512)	(150,791)
Finance costs	<u>(23,806)</u>	<u>(14,213)</u>	<u>(4,133)</u>	<u>(2,313)</u>	<u>(3,415)</u>
Profit/(loss) before income tax	17,480	(250,848)	(155,957)	(75,825)	(154,206)
Income tax credit/(expense)	<u>2,741</u>	<u>155</u>	<u>(1,178)</u>	<u>—</u>	<u>—</u>
Profit/(loss) for the year/period	<u>20,221</u>	<u>(250,693)</u>	<u>(157,135)</u>	<u>(75,825)</u>	<u>(154,206)</u>
Other comprehensive income, after tax					
Gain/(loss) on revaluation of land and buildings, net	—	974	—	—	(2,854)
Contribution from holding company	—	—	73,535	—	—
Exchange differences arising on translation of foreign operations	<u>38,994</u>	<u>16,657</u>	<u>(654)</u>	<u>(9,577)</u>	<u>—</u>
Other comprehensive income for the year/period	<u>38,994</u>	<u>17,631</u>	<u>72,881</u>	<u>(9,577)</u>	<u>(2,854)</u>
Total comprehensive income for the year/period	<u><u>59,215</u></u>	<u><u>(233,062)</u></u>	<u><u>(84,254)</u></u>	<u><u>(85,402)</u></u>	<u><u>(157,060)</u></u>

**UNAUDITED COMBINED STATEMENTS OF FINANCIAL POSITION  
AS AT 31 MARCH 2008, 2009 AND 2010 AND 30 NOVEMBER 2010**

	<b>2008</b> <i>HK\$'000</i>	<b>As at 31 March</b> <b>2009</b> <i>HK\$'000</i>	<b>2010</b> <i>HK\$'000</i>	<b>As at</b> <b>30 November</b> <b>2010</b> <i>HK\$'000</i>
<b>Non-current assets</b>				
Leasehold land and land use rights	93,428	89,582	87,708	86,459
Property, plant and equipment	407,721	259,220	222,195	115,155
Club memberships	2,474	2,001	2,001	2,001
Deferred tax assets	1,742	1,006	—	—
	<u>505,365</u>	<u>351,809</u>	<u>311,904</u>	<u>203,615</u>
<b>Current assets</b>				
Inventories	248,853	165,475	73,949	65,800
Trade and other receivables, deposits and prepayments	153,447	61,880	11,136	16,124
Derivative financial instruments	634	544	—	—
Tax recoverable	102	1,760	1,760	1,760
Cash and cash equivalents	43,760	17,074	28,261	37,484
	<u>446,796</u>	<u>246,733</u>	<u>115,106</u>	<u>121,168</u>
<b>Current liabilities</b>				
Trade and other payables and accrued charges	147,722	94,648	66,326	74,711
Obligations under finance leases	—	140	259	406
Derivative financial instruments	1,002	317	—	—
Borrowings	137,342	116,328	108,441	250,057
Amounts due to holding company and fellow subsidiaries	454,963	408,201	357,215	261,890
Tax payable	3,987	5,424	6,074	6,074
	<u>745,016</u>	<u>625,058</u>	<u>538,315</u>	<u>593,138</u>
<b>Net current liabilities</b>	<u>(298,220)</u>	<u>(378,325)</u>	<u>(423,209)</u>	<u>(471,970)</u>
<b>Total assets less current liabilities</b>	<u>207,145</u>	<u>(26,516)</u>	<u>(111,305)</u>	<u>(268,355)</u>
<b>Non-current liabilities</b>				
Obligations under finance leases	—	—	336	345
Provision for long service payment	77	127	261	262
Deferred tax liabilities	3,476	2,827	1,822	1,822
	<u>3,553</u>	<u>2,954</u>	<u>2,419</u>	<u>2,429</u>
<b>Net assets/(liabilities)</b>	<u><u>203,592</u></u>	<u><u>(29,470)</u></u>	<u><u>(113,724)</u></u>	<u><u>(270,784)</u></u>
<b>Equity</b>				
Share capital	1,010	1,010	1,010	1,010
Reserves	202,582	(30,480)	(114,734)	(271,794)
<b>Total equity</b>	<u><u>203,592</u></u>	<u><u>(29,470)</u></u>	<u><u>(113,724)</u></u>	<u><u>(270,784)</u></u>

