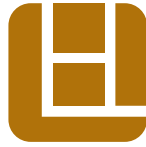


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Web Proof Information Pack of



Hing Lee (HK) Holdings Limited
興利（香港）控股有限公司

(Incorporated in the British Virgin Islands and re-domiciled and continued in Bermuda with limited liability)

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SUMMARY

OVERVIEW

The Group is principally engaged in the design, manufacture and wholesale of a wide range of home furniture products including mainly wood-based furniture and mattresses in the PRC and overseas markets. Banking on its strong capabilities in furniture design and brand management, the Group also derives licensing fees from granting non-exclusive rights to other furniture manufacturers for use of its own brands and product designs.

The Group’s home furniture products are principally categorised into the classic furniture series and the modern furniture series targeting at middle and high price point consumers. Products branded under the classic furniture series are generally larger in size and characterised by elaborate and intricate carving and finishing. The products under the following brand names are classified under the classic furniture series:

Brand name	Target market segment	Recommended retail price range (approximately RMB per set (Note))
 Johnston (self-manufacture)	[Sophisticated middle and high price point consumers who demand grand and luxurious designs]	[20,000 – 76,000]
 New Nobleman (self-manufacture)	[Middle and high price point consumers who have the predilection for Spanish-styled classic furniture]	[19,000 – 26,000]
 Classic Sanroy (under licence)	[High price point consumers who demand luxurious furniture products]	[30,000 – 40,000]

SUMMARY

Products under the modern furniture series are characterised by simple and trendy designs with minimal use of decorative items, targeted at younger and middle price point consumers who look for trendy, functional and affordable home furniture. The products under the following brand names are classified under the modern furniture series:

Brand name	Target market segment	Recommended retail price range (approximately RMB per set (Note))
 PZ-King (self-manufacture)	[Middle price point consumers]	[9,000 – 15,000]
 Mandarin (self-manufacture)	[Middle price point consumers who have the preference for Italian-styled modern furniture]	[7,000 – 12,000]
 Orient (under licence)	[Young aged middle price point consumers]	[5,000 – 13,000]

Note: A set of furniture comprises a bed, two bedside cabinets, a wardrobe and a dressing table.

The Group uses its brand “Degas” to market the branded mattresses it manufactures. All the Group’s mattresses are for export only.

Brand name	Target market segment	Recommended retail price range (approximately HK\$ per piece)
 Degas (self-manufacture)	[Middle price point consumers]	[900 – 4,000]

SUMMARY

Set out below is a table showing the breakdown of the Group’s turnover by business activities and brand names during the Track Record Period:

	For the year ended 31 December					
	2006		2007		2008	
	HK\$’000	%	HK\$’000	%	HK\$’000	%
Domestic sales						
Johnston	74,921	20.3	106,120	21.5	128,588	24.1
PZ-King	52,764	14.3	48,976	9.9	54,273	10.2
Mandarin	20,745	5.6	55,926	11.4	51,844	9.7
New Nobleman	—	—	—	—	19,382	3.6
	<u>148,430</u>	<u>40.2</u>	<u>211,022</u>	<u>42.8</u>	<u>254,087</u>	<u>47.6</u>
Exports						
Branded						
– Johnston	—	—	36,336	7.4	49,101	9.2
– PZ-King	45,959	12.4	38,003	7.7	34,583	6.5
Mattress	50,393	13.6	58,748	11.9	51,665	9.7
Unbranded	97,445	26.4	120,651	24.5	125,963	23.5
	<u>193,797</u>	<u>52.4</u>	<u>253,738</u>	<u>51.5</u>	<u>261,312</u>	<u>48.9</u>
Licensing fees						
Oriant	19,754	5.3	23,829	4.9	17,546	3.3
New Nobleman	—	—	3,141	0.6	—	—
Classic Sanroy	1,347	0.4	939	0.2	1,401	0.2
Mandarin	6,298	1.7	—	—	—	—
	<u>27,399</u>	<u>7.4</u>	<u>27,909</u>	<u>5.7</u>	<u>18,947</u>	<u>3.5</u>
Total	<u>369,626</u>	<u>100.0</u>	<u>492,669</u>	<u>100.0</u>	<u>534,346</u>	<u>100.0</u>

During the Track Record Period, sales to the five largest customers accounted for approximately 32.6%, 32.3% and [29.8]% of the total turnover of the Group respectively, whilst the sales contribution from the largest customer to the Group’s total turnover were 10.9%, 11.2% and 8.5% respectively. The five largest customers of the Group during the Track Record Period comprised home furniture retailers, importers and a building contractor.

SUMMARY

Domestic sales

During the Track Record Period, the Group did not operate any retail shops and relied on domestic distributors to market its furniture products to end-users in the PRC. As at the Latest Practicable Date, the Group contracted with approximately [511] local furniture distributors to market its branded furniture products to end-users in the PRC. Over [75%] of these distributors were operated in the form of sole proprietorship, each operating one to two shops in their respective regions approved by the Group. As at the Latest Practicable Date, these [511] local furniture distributors operated over 600 approved shops covering [22] provinces, [4] municipalities and [4] autonomous regions in the PRC. The number of years of relationship between the Group and these distributors ranged from approximately 1 to 14 years. The Directors confirmed that none of them, the Shareholders who, to the knowledge of the Directors, held 5% or more of the issued share capital of the Company as at the Latest Practicable Date, and the senior management of the Group, or any of their respective associates had any interest in any of the distributors of the Group during the Track Record Period.

The following table sets out the total number of distributors and approved shops in the PRC as at 31 December 2006, 2007 and 2008, and the average annual turnover per approved shop during the Track Record Period:

	As at 31 December		
	2006	2007	2008
Number of distributors	348	435	[471]
Number of approved shops	380	482	[565]
Average annual turnover per approved shop (HK\$'000)	390.6	437.8	[449.7]

The relationship between the Group and each of the distributors is governed by a distribution framework agreement, which has a standard term of one year and is subject to renewal by mutual agreement upon expiry. For details of the distribution framework agreement, please refer to the sub-paragraph headed “Distribution framework agreement” in the paragraph headed “Sales and distribution” in the section headed “Business” in this document.

Export sales

During the Track Record Period, the Group participated in various furniture trade shows and exhibitions in the PRC and in Europe. These events are usually attended by furniture manufacturers as well as furniture buyers, such as overseas sourcing companies, furniture importers and retailers. The Group has been able to build up business relationships with a number of these overseas customers through attending trade shows and exhibitions over the years. During the Track Record Period, the Group’s overseas customers were mainly furniture retailers and importers. The top five largest customers of the Group during the Track Record Period were mainly furniture retailers and importers in the overseas markets. During the three

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years ended 31 December 2008, the Group transacted with over 170, 140 and 90 overseas customers respectively for its export business. Set out below is a table showing the breakdown of the Group’s export sales by geographical locations during the Track Record Period:

	For the year ended 31 December					
	2006		2007		2008	
	HK\$’000	%	HK\$’000	%	HK\$’000	%
Asia (<i>Note 1</i>)	127,850	66.0	172,942	68.2	176,896	67.7
Europe (<i>Note 2</i>)	24,817	12.8	32,287	12.7	35,370	13.5
Others (<i>Note 3</i>)	41,130	21.2	48,509	19.1	49,046	18.8
Total	193,797	100.0	253,738	100.0	261,312	100.0

Notes:

1. Asia mainly represented Japan, Taiwan, Middle East and Southeast Asia.
2. Europe mainly represented Sweden, Italy, Spain and Germany.
3. Others mainly represented the United States, Canada, Angola and Ivory Coast.

As at the Latest Practicable Date, the number of years of relationship between the Group and its overseas customers ranged from [1] to [15] years. The Directors confirmed that none of them, the Shareholders who, to the knowledge of the Directors, held 5% or more of the issued share capital of the Company as at the Latest Practicable Date, and the senior management of the Group, or any of their respective associates had any interest in any of the overseas customers of the Group during the Track Record Period.

Licensing

In addition to its conventional furniture manufacturing and sales business, the Group grants non-exclusive rights to licensees for the use of its certain brand names and product designs in the PRC. During the Track Record Period, the Group received licensing fees amounting to approximately HK\$27.4 million, HK\$27.9 million, and HK\$[18.9] million respectively. Under the licence agreement, the Group is responsible for the nationwide brand promotional activities to boost the market image and brand awareness of the products under the licence. For details of the licence agreement, please refer to the sub-paragraph headed “Licence agreement” in the paragraph headed “Licensing arrangements” in the section headed “Business” in this document.

The customers of licensees are mainly furniture distributors in the PRC. As at the Latest Practicable Date, the number of years of business relationship between the Group and the licensees ranged from [1] to [13] years. The Directors confirmed that none of them, the Shareholders who, to the knowledge of the Directors, held 5% or more of the issued share capital of the Company as at the Latest Practicable Date, and the senior management of the Group, or any of their respective associates had any interest in any of these furniture manufacturers during the Track Record Period.

SUMMARY

Procurement and outsourcing

During the Track Record Period, the Group had over [270], [250] and [180] suppliers respectively and the five largest suppliers included suppliers of raw materials and contract manufacturers who handled outsourced manufacturing of certain furniture products. Purchases from the Group’s five largest suppliers in aggregate represented approximately 27.7%, 41.5% and 49.8% of the Group’s total purchases and purchases from the largest supplier of the Group accounted for approximately 9.7%, 14.6% and 14.4% of the Group’s total purchases for the three years ended 31 December 2008 respectively.

In addition to purchases from its raw material suppliers, the Group makes purchases of finished products from contract manufacturers by way of outsourcing the production of certain furniture products with simple designs and minimal decorative features or on the occasions when its production capacity is running close to full utilisation. During the Track Record Period, the Group engaged 16, 11 and [7] contract manufacturers in the PRC respectively to handle the outsourced manufacturing. The Directors confirmed that none of them, the Shareholders who, to the knowledge of the Directors, held 5% or more of the issued share capital of the Company as at the Latest Practicable Date, and the senior management of the Group, or any of their respective associates had any interest in any of the raw material suppliers and contract manufacturers during the Track Record Period.

Production facilities

The Group’s furniture production facilities are located at Shenzhen and Dongguan, Guangdong Province, the PRC. For details of the Group’s production facilities, please refer to the sub-paragraph headed “Production facilities” in the paragraph headed “Production” in the section headed “Business” in the document.

With the intention to increase its production capacity for its modern furniture series and the “CHINATAG” furniture products, which are expected to launch in [2010], the Group is presently constructing new production facilities, Shenzhen Xingli Production Base, on Longgang Land I it acquired in June 2007. The Group has planned to invest approximately RMB[121.2] million (approximately HK\$136.0 million) for the development of the Shenzhen Xingli Production Base.

With a gross floor area of approximately 38,869 sq.m., the construction of the Shenzhen Xingli Production Base is expected to complete in June 2009. The Group expects to commence the trial production in August 2009 and the full scale production in November 2009. Upon its full scale production, the new production facilities at the Shenzhen Xingli Production Base are expected to provide an annual production capacity of approximately 31,800 furniture sets. The Directors consider that the completion of Shenzhen Xingli Production Base would have positive impact on the Group’s profitability as the new production base would enable the Group to expand its production capacities and to capture the growing business opportunities brought about by the expansion of the PRC furniture industry.

SUMMARY

Ownership of the Group

During the Track Record Period, the Group experienced a change in controlling shareholder. Since its incorporation in April 2004 and up to November 2004, the Company was all along jointly controlled by the four Founders or their respective investment vehicles. In August 2004, the investment vehicles of the Founders entered into an agreement with Talent Sino Holdings Limited, a wholly-owned subsidiary of Omnicorp Limited, for the acquisition by the latter of approximately 51.52% of the enlarged issued share capital of the Company. In July 2006, Mr. Fang Shin, who was then holding approximately 2.7% interest in Omnicorp Limited, through his investment vehicle, namely Triple Express, acquired from Talent Sino Holdings Limited its entire interest in the Company together with a shareholder’s loan owed by the Company to Talent Sino Holdings Limited.

Despite the change in the controlling shareholder of the Company when Omnicorp Limited disposed of its entire interest in the Company to Mr. Fang Shin in July 2006, the Group’s management and business operations were not affected and remained stable throughout the Track Record Period. During the period when Omnicorp Limited was the controlling shareholder of the Company, the Group’s management and the daily operations were entirely in the hands of the Founders. None of the Directors nominated by Omnicorp Limited assumed any management role or participated in the day to day operation of the Company and their directorships were merely reflective of the majority shareholding in the Company. Omnicorp Limited only seconded to the Company an accountant to monitor the Group’s financial reporting from November 2004 to July 2006. Like Omnicorp Limited, Mr. Fang Shin saw his acquisition of the interest in the Company as an investment and had no intention to take part in its management. Mr. Fang Shin had been a Director since July 2006 and he also nominated his son, Mr. Fang Yan Zau, Alexander, to be a member of the Board as well. Mr. Fang Shin resigned as a Director effective on [29 May] 2009. The Board [was] restructured to consist of two executive Directors, namely Mr. Sung and Mr. Cheung, one non-executive Director, Mr. Fang Yan Zau, Alexander, and three independent non-executive Directors [prior to] [●].

Non-compliance issues

As a result of its rapid expansion during the Track Record Period, the Group has inadvertently failed to comply with certain laws, rules and regulations of the PRC and Hong Kong. Summarised below are the Group’s incidents of non-compliance during the Track Record Period:

- (i) failure to obtain the environmental protection facilities approval for the production facilities prior to the commencement of operations of Shenzhen Xingli and Dongguan Super Furniture;
- (ii) failure to make timely housing provident fund contributions by Shenzhen Xingli, Shenzhen Xingli Zundian and Dongguan Super Furniture and failure to make employee social insurances contributions by Dongguan Super Furniture;

SUMMARY

- (iii) late filings of the Company’s subsidiaries in accordance with the Companies Ordinance and Business Registration Ordinance; and
- (iv) failure to notify the IRD by Hing Lee Furniture of its chargeability to tax within the prescribed time frame.

For further details of these non-compliance incidents and the remedial actions taken by the Group to rectify these incidents, please refer to [the paragraph headed “Compliance and litigation” in the section headed “Business” in this document]. The Directors believe that, given the remedial actions the Group has taken, none of these non-compliance incidents would give rise to any material adverse impact on the Group’s operation.

Furthermore, in view of the occurrence of the above mentioned non-compliance incidents, in December 2008, the Group has set up a compliance department, headed by the chief financial officer and staffed by a qualified accountant and an internal audit manager, to ensure that the Group’s operations are in compliance with applicable laws, rules and regulations, to strengthen its existing internal control framework, to recommend best practices for corporate governance and to report internal control deficiencies as well as remedial plans from time to time.

Indemnities

Pursuant to the Deed of Indemnity, each of the Founders and their respective investment vehicles has jointly and severally agreed with and undertaken to the Company (for itself and as trustee for other members of the Group) that he/it will fully indemnify the Group and each member of the Group and at all times keep them and each of them fully indemnified from and against all claims, damages, fines, penalties, loss, payments, liabilities, costs and expenses which any member of the Group may incur, suffer and accrue, directly or indirectly, from or in connection with, any failure, delay or defects of corporate or regulatory compliance as mentioned above on or before the date on which [●] save for those already provided by the Group in its accounts.

SUMMARY

COMPETITIVE STRENGTHS

The Directors consider that the Group’s competitive edges lie in the following areas:

- Commitment in product design and development and innovation
- Comprehensive product range
- Well-established and strong brand names
- Extensive distribution network
- Established long-term relationships with distributors
- Experienced and capable management team

STRATEGIES

The Directors believe that there are promising prospects in the home furniture industry in the PRC. In order to further expand its business, the Group intends to adopt the following strategies:

- Increasing brand recognition and enhancing corporate profile

The Group intends to strengthen public awareness of its brands, in particular, “Johnston”, “Orient”, “PZ-King” and “CHINATAG”, as well as to enhance corporate profile through employing multi-faceted advertising strategies.

- Strengthening design and development capabilities and expanding product range

The Group plans to strengthen its design and development capabilities through the deployment of advanced design technology and equipment, recruitment of additional four to five designers from domestic leading design institutes in 2010 and provision of continuous training to its design and development staff. The Group also plans to set up a testing centre for testing newly designed products, raw materials used in production and finished products.

- Increasing market penetration in the PRC

The Directors believe that there is substantial growth potential for the home furniture industry in the PRC. Therefore, the Group will put more efforts in marketing activities and customer service support to enhance its market penetration and expand the distribution network of the Group’s branded furniture products in the PRC.

SUMMARY

- Increasing production capacity and improving production efficiency by deployment of new production equipment

In view of the continuous growth of the home furniture industry, the Group has planned to increase its production capacity in a timely and cost-effective manner.

- Growth through value-accretive acquisition strategies

To further expand its business, the Group may enter into strategic alliances, joint ventures or mergers and acquisitions with companies in the PRC.

RECENT GLOBAL FINANCIAL CRISIS

The recent global economic crisis has adversely affected the world economies and also resulted in a global credit tightening. With a deteriorating worldwide economy, demand for, among other things, consumer products may fall, which in turn may affect the demand for the Group’s furniture products. If this economic downturn continues, the Group’s business operations and financial performance could be adversely affected. For the first quarter of 2009, the Group’s domestic sales, export sales, and licensing income decreased by approximately [15.1]%, [12.8]% and [14.6]% respectively as compared with the corresponding period of 2008.

In addition, amid the credit tightening environment, banks may vary the terms of bank loans or the banking facilities currently extended to borrowers. As at the Latest Practicable Date, the Group had banking facilities of RMB70 million, of which RMB[12] million was undrawn. Despite the increase in the lending margin imposed by the Group’s lending bank effective from October 2008, the cost of funding of the Group is not expected to increase due to the reduction in the lending rate stipulated by the PBOC since September 2008.

Up to the Latest Practicable Date, the Group had not encountered any request for price cut, cancellation of orders placed, bankruptcy or default on the part of any customers and suppliers, nor had it received any notification from its principal banker regarding potential withdrawal of its banking facilities, early payment of outstanding bank borrowings, or demand for increment of collaterals for secured borrowings.

Nevertheless, the Directors observed that as a result of the slowdown of the global economy, commodities prices had generally decreased, which caused the prices of major raw materials (such as MDF board, ironware, paint and sponge) and the costs of transportation to have come down as well. During the first quarter of 2009, the average price of major raw materials and cost of transportation of the Group experienced a decrease of approximately [7.1]% and [18.9]% respectively as compared with the corresponding period of 2008. The Directors believe this would allow the Group more flexibility to adjust the product selling price, if necessary, in order to remain competitive.

SUMMARY

The Directors believe the state of the PRC property market would have a major bearing on the growth of the Group’s domestic sales and licensing business in the coming years. They are of the view that the various economic stimulus packages implemented by the PRC government will eventually restore market confidence and boost the turnover in the PRC property market, which may in turn result in an increase in the demand for furniture products. The Directors believe that the Group’s domestic sales and its licensing business will benefit from the pick up in the PRC property market. Furthermore, the Group has planned to open up new markets in second and third tier cities in the PRC, such as 汕尾 (Shanwei) and 清遠 (Qingyuan) in Guangdong Province, 齊齊哈爾 (Qiqihar) in Heilongjiang Province and 福安 (Fuan) in Fujian Province to expand its distributions network in the PRC.

As for export sales, the Directors believe that countries in Africa and the Middle East, which are expected to report growth in GDP in 2009 according to the International Monetary Fund, would continue to offer new business opportunities to the Group in the coming years. The Directors also note that government authorities in the United States and Europe have announced measures aimed at supporting major institutions, stabilising markets and bolstering confidence, and a gradual recovery is projected by the International Monetary Fund in 2010. The Directors anticipate that the Group’s export sales will benefit from the recovery in the global economy.

Based on the foregoing, the Directors believe that the performance of the Group in the near future may not be severely jeopardised by the current weak economic conditions. The Directors expect that the Group’s future plans will continue to be implemented as scheduled. For more details, please refer to the section headed “Future plans” in this document.

SUMMARY

RISK FACTORS

The Directors consider that the Group’s business is subject to a number of risk factors which can be broadly categorised into (i) risks relating to the Group; (ii) risks relating to the industry; (iii) risks relating to the PRC; and (iv) risks relating to the Shares, details of which are set out in the section headed “Risk factors” in this document. The following is a summary of the risks referred to above:

Risks relating to the Group

- The Group is reliant on its major customers
- The licensing business is critical to the profitability of the Group
- The Group’s licensing income may be subject to the manipulation of its licensees if the licensees materially understate their sales amount with their customers
- The quality of the sales services offered by the Group’s distributors may be critical to the Group’s brand building efforts
- The Group does not implement any measure to monitor the service quality of its overseas customers
- The Group is exposed to credit risks of its customers
- The Group’s distributors may engage in price competition and market cannibalisation among themselves
- The quality of products manufactured by the licensees may not be totally subject to the Group’s control
- The Group does not have any contractual relationships with the customers of its licensees, or any control over their sales operations
- The Group is dependent on its major suppliers and contract manufacturers
- The Group is reliant on its key management personnel
- There is no assurance on sustainable growth of the Group
- The Group has records of non-compliance in respect of employee social insurance and housing provident fund contributions in the PRC
- The Group has records of non-registration of lease agreements
- The Group has records of non-compliance of Hong Kong regulatory requirements
- The Group has a record of non-compliance with the Inland Revenue Ordinance
- Shenzhen Xingli and Shenzhen Xingli Zundian may be required to pay additional income tax for the Track Record Period
- The Group’s newly established internal control system is not totally proven
- Any increase in the prices of raw materials or shortage of raw material supplies may adversely affect the Group’s profitability
- The Group is dependent on its trademarks and other intellectual property rights
- The Group may suffer product liability claims and has limited insurance coverage
- [• The Group’s operation may be adversely affected by the delay in the construction of Shenzhen Xingli Zundian Production Base]
- The Group’s owned properties cannot be transferred to third parties

SUMMARY

- The Group may not be able to fulfill its obligations under an undertaking to secure its existing banking facilities
- The Group’s business is subject to seasonality factors
- Implementation of the Group’s future plans may not take place as planned

Risks relating to the industry

- The Group faces competition from competing brands
- Reduction in the PRC general import tariff rates may further intensify market competition
- Changes in trends of the home furniture market may affect the Group’s business
- Anti-dumping duties relating to export sales could affect the Group’s business
- The Group may be adversely affected by the recent global financial turmoil and economic downturn

Risks relating to the PRC

- Economic and political considerations
- Legal and regulatory considerations
- Foreign exchange rate risk

Risks relating to the Shares

- Forward-looking statements should not be unduly relied upon
- Dividends paid in the past may not be indicative of the amount of future dividend payments or the Group’s future dividend policy
- The industry information and statistics contained in this document may not be unduly relied upon

SUMMARY

TRADING RECORD

The following is a summary of the audited consolidated results of the Group for the Track Record Period. This summary is extracted from and should be read in conjunction with the accountants’ report set out in Appendix I to this document.

	For the year ended 31 December		
	2006	2007	2008
	HK\$’000	HK\$’000	HK\$’000
Turnover	369,626	492,669	534,346
Cost of sales	<u>(299,526)</u>	<u>(396,438)</u>	<u>(433,344)</u>
Gross profit	70,100	96,231	101,002
Other income (<i>Note</i>)	2,304	1,962	1,989
Selling and distribution expenses	(18,441)	(27,453)	(35,533)
Administrative expenses	<u>(22,594)</u>	<u>(28,490)</u>	<u>(33,348)</u>
Profit from operating activities	31,369	42,250	34,110
Finance costs	<u>(481)</u>	<u>(18)</u>	<u>(70)</u>
Profit before taxation	30,888	42,232	34,040
Taxation	<u>(2,137)</u>	<u>(1,803)</u>	<u>(3,251)</u>
Profit for the year	<u>28,751</u>	<u>40,429</u>	<u>30,789</u>
Attributable to:			
Equity holders of the Company	28,103	40,192	30,746
Minority interests	<u>648</u>	<u>237</u>	<u>43</u>
Profit for the year	<u>28,751</u>	<u>40,429</u>	<u>30,789</u>
Dividends	<u>–</u>	<u>17,276</u>	<u>3,971</u>

Note: Other income represents interests income, gain on disposal of equity-investment at fair value through profit or loss, dividend income, exchange gain, waiver of interest on loan from the Company’s holding company and sundry income.

SUMMARY

DIVIDEND POLICY

For the three years ended 31 December 2008, the Group declared dividends in the amount of nil, approximately HK\$17.3 million and HK\$[4.0] million respectively, representing dividend payout ratios of nil, approximately 42.7% and [12.9]% respectively. All of the aforesaid dividends were paid in cash out of the internal resources of the Group. The Group intends to maintain a dividend payout ratio of approximately [●]% after [●]. However, the actual dividend payout ratio will be determined at the Board’s full discretion, after taking into account the profitability and cash availability of the Group. Nevertheless, the historical dividend distribution record of the Group should not be used as a reference or basis to determine the level of dividends that may be declared or paid by the Group in the future.

DEFINITIONS

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

“2004 Reorganisation”	the corporate reorganisation of the Group which took place in 2004 as more particularly described in the paragraph headed “Corporate development” in the section headed “History and corporate development” in this document
“2009 Design Agreements”	collectively the two agreements both dated 2 January 2009 entered into between Shenzhen Jing Chu and each of Shenzhen Xingli and Shenzhen Xingli Zundian relating to the services to be provided by Shenzhen Jing Chu to Shenzhen Xingli and Shenzhen Xingli Zundian respectively for the year 2009
“associate(s)”	has the meaning ascribed thereto under the Listing Rules
“Board”	the board of Directors
“Business Day(s)”	any day(s) (excluding Saturdays, Sundays and public holidays) in Hong Kong on which licensed banks in Hong Kong are generally open for normal banking business to the public
“Business Registration Ordinance”	Business Registration Ordinance (Chapter 310 of the Laws of Hong Kong), as amended, supplemented or otherwise modified from time to time
“BVI”	the British Virgin Islands
“Bye-Laws”	the bye-laws of the Company adopted on [●] and as amended from time to time, a summary of which is set out in Appendix [IV] to this document
“CAGR”	compound annual growth rate

DEFINITIONS

“Changping Development”	東莞市常平興利發展公司 (Dongguan Changping Xingli Development Company), a collective-owned enterprise established in the PRC and principally engaged in the provision of consultancy and business development services. Save for the investment of Changping Development in Dongguan Rich prior to its dissolution, none of the Founders has any business relationship with Changping Development
“Changping Industry”	東莞市常平鎮工貿實業集團公司 (Dongguan Changping Industry and Trade Group Company), established in the PRC on 11 June 1988 with limited liability and principally engaged in the provision of corporate management, sale of ironware, steel furniture, plastic products and wood
“CNFA”	中國家具協會 (China National Furniture Association), founded on 20 June 1989 in the PRC and a nationwide non-profit making industrial organisation formed jointly and voluntarily by enterprises, institutions, organisations and individuals participating in the PRC’s furniture and other related industries. The members of CNFA are engaged in the production, management, scientific research and education relating to the PRC furniture and other related industries. Registered with 中華人民共和國民政部 (the Ministry of Civil Affairs of PRC), CNFA is supervised by 國務院國有資產監督管理委員會 (the State-owned Assets Supervision and Administration Commission of the State Council). The aims of CNFA are to represent the interests of the furniture industry, reflect the wills and requests of its members, provide services to its members and maintain their legitimate rights. Serving as a bridge between the PRC government and the enterprises in the furniture industry, CNFA promotes the healthy, sustainable, harmonious and comprehensive development of the PRC’s furniture industry
“Companies Act”	the Companies Act 1981 of Bermuda, as amended, supplemented or otherwise modified from time to time
“Companies Ordinance”	Companies Ordinance (Chapter 32 of the Laws of Hong Kong), as amended, supplemented or otherwise modified from time to time

DEFINITIONS

“Company”	Hing Lee (HK) Holdings Limited, formerly known as HingLi Home Concepts Ltd., Windsor Treasure Group Holdings Limited and Windsor Treasure Holdings Limited, a company incorporated in BVI on 20 April 2004 with limited liability and was subsequently re-domiciled and continued in Bermuda with limited liability on 30 March 2007
“Controlling Shareholder”	Triple Express and Mr. Fang Shin, who will control the exercise of approximately [●]% voting rights in the general meeting of the Company immediately after completion of [●]
“Csil Milano”	Csil Centre for Industrial Studies – Milan (Italy), an independent economic research and consulting company founded in Milan, Italy in 1980. It specialises in applied economic research, SMEs economics, evaluation and technical assistance to development projects and programmes. Based on the information on its website, Csil Milano has served a number of leading international institutions and corporations
“Dahao Furniture”	深圳大豪家具實業有限公司 (Shenzhen Dahao Furniture Industrial Company Limited), a sino foreign equity joint venture company registered in the PRC on 15 March 1985 and principally engaged in the manufacture and sale of wood furniture and sofas. Save that Dahao Furniture had been a shareholder of Shenzhen Dahao and Dongguan Rich prior to their dissolution, it has no business relationship with the Founders
“Deed of Indemnity”	the deed of indemnity dated [●] executed by the Founders and their respective investment vehicles in favour of the Company (for itself and as trustee for other members of the Group) in connection with certain indemnities provided by the Founders and their respective investment vehicles as more particularly set out in the paragraph headed “Indemnities” under the section headed “Business” in this document
“Director(s)”	the director(s) of the Company

DEFINITIONS

“Dongguan Rich”	東莞富豪家具有限公司 (Dongguan Rich Furniture Company Limited), a company incorporated in the PRC with limited liability on 21 September 1993 and a member of the Group which was owned as to 78% by Glory Skill and 22% by Changping Industry prior to its dissolution on 20 October 2006, and principally engaged in the business of manufacturing and trading mattresses with sales in both the PRC and overseas markets
“Dongguan Super Furniture”	東莞興展家具有限公司 (Dongguan Super Furniture Company Limited), a wholly foreign-owned enterprise incorporated in the PRC with limited liability on 14 October 2005 and a member of the Group, which is currently wholly-owned by Hander International and principally engaged in the manufacture and sale of mattresses
“Founders”	Mr. Sung, Mr. Chan, Mr. Cheung and Mr. Huang collectively and “Founder” shall mean any of them
“Glory Skill”	Glory Skill Investments Limited, a company incorporated in BVI with limited liability on 28 July 2004 and a member of the Group which is currently wholly-owned by Great Ample and principally engaged in investment holding
“Great Ample”	Great Ample Holdings Limited, a company incorporated in BVI with limited liability on 22 July 2004 and the intermediate holding company of the Group which is principally engaged in investment holding
“Group”	the Company and its subsidiaries or, where the context so requires, in respect of the period prior to the Company becoming the holding company of its present subsidiaries, the present subsidiaries of the Company or their predecessors (as the case may be)
“Hander International”	Hander International Limited, a company incorporated in Hong Kong with limited liability on 12 November 2007 and a member of the Group, which is currently indirectly held as to 78% by Springrich Investments and 22% by Cheernew Investments Limited and principally engaged in investment holding

DEFINITIONS

“Hanmix”	Hanmix Limited, a company incorporated in Hong Kong with limited liability on 15 November 2007 and a member of the Group which is currently wholly-owned by Success Profit and principally engaged in investment holding
“Hing Lee (China)”	Hing Lee (China) Company Limited, a company incorporated in Hong Kong with limited liability on 23 December 1992 and a member of the Group which is currently wholly-owned by Great Ample and principally engaged in investment holding and provision of administration services to a member of the Group
“Hing Lee Furniture”	Hing Lee Furniture Company Limited, a company incorporated in BVI with limited liability on 1 July 2004 and a member of the Group which is currently wholly-owned by Great Ample and principally engaged in export trading of the Group’s products
“Hing Lee Ideas”	Hing Lee Ideas Limited, a company incorporated in Labuan with limited liability on 3 January 2008 and a member of the Group which is wholly-owned by Great Ample and is currently inactive
“HKFRSs”	Hong Kong Financial Reporting Standards
“HLFL”	Hing Lee Furniture Limited (subsequently renamed as Minland Holdings Limited), a company incorporated in Hong Kong with limited liability on 9 October 1987, which is not a member of the Group and was then engaged in trading of furniture products. It is owned as to 33.334% by Mr. Sung, as to 33.333% by Mr. Cheung and as to 33.333% by Mr. Chan and is now principally engaged in investment in property
“Hong Kong”	the Hong Kong Special Administrative Region of the PRC
“Independent Third Party(ies)”	person(s) or company(ies) which is/are independent of and not connected with any member of the Group, the directors, the chief executive and the substantial shareholders (as defined in the Listing Rules) of the Company or any of its subsidiaries and their respective associates

DEFINITIONS

“Inland Revenue Ordinance”	Inland Revenue Ordinance (Chapter 112 of the Laws of Hong Kong), the amended, supplemented or otherwise modified from time to time
“IRD”	Inland Revenue Department of Hong Kong
“ISO”	the International Organisation for Standardisation, an international organisation for standardisation, based in Geneva, Switzerland
“ISO 9001:2000”	a generic set of requirements maintained by ISO for a quality management system where an organisation (i) needs to demonstrate its ability to consistently provide product that meets customer and applicable regulatory requirements; and (ii) aims to enhance customer satisfaction through the effective application of the system, including processes for continual improvement of the system and the assurance of conformity to customer and applicable regulatory requirements
“Latest Practicable Date”	[●], being the latest practicable date prior to the printing of this document for ascertaining certain information in this document
“LFST”	深圳市利富斯泰傢具設計有限公司 (Shenzhen Li Fu Si Tai Furniture Design Limited), a company incorporated in the PRC with limited liability on 15 October 2002 and principally engaged in design of home furniture products. Mr. Huang, Mr. Huang’s spouse, Mr. Wu Guo Long and an Independent Third Party who is an employee of the Group owned as to 38%, 22%, 20% and 20% of LFST respectively prior to its dissolution
“Listing Rules”	the Rules Governing the Listing of Securities on the Stock Exchange, as amended, supplemented or otherwise modified from time to time
“Longgang Land I”	a piece of land with a site area of approximately 43,817 sq.m. situated at Kengzi Town, Longgang Industrial Area, Longgang District, Shenzhen, the PRC (Land Lot G14309-0285)

DEFINITIONS

“Longgang Land II”	a piece of land with a site area of approximately 41,065 sq.m. situated at Kengzi Town, Longgang Industrial Area, Longgang District, Shenzhen, the PRC (Land Lot G14310-0206)
“Main Board”	the stock market operated by the Stock Exchange, which excludes the Growth Enterprise Market and the options market
“May Day Design”	May Day Design s.a.s., an international furniture design and marketing company based in Milan, Italy, being an Independent Third Party
“Mr. Chan”	Mr. Chan Kwok Kin, being one of the Founders and a senior management member of the Group
“Mr. Cheung”	Mr. Cheung Kong Cheung, being one of the Founders and an executive Director
“Mr. Huang”	Mr. Huang Wei Ye, being one of the Founders and a senior management member of the Group
“Mr. Sung”	Mr. Sung Kai Hing, being one of the Founders and an executive Director
“New EIT Law”	中華人民共和國企業所得稅法 (The PRC Enterprise Income Tax Law), which is promulgated by the National People’s Congress and took effect on 1 January 2008
“Non-competition Deed”	a deed of non-competition undertakings dated [date] executed by [Triple Express], [Mr. Fang Shin], [Mr. Sung], [Mr. Cheung], [Mr. Chan] and [Mr. Huang] in favour of the Company (for itself and as trustee for its subsidiaries)
“PBOC”	中國人民銀行 (The People’s Bank of China)
“PRC” or “China”	The People’s Republic of China which, for the purposes of this document only, excludes Hong Kong, the Macau Special Administrative Region and Taiwan

DEFINITIONS

“PRC Government”, “PRC government”, “state” or “State”	the government of the PRC including all governmental subdivisions (including provincial, municipal and other regional or local government entities) and organs thereof or, as the context requires, any of them
“PRC Legal Advisers”	Zhong Xin Law Firm Shanghai Branch
“SFC”	the Securities and Futures Commission of Hong Kong
“SFO”	Securities and Futures Ordinance (Chapter 571 of the Laws of Hong Kong), as amended, supplemented or otherwise modified from time to time
“SFTA”	深圳市家具行業協會 (Shenzhen Furniture Trade Association), a non-profit organisation established in 1986 which has over 500 members from furniture, wood panel, iron ware, paints and accessories industries and has a mission to serve the marketing and technological needs of the furniture industry participants, as well as to assist the furniture industry participants to communicate with the relevant government authorities
“Share(s)”	ordinary share(s) of HK\$[0.01] each in the share capital of the Company
“Shareholder(s)”	holder(s) of Share(s)
“Share Option Scheme”	the share option scheme conditionally adopted by the Company on [●], the principal terms of which are set out in the paragraph headed “Share Option Scheme” in Appendix [V] to this document
“Sharp Motion”	Sharp Motion Worldwide Limited, a company incorporated in BVI with limited liability on 2 January 2003 and a member of the Group which is currently wholly-owned by Great Ample and principally engaged in investment holding and licensing of trademarks

DEFINITIONS

“Shenzhen Dahao”	深圳大豪興利家具實業有限公司 (Shenzhen Dahao Xingli Furniture Industrial Company Limited), a company incorporated in the PRC with limited liability on 18 December 1995 and a member of the Group which was owned as to 65% by Hing Lee (China) and 35% by Global Art & Crafts Limited immediately prior to its dissolution on 31 December 2006 and principally engaged in the manufacture and sale of wood-based furniture
“Shenzhen Jing Chu”	深圳市景初家具設計有限公司 (Shenzhen Jing Chu Furniture Design Company Limited), a company incorporated in the PRC with limited liability on 19 May 2000 and principally engaged in the design of furniture and accessories for home decoration, which was owned as to 60% by Mr. Huang and 40% by 胡景初先生 (Mr. Hu Jing Chu), an Independent Third Party, from [19 May 2000] to [30 January 2008] and as to 80% by Mr. Huang, 15% by 劉永飛先生 (Mr. Liu Yong Fei) and 5% by 胡景初先生 (Mr. Hu Jing Chu) from [30 January 2008] to [15 January] 2009. As at the Latest Practicable Date, Shenzhen Jing Chu was owned as to 50% by 黃惠嫻女士 (Ms. Huang Hui Xian), 35% by 胡景初先生 (Mr. Hu Jing Chu) and 15% by 劉永飛先生 (Mr. Liu Yong Fei)
“Shenzhen Xingli”	深圳興利家具有限公司 (Shenzhen Xingli Furniture Company Limited), a member of the Group currently wholly-owned by Hanmix, which was incorporated in the PRC as a sino-foreign equity joint venture enterprise with limited liability on 16 December 2002 and subsequently transformed to a wholly foreign-owned enterprise and principally engaged in the manufacture and sale of wood-based furniture
“Shenzhen Xingli Production Base”	the Group’s production base to be constructed on Longgang Land I
“Shenzhen Xingli Zundian”	深圳興利尊典家具有限公司 (Shenzhen Xingli Zundian Furniture Company Limited), a wholly foreign-owned enterprise incorporated in the PRC with limited liability on 28 December 2004 and a member of the Group which is currently wholly-owned by Hing Lee (China), and principally engaged in the manufacture and sale of wood-based furniture

DEFINITIONS

“Shenzhen Xingli Zundian Production Base”	the Group’s production base to be constructed on Longgang Land II
“Springrich Investments”	Springrich Investments Limited, a company incorporated in BVI with limited liability on 7 July 2005 and a member of the Group which is currently wholly-owned by Great Ample and principally engaged in investment holding
“Stock Exchange”	The Stock Exchange of Hong Kong Limited
“subsidiary(ies)”	has the meaning ascribed thereto in section 2 of the Companies Ordinance
“substantial shareholder”	has the meaning ascribed to it under the Listing Rules
“Success Profit”	Success Profit International Limited, a company incorporated in BVI with limited liability on 28 July 2004 and a member of the Group which is currently wholly-owned by Great Ample and principally engaged in investment holding
“Takeovers Code”	The Code on Takeovers and Mergers issued by the SFC, as amended, supplemented or otherwise modified from time to time
“Track Record Period”	the period comprising the three years ended 31 December 2008
“Triple Express”	Triple Express Enterprises Limited, a company incorporated in BVI with limited liability on 21 March 2006 which is wholly-owned by Mr. Fang Shin and principally engaged in investment holding
“United Kingdom”	the United Kingdom of Great Britain and Northern Ireland
“U.S.” or “United States”	the United States of America
“U.S. Securities Act”	the United States Securities Act of 1933, as amended, and the rules and regulations promulgated thereunder
“VAT”	value added tax of the PRC
“World Furniture Outlook 2009”	a non-government official report published by Csil Milano and which is not commissioned by the Group

DEFINITIONS

“Euro(s)” or “€”	the lawful currency of the European Union
“HK\$” or “HK dollars” or “HK cents”	Hong Kong dollars and cents, respectively, the lawful currency of Hong Kong
“RMB” or “Renminbi”	Renminbi, the lawful currency of the PRC
“US\$” or “US dollars”	United States dollars, the lawful currency of the U.S.

Unless otherwise specified, for the purpose of this document and for the purpose of illustration only, Hong Kong dollar amounts have been translated using the following rates:

US\$1 : HK\$7.80

€1: HK\$[10.83]

RMB1 : HK\$[0.996] (2006)

RMB1 : HK\$[1.07] (2007)

RMB1 : HK\$[1.13] (2008)

The above exchange rates have been used for purposes of illustration only and do not constitute a representation that any amounts have been, could have been, or may be exchanged at these or any other rates or at all.

For ease of reference, the names of the PRC established companies or entities have been included in this document in both Chinese and English languages and the English names of these companies and entities are only English translation of their respective official Chinese names and are for identification purposes only. In the event of any inconsistency, the Chinese names shall prevail.

GLOSSARY

This glossary contains explanations of certain terms used in this document in connection with the business of the Group. The terms and their meanings may not correspond to standard industry meanings or usage of these terms.

“ERP system”	enterprise resources planning system
“FOB”	free on board
“GDP”	gross domestic product
“GFA”	gross floor area
“MDF board”	an engineered wood product formed by breaking down softwood into wood fibers, often in a defibrator, combining it with wax and a resin binder, and forming panels by applying high temperature and pressure
“set”	a set of furniture comprises a bed, two bedside cabinets, a wardrobe and a dressing table
“sq.m.”	square metre
“UV”	ultraviolet
“%”	percentage

RISK FACTORS

RISKS RELATING TO THE GROUP

The Group is reliant on its major customers

During the Track Record Period, the Group had over [520], [580] and [560] customers respectively, including domestic distributors, overseas furniture wholesalers and retailers, and various licensees under the licensing arrangements. The five largest customers of the Group, being Independent Third Parties, are mainly overseas furniture retailers and importers and have approximately [1] to [15] years’ business relationship with the Group. For each of the three years ended 31 December 2008, sales to these five largest customers of the Group, in aggregate, accounted for approximately [32.6]%, [32.3]% and [29.8]% respectively of the turnover of the Group. Over the same period, sales to the largest customer of the Group accounted for approximately [10.9]%, [11.2]% and [8.5]% of the Group’s turnover respectively. There is no long-term sales contracts between the Group and its customers, including the five largest customers. There is no guarantee that such customers will continue to conduct business with the Group. In the event that the Group’s customers, including the five largest customers, materially reduce their purchase orders with the Group or cease to conduct business with the Group, and the Group fails to obtain a comparable level of purchase orders from new customers, the Group’s business, results of operations and financial condition may be adversely affected.

The licensing business is critical to the profitability of the Group

The Directors consider that the licensing arrangements with third party furniture manufacturers represent an important part of the Group’s business, notwithstanding that the licensing fees only accounted for [7.4]%, [5.7]% and [3.5]% of the Group’s turnover during the Track Record Period. Under such licensing arrangements, the Group derives licensing fees from granting non-exclusive rights to third party licensees for using the Group’s brand names and product designs when marketing their products. The licensing fees are calculated based on a certain percentage of the invoiced value of the furniture products under licence at which the licensees sell to their customers. The unit prices for calculating the invoiced value of the furniture products are pre-determined by the Group and the licensees after arms’ length negotiation and taking into account the costs incurred by the Group in product design and brand building as well as the potential production costs. For the three years ended 31 December 2008, the gross profit attributable to the licensing business accounted for approximately 39.1%, 29.0% and [18.8]% respectively of the Group’s gross profit.

RISK FACTORS

During the Track Record Period, the Group contracted with 9, 9 and 4 licensees respectively, which are all Independent Third Parties. The Group has maintained business relationships with its licensees for approximately [1] to [13] years. The licence agreements are normally for a term of two years. No licence agreement was terminated by the Group prior to its expiry during the Track Record Period. As at the Latest Practicable Date, the Group maintained licensing arrangements with [four] licensees in the PRC. There is no assurance that the licensees of the Group will renew their licence agreements with the Group upon expiry. If the existing licensees decide not to renew their licence agreements with the Group upon expiry or are unable to market their products under the Group’s brand names and designs profitably, the financial performance of the Group may be adversely affected.

The Group’s licensing income may be subject to the manipulation of its licensees if the licensees materially understate their sales amount with their customers

Under the licence agreement, the amount of licensing fees to be received by the Group depends on the sales of the licensed products by the licensees to their customers. The Group has linked up its ERP system with those of its licensees and periodically sends its accounting personnel to the licensees’ premises to observe their operation in order to monitor their sales amount. However, there is no assurance that the licensees would report to the Group their actual sales amounts. Should any of the licensees intentionally understate its sales amount and it is not detected by the Group, the Group’s profitability may be adversely affected.

The quality of the sales services offered by the Group’s distributors may be critical to the Group’s brand building efforts

The Directors consider that the Group’s continuous success depends to a large extent on its brand building capability, as a well established brand name is an important factor in influencing consumers’ purchasing decision. In order to build and maintain the brand awareness of its products amongst the end consumers in the PRC, the Group employs various marketing and promotional strategies including product advertising in newspapers, trade publications, magazines, and on television as well as participating in trade fairs and exhibitions. The Group also provides training to the sales staff of the distributors that may focus on selling techniques and customer services. Details of the Group’s sales and marketing activities are further discussed in the sub-paragraph headed “Sales and marketing activities” in the paragraph headed “Marketing and promotion” in the section headed “Business” in this document. However, should the distributors be unable to deliver the level of sales services satisfactory to the end consumers when marketing the Group’s products, the image of the Group’s branded products may be adversely affected.

RISK FACTORS

The Group does not implement any measure to monitor the service quality of its overseas customers

For its exports business, the Group does not enter into any distribution framework agreement to govern the general responsibilities and obligations between the Group and its overseas customers. In addition, the Group does not implement any measure to monitor the service quality of its overseas customers. In the event that the overseas customers are unable to deliver satisfactory service quality to their customers, the image of the Group’s branded products may be adversely affected.

The Group is exposed to credit risks of its customers

For domestic sales, the Group usually requests new customers to fully settle the purchases upon delivery and provides its existing customers credit terms of 30 to 60 days. For export sales, the Group requires customers to provide either upfront cash payment or letters of credit when placing their purchase orders, except for few long established customers to whom the Group offers 30 to 90 days’ credit term. For the Group’s licensing business, the Group allows 60 days’ credit term for the licensees to settle their licensing fees. During the Track Record Period, the Group’s impairment/(reversal) for doubtful debts amounted to approximately HK\$[4,441,000], HK\$[(913,000)] and HK\$[(1,509,000)] respectively. However, there is no assurance that the Group will be able to fully recover its receivables from the customers or the licensees, or their settlement is made on a timely basis. In the event the settlement from the customers or licensees is not made in full or not on a timely basis, the Group’s profitability, cash flow and financial position will be adversely affected.

The Group’s distributors may engage in price competition and market cannibalisation among themselves

As at the Latest Practicable Date, the Group had contracted with [511] local furniture distributors, who operated over 600 approved shops to market the Group’s branded home furniture products to end-users in the PRC. The Group chooses its distributors to ensure no approved shop is located and operated in the close proximity of one another and provides pricing guidelines to the approved shops which set out the recommended price range for each branded product. However, the distributors have full discretion as to the final retail prices for their respective shops and there is no assurance that the distributors would not engage in any form of price competition or market cannibalisation which may cause adverse damage to the Group’s brand image and eventually affect the Group’s sales.

The quality of products manufactured by the licensees may not be totally subject to the Group’s control

Under the present licensing arrangement, the Group’s licensees can use certain brand names of the Group’s furniture products, and manufacture and market these products to their customers. The Group provides the licensees with detailed product designs, specifications and raw materials requirements. However, there is no assurance that the licensees will follow the product specifications and quality standards set by the Group. In the event that there are massive product defects, the reputation of the Group and the brand names under licence will be adversely affected.

RISK FACTORS

The Group does not have any contractual relationships with the customers of its licensees, or any control over their sales operations

The Group has currently entered into licence agreements with four domestic furniture manufacturers which are all Independent Third Parties. Such furniture manufacturers pay licensing fees to the Group based on the quantity of furniture products they manufacture and sell to their customers, who are mainly furniture distributors in the PRC. Although the Group has entered into agreement with the licensees, it does not have any contractual relationships with the customers of its licensees, and there are no terms in the licence agreement to govern the sales operations managed by the licensees' customers. Therefore, if the licensees' customers are unable to deliver the level of sales services satisfactory to the end consumers when marketing the Group's products, the reputation of the Group and the brand names under licence will be adversely affected.

The Group is dependent on its major suppliers and contract manufacturers

During the Track Record Period, the Group had over [270], [250] and [180] suppliers respectively and the five largest suppliers included suppliers of raw materials and contract manufacturers who handled outsourced manufacturing of certain furniture products. The major raw materials supplied by the Group's five largest suppliers included MDF boards, ironware, paint and sponge. The Group has maintained business relationship with its five largest suppliers (who are Independent Third Parties) for approximately [3] to [13] years. For the year ended 31 December 2008, all of the Group's top five suppliers were from the PRC. Four of them were contract manufacturers, whose principal businesses included manufacture and sale of wooden, metallic and bedroom furniture products, sofa, and furniture spare parts, whilst the remaining one was a supplier of MDF boards. Purchases from the Group's five largest suppliers in aggregate represented approximately [27.7]%, [41.5]% and [49.8]% of the Group's total purchases and purchases from the largest supplier of the Group accounted for approximately [9.7]%, [14.6]% and [14.4]% of the Group's total purchases for each of the three years ended 31 December 2008 respectively. For the three years ended 31 December 2008, the total purchases from the contract manufacturers amounted to approximately HK\$[107.7] million, HK\$[141.7] million and HK\$[180.7] million, representing approximately [36.0]%, [35.8]% and [41.7]% of the Group's total cost of sales respectively. The Group increased its purchases from the contract manufacturers in order to meet the growing demand for its unbranded furniture products from its overseas customers during the Track Record Period.

During the Track Record Period, the Group did not enter into any long-term procurement agreement with its suppliers. Instead, the Group entered into framework agreements governing the general terms of the supply of raw materials and outsourcing arrangements with its major raw material suppliers and contract manufacturers respectively. The pricing, quantity and delivery time of each order or outsourcing transaction are subject to further negotiation between the Group and the respective raw material suppliers or contract manufacturers on a deal by deal basis. As a result, there is no assurance that the Group will always be able to agree all the commercial terms with the raw material suppliers and the contract manufacturers on each of the orders and outsourcing transactions, or the Group's existing raw material suppliers

RISK FACTORS

and contract manufacturers will continue to accept the Group’s orders on the terms as stipulated by the Group. In the event that any of the Group’s major raw material suppliers or contract manufacturers materially reduces or ceases its supplies or services to the Group, and the Group fails to source the required raw materials from other raw material suppliers or to secure the services of other contract manufacturers to supply the same or similar types and quantities of finished products in a cost effective and timely manner, the business operations and financial performance of the Group may be adversely affected.

The Group is reliant on its key management personnel

The success of the Group depends, to a significant extent, on the expertise and experience of its Founders, Mr. Sung, Mr. Huang, Mr. Cheung and Mr. Chan, who are considered to be the Group’s key management personnel. Being an executive Director, the chairman and the chief executive officer of the Company, Mr. Sung has over [15] years of experience in the furniture industry and is responsible for the overall strategic planning and business development of the Group. Mr. Huang, head of the Group’s design and development department as well as the production department of the Group, has over [20] years of experience in the furniture industry and is responsible for overseeing the design, development and manufacture of the Group’s furniture products. Mr. Cheung, an executive Director, has over [15] years of experience in the furniture industry and is responsible for the administration and human resources management of the Group as well as the overall management relating to the construction of the new production facilities of the Group in the PRC. Mr. Chan, head of the sales and marketing department as well as the procurement department of the Group, has over [15] years of experience in the furniture industry and is responsible for formulating the Group’s sales and marketing strategies and procurement policies and overseeing the Group’s sales and marketing activities. The Group’s key management personnel are well-acquainted with market information and technical knowledge on manufacturing as well as sales and marketing of the home furniture products. Their experience and leadership are critical to the Group’s operation and financial performance. There is no assurance that the Group can retain its key management personnel for their future services, nor can the Group assure that qualified personnel can be engaged to replace any possible loss of such key management personnel in a timely manner. If the Group cannot retain or otherwise find a suitable replacement for its key management personnel in a timely manner in the future, the Group’s future operations may be adversely affected.

There is no assurance on sustainable growth of the Group

For the year ended 31 December 2007, turnover of the Group grew approximately 33.3% from approximately HK\$[369.6] million in 2006 to approximately HK\$[492.7] million in 2007 while the net profit of the Group grew from approximately HK\$28.8 million in 2006 to approximately HK\$[40.4] million in 2007, representing an increase of about 40.6%. Although for the year ended 31 December 2008, turnover of the Group [increased] to approximately HK\$[534.3] million, the net profit of the Group [decreased] to approximately HK\$[30.8] million, representing [a decrease] of approximately [23.8]% as compared to that in 2007. The decrease in the net profit for the year ended 31 December 2008 was mainly attributable to the

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decrease in licensing income received and the increases in selling and distribution expenses and administrative expenses incurred during the year. For details of the Group’s trading results during the Track Record Period, please refer to the paragraph headed “Management discussion and analysis of the results of the Group” in the section headed “Financial information” in this document. There is no assurance that the Group will be able to restore its growth in profitability in future. The results of the Group during the Track Record Period should not be used as an indicator of the Group’s future performance.

The Group has records of non-compliance in respect of employee social insurance and housing provident fund contributions in the PRC

During the Track Record Period, Shenzhen Xingli and Shenzhen Xingli Zundian made full contribution payments for employee social insurances in accordance with the above rules and regulations, but, with the understanding that the relevant local authorities in Shenzhen did not strictly require the payment for housing provident fund contributions, they did not make such contribution payments. The PRC Legal Advisers, when making enquiries with the relevant local authorities, were also given to understand that the relevant local authorities have not strictly required the payment of housing provident fund contribution.

As regards Dongguan Super Furniture, contribution payments for employee social insurances were made based on estimated numbers of employees which were less than the actual numbers, and no contribution payment for housing provident fund was made during the Track Record Period. Due to the relatively high turnover of factory workers at Dongguan Super Furniture, the Group’s human resources department previously responsible for making payments for employee social insurances calculated the payment amounts based on estimated numbers of workers, rather than the actual numbers. However, the relevant local authorities indicated to the PRC Legal Advisers that, as a gesture in assisting local enterprises in the present global economic downturn, they would not strictly require Dongguan Super Furniture to settle any outstanding contributions for employee social insurances.

Dongguan Super Furniture also failed to make any housing provident fund contributions during the Track Record Period. As advised by the PRC Legal Advisers, they were given to understand, when making enquires with the housing provident fund management centre in Dongguan, that the relevant authorities had not imposed any strict requirement for payment of housing provident fund on enterprises operating in Dongguan due to the lack of details in the implementation measures in relation to the 住房公積金管理條例 (Regulations on Management of Housing Provident Fund) as promulgated by the State Council. The PRC Legal Advisers further advised that, with 東莞市住房公積金繳存管理辦法 (Measures on the Administration of Declaration and Payment of Housing Provident Fund in Dongguan) coming into effect on 1 December 2007, enterprises operating in Dongguan should have started making such contributions. Nevertheless, the housing provident fund management centre further represented to the PRC Legal Advisers that, until detailed administrative measures on imposing penalty on local enterprises for the failure in making contributions for housing provident fund have been laid out, they would not enforce any penalties on local enterprises for failing in making such contribution payments.

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The Group has quantified the amounts of outstanding contributions for the employee social insurances and housing provident fund up to [31 December] 2008 to be approximately RMB[1,436,000] million and RMB[957,000] respectively and had made full provisions therefor in its accounts.

According to the PRC Legal Advisers, should the relevant local administrative authorities require the Group to settle the unpaid contributions in respect of the employee social insurances in the future and the Group fails to do so within the stipulated time limit, the Group will have to pay, in addition to its unpaid contribution, a maximum overdue penalty of 0.2% per day on the payment amount from the date when the amount becomes overdue to the date when the full payment is made. In addition, pursuant to 中華人民共和國勞動合同法 (PRC Labour Contract Law) which came into force on 1 January 2008, in the event that the Group’s employees decide to cease their working relationships with the Group due to the Group’s failure to make contributions to the employee social insurances, the Group is required to pay those resigned employees monetary compensation. Such compensation is calculated based on the length of services of such resigned employees with the Group since 1 January 2008 (i.e. one month salary for each full year of service and 50% of the monthly salary for less than half year’s services). As regards the housing [provident] fund, according to the PRC Legal Advisers, the relevant housing provident fund management centre may order the enterprises to pay the outstanding contributions within a prescribed time, failing which such enterprises would be subject to a maximum penalty of RMB50,000. For further details of the aforesaid non-compliance incidents, please refer to the paragraph headed “Compliance and litigation” in the section headed “Business” in this document.

The Group has records of non-registration of lease agreements

The lease agreement of one of the Group’s leased properties located in Shenzhen, the PRC, being the property numbered [9] referred to in the valuation report set out in Appendix III to this document, had not been registered with the relevant property leasing administration authority as at the Latest Practicable Date. As advised by the PRC Legal Advisers, the lessor has not provided the relevant title documents for registration, which resulted in the delay in registering the lease agreement with the relevant property leasing administration authority. This property has been used by Shenzhen Xingli for various purposes, including production facilities for home furniture products, offices and staff quarters.

According to the PRC Legal Advisers, the lease agreement for the above mentioned property is legally enforceable and the failure to register the same does not affect its validity. As further advised by the PRC Legal Advisers, the relevant lessor is liable for the failure to register the lease agreement and as such, Shenzhen Xingli would not be subject to any administrative penalty. However, subsequent owner of the property has the right to require Shenzhen Xingli to move out from the property and thus, there is no assurance that the right of the Group to use and occupy this leased property will not be interfered with in the future and the Group may be required to relocate from this property.

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With respect to one of the Group’s leased properties in the PRC, being the property numbered [10] referred to in the valuation report set out in Appendix III to this document, no title documents had been provided by the relevant lessor evidencing its legal title to such property. This property is located in Shenzhen, the PRC and has been used by the Group for storage purposes. According to the PRC Legal Advisers, as the relevant lessor has not provided the Group with the relevant title document, its legal right to lease such property to the Group is in doubt. Accordingly, the PRC Legal Advisers are not able to opine on the validity and legality of the lease agreement of this property. As advised by the PRC Legal Advisers, the lessor has not provided the relevant title documents for registration, which resulted in the delay in registering the lease agreement with the relevant property leasing administration authority. The PRC Legal Advisers have also advised that the relevant lessor is liable for the failure to register the lease agreement and as such, Shenzhen Xingli would not be subject to any administrative penalty. However, there is no assurance that the rights of the Group to use and occupy this property will not be challenged in the future and the Group may be required to relocate from this property.

If the rights of the Group to use and occupy any of the above two leased properties are challenged or interfered with in the future as a result of the events as described above, there is no assurance that the Group would be able to secure a prompt relocation to suitable premises, nor can the Group assure that the relocation will not have any adverse impact on the Group which includes interruptions to production and incurrence of relocation costs. In addition, any unforeseeable damages and/or difficulties arising during the relocation of such leased properties may adversely affect the business operations and financial position of the Group.

Please refer to the paragraph headed “Properties” in the section headed “Business” in this document for further details of the aforesaid properties.

The Group has records of non-compliance of Hong Kong regulatory requirements

During the Track Record Period, two subsidiaries of the Company [inadvertently] failed to comply with the regulatory requirements in Hong Kong to (i) make timely filings in relation to certain company secretarial matters under the Companies Ordinance; or (ii) make timely application for business registration under the Business Registration Ordinance due to high staff turnover and lack of continuity in the staff of the finance and accounting department of the Group which was responsible to make filings/ apply for registration within the applicable prescribed time frame during the period from 2005 to 2006. In 2007, the present chief financial officer was recruited to head the financial and accounting department of the Group. In the course of reviewing the internal control of the Group, the chief financial officer, with the assistance of various professional parties, identified the Group’s non-compliance with the Companies Ordinance and Business Registration Ordinance aforementioned and rectified the same as soon as practicable thereafter.

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Late filings in relation to resignation of company secretary

Hing Lee Furniture Group Limited, a company incorporated in Hong Kong and a wholly-owned subsidiary of the Company, made late filings in relation to the resignation of its secretary on 9 January 2006 with the Companies Registry after the prescribed deadline in contravention of the relevant provisions of the Companies Ordinance. The filing in relation to the resignation of the secretary was made in March 2008, which represent continued default of 714 days.

Based on the legal advice obtained by the Company, under the Companies Ordinance, an action for a summary offence thereunder may be tried if it is brought within 3 years after commission of the offence. As less than 3 years have elapsed after the last day of this continued default and based on the continued default of 714 days, the aggregate estimated maximum amount of potential fines arising from such non-compliance will not be more than HK\$224,200, which represents the maximum punishment of a level 3 fine (being HK\$10,000 at present) for the offence and a daily default fine of HK\$300 for continued default upon conviction. However, the practical risk of Hing Lee Furniture Group Limited being penalised regarding its late filing cannot be ascertained because notwithstanding that the Companies Registry has the right to prosecute on non-compliance under the Companies Ordinance, the Companies Registry does not prosecute late filings on each occasion. There is no statutory duty on the Group to specifically report the late filings to the Companies Registry as instances of non-compliance. Given that the filing had been made and the Companies Registry should be aware of such late filings on the face of the information filed and that, up to the Latest Practicable Date, Hing Lee Furniture Group Limited had neither been prosecuted nor received any notice of prosecution in relation to the above non-compliance, the practical risk of prosecution and a realistic level of penalty cannot now be estimated.

Late application for business registration

Hing Lee Furniture commenced its business of trading of home furniture products in Hong Kong in April 2005 and was therefore required to apply for business registration under the Business Registration Ordinance within one month of its commencement of business. However, Hing Lee Furniture only applied for business registration on 13 October 2008.

Based on the legal advice obtained by the Company, any person who fails to make timely application for business registration shall be guilty of an offence and shall be liable to a maximum punishment of a fine of HK\$5,000 and imprisonment for 1 year. The secretary, manager or any director of Hing Lee Furniture shall also be answerable for such non-compliance. As the Founders have been the directors of Hing Lee Furniture since the commencement of its business, they may be held liable for imprisonment as stipulated under the Business Registration Ordinance on conviction. Should the Founders be sentenced to imprisonment as a result of such non-compliance and the Group cannot retain or otherwise find a suitable replacement for its key management personnel in a timely manner, the Group's business and operations may be adversely affected.

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During a verbal general enquiry with an officer of the Business Registration Office on the prosecution policy of this type of non-compliance, the legal adviser of the Company was informed that if a company volunteered to make a late application for business registration, there would not be any penalty but the company would be required to pay the business registration fees for the past years. According to such officer, no one had been sentenced to imprisonment as a result of a failure to obtain business registration so far. [Based on the information obtained in the verbal enquiry, the Company’s legal advisers also consider that the practical risk of the secretary, manager or directors being prosecuted and sentenced to imprisonment upon conviction as a result of such non-compliance appears to be relatively low.] However, there is no assurance that Hing Lee Furniture and/or the secretary, manager or any director of Hing Lee Furniture will not be subject to any prosecution. Under the Business Registration Ordinance, prosecution thereunder may be commenced within 6 years from the date of the commission of the offence (that is up to [4] May 2011).

The Group has a record of non-compliance with the Inland Revenue Ordinance

In April 2005, as the Group acquired Hing Lee Furniture to handle the trading business in Hong Kong, it started to recruit accounting professionals in Hong Kong to take charge of its finance and accounting department. However, during the period from 2005 to late 2006, the Group experienced rather high staff turnover in the finance and accounting department and the head of finance and accounting department had changed three times. Due to the lack of continuity in the staff of the finance and accounting department, Hing Lee Furniture failed to notify the IRD of its chargeability to tax within the prescribed time limit for the years of assessment 2005/2006 to 2007/2008.

At the time of finalising its accounts in around November 2007, Hing Lee Furniture became aware of the possibility that it might be subject to Hong Kong tax. However, it was not certain of the extent of its exposure. The Group’s chief financial officer initially discussed the issue with Hing Lee Furniture’s auditors. In March 2008, Hing Lee Furniture approached a firm of tax accountants which was subsequently formally engaged to handle its tax reporting in June 2008. Hing Lee Furniture submitted its profit tax returns for the relevant years of assessment in December 2008. As advised by [the tax accountants], the estimated undercharged tax for these three assessment years is approximately HK\$[2,660,752] in aggregate and, as Hing Lee Furniture has made voluntary disclosure to the IRD, it is likely that the Company will be penalised under IRD’s “full voluntarily disclosure” scale in which the maximum penalty is 45% of the tax undercharged. Based on the recommendation of the tax accountants, a provision for the additional tax or penalty in the amount of HK\$[2,660,752], representing 100% of the estimated undercharged tax, has been made in the accountants’ report as set out in Appendix I to this document. On 23 January 2009, the IRD issued assessments demanding final tax for 2005/2006, 2006/2007 and 2007/2008 with a total tax payable of HK\$408,867, HK\$1,499,863 and HK\$720,582 respectively. The amounts were fully paid on 3 March 2009 in accordance with the payment schedule of the IRD. Pursuant to the Deed of Indemnity, the Founders and their investment vehicles have agreed to indemnify the Group for any fines arising from such non-compliance.

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Pursuant to the Inland Revenue Ordinance, any person who, without reasonable excuse, fails to inform the IRD of its chargeability to tax shall be guilty of an offence and liable for a level 3 fine (i.e. a fine of HK\$10,000 at present) and a further fine of treble the amount of tax which has been undercharged in consequence of such failure, and no person shall be liable unless the complaint concerning such offence was made before the expiration of 6 years from the end of the relevant year of assessment. Alternatively, the IRD may, instead of prosecution, impose an additional tax for a maximum amount of treble the amount of tax which has been so undercharged and there is no express stipulation as to the period within which the IRD could take action against Hing Lee Furniture for the imposition of additional tax under the Inland Revenue Ordinance. [Up to the Latest Practicable Date, Hing Lee Furniture had neither been prosecuted nor levied with any additional tax penalty and the practical risk of prosecution and a realistic level of fine cannot be ascertained now.]

Shenzhen Xingli and Shenzhen Xingli Zundian may be required to pay additional income tax for the Track Record Period

Prior to 2008, Shenzhen Xingli and Shenzhen Xingli Zundian were entitled to the preferential income tax rate of 15% granted under a preferential tax policy issued by the Shenzhen Municipal Government. However, according to the PRC Legal Advisers, there was no clear statutory basis for granting of such preferential tax rate. As further advised by the PRC Legal Advisers, both Shenzhen Xingli and Shenzhen Xingli Zundian should be subject to an enterprise income tax rate of 24% prior to 2008. However, as far as the Directors are aware, Shenzhen Xingli and Shenzhen Xingli Zundian are among many other foreign enterprises in Longgang District and Baoan District in Shenzhen which have enjoyed the said preferential treatment. The Directors note that (i) the granting of the said preferential enterprise income tax rate was based upon a notice from the Shenzhen Municipal Government that is generally applicable to entities within the Shenzhen Municipality; (ii) the payment of tax at the preferential rate of 15% has been approved by the local relevant authorities; and (iii) as at the Latest Practicable Date, no foreign invested enterprises located in Baoan District and Longgang District in Shenzhen have been required to make payment above the preferential tax rate of 15%.

Pursuant to the New EIT Law which took effect on 1 January 2008, foreign invested enterprises in the PRC are subject to corporate income tax at a rate of 25% starting from 1 January 2008. The PRC Legal Advisers have advised that according to 企業所得稅納稅須知 (Notice on Payment of Enterprise Income Tax) issued by 深圳市國家稅務局 (Shenzhen Municipal Office of the State Administration of Taxation) on 3 July 2008, Shenzhen Xingli and Shenzhen Xingli Zundian were subject to an enterprise income tax rate of 18% in 2008.

The Directors consider that each of Shenzhen Xingli and Shenzhen Xingli Zundian has been paying income tax in accordance with the tax demands issued by the relevant tax bureau. Each of Shenzhen Xingli and Shenzhen Xingli Zundian has received a written confirmation dated 2 March 2009 and 12 March 2009 respectively from 深圳市龍崗區國家稅務局布吉稅務分局 (Office of the State Administration of Taxation of Longgang District of Shenzhen, Buji Branch) confirming that there was no tax payment overdue up to the date of the respective confirmation.

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Nevertheless, there is no assurance that the tax treatment granted to Shenzhen Xingli and Shenzhen Xingli Zundian would not be revoked, and, as a consequence, Shenzhen Xingli and Shenzhen Xingli Zundian may be required to pay the undercharged amount of tax arising from the difference between the applicable enterprise income tax rate (i.e. 24% for 2006 and 2007 and 25% for 2008) and the tax rates enjoyed by Shenzhen Xingli and Shenzhen Xingli Zundian (i.e. 15% for 2006 and 2007 and 18% for 2008). In such case, the undercharged income taxes that the Group may be required to pay would be approximately HK\$[98,000], HK\$[587,000] and HK\$[888,000] for the three years ended 31 December 2008 respectively, after taking into account Shenzhen Xingli and Shenzhen Xingli Zundian’s entitlements under the income tax exemption for two years from the first year of profit and a 50% reduction for the following 3 years for foreign invested enterprise.

The Group’s newly established internal control system is not totally proven

During the Track Record Period, the Group inadvertently failed to comply with certain laws, rules and regulations of the PRC and Hong Kong, of which the non-compliance incidents are set out in the paragraph headed “Compliance and litigation” in the section headed “Business” in this document. In view of the occurrence of the non-compliance incidents, in December 2008, the Group has set up a compliance department to ensure that the Group’s operations are in compliance with the applicable laws, rules and regulations. The compliance department consolidated various policies and procedures in respect of a number of operational aspects including [sales and procurement, cash management, financial reporting and fixed asset acquisition] together with other corporate governance practices into a compliance manual.] As the compliance department was only recently set up and implementation of the aforesaid compliance manual has just begun in early 2009, there is no assurance of the sufficiency and effectiveness of the Group’s internal control nor the Group would not fail to comply with any laws, rules and regulations in any jurisdiction in the future.

Any increase in the prices of raw materials or shortage of raw material supplies may adversely affect the Group’s profitability

During the Track Record Period, the Group mainly used MDF board, ironware and paint as raw materials for the manufacture of its products. For each of the three years ended 31 December 2008, the total costs of raw materials accounted for approximately [52.6]%, [53.1]% and [46.0]% respectively of the total cost of sales of the Group. [MDF board is the largest component among the raw materials used in the Group’s wood-based furniture products, which accounted for approximately [19.1]%, [21.3]%, and [19.3]% of the Group’s total cost of sales respectively and approximately [36.2]%, [40.1]% and [42.0]% of its total costs of raw materials respectively for the three years ended 31 December 2008. During the Track Record Period, the Group experienced a general increase in the purchase price of MDF board. For example, the average unit purchase prices of two major types of MDF board utilised by the Group, namely 18 mm and 25 mm MDF board, increased from RMB[89.0] and RMB[127.3] to RMB[92.8] and RMB[136.0] respectively during the Track Record Period. The Group’s procurement department monitors the market prices of major raw materials and analyzes the price movements with an aim to controlling the production costs. Based on the information

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provided by the procurement department, the Group’s sales and marketing department reviews the prices of the Group’s products and adjusts the selling prices to reflect changes in the prices of raw materials. However, in order to stay competitive in the market, the adjustment in sales price of the Group’s products, in most cases, may not fully cover such increments.] The Directors estimated that for every 1.0% increase in the price of raw materials used in the Group’s production, there would be approximately [5.4]%, [4.8]% and [5.5]% decrease in the Group’s profit attributable to equity holders respectively for the three years ended 31 December 2008, assuming all other factors which would affect the Group’s performance remained unchanged. A 1.0% decrease in the price of raw materials used in the Group’s production would have an equal but opposite effect on the Group’s profit attributable to equity holders. If there are constant upward adjustments to the prices of these raw materials and the Group is unable to pass the incremental costs to its customers or the Group is unable to secure adequate supply of such raw materials at commercially viable prices to meet its ongoing production requirement, the Group’s profitability may be adversely affected.