**UNAUDITED COMBINED STATEMENTS OF CHANGES IN EQUITY  
FOR THE YEARS ENDED 31 MARCH 2008, 2009 AND 2010  
AND THE EIGHT MONTHS ENDED 30 NOVEMBER 2009 AND 2010**

	Share capital <i>HK\$'000</i>	Exchange fluctuation reserve <i>HK\$'000</i>	Statutory surplus reserve <i>HK\$'000</i>	Land and buildings revaluation reserve <i>HK\$'000</i>	Retained profits/ (accumulated losses) <i>HK\$'000</i>	Total equity <i>HK\$'000</i>
At 1 April 2007	1,010	10,916	28,840	9,128	149,483	199,377
Total comprehensive income for the year	—	38,994	—	—	20,221	59,215
Dividend paid	—	—	—	—	(55,000)	(55,000)
At 31 March 2008	1,010	49,910	28,840	9,128	114,704	203,592
Total comprehensive income for the year	—	16,657	—	974	(250,693)	(233,062)
Transfer between reserves upon disposal of properties	—	—	—	(142)	142	—
At 31 March 2009	1,010	66,567	28,840	9,960	(135,847)	(29,470)
Total comprehensive income for the year	—	(654)	—	—	(83,600)	(84,254)
At 31 March 2010	1,010	65,913	28,840	9,960	(219,447)	(113,724)
Total comprehensive income for the period	—	—	—	(2,854)	(154,206)	(157,060)
At 30 November 2010	<u>1,010</u>	<u>65,913</u>	<u>28,840</u>	<u>7,106</u>	<u>(373,653)</u>	<u>(270,784)</u>
At 1 April 2009	1,010	66,567	28,840	9,960	(135,847)	(29,470)
Total comprehensive income for the period	—	(9,577)	—	—	(75,825)	(85,402)
At 30 November 2009	<u>1,010</u>	<u>56,990</u>	<u>28,840</u>	<u>9,960</u>	<u>(211,672)</u>	<u>(114,872)</u>

**UNAUDITED COMBINED STATEMENTS OF CASH FLOWS  
FOR THE YEARS ENDED 31 MARCH 2008, 2009 AND 2010  
AND THE EIGHT MONTHS ENDED 30 NOVEMBER 2009 AND 2010**

	Year ended 31 March			Eight months ended 30 November	
	2008	2009	2010	2009	2010
	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000
<b>Operating activities</b>					
Profit/(loss) before income tax	17,480	(250,848)	(155,957)	(75,825)	(154,206)
Adjustment for:					
Interest income	(144)	(69)	(277)	(185)	(100)
Interest expense	4,117	6,442	4,133	2,756	3,415
Depreciation of property, plant and equipment	33,738	41,716	34,330	22,505	24,341
Provision for severance payments	—	—	3,451	—	—
(Reversal of provision)/provision for long service payment	(120)	50	134	—	1
Revaluation deficit of land and buildings	—	121,077	—	—	84,283
Impairment on property, plant and equipment	—	22,097	6,790	—	—
Impairment on trade and other receivables, deposits and prepayments	—	7,941	402	—	—
Impairment on club membership	—	473	—	—	—
Amortisation of leasehold land and land use rights	1,096	2,069	1,874	1,249	1,249
(Gain)/loss on disposal on property, plant and equipment	(5,130)	5,102	—	—	(1,700)
Fair value loss/(gain) on derivative financial instruments	65	(595)	(127)	(127)	—
Operating profit/(loss) before working capital changes	51,102	(44,545)	(105,247)	(49,627)	(42,717)
Inventories	(38,257)	83,378	91,526	44,053	8,149
Trade and other receivables, deposits and prepayments	(51,091)	83,626	50,342	3,754	(4,988)
Trade and other payables and accrued charges	42,451	(53,074)	(55,523)	(26,135)	8,385
Trust receipt bank loans	13,312	18,092	(31,773)	(853)	47,707
Cash generated from/(used in) operations	17,517	87,477	(50,675)	(28,808)	16,536
Interest received	144	69	277	185	100
Income tax (paid)/refunded	(2,552)	21	(528)	—	—
Net cash generated from/(used in) operating activities	15,109	87,567	(50,926)	(28,623)	16,636

**UNAUDITED COMBINED STATEMENTS OF CASH FLOWS (Continued)**  
**FOR THE YEARS ENDED 31 MARCH 2008, 2009 AND 2010**  
**AND THE EIGHT MONTHS ENDED 30 NOVEMBER 2009 AND 2010**

	Year ended 31 March			Eight months ended 30 November	
	2008	2009	2010	2009	2010
	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000
<b>Investing activities</b>					
Purchase of property, plant and equipment	(52,062)	(30,306)	(3,387)	(3,387)	(3,873)
Proceeds from disposal of derivative financial instruments	—	—	354	354	—
Proceeds from disposal of property, plant and equipment	6,366	4,136	—	—	1,752
<b>Net cash used in investing activities</b>	<u>(45,696)</u>	<u>(26,170)</u>	<u>(3,033)</u>	<u>(3,033)</u>	<u>(2,121)</u>
<b>Financing activities</b>					
Interest paid	(4,117)	(6,442)	(4,133)	(2,756)	(3,415)
New loans from banks and financial institutions	11,512	—	71,727	61,091	134,091
Repayment of loans borrowed from banks and financial institutions	(37,330)	(39,106)	(24,091)	(2,273)	(40,182)
Capital element of financial lease rental payment	—	(28)	(253)	(172)	(461)
Increase/(decrease) in amounts due to holding company and fellow subsidiaries	129,763	(46,762)	22,549	42,945	(95,325)
Dividend paid	(55,000)	—	—	—	—
<b>Net cash generated from/(used in) financing activities</b>	<u>44,828</u>	<u>(92,338)</u>	<u>65,799</u>	<u>98,835</u>	<u>(5,292)</u>
<b>Net increase/(decrease) in cash and cash equivalents</b>	14,241	(30,941)	11,840	67,179	9,223
<b>Cash and cash equivalents at beginning of year/period</b>	28,278	43,760	17,074	17,074	28,261
<b>Effect of exchange rate changes on cash and cash equivalents</b>	1,241	4,255	(653)	(9,576)	—
<b>Cash and cash equivalents at end of year/period</b>	<u>43,760</u>	<u>17,074</u>	<u>28,261</u>	<u>74,677</u>	<u>37,484</u>



## ii. Unaudited proforma financial information of the Remaining Group

Set out below is a summary of the unaudited proforma financial information of the Remaining Group as if the Disposal had been taken place at the commencement of the year ended 31 March 2010. This summary should be read in conjunction with the financial information set out in Appendix III to the Circular.

### (I) Unaudited pro forma consolidated statement of financial position of the Remaining Group

The unaudited pro forma consolidated statement of financial position of the Remaining Group as at 31 March 2010 has been prepared based on the audited consolidated statement of financial position of the Group as at 31 March 2010, which have been extracted from the annual report of the Company for the year then ended, after making pro forma adjustments relating to the Disposal that are directly attributable to the transaction and factually supportable.