The Group is dependent on its trademarks and other intellectual property rights

As at the Latest Practicable Date, the Group owned [29] trademarks registered in the PRC, [7] trademarks registered in Hong Kong and [6] patents registered in the PRC. Please refer to the sub-section headed “Intellectual property” in Appendix V to this document for the validity period of the trademarks and patents owned by the Group. As at the Latest Practicable Date, the Group has also applied for the registration of [10] trademarks in the PRC, [1] trademark in Italy and [34] patents regarding certain product designs of the Group’s home furniture products in the PRC. In relation to the pending applications of the Group for registration of trademarks in the PRC, according to the PRC Legal Advisers, the time required for completion of the registration procedures cannot be ascertained as it will depend on the progress of the examination and approval procedures of 中華人民共和國國家工商行政管理總局商標局 (Trademark Office of State Administration for Industry and Commerce of the PRC). In relation to the pending application of the Group for registration of trademark in Italy, according to a legal opinion from an Italian legal adviser obtained by the Group, [under normal circumstances, the completion of the registration procedures is expected to take three to four years from the filing date.] Whereas in relation to the pending applications of the Group for registration of patents in the PRC, according to the PRC Legal Advisers, the time required for completion of the registration procedures cannot be ascertained as it will depend on the progress of the examination and approval procedures of 中華人民共和國國家知識產權局 (State Intellectual Property Office of the PRC).

The Group’s success depends in part on the trademarks and other intellectual property rights, including design patents, which the Group owns. In order to protect its rights over these trademarks and intellectual property, the Group has taken steps to apply for registration of the same with relevant governmental authorities. However, such protection may be compromised by (i) the expiration of the registration period of the registered intellectual property (the registration period for trademarks registered in Hong Kong and the PRC is 10 years from the date of registration, which, according to the laws currently in force, may be renewed for successive periods of 10 years, subject to payment of the prescribed fee, the compliance of

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procedural formalities and in respect of trademarks registered in the PRC, the grant of approval and publication by the PRC Trademark Office, whereas the registration period for patents registered in the PRC is 10 years from the date of filing, which is not subject to any further renewal after its expiry), (ii) infringement by third parties of the Group’s intellectual property rights including, for example, counterfeiting the brands, designs or products of the Group, or (iii) delay or refusal by relevant regulatory authorities to approve pending intellectual property registration applications. Any occurrence of these events may have a material adverse effect on the Group’s business.

The Group may suffer product liability claims and has limited insurance coverage

The Group does not maintain any insurance to cover the product liability risk in the PRC or its exporting markets. Pursuant to 中華人民共和國產品質量法 (Product Quality Law of the PRC), the Group may be subject to product liability claims in the event that any of its products is alleged to have caused any personal injury or other adverse effects. In addition, 中華人民共和國消費者權益保護法 (Law of the PRC on the Protection of the Rights and Interests of Consumers) protects the rights of consumers in respect of the safety of person and property in the purchase and use of goods and services. 深圳市質量技術監督局 (Shenzhen Bureau of Quality and Technical Supervision) and 深圳市工商行政管理局 (Shenzhen Industrial and Commercial Administration Bureau) are authorised to impose penalties on the manufacturers and sellers who have violated the aforesaid regulations. As advised by the PRC Legal Advisers, product liability insurance is not compulsory under the PRC law. As such, the Group does not maintain insurance to cover the related product liability risk. As regards the Group’s export sales, it is the Directors’ understanding that any product liability claim brought by the end consumer in the overseas markets would be handled by the relevant overseas customer locally. However, the Group cannot assure that it would not be named as a defendant in any lawsuit or proceeding brought by the end consumer in respect of the product liability claim. Furthermore, if the relevant overseas customer can prove that the product quality deficiency which gives rise to the product liability claim is caused by the Group’s fault, the relevant overseas customer may claim against the Group.

Up to the Latest Practicable Date, the Group has not received any claims from customers against it in respect of product liability.] In the event that the Group is held liable for any material losses or damages in respect of product liability claims, the results of operations and financial performance of the Group may be adversely affected.

[The Group’s operation may be adversely affected by the delay in the construction of Shenzhen Xingli Zundian Production Base

The Group intends to utilise Longgang Land II for the construction of the Shenzhen Xingli Zundian Production Base. The PRC Legal Advisers have advised that the construction on such land should commence on or before 26 October 2008 and should be completed on or before 26 October 2009. As advised by the PRC Legal Advisers, the construction of the Shenzhen Xingli Zundian Production Base has commenced in July 2008. However, the Directors have confirmed that construction work has been suspended after the completion of

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the foundation works for the factory building since January 2009 as access to Longgang Land II was denied pending the inspection approval of the neighbouring public road works by the relevant authorities. According to the PRC Legal Advisers, the relevant land bureau may impose a penalty against Shenzhen Xingli Zundian in the event of delay in the construction on Longgang Land II, details of which are set out in the paragraph headed “Properties” in the section headed “Business” in this document. The Directors estimate that the maximum penalties that may be imposed on the Group in the event of delay in the construction on Longgang Land II will be approximately RMB[3.16] million for a delay not exceeding two years. The PRC Legal Advisers have also advised that in the event Shenzhen Xingli Zundian does not complete construction on Longgang Land II within two years after the prescribed deadline for construction completion (i.e. 26 October 2009), the relevant land bureau is entitled to resume the land without any compensation. The PRC Legal Advisers visited the relevant land bureau and were given to understand that Shenzhen Xingli Zundian could apply for an extension of the deadline for construction completion after the grant of the inspection approval of the neighbouring public road works by the relevant authorities. The PRC Legal Advisers are of the opinion that there is normally no legal obstacle for the Group to obtain such extension if the delay in construction is caused by the delay of completion of public road works. The Group currently expects that the construction of the Shenzhen Xingli Zundian Production Base will be resumed in around June 2010 and will be completed in [around mid 2011]. If any penalty is imposed on Shenzhen Xingli Zundian as a result of the delay in the construction of the Shenzhen Xingli Zundian Production Base or if the Group fails to obtain the extension as mentioned above, the Group’s operation may be adversely affected.]

The Group’s owned properties cannot be transferred to third parties

As at the Latest Practicable Date, the Group owned two pieces of land (the “Land”) located at Kengzi Town, Longgang Industrial Area, Longgang District, Shenzhen, the PRC, namely Longgang Land I and Longgang Land II. The Group is currently constructing the Shenzhen Xingli Production Base on Longgang Land I and intends to build the Shenzhen Xingli Zundian Production Base on Longgang Land II. For more information about these production bases, please refer to the sub-paragraph headed “Owned properties” in the paragraph headed “Properties” in the section headed “Business” in this document. Details of the Land are stated under the properties numbered 1 and 2 in the valuation report as set out in Appendix III to this document. As at 31 December 2008, the net book value of the Land and the construction in progress thereon amounted to approximately HK\$[98.95] million.

According to the PRC Legal Advisers, as the Group has obtained 深圳市建設用地規劃許可證 (Shenzhen Planning Permit on Land for Construction Use) and Real Estate Ownership Certificate in respect of each of Longgang Land I and Longgang Land II, and the considerations payable under the relevant contracts for grant of land use rights have been settled in full, the Group possesses the land use rights of the Land for a term of 50 years up to 28 June 2057 for industrial use. The PRC Legal Advisers have further advised that it is a condition of the contracts for grant of land use rights of the Land that the land use rights of the Land are not allowed to be transferred or leased. As a result, the valuer has assigned no commercial value to the Land.

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As advised by the PRC Legal Advisers, the non-transferability of the Land does not affect the Group's rights to the Land. The PRC Legal Advisers have also advised that as the Group is the legal owner of the land use rights of the Land, it has the right to use the Land as collaterals for banking facilities. The Group has mortgaged Longgang Land I in favour of a bank as security for banking facilities amounting to RMB70.0 million. As advised by the PRC Legal Advisers, the mortgage over Longgang Land I is legal and valid.

Should the Group not utilise the Land and the factories thereon for its own production, it would not be possible for the Group to dispose of the Land as it is prohibited from doing so as mentioned above. In such event, the Group's liquidity position may be adversely affected.

The Group may not be able to fulfill its obligations under an undertaking to secure its existing banking facilities

In November 2007, the Group obtained banking facilities amounting to RMB70.0 million of which RMB60.0 million would be applied to the construction of the Shenzhen Xingli Production Base and RMB10.0 million would be used as general working capital. The banking facilities were secured by, among other things, a letter of undertaking provided by the Group whereby the Group undertakes to execute a legal charge over Longgang Land I and mortgage its factory premises located at the Shenzhen Xingli Production Base which is under construction on Longgang Land I upon the availability of building ownership certificate on or before 31 December 2009. The construction of the Shenzhen Xingli Production Base is expected to be completed in June 2009. However, there is no guarantee that the construction will be completed as scheduled and the Group would obtain the relevant ownership certificate on or before 31 December 2009. In the event that the Group fails to obtain the relevant ownership certificate on or before 31 December 2009, the bank reserves the right to cancel the banking facilities and to demand full repayment of any outstanding sum owed to the bank without further notice. Should the Group be forced to repay its loan under such circumstance, it may adversely impact the financial position of the Group.

The Group's business is subject to seasonality factors

During the Track Record Period, the Group's sales experienced a seasonal pattern. The Group typically achieved higher sales in the PRC in [the months of April, August, September, October and December]. The sales generated in these months in aggregate accounted for approximately [57.5]%, [49.3]% and [48.8]% respectively of the total domestic sales during the Track Record Period. The Directors attribute the higher sales recorded during these months to the consumers' tendency to spend during the shopping seasons in summer and the months leading to the extended Chinese holidays in May, October and Chinese New Year. The Group's sales to the overseas markets were also normally higher in [the months of March, April, August, September and December]. Sales generated in these periods in aggregate accounted for approximately [51.5]%, [47.6]% and [46.5]% respectively of the total sales from the overseas markets during the Track Record Period. The Directors believe that higher sales were mainly due to increases in purchases driven by shopping seasons in particular the summer and the holiday seasons of Christmas and New Year. For both the domestic and overseas markets, the month of February was generally regarded as the slowest season in the Track Record Period.

RISK FACTORS

The Group’s operating results may fluctuate from period to period. Therefore, comparison of the Group’s operating results between any interim periods may not be meaningful and these comparisons may not be an accurate indicator of the Group’s future performance.

Implementation of the Group’s future plans may not take place as planned

The Directors have prepared the Group’s future plans after due consideration by reference to their perceptions of the prospects of the furniture business. The details of the Group’s future plans are set out in the section headed “Future plans” in this document. The successful implementation of the Group’s future plans may be affected by a variety of factors including significant business, economic and competitive uncertainties and contingencies that are beyond the Group’s control and could postpone or increase the costs of implementation. Such potential events relating to its expansion plans include, but not limited to, delays in the delivery and installation of manufacturing equipment, seasonal fluctuation, labour disputes or civil unrest, additional costs in relation to the measures in compliance with the environmental laws, rules and regulations, delays in securing the necessary governmental approvals and land use rights, economic downturn, and changes to plans for additional facilities in order to cope with changes in market conditions.

RISKS RELATING TO THE INDUSTRY

The Group faces competition from competing brands

The market in which the Group operates is competitive. The Group faces competition from a number of existing local market players. Any increase in competition in the industry may result in price reduction. In measuring the sensitivity of the Group’s profitability towards changes in selling prices of the furniture products, the Directors estimate that a 1.0% change in the average selling price of the Group’s products will lead to a change of approximately [11.7]% in the Group’s profit attributable to equity holders for the year ended 31 December 2008, assuming all other factors that would affect the Group’s performance remain unchanged. The Group sets the pricing of its branded and unbranded home furniture products with reference to a number of factors including, among others, costs and prices set by other manufacturers and the potential market demands. However, as the furniture industry is fragmented and competition among industry players is intense, the Group may not be able to pass each and every cost increment either partially or fully to its customers. In the event that there is a substantial increase in the costs of sales but the Group is unable to adjust its prices due to keen competition, the financial performance of the Group may be adversely affected.

RISK FACTORS

Furthermore, the Group’s success depends on its ability to compete effectively against its competitors’ brands and products and its ability to enhance the value and popularity of its brands. There is no assurance that the Group would be able to compete successfully in the future. In the event that the Group is not able to compete effectively against its competitors’ brands and products, its sales and profit margins will be adversely affected.

Reduction in the PRC general import tariff rates may further intensify market competition

According to the information available on the website of the Shanghai Customs’ Online Service Centre [on the Latest Practicable Date], the most favorite nations’ import tariff rates and the general tariff rates of wood-based furniture products are currently [0]% and [100]% respectively. The term “most favorite nations” in the context of PRC tariff schedules refers to the members of the World Trade Organisation and other nations that have bilateral trade agreements with the PRC. Furniture companies from the most favorite nations may take advantage of such preferential import tariff treatments to export their wood-based furniture products into the PRC. Should the general import tariff rates be lowered, there is no assurance that furniture companies which currently are not entitled to the preferential import tariff treatment would not expand their business to the PRC market. In the event that a large number of foreign furniture companies expand their business to the PRC market, the Group may not be able to maintain its competitive edge and its profitability may be adversely affected.

Changes in trends of the home furniture market may affect the Group’s business

The Directors consider that the success of the Group depends in part on its strong product design and development capability and its ability to anticipate, identify and respond effectively to changing market trends and consumers’ tastes. There can be no assurance that the Group will be able to continue to develop furniture products which appeal to consumers or successfully meet the ever-changing consumer demands in the future. Moreover, due to the fragmented characteristic of the home furniture market in the PRC, the Group may not be able to differentiate its products from those of its competitors. In the event that the Group fails to effectively anticipate, gauge and respond to the changing market trends and consumers’ tastes, or is unable to differentiate its products from those of its competitors, demand for the Group’s products may decrease and the Group’s operating results and financial performance would in turn be adversely affected.

Anti-dumping duties relating to export sales could affect the Group’s business

The Group sells its furniture products to its overseas customers on an FOB basis, that is [customers pay the costs of marine or freight transport, insurance, unloading, and transportation from the loading port to the final destination and the passing of risks of the products occurs at the port of loading]. In case there are any trade restrictions such as anti-dumping duties, tariffs and quota fees imposed by the countries to which the Group exports its products, it is customary for the Group’s overseas customers to settle such costs. During the Track Record Period, so far as the Directors are aware, among the overseas markets

RISK FACTORS

where the Group exported its products, only the U.S. imposed anti-dumping duties on wooden [bedroom] furniture products imported from the PRC, and the anti-dumping duties imposed on the Group’s wooden bedroom furniture products during the Track Record Period are set out below:

1 January 2006 – 31 December 2006	32.23%
1 January 2007 – 20 August 2008	7.24%
20 August 2008 – 31 December 2008	18.82%

For the three years ended 31 December 2008, the Group’s export sales which were subject to U.S. anti-dumping duties amounted to approximately HK\$[16.8] million, HK\$[21.0] million and HK\$[13.7] million, representing approximately [8.7]%, [8.3]% and [5.2]% of the Group’s export sales respectively. During the same periods, the Group recorded sales to the U.S. market of approximately HK\$[23.3] million, HK\$[35.0] million and HK\$[31.0] million respectively, representing approximately [6.3]%, [7.1]% and [5.8]% of the Group’s turnover respectively.

During the Track Record Period, the Group did not pay any anti-dumping duties for its exports to the U.S., [as it was agreed between the Group and the relevant overseas customers that the anti-dumping duties would be borne by the relevant overseas customers.]

Set out below are the U.S. anti-dumping duties imposed on the Group’s wooden bedroom furniture products from 1 January 2009 up to the Latest Practicable Date:

1 January 2009 – 27 January 2009	18.82%
28 January 2009 – 26 March 2009	33.38%
27 March 2009 up to the Latest Practicable Date	32.23%

As at the Latest Practicable Date, the Group had been approved by the U.S. Department of Commerce to be eligible for separate-rate status in relation to the anti-dumping duties on exports of wooden bedroom furniture from the PRC, and the anti-dumping rate imposed on the Group’s wooden bedroom furniture was [32.23]% as compared to the rate of 216.01% that would be applied to all other exporters of wooden bedroom furniture from the PRC not eligible for separate-rate status. In the event that the Group is required to pay the anti-dumping duties or tariffs or quota fees or there is substantial rise in the anti-dumping duties imposed on the Group’s wooden bedroom furniture products as a result of the Group being not eligible for separate-rate status as mentioned above, which will increase the costs of wooden bedroom furniture products purchased by the Group’s relevant overseas customers, the Group’s export sales may be adversely affected.

RISK FACTORS

The Group may be adversely affected by the recent global financial turmoil and economic downturn

The recent financial turmoil and credit crunch have adversely affected the global economy and caused economic downturn as well as decrease in consumer spending in most countries. As a consequence, it is expected that households may reduce their spending on purchasing durable goods including furniture products in 2009. In the PRC, the sluggish property market and the slowdown in the economy may also negatively impact the amount of furniture products that the market can take up as a whole in 2009. Furthermore, financial institutions have been reducing their loan exposure and increasing the costs of borrowing to corporations. This may result in the reduction or termination of the banking facilities currently available to the Group, or the increase in the interest burden on the Group’s bank borrowings. For the first quarter of 2009, the Group’s domestic sales, licensing income and export sales experienced a decrease of approximately [15.1]%, [14.6]% and [12.8]% respectively as compared with the corresponding period of 2008. Should the economic downturn and decrease in consumer spending continue, the Group’s business, financial condition and results of operations may be adversely affected.

RISKS RELATING TO THE PRC

Economic and political considerations

The PRC’s economy differs from the economies of most developed countries in many aspects, including the amount of government intervention, level of infrastructure development, level of capital reinvestment, control of foreign exchange and allocation of resources. Over the past two decades, the PRC government has undertaken reform measures in its economic and political systems, resulting in significant economic growth in the PRC. However, there is no assurance that the PRC government will continue to pursue such reforms or that all the reform measures implemented will be effective. As substantially all of the Group’s operations are conducted in the PRC, changes in the general economic and political environment in the PRC and changes in the economic policies of the PRC government may directly or indirectly affect the business, the results of operations and the financial position of the Group.

Legal and regulatory considerations

Since 1979, legislative bodies in the PRC have promulgated laws, rules and regulations dealing with economic matters such as foreign investment, corporate organisation and governance, commerce, taxation and trade. However, the enforcement, implementation and interpretation of existing laws, rules and regulations may involve uncertainties as the judiciary system of the PRC is still evolving. The legal system of the PRC is based on statutes and, therefore, precedent legal cases do not have binding legal effects notwithstanding that they are often followed by judges of the PRC courts as guidance. The introduction of new PRC laws, rules and regulations and the interpretation of existing ones may be subject to policy changes reflecting domestic political or social changes. As the PRC legal system develops, there is no assurance that changes in legislation or the interpretation thereof will not have any adverse impact on the Group.

RISK FACTORS

Foreign exchange rate risk

The Group earns revenues in [US dollars, Renminbi and Hong Kong dollars] and incurs costs and expenses mainly in [Renminbi and Hong Kong dollars]. During the Track Record Period, approximately [45.0]%, [45.8]% and [45.7]% of the Group's sales was denominated in Renminbi respectively, whereas approximately [45.2]%, [47.7]% and [48.4]% was denominated in US dollars respectively and approximately [9.8]%, [6.5]% and [5.9]% was denominated in Hong Kong dollars respectively. The Group's manufacturing operations are based in the PRC and its costs of sales are mainly denominated in Renminbi. During the Track Record Period, the Group's costs of sales of approximately [73.2]%, [77.5]% and [77.2]% was denominated in Renminbi respectively, and approximately [26.8]%, [22.5]% and [22.8]% was denominated in US dollars respectively. The costs of sales settled in US dollars were mainly settlement payments to contract manufacturers, which amounted to approximately US\$[10,352,000], US\$[11,526,000] and US\$[12,753,000] respectively for the three years ended 31 December 2008.

As at 31 December 2006, 2007 and 2008, approximately [60.8]%, [56.9]% and [64.5]% of the Group's bank balances and cash was denominated in Renminbi respectively, whereas approximately [15.9]%, [16.3]% and [27.8]% was denominated in US dollars respectively, and approximately [23.3]%, [26.8]% and [7.7]% was denominated in Hong Kong dollars respectively. As at the Latest Practicable Date, the Group's borrowings were denominated in Renminbi. As the Group's financial statements are expressed in Hong Kong dollars and the exchange rate of Hong Kong dollars is pegged to US dollars, the Group is exposed to foreign exchange risks arising from fluctuation in Renminbi. During the Track Record Period, the Group recorded a foreign exchange loss of approximately HK\$[698,000] and HK\$394,000 for the years ended 31 December 2006 and 2008 respectively and a foreign exchange gain of approximately HK\$[1,190] for the year ended 31 December 2007. Currently, the Group does not maintain any hedging policy with respect to the associated exchange rate risks as the availability of hedge instrument is limited in the PRC.

After [●], the Company's accounts will be stated in Hong Kong dollars and payment of dividends will also be stated in Hong Kong dollars. At present, Renminbi is not freely convertible to other currencies. There is no assurance that the Group will obtain sufficient foreign exchange for payment of dividends or other settlements in foreign exchange. Furthermore, the Group's profitability may be adversely affected as a result of fluctuation in the exchange rates between the currencies in which the Group's purchases, expenditures and sales are respectively denominated.

RISK FACTORS

RISKS RELATING TO THE SHARES

Forward-looking statements should not be unduly relied upon

This document contains various forward-looking statements which can be identified by the use of forward-looking terminologies such as “may”, “will”, “expect”, “anticipate”, “continue”, “believe” and other similar expressions. The Group and the Directors have made forward-looking statements with respect to, among other things, the following:

- the Group’s strategies to achieve its business objectives; and
- the importance and expected growth of the industry in which the Group operates.

Such forward-looking statements are based on assumptions regarding the Group’s present and future business strategies and the environment in which the Group will operate in the future and are subject to certain risks, uncertainties and assumptions, including the risk factors described in this document. Should one or more of these risks or uncertainties materialise, or should any underlying assumptions prove incorrect, the forward-looking events or circumstances described in this document might not occur in the way the Group expects. Accordingly, investors should not place undue reliance on such forward-looking statements.

Dividends paid in the past may not be indicative of the amount of future dividend payments or the Group’s future dividend policy

For the three years ended 31 December 2008, the Company declared a final dividend of an aggregate amount of nil, approximately HK\$[17.3] million and HK\$[4.0] million respectively. The dividends declared and paid as aforesaid do not amount to any guarantee, representation or indication that the Company must or will declare and pay dividends in such manner in the future or at all. Particulars of the dividend policy to be adopted by the Group following [●] are set out in the paragraph headed “Dividend policy” in the section headed “Financial information” in this document. There can be no assurance and in fact it is not expected that the amount of dividends which may be declared by the Company in the future, if any, will be at the level declared and paid by the Company immediately prior to [●].

The industry information and statistics contained in this document may not be unduly relied upon

Certain industry information and statistics contained in the section headed “Industry overview” in this document are derived from government official publications. Such information has not been independently verified by the Company and may be inconsistent, inaccurate, incomplete or outdated.

None of the Company, [●], their respective directors and advisers or any other parties involved in [●] make any representation as to the accuracy or completeness of such information and, accordingly, such information should not be unduly relied upon.

DIRECTORS AND PARTIES INVOLVED

DIRECTORS

Name	Address	Nationality

Executive Directors

Mr. Sung Kai Hing (宋啟慶先生)	Flat A, 11/F, Block 1 Dynasty Court 23 Old Peak Road Hong Kong	Chinese

Mr. Cheung Kong Cheung (張港璋先生)	24A, Block 12 Braemar Hill Mansion 37 Braemar Hill Road North Point Hong Kong	Chinese

Non-executive Director

Mr. Fang Yan Zau, Alexander (方仁宙先生)	Flat D, 19/F Fairlane Tower, 2B Bowen Road Mid-Levels Hong Kong	Chinese

Independent non-executive Directors

Mr. Sun Jian (孫堅先生)	Room 502, No.19 Lane 666 Jin Xiu Road Pudong Shanghai the PRC	Chinese

Ms. Shao Hanqing (邵漢青女士)	Room 2101, Building 2 No. 3 Jingyi Road Futian District Shenzhen Guangdong the PRC	Chinese

Mr. Kong Hing Ki (江興琪先生)	Flat H, 9/F Far East Mansion 5 Middle Road Tsimshatsui Kowloon Hong Kong	Chinese

DIRECTORS AND PARTIES INVOLVED

PARTIES INVOLVED

Legal advisers to the Company

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The PRC

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Certified Public Accountants
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Property valuer

Greater China Appraisal Limited
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CORPORATE INFORMATION

Registered office	Clarendon House 2 Church Street Hamilton HM 11 Bermuda
Headquarter and principal place of business in Hong Kong	Unit 1101, 11th Floor Delta House 3 On Yiu Street Shatin New Territories Hong Kong
Company secretaries	Mr. Wong Kit Wai, FHKICPA, ACIS Mr. Richard James Evans*
Audit committee	Mr. Kong Hing Ki (<i>Chairman</i>) Mr. Sun Jian Ms. Shao Hanqing
Remuneration committee	Mr. Sun Jian (<i>Chairman</i>) Ms. Shao Hanqing Mr. Kong Hing Ki
Nomination committee	Ms. Shao Hanqing (<i>Chairman</i>) Mr. Sung Kai Hing Mr. Cheung Kong Cheung Mr. Sun Jian Mr. Kong Hing Ki
Authorised representatives	Mr. Sung Kai Hing Flat A, 11/F, Block 1 Dynasty Court 23 Old Peak Road Hong Kong Mr. Wong Kit Wai Flat G, 27/F, Tower 3 Banyan Garden 863 Lai Chi Kok Road Kowloon Hong Kong

* Mr. Richard James Evans will resign as secretary of the Company and Ms. Kim Ling Cheung will be appointed as assistant secretary of the Company with effect from the [●].

CORPORATE INFORMATION

Bermuda resident representative

Graham B.R. Collis

Principal banker

The Hongkong and Shanghai Banking
Corporation Limited

Company’s website address

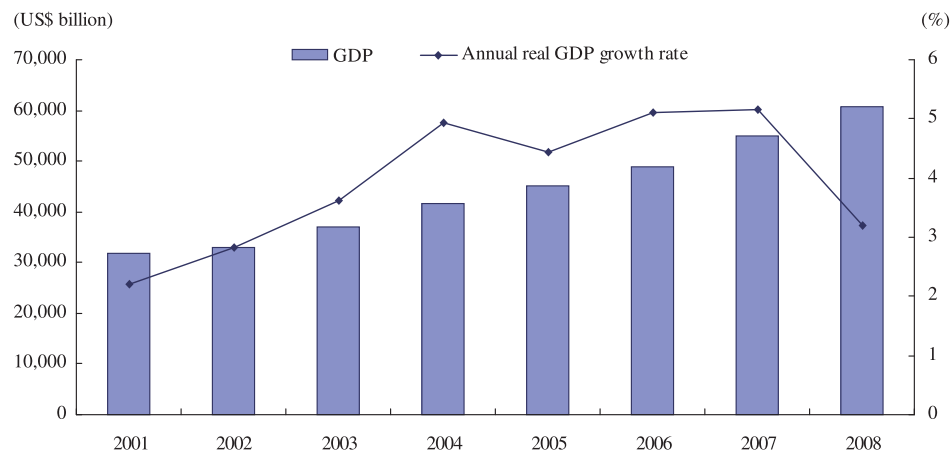
www.hingleegroup.com
(information on this website does not form
part of this document)

INDUSTRY OVERVIEW

OVERVIEW OF THE WORLD ECONOMY

The world economy has grown steadily from 2001 to 2008. According to the World Economic Outlook, April 2009 edition published by the International Monetary Fund, the GDP of the world grew from approximately US\$31,707 billion (approximately HK\$247,315 billion) in 2001 to approximately US\$60,690 billion (approximately HK\$473,382 billion) in 2008, representing a CAGR of approximately 9.7%. During the same period, the world’s annual real GDP growth accelerated from 2.2% in 2001 to 3.2% in 2008. The following chart sets forth the GDP and the annual real GDP growth of the world between 2001 and 2008.

Chart 1: GDP and annual real GDP growth rate 2001-2008



Source: World Economic Outlook, April 2009 edition published by International Monetary Fund

In 2008, the global economy has been adversely affected by the deepening crisis on financial markets that originated in the U.S. subprime mortgage market. Intensifying solvency concerns have triggered a series of bankruptcies, forced mergers, and government interventions in the United States and Europe. Credit conditions have become significantly tighter. To counter the economic downturn amid the global financial crisis, various government authorities around the world have responded quickly and announced measures aimed at supporting major institutions, stabilising markets and bolstering confidence.

Nevertheless, the International Monetary Fund projected that the world GDP would decline by 1.3% in 2009 as compared to 2008.

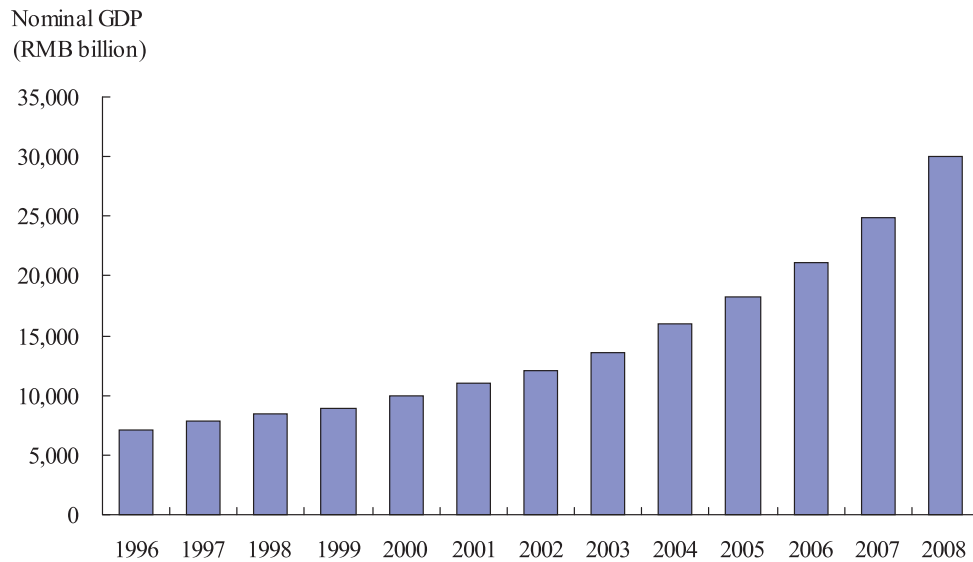
INDUSTRY OVERVIEW

THE PRC ECONOMY

The PRC economy has been growing significantly in the last decade. According to the National Bureau of Statistics of China, the GDP per capita increased from RMB5,846 in 1996 to RMB18,934 in 2007, representing a CAGR of approximately [11.3]%.

From 1996 to 2008, the nominal GDP of the PRC increased from approximately RMB7,118 billion to approximately RMB30,066 billion, representing a CAGR of approximately [12.8]%. The following chart sets forth the nominal GDP of the PRC from 1996 to 2008.

Chart 2: Nominal GDP of the PRC

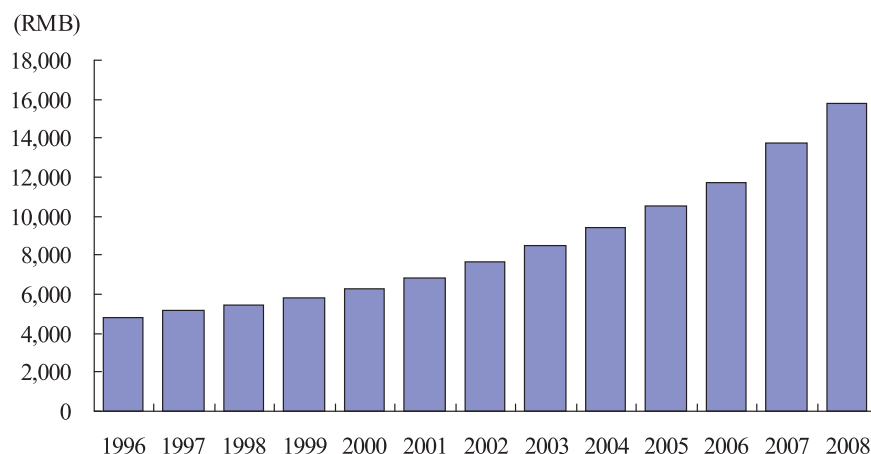


Source: The National Bureau of Statistics of China

INDUSTRY OVERVIEW

Accompanied with the growth in the PRC economy as shown above, the purchasing power of the urban households has also experienced significant increase as shown by their per capita annual disposable income. During the period from 1996 to 2008, the per capita annual disposable income of the PRC urban households increased from approximately RMB4,839 in 1996 to approximately RMB15,781 in 2008, representing a CAGR of approximately [10.4]%. The following chart shows the per capita annual disposable income of urban households in the PRC from 1996 to 2008.

Chart 3: Per capita annual disposable income of urban households in the PRC



Source: The National Bureau of Statistics of China

Among income groups of urban households, the per capita disposable income of middle and high income groups has grown at a faster pace than other groups from 2000 to 2007. The following table illustrates the CAGR of the annual disposable income per capita of different income groups of urban households in the PRC from 2000 to 2007. The furniture products of the Group are targeted at the mid to high price point consumers. Hence, the growing trend of the per capita disposable income of the middle and high income groups would be of significant importance to the business of the Group.

Table 1: The CAGR of the annual disposable income per capita of different income groups of urban households in the PRC

	Lowest	Low	Lower middle	Middle	Upper middle	High	Highest
CAGR (2000 to 2007)	6.8%	8.7%	9.8%	10.7%	11.8%	13.0%	15.6%

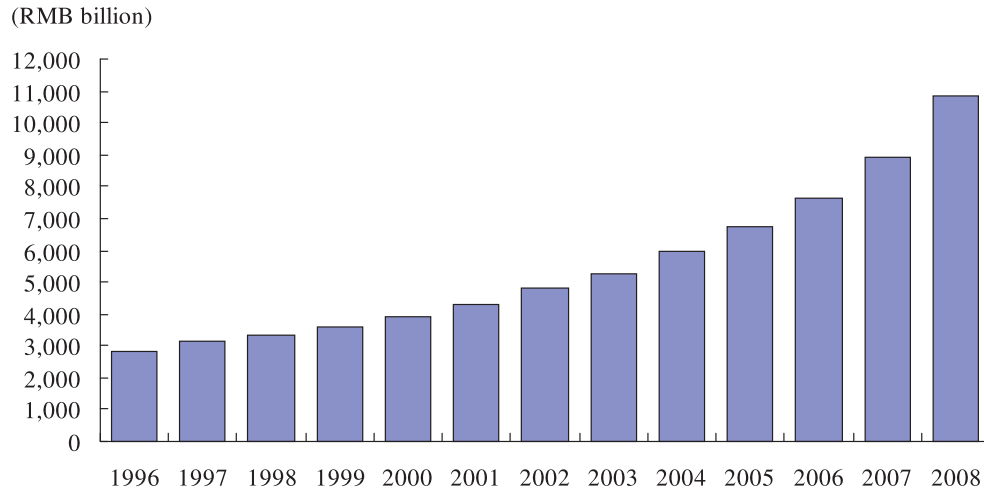
Source: The National Bureau of Statistics of China

INDUSTRY OVERVIEW

THE PRC CONSUMER MARKET

The PRC retail market has experienced rapid expansion in the last decade. The retail sales of consumer goods increased from approximately RMB2,836 billion in 1996 to approximately RMB10,849 billion in 2008, representing a CAGR of approximately [11.8]%. The following chart sets forth the total retail sales revenue of consumer goods of the PRC from 1996 to 2008.

Chart 4: The total retail sales revenue of the PRC consumer market



Source: *The National Bureau of Statistics of China*

According to the Hong Kong Trade Development Council, home furniture products are considered as one of the basic consumption necessities with high market potential. Along with the sustainable improvement of the housing condition in the PRC, people in the PRC have become more generous in decorating their living places, which induces an increase of the consumption of home furniture in the PRC.

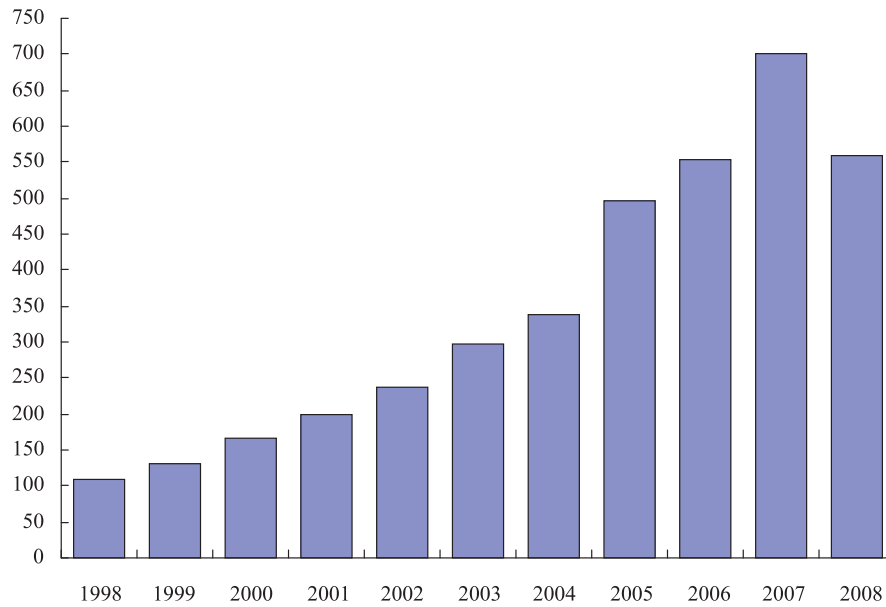
INDUSTRY OVERVIEW

THE PRC RESIDENTIAL PROPERTY MARKET

According to the National Bureau of Statistics of China, the annual [total GFA] of general residential property sold in the PRC increased from approximately [108.3] million sq.m. in 1998 to approximately [558.9] million sq.m. in 2008, representing a CAGR of approximately [17.8]%. The following chart sets forth the total GFA of general residential property sold in the PRC from 1998 to 2008.

Chart 5: Total GFA of general residential property sold in the PRC

(sq.m. in millions)

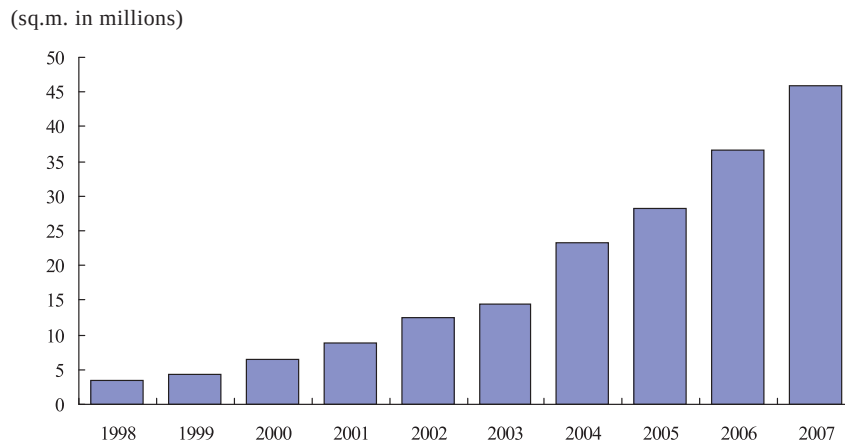


Source: *The National Bureau of Statistics of China*

INDUSTRY OVERVIEW

With the strong increase in the purchasing power of the high to highest income group as shown in Table 1 above, the total GFA of luxury residential property comprising villas and high-grade apartments sold increased at a CAGR of approximately [33.1]% from approximately [3.5] million sq.m. in 1998 to approximately [45.8] million sq.m. in 2007, which outpaced the growth rate of the total GFA of general residential property sold in the PRC of approximately [23.1%] for the same period. The following chart sets forth the substantial growth of total GFA of luxury residential property sold in the PRC from 1998 to 2007.

Chart 6: Total GFA of luxury residential property sold in the PRC



Source: *China Statistical Yearbook (2008)* published by the National Bureau of Statistics of China

The PRC government has recently announced various stimulus measures to boost the property market. On 22 October 2008, the Ministry of Finance of the PRC and the State Administration of Taxation jointly promulgated 關於調整房地產交易環節稅收政策的通知 (Notice on Adjustment of Taxation on Property Transactions), according to which the property deed tax is reduced to 1% for domestic residents purchasing their first residential property not exceeding 90 sq.m.. In addition, stamp duty and land value-added tax in property transactions have been abolished. In order to further stimulate the property market, the PBOC declared that from 27 October 2008 onwards, the down payment for mortgages will be reduced from 30% to 20% of the purchase price and banks are allowed to charge as low as 70% of benchmark lending rates for such mortgages. Furthermore, the PBOC has cut lending rate by an aggregate of 2.16% from 16 September 2008 to 23 December 2008, which would help the affordability of consumers in purchasing properties. In addition, after a State Council meeting held on 9 November 2008, the PRC government announced its approval of a RMB4 trillion stimulus package up to 2010 to boost domestic demand.

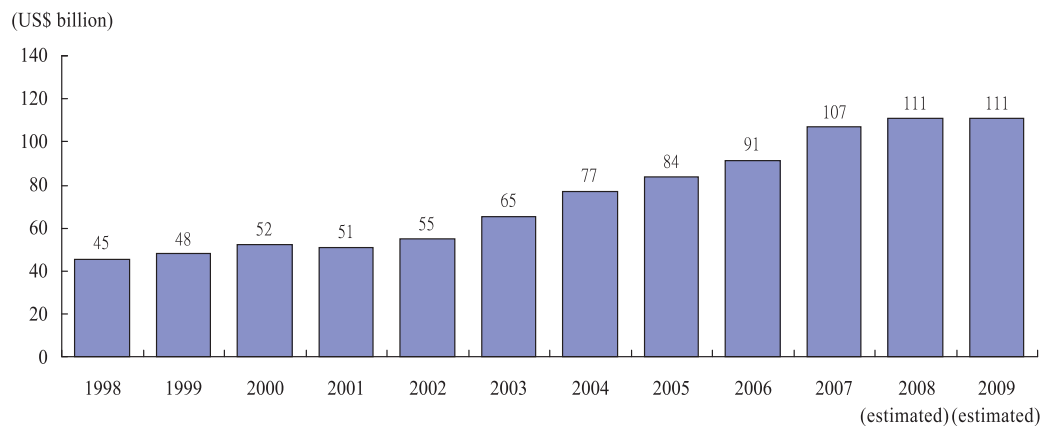
INDUSTRY OVERVIEW

THE FURNITURE INDUSTRY

The world furniture industry

According to the World Furniture Outlook 2009 which was subscribed by the Group from the website of Csil Milano, the global furniture trade rose from US\$45 billion in 1998 to US\$107 billion in 2007, representing a CAGR of approximately [10.1]%. Csil Milano projected that global furniture trade would reach approximately US\$111 billion in 2008 and then remain constant in 2009. The following chart illustrates the world trade of furniture between 1998 and 2007 and the estimated figures for 2008 and 2009.

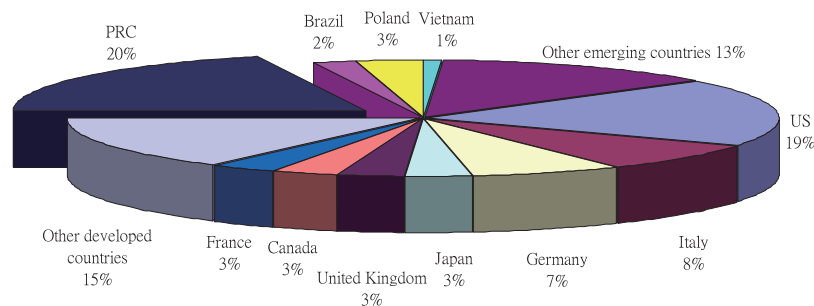
Chart 7: World trade of furniture



Source: *The World Furniture Outlook 2009 published by Csil Milano*

Furthermore, according to the World Furniture Outlook 2009 published by Csil Milano, the world furniture production was worth about US\$350 billion in 2007 and the five leading countries were the PRC, the United States, Italy, Germany and Japan. The following chart illustrates the source and percentage of world furniture production in [2007].

Chart 8: World furniture production for the year of 2007



Source: *The World Furniture Outlook 2009 published by Csil Milano*

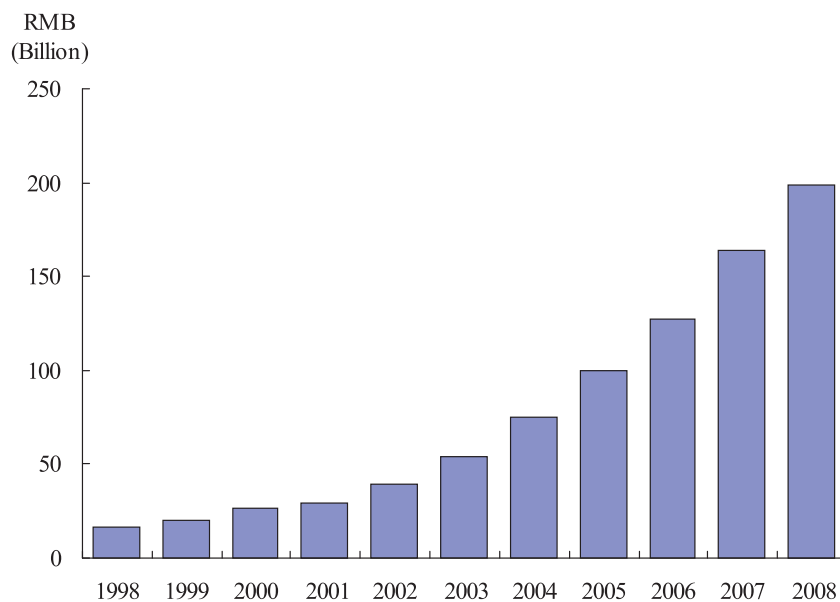
INDUSTRY OVERVIEW

The furniture industry in the PRC

Along with the growth of the economy and the booming consumer and residential property markets in the PRC, the PRC furniture industry has been growing with strong momentum in recent years. According to the data sourced from the CNFA, the total furniture production value in the PRC during the period of the Tenth Five-Year Plan approved by the National People’s Congress of the PRC increased from RMB120 billion in 2000 to RMB340 billion in 2005. In addition, as illustrated in Chart 8 above, the PRC was the largest furniture manufacturer in terms of production in the world in [2007], with production value amounting to approximately US\$71 billion (approximately RMB540 billion) in that year.

As mentioned in the World Furniture Outlook 2009 published by Csil Milano, [the PRC was the largest furniture exporting country in the world] from 2005 to 2008. According to the National Bureau of Statistics of China, [the PRC furniture export increased from approximately RMB16.2 billion in 1998 to approximately RMB199.0 billion in 2008, representing a CAGR of approximately 28.5%]. The following chart sets forth the total furniture export value in the PRC from 1998 to 2008.

Chart 9: Total export value of the PRC furniture industry



Source: The National Bureau of Statistics of China

INDUSTRY OVERVIEW

The competitive landscape of the furniture industry in the PRC

The home furniture industry in the PRC is highly competitive and it mostly consists of small to medium size market participants. The furniture industry in the PRC comprises approximately 50,000 small to medium-sized enterprises with no apparent brands dominating the market. The total turnover of the top ten enterprises in the industry only accounted for approximately 2.8% of the industry total turnover, according to the China Light Industry Yearbook 2006 published by 中國輕工業協會 (China National Light Industry Council) which is a nation-wide industry organisation with service and management functions in the PRC. China National Light Industry Council acts as the bridge between government and enterprises, and promotes light industry development in the PRC and strengthens international cooperation. There are no significant entry barriers to the home furniture industry. The Group faces competition from other medium to large scale home furniture manufacturers and suppliers, in particular, those with their own established brand names and strong design capabilities.

According to the CNFA, the Pearl River Delta area is well known as the most concentrated, most productive and best equipped region in the furniture industry in the PRC. As the import furniture tariff for the most favorite nations was adjusted to zero percent on 1 January 2005 in the PRC, some overseas furniture companies began to shift their businesses to the PRC which intensifies the competition of the furniture market and the selling price of furniture began to come under pressure. The term “most favorite nations” in the context of the PRC tariff schedules refers to the members of the World Trade Organisation and other nations that have bilateral trade agreements with the PRC.

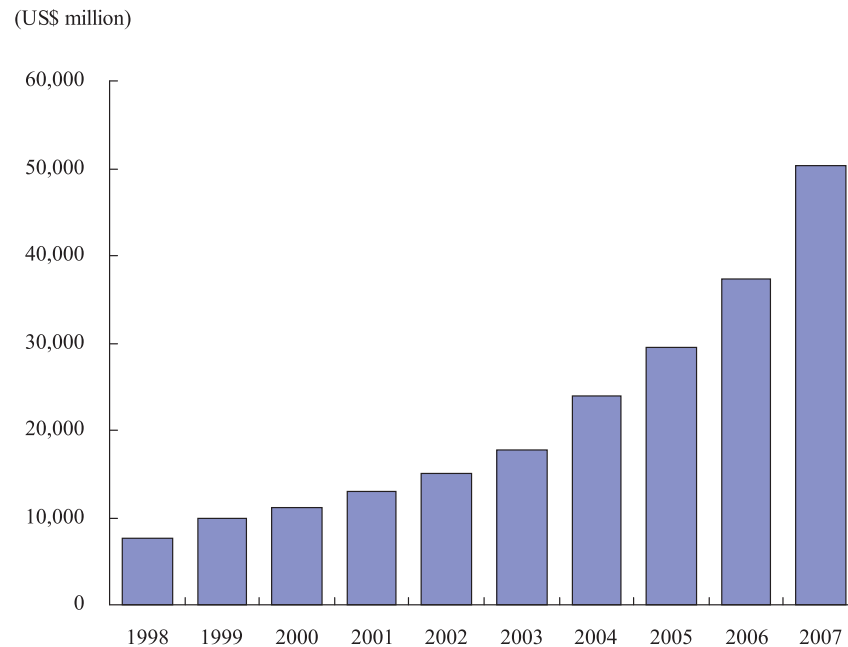
According to the Csil Milano report, furniture products worth approximately US\$882 million were imported into the PRC in 2007, which accounted for approximately 1.8% of the total consumption of the PRC furniture market. In other words, the domestic production in the PRC supplied nearly the entire PRC furniture consumption market. In addition, the total import value of furniture reached approximately US\$1,104 million in 2008 according to the CNFA, among which wood-based furniture products accounted for approximately US\$173 million. The Directors believe that the competitive landscape is characterised by the increasing number of market participants and ever higher consumers’ demands as well as the growing expectations as to the prices, design, style and quality of the furniture products.

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The furniture market in the PRC

According to the Csil Milano report, during the period from 1998 to 2007, the total furniture consumption in the PRC increased from approximately US\$7,529 million in 1998 to approximately US\$50,337 million in 2007, representing a CAGR of approximately 23.5%. Csil Milano further estimated that the real growth of furniture consumption in the PRC would be approximately 7% in both 2008 and 2009. The chart below illustrates the growth of total furniture consumption in the PRC from 1998 to 2007.

Chart 10: Total furniture consumption in the PRC



Source: *The World Furniture Outlook 2009 published by Csil Milano*

According to the Hong Kong Trade Development Council, the annual per capita furniture consumption in the PRC was less than RMB100 as at November 2008 and lagged far behind the average standard of the world. In addition, nearly 120 million families with an aggregate GFA of approximately 2 billion sq.m. of residential property in the PRC will be potentially in need of carrying out renovation work in the next few years. In light of the potential demand, there will be approximately 10% of the PRC families in need of new furniture annually. In addition, the GFA of newly constructed residential properties with an annual growth rate of approximately 10% will exceed 6 billion sq.m. within the coming ten years.

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According to the Hong Kong Trade Development Council, the living standards of people in the PRC have generally improved as reflected by the increasing disposable income of urban households. The functionality of furniture is no longer the only consideration during furniture consumption as the furniture style has gradually become a significant consideration as well. In addition, as one of the strongest purchasing power segments in the PRC, the middle class has become the major consumers of trendy and fashionable composite furniture. During the period from 2002 to 2006, the growth rate of composite furniture owned by households in the PRC increased across middle to high income groups. Moreover, as shown in Table 1 above, the middle and high income groups experienced a faster growth in annual disposable income per capita, which would also indicate that these income groups would be able to afford a higher level of spending on furniture products. The following table sets forth the sets of composite furniture owned per 100 urban households in the PRC by different income groups from 2002 to 2006.

Table 2: Sets of composite furniture owned per 100 urban households in the PRC by different income groups

	Middle (set)	Upper middle (set)	High (set)	Highest (set)
2006	79.1	84.9	91.0	103.3
2005	78.1	83.0	89.2	100.4
2004	76.3	81.7	86.3	98.8
2003	72.7	77.5	80.7	93.5
2002	71.1	76.0	76.9	85.6
CAGR (2002 to 2006)	2.7%	2.8%	4.3%	4.8%

Source: China Statistical Yearbook (2007) published by the National Bureau of Statistics of China

As illustrated in Table 2 above, the highest income group experienced the fastest growth rate in composite furniture owned during the relevant period.

REGULATORY OVERVIEW

LAWS, RULES AND REGULATIONS IN RELATION TO THE PRODUCT QUALITY

Domestic sales

The Group is principally engaged in the design, manufacture and wholesale of a wide range of home furniture products including mainly wood-based furniture and mattresses. Products manufactured by the Group are subject to the laws, rules and regulations in relation to the product quality in the PRC. 中華人民共和國產品質量法 (Product Quality Law of the PRC), promulgated on 22 February 1993 and subsequently amended on 8 July 2000, is the principal law governing the supervision and administration of product quality, and is applicable to the production and sale of any products in the PRC. With respect to the furniture industry, the relevant laws, rules and regulations imposed on furniture companies include the following:

1. GB 17927-1999 軟體家具彈簧軟床墊和沙發抗引燃特性的評定 (Upholstered Furniture – Assessment of the Resistance to Ignition of the Spring Mattress and Sofa), which took effect on 1 May 2000, promulgated by 國家質量技術監督局 (The General Bureau of Quality and Technical Supervision), which is now renamed as 中華人民共和國國家質量監督檢驗檢疫總局 (The General Administration of Quality Supervision, Inspection and Quarantine of the PRC). This rule states that under different types of environment, the procedures and the testing should be performed to determine the resistance to ignition of the spring mattress and sofa. The test is carried out by placing a lighting cigarette horizontally onto the surface of the spring mattress or sofa for a certain amount of time twice to ensure no ignition occurs.
2. GB 18580-2001 室內裝飾裝修材料人造板及其製品中甲醛釋放限量 (Indoor Decoration and Refurbishing Materials – Limit of Formaldehyde Emission of Wooden Based Panels and related Finished Products), which took effect on 1 January 2002, promulgated by 中華人民共和國國家質量監督檢驗檢疫總局 (The General Administration of Quality Supervision, Inspection and Quarantine of the PRC). This rule specifies the limit of formaldehyde emission of wooden based panels and related finished products. Different types of products are categorised into subclasses by the different test methods. Each subclass has a different limit of formaldehyde emission and has different testing procedures.
3. GB 18581-2001 室內裝飾裝修材料溶劑型木器塗料中有害物質限量 (Indoor Decoration and Refurbishing Materials – Limit of Harmful Substances of Solvent Coatings for Woodenware), which took effect on 1 January 2002, promulgated by 中華人民共和國國家質量監督檢驗檢疫總局 (The General Administration of Quality Supervision, Inspection and Quarantine of the PRC). This rule provides the limit of harmful substances in solvent coatings used for indoor wooden decoration and refurbishing materials. The harmful substances to be detected include (i) volatile organic compounds, (ii) benzene, (iii) toluene and xylene, (iv) free toluene diisocyanate, (v) soluble lead, (vi) soluble cadmium, (vii) soluble chromium and (viii) soluble mercury.

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4. GB 18583-2001 室內裝飾裝修材料膠黏劑中有害物質限量 (Indoor Decoration and Refurbishing Materials – Limit of Harmful Substances of Adhesives), which took effect on 1 January 2002, promulgated by 中華人民共和國國家質量監督檢驗檢疫總局 (The General Administration of Quality Supervision, Inspection and Quarantine of the PRC). This rule provides the limit of harmful adhesive substances in indoor decoration and refurbishing materials. The adhesives are divided into two groups, solvent-based adhesives and water based adhesives. These adhesives are tested to ascertain the following harmful substances (i) free formaldehyde, (ii) benzene, (iii) toluene and xylene, (iv) toluene diisocyanate and (v) total volatile organic compounds.
5. GB 18584-2001 室內裝飾裝修材料木家具中有害物質限量 (Indoor Decoration and Refurbishing Materials – Limit of Harmful Substances of Wood Based Furniture), which took effect on 1 January 2002, promulgated by 中華人民共和國國家質量監督檢驗檢疫總局 (The General Administration of Quality Supervision, Inspection and Quarantine of the PRC). This rule states the limit of harmful substances in any wood based indoor furniture. Harmful substances include (i) formaldehyde emission, (ii) soluble lead, (iii) soluble cadmium, (iv) soluble chromium and (v) soluble mercury.
6. GB 5296.6-2004 《消費品使用說明第6部份：家具》 (Instruction for Use of Consumer Products – Part 6: Furniture), which took effect on 1 October 2004, promulgated by 國家標準化管理委員會 (The Standardisation Administration of the PRC) and 中華人民共和國國家質量監督檢驗檢疫總局 (The General Administration of Quality Supervision, Inspection and Quarantine of the PRC). This rule provides the basic requirements, methods, and contents to be included for the preparation of furniture manual. The requirements include the following (i) a manual must be included in all sales of furniture, (ii) in accordance with the national or industrial standards, the name of the furniture item must reflect the real item, (iii) the manual must clearly define the purpose and application under the specified environmental conditions, (iv) the sale of furniture item must comply with relevant national safety, health, environmental protection laws, rules, regulations and standards, (v) the manual must also specify any special attention required for the usage of such furniture item, (vi) all manuals must clearly state the description and production date of the furniture item, (vii) the information contained in the manual must be consistent with the related advertisements and promotional materials, and (viii) if applicable, the manual must state "Before installation, or usage, please read the instructions carefully." on the cover page.

Violation of the abovementioned laws, rules or regulations may result in the imposition of fines, penalties, suspension of operations, order to cease operations, or even criminal liability for severe cases.

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The Group has implemented appropriate measures to ensure compliance with the aforesaid laws, rules and regulations in respect of the product quality. At the raw material procurement stage, the major suppliers of the Group are required to demonstrate that raw materials provided to the Group are in compliance with requirements under the relevant laws, rules and regulations. At each stage of the production process, the section leader would go through details of the production process and quality requirements with his team members beforehand. During the production process, the section leader would visit each work station and perform 5% random sample checking. At the end of the production process, the section leader, based on the design specifications, would conduct sample checking to ensure that the parts produced at this stage of production conform to the design and quality requirements. Before packaging, quality assurance staff would assemble parts of the wood-based furniture produced at different production stages into a final product for testing to ensure that the parts and the finished products meet with the design specifications. Quality assurance staff in charge of mattress production would check the cleanliness of the mattress and ensure that the mattress is properly packed with protective plastic cover. For details, please refer to [the paragraphs headed “Production” and “Quality assurance” in the section headed “Business” in this document.

Export sales

The PRC government has taken a proactive role in ensuring the wood-based products and furniture manufactured by domestic exporting enterprises are in compliance with the technical requirements and quality standards imposed by the various major importing overseas countries. 中華人民共和國國家質量監督檢驗檢疫總局 (The General Administration of Quality Supervision, Inspection and Quarantine), which has laid down the regulatory framework in this regard, is a ministerial-level department under the State Council of the PRC that is in charge of national quality, metrology, entry-exit commodity inspection, entry-exit health quarantine, entry-exit animal and plant quarantine, import-export food safety, certification and accreditation, standardization, as well as administrative law enforcement.

In order to maintain the continuous development of external trade and to ensure the product quality and safety of wood-based products and furniture exported to overseas countries, on 14 December 2007, 中國國家質量監督檢驗檢疫總局 (The General Administration of Quality Supervision, Inspection and Quarantine of the PRC) issued 關於對出口木製品及木製家具實施檢驗監管工作通知 (Administrative Notice regarding Implementation of Quality Inspection on Exporting Wood-based Products and Furniture) listing out the catalog of wood-based products and furniture items which are subject to exit quality inspection by the respective local entry-exit inspection and quarantine bureau before such merchandise can be cleared with the custom office for export. The aforesaid notice stipulates, inter alia, that:

- (i) wood-based products and furniture for export to overseas countries must meet the technical requirements and quality standards on (1) resistance to ignition, (2) limit of formaldehyde emission, and (3) limit of heavy metal content imposed by the respective importing countries, and in the event that the importing country does not

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have such technical requirements and quality standards, the related requirements and standards in the PRC should be followed and complied with. The major technical requirements and quality standards imposed by the European Union, the United Kingdom, the United States, Australia, Japan, and the PRC are incorporated in the aforesaid notice;

- (ii) enterprises engaging in exporting wood-based products and furniture are subject to certification. Local entry-exit inspection and quarantine bureaus should actively assist exporting enterprises to establish quality and safety control system covering raw material procurement, production process and finished product quality assurance. For those enterprises which have not established such quality and safety control system, the bureau will impose deadline for such enterprises to do so and before the quality and safety control system is established, finished products manufactured by such enterprises would not be inspected and approved by the bureau for export;
- (iii) respective local bureau should demand exporting enterprises to check the resistance to ignition, heavy metal content and degree of formaldehyde emission on various raw materials, including paint, adhesives, fabric, MDF boards and leather used in manufacturing. All quality check reports have to be issued by qualified laboratories. Proper records on the details of approved suppliers have to be kept by the exporting enterprises. Respective local bureaus would also conduct random checks on the quality of raw materials used in manufacturing by exporting enterprises; and
- (iv) when applying approval for export, exporting enterprises should either provide the respective technical requirements and quality standards imposed by the relevant importing country or make a formal declaration that the finished products are in compliance with the technical requirements and quality standards of the relevant importing country to the respective local bureaus.

To further regulate the participants in the wood-based product manufacturing industry, on 1 February 2008, 中華人民共和國國家質量監督檢驗檢疫總局 (The General Administration of Quality Supervision, Inspection and Quarantine of the PRC) issued 《關於進一步加強出境竹木草製品檢驗檢疫監管工作的通知》 (Administrative Notice on Further Strengthening Quality Supervision, Inspection and Quarantine Control on Exporting Wood and Hay-based Products) requiring all the wood and hay-based product manufacturing enterprises be registered with the respective local entry-exit inspection and quarantine bureaus before being allowed to be engaged in the industry. In order to be qualified for registration, enterprises must be capable of fulfilling the standards and requirements on production, quality control, warehousing, and logistics imposed by the respective local entry-exit inspection and quarantine bureaus. Enterprises which are registered with the local bureaus are granted a registration certificate. The validity of such certificate is 3 years from the date of grant and approval for renewal of such certificate is subject to the local bureau's assessment on the relevant enterprise's continuous capabilities in fulfilling the required standards and requirements.

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Each of Shenzhen Xingli and Shenzhen Xingli Zundian has been registered with the local entry-exit inspection and quarantine bureau in accordance with the requirements promulgated by 中華人民共和國國家質量監督檢驗檢疫總局 (The General Administration of Quality Supervision, Inspection and Quarantine of the PRC) as mentioned above and has been granted a registration certificate with a validity period of 3 years from 1 July 2008 to 1 July 2011.

LAWS AND REGULATIONS IN RELATION TO LABOUR MATTERS

中華人民共和國勞動合同法 (PRC Labour Contract Law), which took effect on 1 January 2008, stipulates certain requirements in respect of human resources management including, among other things, signing labour contracts with employees, dissolving labour contracts, paying remuneration and compensation as well as the employee social insurances. In addition, 中華人民共和國勞動合同法 (PRC Labour Contract Law) requires employers to provide remuneration packages which are not lower than the respective local minimum standards.

中華人民共和國就業促進法 (PRC Employment Promotion Law), which took effect on 1 January 2008, stipulates that employees shall have equal opportunities to employment without discrimination in terms of ethnicity, race, gender, religious belief, communicable disease and rural residence, and may not be discriminated against in hiring or in their employment terms. Enterprises are also required to provide employees with vocational training. Administrative authorities at the county level or above are responsible for implementing policies to promote employment.

Violation of the above mentioned laws may result in the imposition of fines, penalties, suspension of operations, order to cease operations, or even criminal liability for severe cases.

Prior to the implementation of 中華人民共和國勞動合同法 (PRC Labour Contract Law) and 中華人民共和國就業促進法 (PRC Employment Promotion Law) which took effect on 1 January 2008, the Group had already implemented measures to protect the interests of its employees which included, among others, (i) signing a written employment contract with every employee; (ii) establishing a remuneration system to ensure compliance with the local minimum salary standards; and (iii) provision of vocational training to its employees. The Directors consider that the implementation of 中華人民共和國勞動合同法 (PRC Labour Contract Law) and 中華人民共和國就業促進法 (PRC Employment Promotion Law) has not given rise to any material impact on the operations and businesses of the Group.

For details of the compliance with labour matters, please refer to the sub-paragraph headed “PRC labour contract law” in the paragraph headed “Employees” in the section headed “Directors, senior management and staff” in this document.

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LAWS AND REGULATIONS IN RELATION TO PRODUCTION SAFETY

中華人民共和國安全生產法 (PRC Production Safety Law), which took effect on 1 November 2002, is the principal law governing the supervision and administration of production safety in the PRC. The law provides that production entities must meet the relevant legal requirements such as providing training and handbook on production safety to its staff and provision of safe working conditions as set out in the relevant laws, rules and regulations. Any production entities that cannot provide the required safe working conditions may not engage in production activities.

Violation of 中華人民共和國安全生產法 (PRC Production Safety Law) may result in the imposition of fines, penalties, suspension of operations, order to cease operations, or even criminal liability for severe cases.

In order to comply with 中華人民共和國安全生產法 (PRC Production Safety Law), the Group provides training with respect to production safety to the employees on a regular basis to enhance their safety awareness and provides each employee with a handbook on production safety in relation to operation of equipment and machinery. The Group also provides safe protection equipment and devices to ensure that its staff work under a safe environment. The Directors have confirmed that during the Track Record Period, no [material] accident occurred during the production process of the Group in the PRC, nor was there any violation or breach of the relevant laws, rules and regulations by the Group in the PRC in relation to production safety. In the future, the Group will continue its current practice in providing training to its employees to strength their awareness of production safety in order to minimise the risks of occurrence of accidents during the production process.

For details of the compliance with production safety of the Group, please refer to [the sub-paragraph headed “Compliance with safety laws, rules and regulations” in the paragraph headed “Compliance and litigation” in the section headed “Business” in this document.

LAWS AND REGULATIONS IN RELATION TO PROVISION OF THE HOUSING PROVIDENT FUND

住房公積金管理條例 (Regulations on Management of Housing Provident Fund), which took effect on 24 March 2002, provides that enterprises in the PRC shall undertake the registration of housing provident funds with the relevant authorities, maintain the relevant account with designated banks and contribute to housing provident funds at the rate of not less than 5% of the [basic] salaries paid to the employees.

Violation of the above mentioned law may result in the imposition of fines, penalties, or even criminal liability for severe cases.

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According to 住房公積金管理條例 (Regulations on Management of Housing Provident Fund), [the Group has undertaken registration with the relevant authorities and maintained designated accounts for housing provident fund for its employees at the relevant banks. Each of Shenzhen Xingli and Shenzhen Xingli Zundian has made the housing provident fund contributions for its qualified employees from 1 March 2009 as the local relevant authority needed time in setting up the accounts to process the contribution payments made by these two companies. Dongguan Super Furniture has made the required housing provident fund contributions for its qualified employees in the PRC since 1 January 2009.]

For details of the compliance with housing provident funds of the Group, please refer to the paragraph headed “Compliance and litigation” in the section headed “Business” in this document.

LAWS AND REGULATIONS IN RELATION TO TAXATION

The New EIT Law and 中華人民共和國企業所得法實施條例 (Implementation Rules for the New EIT Law), which became effective on 1 January 2008, impose a uniform enterprise income tax rate of 25% on both domestic and foreign-invested enterprises. However, pursuant to 關於實施企業所得稅過渡優惠政策的通知 (the Notice of the State Council on the Implementation of the Enterprise Income Tax Transitional Preferential Policy) promulgated on 26 December 2007, enterprises which are currently subject to an enterprise income tax rate lower than 25% may continue to enjoy the lower rate and gradually become subject to the new tax rate over a transitional period of five years starting from 1 January 2008. Enterprises that were entitled to exemptions or reductions from the standard income tax rate for a fixed term prior to 1 January 2008 may continue to enjoy such treatment until such fixed term expires.

Violation of the above mentioned law, rules or notice may result in the imposition of fines, penalties, suspension of operations, order to cease operations, or, even criminal liability for severe cases.

Each of Shenzhen Xingli, Shenzhen Xingli Zundian and Dongguan Super Furniture are subject to enterprise income tax in the PRC. Pursuant to the New EIT Law, the enterprise income tax rates for each of Shenzhen Xingli, Shenzhen Xingli Zundian and Dongguan Super Furniture will be unified to the standard enterprise income tax rate of 25%. Accordingly, after the applicable transitional period, each of Shenzhen Xingli, Shenzhen Xingli Zundian and Dongguan Super Furniture in the PRC may no longer be subjected to preferential tax rates and/or tax exemption.

For details of the Group’s compliance with taxation, please refer to the sub-paragraph headed “Taxation” in the paragraph headed “Principal income statement components” in the section headed “Financial information” in this document.

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ENVIRONMENTAL PROTECTION

The Group is subject to environmental protection laws, rules and regulations in the PRC. According to 中華人民共和國環境保護法 (Environmental Protection Law of the PRC) which took effect on 26 December 1989, the state environmental protection authority is authorised to formulate national environmental quality and discharge standards and monitor the environmental system at the national level. 中華人民共和國環境噪聲污染防治法 (Law of the PRC on the Prevention and Control of Environmental Noise Pollution), which took effect on 1 March 1997, stipulates the supervision and management measures in respect of the prevention and control of environmental noise pollution and industrial noise pollution, construction noise pollution, transportation noise pollution and social activities noise pollution. The law also stipulates the relevant legal liabilities.

Violation of the abovementioned laws, rules or regulations may result in the imposition of fines, penalties, suspension of operations, order to cease operations, or even criminal liability for severe cases.

According to 中華人民共和國環境影響評價法 (Environmental Impact Assessment Law of the PRC) which was promulgated on 28 October 2002, 建設項目竣工環境保護驗收管理辦法 (Administrative measures for Environmental Protection Examination and Approval Upon Completion of Construction Projects), which was promulgated on 27 December 2001, and 建設項目環境保護管理條例 (Regulations Governing Environmental Protection in Construction Projects) which were promulgated on 29 November 1998, enterprises in the PRC are required to engage relevant environmental protection authorities to provide environmental impact evaluations on construction projects and to prepare environmental impact assessments.

Violation of the abovementioned laws, rules or regulations may result in the imposition of fines, penalties, suspension of operations, or order to cease operations.

In order to comply with 中華人民共和國環境影響評價法 (Environmental Impact Assessment Law of the PRC), 建設項目竣工環境保護驗收管理辦法 (Administrative measures for Environmental Protection Examination and Approval Upon Completion of Construction Projects) and 建設項目環境保護管理條例 (Regulations Governing Environmental Protection in Construction Projects), each of Shenzhen Xingli, Shenzhen Xingli Zundian and Dongguan Super Furniture has obtained approvals from the relevant authorities for an environmental impact assessment before commencement of the construction work on the relevant properties.

The material environmental impact from the Group’s production of furniture products and mattress is the discharge of waste water, the emission of dusts into the air and the generation of noise pollution. In order to comply with 中華人民共和國環境保護法 (Environmental Protection Law of the PRC) and 中華人民共和國環境噪聲污染防治法 (Law of the PRC on the Prevention and Control of Environmental Noise Pollution), the Group (i) has constructed sewage treatment facilities that helps to recycle the waste water discharged; (ii) has installed

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a central dust vacuum system that collects sawdust generated during the production process; (iii) has installed anti-noise pollution facilities to reduce the noise level generated during the production process; (iv) has equipped itself with a fully automatic UV spray-coating processing line which helps to reduce the level of air pollution and waste water discharge in spraying parts; and (v) has set up arrangements to deliver the residual waste after the above treatments to waste treatment professionals. Furthermore, 環保守法證明 (Certificates of Compliance with the Environmental Laws) have been issued by the relevant environmental protection authorities (in respect of Shenzhen Xingli and Shenzhen Xingli Zundian, for each of the 3-year periods prior to the issue of such certificates in May 2008 and March 2009 respectively, and in respect of Dongguan Super Furniture, since its establishment up to the issue of the certificate in March 2009). For details of the compliance with environmental protection of the Group, please refer to the sub-paragraph headed “Compliance with environmental protection laws, rules and regulations” in the paragraph headed “Compliance and litigation” in the section headed “Business” in this document.

U.S. ANTI-DUMPING DUTIES RELATING TO WOODEN BEDROOM FURNITURE FROM THE PRC

The U.S. International Trade Commission and Department of Commerce are responsible for conducting anti-dumping investigations and five-year (sunset) reviews under Title VII of the Tariff Act of 1930. Under this law, U.S. industries may petition the U.S. International Trade Commission and Department of Commerce for relief from unfairly priced (dumped) and subsidised imports. Dumping occurs when a foreign producer sells a product in the United States at a price that is below that producer’s sales price in its home market, or at a price that is lower than its cost of production. Subsidising occurs when a foreign government provides financial assistance to benefit the production, manufacture, or exportation of a good. If the U.S. Department of Commerce finds that an imported product is dumped or subsidised and the International Trade Commission finds that a U.S. industry producing a like product is materially injured or threatened with material injury, an anti-dumping duty order or countervailing duty order will be imposed to offset the dumping or subsidies. When an anti-dumping or countervailing duty order is imposed, the U.S. Department of Commerce instructs the Bureau of Customs and Border Protection (Customs) to assess anti-dumping or countervailing duties on imports of the product into the United States to offset the unfair trade practice. The U.S. Department of Commerce and the International Trade Commission review each outstanding anti-dumping and countervailing duty order every five years to determine whether revocation of the order would be likely to lead to continuation or recurrence of dumping or subsidies and of material injury within a reasonably foreseeable time. If both agencies make affirmative determinations, the order is continued for another five years; if not, the order is revoked.

REGULATORY OVERVIEW

On 18 June 2004, the U.S. Department of Commerce announced its preliminary determination in the anti-dumping duty investigation of wooden bedroom furniture from the PRC, with dumping rates ranging from 4.90% to 198.08%. The U.S. Department of Commerce applies a single anti-dumping rate to all exporters of wooden bedroom furniture from the PRC (the "PRC-wide Rate") unless an exporter has applied for and approved to be eligible for separate-rate status. The U.S. Department of Commerce would periodically review the anti-dumping duties on imports of wooden bedroom furniture from the PRC and publish the results of its review listing, among others, the PRC-wide Rate and the names of the exporters eligible for the separate-rate status and the separate anti-dumping rates imposed on such eligible exporters. According to the Federal Register dated 27 March 2009 issued by International Trade Administration of the U.S. Department of Commerce, the PRC-wide Rate of 216.01% would be applied to all exporters of wooden bedroom furniture from the PRC except for eligible separate-rate exporters which would be entitled to separate anti-dumping rates ranging from 22.29% to 39.46% on wooden bedroom furniture from the PRC, among which Shenzhen Xingli was listed as one of the eligible separate rate exporters with an applicable anti-dumping rate of 32.23%.

[Shenzhen Xingli has been approved to be eligible for separate-rate status as mentioned above since 2004. As a result of the periodic reviews performed by the U.S. Department of Commerce in relation to the anti-dumping duties on imports of wooden bedroom furniture from the PRC, the anti-dumping rates to which Shenzhen Xingli was subject during the Track Record Period and up to the Latest Practicable Date are set out below:

1 January 2006 – 31 December 2006	32.23%
1 January 2007 – 20 August 2008	7.24%
20 August 2008 – 31 December 2008	18.82%
1 January 2009 – 27 January 2009	18.82%
28 January 2009 – 26 March 2009	33.38%
27 March 2009 up to the Latest Practicable Date	32.23%

The Directors confirmed that Shenzhen Xingli Zundian and Dongguan Super Furniture did not need to apply for the separate-rate status in relation to the anti-dumping duties on exports of wooden bedroom furniture from the PRC as described above as both of these companies did not report any export sales to the U.S. market.]

HISTORY AND CORPORATE DEVELOPMENT

HISTORY

The Group’s business traces its history back to 1993 when Dongguan Rich, a sino-foreign equity joint venture enterprise, was established in the PRC by three of the Founders, namely Mr. Sung, Mr. Cheung and Mr. Chan, through HLFL (which is not a member of the Group) and the Chinese party, Changping Development. Dongguan Rich was principally engaged in the business of manufacturing and trading mattresses with sales in both the PRC and overseas markets. Mr. Cheung was appointed as the managing director of Dongguan Rich. HLFL is owned as to 33.334% by Mr. Sung, 33.333% by Mr. Cheung and 33.333% by Mr. Chan.

Each of the three Founders, namely Mr. Sung, Mr. Cheung and Mr. Chan, has more than [15] years of experience in the furniture industry. Prior to the establishment of Dongguan Rich, Mr. Sung, Mr. Cheung and Mr. Chan were partners engaged in the trading of furniture products.

Dongguan Rich was initially held as to 60% by HLFL and 40% by Changping Development with a registered capital of RMB8,280,000. HLFL was established by Mr. Sung, Mr. Cheung and Mr. Chan and was then engaged in trading of furniture products. Changping Development was a collective-owned enterprise established in the PRC and principally engaged in provision of consultancy and business development services. Save for the investment of Changping Development in Dongguan Rich, none of the Founders has any business relationship with Changping Development. Please also refer to sub-paragraph headed “The principal subsidiaries of the Company during the Track Record Period – Dongguan Rich (dissolved)” in the paragraph headed “Corporate development” in this section below for details of changes in the shareholding of Dongguan Rich.

With the rapid growth of the PRC economy in the 1990s and recognising the immense potential in the PRC’s home furniture industry, Shenzhen Dahao was established by the Founders and a Chinese party in 1995 to engage in the business of manufacture and sale of classic wood-based furniture, targeting at the mid to high price point consumers of the PRC market who had an appreciation for high quality wood-based home furniture. Mr. Sung was responsible for overseeing the overall management, strategic planning as well as the financing and accounting of Shenzhen Dahao, whilst Mr. Chan was in charge of sales and marketing. Mr. Huang, a Founder, also joined the Group as the general manager of Shenzhen Dahao and was responsible for product design and development, production and administration.

Shenzhen Dahao was a sino-foreign equity joint venture enterprise in the PRC and was held as to 65% by Hing Lee (China) (a member of the Group which was then beneficially owned by Mr. Sung, Mr. Cheung, Mr. Chan and Mr. Sung Hung Chi, a relative of Mr. Sung) and 35% by Dahao Furniture. Dahao Furniture was a sino foreign equity joint venture company registered on 15 March 1985 in the PRC and principally engaged in manufacture and sales of wood furniture and sofas. Save as being a shareholder of Shenzhen Dahao and Dongguan Rich, Dahao Furniture has no business relationship with the Founders. Please also refer to sub-paragraph headed “The principal subsidiaries of the Company during the Track Record Period – Shenzhen Dahao (dissolved)” in the paragraph headed “Corporate development” in this section below for details of changes in the shareholding of Shenzhen Dahao.

HISTORY AND CORPORATE DEVELOPMENT

In August 2000, the Group formally launched the classic furniture series under the brand name of “Johnston” (尊典). The “Johnston” brand has won a number of design awards in various furniture fairs and has become one of the Group’s best selling brand of wood-based home furniture.

To expand its range of products in addition to classic furniture series, the Group has introduced a succession of modern furniture series catering for different markets and preferences under the brand names of “Orient” (歐瑞), “Sunrays” (新銳士) (which was subsequently merged with the brand “Orient”) and “Mandarin” (世紀葵花) since 2001.

With rising demand for the Group’s wood-based home furniture, the Founders established Shenzhen Xingli in the PRC in 2002 with an intention to expand the Group’s modern furniture business. Since then, Shenzhen Xingli has been focusing on the design and development, and production and sales of the Group’s modern furniture products. Shenzhen Xingli was set up by Mr. Sung, Mr. Cheung, Mr. Chan and LFST (a company incorporated in the PRC and controlled by Mr. Huang and his spouse) as a sino-foreign equity joint venture enterprise and was subsequently transformed to a wholly foreign-owned enterprise. Please refer to sub-paragraph headed “The principal subsidiaries of the Company during the Track Record Period – Shenzhen Xingli” in the paragraph headed “Corporate development” in this section below for details of changes in the shareholding of Shenzhen Xingli. Mr. Sung was responsible for overseeing its financial operation, Mr. Chan was responsible for its sales and marketing and Mr. Huang was responsible for its product design and development, and production and administration.

In 2002, the Group also introduced its first furniture series for children under the brand name of “QQ Star” (智逗星) (which was subsequently merged with the brand “Orient”) and its first branded mattress products under the brand name of “Degas” (德加).

In [June] 2003, Shenzhen Xingli leased a property in Shenzhen, the PRC, with a GFA of approximately [24,770] sq.m. to house its production facilities for the production of modern furniture products. A fully automatic UV spray-coating processing line was installed at the production plant. This spray-coating processing line can spray and dry paint on double-faced surfaces of furniture parts by employing UV light and helps reduce the air pollution and water pollution generated during the spraying process.

In 2003, the Group implemented the ERP system integrating the procurement, inventory control, sales and financial management functions into a single system.

In 2003, the Group launched the “PZ-King” (品至) brand to expand its modern furniture products portfolio, which made its debut at the Cologne Furniture Fair 2003 in Germany. Subsequently, to further broaden its products range, the Group launched the “Classic Sanroy” (聖路易) series of solid wood furniture in August 2003, and the “New Nobleman” (時代新貴) series of Spanish-styled classic furniture in 2004.

HISTORY AND CORPORATE DEVELOPMENT

[Since 2003, the Group has been offering a wide range of branded wood-based furniture products comprising classic furniture series under the brand names of “Johnston” (尊典), “Classic Sanroy” (聖路易) and “New Nobleman” (時代新貴), and modern furniture series under the brand names of “PZ-King” (品至), “Orient” (歐瑞), “Mandarin” (世紀葵花), “Sunrays” (新銳士) (which was subsequently merged into the brand “Orient”) and “QQ Star” (智逗星) (which was subsequently merged into the brand “Orient”).]

The year of 2004 marked a number of significant developments of the Group.

To broaden its revenue base without creating pressure on the Group’s production capacities, the Group established its licensing business. The Group granted non-exclusive rights to its licensees to manufacture or procure manufacturers to manufacture and sell furniture products using the brand names and product designs of “Orient” (歐瑞), “Mandarin” (世紀葵花), “Sunrays” (新銳士) and “QQ Star” (智逗星). Such licensing business was conducted through Sharp Motion and Mr. Chan was designated by the Group to oversee the licensing business.

In order to build a nation wide corporate image and maximise the advertising and promotion efficiency of the Group’s brand-building efforts, the Founders decided to consolidate the Group’s individual products lines under the single corporate identity of “Hing Lee Myriad Home” (興利萬家) in 2004. In the same year, the Group successfully opened new export markets in Europe and Middle East for its wood-based furniture products.

In April 2004, with the intention to establish a holding company to consolidate their interests in various operating entities in the PRC (namely Dongguan Rich as to 78%, Shenzhen Dahao as to 65% and Shenzhen Xingli as to 100%), the Founders established the Company in the BVI. Steps of reorganisation were subsequently taken to the effect that the Company became the holding company of the operating entities mentioned above. This laid the preliminary framework for the current structure of the Group. Details of the 2004 Reorganisation are set out in the sub-paragraph headed “2004 Reorganisation” in the paragraph headed “Corporate development” in this section below. Completion of the 2004 Reorganisation took place in [November] 2004.

In [March] 2004, Mr. Sung was approached by the then managing director of Omnicorp Limited, who had been a personal acquaintance of Mr. Sung since [1998], to discuss possible investment in the Group. On 19 August 2004, an agreement was entered into between, inter alia, Talent Sino Holdings Limited, a wholly-owned subsidiary of Omnicorp Limited and the investment vehicles of the Founders for holding shares in the Company, under which Talent Sino Holdings Limited agreed to acquire approximately 51.52% of the enlarged issued share capital of the Company at a total consideration of HK\$34,006,000 which was settled as to HK\$[17,003,000] in cash paid to the Company and as to HK\$[17,003,000] by the issue of an aggregate of [17,003,000] new shares in Omnicorp Limited to the investment vehicles of the Founders. The said consideration was arrived at after arm’s length negotiation by reference to (a) the prospects of the business of the Group; (b) the potential and growth of the consumer market in the PRC for medium to high-end furniture; and (c) the guarantee given by the Founders and their investment vehicles in relation to the combined net tangible asset value of the Group upon and as at completion of the acquisition and subscription and the profit of the

HISTORY AND CORPORATE DEVELOPMENT

Group for the year ended 31 December 2004. The acquisition of the equity interest in the Company was partly through subscription of 10,410 new shares, representing 34.70% of the then entire issued share capital of the Company before completion of the acquisition and approximately 25.76% of its then entire issued share capital immediately after completion of the subscription and partly through purchase of 10,410 existing shares from the investment vehicles of the Founders, representing 34.70% of the then entire issued share capital of the Company before completion of the acquisition and approximately 25.76% of its then entire issued share capital immediately after completion of the acquisition and subscription. The said acquisition and subscription of shares in the Company was completed on 24 November 2004. Omnicorp Limited was then principally engaged in manufacture and sales of electronic components, manufacture and sales of contactless smart card and related products, general trading, property holding and investment holding. Its acquisition of interest in the Company was treated as an investment and it was not involved in the daily management of the Group. [Mr. Sung was appointed as a director of Omnicorp Limited from June 2005 to January 2007. Save for Omnicorp Limited’s investment in the Company from November 2004 to July 2006, the Founders’ directorship in the Group after the acquisition of the Company by Omnicorp Limited, their holding of the consideration shares issued by Omnicorp Limited through their investment vehicles and Mr. Sung being appointed as a director of Omnicorp Limited from June 2005 to January 2007, none of the Founders is considered to be connected with Omnicorp Limited and none of the Founders and their respective associates is engaged in any business relationship with Omnicorp Limited or its associates.]

In December 2004, Shenzhen Xingli Zundian was established as a wholly foreign-owned enterprise in the PRC for the purpose of taking over the business of Shenzhen Dahao, as the joint venture partner in Shenzhen Dahao, 環球工藝品有限公司 (Global Art & Crafts Limited), intended to withdraw its investment in Shenzhen Dahao upon the expiry of its business licence in 2005. [Global Art & Crafts Limited was a limited company incorporated in Hong Kong and was principally engaged in import and export of various merchandise.] Save as being a shareholder of Shenzhen Dahao prior to its dissolution, 環球工藝品有限公司 (Global Art & Crafts Limited) had no business relationship with the Founders. For details of Shenzhen Xingli Zundian taking over the business of Shenzhen Dahao, please refer to the sub-paragraph headed “The principal subsidiaries of the Company during the Track Record Period – Shenzhen Dahao (dissolved)” in the paragraph headed “Corporate development” in this section below.

In 2005, the Founders decided to shift the emphasis of the mattress business from domestic sale to export in view of the higher profit margin in the overseas markets, while the joint venture partner in Dongguan Rich preferred to maintain a strong emphasis on the market in the PRC. As a result, it was decided that Dongguan Rich would be dissolved. In October 2005, Dongguan Super Furniture was therefore established as a wholly foreign-owned enterprise in the PRC owned as to 78% by the Group to take over the business of Dongguan Rich, and expand the Group’s mattress business to overseas markets. Since its incorporation, the principal business of Dongguan Super Furniture has been the manufacture and sale of mattresses to customers mainly in Japan, Middle East and Hong Kong. Please also refer to the sub-paragraph headed “The principal subsidiaries of the Company during the Track Record Period – Dongguan Super Furniture” in the paragraph headed “Corporate development” in this section below for details of shareholdings of Dongguan Super Furniture.

HISTORY AND CORPORATE DEVELOPMENT

In the same year, the Group acquired Hing Lee Furniture (formerly known as Windsor Empire Investments Limited) as a shell company. It was established in the BVI on 1 July 2004 and was principally engaged in the export trading of home furniture products. One share was allotted and issued to Great Ample on 1 April 2005 and since then, Hing Lee Furniture remained a wholly-owned subsidiary of Great Ample.

As at the Latest Practicable Date, Shenzhen Xingli, Dongguan Super Furniture, Shenzhen Xingli Zundian, Sharp Motion and Hing Lee Furniture were the major operating subsidiaries of the Company.

In 2006, seeing the growth potential of the consumer market in the PRC for medium to high-end furniture products, Mr. Fang Shin, who was then holding approximately 2.7% of the issued capital of Omnicorp Limited, approached Omnicorp Limited and expressed interest in the Group. On 22 May 2006, Triple Express, which is ultimately wholly-owned by Mr. Fang Shin and an investment holding company specifically established to hold the shares in the Company, entered into an agreement with Talent Sino Holdings Limited to acquire from the latter approximately 51.52% interest in the Company and the shareholder's loan owed by the Company to Talent Sino Holdings Limited at a total consideration of HK\$96,000,000. The said consideration was arrived at after arm's length negotiation by reference to (a) the price/earnings ratio of approximately 4.17 times based on 51.52% of the audited profit after taxation and extraordinary items and minority interests of the Company for the year ended 31 December 2005 amounting to approximately HK\$67,289,000; and (b) the total outstanding principal amount of the shareholder's loan owed by the Company to Talent Sino Holdings Limited together with interest thereon calculated up to 22 May 2006 (being the date of the sale and purchase agreement) amounting to approximately HK\$28,711,100. The acquisition was completed on 28 July 2006. Since then, Mr. Fang Shin, through Triple Express, became the Controlling Shareholder and was appointed as a Director from July 2006 to [29 May] 2009. Mr. Fang Shin was the president and managing director of General Electronics Limited, which went public in Hong Kong in 1987 and was subsequently privatised in [1995]. He is the president of SF Capital Limited, an investment holding company established by his family to manage different investment assets, and is also on the board of OSRAM Lighting Control Systems Limited, a joint venture company between Siemens AG and his family. None of the Founders is considered to be connected with Triple Express, Mr. Fang Shin or their respective associates and save for their respective interests in the Company, none of the Founders and their respective associates is engaged in any business relationship with Triple Express, Mr. Fang Shin or their respective associates. Details of the involvement of Triple Express and Mr. Fang Shin in the management and operation of the Group are set out in the paragraph headed "Relationship with the Controlling Shareholder" in the section headed "Business" in this document.

As a recognition to the quality of the Group's production process which it has established at its production facilities, in February 2007, Shenzhen Xingli Zundian received ISO9001:2000 certification for the establishment and application of quality system for the design and manufacture of home furniture and in January 2008, Shenzhen Xingli received ISO9001:2000 certification for the establishment and application of quality system for the design, production and sale of wood-based home furniture.

HISTORY AND CORPORATE DEVELOPMENT

As part of the Group's long-term plans to integrate and increase its manufacturing capacity and to lower its production costs, the Group purchased Longgang Land I and Longgang Land II to house its new production facilities. On 29 June 2007, Shenzhen Xingli entered into 深圳市土地使用權出讓合同 (contract for grant of land use rights in Shenzhen) with 深圳市國土資源和房產管理局 (Shenzhen Municipal Bureau of Land Resources and Housing Management), in respect of the land use rights of Longgang Land I with a site area of approximately 43,817 sq.m. for a term of 50 years commencing from 29 June 2007 at a total consideration of RMB22,593,085 (approximately HK\$[25,618,938]). The Group has planned to develop the land into Shenzhen Xingli Production Base comprising a factory building, an administration and dormitory building and a warehouse with a total planned GFA of approximately 38,869 sq.m. for its modern furniture products. The construction has been commenced in [June] 2008 and is expected to be completed in [June] 2009. The Group has commissioned Schuler Business Solutions AG, an industrial design firm based in Germany, to be responsible for the overall design of the production facilities. Trial production is expected to commence in August 2009.

On 29 June 2007, Shenzhen Xingli Zundian entered into 深圳市土地使用權出讓合同 (contract for grant of land use rights in Shenzhen) with 深圳市國土資源和房產管理局 (Shenzhen Municipal Bureau of Land Resources and Housing Management), in respect of the land use rights of Longgang Land II which is situated next to Longgang Land I with a site area of approximately 41,065 sq.m. for a term of 50 years commencing from 29 June 2007 at a total consideration of RMB21,094,404 (approximately HK\$[22,609,212]). It is the Group's current plan to house new production facilities for its classic wood-based furniture on this piece of land.

In November 2007, the Group obtained banking facilities amounting to RMB70.0 million (approximately HK\$[79.1] million) of which RMB60.0 million (approximately HK\$[67.8] million) would be applied to the construction of its Shenzhen Xingli Production Base and RMB10 million (approximately HK\$[11.3] million) would be used as general working capital of the Group.

Riding on the expansion and development of the PRC furniture industry, the Group was able to leverage on the available resources and opportunities and concurrently develop its design, processing and sales capabilities. Throughout the years, the Group has put strong efforts in marketing activities and customer service support to enhance its market penetration and establish clients network in the PRC. The Group launched various marketing efforts through a variety of channels like advertisement broadcasting on national television like the [CCTV] in 2007, roadside billboards, trade publications and newspapers as well as participation in trade fairs and exhibitions. The Group also provides sales training to its domestic distributors to strengthen the relationship between the Group and the domestic distributors. During the Track Record Period, the Group's revenue derived in the PRC recorded a CAGR of approximately 24.6%, amounting to approximately HK\$175.8 million, HK\$238.9 million and HK\$273.0 million respectively.

HISTORY AND CORPORATE DEVELOPMENT

In order to build up the brand names of the furniture products manufactured by the Group and to promote sales of its products to end consumers, the Group works closely with its distributors. The Group, in addition to the aforesaid marketing activities, also assists the domestic distributors to select shop location, offers shop decoration and layout advices, provides product and sales training, and, in some cases, jointly organises marketing campaigns with the distributors. As at the Latest Practicable Date, the Group contracted with [511] distributors who were operating over [600] approved shops in [22] provinces, [4] municipalities and [4] autonomous regions in the PRC.

In addition, the Group has participated in a number of international furniture fairs held in the PRC and overseas to solicit overseas customers. During the Track Record Period, the Group's overseas sales amounted to approximately HK\$[193,798,000], HK\$[253,738,000] and HK\$[261,312,000] respectively, representing a CAGR of approximately 17%.

To increase its production capacity, Shenzhen Xingli Zundian acquired [three sets of drilling machines, one set of sanding machine and a UV spray-coating processing line in 2007] with its annual furniture production capacity increased from approximately 5,200 sets in 2006 to 7,700 sets in 2007 and 9,060 sets in 2008 and Dongguan Super Furniture acquired [three sets of spring coiling machines, two sets of sewing machines and an edge sewing machine] with its annual mattress production capacity increased from approximately 8,500 pieces in 2006 to 106,000 pieces in 2007. The Group has also installed various facilities to enhance its environmental protection capability. The Group (i) constructed sewage treatment facilities, (ii) installed a centralised dust vacuum system that collects dust and wooden particles generated during the production process, (iii) installed an anti-noise pollution device, (iv) installed a fully automatic UV spray-coating processing line which helps to reduce the level of air pollution and waste water discharge in spraying process; and (v) set up arrangements to deliver the residual waste after the above treatments to waste treatment professionals.

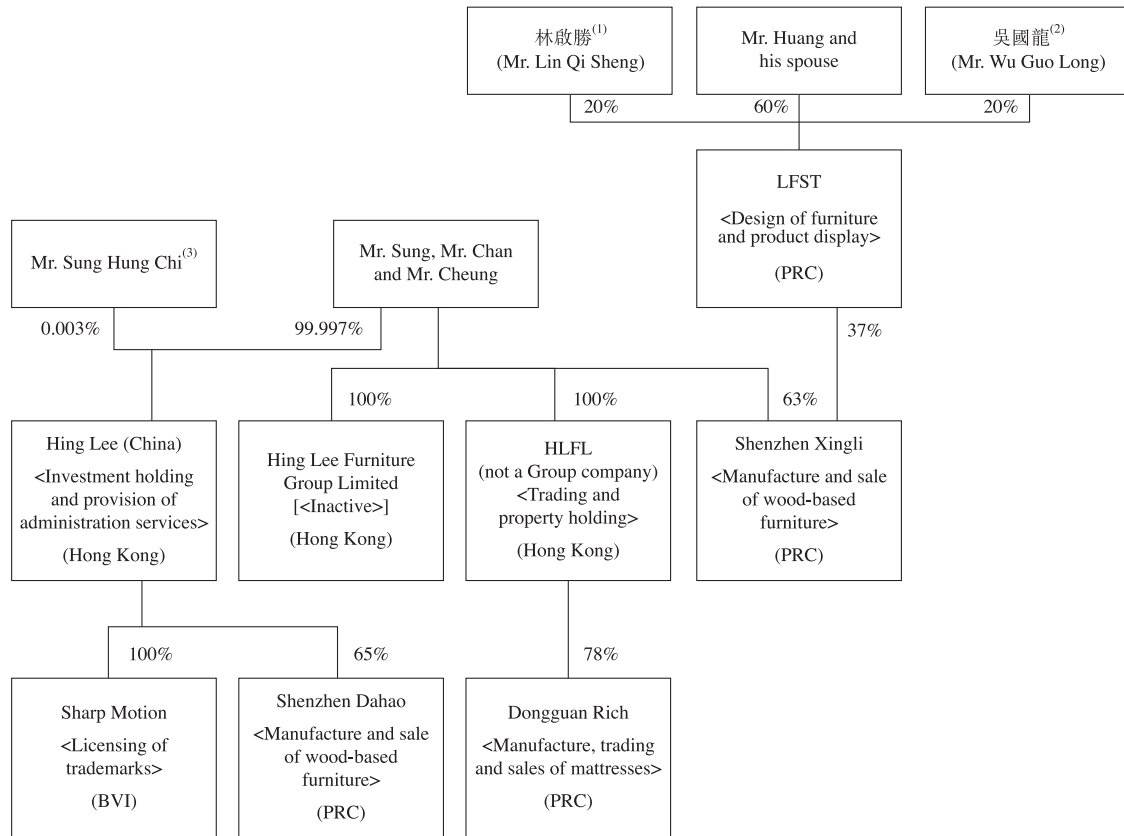
Throughout the expansion and growth of the Group's operations, the Group also constantly improves and upgrades its production quality, facilities and production techniques. A number of awards and accreditation have been received for its products, quality assurance, manufacturing processes, branding and achievements. These included 第十九屆深圳國際家具展覽會民用書房家具系列金獎 (The 19th Shenzhen International Furniture Exhibition Gold Award of Study Room Home Furniture Series) awarded by SFTA in 2006 and 中國十大家具品牌(2005-2006)－尊典·歐瑞系列產品 (Top 10 Famous Furniture Brands in China (2005-2006) – Johnston and Oriant Brand Furniture Series) awarded by 中華全國工商業聯合會家具裝飾業商會 (China Furniture & Decoration Chamber of Commerce) in 2006. The Group was also recognised for its contributions to the PRC wood-based home furniture industry, and was awarded 突出貢獻獎 (Exceptional Contributions Award) in 2004 by SFTA, and 2000-2004年度廣東省優秀家具出口企業 (Certificate of Excellent Export-Oriented Furniture Enterprise in Guangdong Province (2000-2004)) in 2005 by 廣東省家具商會 (Guangdong Furniture Chamber of Commerce). In August 2008, the Group was awarded 中國十大家具品牌－尊典·歐瑞(2007-2008) (Top 10 Famous Furniture Brands in China – Johnston and Oriant (2007-2008)) by 中華全國工商業聯合會家具裝飾業商會 (China Furniture & Decoration Chamber of Commerce).

HISTORY AND CORPORATE DEVELOPMENT

CORPORATE DEVELOPMENT

2004 Reorganisation

Set out below is the Founders’ interests in various operating entities in the PRC prior to the 2004 Reorganisation:



Notes:

1. 林啟勝 (Mr. Lin Qi Sheng) is the vice production manager of Shenzhen Xingli Zundian and is responsible for production planning of Shenzhen Xingli Zundian. 林啟勝 (Mr. Lin Qi Sheng) is not connected with any of the Founders and their respective associates.
2. 吳國龍 (Mr. Wu Guo Long) is the vice design and development manager of the Group and the general manager of Shenzhen Xingli and is responsible for overseeing the product design and development of the Group and daily operation of Shenzhen Xingli. 吳國龍 (Mr. Wu Guo Long) is not connected with any of the Founders and their respective associates. For details of 吳國龍 (Mr. Wu Guo Long)’s biography, please refer to the paragraph headed “Senior management” under the section headed “Directors, senior management and staff” in this document.
3. Mr. Sung Hung Chi is a relative of Mr. Sung. Mr. Sung Hung Chi is engaged in garment business and has not taken part in the management and operations of any member of the Group and he is not connected to any of the other three Founders and their respective associates.

HISTORY AND CORPORATE DEVELOPMENT

In 2004, for the purpose of consolidating the then operating members of the Group's business under the Company and as a condition precedent to the completion of the acquisition and subscription by Talent Sino Holdings Limited of the shares of the Company, Glory Skill, Success Profit and Great Ample were set up and the following steps were taken [with the intention and on the basis that each of Mr. Sung, Mr. Cheung, Mr. Chan and Mr. Huang should own 26.25%, 25.25%, 25.25% and 23.25% respectively in the Company prior to the completion of the acquisition and subscription by Talent Sino Holdings Limited of the shares of the Company]:

(a) Acquisition of equity interests in Dongguan Rich by Glory Skill from HLFL

On 28 October 2004, Glory Skill entered into an equity transfer contract to acquire the 78% interest of HLFL in Dongguan Rich at a consideration of HK\$6,302,400 (representing an amount equivalent to 78% of the then registered capital of Dongguan Rich) and such transfer was subsequently approved by the relevant authority on 10 November 2004. As a result, Glory Skill was deemed to be indebted to HLFL for a sum of HK\$6,302,400 and on 23 November 2004, Glory Skill issued 2,960 new shares, representing 99.97% of the enlarged issued share capital of Glory Skill to HLFL in satisfaction of the said sum of HK\$6,302,400.

(b) Acquisition of equity interests in Shenzhen Xingli by Success Profit from Mr. Sung, Mr. Chan, Mr. Cheung and LFST

On 28 October 2004, Success Profit entered into an equity transfer contract to acquire from Mr. Sung, Mr. Chan, Mr. Cheung and LFST their respective interests in Shenzhen Xingli, which transfer was approved by the relevant authority on 9 November 2004. LFST was then owned as to 60% in aggregate by Mr. Huang and his spouse, 20% by Mr. Lin Qi Sheng and 20% by Mr. Wu Guo Long. Mr. Lin Qi Sheng was then the vice production manager of the Group and had been the director of Shenzhen Xingli Zundian since its incorporation until April 2007, whereas Mr. Wu Guo Long was then the [vice design and development manager] of the Group and the director of Shenzhen Xingli (since January 2007) and Shenzhen Xingli Zundian (since its incorporation). For the purpose of confirming the increase of the total consideration from RMB8,000,000 to RMB9,719,128.44 and clarifying the mode of settlement of the consideration which took place after the signing of the equity transfer contract on 28 October 2004, by virtue of a deed of confirmation dated 28 November 2008 executed by Success Profit, Mr. Sung, Mr. Chan, Mr. Cheung and the then shareholders of LFST, the parties thereto confirmed that (i) the total consideration for the sale and transfer of the interests in Shenzhen Xingli was RMB9,719,128.44, being the vendors' equity of and in Shenzhen Xingli as shown in the audited accounts of Shenzhen Xingli for the year ended 31 December 2004 in which the sale and transfer took place; (ii) Success Profit had issued 2,100 new shares to each of Mr. Sung, Mr. Chan and Mr. Cheung in satisfaction of the consideration payable to them (being RMB2,041,016.82 payable to Mr. Sung and RMB2,041,016.81 payable to each of Mr. Chan and Mr. Cheung) respectively; and

HISTORY AND CORPORATE DEVELOPMENT

(iii) the consideration payable to LFST in the sum of RMB3,596,078 was paid in cash to LFST on 28 February 2006 which amount was subsequently paid to Success Profit and applied towards the subscription of 3,700 shares in Success Profit allotted and issued to Mr. Huang on 23 November 2004 at the direction of LFST.

- (c) Acquisition of interests in Hing Lee Furniture Group Limited by Sharp Motion and the acquisition of shares in Sharp Motion by Great Ample

On 23 November 2004, Sharp Motion acquired from Mr. Sung, Mr. Cheung and Mr. Chan the entire issued share capital in Hing Lee Furniture Group Limited. In consideration thereof, 1 share in the share capital of Sharp Motion was allotted and issued to each of Mr. Sung, Mr. Cheung and Mr. Chan. As a result, Hing Lee Furniture Group Limited became wholly-owned by Sharp Motion.

On the same day, the shares in Sharp Motion allotted to Mr. Sung, Mr. Cheung and Mr. Chan, together with the 1 share in the share capital of Sharp Motion then held by Hing Lee (China), were transferred to Great Ample at par value. As a result, Sharp Motion became wholly-owned by Great Ample.

- (d) Acquisition of interests in Glory Skill, Success Profit and Hing Lee (China) by Great Ample

On 23 November 2004, Great Ample:

- (i) acquired from HLFL its entire interest in Glory Skill and in consideration thereof and as directed by HLFL, Great Ample issued and allotted 1,300 shares to Mr. Sung, 1,200 shares to Mr. Chan and 1,200 shares to Mr. Cheung;
- (ii) acquired from the Founders their respective interests in Success Profit, and in consideration thereof, Great Ample issued and allotted 2,650 shares to each of Mr. Sung, Mr. Cheung and Mr. Chan and 4,650 shares to Mr. Huang; and
- (iii) acquired from Mr. Sung, Mr. Cheung, Mr. Chan and Mr. Sung Hung Chi, a relative of Mr. Sung, their respective interests in Hing Lee (China) and in consideration thereof, Great Ample issued and allotted 1,300 shares (of which 100 shares being the entitlement of Mr. Sung Hung Chi was issued to Mr. Sung as directed by Mr. Sung Hung Chi) to Mr. Sung and 1,200 shares to each of Mr. Cheung and Mr. Chan.

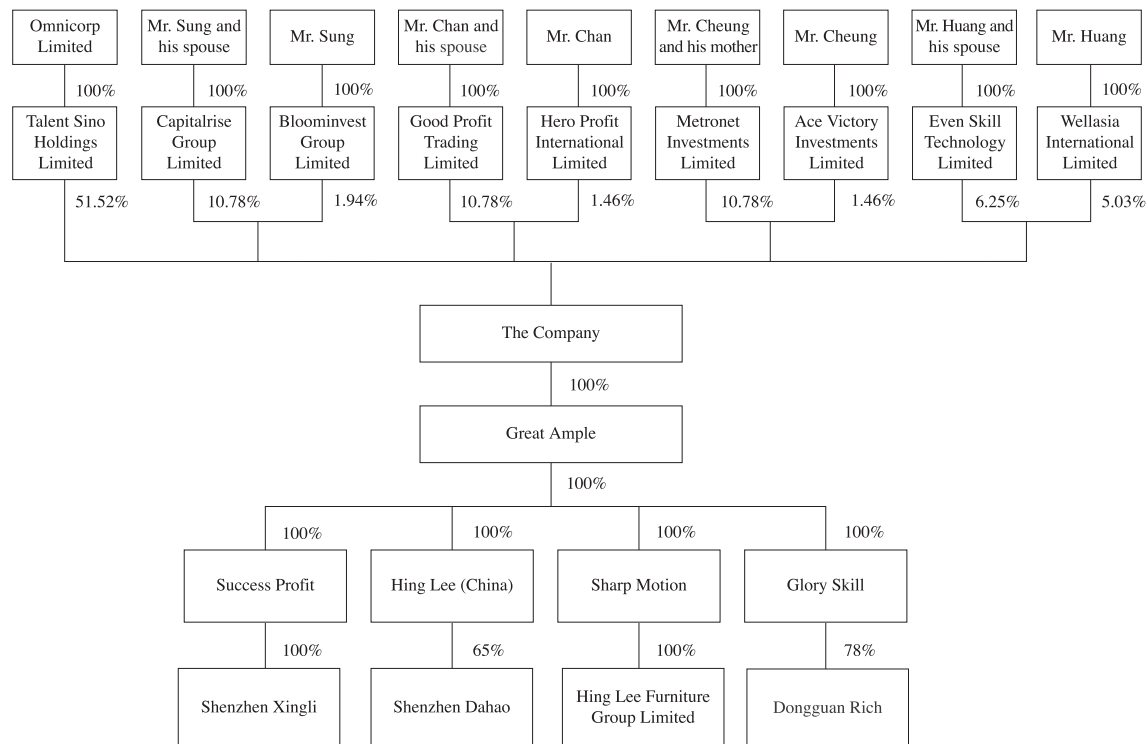
As a result of the above acquisitions, Mr. Sung, Mr. Cheung, Mr. Chan and Mr. Huang were interested in 5,250 shares, 5,050 shares, 5,050 shares and 4,650 shares of Great Ample respectively, representing 26.25%, 25.25%, 25.25% and 23.25% of the issued share capital of Great Ample respectively.

HISTORY AND CORPORATE DEVELOPMENT

(e) Acquisition of interests in Great Ample by the Company

On 23 November 2004, the Company acquired from the Founders all their interests in Great Ample after completion of the acquisitions as set out in paragraph (d) above. In consideration thereof, 5,250, 5,050, 5,050 and 4,650 shares in the Company were allotted and issued to the respective investment vehicles held by the Founders or jointly by the Founders and their respective family members.

The following chart sets out the shareholding and corporate structure of the Company immediately after the 2004 Reorganisation and the acquisition and subscription of shares in the Company by Talent Sino Holdings Limited:



In addition to the 2004 Reorganisation, set out below are some major changes to the corporate structure of the Company and its principal subsidiaries during the Track Record Period:

(i) The Company

The Company is an investment holding company incorporated in BVI on 20 April 2004 under the name of “Windsor Treasure Holdings Limited” as an international business company under the International Business Companies Act of BVI. The Company’s name was changed to “Windsor Treasure Group Holdings Limited” on 7 October 2004. [In contemplation of [●],] the Company was subsequently registered as an exempted company in Bermuda on 30 March 2007 and discontinued in BVI as a BVI business company. On 3 May 2007, the Company changed its name to “HingLi Home Concepts Ltd.”. On 19 November 2008, the current name of the Company “Hing Lee (HK) Holdings Limited” was adopted.

HISTORY AND CORPORATE DEVELOPMENT

Since the incorporation of the Company and immediately before the acquisition and subscription of the shares in the Company by Talent Sino Holdings Limited, the Company was all along directly or indirectly owned by the Founders or their respective investment vehicles. On 24 November 2004, in accordance with an agreement dated 19 August 2004, Talent Sino Holdings Limited acquired approximately 51.52% of the enlarged issued share capital of the Company, partly by subscription of new shares and partly by purchase of existing shares from the investment vehicles of the Founders. The consideration for the subscription in the sum of HK\$17,003,000 was paid in cash to the Company whereas the consideration for the acquisition in the total sum of HK\$17,003,000 was satisfied by the issue of 17,003,000 new shares of Omnicorp Limited at an issue price of HK\$1.00 each to the respective vendors. Such consideration was arrived at after arm's length negotiation between Talent Sino Holdings Limited and the vendors by reference to the prospects of the business of the Group, the potential and growth of the consumer market in the PRC for medium to high-end furniture and the guarantee given by the Founders and their investment vehicles in relation to the combined net tangible asset value of the Group upon completion of the acquisition and subscription and the profit of the Group for the year ended 31 December 2004.

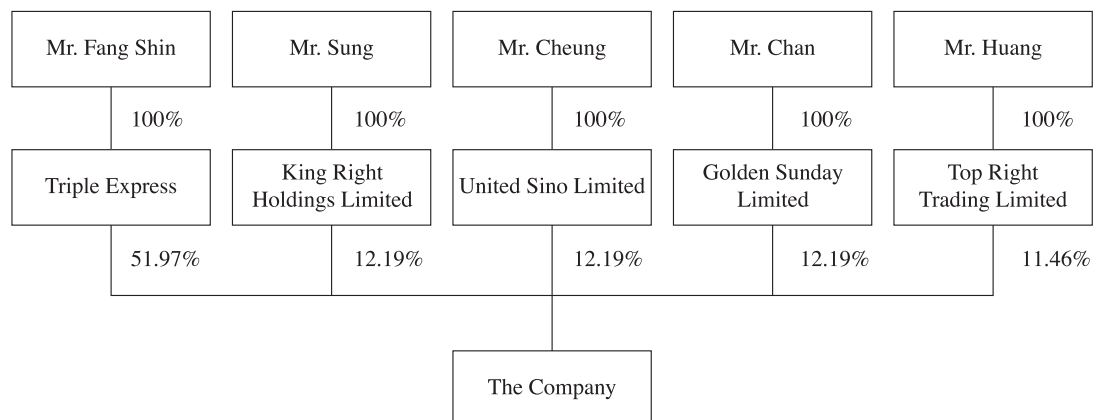
On 8 June 2005, the Founders, through their respective investment vehicles, transferred in aggregate approximately 5.94% of the then issued share capital of the Company at par value to each of Capital Trinity Limited and Brilliant Team Holdings Limited which were legally owned by two employees of the Group, namely, 徐彩霞女士 (Ms. Xu Cai Xia) and 蘇毅先生 (Mr. Su Yi) respectively.

徐彩霞女士 (Ms. Xu Cai Xia) was the administration supervisor and also the assistant to Mr. Chan while 蘇毅先生 (Mr. Su Yi) was the assistant to Mr. Sung during the Track Record Period. The purpose of the share transfer was to retain talents in the Group for its long-term development. The Founders reached an understanding with 徐彩霞女士 (Ms. Xu Cai Xia), 蘇毅先生 (Mr. Su Yi) and 8 members of the Group's senior management that the Founders would transfer approximately 5.94% of the then issued share capital of the Company to each of the investment vehicles legally owned by 徐彩霞女士 (Ms. Xu Cai Xia) and 蘇毅先生 (Mr. Su Yi), which would act as nominees to hold such interest in the Company for 徐彩霞女士 (Ms. Xu Cai Xia) and 蘇毅先生 (Mr. Su Yi) and on behalf of the 8 members of the senior management, and once options in the Company's shares were granted to them, 徐彩霞女士 (Ms. Xu Cai Xia) and 蘇毅先生 (Mr. Su Yi) would be expected to procure their respective investment vehicles to transfer the shares back to the Founders. Save for the grant of share options by the Company to them, both of 徐彩霞女士 (Ms. Xu Cai Xia) and 蘇毅先生 (Mr. Su Yi) received no economic benefits from the above arrangement. [In 2006, a share option scheme was adopted by the Company and options were granted by the Company to each of 徐彩霞女士 (Ms. Xu Cai Xia), 蘇毅先生 (Mr. Su Yi) and the 8 members of the senior management (which were subsequently replaced by options conditionally granted under [●]) on 31 December 2006. On 31 January 2007, the entire equity interests of Capital Trinity Limited and Brilliant Team Holdings Limited in the Company were transferred back to the investment vehicles of Mr. Chan, Mr. Cheung and Mr. Huang at par.]

HISTORY AND CORPORATE DEVELOPMENT

On 28 July 2006, in accordance with an agreement dated 22 May 2006, Talent Sino Holdings Limited disposed of its approximately 51.52% interest in the Company and the shareholder’s loan owed by the Company to Talent Sino Holdings Limited to Triple Express at a total consideration of HK\$96,000,000. The consideration was arrived at after arm’s length negotiation by reference to (a) in respect of the consideration for the shares, the price/earnings ratio of approximately 4.17 times based on 51.52% of the audited profit after taxation and extraordinary items and minority interests of the Company for the year ended 31 December 2005; and (b) the total outstanding principal amount of the shareholder’s loan together with interest thereon calculated up to 22 May 2006. The shareholder’s loan of HK\$27,500,000 was subsequently capitalised and Triple Express’s shareholding in the Company was increased to approximately 60.54% as a result thereof.

On 31 January 2007, Triple Express reduced its shareholding in the Company to approximately 51.97% by disposing of approximately 8.56% thereof to the investment vehicles of Mr. Sung and Mr. Cheung for a consideration of HK\$6,781,436 and HK\$6,894,031 respectively, which was calculated at HK\$3,217 per share, being the average price per share paid by Triple Express for its acquisition of interests in the Company in 2006. In addition, the Founders also transferred their interests in the Company to their other investment vehicles at par, subsequent to which the simplified shareholding structure of the Company as at the Latest Practicable Date and immediately before [●] is as follows:



(ii) The principal subsidiaries of the Company during the Track Record Period

Dongguan Rich (dissolved)

Prior to its dissolution, Dongguan Rich was principally engaged in manufacturing and trading mattresses with sales in both the PRC and overseas. It was established in the PRC as a sino-foreign equity joint venture enterprise on 21 September 1993 and laid the foundation for the Group’s business development.

Dongguan Rich was initially owned as to 60% by Mr. Sung, Mr. Cheung and Mr. Chan, through HLFL and as to 40% by Changping Development, with a registered capital of RMB8,280,000. The equity interests of HLFL and Changping Development in Dongguan Rich were subsequently changed to 55% and 45% respectively following a reduction of registered capital of Dongguan Rich in 1995 from HK\$8,280,000 to HK\$5,430,000.

HISTORY AND CORPORATE DEVELOPMENT

In July 1996, Changping Development transferred its entire interests in Dongguan Rich as to 30% to Dahao Furniture and 15% to Changping Industry and ceased to be a shareholder of Dongguan Rich. Dongguan Rich was then held as to 55% by HLFL, 30% by Dahao Furniture and 15% by Changping Industry.

To cope with the expansion of business, the registered capital of Dongguan Rich was increased to RMB8,080,000, which was approved in August 2000. In May 2002, the disposal by Dahao Furniture of its interests in Dongguan Rich as to 23% to HLFL and 7% to Changping Industry at a consideration of HK\$[1,858,400] and HK\$[565,000] respectively was approved by the relevant authority, subsequent to which Dongguan Rich was held as to 78% by HLFL and 22% by Changping Industry. The said consideration was based on the then registered capital of Dongguan Rich.

As part of the 2004 Reorganisation, the entire equity interests of HLFL in Dongguan Rich were transferred to Glory Skill. In 2005, the Founders decided to shift the emphasis of the mattress business from domestic sale to export in view of the higher profit margin in the overseas markets, while the joint venture partner in Dongguan Rich preferred to maintain a strong emphasis on the market in the PRC. As a result, it was decided that Dongguan Rich would be dissolved. Resolutions were passed for the dissolution of Dongguan Rich on 14 September 2005 and Dongguan Rich was voluntarily dissolved on 20 October 2006.

Prior to the dissolution of Dongguan Rich, the Group established Dongguan Super Furniture to continue the mattress business of Dongguan Rich, and Dongguan Rich transferred its machineries and production facilities to Dongguan Super Furniture pursuant to two sale and purchase contracts dated 1 November 2005 and 26 December 2005 respectively at cash considerations of approximately RMB2,760,000 and RMB1,350,000. No surplus was recorded after all the outstanding liabilities of Dongguan Rich were settled under the dissolution process. No liabilities or contractual obligations of Dongguan Rich have been transferred to Dongguan Super Furniture prior to the former's dissolution. Nor had there been any formal transfer of employees, suppliers and customers of Dongguan Super Furniture, though Dongguan Super Furniture engaged former suppliers, served former customers and employed [certain] former employees of Dongguan Rich after the dissolution of Dongguan Rich.

The Directors confirmed that the dissolution of Dongguan Rich did not result in the Group or Directors being subject to any contingent liability, obligation or claim imposed against any of them.

Shenzhen Dahao (dissolved)

Prior to its dissolution, Shenzhen Dahao was principally engaged in the manufacture and sale of wood-based furniture. It was established in the PRC as a sino-foreign equity joint venture enterprise on 18 December 1995 and owned as to 65% by Hing Lee (China) and as to 35% by Dahao Furniture.

HISTORY AND CORPORATE DEVELOPMENT

In June 2002, the disposal by Dahao Furniture of its equity interests in Shenzhen Dahao to Global Art & Crafts Limited, an Independent Third Party, was approved by the relevant authority. In August 2005, Global Art & Crafts Limited intended to withdraw its investment in Shenzhen Dahao upon the expiry of its business licence on 18 December 2005. Therefore, resolutions were passed for the dissolution of Shenzhen Dahao on 26 August 2005 and Shenzhen Dahao was voluntarily dissolved on 31 December 2006.

Prior to the dissolution of Shenzhen Dahao, the Group established Shenzhen Xingli Zundian to continue the furniture business of Shenzhen Dahao, and Shenzhen Dahao transferred its production facilities, machineries and inventories to certain members of the Group. Pursuant to a sale and purchase contract dated 15 November 2005, Shenzhen Dahao transferred its production facilities and machineries to Shenzhen Xingli Zundian at a cash consideration of approximately RMB5,600,000. The inventories of Shenzhen Dahao were transferred to Shenzhen Xingli pursuant to a sale and purchase contract dated 18 November 2005 at a cash consideration of approximately RMB18,530,000 and its raw materials were transferred to Shenzhen Xingli Zundian pursuant to a sale and purchase contract dated 30 November 2005 at a cash consideration of approximately RMB[7,220,000]. The trademark and patent of Shenzhen Dahao were also transferred to Hing Lee (China) at a consideration of approximately RMB[7,830,000] pursuant to a transfer contract dated 25 December 2006. No liabilities or contractual obligations of Shenzhen Dahao were transferred to Shenzhen Xingli Zundian prior to the former’s dissolution. Nor had there been any formal transfer of employees, suppliers and customers of Shenzhen Dahao, though Shenzhen Xingli Zundian engaged former suppliers, served former customers and employed certain former employees of Shenzhen Dahao after the dissolution of Shenzhen Dahao.

As a result of the above asset transfers, the Group was able to resume the manufacture of classic series furniture products under the brand name of “Johnston” originally conducted by Shenzhen Dahao, without any major interruption after re-hiring the factory workers of Shenzhen Dahao. This was evidenced by the continuous growth in the sales of furniture products under the “Johnston” brand during the Track Record Period.

Immediately prior to the dissolution of Shenzhen Dahao, Dahao Furniture, a former shareholder of Shenzhen Dahao, was indebted to Shenzhen Dahao in the amount of approximately HK\$7.8 million and to the Group in the amount of approximately HK\$3.7 million. In view of the pending dissolution of Shenzhen Dahao and the financial difficulties which Dahao Furniture was encountering, the Directors considered that the possibility of recovering the above receivables from Dahao Furniture was remote. Therefore, the Group wrote off approximately HK\$8.8 million (comprising the Group’s 65% share in Shenzhen Dahao’s HK\$7.8 million receivable due from Dahao Furniture and the HK\$3.7 million receivable directly due to the Group by Dahao Furniture) in 2006.

[The Directors confirmed that the dissolution of Shenzhen Dahao did not result in the Group or the Directors being subject to any contingent liability, obligation or claim imposed against any of them.]

HISTORY AND CORPORATE DEVELOPMENT

Shenzhen Xingli

Shenzhen Xingli is principally engaged in the manufacture and sale of wood-based furniture. It was established in the PRC as a sino-foreign equity joint venture enterprise on 16 December 2002. The initial registered capital and total investment amount were both RMB8,000,000, of which RMB2,960,000 (representing 37% of the registered capital) was contributed by LFST and RMB5,040,000 (representing approximately 63% of the registered capital) was contributed by Mr. Sung, Mr. Chan and Mr. Cheung on an equal basis.

As part of the 2004 Reorganisation, Shenzhen Xingli became a wholly-owned subsidiary of Success Profit and a wholly foreign-owned enterprise.

On 2 December 2004, the increase of the registered capital and total investment amount of Shenzhen Xingli to RMB30,000,000 was approved by the relevant authority. The registered capital and total investment amount were further increased to RMB60,000,000 and RMB112,000,000 respectively, which was approved by the relevant authority on 27 February 2006.

The interests of Success Profit in Shenzhen Xingli were transferred to another member of the Group, namely Hanmix, at a consideration of RMB1,000,000 pursuant to an agreement dated 28 December 2007, and the approval with respect thereto was obtained from the relevant authority on 16 May 2008.

Dongguan Super Furniture

Dongguan Super Furniture is engaged in the business of manufacture and sale of mattresses. It was established in the PRC as a wholly foreign-owned enterprise on 14 October 2005 in order to take up the mattress business of Dongguan Rich which was to be dissolved. The initial registered capital and total investment amount were both US\$1,000,000, of which US\$780,000 (representing 78% of the registered capital) was contributed by a member of the Group, namely Springrich Investments, and US\$220,000 (representing approximately 22% of the registered capital) was contributed by Cheernew Investments Limited. Cheernew Investments Limited was incorporated on 30 March 2005 in BVI with limited liability and principally engaged in investment holding. [Save for its interest in Dongguan Super Furniture, it has no business relationship with the Founders.] Pursuant to two sale and purchase contracts dated 1 November 2005 and 26 December 2005, Dongguan Super Furniture paid RMB3,760,000 and RMB1,350,000 for the machineries and product facilities of Dongguan Rich respectively. Dongguan Super Furniture resumed the mattress business on the same factory premises formerly used by Dongguan Rich after employing certain ex-employees of Dongguan Rich.

On 2 April 2007, the increase of the registered capital and total investment amount of Dongguan Super Furniture to US\$1,680,000 was approved by the relevant authority. Pursuant to an agreement dated 28 December 2007, the interests of Springrich Investments and Cheernew Investments Limited in Dongguan Super Furniture were transferred by them to

HISTORY AND CORPORATE DEVELOPMENT

Hander International (which is owned as to 78% by Springrich Investments and as to 22% by Cheernew Investments Limited), the approval with respect thereto was obtained from the relevant authority on 30 May 2008.

As at the Latest Practicable Date, Dongguan Super Furniture was indirectly owned as to 78% by Springrich Investments and as to 22% by Cheernew Investments Limited.

Shenzhen Xingli Zundian

Shenzhen Xingli Zundian is principally engaged in the manufacture and sale of wood-based furniture. It was established in the PRC as a wholly foreign-owned enterprise on 28 December 2004 to take up the furniture business of Shenzhen Dahao which was to be dissolved due to the expiry of its business licence. The initial registered capital and total investment amount were both RMB10,000,000 and the entire registered capital was contributed by Hing Lee (China).

After paying Shenzhen Dahao RMB5,600,000 and RMB7,220,000 for purchasing the production facilities and the raw materials respectively, Shenzhen Xingli Zundian resumed the furniture business on the same factory premises as formerly used by Shenzhen Dahao.

On 5 March 2007, the increase of registered capital and total investment amount to RMB40,000,000 and RMB100,000,000 respectively was approved by the relevant authority.

Sharp Motion

Sharp Motion is principally engaged in the licensing of trademarks of the Group in the PRC. It was established in BVI on 2 January 2003. On the same day, 1 share was allotted and issued to Hing Lee (China). The principal business of Sharp Motion is licensing non-exclusive rights to furniture manufacturers for use of the brand names and product designs owned by the Group.

As part of the 2004 Reorganisation, on 23 November 2004, 1 share in the share capital of Sharp Motion was allotted and issued to each of Mr. Sung, Mr. Cheung and Mr. Chan respectively in consideration for the transfer of their interests in Hing Lee Furniture Group Limited to them. On the same day, the shares in Sharp Motion allotted to Mr. Sung, Mr. Cheung and Mr. Chan, together with the 1 share then held by Hing Lee (China) in Sharp Motion, were transferred to Great Ample at par value.

Hing Lee Furniture

Hing Lee Furniture (formerly known as Windsor Empire Investments Limited) is engaged in the export trading of the products of the Group to overseas markets. It was established in BVI on 1 July 2004. One share was allotted and issued to Great Ample on 1 April 2005 and since then, Hing Lee Furniture remained a wholly-owned subsidiary of Great Ample.

HISTORY AND CORPORATE DEVELOPMENT

The Directors confirmed that:

- (a) the Group had obtained all the relevant approvals regarding all its acquisitions, disposals and dissolutions of companies, as disclosed in the paragraph headed "Corporate development" in this section; and
- (b) the issued share capital or (in respect of companies incorporated in the PRC) the registered capital and the increased registered capital of the companies comprising the Group had been duly paid up and in the required manner save and except for the instances listed below:
 - (i) a delay of 3 months by Mr. Sung and Mr. Cheung in making the first contribution to the registered capital of Shenzhen Xingli in 2003;
 - (ii) the ratio regarding the increase in the investment amount and the registered capital of Shenzhen Xingli Zundian in 2007 were not in accordance with 關於中外合資經營企業註冊資本與投資總額比例的暫行規定 (Tentative Provisions for the Proportion of Registered Capital to Total Amount of Investment of Sino-foreign Equity Joint Ventures), which were applicable to wholly foreign-owned enterprises;
 - (iii) no filing had been made to the Industry and Commerce Bureau by Dongguan Super Furniture in relation to the first contribution made by its shareholders to the registered capital; and
 - (iv) a delay of 14 days in making the first contribution to the increased registered capital of Dongguan Super Furniture in accordance with 關於外商投資的公司審批登記管理法律適用若干問題的執行意見 (Executive Opinions on Some Issues Concerning the Application of Law Governing the Examination, Approval and Registration of Foreign Invested Enterprises) in 2007.

According to the PRC Legal Advisers, as Shenzhen Xingli and Dongguan Super Furniture had obtained their respective business licences after making the relevant required contributions, both Shenzhen Xingli and Dongguan Super Furniture would not be subject to any penalty as a result of the late payments in respect of the above [and it was also unlikely for Dongguan Super Furniture to be subject to any penalty due to the non-filing of its first capital contribution as mentioned above]. The PRC Legal Advisers further opined that as Shenzhen Xingli Zundian had obtained the approval regarding the increase in the investment amount and the registered capital from the relevant authorities and had also obtained the business licence, Shenzhen Xingli Zundian would not be subject to any penalty.

BUSINESS

OVERVIEW

The Group is principally engaged in the design, manufacture and wholesale of a wide range of home furniture products including mainly wood-based furniture and mattresses in the PRC and overseas markets. Banking on its strong capabilities in furniture design and brand management, the Group also derives licensing fees from granting non-exclusive rights to other furniture manufacturers for use of its own brands and product designs.

The Group’s home furniture products are principally categorised into the classic furniture series and the modern furniture series targeting at middle and high price point consumers. Products branded under the classic furniture series are generally larger in size and characterised by elaborate and intricate carving and finishing. The products under the following brand names are classified under the classic furniture series:

Brand name	Target market segment	Recommended retail price range (approximately RMB per set (Note))
 Johnston (self-manufacture)	[Sophisticated middle and high price point consumers who demand grand and luxurious designs]	[20,000 – 76,000]
 New Nobleman (self-manufacture)	[Middle and high price point consumers who have the predilection for Spanish-styled classic furniture]	[19,000 – 26,000]
 Classic Sanroy (under licence)	[High price point consumers who demand luxurious furniture products]	[30,000 – 40,000]

BUSINESS

Products under the modern furniture series are characterised by simple and trendy designs with minimal use of decorative items, targeted at younger and middle price point consumers who look for trendy, functional and affordable home furniture. The products under the following brand names are classified under the modern furniture series:

Brand name	Target market segment	Recommended retail price range (approximately RMB per set (Note))
 PZ-King (self-manufacture)	[Middle price point consumers]	[9,000 – 15,000]
 Mandarin (self-manufacture)	[Middle price point consumers who have the preference for Italian-styled modern furniture]	[7,000 – 12,000]
 Orient (under licence)	[Young aged middle price point consumers]	[5,000 – 13,000]

Note: A set of furniture comprises a bed, two bedside cabinets, a wardrobe and a dressing table.

The Group uses its brand “Degas” to market the branded mattresses it manufactures. All the Group’s mattresses are for export only.

Brand name	Target market segment	Recommended retail price range (approximately HK\$ per piece)
 Degas (self-manufacture)	[Middle price point consumers]	[900 – 4,000]

BUSINESS

Set out below is a table showing the breakdown of the Group’s turnover by business activities and brand names during the Track Record Period:

	For the year ended 31 December					
	2006		2007		2008	
	HK\$'000	%	HK\$'000	%	HK\$'000	%
Domestic sales						
Johnston	74,921	20.3	106,120	21.5	128,588	24.1
PZ-King	52,764	14.3	48,976	9.9	54,273	10.2
Mandarin	20,745	5.6	55,926	11.4	51,844	9.7
New Nobleman	—	—	—	—	19,382	3.6
	<u>148,430</u>	<u>40.2</u>	<u>211,022</u>	<u>42.8</u>	<u>254,087</u>	<u>47.6</u>
Exports						
Branded						
– Johnston	—	—	36,336	7.4	49,101	9.2
– PZ-King	45,959	12.4	38,003	7.7	34,583	6.5
Mattress	50,393	13.6	58,748	11.9	51,665	9.7
Unbranded	97,445	26.4	120,651	24.5	125,963	23.5
	<u>193,797</u>	<u>52.4</u>	<u>253,738</u>	<u>51.5</u>	<u>261,312</u>	<u>48.9</u>
Licensing fees						
Oriant	19,754	5.3	23,829	4.9	17,546	3.3
New Nobleman	—	—	3,141	0.6	—	—
Classic Sanroy	1,347	0.4	939	0.2	1,401	0.2
Mandarin	6,298	1.7	—	—	—	—
	<u>27,399</u>	<u>7.4</u>	<u>27,909</u>	<u>5.7</u>	<u>18,947</u>	<u>3.5</u>
Total	<u><u>369,626</u></u>	<u><u>100.0</u></u>	<u><u>492,669</u></u>	<u><u>100.0</u></u>	<u><u>534,346</u></u>	<u><u>100.0</u></u>

During the Track Record Period, sales to the five largest customers accounted for approximately 32.6%, 32.3% and [29.8]% of the total turnover of the Group respectively, whilst the sales contribution from the largest customer to the Group’s total turnover were [10.9%], [11.2%] and [8.5%] respectively. The five largest customers of the Group during the Track Record Period comprised home furniture retailers, importers and a building contractor.

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Domestic sales

During the Track Record Period, the Group did not operate any retail shops and relied on domestic distributors to market its furniture products to end-users in the PRC. As at the Latest Practicable Date, the Group contracted with approximately [511] local furniture distributors to market its branded furniture products to end-users in the PRC. Over [75%] of these distributors were operated in the form of sole proprietorship, each operating one to two shops in their respective regions approved by the Group. As at the Latest Practicable Date, these [511] local furniture distributors operated over 600 approved shops covering [22] provinces, [4] municipalities and [4] autonomous regions in the PRC. The number of years of relationship between the Group and these distributors ranged from approximately [1] to [14] years. The Directors confirmed that none of them, the Shareholders who, to the knowledge of the Directors, held 5% or more of the issued share capital of the Company as at the Latest Practicable Date, and the senior management of the Group, or any of their respective associates had any interest in any of the distributors of the Group during the Track Record Period.

The following table sets out the total number of distributors and approved shops in the PRC as at 31 December 2006, 2007 and 2008, and the average annual turnover per approved shop during the Track Record Period:

	As at 31 December		
	2006	2007	2008
Number of distributors	348	435	[471]
Number of approved shops	380	482	[565]
Average annual turnover per approved shop (HK\$'000)	390.6	437.8	[449.7]

The relationship between the Group and each of the distributors is governed by a distribution framework agreement, which has a standard term of one year and is subject to renewal by mutual agreement upon expiry. For details of the distribution framework agreement, please refer to the sub-paragraph headed “Distribution framework agreement” in the paragraph headed “Sales and distribution” in this section below.

Export sales

During the Track Record Period, the Group participated in various furniture trade shows and exhibitions in the PRC and in Europe. These events are usually attended by furniture manufacturers as well as furniture buyers, such as overseas sourcing companies, furniture importers and retailers. The Group has been able to build up business relationships with a number of these overseas customers through attending trade shows and exhibitions over the years. During the Track Record Period, the Group’s overseas customers were mainly furniture retailers and importers. The top five largest customers of the Group during the Track Record Period were mainly furniture retailers and importers in the overseas markets. During the three

BUSINESS

years ended 31 December 2008, the Group transacted with over [170], [140] and [90] overseas customers respectively for its export business. Set out below is a table showing the breakdown of the Group’s export sales by geographical locations during the Track Record Period:

	For the year ended 31 December					
	2006		2007		2008	
	HK\$’000	%	HK\$’000	%	HK\$’000	%
Asia (<i>Note 1</i>)	127,850	66.0	172,942	68.2	176,896	67.7
Europe (<i>Note 2</i>)	24,817	12.8	32,287	12.7	35,370	13.5
Others (<i>Note 3</i>)	41,130	21.2	48,509	19.1	49,046	18.8
Total	193,797	100.0	253,738	100.0	261,312	100.0

Notes:

1. Asia mainly represented Japan, Taiwan, Middle East and Southeast Asia.
2. Europe mainly represented Sweden, Italy, Spain and Germany.
3. Others mainly represented the United States, Canada, Angola and Ivory Coast.

As at the Latest Practicable Date, the number of years of relationship between the Group and its overseas customers ranged from [1] to [15] years. The Directors confirmed that none of them, the Shareholders who, to the knowledge of the Directors, held 5% or more of the issued share capital of the Company as at the Latest Practicable Date, and the senior management of the Group, or any of their respective associates had any interest in any of the overseas customers of the Group during the Track Record Period.

Licensing

In addition to its conventional furniture manufacturing and sales business, the Group grants non-exclusive rights to licensees for the use of its certain brand names and product designs in the PRC. During the Track Record Period, the Group received licensing fees amounting to approximately HK\$27.4 million, HK\$27.9 million, and HK\$[18.9] million respectively. Under the licence agreement, the Group is responsible for the nationwide brand promotional activities to boost the market image and brand awareness of the products under the licence. For details of the licence agreement, please refer to the sub-paragraph headed “Licence agreement” in the paragraph headed “Licensing arrangements” in this section below.

The customers of licensees are mainly furniture distributors in the PRC. As at the Latest Practicable Date, the number of years of business relationship between the Group and the licensees ranged from [1] to [13] years. The Directors confirmed that none of them, the Shareholders who, to the knowledge of the Directors, held 5% or more of the issued share capital of the Company as at the Latest Practicable Date, and the senior management of the Group, or any of their respective associates had any interest in any of these furniture manufacturers during the Track Record Period.

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Procurement and outsourcing

During the Track Record Period, the Group had over [270], [250] and [180] suppliers respectively and the five largest suppliers included suppliers of raw materials and contract manufacturers who handled outsourced manufacturing of certain furniture products. Purchases from the Group’s five largest suppliers in aggregate represented approximately [27.7]%, [41.5]% and [49.8]% of the Group’s total purchases and purchases from the largest supplier of the Group accounted for approximately [9.7]%, [14.6]% and [14.4]% of the Group’s total purchases for the three years ended 31 December 2008 respectively.

In addition to purchases from its raw material suppliers, the Group makes purchases of finished products from contract manufacturers by way of outsourcing the production of certain furniture products with simple designs and minimal decorative features or on the occasions when its production capacity is running close to full utilisation. During the Track Record Period, the Group engaged 16, 11 and [7] contract manufacturers in the PRC respectively to handle the outsourced manufacturing. The Directors confirmed that none of them, the Shareholders who, to the knowledge of the Directors, held 5% or more of the issued share capital of the Company as at the Latest Practicable Date, and the senior management of the Group, or any of their respective associates had any interest in any of the raw material suppliers and contract manufacturers during the Track Record Period.

Production facilities

The Group’s furniture production facilities are located at Shenzhen and Dongguan, Guangdong Province, the PRC. For details of the Group’s production facilities, please refer to the sub-paragraph headed “Production facilities” in the paragraph headed “Production” in the section headed “Business” in the document.

With the intention to increase its production capacity for its modern furniture series and the “CHINATAG” furniture products, which are expected to launch in [2010], the Group is presently constructing new production facilities, Shenzhen Xingli Production Base, on Longgang Land I it acquired in June 2007. The Group has planned to invest approximately RMB[121.2] million (approximately HK\$136.0 million) for the development of the Shenzhen Xingli Production Base.

With a gross floor area of approximately 38,869 sq.m., the construction of the Shenzhen Xingli Production Base is expected to complete in June 2009. The Group expects to commence the trial production in August 2009 and the full scale production in November 2009. Upon its full scale production, the new production facilities at the Shenzhen Xingli Production Base are expected to provide an annual production capacity of approximately 31,800 furniture sets. The Directors consider that the completion of Shenzhen Xingli Production Base would have positive impact on the Group’s profitability as the new production base would enable the Group to expand its production capacities and to capture the growing business opportunities brought about by the expansion of the PRC furniture industry.

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Ownership of the Group

During the Track Record Period, the Group experienced a change in controlling shareholder. Since its incorporation in April 2004 and up to November 2004, the Company was all along jointly controlled by the four Founders or their respective investment vehicles. In August 2004, the investment vehicles of the Founders entered into an agreement with Talent Sino Holdings Limited, a wholly-owned subsidiary of Omnicorp Limited, for the acquisition by the latter of approximately 51.52% of the enlarged issued share capital of the Company. In July 2006, Mr. Fang Shin, who was then holding approximately 2.7% interest in Omnicorp Limited, through his investment vehicle, namely Triple Express, acquired from Talent Sino Holdings Limited its entire interest in the Company together with a shareholder’s loan owed by the Company to Talent Sino Holdings Limited.

Despite the change in the controlling shareholder of the Company when Omnicorp Limited disposed of its entire interest in the Company to Mr. Fang Shin in July 2006, the Group’s management and business operations were not affected and remained stable throughout the Track Record Period. During the period when Omnicorp Limited was the controlling shareholder of the Company, the Group’s management and the daily operations were entirely in the hands of the Founders. None of the Directors nominated by Omnicorp Limited assumed any management role or participated in the day to day operation of the Company and their directorships were merely reflective of the majority shareholding in the Company. Omnicorp Limited only seconded to the Company an accountant to monitor the Group’s financial reporting from November 2004 to July 2006. Like Omnicorp Limited, Mr. Fang Shin saw his acquisition of the interest in the Company as an investment and had no intention to take part in its management. Mr. Fang Shin had been a Director since July 2006 and he also nominated his son, Mr. Fang Yan Zau, Alexander, to be a member of the Board as well. Mr. Fang Shin resigned as a Director effective on [29 May] 2009. The Board [was] restructured to consist of two executive Directors, namely Mr. Sung and Mr. Cheung, one non-executive Director, Mr. Fang Yan Zau, Alexander, and three independent non-executive Directors [prior to] [●].

Non-compliance issues

As a result of its rapid expansion during the Track Record Period, the Group has inadvertently failed to comply with certain laws, rules and regulations of the PRC and Hong Kong. Summarised below are the Group’s incidents of non-compliance during the Track Record Period:

- (i) failure to obtain the environmental protection facilities approval for the production facilities prior to the commencement of operations of Shenzhen Xingli and Dongguan Super Furniture;
- (ii) failure to make timely housing provident fund contributions by Shenzhen Xingli, Shenzhen Xingli Zundian and Dongguan Super Furniture and failure to make employee social insurances contributions by Dongguan Super Furniture;

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- (iii) late filings of the Company’s subsidiaries in accordance with the Companies Ordinance and Business Registration Ordinance; and
- (iv) failure to notify the IRD by Hing Lee Furniture of its chargeability to tax within the prescribed time frame.

For further details of these non-compliance incidents and the remedial actions taken by the Group to rectify these incidents, please refer to [the paragraph headed “Compliance and litigation” in this section below]. The Directors believe that, given the remedial actions the Group has taken, none of these non-compliance incidents would give rise to any material adverse impact on the Group’s operation.

Furthermore, in view of the occurrence of the above mentioned non-compliance incidents, in December 2008, the Group has set up a compliance department, headed by the chief financial officer and staffed by a qualified accountant and an internal audit manager, to ensure that the Group’s operations are in compliance with applicable laws, rules and regulations, to strengthen its existing internal control framework, to recommend best practices for corporate governance and to report internal control deficiencies as well as remedial plans from time to time.

Indemnities

Pursuant to the Deed of Indemnity, each of the Founders and their respective investment vehicles has jointly and severally agreed with and undertaken to the Company (for itself and as trustee for other members of the Group) that he/it will fully indemnify the Group and each member of the Group and at all times keep them and each of them fully indemnified from and against all claims, damages, fines, penalties, loss, payments, liabilities, costs and expenses which any member of the Group may incur, suffer and accrue, directly or indirectly, from or in connection with, any failure, delay or defects of corporate or regulatory compliance as mentioned above on or before the date on which [●] save for those already provided by the Group in its accounts.