	The Group as at	Pro forma adjustments		Pro forma
	31 March 2010	HK\$'000	HK\$'000	The Remaining
	HK\$'000	(Note 1)	HK\$'000	Group as at
			(Note 2)	31 March 2010
				HK\$'000
<b>Non-current assets</b>				
Leasehold land and land use rights (Note 3)	87,708	(87,708)		—
Property, plant and equipment (Note 3)	254,762	(222,195)		32,567
Goodwill	19,240	—		19,240
Club memberships	2,001	(2,001)		—
Deferred tax assets	2,097	—		2,097
	<u>365,808</u>	<u>(311,904)</u>		<u>53,904</u>
<b>Current assets</b>				
Inventories	107,120	(73,949)		33,171
Trade and other receivables, deposits and prepayments	47,151	(11,136)		36,015
Tax recoverable	1,836	(1,760)		76
Amount due from Disposal Group	—	357,215	(357,215)	—
Cash and cash equivalents	43,858	(28,261)	242,251	257,848
	<u>199,965</u>	<u>242,109</u>		<u>327,110</u>
<b>Current liabilities</b>				
Trade and other payables and accrued charges	82,537	(66,326)		16,211
Obligations under finance leases	6,330	(259)		6,071
Borrowings	208,743	(108,441)		100,302
Tax payable	6,081	(6,074)		7
	<u>303,691</u>	<u>(181,100)</u>		<u>122,591</u>
<b>Net current (liabilities)/assets</b>	<u>(103,726)</u>	<u>423,209</u>		<u>204,519</u>
<b>Total assets less current liabilities</b>	<u>262,082</u>	<u>111,305</u>		<u>258,423</u>

	The Group as at 31 March 2010 <i>HK\$'000</i>	Pro forma adjustments		Pro forma The Remaining Group as at 31 March 2010 <i>HK\$'000</i>
		<i>HK\$'000</i> (Note 1)	<i>HK\$'000</i> (Note 2)	
<b>Non-current liabilities</b>				
Obligations under finance leases	4,625	(336)		4,289
Provision for long service payment	1,922	(261)		1,661
Loans from immediate holding company	50,000	—		50,000
Deferred tax liabilities	4,436	(1,822)		2,614
	<u>60,983</u>	<u>(2,419)</u>		<u>58,564</u>
<b>Net assets/(liabilities)</b>	<u>201,099</u>	<u>113,724</u>		<u>199,859</u>
<b>Equity</b>				
Share capital	295,776			295,776
Reserves	(94,677)		(1,240)	(95,917)
<b>Total equity</b>	<u>201,099</u>			<u>199,859</u>

*Notes:*

- (1) The adjustment represents the exclusion of the assets and liabilities attributable to the Disposal Group from the consolidated statement of financial position of the Group as at 31 March 2010, and the reinstatement of the balances between the Remaining Group and Disposal Group as at 31 March 2010, assuming the Disposal was taken place on 31 March 2010.
- (2) The adjustment represents the adjusted consideration received by the Remaining Group and the assignment of the amount due to Remaining Group to the purchaser. The adjusted consideration is calculated as follows:

	<i>HK\$'000</i>	<i>HK\$'000</i>
Consideration		18,000
Adjustment to the consideration		
— Net liabilities of the Disposal Group as at 31 March 2010	(113,724)	
— Amount due to Remaining Group as at 31 March 2010	<u>357,215</u>	
Adjusted net assets value	243,491	
Estimated legal and professional fees and related expenses in relation to the Disposal Consideration	<u>(18,000)</u>	<u>224,251</u>
Adjusted consideration		<u>242,251</u>

As at 30 November 2010, the net liabilities of the Disposal Group reduced to HK\$270,784,000. The financial effect of the Disposal is to be determined based on adjustments in total consideration, estimated legal and professional fees and related expenses in relation to the Disposal and the carrying amount of net asset value of the Disposal Group at the completion date and is therefore subject to change upon completion of the Disposal. The amounts shown in this adjustment are for illustrative purpose only.

- (3) In respect of the pro forma consolidated statement of financial position of the Remaining Group, the lease payments of the Indonesia factory for the land portion cannot be allocated reliably between the land and buildings elements, and therefore, the entire lease payments are included in the cost of the land and buildings and classified as property, plant and equipment.

## (II) Unaudited pro forma consolidated statement of comprehensive income of the Remaining Group

The unaudited pro forma consolidated statement of comprehensive income of the Remaining Group has been prepared based on the audited consolidated statement of comprehensive income of the Group for the year ended 31 March 2010, which have been extracted from the annual report of the Company for the year then ended, after making pro forma adjustments relating to the Disposal that are directly attributable to the transaction and factually supportable.