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COMPETITIVE STRENGTHS

The Directors consider that the Group’s competitive edges lie in its commitment in product design and development and innovation, comprehensive product range, well-established and strong brand names, extensive distribution network, established long-term relationships with distributors and experienced and capable management team. The Directors believe that the Group has the following competitive strengths:

- **Commitment in product design and development and innovation**

The Group places strong emphasis on creating innovative designs and developing new products in order to maintain its competitive edges. The Group has established a strong design and development department which is headed by Mr. Huang, being one of the Founders, who has over [20] years of experience in the home furniture industry. As at the Latest Practicable Date, there were [43] employees in the design and development department of the Group. The Group’s product design and development process can be broadly divided into four phases: (i) market assessment; (ii) product development and design; (iii) manufacturing feasibility; and (iv) market feedback. The design and development department sets up designated design teams for each of the classic furniture series and modern furniture series. The design and development department requires its teams to regularly roll out new furniture designs mainly at industry trade fairs held in March and August of each year and introduce enhanced products throughout the year in the PRC. In addition to developing new products, the design and development department takes account of the latest trends and feedback from customers regarding the function, colour or use of raw materials and accessories to enhance the existing products through modifying designs and particulars of existing products, adding new features or using alternative materials or colours. In order to minimise the cost of patent registration, the Group would register those designs which are most commonly used in the Group’s products and have higher market potential. As at the Latest Practicable Date, the Group was the registered owner of [6] patented product designs. During the Track Record Period, the Group’s product design and development team had been consistently introducing an average of around [350] new or enhanced products every year. Products developed by the Group’s product design and development department have won numerous industry awards for product designs such as 第十九屆深圳國際家具展覽會民用書房家具系列金獎 (The 19th Shenzhen International Furniture Exhibition Gold Award of Study Room Home Furniture Series) awarded by SFTA in 2006 and 中國十大家具品牌(2005-2006)－尊典，歐瑞系列產品 (Top 10 Famous Furniture Brands in China (2005-2006) – Johnston and Oriant Brand Furniture Series) awarded by 中華全國工商業聯合會家具裝飾業商會 (China Furniture & Decoration Chamber of Commerce) in 2006. In August 2008, the Group has also been awarded 中國十大家具品牌－尊典，歐瑞(2007-2008) (Top 10 Famous Furniture Brands in China – Johnston and Oriant (2007-2008)) by 中華全國工商業聯合會家具裝飾業商會 (China Furniture & Decoration Chamber of Commerce).

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- **Comprehensive product range**

The Group offers a wide range of high quality and sophisticated home furniture products. The Group’s home furniture products are principally categorised into classic and modern series for use in bedrooms, living rooms, dining rooms and home offices, covering mid to high price points consumers. In order to further diversify its product lines and expand its market share in both the PRC and the overseas markets, the Group soft launched a brand new furniture product line under the brand “CHINATAG” in early 2008. [It is contemplated by the Directors that the brand “CHINATAG” would be promoted as “*contemporary Italian design with traditional Chinese furniture style*”, targeting at high price point consumers in both the PRC and the overseas markets.]

- **Well-established and strong brand names**

The Group currently owns a number of brands, among which the Directors consider the brands “Johnston”, “Orient” and “PZ-King” are particularly well established and popular in the PRC. As at the Latest Practicable Date, the Group was the owner of [36] trademarks. Two of the Group’s brands “Johnston” and “Orient” were awarded 中國十大家具品牌 (2005-2006) – 尊典, 歐瑞系列產品 (Top 10 Famous Furniture Brands in China (2005-2006) – Johnston and Orient Brand Furniture Series) by 中華全國工商業聯合會家具裝飾業商會 (China Furniture & Decoration Chamber of Commerce) in 2006. The Group was also recognised for its contributions to the PRC wood-based home furniture industry, and was awarded 突出貢獻獎 (Exceptional Contributions Award) in 2004 by SFTA, and 2000-2004年度廣東省優秀家具出口企業 (Certificate of Excellent Export-Oriented Furniture Enterprise in Guangdong Province (2000-2004)) in 2005 by 廣東省家具商會 (Guangdong Furniture Chamber of Commerce). In August 2008, the Group was also awarded 中國十大家具品牌 – 尊典, 歐瑞 (2007-2008) (Top 10 Famous Furniture Brands in China – Johnston and Orient (2007-2008)) by 中華全國工商業聯合會家具裝飾業商會 (China Furniture & Decoration Chamber of Commerce).

- **Extensive distribution network**

The Group’s home furniture products are marketed through an extensive distribution network in the PRC. As at the Latest Practicable Date, the Group contracted with [511] distributors who operated over [600] approved shops, forming a prominent distribution network covering [22] provinces, [4] municipalities and [4] autonomous regions in the PRC. In addition, home furniture products of the Group are also exported to [overseas countries mainly in Asia and Europe].

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- **Established long-term relationships with distributors**

Over the years, the Group has established strong and close working relationships with its distributors through delivery of comprehensive range of high quality and innovative home furniture products and after-sales service support which includes provision of in-house and on-site staff training, timely market information and store layout consultancy advice. During the Track Record Period, sales to the top five distributors in aggregate accounted for approximately [8.8]%, [5.5]% and [7.2]% of the Group’s turnover and approximately [22.0]%, [14.3]% and [15.2]% of the Group’s domestic sales.

The top five distributors of the Group for the year ended 31 December 2008 have maintained business relationships with the Group for periods ranging from 2 to 8 years. Such long-term relationships with the major distributors are key to the Group’s success in expanding its market share in the PRC.

- **Experienced and capable management team**

The growth and success of the Group’s business are attributed to its experienced and dedicated management team with extensive furniture industry knowledge. The management team is led by one of the Founders and an executive Director, Mr. Sung, who has over [15] years of experience in the home furniture industry, and has been instrumental in spearheading the Group’s growth. In addition, the other three Founders, Mr. Cheung, Mr. Chan and Mr. Huang, have over [15], [15] and [20] years of experience in the home furniture industry respectively. The intimate knowledge and dedication of such key management are critical to the success of the business of the Group.

STRATEGIES

The Directors believe that there are promising prospects in the home furniture industry in the PRC. In order to further expand its business, the Group intends to adopt the following strategies:

- **Increasing brand recognition and enhancing corporate profile**

The furniture industry in the PRC comprises mostly small to medium-sized enterprises. There are approximately 50,000 enterprises in the furniture industry in the PRC with no apparent brands dominating the market. Under such operating environment, the Directors consider that consumers’ awareness and recognition of the Group’s brands are crucial to the Group’s success and growth. The Company intends to strengthen public awareness of its brands, in particular, “Johnston”, “Orient”, “PZ-King” and “CHINATAG”, as well as to enhance corporate profile through employing multi-faceted advertising strategies. The Group will continue to promote its corporate image and brands through advertising on a variety of media

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channels including billboards, buses and bus-stops, magazines, trade publications and newsletters in the PRC. In addition, the Group will put more efforts in promoting its “CHINATAG” products in the PRC through sending out product brochures and participating in trade fairs.

- **Strengthening design and development capabilities and expanding product range**

The Group intends to strengthen its design and development capabilities through the deployment of advanced design technology and equipment. The Group also intends to recruit additional four to five designers from domestic leading design institutes in 2010 and provide continuous training to its design and development staff. Training includes (i) in-house training by senior designers in relation to product knowledge and characteristics of the Group’s products; (ii) inviting renowned furniture design and development experts to conduct professional courses covering use of materials, color, latest product development and use of technology; and (iii) sending designers to participate in furniture trade fairs in the PRC and abroad to gain firsthand knowledge of international furniture trend and development. The Group also intends to engage international renowned furniture designers to act as its consultants. It is the Group’s objective to focus its design and development initiatives on the expansion of product range and to create quality products with innovative designs to meet the changing tastes of consumers. In addition, the Group intends to set up a testing centre at Shenzhen Xingli Production Base in 2010. The testing centre will be equipped with new machineries and staffed with two employees with furniture-related quality control experience for testing newly designed products, raw materials used in production and finished products. The Group plans to commence trial run of the testing centre in around September 2010 and normal operations as from October 2010.

- **Increasing market penetration in the PRC**

The Directors believe that there is substantial growth potential for the home furniture industry in the PRC. Therefore, the Group plans to put more efforts in marketing activities and customer service support to enhance its market penetration and expand the distribution network of the Group’s branded furniture products in the PRC. The Group will continue its present practice of providing training to the existing distributors on sales and marketing skills and customer services as well as holding seminars to brief distributors on shop design and product display at retail outlets. The Group intends to conduct the training and seminars by in-house senior

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sales officers and industry experts. At the same time, by establishing close contacts with the distributors, the Group will be able to keep abreast of market information and consumer preference and take appropriate measures to meet consumers’ tastes and preferences. The Group will rely on the above strategies to maintain its competitive position and together with the extensive efforts put in marketing and advertising activities as mentioned in the sub-paragraph headed “Increasing brand recognition and enhancing corporate profile” above, the Directors are confident that the Group will be able to increase its market share and attract new customers.

- **Increasing production capacity and improving production efficiency by deployment of new production equipment**

In view of the continuous growth of the home furniture industry, the Group has planned to increase its production capacity in a timely and cost-effective manner. The Group has acquired Longgang Land I and Longgang Land II for the construction of new production facilities. In addition, the Group intends to improve its production efficiency by deployment of new production equipment in the Shenzhen Xingli Production Base. The Group has ordered advanced woodworking machineries from local and overseas suppliers.

- **Growth through value-accretive acquisition strategies**

To further expand its business, the Group may enter into strategic alliances, joint ventures or mergers and acquisitions with companies in the PRC. The Group will select the alliance or joint venture partners or merger or acquisition targets based on their sales network, product portfolio, quality of products and services and production capacities which are complementary to the Group’s existing operations or growth plans. Moreover, as the PRC’s furniture market is a fragmented industry, the Directors believe that there will be opportunities for consolidation.

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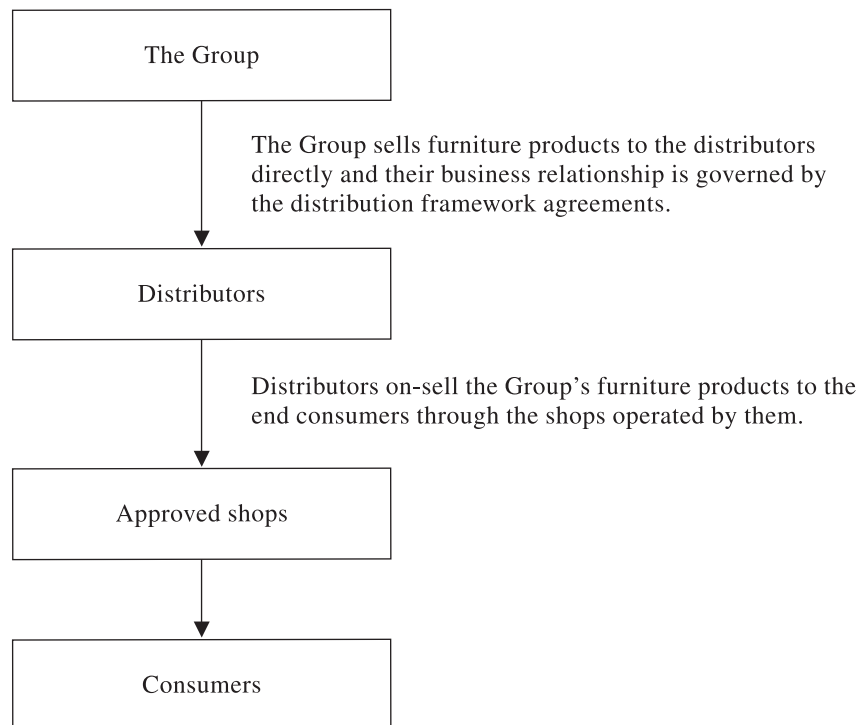
SALES AND DISTRIBUTION

Distribution network

The Group has established an extensive distribution network to market its products in the PRC and developed business relationships with over [90] overseas customers. The branded wood-based furniture products manufactured by the Group are distributed in the PRC through approved shops operated by third party distributors. During the Track Record Period, the Group contracted with [348], [435] and [471] distributors in the PRC respectively. As at the Latest Practicable Date, the Group contracted with [511] distributors in the PRC. The branded and unbranded wood-based furniture and mattress products of the Group are marketed abroad by its overseas customers which include mainly furniture retailers and importers. Both the distributors in the PRC and the overseas customers are regarded as the final customers of the Group. The Group does not own nor operate any approved shops itself as the Directors believe that through the extensive distribution network operated by the distributors instead, the Group will be able to penetrate into the mass market in the PRC at a faster pace.

The following chart illustrates the relationship among the Group, the distributors and the end consumers for the Group’s domestic sales:

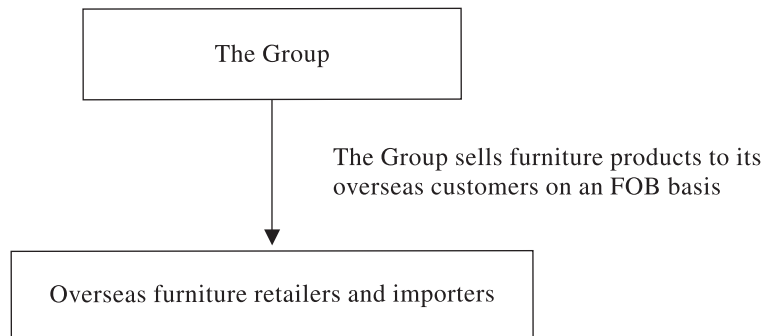
Domestic market



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The following chart illustrates the relationship among the Group and its overseas customers for its export sales:

Export market



Domestic sales

As at the Latest Practicable Date, the Group had contracted with [511] local furniture distributors, who operated over 600 approved shops to market the Group’s branded home furniture products to end-users in the PRC. All of these distributors are home furniture retailers and the approved shops are operated by them. The distributors are usually located in the same cities as the approved shops.

Selection of the distributors

When appointing the distributors, the Group assesses the suitability of a potential distributor based on (i) its sufficiency of financial resources amounting to approximately RMB[500,000] in order to settle the initial rental deposit and decoration expenses for opening the retail shop as well as to purchase a meaningful amount of furniture products from the Group for its initial operation; (ii) the feedback on the distributor’s reputation and integrity obtained from the reference check conducted by the Group; and (iii) its relevant experience in the management and operation of furniture retail shop though this is not a compulsory requirement.

The following table sets out the total number of distributors and approved shops in the PRC as at 31 December 2006, 2007 and 2008 and the average annual turnover per approved shop during the Track Record Period:

	As at 31 December		
	2006	2007	2008
Number of distributors	348	435	[471]
Number of approved shops	380	482	[565]
Average annual turnover per approved shop (HK\$’000)	390.6	437.8	[449.7]

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The Group does not have any requirement on the number of shops operated by each distributor and it is not the Group’s strategy to appoint distributors who operate one approved shop only. However, it is the Group’s strategy to ensure no approved shop is located and operated in the close proximity of one another in order to avoid competition. The Directors mainly consider the distributor’s experience and credit worthiness before determining the number of shops to be operated by the relevant distributor.

The distributors are required to obtain the Group’s prior approval before opening any new approved shops, although it is not specifically required to do so in the distribution framework agreement. In opening a new shop, the distributor works closely with the Group’s sales staff who advise the distributor in selecting shop location, provide the distributor with shop layout design to follow and consent the distributor to use the Group’s relevant brand name to name the approved shop. The name of each approved shop generally starts with the name of the city where it operates and is followed by the brand name of products that the shop is selling. The Group sets the minimum floor area of each approved shop for selling the Group’s classic series furniture to be no less than 200 sq.m. and for selling the modern series furniture to be no less than 120 sq.m..

The following table sets forth the movements in the number of distributors for the three years ended 31 December 2006, 2007 and 2008:

	As at 31 December		
	2006	2007	2008
Number of distributors at the beginning of the year	431	348	435
Number of existing distributors not appointed	(99)	(5)	(19)
Number of new distributors appointed	<u>16</u>	<u>92</u>	<u>55</u>
Number of distributors at the end of the year	<u><u>348</u></u>	<u><u>435</u></u>	<u><u>471</u></u>

[After Shenzhen Xingli Zundian had taken over the operation originally conducted by Shenzhen Dahao], the Directors undertook steps as described below to regroup its distributors in order to better promote its products in the domestic market, resulting in a reduction of the number of distributors and approved shops in 2006.]

In 2006, the Group laid down the policy of minimum floor area of each approved shop as described above. Therefore, the Group did not renew the distribution framework agreements with those distributors whose shops did not meet the minimum floor area requirement upon their expiry during 2006. Besides, the Group stopped selling its mattress products in the domestic market since the beginning of 2006 and did not renew the distribution framework agreements with approximately 30 distributors who were solely selling the Group’s mattress products upon their expiry during the year. In 2007, the Group launched various marketing

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activities through channels like advertisement broadcasting on the [CCTV], roadside billboards, trade publications and newspapers as well as participation in trade fairs and exhibitions. As a result, new distributors were engaged to market the Group's products in the domestic market in 2007 and 2008.

As at the Latest Practicable Date, there were [434] distributors each operating 1 approved shop, [62] distributors each operating 2 approved shops, [13] distributors each operating 3 approved shops and [2] distributors each operating 4 approved shops.

The Directors confirmed that none of them, the Shareholders who, to the knowledge of the Directors, held 5% or more of the issued share capital of the Company as at the Latest Practicable Date, and the senior management of the Group, or any of their respective associates had any interest in any of the distributors of the Group or the approved shops for each of the three years ended 31 December 2008.

Distribution framework agreement

The relationship between the Group and each of the distributors is governed by a distribution framework agreement, which has a standard term of one year. Upon expiry, the Group mainly considers the past payment records of the distributors in deciding whether to renew the respective distribution framework agreements.

Pursuant to the distribution framework agreement, the Group is required to:

- (i) provide the distributor with advice on shop design and layout guidance and sales training;
- (ii) assign a designated sales person to assist the distributor in marketing the Group's products;
- (iii) exchange products with quality defects;
- (iv) serve at least 15-day notice to the distributor in case of any price adjustment; and
- (v) undertake to sell products to all distributors at the same price,

whilst the distributor is required:

- (a) to operate in the region as approved by the Group;
- (b) to decorate the shop in accordance with the advice provided by the Group;
- (c) not to sell products not manufactured or approved by the Group in the shop; and
- (d) to undertake confidentiality towards any information relating to the Group's operation and products.

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Under the distribution framework agreements, if problems arise in relation to the quality of the Group’s products, the Group is required to replace the relevant spare parts unconditionally within the maintenance period. However, if the products are damaged by the distributors, the Group will only replace the relevant spare parts at the costs of the distributors. There is no provision in the distribution framework agreement entitling the distributors to return the Group’s products under any other conditions, nor is there provision relating to product liability or quality warranty provided by the Group to the distributors or the end customers. During the Track Record Period, the sales returned by the distributors amounted to approximately HK\$[0.2] million, HK\$[0.3] million and HK\$[0.5] million respectively. Pursuant to the relevant laws and regulations in the PRC, consumers may claim the seller or the manufacturer for any personal injury or other damages due to the defect of the products purchased. Up to the Latest Practicable Date, [the Group had not received any claims from its distributors or end customers against it in respect of product liability.] There is no provision in the distribution framework agreement entitling the Group to charge its distributors any fees for the sales and marketing campaigns launched by the Group or any other supporting services provided by the Group. The distribution framework agreement also sets out the transportation charges for products delivered to the locations within the Guangdong Province, the PRC. For areas outside the Guangdong Province, the relevant distributor has to arrange its own transportation of products from the Group’s premises to the shops. The Directors confirmed that the Group had no arrangement with the distributors in relation to sales incentives and rebate, and arrangement of warehousing. The Group recognises its revenue upon the signing of the delivery notes by the distributors or their respective authorised agents.

As advised by the PRC Legal Advisers, if a party to the distribution framework agreement is in breach of the terms thereof, the defaulting party is liable for the breach [and the non-defaulting party shall be entitled to claim compensation from the defaulting party]. If both parties are at fault, they shall bear their respective liabilities according to the actual circumstances. In addition, in the event that any distributor breaches any major terms of the relevant distribution framework agreement, such as failure to undertake the confidentiality obligation and sale by the distributor of counterfeit products, the Group is entitled to terminate the distribution framework agreement unilaterally and to claim damages from such distributor. The Directors confirmed that there was no breach of the major terms of the distribution framework agreements by the Group or any distributor and the Group did not terminate any of the distribution framework agreements [prior to its expiry date] during the Track Record Period.

After-sales support to the domestic distributors

The Group employs an active after-sales support strategy. Sales persons of the Group regularly visit the approved shops to ensure that they are operated in accordance with the terms of the distribution framework agreements. As at the Latest Practicable Date, the Group employed [42] sales persons in its domestic sales divisions and divided the sales persons into 6 teams. Headed by a regional sales manager, each team has been assigned to monitor the sales activities, solicit orders from and provide after sales services to a group of designated distributors and their respective approved shops within the same region. Due to the large number of distributors and approved shops located across the nation, the Directors considered that it would post significant burden on the Group in terms of manpower and costs to set up and maintain an electronic system linked with the distributors and approved shops to monitor

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their sales activities. Each team is required to visit the distributors and their respective approved shops once every two months and through phone calls, on a regular basis, to solicit restocking orders and gather information about the sales performance of the approved shops, the marketability of the Group’s furniture products from the distributors and consumers’ opinion on the Group’s products. The sales persons did not record any of the sales information of the approved shops gathered through phone calls, but used such data as a general reference on the marketability of the Group’s furniture products when soliciting restocking orders from the distributors. The Directors confirmed that none of the personnel working in the approved shops were employed by the Group during the Track Record Period.

In order to create a unified theme and brand image across the nation, the Group provides the approved shop operators with:

- guidelines and layouts in relation to the display of the Group’s branded products;
- operation manuals with the objective of standardising the operations and logistics of approved shops; and
- training and guidebooks for strengthening the sales techniques and product understanding of the staff of the approved shops.

The map below shows the geographic distribution of the approved shops in the PRC.



Note: The number in the relevant province, municipality, autonomous region in the above map denotes the number of approved shops in that region as at the Latest Practicable Date.

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Export sales

In order to expand its business outside the PRC market, the Group also actively developed the overseas markets by exporting its branded and unbranded wood-based furniture and mattress products to overseas countries mainly in Asia, Europe, North America and Africa.

Unlike domestic sales, the Group does not engage any overseas distributor for its export sales. Through participation in trade fairs and exhibitions in the PRC and overseas, the Group has been able to keep itself abreast of the market demands of different regions around the globe, increase the international exposure of the Group’s brands and product designs, and establish and maintain relationship with overseas furniture importers, wholesalers, retailers and suppliers. The Group has an export sales and marketing team responsible for organising its participation in such trade fairs and exhibitions, which included 中國廣州國際傢俱博覽會 (China International Furniture Fair (Guangzhou)), 深圳國際家具展覽會 (Shenzhen International Furniture Exhibition), Imm Cologne – the International Furnishing Show, Salone Internazionale Del Mobile Di Milano and Ligna Hannover.

Moreover, the Group has endeavored to nurture its customer-focused corporate culture through close collaboration with different functional departments in fulfilling customer orders on a timely basis. All these factors helped the Group in establishing a strong overseas client base. The new markets opened up by the Group during the Track Record Period included [Angola], [Congo], [Saudi Arabia], [Belgium] and [Sweden] in 2006, [Oman] and [Vietnam] in 2007 and [Thailand] and [Kazakhstan] in 2008. During the Track Record Period, the Group’s overseas customers were located in about [49], [57] and [49] countries respectively.

Set out below is a table showing the breakdown of the Group’s export sales by geographical locations during the Track Record Period:

	For the year ended 31 December					
	2006		2007		2008	
	HK\$’000	%	HK\$’000	%	HK\$’000	%
Asia (<i>Note 1</i>)	127,850	66.0	172,942	68.2	176,896	67.7
Europe (<i>Note 2</i>)	24,817	12.8	32,287	12.7	35,370	13.5
Others (<i>Note 3</i>)	41,130	21.2	48,509	19.1	49,046	18.8
Total	193,797	100.0	253,738	100.0	261,312	100.0

Notes:

1. Asia mainly represented Japan, Taiwan, Middle East and Southeast Asia.
2. Europe mainly represented Sweden, Italy, Spain and Germany.
3. Others mainly represented the United States, Canada, Angola and Ivory Coast.

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The Group’s overseas customers mainly include furniture retailers and importers. To the best knowledge of the Directors, the target customers of the Group’s overseas customers are furniture retailers (in the case of furniture importers) and end consumers (in the case of furniture retailers). During the Track Record Period, the Group had transacted business with over [170], [140] and [90] overseas customers respectively. In 2006, in order to expand its export business, the Group developed business relationships with a large number of new overseas customers, without requiring a minimum order size. As the export business continued to expand, the Group stopped selling products to those small customers as it was not economical to do so. Instead, the Group focused on expanding trading volume with the remaining customers, and substantially reduced the number of overseas customers with whom the Group transacted business in 2007 and 2008.

The following table sets out the average number and size of sales orders placed by the Group’s overseas customers for each of the three years in the Track Record Period:

	For the year ended 31 December		
	2006	2007	2008
Average number of sales orders per overseas customer (<i>approximately</i>)	5	6	8
Average size of sales orders (<i>approximately HK\$’000</i>)	205.5	298.2	352.6

The Directors confirmed that none of them, the Shareholders who, to the knowledge of the Directors, held 5% or more of the issued share capital of the Company as at the Latest Practicable Date, and the senior management of the Group, or any of their respective associates had any interest in any of the overseas customers of the Group during the Track Record Period.

When accepting orders from the overseas customers, the Group (i) assesses its ability to meet the craftsmanship required; (ii) confirms the production capacities of the Group or the contract manufacturers sufficient to handle these orders; and (iii) requires a minimum order value of HK\$[20,000]. The Group did not enter into any form of distribution arrangement with its overseas customers. The transactions with the Group’s overseas customers are conducted on a deal by deal basis. The product pricing was subject to arm’s length negotiation between the Group and the respective overseas customers. The Directors confirmed that the Group had no arrangement with the overseas customers in relation to goods return policy, sales incentives and rebate, product liability and warranty provision and arrangement of warehousing, or with any overseas end consumers in relation to any product warranty. Certain major overseas customers sometimes attend the Group’s production premises to inspect the quality of the products before shipment. The Group does not maintain any insurance to cover the product liability risk in its exporting markets. The Directors confirmed that the overseas customers were responsible for product liability in respect of the Group’s products sold in the respective overseas countries. It is the Directors’ understanding that any product liability claim brought by the end consumer in the overseas markets would be handled by the relevant overseas customer locally. However, the Group cannot assure that it would not be named as a defendant in any lawsuit or proceeding brought by the end consumer in respect of the product liability claim. Furthermore, if the relevant overseas customer can prove that the product quality deficiency which gives rise to the

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product liability claim is caused by the Group’s fault, the relevant overseas customer may claim against the Group. Up to the Latest Practicable Date, [the Group had not received any claims regarding product liability from its overseas customers or their end customers.] The Directors also confirmed that there had not been any products returned by the overseas customers during the Track Record Period.

The Group recognises its revenue in respect of the sales to overseas customers upon the issuance of the bills of lading after the goods are loaded on board. All the Group’s sales to overseas customers are on an FOB basis. For the three years ended 31 December 2008, in case there were any trade restriction levies such as anti-dumping duties, tariffs and quota fees imposed by the countries to which the Group exported its products, the relevant overseas customers were responsible to settle such costs. During the Track Record Period, so far as the Directors are aware, among the overseas markets where the Group exported its products, only the U.S. imposed anti-dumping duties on wooden bedroom furniture products imported from the PRC, and the anti-dumping duties imposed on the Group’s wooden bedroom furniture products ranged from [7.24% to 32.23%]. For the three years ended 31 December 2008, the Group’s export sales which were subject to U.S. anti-dumping duties amounted to approximately HK\$16.8 million, HK\$21.0 million and HK\$13.7 million, representing approximately 8.7%, 8.3% and 5.2% of the Group’s export sales respectively.

Customers

The Group’s customers are mainly home furniture retailers in the PRC and furniture retailers and importers in the overseas markets.

For its licensing business, the Group’s licensees are furniture manufacturers in the PRC.

For the three years ended 31 December 2008, sales to the Group’s single largest customer accounted for approximately [10.9]%, [11.2]% and [8.5]% of its turnover respectively and sales to the Group’s top five customers together accounted for approximately [32.6]%, [32.3]% and [29.8]% of its turnover respectively. The five largest customers of the Group during the Track Record Period have maintained business relationships with the Group for a period ranging from [1] to [15] years.

The following tables set out the background and locations of the top five customers during Track Record Period:

The top five customers for the year ended 31 December 2006

Customers	Location	Background
The top 1 customer	Japan	Home furniture retailer
The top 2 customer	The Middle East and India	Home furniture retailer
The top 3 customer	PRC	Home furniture retailer
The top 4 customer	Taiwan	Home furniture importer
The top 5 customer	The United States	Home furniture retailer

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The top five customers for the year ended 31 December 2007

Customers	Location	Background
The top 1 customer	Taiwan	Home furniture importer
The top 2 customer	Japan	Home furniture retailer
The top 3 customer	The United States	Home furniture retailer
The top 4 customer	PRC	Home furniture retailer
The top 5 customer	The Middle East and India	Home furniture retailer

The top five customers for the year ended 31 December 2008

Customers	Location	Background
The top 1 customer	Japan	Home furniture retailer
The top 2 customer	The Middle East and India	Home furniture retailer
The top 3 customer	Taiwan	Home furniture importer
The top 4 customer	The United States	Home furniture retailer
The top 5 customer	Qatar	Building contractor

The Directors confirmed that none of them and their respective associates and the Shareholders who, to the knowledge of the Directors, held 5% or more of the issued share capital of the Company as at the Latest Practicable Date, had any interest in any of the five largest customers of the Group during the Track Record Period.

Credit terms

The Group’s credit terms differ according to the types of customers.

For domestic sales, all the new customers are required to pay in cash upon delivery or place a deposit when ordering, which amount depends on the Group’s assessment of the credit risk associated with these new customers. For existing customers, depending on the Group’s assessment of their credit worthiness, the Group generally requires partial settlement upon delivery of its products and the remaining balance is subject to credit terms of 30 to 60 days. The exact amount of the credit limits and the terms of the credit period are determined based on the length of business relationship between the relevant customer and the Group, credit history, size of purchase orders, sales performance history and past collection history. During the Track Record Period, the approximate range of credit limits granted by the Group to customers in relation to the domestic sales was from RMB[10,000] to RMB[1 million] and the methods of settlement by the local customers are either bank transfer or cash payment.

For licensing fees payable by the licensees under the licensing arrangements, the Group grants its licensees a standard credit term of 60 days.

For export sales, all customers, except a few long-established customers to whom credit terms of 30 to 90 days are offered, are required to place up front cash deposit with or to obtain letters of credit in favour of the Group when placing purchase orders.

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The credit terms and limits for each distributor and overseas customer are approved by the chief executive officer of the Company and are subject to regular review by the Group’s senior management. The Group may amend the credit terms from time to time in light of changing market conditions and industry norms. The Group’s chief financial officer monitors the outstanding trade receivables and instructs the sales and marketing department to follow up on the payment status of any overdue trade receivables.

The Group has adopted a policy of making specific impairment for doubtful debts, based on its quarterly review of the Group’s trade receivables. The Group would consider the customers’ payment history, ordering pattern, and length of the business relationship with the Group to determine the amount of impairment for the accounts which are past due.

The table below sets forth the impairment for doubtful debts as well as trade receivables turnover for the three years ended 31 December 2008:

	For the year ended 31 December		
	2006	2007	2008
Impairment/(reversal) for doubtful debts made during the year (<i>HK\$’000</i>)	[4,441]	[(913)]	[1,509]
Trade receivables turnover days ^(Note)	[60]	[41]	[25]

Note: Trade receivables turnover days equals to the average of the opening and ending trade receivables balances of the year divided by the turnover during the year and then multiplied by 365 days.

Seasonality

During the Track Record Period, the Group had generally recorded higher domestic sales in the months of April, August, September, October and December. The sales generated in these months in aggregate accounted for approximately [57.5]%, [49.3]% and [48.8]% respectively of the total domestic sales during the Track Record Period. The Directors attribute the higher sales recorded during these months to the consumers’ tendency to spend during the shopping seasons in summer and the months leading to the extended Chinese holidays in May, October and Chinese New Year.

The Group’s export sales were normally higher in the periods from March to April and from August to September and in December during the Track Record Period. Sales generated in these periods in aggregate accounted for approximately [51.5]%, [47.6]% and [46.5]% respectively of the total sales from the overseas markets during the Track Record Period. The Directors believe that the higher sales were mainly due to increases in purchases driven by shopping seasons in particular the summer and the holiday seasons of Christmas and New Year.

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For both the domestic and overseas markets, the time around the month of February was generally regarded as the slowest season in the Track Record Period. In response to this seasonal decrease in sales, the Group reduced its scale of operation as the slow down coincided generally with the Chinese New Year when majority of the Group's employees would take their holiday leave. During the slow seasons, the Group would focus on product development, sales staff training, customer visits and solicitation of new customers.

LICENSING ARRANGEMENTS

Banking on its strong capabilities in furniture design and brand management, the Group started to grant initially to the furniture distributors, and subsequently to the furniture manufacturers the rights to use its certain brand names and product designs in the furniture products they marketed in 2004. Through the licensing arrangements with the licensees, the Group is able to secure alternative income source other than from its conventional manufacture and sales business. Besides, the Group can also enhance the brand awareness of its own brands through the distribution network of the licensees. The Directors consider that such business model of licensing enables the Group to continue expanding its revenue base without being subjected to production capacity and working capital constraints.

For the three years ended 31 December 2008, the licensing fees earned by the Group amounted to approximately HK\$[27.4] million, HK\$[27.9] million and HK\$[18.9] million respectively, representing approximately [7.4]%, [5.7]% and [3.5]% of the Group's turnover respectively. For the two years ended 31 December 2006 and 2007, the Group contracted with nine domestic furniture distributors in the PRC, who were also the Group's distributors for domestic sales. The Group granted these nine licensees the licence to use certain brand names and product designs of the Group in the furniture products they marketed under their sales network. These distributors were required to place manufacturing orders with the manufacturers designated by the Group for the furniture products under the licence. Under the licence agreements with the distributors, the distributors paid licensing fees to the Group based on the quantity of furniture products ordered by them and manufactured by the designated furniture manufacturers, but not conditional on the sale of products by the relevant distributors to their customers. After the expiration of the two-year term under the licence agreements with these distributors at the end of 2007, the Group did not renew the licence agreements with the above nine furniture distributors. Instead, the Group entered into licence agreements with four furniture manufacturers in the PRC, [two] of which were also contract manufacturers of the Group. All of these licensees are Independent Third Parties. As these four licensees were located in the close proximity to the Company's PRC subsidiaries, the Directors believed it would be more efficient to communicate with these licensees and conduct quality inspection. These four licensees do not have their own distribution network. They sell their products to their respective customers, who are mainly furniture retailers in the PRC. As far as the Directors were aware, a small number of the licensees' customers, namely furniture retailers, were also the Group's distributors. However, the Group did not discover that any of its distributors was selling the Group's branded products together with the licensed products in the same shop during the Track Record Period.

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The licensing fees payable by the licensees are calculated based on a certain percentage of the invoiced value of the furniture products under licence at which the licensees sell to their customers. The unit prices for calculating the invoiced value of the furniture products are pre-determined by the Group and the licensees after arms’ length negotiation and taking into account the costs incurred by the Group in product design and brand building as well as the potential production costs. In the event that a licensee sells its products to customers at prices different from those as the pre-determined, the licensing fees will be calculated based on the actual invoiced value. [So far as the Directors are aware, up to the Latest Practicable Date, none of the licensees had sold their products to customers at prices that differ from the Group’s pre-determined prices.]

Set out below are the types of licensees and the licensed brands during the Track Record Period:

	For the year ended 31 December		
	2006	2007	2008
Types of licensees	Distributors	Distributors	Manufacturers
Licensed brands	Orient, Classic Sanroy, Mandarin	Orient, Classic Sanroy, New Nobleman	Orient, Classic Sanroy

Selection of licensees

As at the Latest Practicable Date, the Group maintained licensing arrangements with four licensees which were furniture manufacturers operating in the PRC. The Group selects its licensees based on, among others, the following major criteria:

- its operating history in the production of wood-based furniture products;
- its production capacity, ability in delivering products in a timely manner, and standards and techniques of product quality assurance;
- its production floor area of a minimum GFA of not less than 4,000 sq.m.;
- its management capabilities, reputation and integrity; and
- its financial resources.

As at the Latest Practicable Date, the Group had maintained business relationships with these licensees for approximately [1] to [13] years. The Group does not have contractual relationships with the customers of the licensees, or any control over the operations of the shops owned by them. The Directors believe that neither the target markets nor the styles of products under the licence substantially overlap with those of the Group’s branded products manufactured and sold by the Group and there should not be any major degree of product competition and cannibalisation between the distributors of the Group’s branded products and the licensees.

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The Directors confirmed that none of them and their respective associates and the Shareholders who, to the knowledge of the Directors, held 5% or more of the issued share capital of the Company as at the Latest Practicable Date, had any interest in any of the licensees of the Group during the Track Record Period.

Licence agreement

Pursuant to the licence agreement between the Group and each of its licensees, the Group (i) grants non-exclusive rights to the licensee for the use of its certain brand names and product designs; and (ii) is responsible for the nationwide brand promotional activities to boost the market image and brand awareness of the products manufactured, whilst the licensee shall (a) pay to the Group the licensing fees with respect to the furniture products it manufactured and sold under the licence; (b) give feedback to the Group on detection of any sale of counterfeit products or any sort of infringement of intellectual property rights with respect to the products under the licence in the market; and (c) ensure that the quality of products manufactured under the licence conforms to the standards required by the Group during the term of the licence agreement. Each licence agreement has a fixed term of two years and is subject to renewal by mutual agreement upon expiry. The Group can terminate the agreement unilaterally and reserve the right to claim compensation or damages in the event that any licensee breaches any major term of the relevant licence agreement or is found to act in a manner severely affecting the image of the Group. The Director confirmed that, during the Track Record Period, neither the Group nor any of the licensees had breached the terms of the respective licence agreements and no licence agreement had been terminated by the Group during its term.

Under the present licensing arrangement with the furniture manufacturers, the Group does not provide the licensees or their customers with any sales incentives, product liability and warranty provision, and warehousing arrangement or the end consumers with any product warranty. Pursuant to the relevant laws and regulations in the PRC, consumers may claim the seller or the manufacturer for any personal injury or other damages due to the defect of the products purchased. Therefore, based on the advice of the PRC Legal Advisers, the Directors consider that the Group will not be liable for any claims in respect of product liability. Up to the Latest Practicable Date, [the Group had not received any claims from end consumers against it in respect of product liability in relation to the products manufactured under the licensing arrangements.]

Management of licensees

In order to maintain the quality and the standard of the products manufactured under the licence, staff members from the production department and the quality assurance department of the Group are seconded to the production facilities of the licensees to monitor the production process and conduct product quality inspections. They also attend the licensees' warehouses to conduct random inspections on the quality of the finished products. In case the finished products do not meet the required quality standard, the Group can either request the licensee to take necessary remedial measures, to recall the defective products from the market, or to terminate the licence agreement unilaterally. The Directors confirmed that no products manufactured under the licence were recalled from the markets other than the replacement of certain minor spare parts during the Track Record Period.

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The Group’s ERP system is linked to those of the licensees. The Group can have instant access to the management information of the licensees, such as purchase orders placed by the customers of the licensees, the production status and the sales and fulfillment information of the licensees. Inspection of delivery notes issued by the licensees against the data retrieved from the licensees’ ERP system is performed by the accounting staff of the Group on a monthly basis prior to the issue of invoices to the licensees in respect of the licensing fees. In addition, monthly confirmations are sent to the licensees for ensuring the correctness of the month end balance of licensing fee receivables.

The Group has registered or has applied for registration of all the trademarks and brand names of the branded products under the licence in the PRC. During the Track Record Period, the Group did not encounter any incident of infringement of intellectual property rights in respect of the trademarks and brand names under licence.

BRANDS AND PRODUCTS

Branded products

The Group seeks to distinguish its home furniture products from its competitors by nurturing strong brand recognition of the Group’s products among the consumers and developing wide range of product designs. With the goal of becoming a leading home furniture provider in both the PRC and overseas markets, the Group has put significant efforts to build up and strengthen its brand portfolio.

The Group’s home furniture products are principally categorised into the classic furniture series and the modern furniture series targeting at middle and high price point consumers.

Products branded under the classic furniture series are generally larger in size and characterised by elaborate and intricate carving and finishing. Due to their distinctive designs and good craftsmanship, home furniture products under the classic furniture series are targeted at middle and high price point consumers who have the consumption power and the predilection for grand and luxurious designs. The Group’s brands classified under the classic furniture series include “Johnston”, “New Nobleman” and “Classic Sanroy”, among which “Johnston” and “New Nobleman” are used for marketing the Group’s self-manufactured products while “Classic Sanroy” is used for marketing the products manufactured by third party furniture manufacturers under the licensing arrangement.

Brand name	Characteristics	Location at home	Target market segment	Recommended retail price range (approximately RMB per set (Note))
 Johnston (self-manufacture)	• High grade wooden and upholstered furniture • Classical European luxury with exquisite craftsmanship	• Bedroom • Living room • Dining room • Home office	[Sophisticated middle and high price point consumers who demand grand and luxurious designs]	[20,000 – 76,000]

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Brand name	Characteristics	Location at home	Target market segment	Recommended retail price range (approximately RMB per set (Note))
 New Nobleman (self-manufacture)	- Simplified classical furniture - Spanish style	- Bedroom - Living room - Dining room	[Middle and high price point consumers who have the predilection for Spanish-styled classic furniture]	[19,000 – 26,000]
 Classic Sanroy (under licence)	- Solid wooden furniture - Combination of traditional craftsmanship and modern production techniques	- Bedroom - Living room - Dining room	[High price point consumers who demand luxurious furniture products]	[30,000 – 40,000]

Products under the modern furniture series are characterised by simple and trendy designs with minimal use of decorative items, targeted at younger and middle price point consumers who look for trendy, functional and affordable home furniture. The Group’s brands under modern furniture series include “PZ-King”, “Mandarin” and “Orient”, among which “PZ-King” and “Mandarin” are used for marketing the Group’s self-manufactured products while “Orient” is used for marketing the products manufactured by third party furniture manufacturers under the licensing arrangement.

Brand name	Characteristics	Location at home	Target market segment	Recommended retail price range (approximately RMB per set (Note))
 PZ-King (self-manufacture)	- Neo-modern - Simple, stylish and multi-functional	- Bedroom - Living room - Dining room - Home office	[Middle price point consumers]	[9,000 – 15,000]
 Mandarin (self-manufacture)	- Italian style with combination of quality and comfort - Colourful and dynamic - Mix and match to suit individual style	- Bedroom - Living room - Dining room - Home office	[Middle price point consumers who have the preference for Italian-styled modern furniture]	[7,000 – 12,000]
 Orient (under licence)	- Refreshing collections for the younger generation, children and modern families living in urban areas - Modern, fashionable and sleek designs - Mix and match to suit the personality of younger generation	- Bedroom - Living room - Dining room - Home office - Kids workshop	[Young aged middle price point consumers]	[5,000 – 13,000]

Note: A set of furniture comprises a bed, two bedside cabinets, a wardrobe and a dressing table.

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The Group uses its brand “Degas” to market the branded mattresses it manufactures. All the Group’s mattresses are for export only.

Brand name	Characteristics	Location at home	Target market segment	Recommended retail price range (approximately HK\$ per piece)
 Degas (self-manufacture)	- Provide a variety of mattresses with different degrees of firmness - Provide good spinal support	Bedroom	[Middle price point consumers]	[900 – 4,000]

The table below summarises the turnover contribution of the branded and unbranded products of the Group during the Track Record Period:

	For the year ended 31 December					
	2006		2007		2008	
	HK\$'000	%	HK\$'000	%	HK\$'000	%
Johnston	74,921	20.3	142,456	28.9	[177,689]	[33.3]
PZ-King	98,723	26.7	86,980	17.6	[88,856]	[16.7]
Oriant	19,754	5.3	23,829	4.9	[17,546]	[3.3]
Mandarin	27,043	7.3	55,925	11.4	[51,844]	[9.7]
New Nobleman	–	–	3,141	0.6	[19,382]	[3.6]
Classic Sanroy	1,347	0.4	939	0.2	[1,401]	[0.2]
Mattress	50,393	13.6	58,748	11.9	[51,665]	[9.7]
Unbranded	97,445	26.4	120,651	24.5	[125,963]	[23.5]
Total	369,626	100.0	492,669	100.0	[534,346]	[100.0]

In order to further diversify its product lines and expand its market share in the PRC and overseas markets, the Group introduces new or enhanced version of existing products to the market each year. Based on market feedback on design, pricing and market acceptability, the Group modifies and improves the design so as to ensure that the new products are able to meet consumers’ tastes and preferences.

The Group soft launched a new product line under the brand “CHINATAG” (中國印) at 深圳國際家具展覽會 (Shenzhen International Furniture Exhibition) held in March 2008 in Shenzhen, the PRC and International Design Week held in Milan, Italy in April 2008. Products branded under “CHINATAG” are designed to target at the market segment of high price point consumers in both the PRC and overseas markets. [It is contemplated by the Directors that the brand “CHINATAG” would be promoted as “contemporary Italian design with traditional Chinese furniture style”.]

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Brand name	Characteristics	Location at home	Target market segment
 CHINATAG	• Top grade wooden furniture • Contemporary Italian design with traditional Chinese furniture style	• Living room • Dining room • Home office • Bedroom	Mature and high price point consumers

Unbranded products

Apart from exporting its branded furniture products, at the request of the overseas customers, the Group manufactures unbranded furniture products for its overseas customers based on either the Group’s own product designs or those provided by the overseas customers. In some cases, the product designs provided by the overseas customer involves special features requiring tailor-made manufacturing process from the Group. Such tailor-made manufacturing processes may involve extensive use of certain colour or special craftsmanship or wood panel milling into special shapes which are distinctive to that particular product and may entail longer production lead time at certain stage of the manufacturing process depending on the product design.

The Group in general prices its branded and unbranded products for overseas sales (including those designed by the overseas customers) with reference to a number of factors including direct labour costs, overheads, cost of raw materials, the complexity of design and the expected profit margin. The Group does not provide any guidelines on the retail price of its branded or unbranded products to the overseas customers.

DESIGN AND DEVELOPMENT

The Directors believe that strong product design and development capability is one of the Group’s competitive edges. Therefore, the Group is committed to creating innovative designs and developing new products in order to keep itself ahead of its competitors and to cater for consumers’ ever changing tastes. Products developed by the Group’s design and development department have won numerous industry awards for product designs such as 第十九屆深圳國際家具展覽會民用書房家具系列金獎 (The 19th Shenzhen International Furniture Exhibition Gold Award of Study Room Home Furniture Series) awarded by SFTA in 2006 and 中國十大家具品牌(2005-2006)－尊典·歐瑞系列產品 (Top 10 Famous Furniture Brands in China (2005-2006) – Johnston and Oriant Brand Furniture Series) awarded by 中華全國工商業聯合會家具裝飾業商會 (China Furniture & Decoration Chamber of Commerce) in 2006. In August 2008, the Group has also been awarded 中國十大家具品牌－尊典·歐瑞(2007-2008) (Top 10 Famous Furniture Brands in China – Johnston and Oriant (2007-2008)) by 中華全國工商業聯合會家具裝飾業商會 (China Furniture & Decoration Chamber of Commerce).

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The Group’s design and development department is headed by Mr. Huang, one of the Founders, who has over [20] years of experience in the furniture industry. As at the Latest Practicable Date, there were [43] employees in the design and development department of the Group. [34] of them possessed tertiary education qualifications among which [6] were specialised in furniture design. Moreover, 21 employees of the design and development department had over 5 years relevant product design and development experience. The Group regularly sends its design and development staff to participate in domestic and international trade exhibitions and fairs and provides them with training by internal senior designers and external experts to keep them abreast of the latest market trends and product development technologies. The Group’s design and development costs comprised primarily in-house staff costs and fees paid to external design houses which were engaged on a case by case basis. During the Track Record Period, the staff costs paid to the employees of the design and development department amounted to approximately HK\$1,270,000, HK\$1,760,000 and HK\$2,046,000 respectively and the costs paid to external design houses amounted to approximately HK\$779,000, HK\$755,000 and HK\$[2,544,000] respectively. The increase in the costs paid to external design houses in 2008 was mainly due to the payment in the amount of €176,000 (approximately HK\$1.9 million) to an independent design house based in Milan, Italy, namely May Day Design. Please refer to the sub-paragraph headed “May Day Design” below for details. The design and development costs are expensed in the year in which the costs are incurred. The Group monitors its design and development costs mainly through control of head count in the design and development department. All such expenses including the payroll are charged to the profit and loss account in the same year as they are incurred.

The Group regularly rolls out new furniture designs every season mainly at the industry trade fairs held in March and August each year in the PRC and introduces enhanced version of the existing products throughout the year. The design and development department sets up designated design teams to be responsible for each of the classic furniture series and modern furniture series product design and development.

The staff of the design and development department work closely with the sales and marketing department, the production department and the procurement department during the product design and development process which takes place every 6 months and which can be broadly divided into four phases: (i) market assessment; (ii) product development and design; (iii) manufacturing feasibility; and (iv) market feedback.

(i) Market assessment

Staff of the design and development department collaborate closely with the sales and marketing department in order to keep themselves informed about the latest consumers’ preferences, market development and sales strategies. They also attend domestic and international trade exhibitions and fairs to gain first hand information of the latest market trend. During this phase, the department comes up with product concept design, which covers the product images, the expected target customers, product pricing, production process and the choice of raw materials. It usually takes around two to three weeks to complete this process.

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(ii) Product development and design

Based on the result of market assessment, the design and development department commences to develop detailed idea outline and blueprint of the new product, which may be a brand new design or an improvement of an existing model. The Group strives to keep abreast of the changing trends in the furniture industry so that the Group can better anticipate and meet the expectations and preferences of the target consumers. It usually takes around two to three weeks to complete this process.

(iii) Manufacturing feasibility

After developing the preliminary design blueprint, the Group will examine the feasibility of manufacturing the product based on the blueprint. The design and development department will discuss the design and specifications with the production department for the purpose of producing prototype of the new product. The prototype is then inspected and tested for compliance with relevant national product safety requirements. Any flaws or inadequacies detected in the prototype will be rectified. When all relevant tests have been passed, a trial production run will commence. The finished product and the production process will be reviewed by the design and development department, the sales and marketing department and the production department to assess the market prospects of the new product and the feasibility of carrying out mass production. It usually takes around one to two months to complete this process.

(iv) Market feedback

The Group conducts soft launches of prototype of its new design to key customers. It also exhibits such new design at furniture exhibitions or industry trade fairs to obtain market feedback on design, pricing and market acceptability. Based on these responses, the Group will modify and improve the design so as to ensure that the new products are able to meet consumers’ tastes and preferences. Once the design is finalised, the Group will commence sales and marketing activities to highlight the new product. Upon receipt of orders from customers, the Group will commence mass production. It usually takes around two months to complete this process.

Shenzhen Jing Chu

The Group has also collaborated with or commissioned other design houses on product design projects since [2004]. The Group engaged Shenzhen Jing Chu to support its product design capability. Shenzhen Jing Chu was founded in 2000 by Mr. Huang and 胡景初先生 (Mr. Hu Jing Chu), an Independent Third Party and a professor at 中南林業科技大學 (Central South University of Forestry and Technology) (formerly known as 中南林學院 (Central South Forestry University)) as well as a renowned expert in furniture design. Shenzhen Jing Chu is principally engaged in the design of furniture and decorative items, corporate image consultation, interior design and decoration and software development. During the Track Record Period, the Group commissioned Shenzhen Jing Chu to design some of its classic and

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modern series of furniture and the total annual amount of fees paid by the Group to Shenzhen Jing Chu for the design services amounted to approximately HK\$[613,000], HK\$[355,000] and HK\$[915,000] respectively. Mr. Huang disposed his entire interests in Shenzhen Jing Chu in January 2009. For additional details of the transactions between the Group and Shenzhen Jing Chu, please refer to the paragraph headed “Transactions with Shenzhen Jing Chu” in this section below.

May Day Design

In view of the increasing popularity of traditional Chinese furniture, in October 2007, the Group engaged and entered into an agreement with May Day Design (as amended and supplemented in November 2008) to design and develop a brand new product line to be marketed under the brand “CHINATAG” in the European markets. May Day Design, an Independent Third Party, is a specialised product design consulting company based in Milan, Italy. Its corporate website is www.maydaydesign.it. The Group chose to engage May Day Design because of its furniture design capability, knowledge of and proximity to the European markets. [It is contemplated by the Directors that the brand “CHINATAG” would be promoted as “*contemporary Italian design with traditional Chinese furniture style*”.] Under the agreement with May Day Design, the Group paid €176,000 (approximately HK\$[1.9 million]) to May Day Design in four installments in exchange for May Day Design’s services on a project basis including (i) market research; (ii) brand strategy; (iii) brand design; (iv) [product promotion in Shenzhen, Shanghai and Milan furniture exhibitions in 2008 and 2009;] (v) search for distribution channels; and (vi) international market development. According to the agreement with May Day Design, May Day Design has guaranteed confidentiality regarding the results of the project and has undertaken to maintain confidentiality of commercial and research secrets and policies learnt in the course of the project which are not in the public domain. No specific duration of engagement was stipulated in the agreement with May Day Design, but the project is expected to be completed by September 2009 under the said agreement. The aforesaid payment was fully settled in July 2008.

The Group has applied for the registration of the brand “CHINATAG” in the PRC in March 2008 and in Italy in June 2008. [Under the terms of the agreement with May Day Design, the Group will be the owner of intellectual property rights of all products whose product concept is developed by the Group, whereas May Day Design will be the owner of intellectual property rights of the products whose concept is developed exclusively by itself. In the latter case, the Group will pay royalties to May Day Design at such rate to be further agreed between the Group and May Day Design and [the Directors expect that the royalty would be no more than 5% of the sales price]. It is the intention of the Group to use May Day Design’s exclusive design when selling the products in the European markets. The Group will develop and design a separate line of “CHINATAG” products for sale in the domestic market.]

Save for the agreement entered into with May Day Design in October 2007 (as amended and supplemented in November 2008), the Directors confirmed that May Day Design did not have any relationship, whether past or present, with the Group, its substantial Shareholders, Directors, senior management and their respective associates.

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MARKETING AND PROMOTION

The Group’s marketing and promotional strategy aims to enhance the Group’s corporate image and to increase consumers’ awareness of the Group’s branded home furniture products.

Brand building

The PRC furniture industry is generally very fragmented with a large number of furniture retail chain stores, wholesalers and independent retailers with no clear dominant players. The Directors consider that strong brand building capability has laid the key foundation for the Group’s success. The Group focuses on six key areas in brand-building: brand awareness, pricing, product quality, product range, customer service and convenience. [The core concept behind these six areas is “affordable luxury” in home furniture, a concept with which the Group expects will drive consumers to readily recognise its brands.] [The Directors also formulate the brand building process to include enforcing a standard layout and stipulating design guidelines for all approved shops.]

The Group’s principal products are marketed under the brand names “Johnston”, “Orient” and “PZ-King”, each encompassing several different styles of design to cater for consumers of different price points and preferences. The Group also creates new brands such as “CHINATAG” to meet the often-changing tastes and preferences of affluent consumers. The objective of the Group’s product differentiation strategy is to expand its product range in order to accommodate different market segments.

Sales and marketing activities

The Group’s sales and marketing department maintains regular contacts with existing distributors with a view to maintaining good business relationships with them so that the Group can increase its understanding of the consumers’ requirements and leverage on these relationships to promote its new products. During their visits, the Group’s sales staff would (i) introduce the Group’s latest development and product information to the distributors; (ii) ensure that the approved shops are operated in accordance with the Group’s shop design and layout guidelines and operation manual in order to provide consumers with a unified shopping experience; (iii) gather market and sales information; (iv) provide latest market information; and (v) gather customers’ feedback regarding the Group’s products. In addition, the sales staff take active steps to identify prospective distributors to promote the Group’s products.

Multi-faceted advertising strategies

The Group employs multi-faceted advertising strategies through a variety of channels including newspapers, television (nationwide media such as China Central Television), billboards, trade publications and newsletters in the PRC. The Directors believe that such advertising campaigns are capable of reaching the Group’s target consumers. The Group has also set up a corporate website, www.hingleegroup.com, which serves to provide information about the Group and its various product lines. For each of the three years ended 31 December 2008, the Group spent approximately [HK\$850,000], [HK\$6,811,000] and [HK\$5,460,000] on advertising respectively.

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Participation in trade fairs and exhibitions

In order to keep abreast with the latest trends of home furniture in terms of [colours, materials and styling], the Group participates regularly in (i) domestic trade fairs and exhibitions such as 深圳國際家具展覽會 (Shenzhen International Furniture Exhibition) held in March and August each year and 中國廣州國際傢俱博覽會 (China International Furniture Fair (Guangzhou)) held in March each year in the PRC; and (ii) international trade fairs such as Cologne International Furniture Fair, Milan International Furniture Fair and Tokyo International Furniture Fair in recent years. During these trade fairs and exhibitions, the Group promotes its new furniture products to secure sales orders. For each of the three years ended 31 December 2008, the Group incurred [HK\$83,000], [HK\$5,893,000] and [HK\$10,344,000] in participating various trade fairs and exhibitions respectively.

Sales and marketing department

The sales and marketing department is responsible for the sales, distribution, marketing and promotional activities of the Group’s branded and unbranded products. As at 31 December 2006, 2007 and 2008, the Group’s sales and marketing department employed [47], [49] and [55] sales staff respectively. The Group provides its sales staff with an incentive payment of 0.2% on the amount of sales achieved by each of them, which amount is payable only after the sales proceeds are received by the Group. The Group’s sales and marketing department comprises three divisions, namely, classic furniture division, modern furniture division and export division which details are set out below:

Divisions	Number of sales persons as at the Latest Practicable Date	Roles	Brands handled as at the Latest Practicable Date
Classic furniture division	[25]	Formulation and execution of sales and marketing strategies of products under the classic furniture series in the PRC	“Johnston”, “New Nobleman” and “Classic Sanroy”

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Divisions	Number of sales persons as at the Latest Practicable Date	Roles	Brands handled as at the Latest Practicable Date
Modern furniture division	[16]	Formulation and execution of sales and marketing strategies of products produced under the modern furniture series in the PRC	“PZ-King”, “Mandarin” and “Orient”
Export division	[14]	Handling export related business of the Group’s branded and unbranded wood-based furniture and mattress products	[“Degas”], “Johnston” and “PZ-King”

PRC market

The classic furniture and modern furniture divisions focus on the promotion of the Group’s branded wood-based furniture products in the PRC. They are responsible for the formulation and execution of sales and marketing strategies for their respective brands in the PRC.

These two divisions collectively cover [22] provinces, [4] municipalities and [4] autonomous regions. Each sales person of the divisions is assigned to be responsible for the sales activities in a designated geographical area. As part of the Group’s customer-orientated corporate culture, sales persons assume the role of the first point of contact for customers in their respective sales regions for all matters relating to the Group’s products. The sales persons travel frequently to their designated sales regions to visit customers with a view to addressing their needs, promoting the Group’s products, keeping them informed of the Group’s latest sales and marketing strategies and soliciting restocking orders. They also conduct market researches on local consumers’ tastes and preferences with the view to building up the Group’s marketing and product development database. The Group uses the database to develop its product design and marketing strategies for the PRC market. Staff of the sales and marketing department communicate closely with the production department regarding customers’ orders and specifications and coordinate with the production department and procurement department to ensure that customers’ orders are fulfilled in a timely manner.

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Overseas markets

The export division undertakes all sales related activities for the Group’s branded and unbranded home furniture and mattress products in the overseas markets. The sales and marketing staff in the export division are responsible for communicating with the production and procurement departments to ensure that customers’ orders are fulfilled on time. The Group’s export division actively participates in trade shows and exhibitions held in the PRC and overseas to market the Group’s products to potential customers and gather the latest market information regarding product trends.

Pricing

The Group determines the pricing of its branded home furniture products with reference to a number of factors including direct labour costs, overheads, transportation charges, cost of raw materials, the complexity of design, prices set by competitors, the potential market demand and the expected profit margin. The Group also provides pricing guidelines which set out the recommended price range for each branded product to the approved shops but the distributors have full discretion to decide the final retail prices for their respective shops, as each of them has different cost structure in its operations. As regards the licensing arrangements, the licensees have to sell the furniture products they manufactured under licence to their customers at the prices fixed by the Group. Such price lists do not form part of the licence agreement and there is no penalty clause specified in the licence agreement for any non-compliance with the price lists. To avoid any price competition and market cannibalisation between the products sold by the distributors and the licensees, the Group differentiates products sold under the licences and the distribution framework agreements by way of different styles and target markets. The table below sets forth a summary of the styles and target markets of the Group’s branded products.

	Style and target market segment	Median price (RMB per set)	Types of materials used
Self-manufactured branded products			
Johnston	Sophisticated middle and high price point mature consumers who demand grand and luxurious designs	[48,000]	1. MDF board and solid wood spare parts (birch wood, beach wood, oak wood, and fir wood) 2. Veneers: cherry wood style

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	Style and target market segment	Median price (RMB per set)	Types of materials used
New Nobleman	Middle and high price point consumers who have the predilection for Spanish-styled classic furniture	[22,500]	1. MDF board 2. Veneers: beech wood style
PZ-King	Middle price point consumers who prefer contemporary furniture products of traditional style	[12,000]	1. MDF board 2. Veneers: teak wood style
Mandarin	Middle price point consumers who look for Italian-styled modern furniture	[9,500]	1. MDF board 2. Paper based fireproof surface
Licensed branded products			
Oriant	Young aged middle price point customers who prefer modern furniture products of simple and plain designs	[9,000]	1. MDF board 2. Lacquer surface
Classic Sanroy	High price point consumers who demand luxurious furniture products	[35,000]	1. MDF board 2. Solid wood spare parts (birch wood)

During the Track Record Period, the Group did not encounter any licensees selling products they manufactured under licence to their customers at prices different from those fixed by the Group. For overseas sales, the Group’s branded and unbranded products are generally priced with reference to a number of factors including direct labour costs, overheads, cost of raw materials, the complexity of design and the expected profit margin. The Group does not provide any guidelines on the retail price of its branded or unbranded products to the overseas customers.

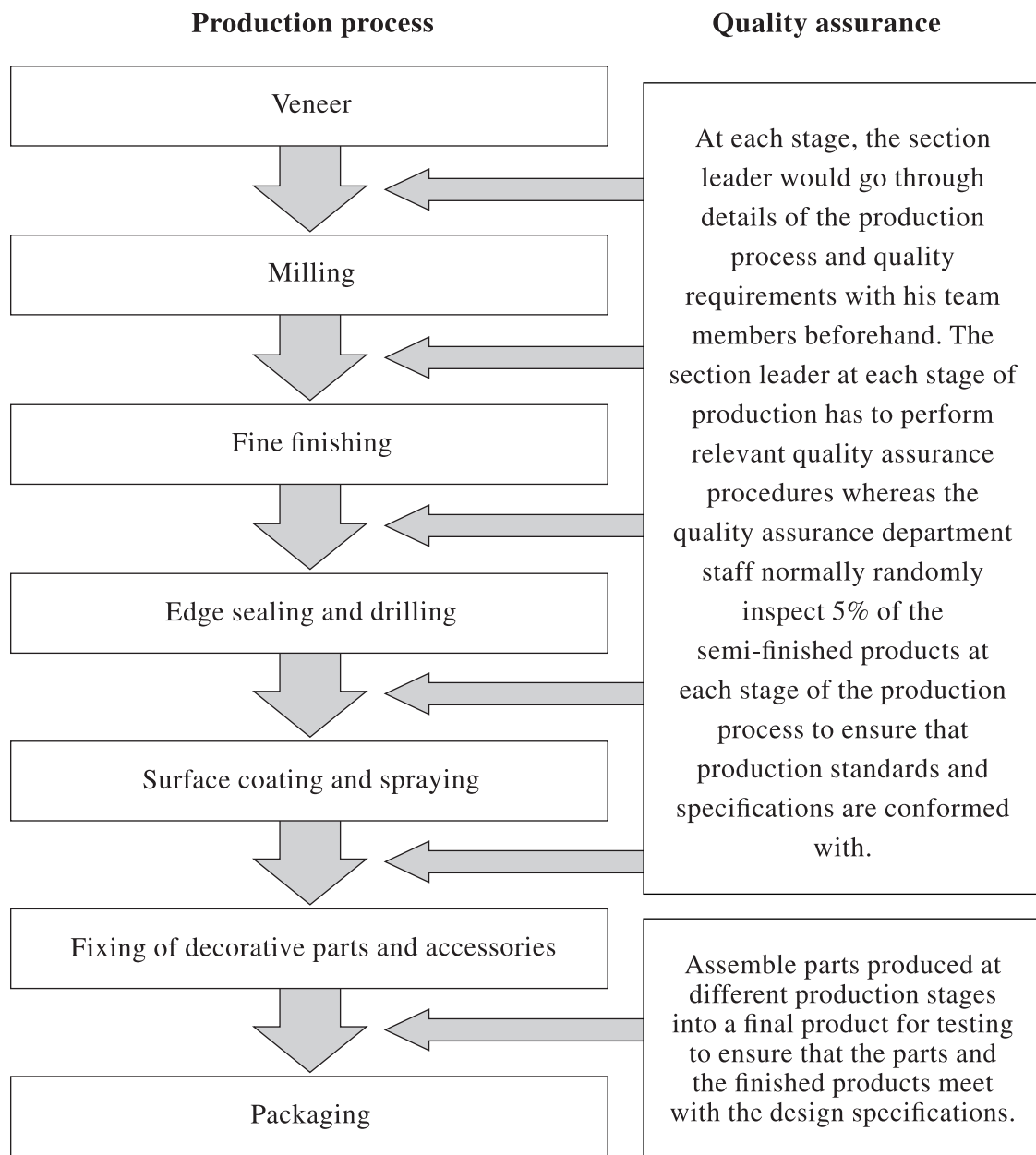
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PRODUCTION

Production Processes

The Group’s home furniture products include wood-based furniture and mattresses. The basic production processes employed in the production of (i) wood-based furniture; and (ii) mattresses are summarised as below:

(i) Wood-based furniture



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Veneer

Wood panels are sealed with veneer in accordance with design specifications. Veneer is required to be sealed smoothly and seamlessly on wood panels. It normally takes about [2] hours to complete this stage of production. *(Note)*



Veneer

Milling

Wood boards sealed with veneer are milled into required specifications to produce furniture parts for further fine finishing. Allowance for errors in length and width is less than 1 millimeter. It normally takes about [6] hours to complete this stage of production. *(Note)*



Milling

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Fine finishing

Milled parts undergo further fine sanding, milling and scraping to produce refined finishing. For parts of curved or circular shape, a precision mould is used during the fine finishing process to ensure an accurate and consistent result. Allowance for errors in length and width is less than 1 millimeter. It normally takes about [4] hours to complete this stage of production. *(Note)*



Fine milling



Curved parts finishing



Fine sanding

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Edge sealing and drilling

Edges of the wooden parts are sealed with veneer or PVC sheets to give a decorative effect. Holes are drilled on the parts for assembly. Edges should be sealed smoothly and seamlessly. Allowance for position and depth of the holes drilled is less than 0.5 millimeter. It normally takes about [6] hours to complete this stage of production. (*Note*)



Edge sealing



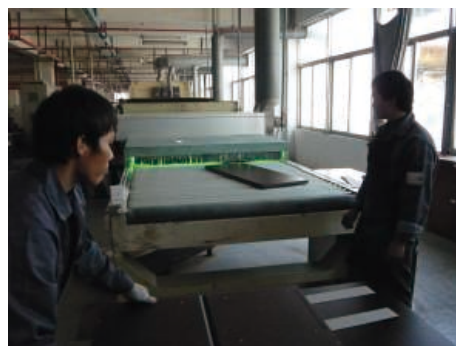
Drilling

Surface coating and spraying

Edge-sealed and drilled parts are polished to produce a smooth surface. The parts may then be sprayed with a layer of transparent paint to fill any dents or gaps, if required. After polishing and spraying with a layer of transparent paint, the parts undergo multiple times of spraying with paints to produce the desired colour. A fully automatic UV spray-coating processing line is installed at the factory of Shenzhen Xingli for spraying parts. This spray-coating processing line can spray and dry the paint on a double-faced part in [10] minutes by employing UV light. Coating should be smooth and the colour evenly sprayed on the surface. It normally takes about [24] hours to complete this stage of production. (*Note*)



Surface coating



UV spray-coating

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Fixing of decorative parts and accessories

Decorative parts and accessories such as doorknobs, handles and glasses are fixed onto the processed parts. Decorative parts and accessories should be firmly affixed to the parts. It normally takes about [1.5] hours to complete this stage of production. *(Note)*



Fixing of decorative parts and accessories

Packaging

Finished parts which meet the quality assurance requirements are flat-packed and ready for delivery. It normally takes about [1.5] hours to complete this stage of production. *(Note)*

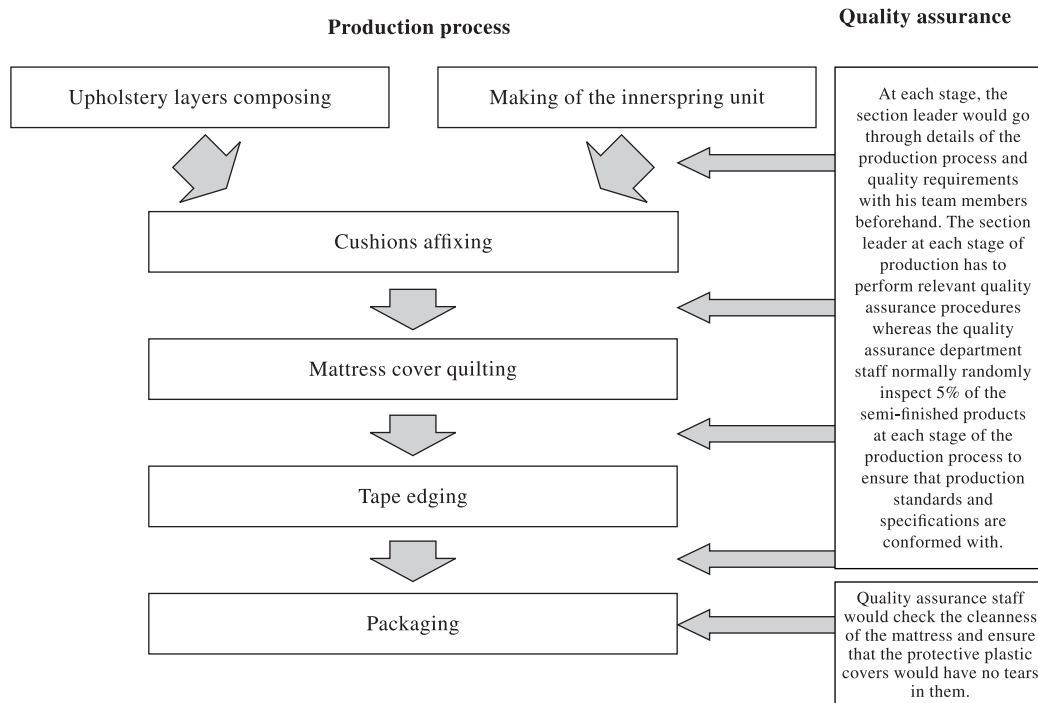


Packaging

Note: The production lead time is based on production of 50 pieces. Taking into account the availability of raw materials and the production schedule, it generally takes about 30-40 days to complete the production process for a purchase order.

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(ii) Mattresses



Upholstery layers composing

The upholstery layers are composed by layer composition machine. The composed upholstery layers are sheared into required dimensions. The layers should be clean and in the right size. The final products should have a uniform thickness and flat surface. It normally takes about [10] minutes to complete this process. *(Note)*



Layers composing

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Making of the innerspring unit

Steel wire is coiled into wire spring units.

Wire spring units are arranged side-by-side in parallel rows and columns and are connected by steel wire coils into an innerspring unit.

Border wires then encircle around both upper and lower perimeters of the innerspring unit. Wire spring units should be of similar size and firmly connected to each other by steel wire coils. The wire spring units should be evenly distributed to form a flat innerspring unit. It normally takes about [40] minutes to complete this process. *(Note)*



Making of the innerspring unit

Cushions affixing

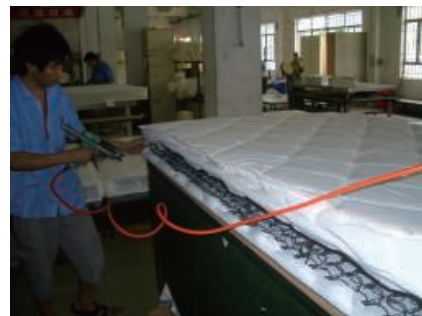
The upholstery layers are affixed onto the surfaces of the innerspring unit by nail punches. The upholstery layers should be cleaned and firmly affixed to the innerspring units. Nail punches should be separated from each other within a range of 15 to 20 centimeters depending on the product specification. It normally takes about [10] minutes to complete this process. *(Note)*



Cushions affixing

Mattress cover quilting

Decorative exterior cover fabrics are affixed onto the cushion by stapler. The exterior cover used should be in accordance with the product specification and cleaned and of right size. The exterior covers should be firmly affixed to the cushions. It normally takes about [10] minutes to complete this process. *(Note)*



Mattress cover quilting

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Tape edging

The edges of the semi-finished mattresses are sealed with binding tapes by sewing machines. The edges of the semi-finished mattress should be sewed seamlessly together. It normally takes about [10] minutes to complete this process. (*Note*)



Tape edging

Packaging

Finished mattresses are packed with protective plastic covers and stored in the warehouses for delivery after quality assurance inspection. It normally takes about [10] minutes to complete this process. (*Note*)



Packaging

Note: The production lead time is based on production of one piece. Taking into account the availability of raw materials and the production schedule, it generally takes about 7 days to complete the production process for a purchase order.

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Production Facilities

Currently, all of the production facilities of the Group are located at Shenzhen and Dongguan, Guangdong Province, the PRC. The production of mattresses is carried out at the production facilities of Dongguan Super Furniture while the production of wood-based furniture products classified as classic furniture series and modern furniture series is carried out at the production facilities of Shenzhen Xingli Zundian and Shenzhen Xingli respectively. The following table sets out the key information of the Group’s production facilities:

Name of the subsidiary	Location	Products manufactured	Number of full-time employees as at the Latest Practicable Date	Approximate GFA of the production facilities (excluding open space) (sq.m.)
Shenzhen Xingli Zundian	Longgang District, Shenzhen, Guangdong Province, the PRC (being the properties numbered 3-8 referred to in the valuation report set out in Appendix III to this document)	Classic furniture	[509]	[20,175]
Shenzhen Xingli	Longgang District, Shenzhen, Guangdong Province, the PRC (being the properties numbered 9 and 10 referred to in the valuation report set out in Appendix III to this document)	Modern furniture	[488]	[26,229]
Dongguan Super Furniture	Dongguan, Guangdong Province, the PRC (being the property numbered 11 referred to in the valuation report set out in Appendix III to this document)	Mattresses	[154]	[6,091]

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The following table sets out the approximate annual production capacity, the actual annual production and the utilisation rate of each of the Group’s production facilities during the Track Record Period:

	For the year ended 31 December		
	2006	2007	2008
Shenzhen Xingli Zundian			
Approximate annual production capacity (set) ¹	5,200	7,700	[9,060]
Actual annual production (set)	4,600	7,050	[8,260]
Utilisation rate (%) ²	88.5	91.6	[91.2]
Shenzhen Xingli			
Approximate annual production capacity (set) ¹	11,650	11,800	[11,800]
Actual annual production (set)	10,500	10,800	[9,200]
Utilisation rate (%) ²	90.1	91.5	[78.0]
Dongguan Super Furniture			
Approximate annual production capacity (piece) ¹	85,000	106,000	[106,000]
Actual annual production (piece)	75,200	97,000	[70,000]
Utilisation rate (%) ²	88.5	91.5	[66.0]

Notes:

1. The annual production capacity is determined with reference to the maximum production capacity of the machinery and labour under normal operating environment of the production facilities.
2. The utilisation rate is calculated as a ratio of the actual annual production to the approximate annual production capacity.

During the Track Record Period, the utilisation rate of production facilities of Shenzhen Xingli Zundian was stable, ranging from approximately 88.5% to 91.2%. The utilisation rate of production facilities of Shenzhen Xingli for the two years ended 31 December 2007 was approximately 90.1% and 91.5% respectively. However, for the year ended 31 December 2008, the utilisation rate dropped to 78.0%. The decrease in utilisation rate was due to the fact that the production of the “K-series” products under the brand name of “PZ-King” was outsourced to a contract manufacturer due to lack of the required production equipment at Shenzhen Xingli. The value of outsourced production with respect to the “K-series” products was approximately HK\$[19.0] million. In respect of the production facilities of Dongguan Super Furniture, the utilisation rates for the two years ended 31 December 2007 were stable at approximately 88.5% and 91.5% respectively. For the year ended 31 December 2008, due to the increase in the price of raw materials in the prior year, in particular sponges and steel wire, used in the production of mattresses, Dongguan Super Furniture raised the selling prices of the Group’s mattress products upwards to cover such increases in cost. The price adjustments resulted in a decrease in sales orders. With the reduction in mattress sales, the utilisation rate of the production facilities of Dongguan Super Furniture decreased to approximately 66.0% in 2008.

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Expansion plan

On 29 June 2007, the Group acquired two pieces of land located at Kengzi Town, Longgang Industrial Area, Longgang District, Shenzhen, the PRC, namely Longgang Land I and Longgang Land II, for a total consideration of approximately HK\$46.8 million in order to construct the new production facilities, namely Shenzhen Xingli Production Base and Shenzhen Xingli Zundian Production Base.

As the production facilities of Shenzhen Xingli were running over 90% in 2006 and 2007 and the properties currently leased by Shenzhen Xingli to house its production facilities do not have spare space for further expansion, in order to expand the Group’s business and prepare for the launch of new products, in particular the products under the brand name of “CHINATAG”, the Group acquired Longgang Land I in 2007 to move its current production carried on by Shenzhen Xingli to its new production plants with larger production capacity.

The Group plans to invest approximately RMB[121.2] million (approximately HK\$[136.0] million) for the development of the Shenzhen Xingli Production Base, of which:

- approximately RMB[22.6] million (approximately HK\$[24.2] million) was paid in July 2007 for the acquisition of the land use rights of the Longgang Land I;
- approximately RMB[77.8] million (approximately HK\$[88.2] million) is for the construction costs of the Shenzhen Xingli Production Base of which approximately RMB[66.5] million (approximately HK\$[75.5] million) had already been paid up to the Latest Practicable Date, and the balance of approximately RMB[11.3] million (approximately HK\$[12.7] million) is expected to be fully settled before September 2009;
- approximately RMB[17.8] million (approximately HK\$[20.2] million) is for acquiring machinery and equipment of which approximately RMB[1.8] million (approximately HK\$[2.0] million) had already been paid up to the Latest Practicable Date, and the balance of approximately RMB[16.0] million (approximately HK\$[18.2] million) is expected to be fully settled in or before June 2009; and
- approximately RMB[3.0] million (approximately HK\$[3.4] million) will be the retention money and is expected to be paid to the construction companies one year after completion of construction of the Shenzhen Xingli Production Base.

As at the Latest Practicable Date, the total commitment for the construction of the Shenzhen Xingli Production Base amounted to approximately HK\$[19.0] million. The Group commissioned Schuler Business Solutions AG to undertake the overall design of the Shenzhen Xingli Production Base. Schuler Business Solutions AG, based in Germany, is an independent factory design consulting firm specialised in woodworking and furniture industry. As at the Latest Practicable Date, the Group had invested approximately HK\$[101.7] million in the construction of the Shenzhen Xingli Production Base, the completion of which is expected to

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take place in June 2009. The Group expects to commence the trial production in August 2009 and the full scale production in November 2009. Upon its full scale production, the Shenzhen Xingli Production Base is expected to provide an annual production capacity of approximately 31,800 furniture sets.

The Group has also planned to relocate its current production carried on by Shenzhen Xingli Zundian to Shenzhen Xingli Zundian Production Base in [around mid 2011]. The Group intends to use Shenzhen Xingli Zundian Production Base to house its classic furniture series production facilities and for the relocation of the Group’s offices, staff quarters and canteen currently located at one of the Group’s leased properties in Shenzhen, the PRC. The annual production capacity of the Shenzhen Xingli Zundian Production Base is expected to be approximately [30,000] sets of furniture products. The Directors plan to work out the detailed construction plan of Shenzhen Xingli Zundian Production Base in early 2010.

Outsourcing

The Group outsources to contract manufacturers the production of certain furniture products with simple designs and minimal decorative features. The Group also outsources production of its products when its production capacity is running close to full utilisation.

During the Track Record Period, the Group engaged [16], [11] and [7] contract manufacturers in the PRC respectively, which have [1] to [13] years relationship with the Group. As at the Latest Practicable Date, the Group engaged [7] contract manufacturers in the PRC. The table below sets forth the percentages of products manufactured by these contract manufacturers and sold by the Group in terms of turnover.

	For the year ended 31 December		
	2006	2007	2008
Branded			
Johnston	0%	15.0%	[23.0]%
PZ-King	26.0%	35.0%	[55.2]%
Mandarin	40.0%	84.0%	[42.9]%
Unbranded	84.0%	72.0%	[82.4]%

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Selection of the contract manufacturers

The Group selects each of its contract manufacturers based on a number of criteria, including its operating history, costs of production, quality of products, reputation, pricing, management capabilities, size of the production floor area, number of workers and ability to meet the Group’s production schedule. The contract manufacturer needs to have an operating history of no less than [1] year and to have a production floor area of no less than 4,000 sq.m. as well as a work force of over 200 workers. However, the Group did not have any financial requirements (such as capital amount or operating profits) imposed on prospective contract manufacturers in the engagement process. Before the Group engages any contract manufacturer, the prospective manufacturer is required to produce sample products to demonstrate its capability of meeting the Group’s standards.

Production outsourcing framework agreement

Pursuant to the production outsourcing framework agreements, the Group provides the contract manufacturers with detailed product designs, specifications and raw materials requirements and each contract manufacturer is required to sign a confidentiality agreement not to disclose such confidential information to outsiders. The Directors confirmed that the Group had not experienced any breach of the confidentiality agreement by the contract manufacturers during the Track Record Period.

The outsourcing amount payable by the Group to the contract manufacturers is based on the quotation agreed between the Group and the contract manufacturers on an order by order basis with credit term of 30 days granted to the Group. The quotation also specifies the timeframe within which the outsourced products have to be delivered to the Group’s warehouse. In the event that there is any delay in the delivery which causes the Group to suffer any loss in sales, the relevant contract manufacturer has to pay damages to the Group. The Directors confirmed that the Group had not experienced any major delay by the contract manufacturers in the delivery of outsourced products which caused the Group to suffer any losses or claims during the Track Record Period.

The Group entered into production outsourcing framework agreements with its contract manufacturers for a term not exceeding two years.

Quality assurance

Pursuant to the production outsourcing framework agreement, the Group seconds production personnel and quality assurance personnel to provide on-site training to contract manufacturers. Besides, contract manufacturers are either provided with the principal raw materials sourced by the Group’s procurement department, or they can procure themselves from the Group’s designated suppliers or other suppliers so long as the raw materials can meet the requirements specified by the Group.

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Contract manufacturers are required to produce products which meet the relevant governmental and industrial standards in the PRC and overseas markets (where appropriate) or such other quality standards as agreed between the Group and the contract manufacturers.

The products manufactured by the contract manufacturers are subject to the Group's quality inspection and the contract manufacturers are responsible for rectifying any quality defects in such products as identified by the Group. In the event that any products which are sold to the Group's customers are subsequently discovered to be defective, the relevant contract manufacturers will be responsible for rectification at their own costs. It is also provided in the framework agreement that if the Group agrees to perform the rectification instead, the relevant costs are deducted from the amount payable by the Group to the contract manufacturers in settling the relevant purchases.

[Before each shipment, the Group's quality assurance personnel conduct on-site inspections and inspect approximately 5% of the finished products to ensure that the products manufactured by the contract manufacturers meet the quality standards and design specification set by the Group.]

For the three years ended 31 December 2008, the total purchases from the contract manufacturers amounted to approximately HK\$[107.7] million, HK\$[141.7] million and HK\$[180.7] million, representing approximately [36.0]%, [35.8]% and [41.7]% of the Group's total cost of sales respectively. The Directors confirmed that none of them and their respective associates and the Shareholders who, to the knowledge of the Directors, held 5% or more of the issued share capital of the Company as at the Latest Practicable Date, had any interest in any of the contract manufacturers of the Group for each of the three years ended 31 December 2008.

QUALITY ASSURANCE

The Directors consider that an established quality control system is one of the important factors contributing to the Group's success. The Group has established a stringent quality assurance system to ensure its products meet the required quality and safety standards. In recognition of the quality of the Group's production process, its subsidiaries, Shenzhen Xingli received ISO9001:2000 certification in January 2008 which is valid to January 2011 for the establishment and application of quality system for the design, production and sale of wood-based home furniture, whilst Shenzhen Xingli Zundian received ISO9001:2000 certification in [February] 2007 which is valid to February 2010 for the establishment and application of quality system for the design and manufacture of home furniture. In addition, each of Shenzhen Xingli and Shenzhen Xingli Zundian has been registered with the local entry-exit inspection and quarantine bureau in accordance with the requirements promulgated by 中華人民共和國國家質量監督檢驗檢疫總局 (The General Administration of Quality Supervision, Inspection and Quarantine of the PRC) so that they are eligible to engage in the export of wood-based furniture products. In order to be qualified for registration, Shenzhen Xingli and Shenzhen Xingli Zundian must be capable of fulfilling the quality standards and requirements on production, quality control, warehousing, and logistics imposed by the local

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bureau. Furthermore, the contract manufacturer engaged by the Group for outsourced manufacturing of wood-based furniture for export has also been registered with the local bureau in Shenzhen. The Directors confirmed that the abovementioned registration obtained by the Group and its contract manufacturer had never been suspended or revoked during the Track Record Period. For more information about the relevant laws, rules and regulations in relation to product quality to which the Group is subject, please refer to the section headed “Regulatory overview” in this document.

The Group has adopted strict quality assurance procedures at each principal stage of the production process and imposed quality assurance procedures on its contract manufacturers and licensees in order to ensure that their products manufactured under the Group’s brand names meet the relevant quality standards in both the domestic and overseas markets. For details, please refer to the sub-paragraphs headed “Quality assurance procedures implemented for in-house production process” and “Quality assurance procedures imposed on contract manufacturers and licensees” below. As a result of the strict quality assurance procedures, the quantity of goods returned by its customers due to defects was immaterial during the Track Record Period. For the three years ended 31 December 2008, the Group experienced goods returned due to quality problems in domestic sales amounting to approximately HK\$[0.2] million, HK\$[0.3] million and HK\$[0.5] million respectively whilst there was no record of goods returned in export sales. Save as aforesaid, the Directors confirmed that the Group did not experience any other goods returned (including the products produced by the contract manufacturers) or product complaints during the Track Record Period.

During the Track Record Period, none of the subsidiaries of the Company in the PRC had been subject to any penalty under 中華人民共和國產品質量法 (Product Quality Law of the PRC), except for a fine of RMB3,800 occurred in relation to the non-compliance with the prescribed formaldehyde emission standard in respect of a batch of 32 bedside tables manufactured by Shenzhen Xingli in September 2006. The non-compliance incident was an isolated case. The Group sample tested the incoming MDF boards in relation to the bedside tables concerned and no [irregularity] was found. However, during a regular inspection conducted by 深圳市質量技術監督局龍崗分局 (Shenzhen Bureau of Quality and Technical Supervision, Longgang Branch), it was found that formaldehyde emission of the bedside tables concerned exceeded the prescribed standards. The Group recalled all of the relevant products from the two distributors involved, as none of those products had been sold to end consumers. The value of the products recalled was negligible. After this incident, the Group terminated the business relationship with the supplier concerned and strengthened its centralised procurement system to procure raw materials only from approved suppliers. The Group would require any new supplier of major raw materials such as MDF boards, paints, metal parts and sponge to provide the Group with independent certification of the quality of its raw materials supplied or the Group would send the raw materials supplied by such new suppliers to independent professionals for testing before accepting such new supplier as an approved supplier. In addition, the Group increased the sample testing coverage from 3% to 5%. The Directors confirmed that, save as disclosed above, the Group had not experienced any product recall or received any claim against it in respect of product quality in the past.

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Apart from ensuring that its quality assurance capabilities are up to the standards imposed by the relevant government authority for the purpose of registration as mentioned above, the Group places strong emphasis on its quality assurance procedures in meeting the quality and safety standards as set by its overseas customers as well. Overseas customers normally select its suppliers based on, among others, their standards and techniques of product quality assurance. Before engaging the Group, major prospective overseas customers usually conduct on-site interviews with the Group’s production and quality assurance staff to assess the Group’s capabilities in meeting the quality requirements of the relevant export markets. The overseas customers sometimes require the Group to produce sample products so as to ensure that the furniture products manufactured by the Group are able to meet their quality and safety requirements. The Group’s major overseas customers from some developed countries like European Union and the United States would periodically perform on-site inspection on the Group’s operations to ensure that its quality control standards continue to meet their requirements.

In addition, under the requirements from 中華人民共和國國家質量監督檢驗檢疫總局 (The General Administration of Quality Supervision, Inspection and Quarantine of the PRC), each wood-based furniture manufacturing enterprise must strictly observe the technical requirements and quality standards imposed by the respective importing countries when exporting products overseas. For each export shipment, the Group is required to apply for approval from the local entry-exit inspection and quarantine bureau which performs random inspection on the product quality before clearance can be obtained from the relevant local customs authorities. The Directors confirmed that the Group or its wood-based furniture contract manufacturer, when applying for such export approval, had not experienced any rejection during the Track Record Period. As in the importing countries, in the event that necessary filings are required to be made with the relevant local authorities in relation to the product quality and safety standard declaration, it is customary that the Group’s overseas customers are responsible for fulfilling such requirements.

The Group’s quality assurance department conducts quality inspections on the products manufactured by the Group and oversees the implementation of the quality assurance at every stage of in-house production process. In addition, it also performs periodic inspections on the quality of the products manufactured by the approved contract manufacturers and the licensees.

The Group’s furniture products are distinguishable by their designs, craftsmanship and stylish decorative trimmings. The Directors consider that in order to ensure the quality of the Group’s products, the Group needs to rely on the quality assurance staff in identifying defects in finished furniture products. As at the Latest Practicable Date, the quality assurance department comprised [23] staff members. [Although the Group’s quality assurance staff do not possess any professional qualifications in relation to wood furniture or mattress quality assurance, [9] of them possess more than [10] years of experience in the furniture industry and the remaining employees have [1] to [8] years of relevant experience].

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Quality assurance procedures implemented for in-house production process

The Group implements the following quality assurance procedures in respect of its production process with respect to:

(a) Supplier selection

Raw materials are purchased only from approved suppliers. The criteria for selecting the approved suppliers include pricing, the quality of the raw materials and after-sales services, stability of supply and delivery, ability to deliver the raw materials on time, minimum one year experience in supplying the relevant raw materials, the amount of minimum order requirement and reputation. [For every new supplier of major raw materials such as MDF board, paints, metal parts and sponge, it is required to provide the Group with independent certification of quality of its raw materials supplied or the Group will send the raw materials supplied by such new suppliers to independent professionals for testing of compliance with standards and the relevant rules and regulations before such new supplier become an approved supplier.] The Group has established a quality assurance team to select suppliers.

(b) Incoming quality assurance

Incoming raw materials are subject to sample inspections by the staff of the quality assurance team to ensure that they are supplied by approved suppliers and that the quality, grade and quantity of such raw materials conform to the order specifications. Raw materials which do not meet the specifications and quality standards as required by the Group are returned to the relevant suppliers.

(c) In-process quality assurance

In-process quality assurance measures are implemented throughout the production process to ensure that defective semi-completed products will not proceed to the next stage of the production process. The section leader at each stage of production has to perform relevant quality assurance procedures whereas the quality assurance department conducts random checks on semi-finished and finished products in order to ensure compliance with quality assurance standards of the Group. The Group’s quality assurance staff normally randomly inspect 5% of the semi-finished products at each stage of the production process to ensure that production standards and specifications are conformed with. If any flaws or defects are found, the quality assurance staff will conduct another 5% random inspection. If further defects are found, the whole lot of the semi-finished parts/products will be subject to quality assurance inspection. Any items which cannot pass the quality check will be either discarded or reprocessed depending on the severity and type of error.

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(d) Final quality assurance

Finished products undergo final quality inspection to ensure compliance with quality assurance standards, designs and specifications of the Group. Products that passed the final quality inspection are stored in warehouses pending delivery to customers. In respect of the Group’s wood based furniture products, before packaging for delivery, the quality assurance staff will test the fitting of all parts by taking a sample thereof and assemble them into finished furniture, ensuring that the parts and the finished products meet the design specifications.

(e) Outgoing quality assurance

Prior to delivery to customers, staff of the quality assurance department carry out random quality checks to ensure that the products to be delivered have not been damaged during storage.

Quality assurance procedures imposed on contract manufacturers and licensees

The Group’s quality assurance personnel provide contract manufacturers with on-site training in respect of quality assurance requirements of the Group. Before each shipment, the quality assurance personnel would conduct random checking on 5% of the finished goods to ensure that the products comply with the Group’s quality standards.

The Group’s quality assurance personnel are seconded to the production sites of the licensees. Under the secondment arrangement, one of the Group’s experienced quality assurance personnel would be assigned to each of the four licensees and they are subject to rotation without a fixed term. The quality assurance personnel seconded at the production facilities of the licensees would provide training, guidance and supervision in respect of the production procedures and quality control to the staff of the licensees to ensure that the quality assurance procedures carried out at the production facilities of the licensees are up to the Group’s standards.

Operational guidelines provided to approved shops and licensees

The Group provides the approved shop operators and licensees with detailed guidelines which set out the Group’s requirements on the shops’ layout and decoration, marketing and advertising information of the products being sold, recommended customer service instructions and suggested pricing policy to ensure a unified brand image.

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PROCUREMENT

The principal raw materials used in the production of the Group’s home furniture products comprise MDF board, ironware and paint. For the three years ended 31 December 2008, the costs of raw materials which amounted to approximately HK\$[157.5] million, HK\$[210.7] million and HK\$[199.2] million, accounted for approximately [52.6]%, [53.1]% and [46.0]% of the Group’s total cost of sales respectively.

During the Track Record Period, the costs of MDF board accounted for approximately [36.2]%, [40.1]% and [42.0]% of the Group’s total cost of raw materials respectively. The Group uses MDF board of various thicknesses. The following table sets out the average purchase prices of two major types of MDF board utilised by the Group in 2006, 2007 and 2008:

Thickness of MDF board	2006 <i>approximately</i> RMB/unit*	2007 <i>approximately</i> RMB/unit*	2008 <i>approximately</i> RMB/unit*
18 mm	[89.0]	[97.5]	[92.8]
25 mm	[127.3]	[142.0]	[136.0]

* Each unit has a size of 1.22 metres by 2.44 metres.

The Group did not enter into any long-term supply agreements with the raw material suppliers during the Track Record Period, instead, the Group entered into framework agreements governing the major terms of the supply of raw materials with its major raw material suppliers. The price, quality and delivery time of each purchase order of raw materials are negotiated on a transaction by transaction basis with the relevant supplier. [The Group procures raw materials based on production requirements and, in general, maintains one-month inventory level. The Group’s procurement department is responsible for monitoring the price fluctuations of raw materials and would rely on bulk purchases to minimise the impact of such fluctuation.]

During the Track Record Period, all the raw materials were sourced in the PRC. The purchases of raw materials are settled either on cash basis or on an open account basis in RMB with credit terms of [30] days to [90] days. The turnover days of the Group’s trade payables were approximately [70] days, [68] days and [54] days for the three years ended 31 December 2008, respectively.

The Group’s suppliers include raw material suppliers and contract manufacturers to which the Group outsources production of certain furniture products. For the three years ended 31 December 2008, purchases from the Group’s five largest suppliers together accounted for approximately [27.7]%, [41.5]% and [49.8]% respectively of the Group’s total purchases, while purchases from the Group’s largest supplier accounted for approximately [9.7]%, [14.6]% and [14.4]% respectively of the Group’s total purchases during the same period. The Group’s five largest suppliers are mainly suppliers of raw materials for MDF board and contract

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manufacturers during the Track Record Period. As at the Latest Practicable Date, the approximate years of relationship with them ranged from [3] to [13] years. For each of the three years ended 31 December 2008, the Group did not experience any difficulties in sourcing raw materials. Given most of the Group’s raw materials used in the manufacture of home furniture products are generally available commodities and the Group has established long term relationships with its suppliers, the Directors do not foresee that the Group will encounter any difficulties in sourcing raw materials from its existing suppliers or in finding alternative suppliers if necessary in the future.

The Directors confirmed that none of them and their respective associates and the Shareholders who, to the knowledge of the Directors, held 5% or more of the issued share capital of the Company as at the Latest Practicable Date, had any interest in any of the five largest suppliers of the Group for each of the three years ended 31 December 2008.

Inventory Control

The Group’s inventory consists of raw materials (primarily MDF board, ironware and paint), work in progress and finished goods. The inventory levels for major raw materials and finished products are determined on the basis of the level of customer orders, its production capacity and available working capital. The Group monitors its inventory levels through its ERP system which incorporates real-time inventory management, production management, materials requirement planning and purchasing management modules. Reports will be generated to show that raw materials are needed to be replenished when the inventory levels at the warehouse are lower than the optimal level. In general, the Group maintains approximately one-month inventory of key raw materials to meet production requirements and adjusts its level of finished goods based on historical sales amounts and anticipated orders from customers. The Group also conducts physical counts of the level of inventory on a quarterly basis to check against the records as shown in its ERP system and to determine whether allowance needs to be made in respect of any defective inventory items. For the three years ended 31 December 2008, the inventory turnover of the Group was approximately [50] days, [45] days and [52] days, respectively.

Inventories are valued at the lower of the cost as calculated, on the weighted average basis, and the net realisable value after making due impairment for any obsolete or slow moving items. The Group reviews the aging of inventories on a quarterly basis and will generally make impairment for any obsolete or slow moving items in accordance with the Group’s policy.

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Set out below is the amount of impairment for the value of inventory during the Track Record Period:

	For the year ended 31 December		
	2006	2007	2008
	<i>HK\$'000</i>	<i>HK\$'000</i>	<i>HK\$'000</i>
Impairment for the value of inventory	[2,000]	[501]	[2,165]

INTELLECTUAL PROPERTY

The Directors attribute the Group’s success in part to the trademarks and other intellectual property rights, including design patents, which the Group develops and owns. As at the Latest Practicable Date, the Group (i) owned [29] trademarks registered in the PRC and [7] trademarks registered in Hong Kong; and (ii) had applied for the registration of [10] trademarks in the PRC and [1] trademark in Italy. Please refer to the sub-section headed “Intellectual property” in Appendix V to this document for the validity period of the trademarks owned by the Group as at the Latest Practicable Date.

As at the Latest Practicable Date, the Group (i) owned [6] patents; and (ii) had applied for the registration of [34] patents regarding certain product designs of the Group’s home furniture products in the PRC. Please refer to the sub-section headed “Intellectual property” in Appendix V to this document for the validity period of the patents owned by the Group as at the Latest Practicable Date.

As at the Latest Practicable Date, the Group was the registrant of the domain name of www.hingleegroup.com.

[If the pending applications for registration of the intellectual property rights of the Group are refused or rejected, the Group may consider adopting other trademarks for promotion of its products and/or using other designs in its production. In addition, the refusal of registration will not itself prevent the Group from utilising such trademarks and designs for its products unless the same constitutes an infringement of any third party’s intellectual property rights. As such, the Directors believe that there may not be any material impact on the operations and financial condition of the Group should any applications for trademark or patent registration be refused or rejected.]

The Directors confirmed that so far as they were aware, there were no infringement of any intellectual property rights by the Group nor disputes regarding any intellectual property rights between the Group and any third party during the Track Record Period and the Group had not encountered any infringement of its intellectual property rights by any third party during the Track Record Period.

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During the Track Record Period, four trademark applications and one patent application in the PRC were initially refused for registration by the relevant regulatory authorities. Three out of the four trademark applications which were refused for registration during the application stage at 中華人民共和國國家工商行政管理總局商標局 (Trademark Office of State Administration for Industry and Commerce of the PRC) were finally approved by 商標評審委員會 (The Trademark Review and Adjudication Board) and obtained the registration certificates issued by 中華人民共和國國家工商行政管理總局商標局 (Trademark Office of State Administration for Industry and Commerce of the PRC). The remaining rejected trademark application related to the brand “QQ Star” (智逗星) which was rejected due to its similarity with a prior registered trademark. All the product designs under the brand “QQ Star” were subsequently merged into the brand “Orient”. On the other hand, the patent application was rejected due to some technical defects inherent in the application. [Since its rejection, the Group has ceased to use the subject design thereunder in its production in October 2007.] [During the Track Record Period and] [up to the Latest Practicable Date, the Group had not received any notice from any third party alleging any infringement of intellectual property rights by the Group.]

[The Group is in the process of applying for registration of the brand “CHINATAG” in Italy]. According to a legal opinion from an Italian legal adviser obtained by the Group, under the normal circumstances, the completion of the registration procedures is expected to take three to four years from the filing date. The Group was advised by the Italian legal adviser that the chance of refusal of such registration was very low. However, the fact that the Italian Trademark and Patent Office issues a certificate of registration does not mean that the relevant trademark is valid since the novelty, which is a requirement by law, has not been examined by the said office and the novelty of such trademark may be eventually contested by legal action, though such risk is considered to be low by such Italian legal adviser.

In relation to the pending applications of the Group for registration of trademarks in the PRC, according to the PRC Legal Advisers, the time required for completion of the registration procedures cannot be ascertained as it will depend on the progress of the examination and approval procedures of 中華人民共和國國家工商行政管理總局商標局 (Trademark Office of State Administration for Industry and Commerce of the PRC). According to the PRC Legal Advisers, 中華人民共和國國家工商行政管理總局商標局 (Trademark Office of State Administration for Industry and Commerce of the PRC) will examine whether the subject trademarks are distinctive, distinguishable and whether they are in conflict with any prior right acquired by another person. Subject to the passing of the examination of 中華人民共和國國家工商行政管理總局商標局 (Trademark Office of State Administration for Industry and Commerce of the PRC), the PRC Legal Advisers advised that there would be no legal impediments for the Group to obtain the approval for the registration of such trademarks.

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Whereas in relation to the pending applications of the Group for registration of patents in the PRC, according to the PRC Legal Advisers, the time required for completion of the registration procedures cannot be ascertained as it will depend on the progress of the examination and approval procedures of 中華人民共和國國家知識產權局 (State Intellectual Property Office of the PRC). The PRC Legal Advisers have also advised that the subject designs must not be identical with or similar to any design which, before the date of filing, has been publicly disclosed in publications in the country or abroad or has been publicly used in the country, and must not be in conflict with any prior right of any other person. Subject to the examination of 中華人民共和國國家知識產權局 (State Intellectual Property Office of the PRC) in relation to the above, the compliance of the application procedures by the Group as required under 中華人民共和國專利法 (Patent Law of the PRC) and the payment of the relevant fees involved in the applications, the PRC Legal Advisers advised that there would be no legal impediments for the Group to obtain the approval for the registration of such patents.

As the Group’s success depends in part on its intellectual property rights, the Group has applied and will continue to apply for registration of such intellectual property rights in the jurisdictions where they are primarily used and the Group has also made efforts for the detection and prevention of sale of counterfeit products under its brands. [Under the distribution framework agreements between the Group and its distributors, not only are the distributors forbidden to sell any counterfeit products in their approved shops, but they are also required under those agreements to give feedback to the Group on any sale of counterfeit products detected by them. Under the licence agreements between the Group and its licensees, the licensees are obliged to give notice to the Group should they become aware of any potential infringement of the Group’s rights for, or any unauthorised use of, the brands which are subject to the licence agreements. In addition, if the sales persons of the Group become aware of any counterfeits of the Group’s products and brands during their regular visits to the approved shops and their vicinity, they will report the same to the Group for consideration. The Group would rely on its salespersons, distributors and licensees to give feedback to the Group on any sale of counterfeit products in other stores or by other distributors not under agreements with the Group.]

Further details of the Group’s intellectual property rights are set out in the sub-section headed “Intellectual property” in Appendix [V] to this document.

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PROPERTIES

Owned properties

Longgang Land I

On 29 June 2007, Shenzhen Xingli entered into a contract for grant of land use rights with 深圳市國土資源和房產管理局 (Shenzhen Municipal Bureau of Land Resources and Housing Management) for the acquisition of Longgang Land I with a site area of approximately 43,817 sq.m. for a total consideration of RMB22,593,085 (approximately HK\$[24,215,525]) from 深圳市國土資源和房產管理局 (Shenzhen Municipal Bureau of Land Resources and Housing Management). As advised by the PRC Legal Advisers, the consideration payable under the relevant contract for grant of land use rights was settled on 2 July 2007. On 20 September 2007, the Group obtained the land use rights of such land for a term of 50 years with the expiry date on 28 June 2057. Under the current construction plan, the Group intends to build the Shenzhen Xingli Production Base with an aggregate GFA of approximately 38,869 sq.m. on Longgang Land I for the relocation of the Group’s production facilities for modern furniture series products from one of the Group’s leased properties in Shenzhen, the PRC (being the property numbered [9] referred to in the valuation report set out in Appendix III to this document) and to house the production facilities for “CHINATAG” products. The Group has commissioned Schuler Business Solutions AG to be responsible for the overall design of the production facilities. Based in Germany, Schuler Business Solutions AG, an Independent Third Party, is a factory design consulting firm specialised in woodworking and furniture industry.

The construction of the Shenzhen Xingli Production Base has commenced in [June] 2008 and is expected to complete in [June] 2009. [As at the Latest Practicable Date, superstructure of the factory buildings and the dormitory buildings of the Shenzhen Xingli Production Base has been completed, and internal renovation and installation of building services are being carried out.] The PRC Legal Advisers have advised that the Group has obtained (i) 深圳市建設工程規劃許可證 (Shenzhen Construction Work Planning Permit) on 12 and 13 March 2008; and (ii) 中華人民共和國建築工程施工許可證 (Construction Work Commencement Permit of PRC) on 21 May 2008, for the construction of production facilities on Longgang Land I and has commenced construction in compliance with relevant laws, rules and regulations and in accordance with the relevant provisions of the contract for grant of land use rights. The Group expects to commence the trial production in [August] 2009 and the full scale production in [November] 2009. It is expected that the annual production capacity of the Shenzhen Xingli Production Base will be approximately [31,800] sets of furniture products. As advised by the PRC Legal Advisers, in the event Shenzhen Xingli does not complete construction on Longgang Land I on or before 28 June 2009, Shenzhen Xingli would be subject to a penalty of a prescribed percentage of the consideration paid under the relevant contract for grant of land use rights in the following manner: (i) 5% for a delay not exceeding six months; (ii) 10% for a delay between six months but not exceeding one year; and (iii) 15% for a delay between one year but not exceeding two years. The Directors estimate that the maximum penalties that may be imposed on the Group in the event of delay in the construction on Longgang Land I will be approximately RMB[3.39] million for a delay not exceeding two

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years. The PRC Legal Advisers have also advised that in the event Shenzhen Xingli does not complete construction on Longgang Land I within two years after the prescribed time limit, the relevant land bureau is entitled to resume the land without any compensation. [The Founders and their respective investment vehicles have agreed to indemnify the Group for all penalties that the Group may incur as a result of any delay in the construction of the Shenzhen Xingli Production Base].

Longgang Land II

On 29 June 2007, Shenzhen Xingli Zundian entered into a contract for grant of land use rights with 深圳市國土資源和房產管理局 (Shenzhen Municipal Bureau of Land Resources and Housing Management) for the acquisition of Longgang Land II with a site area of approximately 41,066 sq.m. for a consideration of RMB21,094,404 (approximately HK\$[22,609,212]) from 深圳市國土資源和房產管理局 (Shenzhen Municipal Bureau of Land Resources and Housing Management). As advised by the PRC Legal Advisers, the consideration payable under the relevant contract for grant of land use rights was settled on 26 October 2007. On 30 January 2008, the Group obtained the land use rights of such land for a term of 50 years with the expiry date on 28 June 2057. The Group intends to build the Shenzhen Xingli Zundian Production Base to house [its classic furniture series production facilities] and for the relocation of the Group's offices, staff quarters and canteen currently located at one of the Group's leased properties in Shenzhen, the PRC (being the property numbered [9] referred to in the valuation report set out in Appendix III to this document). It is expected that the annual production capacity of the Shenzhen Xingli Zundian Production Base will be approximately [30,000] sets of furniture products.

Pursuant to the contract for grant of land use rights in respect of Longgang Land II, the Group should commence construction on such land before 29 June 2008 and complete construction within two years after the signing of the agreement. The Group has applied to 深圳市國土資源和房產管理局 (Shenzhen Municipal Bureau of Land Resources and Housing Management) which has agreed to extend the deadline of construction commencement to 26 October 2008 and construction completion to 26 October 2009. As advised by the PRC Legal Advisers, the construction of the Shenzhen Xingli Zundian Production Base has commenced in July 2008. According to the PRC Legal Advisers, the Group has obtained (i) 深圳市建設工程規劃許可證 (Shenzhen Construction Work Planning Permit) on 13 March 2008 for the construction of production facilities with a GFA of 34,443.96 sq.m. on Longgang Land II; and (ii) 中華人民共和國建築工程施工許可證 (Construction Work Commencement Permit of PRC) on 27 June 2008 pursuant to which the Group was given permission to commence foundation works for the factory building to be built on Longgang Land II and has commenced construction in compliance with relevant laws, rules and regulations and in accordance with the relevant provisions of the contract for grant of land use rights. The Directors have confirmed that construction work of the Shenzhen Xingli Zundian Production Base has been suspended after the completion of the said foundation works since January 2009 as access to Longgang Land II was denied pending the inspection approval of the neighbouring public road works by the relevant authorities which include 深圳市龍崗區建設局 (Construction Bureau of Longgang District of Shenzhen), 深圳市龍崗區城市管理行政執法局

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(Urban Administration Enforcement Bureau of Longgang District of Shenzhen) and 深圳市龍崗區工程質量監督檢驗站 (Engineering Projects Quality Supervision and Inspection Office of Longgang District of Shenzhen). According to the PRC Legal Advisers, the pending approval of the neighbouring public road works does not affect the Group's right to use Longgang Land II but as the roads leading to such land cannot be used until the approval is granted, Shenzhen Xingli Zundian is unable to continue the construction on Longgang Land II. [The Directors believe that, having taken into account that the Group may (i) continue to use its existing classic furniture series production facilities; (ii) engage third party subcontractors within the Shenzhen area; and (iii) lease additional space as and when required since the Directors do not foresee any difficulty in identifying suitable property in Shenzhen, the pending approval of the neighbouring public road works would not affect the Group's expansion plan.] As advised by the PRC Legal Advisers, in the event Shenzhen Xingli Zundian does not complete construction on Longgang Land II on or before 26 October 2009, Shenzhen Xingli Zundian would be subject to a penalty of a prescribed percentage of the consideration paid under the relevant contract for grant of land use rights in the following manner: (i) 5% for a delay not exceeding six months; (ii) 10% for a delay between six months but not exceeding one year; and (iii) 15% for a delay between one year but not exceeding two years. The Directors estimate that the maximum penalties that may be imposed on the Group in the event of delay in the construction on Longgang Land II will be approximately RMB[3.16] million for a delay not exceeding two years. The PRC Legal Advisers have also advised that in the event Shenzhen Xingli Zundian does not complete construction on Longgang Land II within two years after the prescribed time limit, the relevant land bureau is entitled to resume the land without any compensation. [The Founders and their respective investment vehicles have agreed to indemnify the Group for all penalties that the Group may incur as a result of any delay in the construction of the Shenzhen Xingli Zundian Production Base]. [Having considered the latest degree of completion of the neighbouring public road works and the time generally required for the granting of inspection approval of public road works in the vicinity,] the Group currently expects that the construction of the Shenzhen Xingli Zundian Production Base will be resumed in around June 2010 and will be completed in [around mid 2011]. The PRC Legal Advisers visited the relevant land bureau and were given to understand that Shenzhen Xingli Zundian could apply for an extension of the construction completion date after the inspection approval of the neighbouring public road works has been granted by the relevant authorities. The PRC Legal Advisers are of the opinion that there is normally no legal obstacle for the Group to obtain such extension if the delay in construction is caused by delay of completion of the relevant public road works.

According to the PRC Legal Advisers, as the Group has obtained 深圳市建設用地規劃許可證 (Shenzhen Planning Permit on Land for Construction Use) and Real Estate Ownership Certificate in respect of each of Longgang Land I and Longgang Land II, and the considerations payable under the relevant contracts for grant of land use rights have been settled in full, the Group possesses the land use rights of Longgang Land I and Longgang Land II each for a term of 50 years up to 28 June 2057 for industrial use. The PRC Legal Advisers have further advised that it is a condition of the contracts for grant of land use rights of the Land that the land use rights of these two pieces of land are not allowed to be transferred or leased. As a result, the valuer has assigned no commercial value to such land. Please also

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refer to the paragraph headed “The Group’s owned properties cannot be transferred to third parties” in the section headed “Risk factors” in this document. Nevertheless, as advised by the PRC Legal Advisers, the Group is the legal owner of the land use rights of Longgang Land I and Longgang Land II and the non-transferability of such land does not affect the Group’s rights to such land.

Leased properties

As at the Latest Practicable Date, the Group leased [9] properties in the PRC which were mainly used as production facilities, offices, warehouses and staff quarters and one property in Hong Kong which was used as office premises. All of these properties are leased from Independent Third Parties.

With respect to one of the Group’s leased properties in the PRC, being the property numbered [10] referred to in the valuation report set out in Appendix III to this document, no title documents had been provided by the relevant lessor evidencing its legal title to such property. This property is located in Shenzhen, the PRC and has been used by the Group for storage purposes. According to the PRC Legal Advisers, as the relevant lessor has not provided the Group with the relevant title documents, its legal right to lease such property to the Group is in doubt. Accordingly, the PRC Legal Advisers are not able to opine on the validity and legality of the lease agreement of this property. As advised by the PRC Legal Advisers, the lessor has not provided the relevant title documents for registration, which resulted in the delay in registering the lease agreement with the relevant property leasing administration authority. The PRC Legal Advisers have also advised that the relevant lessor is liable for the failure to register the lease agreement and as such, Shenzhen Xingli would not be subject to any administrative penalty. However, there is no assurance that the rights of the Group to use and occupy this property will not be challenged in the future. Nevertheless, the Directors do not consider such property to be crucial to the Group’s business and operations as it is used for non-production purposes. The Directors believe that comparable properties in the vicinity could be easily identified in the event that the Group is required to relocate from this property. The Directors currently estimate that the relocation costs would amount to approximately [RMB400,000] and the time required to complete such relocation would be about one week, and they do not anticipate any significant disruption to the Group’s operations or loss of profit during the relocation of the said property. The Group currently intends to relocate this warehouse to the Shenzhen Xingli Production Base following completion of the construction which is expected to take place in [June 2009]. For more information about the Shenzhen Xingli Production Base, please refer to the sub-paragraph headed “Owned properties” above. The PRC Legal Advisers have advised that pursuant to the supplemental agreement entered into between the Group and the lessor on 9 October 2008, the Group may, among other things, terminate the lease agreement in respect of this property one year from the date of the lease agreement (being 1 June 2008) by giving the lessor one month’s prior notice or a payment of one month’s rental in lieu of notice. The Founders and their respective investment vehicles have agreed to indemnify the Group for all claims, damages, costs, expenses and penalties that the Group may incur as a result of the non-registration of the relevant lease agreement.

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In addition, the lease agreement of one of the Group's leased properties located in Shenzhen, the PRC, being the property numbered [9] referred to in the valuation report set out in Appendix III to this document, had not been registered with the relevant property leasing administration authority as at the Latest Practicable Date. As advised by the PRC Legal Advisers, the lessor has not provided the relevant title documents for registration, which resulted in the delay in registering with the relevant property leasing administration authority. This property has been leased to Shenzhen Xingli to house its production facilities for modern home furniture products and for other purposes including offices, staff quarters and canteen. For the year ended 31 December 2008, the annual production capacity of these production facilities was approximately [11,800] sets of furniture products. During the Track Record Period, the percentage of the Group's turnover and profit contributed by the production facilities located on this leased property was approximately [34.9]%, [32.9]% and [29.9]% respectively, and nil, nil and approximately [18.0]% respectively.

According to the PRC Legal Advisers, the lease agreement in respect of the said leased property is legally enforceable and the failure to register the same does not affect its validity. As advised by the PRC Legal Advisers, Shenzhen Xingli has written to the lessor on 1 March 2008 and 1 September 2008 requesting the lessor to register the relevant lease agreement with the relevant property leasing administration authority. The PRC Legal Advisers have further advised that the relevant lessor is liable for the failure to register the lease agreement and as such, Shenzhen Xingli would not be subject to any administrative penalty. However, in the event the present owner disposes of the property, the subsequent owner of the property has the right to require Shenzhen Xingli to move out from the property and thus there is no assurance that the right of the Group to use and occupy this leased property will not be interfered with in the future due to the failure to register the relevant lease agreement. The Group plans to relocate the existing production facilities of Shenzhen Xingli to the Shenzhen Xingli Production Base following completion of the construction which is expected to take place in [June 2009], and the non-production facilities to the Shenzhen Xingli Zundian Production Base following completion of the construction which is expected to take place in [around mid 2011]. For more information about the Shenzhen Xingli Production Base and the Shenzhen Xingli Zundian Production Base, please refer to the sub-paragraph headed "Owned properties" above. Although the percentage of the Group's profit contributed by the production facilities located on this leased property has increased from nil for the two years ended 31 December 2007 to approximately [18.0]% for the year ended 31 December 2008, given that (i) the Group will relocate the said production facilities to the Shenzhen Xingli Production Base following completion of the construction which is expected to take place in [June 2009]; (ii) in the event that the Group is required to relocate from this leased property, the Directors (a) do not foresee any difficulty in identifying comparable property in Shenzhen at about the same rental; (b) currently expect that the relocation costs would amount to approximately [RMB1.4 million] and the time required to complete such relocation would be about [two] weeks; (c) estimate that the loss of profit due to relocation would amount to approximately [RMB200,000]; and (d) believe that the production processes which are currently undertaken at this property could be subcontracted to third party subcontractors within Shenzhen, including the contract manufacturers currently engaged by the Group; and (iii) the Group is entitled to seek compensation from the lessor if it is required to relocate from such property due to non-registration of the lease agreement, the Directors consider that this property is not crucial to the Group's operations. The PRC Legal Advisers have further advised that the lessor has

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agreed to indemnify Shenzhen Xingli for all damages incurred in connection with any penalties that may be imposed on the Group as a result of the non-registration of the relevant lease agreement.

Completion of the relocation of the production facilities of Shenzhen Xingli to the Shenzhen Xingli Production Base is expected to take place in [September 2009]. [The Directors do not expect any material interruption to the Group’s production as a result of the relocation to the Shenzhen Xingli Production Base as it plans to move the production facilities to the new production site in several stages gradually and will prepare for concurrent operation of the existing and the new production plant at the Shenzhen Xingli Production Base during the relocation period. The Directors believe that such measures will effectively secure the proper operation of the production during the relocation period.] The Group will terminate the existing lease in respect of this property after completion of the relocation as described above. The PRC Legal Advisers have advised that pursuant to the supplemental agreement entered into between the Group and the lessor on 9 October 2008, the Group may, among other things, terminate the lease agreement in respect of this property by giving the lessor one month’s prior notice or a payment of one month’s rental in lieu of notice. Nevertheless, the Founders and their respective investment vehicles have agreed to indemnify the Group for all claims, damages, costs, expenses and penalties that the Group may incur as a result of the non-registration of the relevant lease agreement to the extent that damages, if any, recovered from the relevant lessor are insufficient to cover the related costs incurred by the Group.

[The Directors confirmed that up to the Latest Practicable Date, nothing had come to their attention that there was any dispute regarding the use of any of the two leased properties as described above by the Group. The Group has adopted an internal policy that in case of leasing property from external landlord in the future, all necessary title documents in respect of the leased property shall be requested from the prospective landlord at the stage of negotiation and before signing the lease agreement for any new premises leased by the Group and the registration of the lease agreement shall be pursued by the landlord shortly after signing of the lease agreement. All registered lease agreements have to be filed with the compliance department of the Group.]

Details of the property interests of the Group are set out in Appendix [III] to this document.

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AWARDS AND RECOGNITIONS

The Group differentiates itself from its competitors through its comprehensive range of products, high quality products, strong product development capability and branding. Over the years, the Group has been granted or accredited a number of awards and certifications by various regional, national, international and industry associations in recognition of the Group’s industry standing and product quality. The table below sets forth some of the major awards and certifications granted to the Group:

Year of grant	Title of award or certification	Awarding association
March 2004	第十四屆深圳國際家具展覽會 客廳家具系列亞軍 (The 14th Shenzhen International Furniture Exhibition First Runner Up of Living Room Furniture Series)	SFTA
August 2004	第十五屆深圳國際家具展覽會 歐洲古典家具系列優秀產品 (The 15th Shenzhen International Furniture Exhibition Outstanding Prize of European Classic Furniture Series)	SFTA
December 2004	突出貢獻獎 (Exceptional Contributions Award)	SFTA
January 2005	2000-2004 年度廣東省優秀家具 出口企業 (Certificate of Excellent Export- Oriented Furniture Enterprise in Guangdong Province (2000-2004))	廣東省家具商會 (Guangdong Furniture Chamber of Commerce)
March 2005	第十六屆深圳國際家具展覽會 現代版式臥室家具系列金獎 (The 16th Shenzhen International Furniture Exhibition Winner of Contemporary Bedroom Furniture Series)	SFTA
August 2006	第十九屆深圳國際家具展覽會 民用書房家具系列金獎 (The 19th Shenzhen International Furniture Exhibition Gold Award of Study Room Home Furniture Series)	SFTA

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Year of grant	Title of award or certification	Awarding association
December 2006	中國十大家具品牌 (2005-2006) — 尊典，歐瑞系列產品 (Top 10 Famous Furniture Brands in China (2005-2006) – Johnston and Oriant Brand Furniture Series)	中華全國工商業 聯合會家具裝飾業商會 (China Furniture & Decoration Chamber of Commerce)
February 2007	ISO 9001:2000 (Shenzhen Xingli Zundian)	SGS United Kingdom Limited
August 2007	第二十一屆深圳國際家具展覽會 古典臥室家具系列銅獎 (The 21st Shenzhen International Furniture Exhibition Bronze Award of Classic Bedroom Furniture Series)	SFTA
January 2008	ISO 9001: 2000 (Shenzhen Xingli)	Moody International Certification Limited
August 2008	中國十大家具品牌—尊典，歐瑞 (2007-2008) (Top 10 Famous Furniture Brands in China – Johnston and Oriant (2007-2008))	中華全國工商業 聯合會家具裝飾業商會 (China Furniture & Decoration Chamber of Commerce)
August 2008	質量環保產品認證證書 (Environmental Label Certificate)	中國質量認證中心 (China Quality Certification Centre)

Background of awarding associations

1. SFTA was established in 1986 as a non-profit organisation duly registered with the Shenzhen Municipality (Shenzhen Civil Affairs Bureau). SFTA has a mission to serve the marketing and technological needs of the furniture industry participants, as well as to assist the furniture industry participants to communicate with the relevant government authorities. SFTA has over [500] members consisting of furniture manufacturers and raw material and furniture accessories suppliers. Two subsidiaries of the Company, namely Shenzhen Xingli and Shenzhen Xingli Zundian, are currently members of SFTA. Mr. Huang, one of the Founders, has been the chairman of SFTA since 2004. The chairman is elected by the members of SFTA and is not a full-time position. The SFTA employs full time staff to manage its daily operation, which is overseen by the secretary of the association. During the Track Record Period, the Group obtained a number of awards commended by the SFTA. The Directors confirmed that the granting of these awards to the Group was decided by a panel of judges independent of Mr. Huang, the substantial Shareholders, Directors, senior management and their respective associates. In addition, SFTA was instrumental in assisting the Group in acquiring Longgang Land I and

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Longgang Land II from the local land bureau. In settling the land use rights premium for Longgang Land II, SFTA arranged a member of the association, an Independent Third Party, who intended to jointly develop the said land with the Group, to provide a non-interest bearing short term advance of RMB22 million (or equivalent to approximately HK\$[23.6] million) to the Group in 2007. The Group agreed to add such member as a co-owner in the title documents of the said land, which the Group attempted but failed. The Group understood from the relevant government authority that it would be deemed as a change of ownership, as the land use rights of the said land were restricted from transfer. Therefore, the plan to jointly develop Longgang Land II between the Group and such member was cancelled and the Group fully repaid the short term advance in July 2008 accordingly. The Directors confirmed that there was no benefit granted to the said Independent Third Party for the provision of the advance to the Group. Save as disclosed above, there was no other business relationship, whether present or past, between SFTA and the Group, its substantial shareholders, Directors, senior management and their respective associates.

2. 廣東省家具商會 (Guangdong Furniture Chamber of Commerce) is a non-profit organisation duly registered with 廣東省民政廳 (Department of Civil Affairs of Guangdong Province) and is under the supervision and guidance of 廣東省民政廳 (Department of Civil Affairs of Guangdong Province) and 廣東省工商業聯合會 (Guangdong Federation of Industry and Commerce). It has over [200] members including industry participants involved in furniture design and decoration, furniture manufacturers and raw material suppliers.
3. 中華全國工商業聯合會家具裝飾業商會 (China Furniture & Decoration Chamber of Commerce) is a non-profit making organisation duly approved by 中華全國工商業聯合會 (All-China Federation of Industry & Commerce) in August 2002, and is under the supervision and guidance of 中華全國工商業聯合會 (All-China Federation of Industry & Commerce). It has approximately [ten thousand] members including furniture manufacturers, furniture design and decoration companies, kitchen cabinet companies, bathroom accessories companies, flooring companies and furniture accessories suppliers. Its mission is to provide its members with technical, management, legal and financial consultancy, to organise its members to join trading forums and furniture exhibitions and to communicate with furniture associations in Hong Kong and other parts of the world.
4. SGS United Kingdom Limited, founded in 1878 and an independent organisation based in the United Kingdom, specialises in providing inspection, verification, testing and certification services. It has gained accreditation to issue the certification by the United Kingdom Accreditation Service, the sole and non-profit national accreditation body recognised by the government of the United Kingdom. The ISO 9001:2000 certificate that Shenzhen Xingli Zundian has obtained is valid for the period of three years from 9 February 2007 to 8 February 2010. SGS United Kingdom Limited implements annual surveillance visits. According to the codes of practice of SGS United Kingdom Limited, the certificate will remain valid until its expiry date, unless the surveillance reveals that

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the management system and/or products have not met the certificate requirements. The certificate shall be revoked if the certification requirements are not fulfilled. Shenzhen Xingli Zundian has met the standards of the annual surveillance visits for the years of 2007 and 2008. During the Track Record Period and up to the Latest Practicable Date, the ISO 9001:2000 certificate obtained by Shenzhen Xingli Zundian remained valid.

5. Moody International Certification Limited, founded in 1987 and an independent organisation with its head office based in the United Kingdom, specialises in providing professional, certification and registration services and offers two types of surveillance options for ISO 9000 and ISO 14001. It has gained accreditation to issue the certification by the United Kingdom Accreditation Service, the sole and non-profit national accreditation body recognised by the government of the United Kingdom.

The ISO 9001:2000 standard is based on the eight principles which include customer focus, leadership, involvement of people, process approach, system approach to management, continual improvement, factual approach to decision making and mutually beneficial supplier relationships. The ISO 9001:2000 certificate that Shenzhen Xingli has obtained is valid for the period of three years from 22 January 2008 to 21 January 2011. Moody International Certification Limited implements annual surveillance visits and approves an annual re-audit stamp on the ISO 9001:2000 certificate at the end of each of the three years where the surveillance reveals that the management system and/or products have met the certificate requirements. Shenzhen Xingli has met the standards of the annual surveillance visit and has obtained an annual re-audit stamp on the certification for the year of 2008. During the Track Record Period and up to the Latest Practicable Date, the ISO 9001:2000 certificate obtained by Shenzhen Xingli remained valid.

6. 中國質量認證中心 (China Quality Certification Center), duly approved by 中華人民共和國國家質量監督檢驗檢疫總局 (The General Administration of Quality Supervision, Inspection and Quarantine of PRC) and 中國國家認證認可監督管理委員會 (The Certification and Accreditation Administration of PRC), is affiliated with 中國檢驗認證集團 (China Certification & Inspection Group) and is responsible for statutory inspection of shipments to the PRC. Its services include authority to undertake tasks of various compulsory quality certifications, provision of training service for certifications and issuing the certificates of ISO9001 and ISO14001. The Environmental Label Certificates that Shenzhen Xingli and Shenzhen Xingli Zundian have obtained are valid for the period of three years from 15 August 2008 to 15 August 2011. According to the code of practice of furniture quality environmental certification issued by 中國質量認證中心 (China Quality Certification Center), surveillance visits are implemented annually. The certificate shall be revoked if the certificate requirements are not fulfilled. During the Track Record Period and up to the Latest Practicable Date, the Environmental Label Certificates obtained by both Shenzhen Xingli and Shenzhen Xingli Zundian remained valid.

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According to the information available on the website of China Quality Certification Centre, the assessment criteria of Environmental Label Certificate is based on a number of laws, rules and regulations issued by government authorities, such as, GB 18580-2001 室內裝飾裝修材料人造板及其製品中甲醛釋放限量 (GB 18580-2001 Indoor Decoration and Refurbishing Materials – Limit of Formaldehyde Emission of Wooden Based Panels and related Finished Products), GB 18581-2001 室內裝飾裝修材料溶劑型木器塗料中有害物質限量 (GB 18581-2001 Indoor Decoration and Refurbishing Materials – Limit of Harmful Substances of Solvent Coatings for Woodenware), GB 18583-2001 室內裝飾裝修材料膠黏劑中有害物質限量 (GB 18583-2001 Indoor Decoration and Refurbishing Materials – Limit of Harmful Substances of Adhesives), GB 18584-2001 室內裝飾裝修材料木家具中有害物質限量 (GB 18584-2001 Indoor Decoration and Refurbishing Materials – Limit of Harmful Substances of Wood Based Furniture), GB 5296.6-2004 《消費品使用說明第6部份：家具》 (GB 5296.6-2004 Instruction for Use of Consumer Products – Part 6: Furniture).

None of the certifications obtained by the Group has been suspended or terminated during the validity period.

COMPETITION

The home furniture industry in the PRC is highly competitive and comprises mostly small to medium size market participants. There is no significant entry barrier to the home furniture industry and therefore no brand has apparently dominated the market. The Group faces competition from other medium to large scale home furniture manufacturers and suppliers, in particular, those with their own established brand names and strong design capabilities. The Directors believe that the competitive landscape is characterised by the increasing number of market participants and ever higher consumers’ demands and expectations as to price, design, style and product quality of furniture.

The Directors attribute the Group’s success to its well marketed brand names, wide range of product designs, comprehensive product portfolio and high product quality standards. By leveraging these strengths, the Directors are confident that the Group will be able to maintain its competitive edges over its competitors, which in turn will enable the Group to achieve its goal of becoming a leading home furniture provider in both the PRC and the overseas markets.

INSURANCE

The Group maintains insurance policies in respect of the Group’s properties including office premises, production facilities, inventory and other principal assets covering physical loss or damage arising from natural hazards or accidents in relation to the operations of the Group, and work-related injury insurance policies covering the medical treatment and financial compensation arising from the work-related injuries suffered by its employees.

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Apart from these, the Group does not maintain any other insurance policies such as insurance relating to third party liability or product liability for the Group’s products and the products manufactured under the Group’s licensed brands. [It is the current intention of the Group not to maintain insurance policy covering product liability risk after [●] as] it is the common industry practice that product liability insurance is not subscribed by furniture companies and product liability insurance is not compulsory under the PRC law. The Group has adopted stringent quality assurance policies in raw material procurement and production, and carries out quality control inspections at every stage of its production. Furthermore, the Group provides detailed product design specifications to its licensees and contract manufacturers and conducts on-site production training and inspection. Products manufactured by the Group’s licensees and contract manufacturers are subject to the Group’s quality assurance inspections as mentioned in the paragraph headed “Quality assurance” in this section above. [During the Track Record Period, the Group did not receive any claims from customers against it in respect of product liability.]

[Having taking into account that the Group has subscribed the required insurance under the PRC rules and regulations as confirmed by the PRC Legal Advisers and the Group’s insurance coverage is in line with the industry practice,] the Directors believe that the Group’s existing insurance policies and insured limits are sufficient to cover the risks that the Group may be exposed to arising from the loss or damage to its assets, human resources and business operations. The Group reviews its insurance policies and coverage from time to time and makes adjustments if necessary. During the Track Record Period, the Group had not been the subject of any material insurance claims.

COMPLIANCE AND LITIGATION

Save as disclosed in this document, as at the Latest Practicable Date and for the Track Record Period, the Group was not engaged in any litigation, arbitration or claim of material importance, and there was no litigation, arbitration or claim pending or threatened by or against the Group or any of the Directors, which could have a material adverse effect on the results of operations or financial condition of the Group.

Compliance with environmental protection laws, rules and regulations

The operation and business of the subsidiaries of the Company in the PRC, namely Shenzhen Xingli, Shenzhen Xingli Zundian and Dongguan Super Furniture, are subject to the PRC environmental laws, rules and regulations which include 中華人民共和國環境保護法 (Environmental Protection Law of the PRC), 中華人民共和國環境影響評價法 (Environmental Impact Assessment Law of the PRC), 中華人民共和國環境噪聲污染防治法 (Law of the PRC on the Prevention and Control of Environmental Noise Pollution), 建設項目竣工環境保護驗收管理辦法 (Administrative Measures for Environmental Protection Examination and Approval Upon Completion of Construction Projects) and 建設項目環境保護管理條例 (Regulations Governing Environmental Protection in Construction Projects). In relation to the properties occupied by the Company’s subsidiaries in the PRC to house the production facilities during the Track Record Period, each of Shenzhen Xingli, Shenzhen Xingli Zundian

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and Dongguan Super Furniture has obtained approvals from the relevant authorities for an environmental impact assessment before commencement of the construction work on the relevant properties but has not obtained the environmental protection facilities approval prior to the commencement of its operations. According to the PRC Legal Advisers, in order to obtain the environmental protection facilities approval, the applicant has to produce a valid title document or a registered lease agreement with respect to the relevant property. Since the lease agreements in respect of the relevant properties of Shenzhen Xingli and Dongguan Super Furniture had not been registered with the relevant property leasing administration authorities, Shenzhen Xingli and Dongguan Super Furniture were unable to apply for the environmental protection facilities approval. As regards Shenzhen Xingli Zundian, the PRC Legal Advisers visited the local environmental protection authority and were given to understand that since it was stated that no environmental protection facilities inspection was required in the environmental impact assessment obtained by Shenzhen Xingli Zundian, Shenzhen Xingli Zundian was not required to apply for the environmental protection facilities approval. According to the PRC Legal Advisers, pursuant to 建設項目竣工環境保護驗收管理辦法 (Administrative Measures for Environmental Protection Examination and Approval Upon Completion of Construction Projects), an enterprise may be subject to a maximum fine of RMB100,000 and/or may be ordered to suspend operations if it has not obtained the environmental protection facilities approval prior to commencement of operations. Up to the Latest Practicable Date, neither Shenzhen Xingli Zundian nor Dongguan Super Furniture had received any notice from the relevant authorities for not obtaining the relevant environmental protection facilities approval. Nevertheless, Shenzhen Xingli was fined for RMB10,000 and ordered to suspend its operation in March 2004 for failing to complete the construction of its waste water treatment facilities prior to the commencement of its operation. Shenzhen Xingli took corrective measures by constructing sewage treatment facilities for filtering pollutants contained in the waste water. Save for the cost of approximately RMB[34,000] incurred in acquiring certain building materials in constructing the sewage treatment facilities by Shenzhen Xingli, there was no material financial loss suffered by the Group arising from the rectification works and the suspension of operation of Shenzhen Xingli. Furthermore, as advised by the PRC Legal Advisers, Shenzhen Xingli has paid the fine of RMB10,000 as mentioned above and is presently in normal operation.

The PRC Legal Advisers visited the relevant local environmental protection authority in Shenzhen and were given to understand that since Shenzhen Xingli was unable to apply for the environmental protection facilities approval as no valid title document in respect of the relevant property was available and the level of pollution that might be caused by the operations of Shenzhen Xingli was not material, the relevant authority did not strictly require Shenzhen Xingli to apply for the environmental protection facilities inspection prior to the commencement of operations. The PRC Legal Advisers also understood from the relevant environmental protection authority that as Shenzhen Xingli is presently in normal operation and has been subject to on-going monitoring by the relevant authority, Shenzhen Xingli would not be required to obtain the environmental protection facilities approval for its production facilities. Having considered that (i) Shenzhen Xingli took corrective measures after being fined for RMB10,000 and ordered to suspend its operation in March 2004 as described above, and was allowed to resume operation by the relevant environmental protection authority and

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is presently in normal operation; and (ii) the relevant environmental protection authority has indicated that it would not require Shenzhen Xingli to apply for the environmental protection facilities approval for its production facilities, the PRC Legal Advisers are of the opinion that Shenzhen Xingli would not be penalised for not obtaining the environmental protection facilities approval.

The PRC Legal Advisers also visited the local environmental protection authority in Dongguan and were given to understand that since Dongguan Super Furniture was not qualified to apply for the environmental protection facilities approval as no registered lease agreement in respect of the relevant property was available at the relevant time, and the relevant environmental protection authority considered the level of pollution that might be caused by the operations of Dongguan Super Furniture to be relatively low, Dongguan Super Furniture was allowed to commence operation. As advised by the PRC Legal Advisers, Dongguan Super Furniture has never been subject to any penalty with respect to environmental protection issues. The PRC Legal Advisers have also advised that the local environmental protection authority in Dongguan has issued a notice in October 2007 allowing enterprises which have not obtained the environmental protection facilities approval prior to the commencement of operations to apply for such approval provided the level of pollution that might be caused by the operations of these enterprises is considered to be relatively low. The PRC Legal Advisers have confirmed that Dongguan Super Furniture has applied for the environmental protection facilities approval and was issued an application acceptance notice by the local environmental protection authority in March 2009. As advised by the PRC Legal Advisers, they are not aware of any legal obstacle for Dongguan Super Furniture to obtain such environmental protection facilities approval on the following basis: (i) Dongguan Super Furniture confirmed that it has installed the necessary environmental protection facilities to comply with the relevant environmental laws, rules and regulations in the PRC; (ii) Dongguan Super Furniture has been subject to the on-going supervision by the relevant environmental protection authority which has never imposed any penalty with respect to environmental protection issues on Dongguan Super Furniture since the commencement of its operations and has issued 環保守法證明 (Certificate of Compliance with Environmental Laws) to Dongguan Super Furniture; and (iii) according to a written confirmation from the local environmental protection authority dated 20 May 2009, the local environmental protection authority has conducted an on-site investigation of the environmental protection facilities of Dongguan Super Furniture on 8 April 2009 and is currently processing the environmental protection facilities approval. The PRC Legal Advisers have further advised that, in the event that Dongguan Super Furniture is unable to satisfy the requirements of the relevant environmental protection authority with respect to obtaining the environmental protection facilities approval and fails to rectify any shortcoming identified within the prescribed time frame, Dongguan Super Furniture may be subject to a maximum fine of RMB100,000 and/or ordered to suspend operations. Furthermore, as advised by the PRC Legal Advisers, Dongguan Super Furniture has obtained 環保守法證明 (Certificate of Compliance with Environmental Laws) issued by the local environmental protection authority which, as advised by the PRC Legal Advisers, is an appropriate competent authority for granting such certificate. The certificate states that Dongguan Super Furniture has complied with environmental protection requirements since its establishment up to the issue of the certificate in March 2009. The PRC Legal Advisers are of the opinion that since Dongguan

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Super Furniture has obtained the Certificate of Compliance with the Environmental Laws and the relevant environmental protection authority has accepted Dongguan Super Furniture’s application for the environmental protection facilities approval, Dongguan Super Furniture would not be penalised for not obtaining the environmental protection facilities approval prior to the commencement of operations.

As regards Shenzhen Xingli Zundian, the PRC Legal Advisers are of the opinion that as Shenzhen Xingli Zundian was not required to apply for the environmental protection facilities approval, and the relevant environmental protection authority has issued 環保守法證明 (Certificate of Compliance with Environmental Laws) to Shenzhen Xingli Zundian (more details of which are set out below), Shenzhen Xingli Zundian is in compliance with environmental protection requirements in the PRC. Moreover, the PRC Legal Advisers were not aware of any penalty that might be imposed on Shenzhen Xingli Zundian by the relevant environmental protection authority.

Furthermore, as advised by the PRC Legal Advisers, each of Shenzhen Xingli and Shenzhen Xingli Zundian has obtained 環保守法證明 (Certificates of Compliance with Environmental Laws) issued by the relevant environmental protection authority which, as advised by the PRC Legal Advisers, is an appropriate competent authority for granting such certificates. The certificates state that each of them has complied with environmental protection requirements for each of the three-year periods prior to the issue of such certificates in May 2008 and in March 2009 respectively. In August 2008, each of Shenzhen Xingli and Shenzhen Xingli Zundian was also granted 質量環保產品認證證書 (Environmental Label Certificate) issued by 中國質量認證中心 (China Quality Certification Centre).

The major environmental impacts arising from the Group’s production of furniture products and mattresses include the discharge of waste water, the emission of dusts into the air and the generation of noise pollution. In order to comply with relevant environmental protection laws, rules and regulations in the PRC, the Group (i) has constructed sewage treatment facilities that help to recycle the waste water discharged; (ii) has installed a centralised dust vacuum system that collects dust and wooden particles generated during the production process; (iii) has installed an anti-noise pollution device to reduce the noise level generated during the production process; (iv) has equipped itself with a fully automatic UV spray-coating processing line which helps to reduce the level of air pollution and waste water discharge in spraying process; and (v) has engaged a waste water treatment company to collect the residual waste water monthly and has engaged a solid waste treatment company to daily remove the solid wastes collected from the Group’s production facilities for further treatment.

In addition to the aforesaid measures taken by the Group, the Group will continue to monitor and improve its operation in order to ensure due compliance with the relevant environmental laws, rules and regulations in the PRC at present and in the future by (i) providing regular training on an annual basis to the staff of the Group with respect to the environmental protection; and (ii) making required regulatory filings within the prescribed time frame. The Group has set up a safety supervision division which is responsible for formulation and implementation of both environmental protection and production safety

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compliance measures and provision of regular training to the staff of the Group. [The division comprises [5] members. The head of the division has over [seven] years of experience in environmental protection and production safety matters and has completed an [environmental management system internal audit] course which covered, among others, environmental protection and safety production and quality management.] The Group has appointed Mr. Cheung, one of the executive Directors, to take full charge of the construction progress of the new production plants and to ensure that the new production plants are in compliance with the relevant environmental laws, rules and regulations in the PRC. Mr. Cheung is also required to submit written progress reports to the Board and the compliance department of the Group once every two months on the construction progress as well as the environmental compliance of these production plants. The Shenzhen Xingli Production Base and Shenzhen Xingli Zundian Production Base will adopt similar measures and the same types of devices and equipment currently used at the Group's existing production facilities to reduce the impact of the production on the environment and to comply with the relevant environmental protection requirements.

For the three years ended 31 December 2008, the costs (covering training, certification and purchases of related hardwares) incurred in the compliance with relevant laws, rules and regulations in the PRC in respect of the environmental protection amounted to approximately RMB[216,000], RMB[236,000] and RMB[291,000] respectively. The Directors believe that the costs to be incurred will not increase substantially for the year ending 31 December 2009.

Save for the failure in obtaining the relevant environmental protection facilities approvals by Shenzhen Xingli and Dongguan Super Furniture, the Directors confirmed that, during the Track Record Period, each of the Company's subsidiaries in the PRC had not committed any other non-compliance acts in breach of environmental protection laws, rules or regulations in the PRC and had not been required to pay any fines and penalties in respect thereof. Taking into account that (i) with the implementation of the above mentioned measures, no material environmental pollution incident caused by the Group was discovered; (ii) each of Shenzhen Xingli and Shenzhen Xingli Zundian has obtained the 環保守法證明 (Certificates of Compliance with Environmental Laws) issued by the relevant competent environmental protection authority which state that each of them has complied with environmental protection requirements for each of the three-year periods prior to the issue of such certificates in May 2008 and in March 2009 respectively and Dongguan Super Furniture has obtained 環保守法證明 (Certificate of Compliance with Environmental Laws) issued by the local competent environmental protection authority which states that Dongguan Super Furniture has complied with environmental protection requirements since its establishment up to the issue of the certificate in March 2009; and (iii) in August 2008, each of Shenzhen Xingli and Shenzhen Xingli Zundian was also granted 品質環保產品認證證書 (Environmental Label Certificate) issued by 中國品質認證中心 (China Quality Certification Centre), the Directors are of the view that the current environmental protection measures are sufficient for the Group to comply with the relevant laws, rules and regulations.