	Audited results of the Group for the year ended 31 March 2010	Pro forma adjustments		Pro forma results of the Remaining Group for the year ended 31 March 2010
	HK\$'000	HK\$'000 (Note 4)	HK\$'000 (Note 5)	HK\$'000
Turnover	402,402	(334,106)	316,887	385,183
Cost of sales	<u>(322,586)</u>	<u>318,627</u>	<u>(316,887)</u>	<u>(320,846)</u>
Gross profit	79,816	(15,479)		64,337
Other revenue and other gains and losses	9,102	(19,952)	13,922	3,072
Selling and distribution expenses	(27,433)	6,069		(21,364)
General and administrative expenses	(203,204)	173,994	(13,922)	(43,132)
Impairment on property, plant and equipment	(18,910)	6,790		(12,120)
Impairment on trade and other receivables	<u>(859)</u>	<u>402</u>		<u>(457)</u>
Operating loss	(161,488)	151,824		(9,664)
Finance costs	<u>(11,925)</u>	<u>4,133</u>		<u>(7,792)</u>
Loss before income tax	(173,413)	155,957		(17,456)
Income tax credit	<u>(1,540)</u>	<u>1,178</u>		<u>(362)</u>
Loss for the year	<u>(174,953)</u>	<u>157,135</u>		<u>(17,818)</u>
Other comprehensive income, after tax				
Contribution from holding company	—	(73,535)	73,535	—
Exchange differences arising on translation of foreign operations	<u>7,527</u>	<u>654</u>		<u>8,181</u>
Other comprehensive income for the year	<u>7,527</u>	<u>(72,881)</u>		<u>8,181</u>
Total comprehensive income for the year	<u>(167,426)</u>	<u>84,254</u>		<u>(9,637)</u>

### Notes:

- (4) The adjustment represents the exclusion of the income and expenses attributable to the Disposal Group from the consolidated statement of comprehensive income of the Group for the year ended 31 March 2010. The adjustment is not expected to have a continuing effect on the Group.
- (5) The adjustment represents the reversal of eliminated inter-company transactions between the Disposal Group and the Remaining Group for the year ended 31 March 2010. The adjustment is not expected to have a continuing effect on the Group.

### (III) Unaudited pro forma consolidated statement of cash flows of the Remaining Group

The unaudited pro forma consolidated statement of cash flows of the Remaining Group has been prepared based on the audited consolidated statement of cash flows of the Group for the year ended 31 March 2010, which have been extracted from the annual report of the Company for the year then ended, after making pro forma adjustments relating to the Disposal that are directly attributable to the transaction and factually supportable.

	Audited cash flows of the Group for the year ended 31 March 2010 HK\$'000	Pro forma adjustments		Pro forma cash flows of the Remaining Group for the year ended 31 March 2010 HK\$'000
		HK\$'000 (Note 6)	HK\$'000 (Note 7)	
<b>Operating activities</b>				
Loss before income tax	(173,413)	155,957		(17,456)
Adjustment for:				
Interest income	(283)	277		(6)
Interest expense	11,925	(4,133)		7,792
Depreciation of property, plant and equipment	45,340	(34,330)		11,010
Provision for severance payments	3,451	(3,451)		—
Provision for long service payment	150	(134)		16
Impairment on property, plant and equipment	18,910	(6,790)		12,120
Impairment on trade and other receivables, deposits and prepayments	859	(402)		457
Amortisation of leasehold land and land use rights	1,874	(1,874)		—
Gain on disposal on property, plant and equipment	(86)	—		(86)
Fair value gain on derivative financial instruments	(127)	127		—
Operating (loss)/profit before working capital changes	(91,400)	105,247		13,847
Inventories	97,635	(91,526)		6,109
Trade and other receivables, deposits and prepayments	47,836	(50,342)		(2,506)
Trade and other payables and accrued charges	(47,217)	55,523		8,306
Trust receipt bank loans	(48,541)	31,773		(16,768)
Cash (used in)/generated from operations	(41,687)	50,675		8,988
Interest received	283	(277)		6
Income tax paid	(648)	528		(120)
<b>Net cash (used in)/generated from operating activities</b>	<b>(42,052)</b>	<b>50,926</b>		<b>8,874</b>