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The PRC Legal Advisers have also confirmed that, save for the failure in obtaining the relevant environmental protection facilities approvals by Shenzhen Xingli and Dongguan Super Furniture and the penalties of RMB10,000 imposed on Shenzhen Xingli by the relevant authority in March 2004 as described above, (i) the Group has fully complied with the relevant environmental protection laws, rules and regulations in the PRC in all material respects; (ii) no material environmental pollution incident caused by the Group was discovered; and (iii) no penalties, fines or sanctions of any kind regarding environmental protection was imposed on the Group by any relevant environmental protection authorities in the PRC.

Compliance with safety laws, rules and regulations

The Group is subject to relevant laws, rules and regulations in the PRC in respect of production safety including 中華人民共和國安全生產法 (PRC Production Safety Law) which is the principal law governing the supervision and administration of production safety in the PRC. The Group provides training with respect to production safety to the employees on a regular basis to enhance their safety awareness and provides each employee with a handbook on production safety in relation to operation of equipment and machinery. The Group has set up a safety supervision division which is responsible for formulation and implementation of both environmental protection and production safety compliance measures and providing regular training to the staff of the Group. The staff in charge of production safety and production safety training have completed professional training in respect of production safety organised by local safety production inspection authorities. The Directors consider that as during the Track Record Period, there was no [material] accident occurred during the production process in the PRC, nor was there any violation or breach of the relevant laws, rules and regulations in the PRC in relation to production safety, the production safety measures mentioned above are sufficient for the Group to comply with the relevant laws, rules and regulations. In the future, the Group will continue its current practice in providing training to its employees to strengthen their awareness of production safety in order to minimise the risks of occurrence of production accidents.

For the three years ended 31 December 2008, the costs incurred in the compliance with relevant laws, rules and regulations in the PRC with respect to production safety amounted to approximately RMB[45,000], RMB[48,000] and RMB[70,000] respectively. The Directors consider that the costs to be incurred will not change materially for the year ending 31 December 2009.

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Non-compliance incidents

During the Track Record Period, the Group had inadvertently failed to comply with certain laws, rules and regulations of the PRC and Hong Kong which non-compliance is summarised below:

Items of non-compliance	Name(s) of the group company(ies)	Particulars of non-compliance (relevant period)	Reason for the non-compliance	Remedial actions	Potential maximum penalty/fine (or penalty/fine actually imposed)	Basis of the potential penalty/fine (or penalty/fine actually imposed)
(1) Non-compliance with the environmental laws, rules and regulations in the PRC	Shenzhen Xingli and Dongguan Super Furniture	Failed to obtain the environmental protection facilities approval prior to the commencement of its operations (since December 2002 and October 2005 by Shenzhen Xingli and Dongguan Super Furniture respectively).	As the relevant lessor of the factory premises of Shenzhen Xingli had not provided any valid title document in respect of the relevant property upon the application by Shenzhen Xingli for the environmental protection facilities approval prior to the commencement of its operations, Shenzhen Xingli was unable to apply for the environmental protection facilities approval.	Shenzhen Xingli has obtained the 環保守法證明 (Certificates of Compliance with the Environmental Laws) issued by the local environmental protection authority which, as advised by the PRC Legal Advisers, is an appropriate competent authority for granting such certificates. The certificates state that Shenzhen Xingli has not incurred any environmental pollution incident or violated any environment laws, rules and regulations for each of the 3-year periods prior to the issue of such certificates in May 2008 and March 2009 respectively, and the existing production process has not caused any environmental pollution, and has satisfied the relevant environmental requirements respectively. According to the PRC Legal Advisers, the non-compliance in relation to Shenzhen Xingli's failure in obtaining the environmental protection facilities approval occurred prior to the said 3-year periods.	Each of Shenzhen Xingli and Dongguan Super Furniture may be subject to a maximum fine of RMB100,000 and/or may be ordered to suspend operations. The PRC Legal Advisers are of the opinion that as (i) Shenzhen Xingli took corrective measures after being fined for RMB10,000 and ordered to suspend its operation in March 2004 as described in the sub-paragraph headed “Compliance with environmental protection laws, rules and regulations” above and has resumed operation with approval from the relevant environmental protection authority; and (ii) the relevant environmental protection authority has indicated that it would not require Shenzhen Xingli to apply for the environmental protection facilities approval for its production facilities, Shenzhen Xingli would not be penalised for not obtaining the environmental protection facilities approval. Furthermore, the PRC Legal Advisers are of the opinion that since the relevant authority understood that Dongguan Super Furniture was previously unable to apply for the environmental protection facilities approval, and the relevant environmental protection authority has already accepted Dongguan Super Furniture's application for the environmental protection facilities approval, Dongguan Super Furniture would not be penalised for not obtaining the environmental protection facilities approval prior to the commencement of operations. Up to the Latest Practicable Date, the Group had not received any notice, reminder or directive from the relevant authorities requiring it to make such payment with respect to the aforesaid fine or to suspend operations.]	建設項目竣工環境保護驗收管理辦法 (Administrative Measures for Environmental Protection Examination and Approval Upon Completion of Construction Projects)
			Dongguan Super Furniture was unable to apply for the environmental protection facilities approval prior to the commencement of its operations as no registered lease agreement in respect of the relevant property was available at the relevant time.	The PRC Legal Advisers have also advised that Dongguan Super Furniture has obtained the 環保守法證明 (Certificate of Compliance with Environmental Laws) issued by the local environmental protection authority which, as advised by the PRC Legal Advisers, is an appropriate competent authority for granting such certificate. The certificate states that Dongguan Super Furniture has complied with PRC environmental protection requirements and has met prescribed environmental protection standards, and has not been subject to any penalty due to violation of PRC environmental protection laws, regulations and prescribed environmental protection standards since its establishment up to the issue of the certificate in March 2009. The PRC Legal Advisers have advised that since the relevant local environmental protection authority [accepted] the reason for Dongguan Super Furniture's failure to obtain the environmental protection facilities approval, and the relevant authority has issued a notice allowing enterprises which have not obtained the environmental protection facilities approval prior to the commencement of operations to apply for such approval provided the level of pollution caused by the operations of these enterprises is considered to be relatively low. The relevant environment protection authority has accepted Dongguan Super Furniture's application for the environmental protection facilities approval submitted on [28 February 2009]. As advised by the PRC Legal Advisers, they are not aware of any legal obstacle for Dongguan Super Furniture to obtain such environmental protection facilities approval.		

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Items of non-compliance	Name(s) of the group company(ies)	Particulars of non-compliance (relevant period)	Reason for the non-compliance	Remedial actions	Potential maximum penalty/fine (or penalty/fine actually imposed)	Basis of the potential penalty/fine (or penalty/fine actually imposed)
(2) Non-compliance with the PRC employee social welfare contribution regulations	Shenzhen Xingli and Shenzhen Xingli Zundian	No contribution for housing provident funds was made until 1 March 2009.	As advised by the PRC Legal Advisers after making enquiries with the relevant local authorities, the relevant local authorities have not strictly required the payment of housing provident fund contribution.	As advised by the PRC Legal Advisers, Shenzhen Xingli and Shenzhen Xingli Zundian have voluntarily offered to provide for the outstanding contribution, but the relevant local authorities in Shenzhen have declined to accept. The PRC Legal Advisers visited the relevant local social insurance authority and were given to understand that since no housing provident fund authorities have been set up in Shenzhen, the relevant local social insurance authority is accepting the housing provident fund contribution payments on their behalf and would not strictly enforce the payment of housing provident fund contributions or accept the payment of outstanding housing provident fund contributions. The PRC Legal Advisers further advised that the relevant local authority would only accept the payment of housing provident funds contribution for employees who hold Shenzhen household registration.	Each of Shenzhen Xingli and Shenzhen Xingli Zundian may be subject to a maximum penalty of RMB50,000 if it fails to pay the outstanding amount within the prescribed time limit upon receiving a demand note issued by the relevant authorities. Up to the Latest Practicable Date, the Group had [not received any notice, reminder or directive from the relevant authorities requiring it to make such payment with respect to the outstanding amount.]	住房公積金管理條例 (Regulations on Management of Housing Provident Fund)
				Shenzhen Xingli and Shenzhen Xingli Zundian have made the required contribution for housing provident funds from 1 March 2009.		
				The Group has quantified the amounts of outstanding contributions for the housing provident fund up to [31 December] 2008 to be approximately RMB[808,000] and has made [full] provisions in its accounts.		
	Dongguan Super Furniture	Dongguan Super Furniture has only made the employee social insurances contributions for a number of staff members, which was less than the actual number of employees hired until 1 January 2009.	Due to high turnover rate of newly recruited staff at Dongguan Super Furniture, the Company has failed to keep track of its contribution to the employee social insurances.	As advised by the PRC Legal Advisers, in order to support local enterprises in Dongguan due to the current economic downturn, the relevant local authority would not require Dongguan Super Furniture to pay the outstanding contributions, nor impose any penalties on Dongguan Super Furniture for the failure to make the employee social insurances contribution.	Dongguan Super Furniture is, in addition to settling its unpaid contribution, subject to a maximum overdue penalty of 0.2% of the outstanding social insurance payments per day if it fails to pay off the outstanding amount within the prescribed time limit upon receiving a demand note issued by the relevant administrations. Up to the Latest Practicable Date, the Group had [not received any notice, reminder or directive from the relevant authorities requiring it to make such payment with respect to the outstanding amount.]	社會保險費申報繳納管理暫行辦法 (Provisional Measures on the Administration of Declaration and Payment of Social Insurance Premium)
				Dongguan Super Furniture has made the required contribution for the employee social insurances from 1 January 2009.		
				The Group has quantified the amounts of outstanding contributions for the employee social insurances up to [31 December] 2008 to be approximately RMB[1,436,000] and has made [full] provisions in its accounts.		

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Items of non-compliance	Name(s) of the group company(ies)	Particulars of non-compliance (relevant period)	Reason for the non-compliance	Remedial actions	Potential maximum penalty/fine (or penalty/fine actually imposed)	Basis of the potential penalty/fine (or penalty/fine actually imposed)
(3) Non-compliance with the Companies Ordinance and Business Registration Ordinance	Hing Lee Furniture Group Limited	Late filings in relation to the resignation of company secretary (during the period from January 2006 to March 2008) and the appointment of new company secretary (during the period from January 2006 to March 2006) in contravention of the relevant provisions of the Companies Ordinance.	The finance and accounting department of the Group in Hong Kong is responsible for handling such filings. During the period from 2005 to late 2006, the Group experienced high staff turnover in the finance and accounting department and the department head had changed three times. The Directors attribute such high staff turnover to the Group's then small scale operation in Hong Kong, which made it difficult to retain talented and experienced staff. Due to the lack of continuity in the staff of the finance and accounting department, such filing was not made within the prescribed time frame.	The required filings with the Companies Registry had already been made in March 2006 and March 2008 respectively.	Dongguan Super Furniture may be subject to a maximum penalty of RMB50,000 if it fails to pay the outstanding amount within the prescribed time limit upon receiving a demand note issued by the relevant authorities. Up to the Latest Practicable Date, the Group had [not received any notice, reminder or directive from the relevant authorities requiring it to make such payment with respect to the outstanding amount.]	住房公積金管理條例 (Regulations on Management of Housing Provident Fund) 東莞市住房公積金繳存管理辦法 (Measures on the Administration of Declaration and Payment of Housing Provident Fund in Dongguan)
			Prior to 1 December 2007, no strict requirements of payment of housing provident fund for any companies located in Dongguan were imposed by the relevant local authority. As 東莞市住房公積金繳存管理辦法 (Measures on the Administration of Declaration and Payment of Housing Provident Fund in Dongguan) came into effective on 1 December 2007, Dongguan Super Furniture is required to pay housing provident fund from 1 December 2007 onward.	[Dongguan Super Furniture has made enquiries with the relevant authorities regarding the payment of the outstanding of the housing provident funds contribution. The relevant authorities in Dongguan represented to the PRC Legal Advisers that in order to support local enterprises in Dongguan in the current economic downturn, the relevant local authority would not require Dongguan Super Furniture to pay the outstanding contributions, nor impose any penalties on Dongguan Super Furniture for the failure to make the housing provident fund contribution.] Dongguan Super Furniture has made the required contribution for housing provident funds from 1 January 2009. The Group has quantified the amounts of outstanding contributions for housing provident funds up to [31 December] 2008 to be approximately RMB[148,000] and has made [full] provisions in its accounts.	Based on the legal advice obtained by the Company, an action for a summary offence under the Companies Ordinance may be tried if it is brought within 3 years after commission of the offence. In respect of the late filing which was made in March 2006, as more than 3 years have elapsed after the last day of continued default, no action may now be brought against Hing Lee Furniture Group Limited or its officer in default for such non-compliance. In respect of the late filing which was made in March 2008, as less than 3 years have elapsed after the last day of this continued default and based on the continued default of 714 days, the aggregate estimated maximum amount of potential fines arising from such non-compliance will not be more than HK\$24,200, which represents the maximum punishment of a level 3 fine (being HK\$10,000 at present) for the offence and a daily default fine of HK\$300 for continued default. Up to the Latest Practicable Date, the Group had [not been prosecuted nor received any notice of prosecution with respect to such non-compliance.]	Companies Ordinance

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Items of non-compliance	Name(s) of the group company(ies)	Particulars of non-compliance (relevant period)	Reason for the non-compliance	Remedial actions	Potential maximum penalty/fine (or penalty/fine actually imposed)	Basis of the potential penalty/fine (or penalty/fine actually imposed)
	Hing Lee Furniture	Failure to apply for registration under Part XI of the Companies Ordinance within one month after its establishment of place of business (during the period commencing from May 2005 to October 2008).	During the period from 2005 to late 2006, the Group experienced high staff turnover in the finance and accounting department and the department head had changed three times as mentioned above. Due to the lack of continuity in the staff of the finance and accounting department, such filing was not made within the prescribed time frame.	Application for registration was submitted on 3 October 2008.	Hing Lee Furniture was ordered to pay a fine of HK\$2,064.00 and amends/ restitution of HK\$5,436.00 in a court hearing on 17 February 2009. The total sum of HK\$7,500 was duly paid on 23 February 2009.	Companies Ordinance
		Failure to apply for business registration under the Business Registration Ordinance within one month of its commencement of business (during the period commencing from May 2005 to October 2008).	During the period from 2005 to late 2006, the Group experienced high staff turnover in the finance and accounting department and the department head had changed three times as mentioned above. Due to the lack of continuity in the staff of the finance and accounting department, such filing was not made within the prescribed time frame.	Application for business registration was made on 13 October 2008 and business registration certificates have already been issued to Hing Lee Furniture.	Based on the legal advice obtained by the Company, any person who fails to make timely application for business registration shall be guilty of an offence and shall be liable to a maximum punishment of a fine of HK\$5,000 and imprisonment for 1 year. The secretary, manager or any director of Hing Lee Furniture (which include the Founders) shall also be answerable for such non-compliance.	Business Registration Ordinance
					Based on the verbal enquiry by the legal advisers of the Company with an officer of the Business Registration Office on 17 September 2008, if a company volunteered to make a late application for business registration, there would not be any penalty but the company would be required to pay the business registration fees for the past years. According to such officer, no one had been sentenced to imprisonment as a result of failure to obtain business registration so far. Hing Lee Furniture has paid the business registration fees on 13 October 2008 for the past years since its commencement of business. Up to the Latest Practicable Date, the Group had [not been prosecuted nor received any notice of prosecution with respect to such non-compliance.]	
					[Based on the information obtained in the verbal enquiry, the Company's legal advisers also consider that the practical risk of the secretary, manager or directors being prosecuted and sentenced to imprisonment upon conviction as a result of such non-compliance appears to be relatively low.]	
					Under the Business Registration Ordinance, no prosecution thereunder shall be commenced save within 6 years from the date of the commission of the offence.	

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Items of non-compliance	Name(s) of the group company(ies)	Particulars of non-compliance (relevant period)	Reason for the non-compliance	Remedial actions	Potential maximum penalty/fine (or penalty/fine actually imposed)	Basis of the potential penalty/fine (or penalty/fine actually imposed)
(4) Non-compliance with the Inland Revenue Ordinance	Hing Lee Furniture	Failure to notify the IRD of its chargeability to tax within the prescribed time (the years of assessment 2005/2006 to 2007/2008).	In April 2005, as the Group acquired Hing Lee Furniture to handle the export trading business, it started to recruit accounting professionals in Hong Kong to take charge of the finance and accounting department. However, during the period from 2005 to late 2006, the Group experienced rather high staff turnover in the finance and accounting department and the department head had changed three times as mentioned in item (3) above. Having mistakenly considered the export trading business of Hing Lee Furniture (a BVI incorporated company) as being carried out offshore and not being subject to Hong Kong tax, and due to the lack of continuity in the staff of the finance and accounting department, Hing Lee Furniture failed to notify the IRD of its chargeability to tax within the prescribed time. At the time of finalising its 2006 accounts in around November 2007, Hing Lee Furniture became aware of the possibility that it might be subject to Hong Kong tax. However, it was not certain of the extent of its exposure. The Group's chief financial officer initially discussed the issue with Hing Lee Furniture's auditors. In March 2008, Hing Lee Furniture approached the tax accountants which is a firm headed by two professionally qualified accountants and engaged in provision of, among others, services in relation to compliance with tax regulatory requirements of Hong Kong and tax disputes with IRD. In June 2008, Hing Lee Furniture formally engaged the said tax accountants.	Hing Lee Furniture has appointed tax accountants to assist it in making filings with the IRD. Hing Lee Furniture has voluntarily informed the IRD of its chargeability to tax for these three assessment years and submitted its accounts for the relevant years to the IRD in October 2008 and submitted its profit tax returns for the said years of assessment in December 2008. In January 2009, the IRD issued assessments demanding final tax for 2005/2006, 2006/2007 and 2007/2008 with a total tax payable of HK\$408,867, HK\$1,499,863 and HK\$720,582 respectively. The amounts were fully paid on 3 March 2009 in accordance with the payment schedule of the IRD. The Group has also made provision in its accounts in respect of the undercharged tax and surcharge and penalties. As the directors of Hing Lee Furniture became aware of the possibility of chargeability to tax of Hing Lee Furniture around November 2007 when finalising the 2006 accounts, Hing Lee Furniture made a provision for taxation of approximately HK\$1.9 million in its 2006 financial statements. However, the related amounts of surcharge and penalty were uncertain based on the information available at that time and therefore no provision in relation thereto was made in Hing Lee Furniture's 2006 accounts. Having sought advice from the tax accountants in 2008, the directors of Hing Lee Furniture provided approximately HK\$2.7 million for the accumulated surcharge and penalty (representing 100% of the estimated undercharged tax) and approximately HK\$0.7 million for undercharged tax for the year of assessment 2007/2008 in Hing Lee Furniture's 2007 accounts. The Group has also engaged the tax accountants to assist it in making filings to the IRD for the years of assessment 2008/2009 and 2009/2010.	Pursuant to the Inland Revenue Ordinance, any person who, without reasonable excuse, fails to inform the IRD of its chargeability to tax shall be guilty of an offence and liable for a level 3 fine (i.e. fine of HK\$10,000) and a further fine of treble the amount of tax which has been undercharged in consequence of such failure, and no person shall be liable unless the complaint concerning such offence was made before the expiration of 6 years from the end of the relevant year of assessment. Alternatively, the IRD may, instead of prosecution, impose an additional tax for a maximum amount of treble the amount of tax which has been so undercharged and there is no express stipulation as to the period within which the IRD could take action against Hing Lee Furniture for the imposition of additional tax under the Inland Revenue Ordinance.	Inland Revenue Ordinance

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In view of the occurrence of the above mentioned non-compliance instances, in December 2008, the Group has set up a compliance department, headed by the chief financial officer and staffed by a qualified accountant and an internal audit manager who graduated with an accountancy degree from 廣東省外貿學院 (Guangdong Province Institute of International Trade) with over [25] years of experience in financial management as well as over [5] years of experience in internal audit, to ensure that the Group’s operations are in compliance with applicable laws, rules and regulations, to strengthen its existing internal control framework, recommend best practices for corporate governance issues and report internal control deficiencies as well as remedial plans from time to time. The compliance department reports directly to the Board. The independent non-executive Directors will designate one of its members, namely Mr. Kong Hing Ki, to review the operations of the compliance department on a quarterly basis and report to the Board on any deficiency identified as well as the recommendation for appropriate rectifying action.

During the course of its operation in the past years, the Group has compiled and implemented various internal control policies and procedures concerning [cash management, financial reporting, sales and marketing, product pricing, accounts receivable management, raw material procurement, inventory control, fixed asset acquisition, operating budget control, approval of major contract and staff recruitment.] The compliance department has properly consolidated and documented these policies and procedures together with other corporate governance practices into a compliance manual. Such manual has been distributed to each department head by the end of 2008 and the compliance department also went through this manual with the department heads in [early January 2009]. Furthermore, the Group has taken the following steps to prevent recurrence of the above mentioned non-compliance incidents:

In the PRC

a. Non-compliance with the environmental laws, rules and regulations

Mr. Cheung, one of the executive Directors, is responsible for taking full charge of monitoring the construction progress of the Shenzhen Xingli Production Base and the Shenzhen Xingli Zundian Production Base and ensuring that the new production plants are in compliance with the relevant environmental laws, rules and regulations in the PRC. Mr. Cheung is also required to submit written progress report to the Board and the compliance department once every two months on the construction as well as the environmental compliance of these production plants. For details of the relevant properties, please refer to the sub-paragraph headed “Owned properties” in the paragraph headed “Properties” in this section above.

In addition, written policy has been laid down that, in case of leasing property from third party landlord, all necessary title documents in respect of the leased property shall be requested from the prospective landlord at the stage of negotiation and before signing the lease agreement and the registration of the lease agreement shall be pursued by the landlord shortly after signing in order to apply for the environmental protection facilities approval. All registered lease agreements have to be filed with the compliance department of the Group.

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b. Non-compliance with the PRC employee social welfare contribution regulations

The Group has designated a member of the finance and accounting department in the PRC to handle the calculation, reporting and payment of the relevant social welfare and housing provident fund contributions of the Company’s subsidiaries in the PRC. The compliance department has laid down written guidelines on how to calculate the contribution amounts in accordance with the relevant laws, rules and regulations. The designated finance and accounting personnel will have the calculation checked and cleared by the compliance department before processing payment.

In Hong Kong

c. Non-compliance with the Companies Ordinance and the Business Registration Ordinance

The qualified accountant will be responsible to ensure that all the Company’s subsidiaries in Hong Kong are in full compliance with their annual reporting requirements in accordance with the Companies Ordinance and the Business Registration Ordinance. The chief financial officer has prepared a checklist of filings which the Company’s subsidiaries in Hong Kong need to perform annually in accordance with the applicable laws, rules and regulations. The qualified accountant needs to report to the chief financial officer with the checklist completed on a quarterly basis. [The Directors consider the required filings are routine and simple tasks and therefore reporting on a quarterly basis would be sufficient.]

d. Non-compliance with the Inland Revenue Ordinance

The chief financial officer will be responsible to ensure that all the Company’s subsidiaries conducting business in Hong Kong are in full compliance with the Inland Revenue Ordinance. The chief financial officer is also given the authority to seek external professional advice and assistance if needed. Furthermore, the Board will also engage an external tax accountant to opine on whether such subsidiaries are in full compliance with the Inland Revenue Ordinance. The Group has engaged the tax accountants as mentioned above to assist it in making filings to the IRD for the years of assessment 2008/2009 and 2009/2010.

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To prevent the occurrence of any non-compliance of laws, rules and regulations in future, the Directors have taken or will undertake the following steps and measures to further enhance the Group’s corporate governance practices and the effectiveness of its internal control procedures:

1. prior to [●], the Directors have attended training sessions conducted by the Company’s legal advisers on the on-going obligations and duties of a director of a company whose shares are listed on the Stock Exchange under the Listing Rules;
2. prior to [●], the executive Directors have attended training sessions conducted by [●] on various on-going obligations and duties of a listed issuer and its directors under the Listing Rules and the Takeovers Codes;
3. prior to [●], the Directors have received and reviewed a detailed memorandum prepared by the Company’s legal advisers setting out the Listing Rules and general Hong Kong companies law requirements and obligations of the Directors after [●];
4. prior to [●], the Group has hired an additional qualified accountant to handle listed company compliance matters in Hong Kong and to work together with the chief financial officer in setting up the compliance department to monitor all compliance and corporate governance matters of the Group. The compliance department will be given access to external professional parties, such as the compliance advisers, external legal counsel in Hong Kong and the PRC, tax accountants and auditors, retained by the Group from time to time. The compliance department will report any non-compliance matters so detected and recommend best practices for any corporate governance issues to the Board;
5. written policy has been laid down that (i) recurring business related contract with value over HK\$1 million; and (ii) non-recurring business related contract with value over HK\$0.5 million, shall, in addition to the approval of the relevant department head, have to be reviewed and approved by the compliance department before they are signed by an executive Director;
6. the setting up of an audit committee which comprises [all] the independent non-executive Directors who have the duties to, among other things, review the internal control systems and procedures for compliance with the relevant accounting, financial and Listing Rules requirements. The audit committee has adopted written terms of reference in compliance with the Code on Corporate Governance Practices as set out in Appendix 14 to the Listing Rules. The audit committee will, upon due and careful inquiries, disclose its major view regarding the Company’s compliance and internal control related matters in its annual report for each of the two financial years immediately after [●];

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7. subsequent to [●], the Company will engage an internal control review consultancy professional or other professional adviser as determined by the audit committee to carry out an assessment on internal control systems and procedures in relation to financial reporting, disclosure under the Listing Rules and the Companies Ordinance, and risk management. Material findings of such assessment together with any suggested rectifying measures will be published in the Company’s annual report for each of the two financial years after [●]; and
8. the executive Directors have undertaken to [●] to attend external continuous training sessions relating to corporate governance for five hours each year for two years after [●].

Save for the aforesaid instances of non-compliance of the Inland Revenue Ordinance, the Companies Ordinance and the Business Registration Ordinance as at the Latest Practicable Date, no member of the Group was engaged in any litigation, arbitration or claim that would have a material adverse effect on the Group’s financial condition and results of operations, taken as a whole, and so far as the Directors were aware, no litigation, arbitration or claim was pending or threatened by or against any member of the Group.

Save for the various instances of non-compliance as mentioned above and in the section headed “Risk factors” in this document, as advised by the legal advisers to the Company, the Group has obtained all necessary permits, licences and approvals for their operations in accordance with the applicable laws, rules and regulations in the jurisdictions where it operated throughout the Track Record Period.

According to the legal advice obtained by the Company, the Company’s operating subsidiaries in Hong Kong, namely Hing Lee (China) and Hing Lee Furniture, were not required to obtain permits, certificates and licences from regulatory bodies under the laws of Hong Kong for their business operations in Hong Kong during the Track Record Period other than those required under the Business Registration Ordinance and their business operations in Hong Kong are not prohibited by Hong Kong law. Hing Lee (China) and Hing Lee Furniture have been duly registered under the Business Registration Ordinance.

[The Directors confirmed that save as disclosed above and in the section headed “Risk factors” in this document, the Group had complied with all relevant laws, rules and regulations in all material respects in all jurisdictions where it operated during the Track Record Period.] [The PRC Legal Advisers have also confirmed that save as disclosed in this document, they are not aware of any non-compliance of relevant laws, rules and regulations in any material aspects in the PRC by Shenzhen Xingli, Shenzhen Xingli Zundian and Dongguan Super Furniture during the Track Record Period.]

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INDEMNITIES

Pursuant to the Deed of Indemnity (the document referred to in paragraph (ix) in the sub-section headed “Summary of material contracts” in Appendix V to this document), the Founders and their respective investment vehicles (namely King Right Holdings Limited, United Sino Limited, Golden Sunday Limited and Top Right Trading Limited) (collectively the “Indemnifiers”) have given joint and several indemnities in favour of the Company (for itself and as trustee for other members of the Group), in connection with, inter alia:

- (i) estate duty which might be payable by any member of the Group by reason of transfer of property on or before the date on which [●] becomes unconditional (the “Effective Date”);
- (ii) any tax liabilities falling on any member of the Group resulting from or by reference to any income, profits or gains, transactions, events, matters or things earned, accrued or received, entered into or occurring on or before the Effective Date;
- (iii) any expenses, payments, sums, outgoings, fees, demands, claims, damages, losses, costs, charges, liabilities, fines, penalties and tax (collectively, the “Costs”) which any member of the Group may incur, suffer or accrue, directly or indirectly, from or on the basis of or in connection with any failure, delay or defects of corporate or regulatory compliance under, or any breach of any provision of, the Companies Ordinance, the Business Registration Ordinance or the Inland Revenue Ordinance by any member of the Group on or before the Effective Date;
- (iv) any Costs which any member of the Group may incur, suffer or accrue, directly or indirectly, from or on the basis of or in connection with any litigation, arbitration or other proceedings or investigations against any member of the Group arising or accruing in relation to the operation of any member of the Group on or before the Effective Date;
- (v) any Costs which any member of the Group may incur, suffer or accrue, directly or indirectly, from or on the basis of or in connection with:
 - (a) any default, failure or delay in complying with, or any breach of, any law in the PRC by any of Shenzhen Xingli, Shenzhen Xingli Zundian and Dongguan Super Furniture (collectively, the “PRC Subsidiaries” and each a “PRC Subsidiary”) on or before the Effective Date;
 - (b) any default, failure or delay of any PRC Subsidiary in setting up, or making contributions towards all kinds of insurances, funds, contributions or otherwise required to be insured or made by such PRC Subsidiary under the laws in the PRC for the benefits of their respective employees, or any part thereof on or before the Effective Date;

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- (c) any default, failure or delay in registering, or any non-registration of, any tenancy agreement or arrangement entered into, or purported to be entered into, by any PRC Subsidiary as lessee on or before the Effective Date in respect of any leased property located in the PRC;
- (d) any termination or invalidity of any tenancy agreement or arrangement entered into, or purported to be entered into, by any PRC Subsidiary as lessee on or before the Effective Date in respect of any leased property in the PRC by reason of the lack of power, authority or capacity of the lessor or purported lessor in letting the relevant property to the relevant PRC Subsidiary or in entering into the relevant tenancy agreement or arrangement, including but not limited to any and all Costs in respect of relocation and removal of the relevant PRC Subsidiary to a new premises;
- (e) any default, failure or delay in the construction of the Shenzhen Xingli Zundian Production Base or any non-compliance or breach of any term or condition of 深圳市土地使⽤權出讓合同 (the contract for grant of land use rights in Shenzhen) (Shen Di He Zi 2007 No.5057) dated 29 June 2007 including but not limited to the resumption of the relevant land by the PRC government authorities;
- (f) any default, failure or delay in the construction of the Shenzhen Xingli Production Base or any non-compliance or breach of any term or condition of 深圳市土地使⽤權出讓合同 (the contract for grant of land use rights in Shenzhen) (Shen Di He Zi 2007 No. 5058) dated 29 June 2007, including but not limited to the resumption of the relevant land by the PRC government authorities;
- (g) any use of any intellectual property by any PRC Subsidiary under any licence agreements or arrangements entered into or purported to be entered into, between such PRC Subsidiary and Sharp Motion on or before the Effective Date; and
- (h) any claim against any member of the Group in respect of any of the foregoing.

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The Indemnifiers will, however, not be liable under the Deed of Indemnity under the following circumstances:

- (i) In respect of any taxation and taxation claims to the extent that:
 - (a) provision or reserve has been made for such taxation in the audited consolidated accounts of the Group as set out in Appendix I to this document;
 - (b) such taxation or liability falling on any member of the Group in respect of its accounting period commencing after 31 December 2008 and ending on the Effective Date, unless such taxation or liability would not have arisen but for some act or omission of, or transaction voluntarily effected by, any member of the Group with the prior written consent or agreement or acquiescence of the Indemnifiers other than any of the following (in which case the limitation of liability shall still apply):
 - (1) any such act, omission or transaction carried out or effected in the ordinary course of business or in the ordinary course of acquiring and disposing of capital assets after 31 December 2008; or
 - (2) any such act, omission or transaction carried out, effected or entered into pursuant to a legally binding commitment created on or before 31 December 2008;
 - (c) such tax claim arises or is incurred as a result of the imposition of taxation as a consequence of any retrospective change in the law or interpretation or practice coming into force after the Effective Date or to the extent that such claim arises or is increased by an increase in tax rates after such date with retrospective effect; or
 - (d) any provision or reserve made for taxation in the audited consolidated accounts of the Group as set out in Appendix I to this document which is finally established to be an excessive reserve or over provision, then the Indemnifiers' liability (if any) in respect of taxation shall be reduced by an amount not exceeding such over-provision or excessive reserve, provided that the amount of any such over-provision or excessive reserve applied pursuant to this paragraph to reduce the Indemnifiers' liability in respect of such taxation shall not be available in respect of any liability arising thereafter in which event the Indemnifiers shall be obliged to indemnify each member of the Group against any liability, loss or damage arising from such liability.]

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- (ii) In respect of the indemnity contained in paragraphs (iii) to (v) above to the extent that:
 - (a) provision or reserve has been made for such liabilities in the audited consolidated accounts of the Group as set out in Appendix I to this document; or
 - (b) any Costs falling within paragraphs (iii) to (v) above arises or is incurred as a consequence of any retrospective change in the applicable law or the interpretation or practice thereof by the relevant authority coming into force after the Effective Date or to the extent that the same arises or is increased by reason of such retrospective changes.

RELATIONSHIP WITH THE CONTROLLING SHAREHOLDER

Immediately after completion of [●], Mr. Fang Shin, the controlling shareholder of the Company, will effectively hold, through Triple Express, approximately [●]% of the issued share capital of the Company. Mr. Fang Shin does not hold any interest in any business which competes or is likely to compete with that of the Group pursuant to Rule 8.10 of the Listing Rules. Save for Mr. Fang Yan Zau, Alexander who is a non-executive Director and the son of Mr. Fang Shin, none of the Directors is considered to be connected with Triple Express, Mr. Fang Shin and their respective associates. The Directors have confirmed that none of them and their respective associates is engaged in any business that, directly or indirectly, competes or may compete with the business of the Group.

Independence of management, financing and operation

The Directors consider that the Group will be able to conduct its business operationally and financially independent of the Controlling Shareholder.

Management independence

The Board comprises two executive Directors, one non-executive Director and three independent non-executive Directors. As confirmed by the Directors, the Group has all along been managed by the Founders and the senior management team of the Group. The appointment of Mr. Fang Yan Zau, Alexander is for the Controlling Shareholder to have representation on the Board and Mr. Fang Yan Zau, Alexander has not played any executive role nor has he participated in the daily operations of the Group. Accordingly, the Board functions independently from Triple Express, Mr. Fang Shin and their respective associates.

Financial independence

During the Track Record Period and up to the Latest Practicable Date, no guarantee or security was provided by Mr. Fang Shin, Triple Express or any of their respective associates with respect to any bank or other borrowings or indebtedness of any members of the Group. Therefore, there is no financial dependence of the Group on the Controlling Shareholder.

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Operational independence

The Group has independent work forces to carry out sourcing, manufacturing, sales and marketing functions and has not shared its operation team with Triple Express, Mr. Fang Shin or any of their respective associates. The Group has independent access to its suppliers and customers and has established a set of internal controls to facilitate the effective operations of its business. During the Track Record Period and up to the Latest Practicable Date, the Group and the Controlling Shareholder did not have any common/shared facilities/resources, and there was no business transaction between the Group on one hand and Triple Express, Mr. Fang Shin or any of their respective associates on the other hand. The Directors consider that the Group’s operations do not rely on Triple Express, Mr. Fang Shin or any of their respective associates.

Given the above reasons, the Directors are of the view that the Group is capable of carrying on its business independently of the Controlling Shareholder and its associates after [●].

NON-COMPETITION UNDERTAKINGS

Pursuant to the Non-competition Deed, each of [Triple Express], [Mr. Fang Shin], [Mr. Sung], [Mr. Cheung], [Mr. Chan] and [Mr. Huang] (each a “Covenantor” and collectively “Covenantors”) has irrevocably undertaken and covenanted with the Company (for itself and as trustee for its subsidiaries) that he/it shall not, directly or indirectly, either alone or in conjunction with or on behalf of or for any other person, either on his/its own account or for any other person, and shall procure that entities or companies controlled by him/it (other than the Group) not to:

- (a) solicit, interfere with or endeavour to entice away from the Group any person, firm, company or organisation who to his/its knowledge is from time to time or has at any time within the immediate past two years before the date of such solicitation, interference or enticement been a customer, supplier or employee of the Group for the purpose of conducting any Restricted Business (as defined below);
- (b) be engaged, interested or otherwise involved, directly or indirectly, in the business of design, manufacture, sales, marketing of wood-based home furniture and mattresses, and/or any franchising or licensing of such business, in the PRC, Europe, Asia [and in any other countries where any member of the Group carries on businesses from time to time] (the “Restricted Business”);

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- (c) solicit for employment by him/it or entities or companies controlled by him/it (other than the Group) or at any time employ or procure the employment of any person who has, at any time within immediate past two years before the date of such solicitation or employment, been or is a director, manager, employee of or consultant to the Group who is or may be likely to be in possession of any confidential information or trade secrets relating to the Restricted Business being carried on by the Group;
- (d) make use of any information pertaining to the business of the Group which may have come to his/its knowledge in his/its capacity as a Shareholder or a director of any member of the Group for the purpose of competing with the business of the Group; and
- (e) directly or indirectly solicit or persuade any person who has dealt with the Group or is in the process of negotiating with the Group in relation to the Restricted Business to cease to deal with the Group or reduce the amount of business which such person would normally do with the Group.

Pursuant to the Non-competition Deed, each of the Covenantors has also undertaken that he/it shall not, and shall procure entities or companies controlled by him/it not to take up any business opportunities relating to the Restricted Business which are offered to him/it or which he/it becomes aware of ("Business Opportunity"), whether or not such Business Opportunity has been referred to and/or rejected by the Group.]

Notwithstanding the above undertakings, the Covenantors are not restricted to:

- (a) hold or be interested in any securities in any company which engages or involves, directly or indirectly, in the Restricted Business provided that (i) such securities are listed on a recognised stock exchange; (ii) the amount of such holding does not exceed 10% of the entire issued share capital of such company; (iii) the relevant Covenantor is not the single largest shareholder of such company; and (iv) the relevant Covenantor does not control the board of directors of such company;
- (b) hold any securities in any member of the Group; and
- (c) engage in or discharge any duty, service or act for the benefit of any member of the Group.

The obligations of the Covenantors under the Non-competition Deed shall cease to be of any force and effect on the earlier of:

- (a) (i) in respect of each of Mr. Fang Shin and Triple Express, the date on which he/it ceases to be the Controlling Shareholder; and (ii) in respect of the Founders, the later of the date on which such Covenantor holds less than [1]% of the entire issued share capital of the Company or ceases to hold any directorship in the Group;
- (b) the date on which the cancellation or withdrawal of the [●] becomes effective (for the avoidance of doubt, excluding [●] due to any reason); or

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- (c) the date on which the Group ceases to engage in the Restricted Business.

If any of the independent non-executive Directors becomes aware that any Covenantor is in breach of the Non-competition Deed, then the independent non-executive Directors on behalf of the Company shall, without prejudice to any other rights or remedies available to the Company, have the right to demand the adoption by such Covenantor of appropriate measures to remedy the breach. Each Covenantor has agreed and undertaken to act, and to procure companies or entities controlled by him/it to act, promptly and effectively in accordance with the instructions of the majority of the independent non-executive Directors and whenever possible to reverse and remedy any such wrongdoings as soon as possible.

The Company will disclose decisions on matters reviewed by the independent non-executive Directors (if any) relating to the compliance and/or enforcement of the Non-competition Deed in its annual report or, when the Board considers it appropriate, by way of an announcement.

Each of the Covenantors has also undertaken to the Company to provide such information in relation to the compliance of the Non-competition Deed by him/it from time to time upon request by the Company and/or the independent non-executive Directors and to make an annual confirmation to the Company as to his/its compliance with the Non-competition Deed and that he/it will also make such declaration as may be required under the Listing Rules (if any) in relation to any competition with the Group or any member of the Group or his/its compliance with the terms of the Non-competition Deed.

TRANSACTIONS WITH SHENZHEN JING CHU

Mr. Huang is a director of certain subsidiaries of the Company and the sole beneficial owner of Top Right Trading Limited, which will be interested in approximately [8.60]% of the issued share capital of the Company upon [●].

Shenzhen Jing Chu was founded in May 2000 by Mr. Huang and 胡景初先生 (Mr. Hu Jing Chu), an Independent Third Party, and was owned as to 60% by Mr. Huang and 40% by 胡景初先生 (Mr. Hu Jing Chu). 胡景初先生 (Mr. Hu Jing Chu) is a professor at 中南林業科技大學 (Central South University of Forestry and Technology) (formerly known as 中南林學院 (Central South Forestry University)) as well as a renowned expert in furniture design. In January 2008, Shenzhen Jing Chu's shareholding was changed to as to 80% owned by Mr. Huang, 15% by 劉永飛先生 (Mr. Liu Yong Fei), an Independent Third Party, and 5% by 胡景初先生 (Mr. Hu Jing Chu). In January 2009, Mr. Huang disposed of his entire interests in Shenzhen Jing Chu and as at the Latest Practicable Date, Shenzhen Jing Chu was owned by Mr. Hu Jing Chu and two other Independent Third Parties. Save and except the transactions between the Group and Shenzhen Jing Chu, Mr. Hu Jing Chu has no other business relationship with the Group and its connected persons. Despite his investment in Shenzhen Jing Chu, Mr. Huang did not participate in the daily operation of Shenzhen Jing Chu.

BUSINESS

Reasons for engaging Shenzhen Jing Chu

The Group is principally engaged in the design, manufacture and sale of a wide range of home furniture products including wood-based furniture and mattresses. Shenzhen Jing Chu is principally engaged in (i) the design of furniture and decorative items; (ii) corporate image consultation; (iii) interior design and decoration; and (iv) software development. Shenzhen Jing Chu is engaged on an ad hoc basis when the Group’s in-house product design and development teams have been fully occupied by their respective projects. The Directors considered that engaging Shenzhen Jing Chu would save the Group from incurring cost in establishing and maintaining a large number of in-house product design and development personnel and would bring in new ideas and techniques. As such, the Group’s product design and development department can concentrate on existing product development projects. [Shenzhen Jing Chu has been engaged by the Group in view of the expertise of its founder, namely Mr. Hu Jing Chu in furniture design. Mr. Hu is a professor with specialisation in furniture design and manufacturing at 中南林業科技大學 (Central South University of Forestry and Technology). Based on Mr. Hu Jing Chu’s expertise and knowledge in the area of furniture design, the Directors decided to engage Shenzhen Jing Chu to provide design services to Shenzhen Xingli since 2004 and to Shenzhen Xingli Zundian since 2006.

2009 Design Agreements dated 2 January 2009

[Pursuant to the 2009 Design Agreements, the service fees payable to Shenzhen Jing Chu take the forms of (i) a fixed design fee (in respect of Shenzhen Xingli: RMB2,000 per drawing for each product; in respect of Shenzhen Xingli Zundian: RMB1,000 per drawing for each product); plus (ii) commission based on certain percentages of the invoiced amount of Shenzhen Xingli and Shenzhen Xingli Zundian derived from the sale of the products designed by Shenzhen Jing Chu for a period of 3 years commencing from the date of the agreement. The rate of commission payable by Shenzhen Xingli is 2% in respect of products for domestic sale or 1.5% in respect of products for export and the rate payable by Shenzhen Xingli Zundian is 1.5% in respect of products for domestic sales or export.]

Given the disposal by Mr. Huang of his entire interests in Shenzhen Jing Chu in January 2009, the transactions between the Group and Shenzhen Jing Chu will no longer constitute continuing connected transactions of the Company under the Listing Rules upon [●].

Commission payable under the previous design agreements

[Each of Shenzhen Xingli and Shenzhen Xingli Zundian has engaged Shenzhen Jing Chu to provide design services since 2004 and 2006 respectively. Although the agreements prior to the 2009 Design Agreements have all expired, Shenzhen Jing Chu was still entitled to commission derived from the sales of products designed by it during the respective terms of the following agreements as at the Latest Practicable Date:

1. two agreements dated 1 January 2007 and 1 January 2008 respectively (as supplemented by a supplemental agreement dated 24 September 2008) entered into with Shenzhen Xingli for a term of one year each; and

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2. an agreement dated 1 January 2008 (as supplemented by a supplemental agreement dated 24 September 2008) entered into with Shenzhen Xingli Zundian for a term of one year.

The fees payable to Shenzhen Jing Chu under the above agreements took the form of a fixed design fee and commission based on certain percentages of the invoiced amount of Shenzhen Xingli or Shenzhen Xingli Zundian (as the case may be) derived from the sale of the products designed by Shenzhen Jing Chu for a period of 3 years commencing from the respective dates of the previous agreements as mentioned above. In respect of the aforementioned agreements between Shenzhen Xingli and Shenzhen Jing Chu, the fixed design fee was RMB2,000 per drawing for each product and the rate of commission payable by Shenzhen Xingli was no more than 2% (depending on the pricing of the relevant products). In respect of the aforementioned agreement between Shenzhen Xingli Zundian and Shenzhen Jing Chu, the fixed design fee was RMB1,000 per drawing for each product and the rate of commission payable by Shenzhen Xingli Zundian is charged at 1.5%. Save for the 2009 Design Agreements and the previous agreements as mentioned above, there is no other agreement between Shenzhen Jing Chu and the Group under which fee or commission is still payable by the Group.

For each of the three financial years ended 31 December 2008, the total annual amount of fees paid by the Group to Shenzhen Jing Chu for the latter's design services amounted to approximately HK\$613,000, HK\$355,000 and HK\$[916,000] respectively.

Intellectual property rights

Pursuant to the terms of the 2009 Design Agreements and the previous agreements as mentioned above, the intellectual property rights of the designs produced by Shenzhen Jing Chu, once adopted by Shenzhen Xingli or Shenzhen Xingli Zundian, belong to Shenzhen Xingli or Shenzhen Xingli Zundian (as the case may be). Shenzhen Jing Chu is also forbidden from carrying out any further transaction in respect of such design for whatever reason under the terms of the 2009 Design Agreements and the aforementioned previous agreements. In case the Group's rights are infringed, the Group can resort to legal proceedings to resolve the matter.

[The Directors (including the independent non-executive Directors) are of the view that the transactions contemplated under the 2009 Design Agreements and occurred under the previous agreements were entered into in the ordinary and usual course of business of the Group and on normal commercial terms and are fair and reasonable and in the interests of the Group and the Shareholders as a whole.]

DIRECTORS, SENIOR MANAGEMENT AND STAFF

BOARD OF DIRECTORS

Executive Directors

Mr. Sung Kai Hing (宋啟慶先生), aged [52], is an executive Director, the chairman and the chief executive officer of the Company and one of the Founders. Mr. Sung was appointed as a Director on 20 April 2004. He is primarily responsible for the overall strategic planning and business development of the Group as well as overseeing the daily operations of the Group. Prior to the establishment of the Group, Mr. Sung started the business of electronic products trading as a sole proprietor in the [early] 1980s. At the suggestion of and with the assistance from Mr. Cheung, Mr. Sung started to engage in the trading of certain furniture products and in around [mid-1980s], a partnership was established by Mr. Sung, Mr. Cheung and Mr. Chan for the trading of furniture products. In September 1993, Mr. Sung, Mr. Cheung and Mr. Chan established Dongguan Rich which marked the commencement of the business of the Group. Mr. Sung was a director of Dongguan Rich from September 1993 until its dissolution and a director of Shenzhen Dahao from December 1995 until its dissolution. The dissolutions of Dongguan Rich and Shenzhen Dahao did not result in any liability or obligation imposed against Mr. Sung. Mr. Sung was a director of Omnicorp Limited from June 2005 to January 2007. Mr. Sung has been appointed as a part-time instructor [with specialisation in business operation, strategic planning and supply chain management] at 南京林業大學 (Nanjing Forestry University) and 中南林業科技大學 (Central South University of Forestry and Technology) (formerly known as 中南林學院 (Central South Forestry University)) since June 2004 and November 2004 respectively. Mr. Sung has over [15] years of experience in the furniture industry.

Mr. Cheung Kong Cheung (張港璋先生), aged [47], is an executive Director and one of the Founders. Mr. Cheung was appointed as a Director on 20 April 2004. He is responsible for the administration and human resources management of the Group as well as overall management relating to the construction of the new production facilities of the Group in the PRC. In the early [1980s], Mr. Cheung was the [sales representative] of a furniture trading company. In around [mid-1980s], Mr. Cheung, Mr. Sung and Mr. Chan formed a partnership to carry on the business of trading of furniture products. In September 1993, Mr. Sung, Mr. Cheung and Mr. Chan established Dongguan Rich which marked the commencement of the business of the Group. Mr. Cheung was a director of Dongguan Rich from September 1993 until its dissolution and a director of Shenzhen Dahao from December 1995 until its dissolution. The dissolution did not result in any liability or obligation imposed on Mr. Cheung. Since 2005, he has been a [director] of Dongguan Super Furniture. He has been appointed as a part-time instructor [with specialisation in international trade and trading of home furniture] at 南京林業大學 (Nanjing Forestry University) and 中南林業科技大學 (Central South University of Forestry and Technology) (formerly known as 中南林學院 (Central South Forestry University)) since June 2004 and November 2004 respectively. Mr. Cheung has over [15] years of experience in the furniture industry.

DIRECTORS, SENIOR MANAGEMENT AND STAFF

Non-executive Director

Mr. Fang Yan Zau, Alexander (方仁宙先生), aged 38, is a non-executive Director and was appointed as a Director on 28 July 2006. He has over [10] years of experience in business development. Mr. Fang was engaged in business development in GET Manufacturing, Inc. from 1996 to 2000. Mr. Fang has been a director of eGarden Ventures Hong Kong Limited, which is principally engaged in investment holding since August 2000. Mr. Fang has been a director of Pandatel AG which is a listed public company at Frankfurt Stock Exchange and principally engaged in the provision of [telecommunication related services] since January 2006. He obtained a master of business administration degree in general management from J. L. Kellogg School of Management, Northwestern University in June 2004 and a bachelor of science degree in accounting from University of Southern California in December 1993. Mr. Fang is the son of Mr. Fang Shin who is the Controlling Shareholder.

Independent non-executive Directors

Mr. Sun Jian (孫堅先生), aged [44], was appointed as an independent non-executive Director on 1 July 2007. He has over 10 years of experience in retail businesses and is a director and the chief executive officer of Home Inns & Hotel Management, Inc., a company which is principally engaged in the hotel industry with its shares listed on the National Association of Securities Dealers Automated Quotation System in the U.S.. Mr. Sun obtained a bachelor's degree in hygiene management from 上海醫科大學 (Shanghai Medical University) (subsequently renamed as 復旦大學上海醫學院 (Shanghai Medical College of Fudan University)) in July 1987. [He is the vice president of 中國連鎖經營協會 (China Chain Store & Franchise Association) which was established in 1997. 中國連鎖經營協會 (China Chain Store & Franchise Association) participates in a number of areas including, among others, assisting in policy making and provision of professional trainings and industry information and data to its members in the retailing and franchising industry.]

Ms. Shao Hanqing (邵漢青女士), aged [71], was appointed as an independent non-executive Director on [29 May 2009]. She is a part-time professor and a mentor to the doctorate candidates of the economics faculty of 中國人民大學 (Renmin University of China). Ms. Shao was a vice-chairlady of 中國人民政治協商會議廣東省深圳市委員會 (Shenzhen Committee of Chinese People's Political Consultative Conference) from April 1997 to May 2000 and was elected as a fellow in the World Academy of Productivity Science by World Confederation of Productivity Science in 2006. Ms. Shao was appointed as an independent director of 方大集團股份有限公司 (China Fangda Group Co., Ltd.), a company listed on 深圳證券交易所 (the Shenzhen Stock Exchange) with principal businesses in the development, design, manufacture and sale of construction materials as well as energy saving and environmental protection products from March 2001 to March 2002, April 2002 to April 2005, May 2005 to April 2007 and from June 2008 to present. She is the president of 深圳市安全生產與安全文化協會 (Shenzhen Work Safety and Safety Culture Council) which was established in July 2006 with the support from 深圳市安全生產監督管理局 (the Administration of Work Safety of Shenzhen Municipality) and 深圳市民政局 (the Home Department of the People's Government of Shenzhen Municipality), under the supervision of 深圳市安全生產監督管理局

DIRECTORS, SENIOR MANAGEMENT AND STAFF

(Administration of Work Safety of Shenzhen Municipality). The purpose of 深圳市安全生產與安全文化協會 (the Shenzhen Work Safety and Safety Culture Council) is to improve awareness of safety issues, promote work safety and establish safety culture. Ms. Shao obtained a bachelor’s degree of national economic planning from 中國人民大學 (Renmin University of China) in 1964.

Mr. Kong Hing Ki (江興琪先生), aged 38, was appointed as an independent non-executive Director on [29 May 2009]. He has over [10] years of experience in accounting, auditing and finance, gained from international accountancy and commercial firms [including PricewaterhouseCoopers from 1997 to 2001, KPMG in 2002, MIC Cyberworks from 2003 to 2004 and Serial Microelectronics (HK) Limited from 2004 to present]. He is a financial controller of a company whose ultimate holding company is listed on the main board of the Singapore Stock Exchange, and which is [principally engaged in the distribution of electronic and semi-conductor components]. Mr. Kong obtained a bachelor’s degree of commerce from Australian National University in April 1994 and a master of business administration degree from Deakin University in August 2005. He has been a fellow member of the Hong Kong Institute of Certified Public Accountants and a member of CPA Australia since February 2005 and April 1997 respectively.

Details of the proposed length of service of each of the Directors with the Company and the emoluments of the Directors are set out in the paragraph headed “Further information about Directors, management staff and substantial shareholders – Particulars of service contracts and letters of appointment” in Appendix V to this document. The emoluments of each Director are determined by the Board with reference to his/her previous experience and prevailing market practices.

As at the Latest Practicable Date, save as disclosed in the section headed “Further information about Directors, management staff and substantial shareholders – Disclosure of interests or short position of Directors and chief executive of the Company in the shares, underlying shares or debentures of the Company and its associated corporation” in Appendix V to this document, each of the Directors did not have any interest in the Shares within the meaning of Part XV of the SFO.

During the Track Record Period, the Group has inadvertently failed to comply with certain laws, rules and regulations of the PRC and Hong Kong (details of the non-compliance incidents are set out in the paragraph headed “Compliance and litigation” in the section headed “Business” in this document). Among the non-compliance incidents, Hing Lee Furniture failed to apply for business registration under the Business Registration Ordinance and, as a result, the secretary, manager or any director of Hing Lee Furniture (which include the Founders) may be liable to a maximum punishment of a fine of HK\$5,000 and imprisonment for 1 year if they are found guilty. Based on the verbal enquiry by the legal advisers of the Company with an officer of the Business Registration Office, if a company volunteered to make a late application for business registration, there would not be any penalty but the company would be required to pay the business registration fees for the past years. According to such officer, no one had been sentenced to imprisonment as a result of failure to obtain business registration so far. Up

DIRECTORS, SENIOR MANAGEMENT AND STAFF

to the Latest Practicable Date, the Group had [not been prosecuted nor received any notice of prosecution with respect to such non-compliance incident.] Hing Lee Furniture submitted the application on 13 October 2008 and business registration certificates have already been issued to Hing Lee Furniture. Save as disclosed above, as at the Latest Practicable Date, there was no other information which was required to be disclosed pursuant to any of the requirements under Rule 13.51(2) of the Listing Rules.

SENIOR MANAGEMENT

Mr. Huang Wei Ye (黃偉業先生), aged [54], is one of the Founders. He joined the Group in 1995 and is the head of the Group’s design and development department, as well as the production department, and is responsible for overseeing the design, development and manufacture of the Group’s furniture products. Mr. Huang has over [20] years of experience in the furniture industry. [Prior to joining the Group, he was the production manager of Dahao Furniture from 1989 to 1995.] Mr. Huang was a director of Shenzhen Dahao from [December] 1995 until its dissolution. The dissolution of Shenzhen Dahao did not result in any liability or obligation imposed against Mr. Huang.

Mr. Huang is currently the Chairman of SFTA which is a non-profit organisation established in 1986 and has over 500 members from furniture, wood panel, iron ware, paints and accessories industries. The Directors believe that with Mr. Huang, a Founder of the Group, serving as Chairman of SFTA, would help to enhance the visibility of the Group in the furniture industry. Mr. Huang has been appointed as a part-time instructor [with specialisation in product design, production strategies and industry trend analysis] at 南京林業大學 (Nanjing Forestry University) and 中南林業科技大學 (Central South University of Forestry and Technology) (formerly known as 中南林學院 (Central South Forestry University)) since 2003. He obtained a master of business administration degree from 北京大學 (Peking University) in July 2007.

Mr. Chan Kwok Kin (陳國堅先生), aged [51], is one of the Founders. Being the head of the sales and marketing department, as well as the procurement department of the Group, he is responsible for formulating the Group’s sales and marketing strategies and procurement policies and overseeing the Group’s sales and marketing activities. Mr. Chan has over [15] years of experience in the furniture industry. Mr. Chan was a director of Dongguan Rich from September 1993 until its dissolution and, a director of Shenzhen Dahao from December 1995 until its dissolution [and was responsible for sales and marketing activities]. The dissolutions of Dongguan Rich and Shenzhen Dahao did not result in any liability or obligation imposed against Mr. Chan. He was appointed as a part-time instructor [with specialisation in sales and marketing strategies and brand development] at 南京林業大學 (Nanjing Forestry University) and 中南林業科技大學 (Central South University of Forestry and Technology) (formerly known as 中南林學院 (Central South Forestry University)) since 2004.

DIRECTORS, SENIOR MANAGEMENT AND STAFF

Mr. Wu Guo Long (吳國龍先生), aged [35], is the vice design and development manager of the Group. Since January 2008, he has been appointed as the general manager of Shenzhen Xingli. Mr. Wu joined the Group in 1996 after graduation from the university and has over 10 years of experience in the furniture industry. He obtained a bachelor’s degree in interior and furniture design in 1996 from 中南林學院 (Central South Forestry University) (subsequently renamed as 中南林業科技大學 (Central South University of Forestry and Technology) in 2005).

Mr. Li Xin Min (李新民先生), aged [38], is the production manager of the Group and the head of the production department of the Group’s factories in the PRC. He is responsible for overseeing the production operations at all the Group’s factories in the PRC. Mr. Li joined the Group in 1997 and has over 10 years of experience in furniture industry. He obtained a diploma in interior and furniture design in June 1998 from [中南林學院 (Central South University of Forestry and Technology)] (subsequently renamed as 中南林業科技大學 (Central South University of Forestry and Technology) in 2005).

Ms. Wang Xie Zhi (王謝之女士), aged [32], is the chief officer of the management division of the Group, and is responsible for the human resources and administrative affairs of the Group. She has over 10 years of experience in human resources management. Prior to joining the Group, Ms. Wang worked with 深圳市金鵬集團公司 (Shenzhen Jinpeng Group Limited) in relation to human resources management and administration from October 1997 to May 2003. Ms. Wang joined the Group in October 2003. She obtained a diploma in accounting from 江西財經大學 (Jiangxi University of Finance & Economics) in 1999.

Ms. Bian Juan (卞娟女士), aged [31], is the procurement manager of the Group, and is responsible for overall procurement activities of the Group. She obtained her bachelor’s degree in interior and furniture design in June 2000 from 南京林業大學 (Nanjing Forestry University). Ms. Bian furthered her study at 南京林業大學 (Nanjing Forestry University) from September 2000 to June 2003 and obtained her master of [engineering] degree with specialty in wood science and technology in July 2003. After obtaining her master’s degree, Ms. Bian joined the Group in July 2003.

Mr. Huang Jia Guo (黃家國先生), aged [35], is the sales manager for the modern furniture series of the Group, and is responsible for the overall sales and marketing activities of modern furniture products. Mr. Huang joined the Group in 1997. He obtained a diploma in Chinese language from 湖南大學 (Hunan University) in June 1994.

Ms. Bo Lin (薄琳女士), aged [45], is the sales manager for the classic furniture series of the Group, and is responsible for the overall sales and marketing activities of classic furniture products. Ms. Bo joined the Group in 1997 and has over [10] years of experience in sales and marketing of furniture products in the PRC. She obtained a bachelor’s degree in industrial electric automation from 遼寧廣播電視大學 (Lianing Radio and TV University) in July 1989.

DIRECTORS, SENIOR MANAGEMENT AND STAFF

Mr. Pu Cai Jun (蒲采君先生), aged [47], is the financial controller of the Group. He is responsible for all financial and accounting matters in respect of the PRC subsidiaries of the Group. Mr. Pu joined the Group in 2002 and has over 10 years of experience in financial controlling. He was the finance manager of Dahao Furniture during the period from 1985 to 2002. He obtained a bachelor’s degree in accounting from 湖南財經學院 (Hunan Finance and Economics Institute) in July 1991.

CHIEF FINANCIAL OFFICER AND COMPANY SECRETARY

Mr. Wong Kit Wai (黃杰偉先生), aged [39], is the chief financial officer and the company secretary of the Group. He is responsible for supervising the Group’s financial management and overseeing the company secretarial and compliance affairs of the Group. Mr. Wong joined the Group in January 2007 as a full-time employee and has over 8 years of experience in accounting and finance. Prior to joining the Group, Mr. Wong was the chief financial officer of Royale Furniture Holdings Limited, whose issued shares are listed on the Main Board, during the period from December 2004 to December 2006. He worked for an international accounting firm in 1997 and then for two private companies as an accountant during the period from June 1998 to April 2001. He subsequently worked as a finance manager in a company, which was engaged in manufacture and sales of electronic components, from May 2001 to November 2003. He obtained a master of business administration degree from Deakin University, Australia in September 2003 and a bachelor of commerce degree from The University of New South Wales in June 1996. He has been a fellow member of Hong Kong Institute of Certified Public Accountants and a member of CPA Australia since January 2007 and June 1999 respectively. Besides, Mr. Wong has also been an associate member of the Hong Kong Institute of Chartered Secretaries and an associate member of The Institute of Chartered Secretaries and Administrators, the United Kingdom since October 2006. Mr. Wong is an ordinary resident of Hong Kong.

[Save as disclosed, none of the above persons has any directorship in any listed companies in the last three years, and none of them has any family relationship with the Directors and the Controlling Shareholder.]

DIRECTORS, SENIOR MANAGEMENT AND STAFF

EMPLOYEES

As at the Latest Practicable Date, the Group employed [1,157] full-time employees in the PRC and non-PRC regions. The following table sets forth the breakdown of the Group’s employees by division and function:

Divisions	Number of employees			Hong Kong
	PRC			
	Shenzhen Xingli Zundian	Shenzhen Xingli	Dongguan Super Furniture	
Finance and accounting	[9]	[18]	[6]	[3]
Management and administration	[64]	[97]	[35]	[2]
Sales and marketing	[25]	[26]	[3]	[1]
Production/warehouse	[333]	[307]	[103]	[–]
Procurement	[4]	[8]	[2]	[–]
Product design and development	[28]	[14]	[1]	[–]
Quality assurance	[9]	[10]	[4]	[–]
Project management	[37]	[8]	[–]	[–]
Total	[509]	[488]	[154]	[6]

Training and safety

The Group places strong emphasis on the training and personal development of employees. Annual internal and external training programs are provided to employees in several areas such as production safety, software application, corporate value, product knowledge, technical skills and personal development. The internal training courses are conducted by senior staff of the Group. The Group has also planned to provide its design and development staff with in-house training by senior designers in relation to product knowledge, to invite renowned furniture design and development experts to act as its consultants and conduct professional courses covering use of materials, color and latest product development and technology. In addition, the Group intends to send its designers to participate in furniture trade fairs in the PRC and abroad to gain firsthand knowledge of international furniture trend and development. The Group also nominates selected senior management members to attend external courses and university programs.

DIRECTORS, SENIOR MANAGEMENT AND STAFF

Salaries and social welfare contributions

Salaries

The Group conducts regular salary survey to maintain its competitiveness in the labour market. Salary package adjustments are generally based on industry benchmarks, inflation and individual performance.

Social welfare contributions

According to the relevant Hong Kong laws, rules and regulations, the Group contributes to a mandatory provident fund in compliance with the Mandatory Provident Fund Scheme Ordinance (Chapter 485 of the Laws of Hong Kong) in respect of its staff in Hong Kong. The Group is responsible for making a contribution of 5% of the salary of the employees (up to a maximum of HK\$1,000 in respect of each employee) on a monthly basis to the fund.

According to the relevant laws, rules and regulations of the PRC, Dongguan Super Furniture is required to make the employee social insurance contributions equivalent to 14.5% of the salaries paid to its employees. During the Track Record Period, Dongguan Super Furniture did not strictly follow the relevant requirements in making full contributions for the employee social insurances. For further details, please refer to the sub-paragraph headed “The Group has records of non-compliance in respect of employee social insurance and housing provident fund contributions in the PRC” in the section headed “Risk factors” and the paragraph headed “Compliance and litigation” in the section headed “Business” in this document. In order to meet the requirements under the relevant laws, rules and regulations in the PRC, Dongguan Super Furniture has commenced making the required contributions for the employee social insurances since 1 January 2009.

With respect to the employee social insurance contributions for the employees of Shenzhen Xingli and Shenzhen Xingli Zundian, the PRC Legal Advisers have been given to understand from the relevant local authority that both Shenzhen Xingli and Shenzhen Xingli Zundian are required to make contributions equivalent to [18]% of the [basic] salaries paid to the employees with Shenzhen registered household and [11]% of the [basic] salaries paid to the employees without Shenzhen registered household. The PRC Legal Advisers have further advised that both Shenzhen Xingli and Shenzhen Xingli Zundian are required to make the work-related injury insurance contributions of RMB[7.5] per employee per month. During the Track Record Period, Shenzhen Xingli and Shenzhen Xingli Zundian has followed the relevant requirements in making full contributions for the employee social insurances.

With respect of housing [provident] fund contributions, each of Shenzhen Xingli, Shenzhen Xingli Zundian and Dongguan Super Furniture is required to make housing [provident] fund contributions equivalent to 13%, 13% and 5% respectively of the salaries paid to their employees. During the Track Record Period, Shenzhen Xingli, Shenzhen Xingli Zundian and Dongguan Super Furniture did not strictly follow the relevant requirements in making full contributions for the housing [provident] funds. For further details, please refer to

DIRECTORS, SENIOR MANAGEMENT AND STAFF

the sub-paragraph headed “The Group has records of non-compliance in respect of employee social insurance and housing provident fund contributions in the PRC” in the section headed “Risk factors” and the paragraph headed “Compliance and litigation” in the section headed “Business” in this document. In order to comply with requirements under the relevant laws, rules and regulations in the PRC, each of Shenzhen Xingli and Shenzhen Xingli Zundian has commenced making the required contribution for the housing provident fund from 1 March 2009 and Dongguan Super Furniture has commenced making the required contributions for the housing provident funds from 1 January 2009.

PRC labour contract law

中華人民共和國勞動合同法 (PRC Labour Contract Law), which took effective on 1 January 2008, stipulates certain requirements in respect to human resources management including, among others things, signing labour contracts with employees, dissolving labour contracts, paying remuneration and economical compensation as well as the employee social insurances. In addition, 中華人民共和國勞動合同法 (PRC Labour Contract Law) requires employers to provide remuneration packages which are not lower than the respective local minimum standards.

Prior to 中華人民共和國勞動合同法 (PRC Labour Contract Law) becoming effective on 1 January 2008, the Group had already implemented measures for the human resources management which included (i) signing a written employment contract with every employee; and (ii) establishing a remuneration system to ensure compliance with the local minimum salary standards. The Directors consider that the implementation of 中華人民共和國勞動合同法 (PRC Labour Contract Law) has not given rise to any material impact on the operations and businesses of the Group.

[As advised by PRC Legal Advisers, save as disclosed under sub-paragraph headed “The Group has records of non-compliance in respect of employee social insurance and housing provident fund contributions in the PRC” in the section headed “Risk factors” and the paragraph headed “Compliance and litigation” in the section headed “Business” in this document, the Group had complied with all requirements of the human resources management under 中華人民共和國勞動合同法 (PRC Labour Contract Law) during the Track Record Period.]

Save as disclosed under sub-paragraph headed “The Group has records of non-compliance in respect of employee social insurance and housing provident fund contributions in the PRC” in the section headed “Risk factors” and the paragraph headed “Compliance and litigation” in the section headed “Business” in this document, the Directors confirmed that the Group had complied with the relevant labour and social welfare laws, rules and regulations in all jurisdictions where the Group operates and that the Group had made the relevant contributions in respect of its employees in accordance with the relevant laws, rules and regulations.

The employees of the Group are not unionised. The relationship between the management and staff has been good and is expected to continue in the future. There have not been any labour disputes or work stoppages which have disrupted the operations of the Group.

DIRECTORS, SENIOR MANAGEMENT AND STAFF

AUDIT COMMITTEE

The Company established an audit committee on [●] with written terms of reference which are in line with the code provisions of the Code on Corporate Governance Practices set out in Appendix 14 to the Listing Rules. The primary duties of the audit committee are to review and supervise the financial reporting process and internal control system of the Group. The audit committee currently has three members comprising Mr. Sun Jian, Ms. Shao Hanqing and Mr. Kong Hing Ki, all being the independent non-executive Directors. Mr. Kong Hing Ki is the chairman of the audit committee.

REMUNERATION COMMITTEE

The Company established a remuneration committee on [●] with written terms of reference which are in line with the code provisions of the Code on Corporate Governance Practices set out in Appendix 14 to the Listing Rules. The remuneration committee shall make recommendations to the Board on, among other matters, the Company’s policy and structure for the remuneration of all Directors and the senior management of the Group and shall be delegated by the Board the responsibility to determine on behalf of the Board the specific remuneration packages for all Directors and the senior management of the Group. It has three members comprising Mr. Sun Jian, Ms. Shao Hanqing and Mr. Kong Hing Ki, all being independent non-executive Directors. The chairman of the remuneration committee is Mr. Sun Jian.

NOMINATION COMMITTEE

The Company established a nomination committee on [●] with written terms of reference which are in line with paragraph A.4.5 of the Code on Corporate Governance Practice set out in Appendix 14 to the Listing Rules. The nomination committee shall make recommendations to the Board on appointment of Directors and succession planning for Directors. It has five members comprising Mr. Sung, Mr. Cheung, Mr. Sun Jian, Ms. Shao Hanqing and Mr. Kong Hing Ki. The chairman of the nomination committee is Ms. Shao Hanqing.

DIRECTORS’ REMUNERATION

Executive Directors

Each of the executive Directors has entered into a service contract with the Company on [●] for a term of three years commencing from [●] and until terminated by not less than three months’ prior notice in writing served by either party on the other. The aggregate annual basic salary (excluding the bonus mentioned below) of all the executive Directors is HK\$[2,000,000] and the salary of each executive Director is subject to annual review with such increment (if any) at such rate to be determined by the remuneration committee of the Company and approved by a majority in number of the members of the Board (excluding the Director whose salary is under review) and the relevant executive Director shall abstain from voting and shall not be counted in the quorum in respect of the proposed resolution regarding the increment.

DIRECTORS, SENIOR MANAGEMENT AND STAFF

Pursuant to the terms of the service contracts entered into between each executive Director and the Company, the annual salary of each executive Director is HK\$[1,000,000]. [Moreover, each of the executive Directors may be entitled to a discretionary bonus determined and approved by the Board provided that the aggregate amount of such bonus payable in each financial year to all the executive Directors shall not exceed [5]% of the audited consolidated net profit of the Group (before taxation but after minority interests and the taxation attributable to the minority interests).

Non-executive Director and independent non-executive Directors

Each of the non-executive Director and the independent non-executive Directors has entered into a letter of appointment with the Company for a period of [2] years commencing from [●] subject to the provisions of retirement and rotation of Directors under the Bye-Laws.

Pursuant to the terms of the letters of appointment entered into between the non-executive Director and each of the independent non-executive Directors on the one part and the Company on the other part, the annual director’s fee payable to each of them is HK\$100,000 and none of them is entitled to any bonus.

For the three years ended 31 December 2008, the aggregate of the remuneration paid to the Directors amounted to approximately HK\$3,138,000, HK\$7,712,000 and HK\$[5,448,000] respectively.

During the Track Record Period, the remuneration of the Directors was determined with reference to their respective experience, responsibilities with the Group and general market conditions. Any discretionary bonus is linked to the performance of the Group and of the individual Director. The Company intends to continue its remuneration policy after [●], subject to the review by, and the recommendations of, the remuneration committee of the Company.

SHARE OPTION SCHEME

The Company has conditionally adopted the Share Option Scheme which, in the opinion of the Directors, will provide incentive or reward for the contribution of eligible participants to the growth of the Group and to provide the Group with a more flexible means to reward, remunerate, compensate and/or provide benefits to the eligible participants. The principal terms of the Share Option Scheme are summarised in the paragraph headed “Share Option Scheme” in Appendix [V] to this document.

SUBSTANTIAL SHAREHOLDERS

SUBSTANTIAL SHAREHOLDERS

So far as the Directors are aware, immediately following completion of [●] and [●], without taking into account the Shares which may fall to be issued upon the exercise of the options granted or may be granted under the Share Option Scheme, the following Shareholders will be entitled to exercise or control the exercise of 10% or more of the voting power at general meetings of the Company:

Name	Capacity	Number of Shares	Approximate percentage of shareholding immediately following [●]	Note
Triple Express	Beneficial owner	[●]	[●]%	1
Mr. Fang Shin	Interest of a controlled corporation	[●]	[●]%	1

Note:

1. Triple Express is beneficially wholly-owned by Mr. Fang Shin, who is the father of Mr. Fang Yan Zau, Alexander, a non-executive Director.

Save as disclosed above, the Directors are not aware of any other person who will, immediately following completion of [●], be entitled to exercise or control the exercise of 10% or more of the voting power at general meetings of the Company.

SHARE CAPITAL

SHARE CAPITAL

The following table is prepared on the basis that [●] and [●] have become unconditional. This table, however, takes no account of any Shares which may be allotted and issued by the Company pursuant to the exercise of the options that may be granted under the Share Option Scheme and of any Shares which may be allotted and issued or repurchased by the Company under the general mandates for the allotment and issue or repurchase of Shares granted to the Directors as referred to below.

HK\$

Authorised share capital:

[1,000,000,000] Shares

[10,000,000.00]

SHARE OPTION SCHEME

The Company has conditionally adopted the Share Option Scheme whereby certain selected classes of participants (including, without limitation, the directors and employees of the Group) may be granted options to subscribe for Shares. The principal terms of the Share Option Scheme are summarised in the section headed “Share Option Scheme” in Appendix [V] to this document.

GENERAL MANDATE TO ISSUE SHARES

The Directors have been granted a general unconditional mandate to exercise all the powers of the Company to allot, issue and deal with (otherwise than pursuant to, or in consequence of, [●], the exercise of any options that may be granted under the Share Option Scheme or any other share option scheme of the Company, or by way of rights issues, scrip dividend schemes or similar arrangements providing for the allotment and issue of Shares in lieu of the whole or part of a dividend on Shares in accordance with the Bye-Laws or a specific authority granted by the Shareholders in general meetings) Shares with a total nominal value not exceeding 20% of the aggregate nominal amount of the share capital of the Company in issue immediately following completion of [●] (excluding any Shares which may be issued pursuant to the exercise of the options that may be granted under the Share Option Scheme).

SHARE CAPITAL

The issue mandate will be extended by the addition to the aggregate nominal value of the share capital of the Company which may be allotted or agreed conditionally or unconditionally to be allotted by the Directors pursuant to the issue mandate of an amount representing the aggregate nominal value of the share capital of the Company repurchased by the Company pursuant to the repurchase mandate (as referred to below), provided that such extended amount shall not exceed 10% of the aggregate nominal value of the share capital of the Company in issue immediately following the completion of [●] (excluding the Shares which may be issued pursuant to the options that may be granted under the Share Option Scheme).

This issue mandate will expire:

- at the conclusion of the Company’s next annual general meeting;
- at the expiration of the period within which the Company is required by law or its Bye-Laws to hold its next annual general meeting; or
- when varied or revoked by an ordinary resolution of the Shareholders in general meeting,

whichever is the earliest.

For further details of this general mandate, please see the paragraph headed “Written resolutions of the Shareholders on [●]” in Appendix V to this document.

GENERAL MANDATE TO REPURCHASE SHARES

Conditional on [●], the Directors have been granted a general unconditional mandate to exercise all the powers of the Company to repurchase Shares with a total nominal value of not exceeding 10% of the total nominal amount of the share capital of the Company in issue immediately following completion of [●] (excluding any Shares which may be issued pursuant to the exercise of the options that may be granted under the Share Option Scheme).

SHARE CAPITAL

This repurchase mandate only relates to repurchases made on [●] and made in accordance with all applicable laws and requirements of the Listing Rules (or of such other stock exchanges).

This repurchase mandate will expire:

- at the conclusion of the Company’s next annual general meeting;
- at the expiration of the period within which the Company is required by law or its Bye-Laws to hold its next annual general meeting; or
- when varied or revoked by an ordinary resolution of the Shareholders in general meeting,

whichever is the earliest.

For further details of this general mandate, please see the paragraph headed “Written resolutions of the Shareholders on [●]” in Appendix V to this document.

FINANCIAL INFORMATION

INDEBTEDNESS

Borrowings and banking facilities

The following table sets out the Group’s borrowings, banking facilities and the maturity profile as at the dates indicated:

	2006		As at 31 December 2007		2008		As at 30 April 2009	
	RMB'000	approximately HK\$'000	RMB'000	approximately HK\$'000	RMB'000	approximately HK\$'000	RMB'000	approximately HK\$'000
Banking facilities								
– drawn	–	–	–	–	[40,000]	[45,357]	[58,000]	[65,768]
– undrawn	–	–	70,000	75,040	[30,000]	[34,018]	[12,000]	[13,607]
	–	–	70,000	75,040	[70,000]	[70,375]	[70,000]	[79,375]
Secured bank loans								
– maturing within one year	–	–	–	–	10,090	11,441	20,393	23,124
– maturing in the second year	–	–	–	–	10,090	11,441	13,169	[14,933]
– maturing in the third to fifth years, inclusive	–	–	–	–	18,458	20,931	19,713	22,353
amount outstanding	–	–	–	–	38,638	43,813	53,275	[60,410]
amount repaid	–	–	–	–	1,362	1,544	4,725	5,358
amount drawn	–	–	–	–	40,000	45,357	58,000	65,768

All the Group’s bank loans are denominated in RMB. As at 30 April 2009, the Group’s secured bank loans carried interest rates ranging from [5.1]% to [7.9]% per annum. During the Track Record Period, the interest capitalised in respect of the Group’s secured bank loans amounted to nil, nil and HK\$2.3 million respectively.

The banking facilities granted to the Group in 2007 were secured by (i) a legal charge over Longgang Land I with a site area of approximately 43,817 sq.m.; (ii) a letter of undertaking provided by Shenzhen Xingli to mortgage its factory premises (currently being constructed) on Longgang Land I upon the availability of ownership certificate on or before 31 December 2009; (iii) corporate guarantees provided by the Company and Hing Lee Furniture; and (iv) personal guarantees provided by the Founders. If the relevant ownership certificate of the factory premises on Longgang Land I cannot be obtained on or before 31 December 2009, the bank has the right to cancel the banking facilities and to demand full repayment of any outstanding sum owed to the bank without further notice. As at the Latest Practicable Date, the superstructure of the factory buildings and the dormitory buildings of the Shenzhen Xingli Production Base has been completed, and internal renovation and installation of building services are being carried out as scheduled. The construction of the Shenzhen Xingli Production Base is expected to be completed in June 2009. The Directors do not currently foresee any obstacle for the Group to obtain the relevant ownership certificate by the Group on or before 31 December 2009. [The relevant bank has agreed in principle that the personal guarantees as set out in (iv) above will be released upon [●].]

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As at 30 April 2009, being the latest practicable date prior to the printing of this document for the purpose of ascertaining information contained in this indebtedness statement, the Group had outstanding banking borrowings of RMB53.3 million (approximately HK\$60.4 million).

Contingent liabilities

As at [30 April] 2009, the Group did not have any significant contingent liabilities.

Disclaimer

Save as disclosed herein and apart from any intra-group liabilities, the Group did not, as at the close of business on [30 April] 2009, have any outstanding loan capital issued and outstanding or agreed to be issued, bank overdrafts, charges or debentures, mortgages, loans, or other similar indebtedness or any finance lease commitments, hire purchase commitments, liabilities under acceptances, acceptance credits or any guarantees or other material contingent liabilities.

Save as disclosed herein, the Directors confirmed that there had been no material change in the indebtedness and contingent liabilities of the Group since [31 December 2008].

CAPITAL COMMITMENT

Capital commitments as at the dates indicated were as follows:

	As at 31 December		
	2006	2007	2008
	HK\$'000	HK\$'000	HK\$'000
Contracted for but not provided for:			
– Construction of factory building	2,357	2,687	[38,921]
– Acquisition of property, plant and equipment	271	870	[79]
	<u>2,628</u>	<u>3,557</u>	<u>[39,000]</u>
	As at 31 December		
	2006	2007	2008
	HK\$'000	HK\$'000	HK\$'000
Authorised but not contracted			
– Construction of factory building	–	68,094	[–]
– Acquisition of property, plan and equipment	–	25,000	[25,000]
	<u>–</u>	<u>93,094</u>	<u>[25,000]</u>

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The increase in capital commitment recorded as at 31 December 2007 was mainly attributable to the Group’s expansion plan for constructing its new production facilities and acquisition of production equipment to be installed at Shenzhen Xingli Production Base.

CRITICAL ACCOUNTING POLICIES AND ESTIMATES

The financial information set out in the Accountants’ Report in Appendix I to this document has been prepared in accordance with HKFRSs. The preparation of the financial information in conformity with HKFRSs requires management to make judgements, estimates and assumptions that affect the application of policies and reported amounts of assets, liabilities, income and expenses. The Group bases the assumptions and estimates on historical experience and on various other assumptions that it believes to be reasonable and which form the basis for making judgements about matters that are not readily apparent from other sources. On an on-going basis, management evaluates its estimates. Actual results may differ from those estimates as facts, circumstances and conditions change.

The selection of critical accounting policies, the judgements and other uncertainties affecting application of those policies and the sensitivity of reported results to changes in conditions and assumptions are factors to be considered when reviewing the financial information. The Group believes the following critical accounting policies involve the most significant judgements and estimates used in the preparation of the financial information.

Revenue recognition

The Group recognises the revenue when it is probable that the economic benefits will flow to the Group and when the revenue can be measured reliably, on the following bases:

- (i) sales of products to domestic distributors and overseas customers are recognised when the significant risks and rewards of ownership have been transferred to the buyer, provided that the Group maintains neither managerial involvement associated with ownership, nor effective control over the goods sold;
- (ii) licensing income is recognised when the right to receive payment is established;
- (iii) interest income is recognised on an accrual basis using the effective interest method by applying the rate that discounts the estimated future cash receipts through the expected life of the financial instrument to the net carrying amount of the financial asset; and
- (iv) dividend income is recognised when the shareholders’ right to receive payment is established.

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Depreciation of property, plant and equipment

Property, plant and equipment are depreciated on a straight-line basis over their estimated useful lives, after taking into account the estimated residual values, at the following rates per annum:

Leasehold improvements	20% or over the lease terms, whichever is shorter
Motor Vehicles	18% – 20%
Office equipment	10% – 20%
Plant and machinery	9% – 18%

The Group reviews the estimated useful lives and the estimated residual values of the assets annually in order to determine the amount of depreciation expense to be recorded during any reporting period. The useful lives and residual values are based on the Group’s historical experience with similar assets and taking into account anticipated technological changes. Such information may include a significant decrease in market value of the property, plant and equipment or a significant change in market conditions such that the carrying value of property, plant and equipment may not be recovered.

Depreciation methods, useful lives and residual values are reviewed at each reporting date. No significant variance between actual result and the Group’s estimation was found in the past. The estimate or assumption has not been changed in the past and such estimate or assumption is not likely to change in the future.

Impairment of trade receivables

Management regularly reviews the recoverability of trade and other receivables and amounts due from related parties. Allowance for these receivables is made based on the evaluation of collectability and on management’s judgement by reference to the estimation of the future cash flows discounted at the effective interest rate to calculate the present value.

A considerable amount of judgement is required in assessing the ultimate realisation of these debtors, including their current creditworthiness. If the actual future cash flows are less than expected, additional allowance may be required.

The amount of the provision for impairment is the difference between the asset’s carrying amount and the present value of the management’s estimated future cash flow discounted at the effective interest rate at the initial recognition of such asset. For the three years ended 31 December 2008, the Group recognised provision for impairment of HK\$4,441,000, HK\$5,826,257 and HK\$2,080,363 respectively. The Group also recognised reversal of impairment of nil, HK\$6,739,517 and HK\$3,588,966 for the three years ended 31 December 2008 respectively. The basis for estimate or assumption has not been changed in the past and is reasonably not likely to change in the future.

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In order to strengthen the internal control and financial management, the Group engaged the present chief financial officer in 2007. The Group has increased manpower and put significant efforts on debts collection in order to improve its cashflow position. Debts which impaired previously amounted to HK\$6,739,517 and HK\$3,588,966 were subsequently recovered in late 2007 and during 2008 respectively. Although significant reversal of impairment for doubtful debts were recorded during 2007 and 2008, the Group believes the current policy of impairment is effective, as all of the impaired debts subsequently recovered were over one year old at the time of making such impairment.

Impairment for inventories

Inventories are valued at the lower of cost, on the weighted average basis, and net realisable value after making due impairment for any obsolete or slow moving items. In the case of finished goods and work in progress, production costs include direct materials, direct labour, sub-contracting charges and, where applicable, production overheads. Net realisable value is determined with reference to estimated selling prices less all further costs to be incurred in selling and distribution.

No significant variance between the final realisable value and the Group's provision for impairment of inventories was found in the past. The basis for estimate or assumption has not been changed in the past and is reasonably not likely to change in the future.

Income taxes and deferred taxation

Significant judgement is required in determining the provision for income tax. There are many transactions and calculations for which the ultimate determination is uncertain during the ordinary course of business. Where the final tax outcome of these matters is different from the amounts that are initially recorded, such difference will impact the income tax and deferred tax provision in the period when such determination is made.

The subsidiaries of the Company in the PRC are subject to enterprise income tax in the PRC. Pursuant to the New EIT Law, which became effective on 1 January 2008, the enterprise income tax rates for both domestic and foreign-invested enterprises have been unified at the rate of 25%. Enterprises that are entitled to exemptions or reductions from the standard income tax rate for a fixed term prior to 1 January 2008 may continue to enjoy such treatment until such fixed term expires. Accordingly, after the applicable transition period, the subsidiaries of the Company in the PRC may no longer be subjected to preferential tax rates and/or tax exemption and the tax rate applied to all subsidiaries established in the PRC will be increased to 25%. Since the deferred income tax assets and liabilities will be measured at the tax rates that are expected to apply to the period when the asset is realised or the liability is settled, the change in the applicable tax rate will affect the determination of the carrying values of deferred tax assets and liabilities of the Company's subsidiaries located in the PRC. The Company will continue to evaluate the impact of the New EIT Law on its operations and financial condition.

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Deferred income tax is provided in full, using the liability method, on temporary differences arising between the tax bases of assets and liabilities and their carrying amounts in the financial statements. However, the deferred income tax is not accounted for if it arises from initial recognition of an asset or liability in a transaction other than a business combination that at the time of the transaction affects neither accounting nor taxable profit or loss. Deferred income tax is determined using the tax rates that have been enacted or substantially enacted by the balance sheet date and are expected to apply when the related deferred income tax asset is realised or the deferred income tax liability is settled.

Deferred income tax assets are recognised to the extent that it is probable that future taxable profit will be available against which the temporary differences or tax losses can be utilised. The outcome of their actual utilisation may be different.

Deferred income tax is provided on temporary differences arising on investments in subsidiaries, except where the timing of the reversal of the temporary difference can be controlled by the Group and it is probable that the temporary difference will not reverse in the foreseeable future.

No significant variance between the final tax outcome and the Group's provision for taxation was found in the past. The basis for estimate or assumption has not been changed in the past and such estimate or assumption is reasonably not likely to change in the future.

Impairment of non-financial assets

Where an indication of impairment exists, or when annual impairment testing for an asset is required (other than inventories, financial assets and non-current asset), the asset's recoverable amount is estimated. An asset's recoverable amount is the higher of the asset's or cash-generating unit's value in use and its fair value less costs to sell, and is determined for an individual asset, unless the asset does not generate cash inflows that are largely independent of those from other assets or groups of assets, in which case the recoverable amount is determined for the cash-generating unit to which the asset belongs.

An impairment loss is recognised only if the carrying amount of an asset exceeds its recoverable amount. In assessing value in use, the estimated future cash flows are discounted to their present value using a pre-tax discount rate that reflects current market assessments of the time value of money and the risks specific to the asset. An impairment loss is charged to the income statement in the period in which it arises.

An assessment is made at each reporting date as to whether there is any indication that previously recognised impairment losses may no longer exist or may have decreased. If such an indication exists, the recoverable amount is estimated. A previously recognised impairment loss of an asset other than goodwill is reversed only if there has been a change in the estimates used to determine the recoverable amount of that asset, but not to an amount higher than the carrying amount that would have been determined (net of any depreciation) had no impairment loss been recognised for the asset in prior years. A reversal of such an impairment loss is credited to the income statement in the period in which it arises.

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Financial instruments

Financial assets is recognised in the balance sheet when a group entity becomes a party to be contractual provisions of the instrument. Financial assets is initially measured at fair value. Transaction costs that are directly attributable to the acquisition or issue of financial assets (other than financial assets at fair value through profit or loss) is added to or deducted from the fair value of the financial assets, as appropriate, on initial recognition. Transaction costs directly attributable to the acquisition of financial assets at fair value through profit or loss are recognised immediately in the income statement.

Financial assets

The Group’s financial assets are classified into one of the three categories, namely financial assets at fair value through profit or loss (“FVTPL”), loans and receivables and available-for-sale financial assets. All regular way purchases or sales of financial assets are purchases or sales of financial assets that require delivery of assets within the time frame established by regulation or convention in the marketplace.

Financial assets at fair value through profit or loss

A financial asset is classified as held for trading if it has been acquired principally for the purpose of selling in the near future; or it is a part of an identified portfolio of financial instruments that the Group manages together and has a recent actual pattern of short-term profit-taking; or it is a derivative that is not designated and effective as a hedging instrument.

At each balance sheet date subsequent to initial recognition, financial assets at FVTPL are measured at fair value, with changes in fair value recognised directly in the income statement in the period in which they arise. The net gain or loss recognised in the income statement does not include any dividend or interest earned on the financial assets.

Loans and receivables

Loans and receivables are non-derivative financial assets with fixed or determinable payments that are not quoted in an active market. At each balance sheet date subsequent to initial recognition, loans and receivables (including trade receivables, other receivables, time deposit held over 3 months, restricted bank deposits, bank balances and cash) are carried at amortised cost using the effective interest method, less any identified impairment losses.

The effective interest method is a method of calculating the amortised cost of a financial asset and of allocating interest income over the relevant period. The effective interest rate is the rate that exactly discounts estimated future cash receipts (including all fees on points paid or received that form an integral part of the effective interest rate, transaction costs and other premiums or discounts) through the expected life of the financial asset, or, where appropriate, a shorter period.

Income is recognised on an effective interest basis for debt instruments of which interest income is included in net gains or losses.

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Available-for-sale financial assets

Available-for-sale financial assets are non-derivative financial assets that are either designated in this category or not classified in any of the other categories. The Group designated listed equities as available-for-sales financial assets.

At each balance sheet date subsequent to the initial recognition, available-for-sale financial assets are measured at fair value. Unrealised gains or losses (except for changes in exchange rates for monetary items, interest, dividends and impairment losses which are recognised in the income statement) are recognised in equity until the financial asset is derecognised, at which time the cumulative gain or loss previously recognised in equity is taken to the income statement.

Impairment of financial assets

Financial assets, other than those at FVTPL, are assessed for indications of impairment at each balance sheet date. Financial assets are impaired where there is objective evidence that, as a result of one or more events that occurred after the initial recognition of the financial asset, the estimated future cash flows of the financial assets have been impacted.

For an available-for-sale equity investment, a significant or prolonged decline in the fair value of that investment below its costs is considered to be objective evidence of impairment.

For all other financial assets, objective evidence of impairment could include:

- significant financial difficulty of the issuer or counterparty; or
- default or delinquency in interest or principal payments; or
- it becoming probable that the borrower will enter bankruptcy or financial re-organisation.

For certain categories of financial asset, such as trade receivables, assets that are assessed not to be impaired individually are subsequently assessed for impairment on a collective basis. Objective evidence of impairment for a portfolio of receivables could include the Group’s past experience of collecting payments, an increase in the number of delayed payment in the portfolio past the average credit period, observable changes in national or local economic conditions that correlate with default on receivables.

For financial assets carried at amortised cost, an impairment loss is recognised in the income statement when there is objective evidence that the asset is impaired, and is measured as the difference between the asset’s carrying amount and the present value of the estimated future cash flows discounted at the original effective interest rate.

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For financial assets carried at cost, the amount of the impairment loss is measured as the difference between the asset’s carrying amount and the present value of the estimated future cash flows discounted at the current market rate of return for a similar financial asset. Such impairment loss will not be reversed in subsequent periods.

The carrying amount of the financial asset is reduced by the impairment loss directly for all financial assets with the exception of trade receivables, where the carrying amount is reduced through the use of an allowance account. Changes in the carrying amount of the allowance account are recognised in the income statement. When a trade receivable is considered uncollectible, it is written off against the allowance account. Subsequent recoveries of amounts previously written off are credited to the income statement.

Impairment losses on available-for-sale equity investments will not be reversed in the income statement in subsequent periods. Any increase in the fair value of available-for-sale equity-investments subsequent to an impairment loss being recognized is credited directly to equity.

For financial assets measured at amortised cost, if, in a subsequent period, the amount of impairment loss decreases and the decrease can be related objectively to an event occurring after the impairment losses was recognised, the previously recognised impairment loss is reversed through the income statement to the extent that the carrying amount of the asset at the date the impairment is reversed does not exceed what the amortised cost would have been had the impairment not been recognised.

Derecognition

Financial assets are derecognised when the rights to receive cash flows from the assets expire or, the financial assets are transferred and the Group has transferred substantially all the risks and rewards of ownership of the financial assets. On derecognition of a financial asset, the difference between the asset’s carrying amount and the sum of the consideration received and receivable and the cumulative gain or loss that had been recognised directly in equity is recognised in profit or loss.

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TRADING RECORD

The following is a summary of the audited consolidated results of the Group for the Track Record Period. This summary is extracted from and should be read in conjunction with the accountants’ report set out in Appendix I to this document.

	For the year ended 31 December		
	2006	2007	2008
	HK\$'000	HK\$'000	HK\$'000
Turnover	369,626	492,669	534,346
Cost of sales	<u>(299,526)</u>	<u>(396,438)</u>	<u>(433,344)</u>
Gross profit	70,100	96,231	101,002
Other income	2,304	1,962	1,989
Selling and distribution expenses	(18,441)	(27,453)	(35,533)
Administrative expenses	<u>(22,594)</u>	<u>(28,490)</u>	<u>(33,348)</u>
Profit from operating activities	31,369	42,250	34,110
Finance costs	<u>(481)</u>	<u>(18)</u>	<u>(70)</u>
Profit before taxation	30,888	42,232	34,040
Taxation	<u>(2,137)</u>	<u>(1,803)</u>	<u>(3,251)</u>
Profit for the year	<u>28,751</u>	<u>40,429</u>	<u>30,789</u>
Attributable to:			
Equity holders of the Company	28,103	40,192	30,746
Minority interests	<u>648</u>	<u>237</u>	<u>43</u>
Profit for the year	<u>28,751</u>	<u>40,429</u>	<u>30,789</u>
Dividends	<u>–</u>	<u>17,276</u>	<u>3,971</u>

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PRINCIPAL INCOME STATEMENT COMPONENTS

The following is an overview of the major revenue and expense items contributing to the audited trading record of the Group during the Track Record Period:

Turnover

Turnover represents gross invoiced sales, net of any returns, trade discounts and value added tax, together with licensing fees. The turnover of the Group during the Track Record Period was generated from the domestic sales of furniture products to its distributors in the PRC, export sales and licensing fees through licensing arrangements with third party licensees.

The following table shows the breakdown of the turnover of the Group’s branded and unbranded products by business activities during the Track Record Period:

	For the year ended 31 December					
	2006		2007		2008	
	HK\$’000	%	HK\$’000	%	HK\$’000	%
Domestic sales						
Johnston	74,921	20.3	106,120	21.5	128,588	24.1
PZ-King	52,764	14.3	48,976	9.9	54,273	10.2
Mandarin	20,745	5.6	55,926	11.4	51,844	9.7
New Nobleman	—	—	—	—	19,382	3.6
	148,430	40.2	211,022	42.8	254,087	47.6
Exports						
Branded						
– Johnston	—	—	36,336	7.4	49,101	9.2
– PZ-King	45,959	12.4	38,003	7.7	34,583	6.5
Mattress	50,393	13.6	58,748	11.9	51,665	9.7
Unbranded	97,445	26.4	120,651	24.5	125,963	23.5
	193,797	52.4	253,738	51.5	261,312	48.9
Licensing fees						
Oriant	19,754	5.3	23,829	4.9	17,546	3.3
New Nobleman	—	—	3,141	0.6	—	—
Classic Sanroy	1,347	0.4	939	0.2	1,401	0.2
Mandarin	6,298	1.7	—	—	—	—
	27,399	7.4	27,909	5.7	18,947	3.5
Total	369,626	100.0	492,669	100.0	534,346	100.0

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(i) Domestic sales

In 2006, in view of the continuous growth of the PRC economy and surging income levels, the Group began to place more emphasis in terms of market promotion and product designs on the classic furniture series under the brand name of “Johnston” targeting at high price point consumers. Moreover, in 2007, the Group launched an advertising campaign through various media such as the nationwide television network China Central Television and billboards to enhance the general public’s recognition of the “Johnston” brand. As a result, the domestic sales of “Johnston” products recorded continuous growth of approximately 41.6% and 21.2% for the two years ended 31 December 2008 respectively.

In 2006, the “Mandarin” brand of Italian-styled modern furniture which was initially licensed to third party furniture manufacturers was resumed by the Group, since the Group saw strong growing market potential for Italian-styled modern furniture in the domestic market. In July 2006, the Group ceased the relevant licensing arrangements, and began to shift marketing efforts from other modern furniture product lines to the “Mandarin” products. New designs under this series were launched in 2007. As a result, the turnover derived from the domestic sales of “Mandarin” products recorded substantial increase of approximately 170% from 2006 to 2007, whilst the sales from “PZ-King” products decreased by 7.2% in the same period. In 2008, the Group launched a new product series, namely “K-series”, under the brand name of “PZ-King”, which enabled the Group to record an increase of approximately 10.8% in the sales of “PZ-King ” products for the year. However, the sales of “Mandarin” products experienced a slight drop of approximately 7.3% for the year.

“New Nobleman” is the Group’s brand name used for marketing Spanish-styled classical furniture. Initially, the Group commenced the licensing arrangements with respect to the use of this brand name in January 2007. As the Group intended to strengthen the management of the “New Nobleman” brand name, it did not renew the relevant licence agreements upon their expiry at the end of 2007. In 2008, the Group started to manufacture “New Nobleman” products for sale in the domestic market and recorded turnover of approximately HK\$19.4 million for the year.

(ii) Exports

In 2006, the Group was mainly focused on marketing its modern furniture series under the brand name of “PZ-King”, mattress and unbranded products in the export markets. In 2007, as the Directors believed that the Group had established its overseas client base for the modern furniture series, it decided to diversify its product offerings in the export markets and introduced new designs of products under its classic furniture series, “Johnston”, to meet the preferences of its overseas customers. In March 2007, the Group participated in 中國廣州國際傢俱博覽會 (China International Furniture Fair (Guangzhou)) to promote its “Johnston” furniture products and received favourable responses from its overseas customers who then placed orders with the Group. With the

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delivery of the “Johnston” products in the second half of 2007, the Group recorded turnover of approximately HK\$36.3 million in relation to “Johnston” products for the year ended 31 December 2007, representing about 14.3% of the Group’s export sales for that year. [During the year ended 31 December 2008, turnover derived from the sale of “Johnston” products recorded an increase of approximately 35.1% as compared to 2007.] [However, in 2007 and 2008, export sales of “PZ-King” products decreased by about 17.3% and 9.0% respectively, as some of the overseas customers shifted to order the Group’s unbranded products.]

As the Group changed the emphasis of its mattress business from domestic sale to export in view of the higher profit margin in the overseas markets, the Group stopped selling its mattress products in the domestic market since the beginning of 2006 and the export sales of the Group’s mattress products recorded sales of approximately HK\$50.4 million for the year ended 31 December 2006. In 2007, sales of mattresses rose by approximately 16.6% as a result of the increase in demand from its overseas customers. [During the year ended 31 December 2008, turnover derived from the sale of mattress products dropped by approximately 12.1%, since some of the Group’s mattress customers reduced order size in response to the price increase imposed by the Group.]

By participating in domestic and international trade fairs and exhibitions, the Group was able to gain recognition of its production capabilities and to establish relationships with overseas furniture suppliers and customers. In 2006, the Group secured sizable orders from certain overseas customers for unbranded products and recorded sales of approximately HK\$97.4 million for the year. [For the two years ended 31 December 2008, turnover derived from the sale of unbranded products grew steadily by 23.8% and 4.4% respectively primarily due to the increase in demand from the overseas customers.]

The following table sets out the breakdown of unbranded products based on the Group’s own designs and the designs provided by the overseas customers:

	2006 HK\$’000	2007 HK\$’000	2008 HK\$’000
Breakdown of unbranded products			
– own designed products	15,052	38,013	41,235
– products designed by overseas customers	82,393	82,638	84,728
	<u>97,445</u>	<u>120,651</u>	<u>125,963</u>

The Directors consider the export business will continue to be a major driving force of the Group’s future growth. The Group will continue to devote sufficient resources in expanding its export business through participating major furniture trade fairs and exhibitions in overseas markets and [making regular marketing visits to overseas customers.]

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(iii) Licensing fees

The Group derives licensing fees from granting non-exclusive rights to third-party licensees for use of its own brands and product designs. The licensing fees are calculated based on a certain percentage of the invoiced value of the furniture products manufactured under the licence, at which the licensees sell to their customers. The unit prices for calculating the invoiced value of the furniture products are predetermined by the Group and the licensees after arm’s length negotiation and taking into account the costs incurred by the Group in product design and brand building as well as the potential production costs.

During the Track Record Period, the licensing fees payable by the licensees to the Group were subject to 10% withholding tax in the PRC. However, it is a term of the licence agreements that the licensing fees receivable by the Group should be net of any tax and the licensees are responsible to pay any tax imposed on the licensing fees payable by the licensees to the Group. As such, the licensing fees as agreed between the Group and the licensees during the Track Record Period were on a net-of-tax basis and the licensees were responsible to pay the relevant withholding tax separately to the tax authorities at their own costs.

In 2006, about 72% of the Group’s licensing fees was derived from the licensing arrangements with respect to the use of the brand name “Orient” and its product designs, which are mainly catered for young aged middle price point customers. In 2007, the Group launched an advertising campaign through various media such as furniture magazines and billboards to enhance consumers’ recognition of the “Orient” brand and the licensing fees derived from the brand “Orient” recorded growth of approximately 20.6% in that year. [However, for the year ended 31 December 2008, the licensing fees earned from the brand “Orient” decreased by approximately 26.4% as compared to that of the previous year. Such decrease in 2008 was mainly due to a combination of factors including the snow storms and the Sichuan earthquake in the first half of the year, and the lack of new product launch under the licensed brand names in the second half of the year, which adversely affected the business of the licensees.

In 2006, the licensing fees earned from the brand “Mandarin” accounted for about 23.0% of the Group’s total licensing fees. In July 2006, the Group ceased the “Mandarin” licensing arrangements as mutually agreed between the Group and the respective licensees and resumed the brand for its own manufacturing and marketing, as the Group saw strong growing market potential for Italian-styled modern furniture in the domestic market. The Group started to manufacture products under the brand “Mandarin” for sale in the domestic market in the second half of 2006.

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The Group commenced the licensing arrangement with respect to the use of its “New Nobleman” brand name in January 2007 and earned licensing fees of approximately HK\$3.1 million during the year. In order to strengthen the management of its “New Nobleman” brand, the Group did not renew the relevant licence agreements upon their expiry at the end of 2007. In 2008, the Group started to manufacture products under the brand “New Nobleman” for sale in the domestic market.

The brand “Classic Sanroy” was used for marketing the products catered for high price point customers who demand luxurious furniture products. The relevant licensing fees derived from the brand name “Classic Sanroy” remained quite stable at around 0.2% to 0.4% of the Group’s turnover throughout the Track Record Period.

The Directors believe that, with the formal operation of the Shenzhen Xingli Production Base expected to commence in the third quarter of 2009, the Group would certainly consider to self-manufacture the new products designed by the Group in the future, rather than licensing them to third parties. Therefore, should the Group’s domestic and export business continue to grow in the future, the licensing business would probably account for a smaller portion of the Group’s turnover.

Set out below is a table showing the breakdown of the Group’s turnover by geographical locations during the Track Record Period:

	For the year ended 31 December					
	2006		2007		2008	
	HK\$’000	%	HK\$’000	%	HK\$’000	%
The PRC	175,829	47.6	238,931	48.5	273,034	51.1
Asia (<i>Note 1</i>)	127,850	34.6	172,942	35.1	176,896	33.1
Europe (<i>Note 2</i>)	24,817	6.7	32,287	6.6	35,370	6.6
Others (<i>Note 3</i>)	41,130	11.1	48,509	9.8	49,046	9.2
Total	369,626	100.0	492,669	100.0	534,346	100.0

Notes:

1. Asia mainly represented Japan, Taiwan, Middle East and Southeast Asia.
2. Europe mainly represented Sweden, Italy, Spain and Germany.
3. Others mainly represented the United States, Canada, Angola and Ivory Coast.

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The PRC domestic market continued to gain importance in the Group’s furniture business during the Track Record Period, accounting for over 50% of the total turnover for the year ended 31 December 2008. In the Group’s export operation, the Asian region contributed approximately one third of the total turnover to the Group for the three years ended 31 December 2008. Customers in Japan and Taiwan were the major buyers of the Group’s furniture products in 2006 and 2007 whilst customers from the Middle East and India were seen to have increased their purchases in 2008. The European region, covering customers in over 17 countries, accounted for approximately 6% of the Group’s turnover during the Track Record Period. The major European customers were mainly located in Sweden, Italy, Spain and Germany.

The “Others” region mainly covers customers in the United States, Canada, Angola and Ivory Coast in Africa. During the Track Record Period, the turnover contributions from customers in the United States amounted to approximately HK\$23.3 million, HK\$35.0 million and HK\$31.1 million respectively. The customers in Africa increased their purchases of the Group’s products in 2008 as compared to the previous year, which basically compensated the reduction in demands from the customers in the United States.

Cost of sales

Cost of sales primarily include raw material costs, labour costs, depreciation and amortisation expenses, rental expenses, other production overheads and outsourcing costs.

The cost of raw materials was the main component of the Group’s cost of sales. Raw materials used in the production of the Group’s home furniture products mainly include MDF board, ironware and paint.

Labour costs are mainly salaries, wages and other benefits for the Group’s direct labours.

Outsourcing costs refer to the costs of outsourcing production of furniture products to contract manufacturers.

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The following table sets out the breakdown of the Group’s cost of sales during the Track Record Period:

	For the year ended 31 December					
	2006		2007		2008	
	HK\$’000	%	HK\$’000	%	HK\$’000	%
Raw materials						
MDF board	57,055	19.1	84,496	21.3	83,686	19.3
Ironware	25,206	8.4	35,053	8.8	36,195	8.4
Paint	23,328	7.8	29,345	7.4	28,323	6.5
Sponge	14,676	4.9	17,155	4.3	13,019	3.0
Metal spring	10,751	3.6	12,966	3.3	11,642	2.7
Fabric	8,822	2.9	11,514	2.9	9,091	2.1
Packaging materials	9,065	3.0	11,259	2.8	9,254	2.1
Glass	6,470	2.2	7,049	1.8	7,285	1.7
Others	2,150	0.7	1,815	0.5	752	0.2
Sub-total	157,523	52.6	210,652	53.1	199,247	46.0
Direct labour	15,084	5.0	24,097	6.1	29,063	6.7
Overheads	19,237	6.4	19,728	5.0	24,316	5.6
Outsourcing	107,682	36.0	141,961	35.8	180,718	41.7
Cost of sales	<u>299,526</u>	<u>100.00</u>	<u>396,438</u>	<u>100.00</u>	<u>433,344</u>	<u>100.00</u>

During the Track Record Period, the increase in cost of sales was basically in line with the increase in turnover for the domestic and export sales. The outsourcing cost was the largest component, accounting for over one third of the Group’s cost of sales. For the year ended 31 December 2008, the outsourcing cost accounted for approximately 41.7% of the cost of sales, as compared to approximately 36% for the prior two years. The increase in the outsourcing cost was mainly due to the fact that the production of the “K-series” product under the brand name of “PZ-King” was outsourced to contract manufacturers due to lack of the required production equipment at Shenzhen Xingli to undertake the production. The related outsourcing cost for “K-series” products amounted to approximately HK\$19.0 million. Due to the increase in outsourcing, the costs of raw materials used for self-manufacturing only accounted for approximately 46% of the cost of sales for the year ended 31 December 2008, as compared to approximately 53% for the prior two years.

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Gross profit and gross profit margin

The following table shows the breakdown of the Group's gross profit and gross profit margin by business activities during the Track Record Period:

	For the year ended 31 December					
	2006		2007		2008	
	Gross profit	Gross profit margin	Gross profit	Gross profit margin	Gross profit	Gross profit margin
	HK\$'000	%	HK\$'000	%	HK\$'000	%
Domestic sales	23,350	15.7	41,219	19.5	54,501	21.4
Exports	19,351	10.0	27,103	10.7	27,553	10.5
Licensing fees	27,399	100.0	27,909	100.0	18,948	100.0
Total	70,100	19.0	96,231	19.5	101,002	18.9

During the Track Record Period, the Group's domestic sales recorded gross profit margin of approximately 15.7%, 19.5% and 21.4% respectively. The increase in the gross profit margin from approximately 15.7% in 2006 to approximately 19.5% in 2007 was mainly due to the benefits of economy of scale resulted from the Group's ability to maintain the factory overheads stable whilst increasing the production volume. In 2008, the Group recorded another increase in gross profit margin from approximately 19.5% in 2007 to approximately 21.4%. The increase in the gross profit margin was mainly due to the general decrease in the prices for certain raw materials, such as MDF boards and paints, used in manufacturing furniture products.

As for export sales, the gross profit margin has been rather stable, ranging from approximately from 10% to 10.7% during the Track Record Period. The Group and its overseas customers basically adopted a cost plus approach in fixing the product pricing for export sales. The Group did not incur any direct costs in earning its licensing revenue. The related staff costs for product design and quality control for the licensing business were grouped under selling and distribution expenses. Therefore, the gross profit margin was recorded as 100% throughout the Track Record Period.

Other revenue

Other revenue mainly relates to exchange gain, interest income and sundry income which primarily derived from sales of scraps.

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Selling and distribution expenses

The following table sets out the breakdown of the Group’s selling and distribution expenses during the Track Record Period:

	For the year ended 31 December		
	2006	2007	2008
	Total	Total	Total
	HK\$’000	HK\$’000	HK\$’000
Selling and distribution expenses			
Advertising	850	6,811	5,460
Impairments for trade receivables	4,441	(913)	(1,590)
Design fees	779	755	2,544
Entertainment	154	461	851
Exhibition fees	83	5,893	10,344
Export expenses	528	2,526	1,795
Office expenses	589	1,007	2,304
Rent	1,112	1,323	1,870
Staff costs	2,026	3,663	3,833
Trademark & patents written off	2,742	–	–
Transportation	3,522	3,697	4,983
Travelling expenses	501	1,293	1,608
Other expenses	1,114	937	1,450
	18,441	27,453	35,533

For the year ended 31 December 2006, the Group recorded selling and distribution expenses of approximately HK\$18.4 million, which mainly included impairment of trade receivables of approximately HK\$4.4 million, staff costs of approximately HK\$2.0 million, trademark and patents written off of approximately HK\$2.7 million and transportation expenses of approximately HK\$3.5 million. In order to take over the business of Shenzhen Dahao subsequent to its dissolution, the Group, in addition to the acquisition of the production facilities from Shenzhen Dahao, paid approximately HK\$7.8 million to Shenzhen Dahao prior to dissolution for taking over the trademark and patents owned by Shenzhen Dahao (which was valued by an independent appraiser at approximately HK\$7.8 million). Since the Group had 65% interest in Shenzhen Dahao prior to its dissolution, and was therefore entitled to be distributed 65% of the proceeds of the consideration for such trademarks and patents upon its dissolutions, the actual cost to the Group in acquiring the said trademarks and patents was equivalent to approximately HK\$2.7 million (representing the remaining 35% of the proceeds of the consideration for such trademarks and patents distributable to the minority shareholders of Shenzhen Dahao upon its dissolution). In accordance with its accounting policy relating to treatment of intellectual properties, the Group fully wrote off such trademark and patents costs of approximately HK\$2.7 million in 2006.

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For the year ended 31 December 2007, the Group’s selling and distribution expenses amounted to approximately HK\$27.5 million, representing an increase of approximately 48.9% over the previous year. Such increase was mainly due to the substantial expenditure incurred for broadcasting TV advertisements on the Group’s product on the CCTV and participating in various exhibitions and trade shows in the PRC amounting to approximately [HK\$6.8] million and HK\$6.0 million respectively during the year.

For the year ended 31 December 2008, the Group recorded selling and distribution expenses of approximately HK\$35.5 million, representing an increase of approximately 29.4% over the previous year. The Group incurred approximately HK\$10.3 million in participating exhibitions and trade shows in Milan, Italy, Shanghai, Guangzhou and Shenzhen in the PRC during the year. Design fees increased by approximately HK\$1.8 million, as the Group engaged May Day Design, an independent design house based in Milan, Italy to design and develop a brand new product line under the brand “CHINTAG”. Office expenses also increased by approximately HK\$1.3 million attributable to the expenditure incurred in renovating the Group’s existing showrooms and setting up two additional furniture display showrooms within the Shenzhen Xingli’s office premises during the year.

Administrative expenses

The following table sets out the breakdown of the Group’s administrative expenses during the Track Record Period:

	2006 HK\$’000	2007 HK\$’000	2008 HK\$’000
Administrative Expenses			
Audit fee	394	729	1,200
Bank charge	418	549	746
Change in fair value of equity investments	–	–	3,688
Depreciation	387	805	1,484
Director’s remuneration	3,138	7,642	5,448
Entertainment	88	698	1,160
Insurance	90	190	229
Legal & professional fees	2,530	3,097	1,263
Motor expense	451	1,340	1,660
Office expenses	54	461	1,049
Rent and management fees	481	938	447
Staff costs	3,457	6,989	11,029
Utilities and sundries	1,272	3,690	2,325
Bad debts (non-trading) written off	8,885	–	–
Others	849	1,362	1,620
	22,594	28,490	33,348

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For the year ended 31 December 2006, the Group’s administrative expenses amounted to approximately HK\$22.6 million, which mainly included director’s remuneration of approximately HK\$3.1 million, legal and professional fees of approximately HK\$2.5 million, staff costs of approximately HK\$3.6 million and bad debts (non-trading) written off of approximately HK\$8.8 million. Immediately prior to the dissolution of Shenzhen Dahao in December 2006, Dahao Furniture, an ex-shareholder of Shenzhen Dahao, was indebted to the Group in the amount of approximately HK\$3.7 million, and to Shenzhen Dahao in the amount of approximately HK\$7.8 million. In view of the financial difficulties encountered by Dahao Furniture and the pending dissolution of Shenzhen Dahao, the Directors considered that the possibility of recovering the above receivables from Dahao Furniture was remote. Therefore, the Group wrote off such receivables in the amount of approximately HK\$8.8 million, comprising approximately HK\$3.7 million receivable due directly from Dahao Furniture to the Group and approximately HK\$5.1 million with respect to the Group 65% share (representing its equity interest) in Shenzhen Dahao’s approximately HK\$7.8 million receivable due from Dahao Furniture.

For the year ended 31 December 2007, the Group recorded administrative expenses amounting to approximately HK\$28.5 million, representing an increase of approximately 26.1% as compared to the previous year. Such increase was mainly attributable to the rises in directors’ remuneration and the staff costs. The directors’ remunerations increased from approximately HK\$3.1 million in 2006 to approximately HK\$7.6 million in 2007 was mainly because of a performance bonus of HK\$2.0 million granted to the directors of the Company and a share based compensation of approximately HK\$1.1 million relating to the share options granted to the directors. The increase in staff costs was also due to the share based compensation of approximately HK\$1.3 million relating to the share options granted to the members of the senior management as well as the annual salary increments of approximately 10% and the increase in head counts to handle the continuous growth in domestic and export sales recorded during the year.

For the year ended 31 December 2008, the Group’s administrative expenses rose to HK\$33.4 million, representing an increase of approximately 17.1% over the previous year. Such increase was mainly due to an impairment for the equity investments of approximately HK\$3.7 million as well as the rise in staff costs of approximately HK\$4.0 million resulting from (i) the newly set up of a staff canteen which incurred approximately HK\$1.7 million operating costs in the year, (ii) the annual salary increments of approximately 10%, and (iii) the increase in head counts to manage the construction of the Shenzhen Xingli Production Base. During the year, the directors’ remunerations decreased by approximately HK\$2.2 million as a result of no performance bonus granted.

Finance costs

Finance costs mainly represent bank charges and bank interest.

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Taxation

Pursuant to the income tax laws and regulations in Bermuda and the BVI, the Group is not subject to income tax in Bermuda and the BVI. The provision for Hong Kong profits tax for each of the years ended 2006, 2007 and 2008 was calculated at 17.5%, 17.5% and [16.5]% of the estimated assessable profits for each of the respective years. Hing Lee (China) and Hing Lee Furniture which carried on business in Hong Kong, are subject to Hong Kong profits tax. The subsidiaries of the Company in the PRC are subject to PRC enterprise income tax with details as set out below:

	Applicable PRC enterprise income tax rate		
	For the year ended 31 December		
	2006	2007	2008
Dongguan Super Furniture (<i>Note 1</i>)	Fully exempted	Fully exempted	[12.5%]
Shenzhen Xingli Zundian (<i>Note 2</i>)	Fully exempted	7.5%	[9%]
Shenzhen Xingli (<i>Note 3</i>)	7.5%	7.5%	[18%]

Notes:

1. Dongguan Super Furniture was incorporated in October 2005 and did not generate any assessable profits in 2005 and therefore it was not required to pay any PRC enterprise income tax for the year of 2005. Dongguan Super Furniture was entitled to full exemption from the PRC enterprise income tax in 2006 and 2007, being its first two profitable years, and a 50% tax reduction of the PRC enterprise income tax rate of 25% in 2008 under the New EIT Law till 2010.
2. Shenzhen Xingli Zundian was exempted from the PRC enterprise income tax for its first two profitable years, commencing from 1 January 2005, and thereafter was entitled to a 50% tax reduction in the PRC enterprise income tax for the subsequent three consecutive years from 1 January 2007 to 31 December 2009. Shenzhen Xingli Zundian was entitled to a 50% tax reduction in the PRC enterprise income tax rate of 15% for the year 2007. Under the New EIT Law and 企業所得稅納稅須知 (Notice on payment of Enterprise Income Tax), Shenzhen Xingli Zundian is entitled to a 50% reduction of the PRC enterprise income tax rate of 18% and 20% for the two years from 2008 to 2009 respectively.
3. Shenzhen Xingli was exempted from the PRC enterprise income tax for its first two profitable years, commencing from 1 January 2003, and thereafter was entitled to a 50% tax reduction in the PRC enterprise income tax rate of 15% for the subsequent three consecutive years from 1 January 2005 to 31 December 2007. Under the New EIT Law and 企業所得稅納稅須知 (Notice on payment of Enterprise Income Tax), Shenzhen Xingli was subject to the PRC enterprise income tax rate of 18% in 2008.

Pursuant to the New EIT Law, the enterprise income tax rates for both domestic and foreign-invested enterprises have been unified at 25%. Enterprises that were entitled to exemptions or reductions from the standard income tax rate for a fixed term prior to 1 January 2008 may continue to enjoy such treatment until such fixed term expires. Accordingly, after the applicable transition period, the subsidiaries of the Company in the PRC may no longer be subject to preferential tax rates and/ or tax exemptions and the tax rate applied to all subsidiaries established in the PRC will be increased to 25%. [The Directors confirmed that, save for the failure of Hing Lee Furniture to notify the IRD of its chargeability to tax within the prescribed time limit for the years of assessment for 2005/2006, 2006/2007 and 2007/2008, the Group had made all the required tax filings under the relevant tax laws and regulations during the Track Record Period, and that, save for the tax assessments issued by IRD in relation to final tax payable by Hing Lee Furniture for 2005/2006 to 2007/2008, the Group had not received any notice in relation to tax penalties, fines or disputes up to the Latest Practicable Date].

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The failure of Hing Lee Furniture to notify the IRD of its chargeability to tax within the prescribed time limit for 2005/2006 to 2007/2008 has rendered the company liable to level 3 fine (i.e. HK\$10,000) and a further fine of treble the amount of tax which has been undercharged in consequence of such failure. The amount of undercharged tax which was assessed by the IRD in the amount of HK\$2,629,352, was fully settled by the Group on 3 March 2009. Hing Lee Furniture was advised by the tax accountant that as it made voluntary disclosure to the IRD, the penalty which may be imposed would likely be 45% of the tax undercharged. For prudence sake, based on the recommendation of the tax accountant, a provision for tax undercharged penalty of HK\$2,660,752, representing around 100% of the tax undercharged amount was made in the accounts.

Profit for the year and the net margin

The Group’s profit for the year increased from approximately HK\$28.8 million for 2006 to approximately HK\$40.4 million for 2007 but then decreased to approximately HK\$30.8 million for 2008, despite the fact that its total turnover recorded continuous growth during the Track Record Period. The net profit margin increased from approximately 7.8% for 2006 to approximately 8.2% for 2007 but then diminished to approximately 5.8% for 2008.

For the year ended 31 December 2007, the increases in the profit for the year and the net margin were mainly attributable to (i) the higher gross profit margin recorded by the Group, since the Group was able to achieve the benefit of economies of scale as the production volume and turnover grew, (ii) lower finance costs incurred, as the bank loan was fully repaid during the year of 2006, and (iii) a lower effective tax rate of approximately 4.3% against approximately 6.9% for 2006.

Notwithstanding its success in expanding the turnover, the Group was unable to maintain the profit growth for the year ended 31 December 2008. The Group experienced a decrease of approximately 23.8% in its profit for the year and a drop in net profit margin from approximately 8.2% for 2007 to approximately 5.8% for 2008, while the overall turnover recorded a growth of approximately 8.5%. The Directors attributed the Group’s profit decline and reduction in the net profit margin for 2008 primarily to (i) the Group’s substantial increases in selling and distribution expenses and administrative expenses as explained above, (ii) the decrease in licensing fees earned for 2008 by approximately HK\$9.0 million, and (iii) a higher effective tax rate of approximately 9.6% for 2008 against approximately 4.3% for 2007, as the tax exemptions/reductions of some of the Company’s subsidiaries in the PRC expired by the end of 2007. Please refer to the sub-paragraph headed “Factors affecting the Group’s results of operations – Taxation” in the paragraph headed “Management discussion and analysis of the results of the Group” in this section below for more information about the changes in the Group’s effective tax rate during the Track Record Period.

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MANAGEMENT DISCUSSION AND ANALYSIS OF THE RESULTS OF THE GROUP

Investors should read the following discussion and analysis in conjunction with the consolidated financial information of the Group for the Track Record Period, all of which is set forth in the accountants’ report set out in Appendix I to this document.

Factors affecting the Group’s results of operations

The Group’s results of operations and financial condition have been and will continue to be affected by a number of factors, including those set out below.

General economic conditions, levels of disposable income and consumer spending in the PRC and overseas markets

The Group generated approximately half of its turnover from the PRC and half from the overseas markets during the Track Record Period. The general economic conditions, the levels of disposable income and consumer spending in the PRC and in the overseas countries where the Group’s customers are located, therefore, have a substantial impact on the Group’s results of operations and financial condition. The PRC has experienced significant economic growth in recent years. The Directors believe that the increase in the purchasing power of the PRC residents has continued to drive sentiment towards the purchase of branded home products, which has positively affected the Group’s results of operations. However, the recent financial turmoil and credit crunch have adversely affected the global economy and caused economic downturn as well as decrease in consumer spending in most countries. As a consequence, it is expected that households may reduce their spending on purchasing durable goods including furniture products. In the PRC, the sluggish property market and the slowdown in the economy may also negatively impact the demand for furniture products in 2009. Should the economic downturn and decrease in consumer spending continue, the Group’s business, financial condition and results of operations may be adversely affected.

Market competition

The global furniture product trading value rose from US\$45.0 billion in 1998 to US\$[107.0] billion in 2007, representing a CAGR of approximately [10.1]%. According to the World Furniture Outlook 2009 published by Csil Milano, the PRC has become the largest furniture manufacturer in terms of production in the world and had accounted for 20% of the global furniture production, representing approximately US\$70.0 billion in [2007]. With regard to the domestic market, the PRC furniture industry has experienced rapid growth during the years from 1998 to 2007. According to the aforesaid report, the total furniture consumption in the PRC increased from approximately US\$7.53 billion in 1998 to approximately US\$50.34 billion in 2007, representing a CAGR of approximately [23.5]%. Despite the fact that the trading volume in the furniture market continues to grow rapidly, the Group faces strong competition from a number of small to medium-sized industry players. According to the CNFA, there are approximately 50,000 enterprises engaged in the furniture industry in the PRC comprising mostly small to medium-sized enterprises. In light of the fragmented nature of the

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industry, there are no brands dominating the market. The Group differentiates itself from its competitors through its comprehensive range of products, high quality products, strong product development capability and branding in order to attract demands from end consumers and to maintain its profitability. For further information regarding the global furniture industry, please refer to the section headed “Industry overview” in this document.

During the Track Record Period, the Group had been able to record growth in the gross profit margin from 18.7% to 21.4% for its domestic sales whilst maintaining the gross profit margin at around 10% to 10.7% for its export sales. The Directors consider whilst the competition is strong in the PRC furniture market, there should still be opportunities for furniture manufacturers to continue to grow.

Ability to adjust to changes in the market trends

According to data published by the National Bureau of Statistics of China, from 2000 to 2007, the middle and high income groups have experienced higher growth rates in disposable household income. From 2000 to 2007, the CAGR of per capita disposable household income of low, middle, upper middle and high income groups of the PRC was [8.7]%, [10.7]%, [11.8]% and [13.0]% respectively. According to the Hong Kong Trade Development Council, the middle class group of the PRC has shown increasing demand for trendy and fashionable furniture. In order to capture the opportunities presented by this industry trend, the Group positions its products to target at the mid to high-price points of the PRC’s growing middle class, focusing on various consumer age segments. The Group’s classic furniture products, in particular, products under the brand name “Johnston”, are styled with fine craftsmanship and decorative details targeting at the middle and high-income group consumers with higher spending power who demand luxurious furniture products. Moreover, the Group’s newly developed furniture product line under the brand “CHINATAG” with the core product development theme of “contemporary Italian design with traditional Chinese furniture style” is also targeted at mature and high price point consumers. The Group’s modern furniture series are marketed as [simple, trendy and functional] targeting at [younger] middle class consumers who are after trendy home products. The Group believes that its product positioning enables it to capture the high potential market segments with growing demand. During the Track Record Period, sales contributed from the PRC market increased from HK\$[175.8 million] in 2006 to HK\$[273.0 million] in 2008. The Group’s ability to continue to adjust to the changes in the market trends and to attract consumers by offering fashionable, high quality products and new brands that are differentiated from those of its competitors in the future will therefore have a direct impact on the pricing and sales of its products as well as its operating performance.

Ability to expand and optimise its distribution network

As at the Latest Practicable Date, the Group contracted with [511] distributors who operated over 600 approved shops in the PRC and established a strong overseas client base, mainly in Asia and Europe to market its products. The Directors attributed the Group’s continuous growth in its domestic and export sales to its success in developing its network of

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distributors and its ability to open up new overseas markets. The following table sets out the total number of distributors and approved shops in the PRC and the number of new overseas customers and overseas markets opened up during the Track Record Period:

	As at 31 December		
	2006	2007	2008
Number of distributors	348	435	471
Number of approved shops	380	482	565
Number of new overseas markets	21	19	2
Number of overseas customers	172	147	97
Number of new overseas customers	140	92	19

The Group’s results of operations will be affected by its ability to identify capable distributors with whom the Group can work closely to carry out its marketing programmes and to promote its products in different regions in the PRC as well as to capitalise business opportunities with various overseas customers.

Cost of raw materials for the Group’s products

The principal types of raw materials used in the production of the Group’s home furniture products are MDF board, ironware, and paint. For the three years ended 31 December 2008, costs of raw materials of the Group accounted for approximately [52.6]%, [53.1]% and [46.0]% of the costs of sales respectively. It is important for the Group to obtain from its suppliers sufficient quantities of good quality raw materials in a timely manner and at competitive prices for its production. The prices of some of the key raw materials of the Group are affected by factors such as fluctuations in commodity prices, purchase volume and availability of substitute materials. The key raw material is MDF board and the two types of frequently used MDF board, namely 18 mm MDF board and 25 mm MDF board, recorded 9.5% and 11.6% increases in the average purchase prices respectively in 2007, and 4.8% and 4.3% decreases in the average prices respectively in 2008. The Group procures raw materials based on production requirements and maintains one-month inventory level. The Group’s procurement department monitors the market prices of major raw materials and analyzes the price movements with an aim to control the production costs and would rely on bulk purchases to minimise the impact of such fluctuation. Although this measure, to certain extent, helps cushion the impact of price increment in the raw materials costs, in order to stay competitive in the market, the adjustment in sales price of the Group’s products, in most cases, may not fully cover such increments. Fluctuations in the costs of the Group’s principal raw materials and the Group’s ability to pass on any increase in raw material costs to its customers will affect the Group’s cost of sales and gross profit margin. For further details, please refer to the sub-paragraph headed “Any increase in the prices of raw materials or shortage of raw material supplies may adversely affect the Group’s profitability” in the section headed “Risk factors – risks relating to the Group” in this document.

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The Directors observe that as a result of the slowdown of the global economy, the commodities prices are generally decreasing, which has caused the prices of raw materials (such as MDF board, ironware, paint and sponge) and the costs of transportation to have come down as well. The Directors believe this would allow the Group more flexibility to adjust the product selling price, if necessary, in order to remain competitive.

Production capacity

In order to expand the Group’s business and launch more products to the market, the Group is required to maintain sufficient production capacity to cope with the likely increase in orders and change in product mix. During the Track Record Period, the production capacity of Shenzhen Xingli Zundian increased from 5,200 sets in 2006 to 9,060 sets in 2008 in order to cater for the continuous growth in the sale of “Johnston” products. The utilisation rates of the Group’s production capacity for classic furniture products were approximately [88.5]%, [91.6]% and [91.2]% respectively; for modern furniture products were approximately [90.1]%, [91.5]% and [78]% respectively; and for mattress products were approximately [88.5]%, [92.0]% and [66]% respectively for the three years ended 31 December 2008.

With the production facilities for both classic and modern furniture products operating at almost maximum capacity (with the exception of Shenzhen Xingli for the year of 2008, as the Group outsourced the production of the “K-series” new products under the brand of “PZ-King” to a contract manufacturer due to lack of required production equipment at Shenzhen Xingli), the Directors considered it necessary to expand the Group’s production capacity to capture business opportunities that may be brought about upon the recovery of the global economy. The Group has acquired two pieces of land to house its new production facilities. The construction of new production facilities on Longgang Land I was commenced in [June] 2008 and is expected to be completed in [June] 2009. [Under the current construction plan, the new production facilities will have an annual production capacity of approximately [31,800] sets of furniture products.

Contract manufacturing

During the Track Record Period, the Group engaged contract manufacturers for the production of certain furniture products with simple designs and minimal decorative features and on the occasions when the Group’s production capacity was running close to its full capacity. For the three years ended 31 December 2008, the total purchases from the contract manufacturers amounted to approximately HK\$[107.7] million, HK\$[141.7] million and HK\$[180.7] million respectively, representing approximately [36.0]%, [35.8]% and [41.7]% of the Group’s total cost of sales. It is important to the Group that the contract manufacturers can provide timely services and quality products. In addition, the prices charged by the contract manufacturers may also affect the Group’s cost of sales and profit margin. During the Track Record Period, the Group mainly outsourced the production of unbranded furniture products for export sales to contract manufacturers and the Group’s pricing policy for export sales is on cost plus basis. Therefore, the prices charged by the contract manufacturers did not have any major impact on the Group’s gross profit margin as the gross profit margin for export sales

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ranged from 10.0% to 10.7% during the Track Record Period. For further details about the contract manufacturing, please refer to paragraphs headed “The Group is dependent on its major suppliers and contract manufacturers” in the section headed “Risk factors” and “Outsourcing” in the section headed “Business” in this document.

Taxation

Pursuant to the income tax rules and regulations of Bermuda and the BVI, the Group is not subject to income tax in Bermuda and the BVI. Hing Lee Ideas Limited, a subsidiary of the Company incorporated in Malaysia, is subject to company income tax in Malaysia. No provision for tax is made for Hing Lee Ideas Limited during the Track Record Period as it has been dormant since its incorporation. The subsidiaries of the Company in Hong Kong are subject to Hong Kong profit tax calculated at 17.5% of the estimated assessable profits for each of the two years ended 31 December 2007 and at 16.5% for the year ended 31 December 2008.

Prior to 1 January 2008, Shenzhen Xingli, Shenzhen Xingli Zundian and Dongguan Super Furniture, all being subsidiaries of the Company in the PRC, were subject to the enterprise income tax rate of 15%, 15% and 24% respectively. In addition, Shenzhen Xingli, Shenzhen Xingli Zundian and Dongguan Super Furniture, being foreign investment enterprises engaging in manufacturing with an operating term exceeding 10 years, were approved by the relevant tax authority to be entitled to an enterprise income tax exemption for two years from their first year of profit and a 50% reduction therein for the following three years. Set out below were the enterprise income tax rates for each of the Group’s subsidiaries in the PRC and the Group’s effective tax rate during the Track Record Period:

		For the year ended 31 December		
		2006	2007	2008
Shenzhen Xingli		7.5%	7.5%	18.0%
Shenzhen Xingli Zundian	Fully exempted		7.5%	[9.0]%
Dongguan Super Furniture	Fully exempted	Fully exempted		[12.5]%
The Group’s effective tax rate		6.9%	4.3%	9.6%

With the New EIT Law becoming effective on 1 January 2008, all enterprises in the PRC are subject to a standard enterprise income tax rate of 25.0%. However, there is a transitional period for enterprises which are currently entitled to preferential tax treatments granted by relevant tax authorities. According to 國務院關於實施企業所得稅過渡優惠政策的通知 (the Notice of the State Council on the Implementation of the Enterprise Income Tax Transitional Preferential Policy) issued on 26 December 2007 and became effective on 1 January 2008, enterprises that are subject to an enterprise income tax rate lower than the standard enterprise income tax rate of 25.0% would continue to enjoy the lower rate and gradually transfer to the standard enterprise income tax rate over the period of five years after the effective date of the New EIT Law. Enterprises that are currently entitled to tax exemptions or reductions from the standard enterprise income tax rate for a fixed term will continue to enjoy such treatment until the fixed term expires.

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Accordingly, after the applicable transition period, Shenzhen Xingli, Shenzhen Xingli Zundian and Dongguan Super Furniture may no longer be able to enjoy the preferential tax treatments and the enterprise income tax rate levied on the subsidiaries of the Company established in the PRC will be increased to the standard enterprise income tax rate of 25.0%.

The Group’s effective tax rate was approximately 6.9% for the year ended 31 December 2006 and decreased to approximately 4.3% for the year ended 31 December 2007. The decrease in the effective tax rate was mainly due to the tax effect of certain major expenses which were recorded in 2006 were not deductible in determining taxable profits. Such expenses included the trademark and patents expenses of approximately HK\$2.7 million and bad debts (non-trading) written off of approximately HK\$8.9 million recorded in 2006. The Group’s effective tax rate increased to approximately 9.6% for the year ended 31 December 2008, as the enterprise income tax rates for all the Companies’ subsidiaries in the PRC were increased due to the expiry of their respective tax exemptions or reductions and the tax effect of non-tax deductible expenses including mainly impairment for equity investments of approximately HK\$3.7 million and impairment for inventories in 2008.

For the year ended 31 December 2008

Turnover

The Group’s turnover increased slightly by approximately 8.5% from about HK\$492.7 million for the year ended 31 December 2007 to about HK\$534.3 million for the year ended 31 December 2008. Thanks to the Group’s continuous efforts in participating in various furniture exhibitions in the PRC and overseas to expand the customer base, the increase in turnover for the year was mainly attributable to the 20.4% and 3.0% year-on-year growth in domestic and export sales respectively. The brand “Johnston” continued to record an increase of approximately 21.2% in the domestic sales as compared to the previous year. Besides, during the year, the Group added a new brand name, “New Nobleman” to its self-manufacture product portfolio for domestic sale. “New Nobleman” contributed around HK\$19.4 million to the domestic sales. Both “Johnston” and “New Nobleman” are targeted at high price point consumers. The Directors considered the high price point consumers were less affected in the initial stage of the economic slowdown as experienced in the PRC in 2008. The Group also launched a new product series called “K-series” under the brand name of “PZ-King” in the domestic market in August 2008. The “K-series” accounted for approximately HK\$24 million in the sale of “PZ-King” products. Without the “K-series”, the “PZ-King” would have recorded a decrease in sale, like the brand name “Mandarin”, during the year.

However, the licensing business experienced a decrease in revenue for the year of approximately HK\$9.0 million, or 32.1% as compared to the previous year. The brand name “New Nobleman”, which contributed approximately HK\$3.1 million licensing income to the Group in the previous year, was no longer licensed to third parties in 2008. The Group started to manufacture products under the brand “New Nobleman” for sale in the domestic market in the year. In addition, the snow storms and the Sichuan earthquake in the first half of the year and the lack of new product launch in the second half resulted in the decrease in licensing income of approximately HK\$6.3 million derived from the brand name “Orient” in 2008.

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Cost of sales

The cost of sales increased by approximately 9.3% from HK\$396.4 million for the year ended 31 December 2007 to HK\$433.3 million for the year ended 31 December 2008, which was generally in line with the increase in the Group’s turnover for domestic and overseas sales amounting to approximately HK\$515.4 million, representing an increase of approximately [10.9]% as compared to the previous year.

Gross profit

The Group’s gross profit for the year ended 31 December 2008 was approximately HK\$101.0 million, representing a gross profit margin of approximately 18.9% against the gross margin of approximately 19.5% for the year ended 31 December 2007. The decrease in the gross profit margin was mainly due to the decrease in the licensing fees earned during the year, as the licensing operation incurred no costs of sales, and the licensing fees contributed 100% to the gross profit of the Group.

Selling and distribution expenses

The Group’s selling and distribution expenses amounted to about HK\$[35.5] million or [6.7]% of the turnover for the year ended 31 December 2008, against about HK\$[27.5] million or [5.6]% of the turnover for the year ended 31 December 2007. The increase was primarily attributable to the increase in exhibition expenses and product design fees paid to external designing houses. In order to increase the international exposure of the Group’s brands, the Group actively participated in exhibitions and trade shows in PRC and overseas during 2008. As a result, exhibition expenses rose by approximately [HK\$5.8] million from [HK\$5.9] million in 2007 to approximately [HK\$10.3] million in 2008.

The Group also paid approximately [HK\$2.5] million of design fees to external design consulting companies for designing its home furniture products in 2008. This represented 2.4 times increase from approximately [HK\$755,000] for the year ended 31 December 2007. Such increase in design fees mainly resulted from the engagement of May Day Design, an Independent Third Party based in Milan, Italy specialised in product design consulting, for designing a brand new product line to be marketed under the brand “CHINATAG” initially in the European markets.

Administrative expenses

For the year ended 31 December 2008, the Group’s administrative expenses amounted to approximately HK\$[33.3] million against about HK\$[28.5] million for the year ended 31 December 2007, representing an increase of about [17.1]%. The increase was mainly due to the increase in staff costs of [HK\$4.0] million and the impairment relating to the change in fair value of equity investments amounting to [HK\$3.7] million, offset by the decrease in directors’ remunerations of approximately [HK\$2.2] million for the year ended 31 December 2008.

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Profit for the year

The Group’s profit for the year decreased by approximately [23.8]% or HK\$[9.6] million, from approximately HK\$[40.4] million for the year ended 31 December 2007 to approximately HK\$[30.8] million for the year ended 31 December 2008. The net profit margin also decreased to approximately 5.8% for the year from approximately 8.2% for the year ended 31 December 2007. The decrease in net profit was mainly due to the decrease in licensing fees and increases in selling and distribution expenses and administrative expenses as mentioned above.

For the year ended 31 December 2007

Turnover

The Group recorded a turnover of approximately HK\$[492.7] million for the year ended 31 December 2007 which represented an increase of approximately [33.3]% as compared with that in the previous year. The increase in the Group’s turnover during the year was mainly attributable to the increase in both the domestic sales and export sales. Domestic sales increased by approximately [42.2]%, from about HK\$[148.4] million for the year ended 31 December 2006 to about HK\$[211.0] million for the year ended 31 December 2007 as a result of the Group’s increased efforts in undertaking advertising and promotional events in the PRC during the year. Export sales also increased by approximately [30.9]%, from about HK\$[193.8] million for the year ended 31 December 2006 to about HK\$[253.7] million for the year ended 31 December 2007 primarily due to the Group’s continued participation in various furniture exhibitions in the PRC and overseas in 2007 to expand its overseas customer base.

Cost of sales

The cost of sales of the Group increased from approximately HK\$[299.5] million for the year ended 31 December 2006 to approximately HK\$[396.4] million for the year ended 31 December 2007, representing an increase of approximately [32.4]%. The increase was generally consistent with the increase in the Group’s turnover for the year.

Gross profit

The Group’s gross profit for the year ended 31 December 2007 was approximately HK\$[96.2] million, representing a gross profit margin of approximately [19.5]% against the gross profit margin of approximately [19.0]% for the year ended 31 December 2006. The overall gross profit margin was slightly improved, mainly due to the fact that the Group was able to achieve the benefit of economies of scale as the production volume and turnover grew.

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Selling and distribution expenses

The selling and distribution expenses of the Group increased by approximately [48.9]% from approximately HK\$[18.4] million for the year ended 31 December 2006 to approximately HK\$[27.5] million for the year ended 31 December 2007. The increase was primarily due to the significant increase in the advertising and exhibition expenses from approximately HK\$[0.9] million for the year ended 31 December 2006 to approximately HK\$[12.7] million for the year ended 31 December 2007. During the year, the Group increased efforts and resources in promoting its products through television advertisements and organising a series of marketing events, such as participating in various furniture exhibitions in 2007.

Administrative expenses

The Group’s administrative expenses increased by approximately [26.1]%, from approximately HK\$[22.6] million for the year ended 31 December 2006 to approximately HK\$[28.5] million for the year ended 31 December 2007, primarily attributable to the increase in staff expenses and directors’ remuneration. Staff expenses rose by approximately 137% from approximately HK\$2.4 million in 2006 to approximately HK\$5.7 million in 2007 due to the increase in manpower as a result of growth in operation and a share-based compensation of approximately HK\$[1.3] million relating to share options granted to employees. Directors’ remuneration increased to approximately HK\$7.7 million in 2007 from approximately HK\$3.1 million. The increase was mainly due to a performance bonus of HK\$2.0 million granted to the directors and a share-based compensation of approximately HK\$1.1 million relating to the share options granted to the directors.

Profit for the year

As a result of the foregoing, the Group’s profit for the year increased by approximately [40.6]% from approximately HK\$[28.8] million for the year ended 31 December 2006 to HK\$[40.4] million for the year ended 31 December 2007. The Group’s net profit margin increased to approximately [8.2]% in 2007 as compared to approximately [7.8]% in 2006. Such increase in the net profit margin was mainly attributable to (i) the higher gross profit margin recorded by the Group in 2007 than in 2006, (ii) lower finance costs in 2007, as the bank loan was fully repaid during the year of 2006 and (iii) a lower effective tax rate of approximately 4.3% in 2007 against approximately 6.9% in 2006.