	<b>Audited cash flows of the Group for the year ended 31 March 2010 HK\$'000</b>	<b>Pro forma adjustments</b>		<b>Pro forma cash flows of the Remaining Group for the year ended 31 March 2010 HK\$'000</b>
		<i>HK\$'000</i> <i>(Note 6)</i>	<i>HK\$'000</i> <i>(Note 7)</i>	
<b>Investing activities</b>				
Purchase of property, plant and equipment	(5,907)	3,387		(2,520)
Proceeds from disposal of derivative financial instruments	354	(354)		—
Proceeds from disposal of property, plant and equipment	86	—		86
<b>Net cash used in investing activities</b>	<u>(5,467)</u>	<u>3,033</u>		<u>(2,434)</u>
<b>Financing activities</b>				
Interest paid	(8,682)	4,133		(4,549)
Issue of shares in placing arrangement	68,322	—		68,322
New loans from banks and financial institutions	83,091	(71,727)		11,364
Repayment of loans borrowed from banks and financial institutions	(76,631)	24,091		(52,540)
Capital element of financial lease rental payment	(6,132)	253		(5,879)
Increase in amount due from Disposal Group	—	(22,549)		(22,549)
<b>Net cash generated from/(used in) financing activities</b>	<u>59,968</u>	<u>(65,799)</u>		<u>(5,831)</u>
<b>Net increase in cash and cash equivalents</b>	12,449	(11,840)		609
<b>Cash and cash equivalents at beginning of year</b>	26,652	(17,074)	377,491	387,069
<b>Effect of exchange rate changes on cash and cash equivalents</b>	<u>4,757</u>	<u>653</u>		<u>5,410</u>
<b>Cash and cash equivalents at end of year</b>	<u>43,858</u>	<u>(28,261)</u>		<u>393,088</u>

*Notes:*

- (6) The adjustment represents the exclusion of the cash flows attributable to the Disposal Group from the consolidated statement of cash flows of the Group for the year ended 31 March 2010. The adjustment is not expected to have a continuing effect on the Group.

- (7) The adjustment represents the adjusted consideration received by the Remaining Group and the assignment of the amount due to Remaining Group to the purchaser as if the Disposal had been taken place at the commencement of the year ended 31 March 2010. The adjusted consideration is calculated as follows:-

	<i>HK\$'000</i>	<i>HK\$'000</i>
Consideration		18,000
Adjustment to the consideration		
— Net liabilities of the Disposal Group as at 31 March 2009	(29,470)	
— Amount due to Remaining Group as at 31 March 2009	408,201	
	<u>378,731</u>	
Adjusted net assets value	378,731	
Estimated legal and professional fees and related expenses in relation to the Disposal	(1,240)	
Consideration	<u>(18,000)</u>	<u>359,491</u>
Adjusted consideration received		<u><u>377,491</u></u>

As at 30 November 2010, the net liabilities of the Disposal Group reduced to HK\$270,784,000. The financial effect of the Disposal is to be determined based on adjustments in total consideration, estimated legal and professional fees and related expenses in relation to the Disposal and the carrying amount of net asset value of the Disposal Group at the completion date and is therefore subject to change upon completion of the Disposal. The amounts shown in this adjustment are for illustrative purpose only. The adjustment is not expected to have a continuing effect on the Group.

Save as disclosed in this announcement, there is no other price sensitive information which is known to the Company or contained in the Circular which requires a separate disclosure by way of an announcement pursuant to Rule 13.09 of the Listing Rules.

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

Hong Kong, 24 March 2011

*As at the date of this announcement, the executive Directors are Mr. Leung Lun, Mr. Leung Chung Ming, Mr. Wong, Andy Tze On and the independent non-executive Directors are Mr. Ye Tian Liu, Mr. Wong Lam, O.B.E., J.P. and Mr. Lai Yun Hung.*