For the year ended 31 December 2006

Turnover

For the year ended 31 December 2006, the Group recorded a turnover of approximately HK\$[369.6] million.

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Cost of sales

The Group’s costs of sales amounted to approximately HK\$[299.5] million for the year ended 31 December 2006.

Gross profit

The Group’s gross profit was approximately HK\$[70.1] million for the year ended 31 December 2006, representing a gross profit margin of about [19.0]%.

Selling and distribution expenses

The Group’s selling and distribution expenses amounted to approximately HK\$[18.4] million, representing about [5.0]% of the turnover for the year ended 31 December 2006.

Administrative expenses

For the year ended 31 December 2006, the Group’s administrative expenses were approximately HK\$[22.6] million, representing approximately [6.1]% of the turnover.

Profit for the year

For the year ended 31 December 2006, the Group’s profit was approximately HK\$[28.8] million and the net profit margin was approximately [7.8]%.

RECENT GLOBAL FINANCIAL CRISIS

The recent global economic crisis has adversely affected the world economies and also resulted in a global credit tightening. With a deteriorating worldwide economy, demand for, among other things, consumer products may fall, which in turn may affect the demand for the Group’s furniture products. If this economic downturn continues, the Group’s business operations and financial performance could be adversely affected. For the first quarter of 2009, the Group’s domestic sales, export sales, and licensing income decreased by approximately [15.1]%, [12.8]% and [14.6]% respectively as compared with the corresponding period of 2008.

In addition, amid the credit tightening environment, banks may vary the terms of bank loans or the banking facilities currently extended to borrowers. As at the Latest Practicable Date, the Group had banking facilities of RMB70 million, of which RMB[12] million was undrawn. Despite the increase in the lending margin imposed by the Group’s lending bank effective October 2008, the cost of funding of the Group is not expected to increase due to the reduction in the lending rate stipulated by the PBOC since September 2008.

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Up to the Latest Practicable Date, the Group had not encountered any request for price cut, cancellation of orders placed, bankruptcy or default on the part of any customers and suppliers, nor had it received any notification from its principal banker regarding potential withdrawal of its banking facilities, early payment of outstanding bank borrowings, or demand for increment of collaterals for secured borrowings.

Nevertheless, the Directors observed that as a result of the slowdown of the global economy, commodities prices have generally decreased, which caused the prices of major raw materials (such as MDF board, ironware, paint and sponge) and the costs of transportation to have come down as well. During the first quarter of 2009, the average price of major raw materials and cost of transportation of the Group experienced a decrease of approximately [7.1]% and [18.9]% respectively as compared to the corresponding period of 2008. The Directors believe this would allow the Group more flexibility to adjust the product selling price, if necessary, in order to remain competitive.

The Directors believe the state of the PRC property market would have a major bearing on the growth of the Group’s domestic sales and licensing business in the coming years. They are of the view that the various economic stimulus packages implemented by the PRC government will eventually restore market confidence and boost the turnover in the PRC property market, which may in turn result in an increase in the demand for furniture products. The Directors believe that the Group’s domestic sales and its licensing business will benefit from the pick up in the PRC property market. Furthermore, the Group has planned to open up new markets in second and third tier cities in the PRC, such as 汕尾 (Shanwei) and 清遠 (Qingyuan) in Guangdong Province, 齊齊哈爾 (Qiqihar) in Heilongjiang Province and 福安 (Fuan) in Fujian Province to expand its distributions network in the PRC.

As for export sales, the Directors believe that countries in Africa and the Middle East, which are expected to report growth in GDP in 2009 according to the International Monetary Fund, would continue to offer new business opportunities to the Group in the coming years. The Directors also note that government authorities in the United States and Europe have announced measures aimed at supporting major institutions, stabilising markets and bolstering confidence, and a gradual recovery is projected by the International Monetary Fund in 2010. The Directors anticipate that the Group’s export sales will benefit from the recovery in the global economy.

Based on the foregoing, the Directors believe that the performance of the Group in the near future may not be severely jeopardised by the current weak economic conditions. The Directors expect that the Group’s future plans will continue to be implemented as scheduled. For more details, please refer to the section headed “Future plans” in this document.

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LIQUIDITY, FINANCIAL RESOURCES AND CAPITAL STRUCTURE

Overview

During the Track Record Period, the Group’s operations were generally financed through a combination of shareholders’ equity, internally generated cash flows and bank borrowings. The Directors believe that in the long term, the Group’s operations will be funded by internally generated cash flows and, if necessary, additional equity financing and bank borrowings.

Net current assets

Details of the Group’s current assets and liabilities at each of the balance sheet dates during the Track Record Period are as follows:

	As at 31 December		
	2006	2007	2008
	HK\$’000	HK\$’000	HK\$’000
Current assets			
Prepaid lease payments	–	959	[1,029]
Inventories	39,451	56,973	[67,447]
Trade receivables	71,645	38,920	[34,562]
Prepayments, deposits and other receivables	28,457	32,759	[24,041]
Amounts due from directors	3,678	–	[–]
Time deposit	–	2,680	[–]
Restricted bank deposits	–	–	[9,929]
Bank balances and cash	73,887	85,192	[88,208]
	<u>217,118</u>	<u>217,483</u>	<u>[225,216]</u>
Current liabilities			
Trade payables	80,176	67,338	[61,221]
Other payables and accruals	15,267	48,983	[34,188]
Current portion of secured bank loans	–	–	[11,441]
Amounts due to directors	810	–	[–]
Amount due to a related company	–	–	[749]
Current tax payable	2,077	3,333	[3,834]
	<u>98,330</u>	<u>119,654</u>	<u>[111,433]</u>
Net current assets	<u>118,788</u>	<u>97,829</u>	<u>[113,783]</u>

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The Group recorded a net current assets position of approximately HK\$[118.8] million as at 31 December 2006. The Group’s net current assets position decreased to approximately HK\$[97.8] million as at 31 December 2007. The reduction in the Group’s net current assets position in 2007 was because of the short term advance of approximately HK\$[23.6] million from a member of SFTA, an Independent Third Party, to finance the acquisition of Longgang Land II.

The Group recorded an increase in its net current assets position by approximately HK\$16.0 million as at 31 December 2008 as compared to the previous year. This was primarily due to the fact that the Group had drawn out a bank loan of approximately HK\$[43.8] million with over one year maturity to finance such increase in its net assets.

Cash flow

Overview

The following table sets out the changes in cash flows of the Group for the periods indicated:

	For the year ended 31 December		
	2006	2007	2008
	HK\$’000	HK\$’000	HK\$’000
	(audited)	(audited)	(audited)
Cash and cash equivalents at beginning of the year	34,869	73,887	85,192
Net cash generated from operating activities	52,868	59,702	49,176
Net cash used in investing activities	(3,337)	(63,309)	(67,254)
Net cash (used in)/generated from financing activities	(11,890)	7,540	16,262
Effect of foreign exchange rate changes	1,377	7,372	4,832
Cash and cash equivalents at end of the year	<u>73,887</u>	<u>85,192</u>	<u>88,208</u>

Operating activities

For the year ended 31 December 2006, the Group recorded a net cash inflow from operating activities of approximately HK\$[52.9] million, which was mainly generated from the operating profit before working capital changes of approximately HK\$[51.2] million, adjusted for the outflow of the increase in trade receivables, other receivables, prepayments and deposits of approximately HK\$[27.8] million and decrease in other payables, accruals and deposits received of approximately HK\$[13.9] million, and partially offset by the inflow of increase in trade payables of approximately HK\$[44.7] million.

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For the year ended 31 December 2007, the Group recorded a net cash inflow from operating activities of approximately HK\$[59.7] million, which was mainly attributable to the operating profit before working capital changes of approximately HK\$48.4 million generated in the year after, adjusted for the inflows of the decrease in trade receivables of approximately HK\$[33.6] million due to the Group’s increasing manpower in following up on receivable settlement and increase in other payables, accruals and deposits received of approximately HK\$[10.1] million, and offset by the outflows of decrease in trade payables of approximately HK\$[12.8] million due to timely settlement of payables so as to maintain good business relationship with the suppliers and increase in inventories of approximately HK\$[18.0] million.

For the year ended 31 December 2008, the Group recorded a net cash inflow from operating activities of approximately HK\$49.2 million, which was mainly attributable to the operating profit before working capital changes of approximately HK\$[46.3] million generated during the year, adjusted for the inflows of decrease in trade receivables of approximately HK\$5.9 million, decrease in prepayments, deposits and other receivables of approximately HK\$8.7 million, and increase of other payables and accruals of approximately HK\$8.8 million and offset by outflows of increase in the level of inventories by approximately HK\$12.6 million and decrease in trade payables of approximately HK\$6.1 million.

Investing activities

For the year ended 31 December 2006, the net cash outflow from investing activities amounted to approximately HK\$[3.3] million. Such cash outflow was mainly attributable to the payments for acquiring property, plant and equipment of approximately HK\$[3.4] million.

For the year ended 31 December 2007, the net cash outflow from investing activities amounted to approximately HK\$[63.3] million, which was mainly attributable to the payments for prepaid land lease of approximately HK\$[47.9] million, payments to acquire fixed assets of approximately HK\$[13.2] million, and the increase in time deposits of approximately HK\$[2.7] million.

For the year ended 31 December 2008, the net cash outflow from investing activities amounted to approximately HK\$[67.3] million. Such cash outflow was mainly attributable to (i) pledging restricted bank deposits of approximately HK\$[9.9] million for the issue of a performance bond required under the 深圳市建設工程擔保實施辦法 (Shenzhen Construction Assurance Practice Note) imposed by 深圳市建設局 (Shenzhen Construction Bureau) to guarantee the payment of construction costs to the Group’s main contractor of the Shenzhen Xingli Production Base, (ii) capital expenditure spent in relation to the construction of the Shenzhen Xingli Production Base amounting to approximately HK\$[49.1] million, (iii) payments to acquire plant and machinery of approximately HK\$3.7 million and net purchase of equity investments approximately HK\$[7.5] million.

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Financing activities

For the year ended 31 December 2006, the Group recorded a net cash outflow from financing activities amounted to approximately HK\$[11.9] million, which primarily consisted of the repayment of bank loans of approximately HK\$[9.6] million and dividends of approximately HK\$3.7 million distributed to the minority shareholder of Shenzhen Dahao upon its dissolution.

For the year ended 31 December 2007, the Group recorded a net cash inflow from financing activities amounting to approximately HK\$7.5 million. Such inflow was mainly attributable to the short-term advance of approximately HK\$23.6 million extended by an independent third party for settling the prepaid land lease payments after deducting the outflow of dividends paid of approximately HK\$17.2 million.

For the year ended 31 December 2008, the Group recorded a net cash inflow from financing activities of approximately HK\$16.3 million. Such inflow was generated mainly due to the bank borrowings in the net amount of approximately HK\$43.8 million obtained by the Group during the year after deducting the advance repayment of approximately HK\$23.6 million in relation to settling the prepaid land lease payments and the dividend payment of approximately HK\$4.0 million.

Working capital analysis

Key financial ratios and other information

	Year ended 31 December		
	2006	2007	2008
Liquidity ratios			
Inventory turnover days (<i>Note 1</i>)	[50]	[45]	[52]
Trade receivables turnover days (<i>Note 2</i>)	[60]	[41]	[25]
Trade payables turnover days (<i>Note 3</i>)	[70]	[68]	[54]

Notes:

- (1) Inventory turnover days equals to the average of the opening and ending balances of inventory of the period divided by the cost of sales during such period and then multiplied by the number of days during such period.
- (2) Trade receivables turnover days equals to the average of the opening and ending trade receivables balances of the year divided by the turnover during the year and then multiplied by 365 days.
- (3) Trade payables turnover days equals to the average of the opening and ending balances trade payables of the period divided by the cost of sales during such period and then multiplied by the number of days during such period.

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Inventory analysis

The following table sets forth the components of the Group’s inventory as of the respective balance sheet dates:

	As at 31 December		
	2006	2007	2008
	<i>HK\$’000</i>	<i>HK\$’000</i>	<i>HK\$’000</i>
Raw materials	7,046	9,889	5,859
Work in progress	8,312	8,533	7,745
Finished goods	24,093	38,551	53,843
	<u> </u>	<u> </u>	<u> </u>
Total	<u>39,451</u>	<u>56,973</u>	<u>67,447</u>

The increase in the Group’s inventory level as at 31 December 2007 was mainly attributable to the strong demand for its branded furniture products in domestic and export markets throughout the years from 2006 to 2007 and the Group needed to increase its inventory level to meet the growing production of furniture products. Nevertheless, inventory turnover days of the Group decreased from approximately [50] days for the year ended 31 December 2006 to approximately [45] days for the year ended 31 December 2007. The drop in inventory turnover days was mainly due to the Group’s ability to control its inventory level whilst achieving an average growth of over 30% in its domestic and export sales in 2007.

During the year ended 31 December 2008, the Group increased its product offerings by adding the brand name “New Nobleman” to its self-manufacture product portfolio, which also contributed to the slight rise in the inventory level and inventory turnover days to 52 days for the year.

In order to better utilise its working capital, the Group has targeted to maintain its inventory level sufficient for approximately one month’s sales.

Inventories are valued at the lower of the cost as calculated, on a weighted average basis, and the net realisable value after making due impairment for any obsolete or slow moving items. The Group reviews the aging of inventories on a quarterly basis and makes impairment for any obsolete or slow moving items in accordance with the Group’s policy. The Group makes 30% impairment for the raw materials aged within 181 to 365 days, 50% impairment for those aged 1 to 2 years and full impairment for those aged more than 2 years. A full impairment is made for those work in progress items aged more than 180 days. The Group makes 30% impairment for the finished goods aged within 181 to 365 days, 50% impairment for those aged 1 to 2 years and full impairment for those aged more than 2 years. Obsolete inventories as identified by the Group are sold at discounted prices.

During the Track Record Period, the impairment for inventories against those obsolete and slow moving items amounted to approximately HK\$[2.0] million, HK\$[0.5] million and HK\$[2.2] million respectively.

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Up to 25 April 2009, the raw materials and work in progress of HK\$12.4 million as at 31 December 2008 have been subsequently utilised in the production process and the finished goods of HK\$35.0 million as at 31 December 2008 have been subsequently sold out in the ordinary course of business.

Trade receivables analysis

The following table sets forth the aging analysis of trade receivables as of the respective balance sheet dates:

	As at 31 December		
	2006	2007	2008
	HK\$'000	HK\$'000	HK\$'000
Within 3 months	42,600	30,539	28,218
3 months to 6 months	9,071	5,806	4,605
6 months to 12 months	960	2,487	1,519
Over 1 year	19,014	88	220
	<u>71,645</u>	<u>38,920</u>	<u>34,562</u>
Total	<u>71,645</u>	<u>38,920</u>	<u>34,562</u>

The Group's trade receivables amounted to approximately HK\$[71.6] million, HK\$[38.9] million and HK\$[34.6] million as at 31 December 2006, 2007 and 2008 respectively. Despite the growth in the domestic and export sales in 2007 and 2008, the balance of trade receivables continued to decrease at the end of both years. Such decrease was mainly attributable to the Group's increasing manpower in following up on subsequent settlement with its customers and licensees by way of telephone calls and personal visits since late 2007, in order to improve its working capital position. The effectiveness of the Group's credit control was also evidenced by the decrease in trade receivables turnover days from [60] days in 2006 to [41] days in 2007, and further to 25 days for the year ended 31 December 2008.

The Group typically requires new distributors for domestic sales to pay in cash upon delivery or place a deposit when ordering, which amount depends on the Group's assessment of the credit risk associated with these new distributors. The Group generally grants credit terms of 30 to 60 days to distributors with satisfactory payment records and a standard credit term of 60 days to the licensees. The credit term and limit for each distributor are approved by the chief executive officer of the Company and are subject to regular review by the Group's senior management.

As for export sales, all overseas customers, except a few long-established ones to whom credit terms of 30 to 90 days are offered, are required to place upfront cash deposits with or to obtain letters of credit in form of the Group when placing purchase orders.

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In 2004 and 2005, when the Group was initially developing its licensing business, it did not impose strict settlement time frame on the receivables due from the licensees, for the purpose of securing business relationships with such licensees, which resulted in the substantial balance of trade receivables aged over 1 year of approximately HK\$19.0 million recorded in the accounts for the year ended 31 December 2006. Such receivables were fully settled in 2007. Save for the aforesaid, there was no material change in credit terms granted to the Group's distributors, overseas customers and licensees over the Track Record Period.

During the Track Record Period, the Group made gross impairment of trade receivables amounting to approximately HK\$[4.4] million, HK\$[5.8] million and HK\$[2.1] million respectively and also recorded reversal of impairment of trade receivables approximately nil, HK\$6.7 million and HK\$3.6 million respectively. The reversal of impairment of trade receivables approximately HK\$6.7 million recorded in 2007 was mainly related to the HK\$2.7 million and HK\$4.0 million impairments made in 2005 and 2006 respectively. Both impairments were made against receivables due from the Group's licensees. The reversal of approximately HK\$3.6 million recorded in 2008 was mainly related to the impairments made in 2007 with respect to certain distributors for domestic sales.

98.3% and 100% of the trade receivables which were past due but not impaired as at 31 December 2006 and 31 December 2007 respectively have been subsequently settled after the balance sheet date. In respect of the remaining 1.7% of the trade receivable as at 31 December 2006 which was not settled after the balance sheet date, the Group made the relevant impairment in 2007.

Up to [9 May] 2009, the trade receivables in the amount of approximately HK\$[34.3] million, which represented approximately [99.1]% of the balance as at 31 December 2008 have been subsequently settled.

Other receivables, prepayments and deposits analysis

Other receivables

Set out below is the breakdown of the Group's other receivables for the three years ended 31 December 2008:

	Year Ended 31 December		
	2006	2007	2008
	<i>HK\$'000</i>	<i>HK\$'000</i>	<i>HK\$'000</i>
VAT recoverable	7,108	8,933	4,898
Staff advances	1,061	672	263
Others	1,825	915	474
	<u>9,994</u>	<u>10,520</u>	<u>5,635</u>

FINANCIAL INFORMATION

The balance of other receivables consisted of VAT recoverable, staff advances and other miscellaneous advance payments for daily operation purposes. VAT recoverable dropped to approximately HK\$4.9 million as at 31 December 2008. The decrease was due to the Group's increasing reliance on bulk purchases of raw materials from certain selected suppliers who were able to produce the supplier invoices to the Group on time to facilitate the processing of VAT claims.

In order to better control staff and other miscellaneous advances, the Group has required all such advances have to be accounted for with the finance and accounting department within approximately [21] days from the date of advance. Therefore, the amount for staff and other advance reduced from HK\$2.9 million in 2006 to HK\$0.7 million in 2008.

Prepayments and deposits

Set out below is the breakdown of the Group's prepayments and deposits for the three years ended 31 December 2008:

	Year Ended 31 December		
	2006	2007	2008
	<i>HK\$'000</i>	<i>HK\$'000</i>	<i>HK\$'000</i>
Deposits placed with contract manufacturers and raw materials suppliers	16,082	12,458	4,188
Capital expenditure deposits	676	3,115	1,507
Prepayment of listing expenses	–	1,350	8,280
Utility and rental deposits	1,296	1,315	1,907
Exhibition deposits	67	1,125	1,339
Design fee deposits	–	927	835
Others	342	1,949	350
	<u>18,463</u>	<u>22,239</u>	<u>18,406</u>

During the Track Record period, the Group regularly placed deposit payments with contacts manufacturers and raw material suppliers. Due to the strong growth of its domestic and exports sales experienced during the Track Record Period and as a result of the Group's limited production capacity, production outsourced with contract manufacturers continued to increase and accounted for over 30% of the cost of sales during the Track Record Period. The outsourcing costs amounted to approximately HK\$[107.7] million, [HK\$141.7] million and [HK\$180.7] million for the years ended 31 December 2006, 2007 and 2008 respectively. In order to ensure the contract manufacturers reserve the required production capacity to handle the Group's outsourcing orders in a timely manner, the Group had been asked to make deposits with the contract manufacturers before actually placing orders. During the Track Record Period, all such deposits placed with the contract manufacturers were either used to settle part of outsourcing costs or fully repaid if no order was placed subsequently.

FINANCIAL INFORMATION

The Group had not experienced any loss resulting from the forfeiture or non-refund of such deposits placed with contract manufacturers and suppliers during the Track Record Period. The balance dropped from HK\$16.1 million in 2006 to HK\$4.2 million in 2008. The decrease was mainly because some contract manufacturers, having considered the Group’s past payment history and the well established business relationship, reduced or waived the deposit requirement.

Capital expenditure deposits mainly comprised initial deposit payments for purchasing production equipment and construction deposit for the Shenzhen Xingli Production Base. The balance decreased from approximately HK\$3.1 million in 2007 to HK\$1.5 million in 2008, as the construction deposit for Shenzhen Xingli Production Base had been reclassified as part of the construction in progress under property, plant and equipment in the financial statements for the year ended 31 December 2008.

Trade payables analysis

The following table sets forth the aging analysis of trade payables as of the respective balance sheet dates:

	As at 31 December		
	2006	2007	2008
	HK\$’000	HK\$’000	HK\$’000
Within 3 months	72,363	63,027	56,880
3 months to 1 year	5,511	3,930	3,995
Over 1 year	2,302	381	346
Total	<u>80,176</u>	<u>67,338</u>	<u>61,221</u>

The balance of trade payables comprised trade balances due to raw material suppliers and contract manufacturers.

In general, purchases of raw materials are settled by the Group either in cash or on an open account basis in RMB with credit terms of [30] to [90] days whilst purchases from contract manufacturers are on 30 days credit term as specified in the framework agreements with the contract manufacturers. In order to obtain better pricing terms on its purchases, the Group strives to make payments to the suppliers on time to improve its creditworthiness.

As at 31 December 2006, 2007 and 2008, trade payables aged over 3 months amounted to approximately HK\$[7.8] million, HK\$[4.3] million and HK\$[4.3] million respectively, representing approximately [9.7]%, [6.4]% and [7.1]% respectively of the Group’s trade payables. Some of the Group’s suppliers, having considered the Group’s past payment history, sometimes allowed the Group to carry forward outstanding balances for another 30 to 90 days, in order to maintain good business relationship with the Group.

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The turnover days of the Group’s trade payables were approximately [70] days, [68] days and [54] days for the years ended 31 December 2006, 2007 and 2008, respectively. The drop in the trade payable turnover days during the Track Record Period was mainly due to the fact that the Group strived to settle the payables with suppliers on time to improve its creditworthiness.

The trade payables as at the year ended 31 December 2008 of approximately HK\$36.4 million, which represented approximately 59.5% of the total balance have been subsequently settled up to [28 February 2009].

Other payables, accruals and deposits received analysis

The following table sets forth the Group’s other payables, accruals, provision for tax surcharge and penalty, and deposits received as of the respective balance sheet dates:

	As at 31 December		
	2006	2007	2008
	HK\$’000	HK\$’000	HK\$’000
Other payables	1,690	27,518	3,430
Accruals	5,332	7,822	11,359
Provision for tax surcharge and penalty	–	2,661	2,661
Deposits received	8,245	10,982	16,738
	<u>15,267</u>	<u>48,983</u>	<u>34,188</u>
Total	<u>15,267</u>	<u>48,983</u>	<u>34,188</u>

Other payables

Set out below is the breakdown of the Group’s other payables during the Track Record Period:

	As at 31 December		
	2006	2007	2008
	HK\$’000	HK\$’000	HK\$’000
Land lease payment payable	–	23,580	–
Exhibition expense payables	–	1,636	–
VAT payables	863	1,583	3,060
Others	827	719	370
	<u>1,690</u>	<u>27,518</u>	<u>3,430</u>
	<u>1,690</u>	<u>27,518</u>	<u>3,430</u>

FINANCIAL INFORMATION

The land lease payment payable as at 31 December 2007 represented an advance due to a member of SFTA, an Independent Third Party, with respect to the land lease payment for acquiring the Longgang Land II. Such payable was fully repaid in 2008. The VAT payables increased to approximately HK\$3.1 million as at 31 December 2008, as the Group recorded substantial increase in the sales of “PZ-King” new series products in the month of December of the year and the respective VAT payable to the government for such sales was not settled until early 2009.

Accruals

Set out below is the breakdown of the Group’s accruals during the Track Record Period:

	As at 31 December		
	2006	2007	2008
	<i>HK\$’000</i>	<i>HK\$’000</i>	<i>HK\$’000</i>
Salaries	1,171	3,911	5,386
Housing provident fund and employee social insurances	–	1,740	2,612
Transportation	679	619	725
Professional fees	380	1,072	656
Other disbursement	3,102	480	1,980
	<u>5,332</u>	<u>7,822</u>	<u>11,359</u>

Housing provident fund and employee social insurances – The amount represents the accumulated balance of the provision for the outstanding housing provident fund and employee social insurances contributions at the year end for the financial years 2006 to 2008. The Director considered the accumulated balance for outstanding contributions at the year end of 2006 amounting to approximately HK\$[1 million] was not material, and, therefore, no provision was made by the Group in that year. However balance for the accumulated outstanding contributions as at the year end of 2007 increased to approximately HK\$[1.7 million] which was considered being material to the Group’s financial performance. The Directors, and therefore made a provision of the same amount in the Group’s 2007 financial statements. The balance further increased to approximately HK\$2.6 million at the end of 2008, after adding on the provision of appropriate HK\$0.9 million for 2008.

Provision for tax surcharge and penalty

The amount represents the carrying amount of the provision for the penalty with respect to the undercharged tax for the years of assessment 2005/2006, 2006/2007 and 2007/2008.

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Deposits received

The balance solely represented deposit payments received by the Group from its local and overseas customers when they place purchase orders. Depending on the customers’ creditworthiness and the type of products ordered, the percentage of deposits required varies.

Available-for-sale investments

The available-for-sale investments comprised the securities investments of Hong Kong listed issuers, namely Industrial and Commercial Bank of China, China Shipping Development Co., Ltd., The Hongkong and Shanghai Banking Corporation Limited, Nine Dragons Paper (Holdings) Limited and A50 China Tracker Fund. The Group has invested in the Hong Kong stock market since January 2008 with the initial intention of increasing the return of its surplus cash position. In August 2008, the Directors decided that all of the Group’s securities investments would be held for long term as they believed in the long term economic growth prospects of the PRC after the Beijing 2008 Olympic event. In addition, the Directors further subsequently decided not to make any further investment in the securities market, save for the formation of strategic alliance, if required. The Company’s chief financial officer monitors the performance of the Group’s securities investments and reports to the Board regularly. The Company intends to hold the securities of these listed companies as long term investments. Should the Board become aware of any fundamental shift in the operations or business of any of the investee companies that will potentially result in adverse changes in the prospects of that company, the Board will take appropriate steps to dispose of such investment.

For the year ended 31 December 2008, the Group made an impairment for the available-for-sale investments of approximately HK\$2.7 million and recorded a change in fair value of the equity-investment at fair value through profit and loss of approximately HK\$[1.0] million due to the change in the market value of such investments, against the original costs of approximately HK\$[8.3] million.

As at the Latest Practicable Date, the market value of the available-for-sale investment of the Group amounted to approximately HK\$[●] million.

Capital expenditures

Capital expenditures of the Group comprised the purchase of property, plant and equipment. For the three years ended 31 December 2008, the Group’s capital expenditures were approximately HK\$[3.4] million, HK\$[61.1] million and HK\$[53.5] million respectively. The increase in capital expenditures for the year ended 31 December 2007 was mainly attributable to the acquisition of Longgang Land I and Longgang Land II and the construction thereon. The Directors currently estimate that the capital expenditure of the Group for the year ending 31 December 2009 will amount to approximately HK\$[59.7] million.

The Directors expect to fund the capital expenditures through cash flow from operations, working capital facilities, short-term borrowings and [●]. The Directors believe that the cash generated from these sources will be sufficient to finance the Group’s capital expenditure requirements for the next twelve months from the date of this document.

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Working capital

Taking into account the financial resources available to the Group, including internally generated funds, the available banking facilities, [●] and the Group’s cash and cash equivalents on hand, the Directors are of the opinion that the Group has sufficient working capital for its present requirements and for the next twelve months from the date of this document.

QUANTITATIVE AND QUALITATIVE INFORMATION ABOUT MARKET RISKS

During its conduct of business, the Group is exposed to various types of market risks including foreign exchange rate risk, commodity price risk and interest rate risk.

Liquidity risk

The Board and the chief financial officer of the Company together regularly monitor the Group’s present and future cashflow requirements in order to ensure that the Group maintains sufficient funding readily available for its day-to-day operations, planned capital expenditure and scheduled bank loan repayment. The Group also ensures availability of revolving bank credit facilities amounting to RMB10,000,000 to address any short term fluctuations in working capital funding requirements.

For each of the two years ended 31 December 2006 and 2007, the Group financed its operations and current liabilities through its internal resources and had not utilised any bank loan. To finance the construction of the Group’s new production facilities in 2008, the Group secured a new banking facility amounting to RMB[70,000,000] (approximately HK\$79,374,000) in [November] 2007. As at 31 December 2006, 2007 and 2008, the Group’s bank balances and cash on hand amounted to approximately HK\$73,887,000, HK\$85,192,000 and HK\$[88,208,000] respectively and the available banking facilities were approximately nil, nil and RMB30,000,000 (approximately HK\$34,018,000) respectively. The Directors consider that the Group is not exposed to any significant liquidity risk.

Credit risk

The credit risk of the Group primarily arises from the possibility that customers may not be able to settle their payment obligations according to their terms of transactions. The Group adopts different credit terms for different types of customers. The amount of the credit limit and the term of the credit period granted to each customer are determined based on the length of business relationship between the relevant customer and the Group, past payment history, and the usual size of purchase orders. The credit term and limit for each customer are approved by the chief executive officer of the Company, Mr. Sung, and are monitored and reviewed periodically by the Group’s relevant senior management members. The Group may amend the credit term and credit limit from time to time in light of changing market conditions and industry norms. The Group grants its distributors for domestic sales credit terms of 30 to 60 days and the licensees a standard credit term of 60 days, and certain long-established overseas customers credit term of 30 to 90 day.

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The Group has policies in place to ensure that sales are made to customers with available credit limits if not on cash terms. The finance and accounting department is responsible for providing aging report for trade receivables to identify the overdue accounts, while the sales and marketing department is responsible for following up with the customers to recover the overdue debts. In addition, the Directors review the recoverable amount of each individual trade debt regularly to ensure that adequate impairment losses are recognised for irrecoverable debts. As at each of 31 December 2006, 2007 and 2008, there was no major concentration of credit risk. In respect of trade receivables, the Group does not issue any derivative financial instruments to securitise them.

The maximum exposure to credit risk is therefore represented by the carrying amount of each financial asset in the consolidated balance sheet.

Foreign exchange rate risk

The Group’s financial statements are expressed in Hong Kong dollars, whilst currency for its operations in the PRC is RMB. Therefore, any depreciation of RMB will reduce the value of the Group’s assets and profitability and any dividends payable on the Shares in Hong Kong dollars terms.

The Group sells its furniture products to the distributors in the PRC and the customers in the overseas markets. All the sales proceeds from domestic sales are in RMB, while export sales are settled by customers in US dollars and Hong Kong dollars. During the Track Record Period, in respect of the Group’s sales, approximately [45.0]%, [45.8]% and [46.6]% was denominated in RMB respectively, approximately [45.2]%, [47.7]% and [48.3]% was denominated in US dollars respectively and approximately [9.8]%, [6.5]% and [4.1]% was denominated in Hong Kong dollars respectively. The Group’s manufacturing operation is based in the PRC and majority of its costs of sales are mainly denominated in RMB. During the Track Record Period, in respect of the Group’s costs of sales, approximately [73.2]%, [77.5]% and [77.2]% was denominated in RMB respectively, and approximately [26.8]%, [22.5]% and [22.8]% was denominated in US dollars (which was mainly to purchases from contract manufacturers) respectively. There exists a mismatch of currency in which the export sales and the related costs of sales are denominated. During the Track Record Period, in respect of approximately [54]%, [61]% and [57.9]% of the export sales, the costs of sales were denominated in RMB.

As the Group’s financial statements are expressed in Hong Kong dollars and the exchange rate of Hong Kong dollars is pegged to US dollars, the Group is exposed to foreign exchange risk arising from fluctuation in RMB. Any appreciation in RMB against US dollars and Hong Kong dollars will make the Group’s products more expensive for export, thereby adversely affecting their price competitiveness in foreign markets. In order to avoid foreign exchange exposure arising from the export sales, the Group has outsourced a significant proportion of the production relating to export sales to the contract manufacturers and settled with its contract manufacturers in US dollars.

FINANCIAL INFORMATION

On the other hand, any appreciation of RMB against Hong Kong dollars will increase the amount of revenue and profit which was originally accounted for in RMB and converted to Hong Kong dollars as reported in the accounts of the Company. One percentage of appreciation of RMB against US dollars and Hong Kong dollars as at 31 December 2006, 2007 and 2008 would have increased the Group’s profit attributable to equity holders by [1.8]%, [1.9]% and [1.73]% respectively, assuming all other factors remain unchanged. One percentage of depreciation of RMB against US dollars and Hong Kong dollars would have the equal but opposite effect on the Group’s profit attributable to equity holders.

As at 31 December 2006, 2007 and 2008, in respect of the Group’s bank balances and cash, approximately [60.8]%, [56.9]% and [64.5]%, was dominated in RMB respectively, approximately [15.9]%, [16.3]% and [27.8]% was denominated in US dollars respectively, and approximately [23.3]%, [26.8]% and [7.7]% was denominated in Hong Kong dollars respectively. The Group’s bank borrowings were maintained in RMB. To date, the Group has not entered into any hedging transactions to reduce its foreign currency exposure, as the availability of hedge instrument is limited in the PRC.

Commodity price risk

The major raw materials used in the production of the Group’s products included MDF board, ironware and paint. The Group is exposed to fluctuations in the prices of raw materials which are influenced by global as well as regional supply and demand conditions. Fluctuations in the prices of raw materials could adversely affect the Group’s financial performance. The Group procures raw materials based on production requirements and would rely on bulk purchases to minimise the impact of such fluctuation.]

Interest rate risk

The Group’s income and operating cash flows are not directly affected by changes in market interest rates. The Group has no significant interest-bearing assets except for the bank balances and cash, details of which have been disclosed in Note 20 to the accountants’ report set out in Appendix I to this document. The Group’s exposure to changes in interest rates is mainly attributable to the Group’s borrowings, details of which and an analysis of effective interest rates have been disclosed in Note 23 and Note 30(a)(iii) to the accountants’ report set out in Appendix I to this document. As at 31 December 2006, 2007 and 2008, the amount of the Group’s bank borrowings were [nil], [nil] and RMB[38.6] million (approximately HK\$43.8 million). As at 31 December 2008, the bank borrowings carried an interest rate at 120% of the lending rate stipulated by the PBOC. As there is [limited choice of hedging instruments] in the PRC to hedge the impact of the interest rates fluctuations, the Group has not adopted any hedging policies against interest rates fluctuations.

FINANCIAL INFORMATION

PROPERTY INTERESTS AND PROPERTY VALUATION

Greater China Appraisal Limited, an independent valuer, has valued the property interests of the Group as of [31 March 2009] at nil. The full text of the letter with a summary of valuation and valuation certificates in connection with the Group’s property interests are set out in Appendix III to this document.

The table below sets forth the reconciliation of aggregate amounts of property interests from the Group’s audited consolidated financial statements as at 31 December 2008 to their value as at [31 March 2009] as stated in Appendix III to this document:

	<i>HK\$’000</i>
Net book value of the following properties as at 31 December 2008 as set out in Appendix I to this document:	
– Construction in progress	[49,068]
– Prepaid lease payments	<u>[48,857]</u>
Net book value as at 31 December 2008	[97,925]
Movements for the three months ended [31 March 2009]	
Additions of construction in progress (unaudited)	17,400
Amortisation of prepaid lease payments (unaudited)	<u>(257)</u>
Net book value as at [31 March 2009] (unaudited)	115,068
Valuation deficit as at [31 March 2009] (unaudited)	<u>(115,068)</u>
Valuation of properties owned by the Group as at [31 March 2009] as set out in the property valuation report in Appendix III to this document	<u><u>[0]</u></u>

DISTRIBUTABLE RESERVES

As at 31 December 2008, the amount of reserves available for distribution to the Shareholders amounted to HK\$[103.4] million, solely being the retained profits of the Group.

DIVIDEND POLICY

For the three years ended 31 December 2008, the Group paid dividends in the amount of nil, approximately HK\$17.3 million and HK\$[4.0] million respectively, representing dividend payout ratios of nil, approximately 42.7% and [12.9]% respectively. All of the aforesaid dividends were paid in cash out of the internal resources of the Group. The Group intends to maintain a dividend payout ratio of no less than [●]% after [●]. However, the actual dividend payout ratio will be determined at the Directors’ full discretion, after taking into account the profitability and cash availability of the Group. Nevertheless, the historical dividend distribution record of the Group should not be used as a reference or basis to determine the level of dividends that may be declared or paid by the Group in the future.

FINANCIAL INFORMATION

NO MATERIAL ADVERSE CHANGE

[Due to the recent economic downturn, for the first quarter of 2009, the Group’s domestic sales, licensing income and export sales experienced a decrease of approximately [15.1]%, [14.6]% and [12.8]% respectively as compared with the corresponding period of 2008.] Save for the aforesaid, the Directors confirmed that [there had been no material adverse change in the financial position of the Group since 31 December 2008, the date to which the latest audited financial statements of the Group were made up.]

FUTURE PLANS

FUTURE PLANS AND PROSPECTS

The Directors are optimistic about the prospects of the domestic and overseas furniture markets. In the long run, the Group aims to become a leading home furniture provider in both the PRC and overseas markets.

In order to achieve sustainable growth for the Group’s business and to maximise the return on the Shareholders’ investments, the Group intends to adopt the following strategies:

- Increasing brand recognition and enhancing corporate profile

The Group will continue to promote its corporate image and brands through advertising on a variety of media including billboards, buses and bus-stops, magazines, trade publications and newsletters in the PRC. The Group will also continue to participate in major trade fairs including international trade shows held in Guangzhou and Shanghai, the PRC in 2009 and Shenzhen and Guangzhou, the PRC in 2010. In addition, the Group will put more efforts in promoting its “CHINATAG” products in the PRC through distribution of product brochures and participation in trade fairs.

- Strengthening design and development capabilities and expanding product range

The Group will (i) on a regular basis provide in-house training by senior designers in relation to product knowledge and characteristics of the Group’s products; (ii) invite renowned furniture design and development experts to conduct professional courses covering use of materials, color, latest product development and use of technology; and (iii) send designers to participate in furniture trade fairs in the PRC and abroad to gain firsthand knowledge of international furniture trend and development. The Group also intends to engage international renowned furniture designers to act as its consultants. In addition, the Group plans to set up a testing center for development of new production technology and materials and testing of newly developed products and materials used in the production.

- Increasing market penetration in the PRC

The Group will continue its present practice of providing training to the existing distributors on sales and marketing skills and customer services as well as holding seminars on specifications for the design and display at retail outlets. The Group intends to conduct the training and seminars by in-house senior sales officers and industry experts.

- Increasing production capacity and improving production efficiency by deployment of new production equipment

The Group has ordered advanced woodworking machineries from local and overseas suppliers to be installed at the Shenzhen Xingli Production Base.

FUTURE PLANS

- Growth through value-accretive acquisition strategies

The Group will identify the alliance or joint venture partners or merger or acquisition targets based on their sales network, product portfolio, quality of products and services as well as production capacities.

The Group has developed specific plans for achieving these strategies and details of which are set out in the paragraph headed “Strategies” in the section headed “Business” in this document.

APPENDIX I

ACCOUNTANTS’ REPORT

The following is the full text of a report, prepared for the purpose of incorporation in this document, received from the independent reporting accountants of the Company, Moore Stephens, Certified Public Accountants, Hong Kong.

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[●]

The Directors
Hing Lee (HK) Holdings Limited

Dear Sirs,

We set out below our report on the financial information relating to Hing Lee (HK) Holdings Limited (the “Company”) and its subsidiaries (hereinafter collectively referred to as the “Group”) including the consolidated income statements, consolidated statements of changes in equity and consolidated cash flow statements of the Group for each of the three years ended 31 December 2006, 2007 and 2008 (the “Track Record Period”) and the consolidated balance sheets of the Group as at 31 December 2006, 2007 and 2008, together with explanatory notes thereto (the “Financial Information”) for inclusion in the document of the Company dated [●] (the “Document”), in connection with [●].

The Company was incorporated in the British Virgin Islands (“BVI”) under the name of Windsor Treasure Holdings Limited on 20 April 2004 as an exempted company with limited liability under the International Business Companies Act (Cap.291) and changed its name to Windsor Treasure Group Holdings Limited on 7 October 2004. On 30 March 2007 [●] the Company was re-domiciled and continued in Bermuda with limited liability under the Companies Act 1981 of Bermuda and on 3 May 2007, its name was changed from Windsor Treasure Group Holdings Limited to HingLi Home Concepts Limited. On 19 November 2008, the Company’s name was changed from HingLi Home Concepts Limited to Hing Lee (HK) Holdings Limited.

Pursuant to a corporate reorganisation (the “2004 Reorganisation”), as detailed in the paragraph headed “Corporate development” in the section headed “History and corporate development” in this document, which was completed on 23 November 2004, the Company became the holding company of the subsidiaries now comprising the Group, details of which are set out in a following section. The Company has not carried on any business since the date of its incorporation, and no separate audited financial statements have been prepared as there were no statutory audit requirements under the relevant rules and regulations in its respective jurisdictions of incorporation or place of re-domicile. We have, however, performed an independent audit of all relevant transactions of the Company for the Track Record Period.

APPENDIX I

ACCOUNTANTS’ REPORT

As at the date of this report, the Company had direct or indirect interests in the following subsidiaries, all of which are private companies, particulars of which are set out below:

Name of company	Place and date of incorporation/ registration	Issued and fully paid-up/ registered capital	Equity interest attributable to the Group as at			Date of this report	Principal activities
			31 December				
			2006	2007	2008		
Great Ample Holdings Limited ("Great Ample") (note (a))	BVI 22 July 2004	US\$20,001	100%	100%	100%	100%	Investment holding
Glory Skill Investments Limited (note (a))	BVI 28 July 2004	US\$2,961	100%	100%	100%	100%	Investment holding
Springrich Investments Limited (note (a))	BVI 7 July 2005	US\$1	100%	100%	100%	100%	Investment holding
Success Profit International Limited (note (a))	BVI 28 July 2004	US\$10,001	100%	100%	100%	100%	Investment holding
Hing Lee (China) Company Limited ("Hing Lee (China)") (note (b))	Hong Kong 23 December 1992	HK\$18,010,000	100%	100%	100%	100%	Investment holding and the provision of management services (note (f))
Hing Lee Furniture Company Limited ("Hing Lee Furniture") (note (b))	BVI 1 July 2004	US\$1	100%	100%	100%	100%	Trading of furniture
Sharp Motion Worldwide Limited ("Sharp Motion") (note (a))	BVI 2 January 2003	US\$4	100%	100%	100%	100%	Trademark holding/ licensing
Hing Lee Ideas Limited (note (a))	Malaysia 3 January 2008	US\$1	N/A	N/A	100%	100%	Dormant
Renowned Idea Group Limited (note (a))	BVI 8 June 2005	US\$1	100%	100%	100%	100%	Dormant
Hing Lee Furniture Group Limited ("HLFG") (note (b))	Hong Kong 9 January 2004	HK\$3	100%	100%	100%	100%	Dormant
Hander International Limited ("Hander International") (note (c))	Hong Kong 12 November 2007	HK\$100	N/A	78%	78%	78%	Investment holding
Hanmix Limited ("Hanmix") (note (c))	Hong Kong 15 November 2007	HK\$1	N/A	100%	100%	100%	Investment holding

APPENDIX I

ACCOUNTANTS’ REPORT

Name of company	Place and date of incorporation/ registration	Issued and fully paid-up/ registered capital	Equity interest attributable to the Group as at				Principal activities
			31 December			Date of this report	
			2006	2007	2008		
深圳興利尊典家具有限公司 (Shenzhen Xingli Zundian Furniture Company Limited)* (“Shenzhen Xingli Zundian”) <i>(note (d))</i>	The People’s Republic of China (“PRC”) 28 December 2004	RMB40,000,000	100%	100%	100%	100%	Design, manufacture, sale and marketing of home furniture
深圳興利家具有限公司 (Shenzhen Xingli Furniture Company Limited)* (“Shenzhen Xingli”) <i>(note (d))</i>	PRC 16 December 2002	RMB60,000,000	100%	100%	100%	100%	Design, manufacture, sale and marketing of home furniture
東莞興展家具有限公司 (Dongguan Super Furniture Company Limited)* (“Dongguan Super Furniture”) <i>(note (e))</i>	PRC 14 October 2005	US\$1,680,000	78%	78%	78%	78%	Manufacture and sale of bed mattresses

東莞富豪家具有限公司 (Dongguan Rich Furniture Company Limited)* (“Dongguan Rich”) and 深圳大豪興利家具實業有限公司 (Shenzhen Dahao Xingli Furniture Industrial Company Limited)* (“Shenzhen Dahao”) were dissolved on 20 October 2006 and 31 December 2006 respectively. The equity interest in Dongguan Rich and Shenzhen Dahao during the Track Record Period and immediately before the date of completion of its dissolution was 78% and 65% respectively.

Notes:

- (a) No audited financial statements have been prepared since the date of incorporation as there were no statutory audit requirements under the relevant rules and regulations in their respective jurisdictions of incorporation.
- (b) The financial statements of these companies for the three years ended 31 December 2006, 2007 and 2008 were audited by Moore Stephens.
- (c) The financial statements of these companies were audited by Moore Stephens since their incorporation.
- (d) The financial statements of these foreign investment enterprises for the three years ended 31 December 2006, 2007 and 2008 were audited by 深圳市興粵合夥會計師事務所 (Shen Zhen Shi Xing Yue Partnership Certified Public Accountants)*, certified public accountants registered in the PRC.
- (e) The financial statements of this foreign investment enterprise for the three years ended 31 December 2006, 2007 and 2008 were audited by 東莞市華瑞會計師事務所 (Dong Guan Shi Hua Rui Certified Public Accountants)*, certified public accountants registered in the PRC.
- (f) The management services provided by Hing Lee (China) to the Group consist of the provision of administration support, business facilities and other equipment or facilities, accounting services, services in connection with banking related documents and other managerial support.

* The English translation of the company names is for reference only. The official names of these companies are in Chinese.

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Basis of preparation

The Financial Information has been prepared by the directors of the Company based on the audited financial statements, or where appropriate, the unaudited management accounts of the companies comprising the Group and in accordance with accounting policies and on the basis as referred to Section B2, which are in accordance with Hong Kong Financial Reporting Standards (“HKFRSs”) issued by the Hong Kong Institute of Certified Public Accountants (the “HKICPA”).

Respective responsibilities of directors and reporting accountants

The directors of the Company are responsible for the preparation and the true and fair presentation of the Financial Information and the contents of the Document in which this report is included. This responsibility includes designing, implementing and maintaining internal control relevant to the preparation and the true and fair presentation of Financial Information that is free from material misstatement, whether due to fraud or error; selecting and applying appropriate accounting policies; and making accounting estimates that are reasonable in the circumstances.

It is our responsibility to form an independent opinion, based on our audit, on the Financial Information and to report our opinion to you.

Basis of opinion

As a basis for forming an opinion on the Financial Information, for the purpose of this report, we have carried out independent audit procedures in respect of the Financial Information for the Track Record Period in accordance with Hong Kong Standards on Auditing (“HKSAs”) issued by the HKICPA. Those standards require that we comply with ethical requirements and plan and perform the audit to obtain reasonable assurance as to whether the Financial Information is free from material misstatement. In addition, we have carried out such additional procedures as we considered necessary in accordance with the Auditing Guideline 3.340 “Prospectuses and the Reporting Accountant” issued by the HKICPA.

We have not audited any financial statements of the companies in respect of any period subsequent to 31 December 2008.

Opinion

In our opinion, the Financial Information for the Track Record Period prepared on the basis of presentation set out in Section B2 below gives, for the purpose of this report, a true and fair view of the consolidated results, consolidated statements of changes in equity and consolidated cash flows of the Group for the Track Record Period and of the state of affairs of the Group as at 31 December 2006, 2007 and 2008 and of the state of affairs of the Company as at 31 December 2006, 2007 and 2008.

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ACCOUNTANTS’ REPORT

A FINANCIAL INFORMATION

Consolidated Income Statements

	<i>Notes</i>	Year ended 31 December		
		2006	2007	2008
		<i>HK\$’000</i>	<i>HK\$’000</i>	<i>HK\$’000</i>
Turnover	5	369,626	492,669	[534,346]
Cost of sales		<u>(299,526)</u>	<u>(396,438)</u>	<u>[(433,344)]</u>
Gross profit		70,100	96,231	[101,002]
Other income	5	2,304	1,962	[1,989]
Selling and distribution expenses		(18,441)	(27,453)	[(35,533)]
Administrative expenses		<u>(22,594)</u>	<u>(28,490)</u>	<u>[(33,348)]</u>
Profit from operating activities	6	31,369	42,250	[34,110]
Finance costs	8	<u>(481)</u>	<u>(18)</u>	<u>[(70)]</u>
Profit before taxation		30,888	42,232	[34,040]
Taxation	9	<u>(2,137)</u>	<u>(1,803)</u>	<u>[(3,251)]</u>
Profit for the year		<u>28,751</u>	<u>40,429</u>	<u>[30,789]</u>
Attributable to:				
Equity holders of the Company		28,103	40,192	[30,746]
Minority interests		<u>648</u>	<u>237</u>	<u>[43]</u>
Profit for the year		<u>28,751</u>	<u>40,429</u>	<u>[30,789]</u>
Dividends	10	<u>–</u>	<u>17,276</u>	<u>3,971</u>
Basic earnings per share (HK cents)	11	<u>[●]</u>	<u>[●]</u>	<u>[●]</u>

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Consolidated Balance Sheet

		As at 31 December		
		2006	2007	2008
	Notes	HK\$’000	HK\$’000	HK\$’000
Non-current assets				
Property, plant and equipment	12	16,292	26,432	[74,438]
Prepaid lease payments	13	–	46,489	[48,857]
Available-for-sale investments	14	–	–	[4,648]
		<u>16,292</u>	<u>72,921</u>	<u>[127,943]</u>
Current assets				
Prepaid lease payments	13	–	959	[1,029]
Inventories	15	39,451	56,973	[67,447]
Trade receivables	16	71,645	38,920	[34,562]
Prepayments, deposits and other receivables	17	28,457	32,759	[24,041]
Amounts due from directors	18	3,678	–	[–]
Time deposit		–	2,680	[–]
Restricted bank deposits	19	–	–	[9,929]
Bank balances and cash	20	<u>73,887</u>	<u>85,192</u>	<u>[88,208]</u>
		<u>217,118</u>	<u>217,483</u>	<u>[225,216]</u>
Current liabilities				
Trade payables	21	80,176	67,338	[61,221]
Other payables and accruals	22	15,267	48,983	[34,188]
Current portion of secured bank loans	23	–	–	[11,441]
Amounts due to directors	18	810	–	[–]
Amount due to a related company	24	–	–	[749]
Current tax payable	25	<u>2,077</u>	<u>3,333</u>	<u>[3,834]</u>
		<u>98,330</u>	<u>119,654</u>	<u>[111,433]</u>
Net current assets		<u>118,788</u>	<u>97,829</u>	<u>[113,783]</u>
Total assets less current liabilities		<u>135,080</u>	<u>170,750</u>	<u>[241,726]</u>

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ACCOUNTANTS’ REPORT

		As at 31 December		
		2006	2007	2008
		HK\$’000	HK\$’000	HK\$’000
	Notes			
Non-current liabilities				
Non-current portion of secured bank loans	23	—	—	[32,372]
		—	—	[32,372]
Net assets		135,080	170,750	[209,354]
Equity				
Share capital	26(a)	387	387	[387]
Reserves	26(b)&(c)	132,275	166,297	[204,622]
Equity attributable to equity holders of the Company		132,662	166,684	[205,009]
Minority interests		2,418	4,066	[4,345]
Total equity		135,080	170,750	[209,354]

APPENDIX I

ACCOUNTANTS’ REPORT

Consolidated Statements of Changes in Equity

	Attributable to equity holders of the Company									
	Share	Share	Exchange	Statutory	Merger	Share	Retained	Total	Minority	Total
	capital	premium	reserve	reserve	reserve	option				
	(note 26(a))	(note 26(b))	(note 26(c)(i))	(note 26(c)(ii))	(note 26(c)(iii))	(note 26(c)(iv))				
	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000	profits		interests	equity
1 January 2006	315	16,922	934	12	25,521	–	31,385	75,089	3,999	79,088
Capital injection	72	27,428	–	–	–	–	–	27,500	–	27,500
Exchange realignment	–	–	2,073	–	–	–	–	2,073	46	2,119
Transfer from retained profits	–	–	–	2,105	–	–	(2,105)	–	–	–
Disposal of an indirect subsidiary	–	–	–	(12)	(91)	–	–	(103)	(3,732)	(3,835)
Capital contribution by minority shareholder	–	–	–	–	–	–	–	–	1,457	1,457
Profit for the year	–	–	–	–	–	–	28,103	28,103	648	28,751
31 December 2006	<u>387</u>	<u>44,350</u>	<u>3,007</u>	<u>2,105</u>	<u>25,430</u>	<u>–</u>	<u>57,383</u>	<u>132,662</u>	<u>2,418</u>	<u>135,080</u>
1 January 2007	387	44,350	3,007	2,105	25,430	–	57,383	132,662	2,418	135,080
Exchange realignment	–	–	8,629	–	–	–	–	8,629	175	8,804
Transfer from retained profits	–	–	–	1,542	–	–	(1,542)	–	–	–
Capital contribution by minority shareholder	–	–	–	–	–	–	–	–	1,236	1,236
Dividends paid (note 10)	–	–	–	–	–	–	(17,276)	(17,276)	–	(17,276)
Equity-settled share option arrangements	–	–	–	–	–	2,477	–	2,477	–	2,477
Profit for the year	–	–	–	–	–	–	40,192	40,192	237	40,429
31 December 2007	<u>387</u>	<u>44,350</u>	<u>11,636</u>	<u>3,647</u>	<u>25,430</u>	<u>2,477</u>	<u>78,757</u>	<u>166,684</u>	<u>4,066</u>	<u>170,750</u>
1 January 2008	387	44,350	11,636	3,647	25,430	2,477	78,757	166,684	4,066	170,750
Exchange realignment	–	–	[8,917]	–	–	–	–	[8,917]	[236]	[9,153]
Transfer from retained profits	–	–	–	[2,103]	–	–	[(2,103)]	–	–	–
Dividends paid (note 10)	–	–	–	–	–	–	[(3,971)]	[(3,971)]	–	[(3,971)]
Equity-settled share option arrangements	–	–	–	–	–	[2,633]	–	[2,633]	–	[2,633]
Profit for the year	–	–	–	–	–	–	[30,746]	[30,746]	[43]	[30,789]
31 December 2008	<u>[387]</u>	<u>[44,350]</u>	<u>[20,553]</u>	<u>[5,750]</u>	<u>[25,430]</u>	<u>[5,110]</u>	<u>[103,429]</u>	<u>[205,009]</u>	<u>[4,345]</u>	<u>[209,354]</u>

APPENDIX I

ACCOUNTANTS’ REPORT

Consolidated Cash Flow Statements

		Year ended 31 December		
		2006	2007	2008
	Note	HK\$'000	HK\$'000	HK\$'000
Cash flows from operating activities				
Profit before taxation		30,888	42,232	[34,040]
Adjustments for:				
Interest income		(266)	(338)	[(373)]
Interest expense		189	–	[70]
Dividend received from equity-investments at fair value through profit or loss		–	–	[(302)]
Dividend received from available-for-sale investments		–	–	[(58)]
Gain on disposal of equity-investments at fair value through profit or loss		–	–	[(797)]
Depreciation		2,848	3,938	[5,628]
Change in fair value of equity-investments at fair value through profit or loss		–	–	[974]
Impairment of available-for-sale investments		–	–	[2,714]
Amortisation of prepaid lease payments		–	479	[1,028]
Loss on disposal of property, plant and equipment		88	56	[47]
Impairment of trade receivables recognised/(reversed)		4,441	(913)	[(1,509)]
Impairment for inventories		2,000	501	[2,165]
Equity-settled share option expenses		–	2,477	[2,633]
Trademarks and patents expenses (a)		2,742	–	[–]
Write-off of other receivables (b)	6	8,885	–	[–]
Waiver of interest on loan from the Company’s holding company (c)		(569)	–	[–]
Operating profit before working capital changes		51,246	48,432	[46,260]
Decrease/(increase) in inventories		1,903	(18,023)	[(12,639)]
(Increase)/decrease in trade receivables		(25,416)	33,638	[5,867]
(Increase)/decrease in prepayments, deposits and other receivables		(2,353)	(4,302)	[8,718]
(Increase)/decrease in amounts due from directors		(3,678)	3,678	[–]
Increase/(decrease) in trade payables		44,740	(12,838)	[(6,117)]
(Decrease)/increase in other payables and accruals		(13,891)	10,136	[8,785]
Increase/(decrease) in amounts due to directors		784	(810)	[–]
Increase in amount due to a related company		–	–	[749]
Cash generated from operations		53,335	59,911	[51,623]
Interest received		266	338	[373]
Interest paid		(189)	–	[(70)]
PRC enterprises income tax paid		(544)	(547)	[(2,750)]
Net cash generated from operating activities		52,868	59,702	[49,176]

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ACCOUNTANTS’ REPORT

	<i>Notes</i>	Year ended 31 December		
		2006 HK\$'000	2007 HK\$'000	2008 HK\$'000
Cash flows from investing activities				
(Increase)/decrease in time deposit		–	(2,680)	[2,680]
Increase in restricted bank deposits		–	–	[(9,929)]
Dividends received from equity-investments at fair value through profit or loss		–	–	[360]
Payments to acquire property, plant and equipment		(3,432)	(13,168)	[(52,800)]
Purchase of equity-investments at fair value through profit or loss		–	–	[(39,809)]
Increase in prepaid lease payments		–	(47,927)	[(718)]
Proceeds from disposal of property, plant and equipment		95	466	[692]
Proceeds from disposal of equity-investments at fair value through profit or loss		–	–	[32,270]
Net cash used in investing activities		(3,337)	(63,309)	[(67,254)]
Cash flows from financing activities				
Capital contribution by minority shareholder		1,457	1,236	[–]
New secured bank loans		–	–	[45,357]
Repayment of secured bank loans		(9,615)	–	[(1,544)]
Dividends paid		–	(17,276)	[(3,971)]
Dividends paid to minority shareholder		(3,732)	–	[–]
Advance from independent third party for prepaid lease payments	22(i)	–	23,580	[–]
Repayment of advance from independent third party for prepaid lease payments	22(i)	–	–	[(23,580)]
Net cash (used in)/generated from financing activities		(11,890)	7,540	[16,262]
Net increase/(decrease) in cash and cash equivalents		37,641	3,933	[(1,816)]
Cash and cash equivalents at the beginning of the year		34,869	73,887	[85,192]
Effect of foreign exchange rate changes, net		1,377	7,372	[4,832]
Cash and cash equivalents at the end of the year		<u>73,887</u>	<u>85,192</u>	<u>[88,208]</u>
Analysis of balance of cash and cash equivalents				
Bank balances and cash	20	<u>73,887</u>	<u>85,192</u>	<u>[88,208]</u>

APPENDIX I

ACCOUNTANTS’ REPORT

Major non-cash transactions

- (a) Subsequent to the dissolution of Shenzhen Dahao in December 2006, Hing Lee (China) acquired certain patent rights and trademarks from the 35% shareholder of Shenzhen Dahao at the consideration of HK\$2,742,000, which was settled by way of setting off the amount owing by Shenzhen Dahao to Hing Lee (China). Such patent rights and trademarks were expended during the year ended 31 December 2006.
- (b) Immediately prior to the dissolution of Shenzhen Dahao, Shenzhen Dahao Furniture Industrial Company Limited (“Dahao Furniture”), an ex-shareholder of Shenzhen Dahao, was indebted to the Group in the amount of approximately HK\$3.7 million and to Shenzhen Dahao in the amount of approximately HK\$7.8 million, representing the net sharing of the assets and liabilities of Shenzhen Dahao.

In view of the pending dissolution of Shenzhen Dahao and the financial difficulties encountered by Dahao Furniture, the directors of the Company considered that the possibility of recovering the above receivables from Dahao Furniture was remote. Therefore, the Group wrote off approximately HK\$8.8 million (expended to income statement during the year), comprising the HK\$3.7 million receivable due from Dahao Furniture directly to the Group in 2006 and the Group’s 65% share, representing the equity interest attributable to the Group, in Shenzhen Dahao’s HK\$7.8 million receivable due from Dahao Furniture amounting to HK\$5.1 million. Shenzhen Dahao did not have any assets or liabilities other than the receivables due from Dahao Furniture immediately prior to its dissolution.

The directors confirmed that the Group has no other relationship with Dahao Furniture and any connected persons of Dahao Furniture other than being an ex-shareholder of Shenzhen Dahao.

- (c) During the year ended 31 December 2006, 9,234 ordinary shares were issued at HK\$2,978 per share by capitalising the loan in the amount of HK\$27,500,000 owing by the Company to Triple Express Enterprises Limited (“Triple Express”), the Company’s holding company and the interest accrued thereon of HK\$569,178 was waived by Triple Express.

The consideration at HK\$2,978 per share was arrived at after an arm’s length negotiation process with reference to the consideration per share paid by Triple Express for its acquisition of the Company’s interest from Talent Sino Holdings Limited (“Talent Sino”).

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ACCOUNTANTS’ REPORT

B NOTES TO THE FINANCIAL INFORMATION

1. GROUP REORGANISATION

The Company was incorporated in the BVI on 20 April 2004 and re-domiciled in Bermuda on 30 March 2007. The registered office address is Clarendon House, 2 Church Street, Hamilton HM11, Bermuda. Particulars of the companies comprising the Group have been set in the foregoing section. The principal place of business of the Company is located at Unit 1101, 11th Floor, Delta House, 3 On Yiu Street, Shatin, New Territories, Hong Kong.

In the opinion of the directors, the ultimate holding company of the Company is Triple Express Enterprises Limited, which is incorporated in the BVI.

The principal activities of the Group are the design, manufacturing, sale and marketing of home furniture and bed mattresses and licensing of own brand names.

In order to rationalise the structure of the Company and its subsidiaries in the preparation for the acquisition of 51.52% of the Company’s shares by Talent Sino, the Company underwent a corporate reorganisation and became the holding company of its subsidiaries on 23 November 2004 (the “2004 Reorganisation”). The Group is regarded as a continuing entity resulting from the 2004 Reorganisation since all entities which took part in the reorganisation exercise were controlled by the same group of founders. Therefore, immediately after the 2004 Reorganisation, there was a continuation of risks and benefits to the founders that existed prior to the reorganisation. The 2004 Reorganisation was accounted for as a reorganisation under common control which is scoped out from HKFRS 3 “Business Combinations” which the Group early adopted in preparing its first financial statements for the period ended 31 December 2004. Therefore, the Group could account for the reorganisation using the principles of merger accounting since the reorganisation was under common control. In applying merger accounting, financial statement items of the combining entities or businesses during the 2004 Reorganisation in which the common control combination occurs are included in the then consolidated financial statements of the combined entity as if the combination had occurred from the date when the combining entities or businesses first came under the control of the controlling party or parties. Subsequent to the 2004 Reorganisation, there have been no material acquisitions or disposals of subsidiaries.

The consolidated income statements, consolidated statements of changes in equity and consolidated cash flow statements of the Group as set out in Section A include the results of operations of the Group companies for the Track Record Period. The consolidated balance sheets of the Group as at 31 December 2006, 2007 and 2008 have been prepared to present the state of affairs of the Group companies as at the respective dates.

2. BASIS OF PREPARATION AND PRINCIPAL ACCOUNTING POLICIES

The Financial Information has been prepared in accordance with all applicable HKFRS, which collective term includes all applicable individual Hong Kong Financial Reporting Standards, HKASs and Interpretations issued by the HKICPA and the disclosure requirements of the Hong Kong Companies Ordinance.

The Financial Information is presented in Hong Kong dollars (“HK\$”), which is the functional currency of the Company, with all values rounded to the nearest thousand except when otherwise indicated. It is prepared on the historical cost basis except for equity-investments, which have been measured at fair value.

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The Group has not early applied the following new and revised standards, amendments or interpretations that have been issued but are not yet effective during the year.

HKFRSs (Amendments)	Improvements to HKFRS and Improvements to HKFRSs 2009 ¹
HKFRS 1 (Revised) and HKAS 27 Amendments	Cost of an Investment in a Subsidiary, Jointly Controlled Entity or Associate ²
HKFRS 2 Amendments	Vesting Conditions and Cancellations ²
HKFRS 3 (Revised)	Business Combinations ³
HKFRS 7 Amendments	Financial Instruments: Disclosures – Improving Disclosures about Financial Instruments ⁴
HKFRS 8	Operating Segments ²
HKAS 1 (Revised)	Presentation of Financial Statements ²
HKAS 23 (Revised)	Borrowing Costs ²
HKAS 27 (Revised)	Consolidated and Separate Financial Statements ³
HKAS 32 and HKAS 1 Amendments	Puttable Financial Instruments and Obligations Arising on Liquidation ²
HKAS 39 Amendments	Eligible Hedged Items ³
HK(IFRIC)-Int 9 and HKAS 39 Amendments	Embedded Derivatives ⁴
HK(IFRIC)-Int 13	Customer Loyalty Programmes ⁴
HK(IFRIC)-Int 15	Agreements for the Construction of Real Estate ²
HK(IFRIC)-Int 16	Hedges of a Net Investment in a Foreign Operation ⁵
HK(IFRIC)-Int 17	Distributions of Non-cash Assets to Owners ³
HK(IFRIC)-Int 18	Transfers of Assets from Customers ³

- 1 Effective for annual periods beginning on or after 1 January 2009, 1 July 2009 and 1 January 2010, as appropriate
- 2 Effective for annual periods beginning on or after 1 January 2009
- 3 Effective for annual periods beginning on or after 1 July 2009
- 4 Effective for annual periods beginning on or after 1 July 2008
- 5 Effective for annual periods beginning on or after 1 October 2008

The Group is in the process of making an assessment of the impact of these new and revised HKFRSs upon initial application. So far, it has concluded that while the adoption of HKFRS 8 and HKAS 1 (Revised) may result in new or amended disclosures and the adoption of HKFRS 3 (Revised), HKAS 27 (Revised) and HKAS 23 (Revised) may result in changes in accounting policies, these new and revised HKFRSs are unlikely to have a significant impact on the Group’s results of operations and financial position.

Basis of consolidation

The Financial Information includes the financial statements of the Company and its subsidiaries for the Track Record Period.

The results of subsidiaries are consolidated from the date of acquisition, being the date on which the Group obtains control, and continue to be consolidated until the date that such control cease. All significant intra-group transactions and balances have been eliminated on consolidation.

Minority interests represent the interests of outside equity holders not held by the Group in the results and net assets of the Company’s subsidiaries.

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ACCOUNTANTS’ REPORT

Subsidiaries

A subsidiary is an entity whose financial and operating policies the Company controls, directly or indirectly, so as to obtain benefits from its activities.

The results of subsidiary are included in the Company’s income statement to the extent of dividends received and receivable. The Company’s investment in a subsidiary is stated at cost less any impairment losses.

Impairment of non-financial assets

Where an indication of impairment exists, or when annual impairment testing for an asset is required (other than inventories, financial assets and non-current assets), the asset’s recoverable amount is estimated. An asset’s recoverable amount is the higher of the asset’s or cash-generating unit’s value in use and its fair value less costs to sell, and is determined for an individual asset, unless the asset does not generate cash inflows that are largely independent of those from other assets or groups of assets, in which case the recoverable amount is determined for the cash-generating unit to which the asset belongs.

An impairment loss is recognised only if the carrying amount of an asset exceeds its recoverable amount. In assessing value in use, the estimated future cash flows are discounted to their present value using a pre-tax discount rate that reflects current market assessments of the time value of money and the risks specific to the asset. An impairment loss is charged to the income statement in the period in which it arises.

An assessment is made at each reporting date as to whether there is any indication that previously recognised impairment losses may no longer exist or may have decreased. If such an indication exists, the recoverable amount is estimated. A previously recognised impairment loss of an asset other than goodwill is reversed only if there has been a change in the estimates used to determine the recoverable amount of that asset, but not to an amount higher than the carrying amount that would have been determined (net of any depreciation) had no impairment loss been recognised for the asset in prior years. A reversal of such an impairment loss is credited to the income statement in the period in which it arises.

Property, plant and equipment and depreciation

Property, plant and equipment, other than construction in progress, are stated at cost less accumulated depreciation and impairment loss, if any.

The cost of an item of property, plant and equipment (an “item”) comprises its purchase price and any directly attributable costs of bringing the item to its working condition and location for its intended use. Expenditure incurred after the item has been put into operation, such as repairs and maintenance, is normally charged to the income statement in the period in which it is incurred. In situations where it can be clearly demonstrated that the expenditure has resulted in an increase in the future economic benefits expected to be obtained from the use of the item, the expenditure is capitalised as an additional cost of the item.

Properties in the course of construction for production, rental or administrative purposes, or for purposes not yet determined, are carried at cost, less any recognised impairment loss. Cost comprises the direct costs of construction and capitalised borrowing costs on related borrowed funds during the period of construction. Construction in progress is classified to the appropriate category of property, plant and equipment when completed and ready for intended use. Depreciation of these assets, on the same basis as other property assets, commences when the assets are ready for their intended use.

When, in the opinion of the directors, the recoverable amounts of property, plant and equipment have impaired below their carrying amounts, provisions are made to write down the carrying amounts of such assets to their recoverable amounts. Reductions of the carrying value are charged to the income statement.

The gain or loss on disposal or retirement of an item recognised in the income statement is the difference between the sale proceeds and the carrying amount of the relevant item, and is recognised in the income statement.

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Depreciation is calculated on the straight-line basis to write off the cost or valuation of each item, less the estimated residual value, if any, over the estimated useful life. The principal annual rates used for this purpose are as follows:

Leasehold improvements	20% or over the lease terms, whichever is shorter
Motor vehicles	18% – 20%
Office equipment	10% – 20%
Plant and machinery	9% – 18%

Both the useful life of an item and its residual value, if any, are reviewed annually.

Prepaid lease payments

All land in the PRC is stated-owned or collectively-owned and no individual land ownership right exists. The Group acquired the right to use certain land. The premiums paid for such right are treated as prepayment for operating lease and recorded as prepaid lease payments, which are amortised over the lease terms using the straight-line method.

Operating leases

Leases which do not transfer substantially all the risks and rewards of ownership to the Group are classified as operating leases.

Where the Group has the use of assets held under operating leases, payments made under the leases are charged to the income statement in equal instalments over the accounting periods covered by the lease term, except where an alternative basis is more representative of the pattern of benefits to be derived from the leased assets. Lease incentives received are recognised in the income statement as an integral part of the aggregate net lease payments made. Contingent rentals, if any, are charged to the income statement in the accounting period in which they are incurred.

Financial instruments

Financial assets and financial liabilities are recognised in the balance sheet when a group entity becomes a party to be contractual provisions of the instrument. Financial assets and financial liabilities are initially measured at fair value. Transaction costs that are directly attributable to the acquisition or issue of financial assets and financial liabilities (other than financial assets and financial liabilities at fair value through profit or loss) are added to or deducted from the fair value of the financial assets or financial liabilities, as appropriate, on initial recognition. Transaction costs directly attributable to the acquisition of financial assets or financial liabilities at fair value through profit or loss are recognised immediately in the income statement.

Financial assets

The Group’s financial assets are classified into one of the three categories, namely financial assets at fair value through profit or loss (“FVTPL”), loans and receivables and available-for-sale financial assets. All regular way purchases or sales of financial assets are purchases or sales of financial assets that require delivery of assets within the time frame established by regulation or convention in the marketplace.

Financial assets at fair value through profit or loss

A financial asset is classified as held for trading if it has been acquired principally for the purpose of selling in the near future; or it is a part of an identified portfolio of financial instruments that the Group manages together and has a recent actual pattern of short-term profit-taking; or it is a derivative that is not designated and effective as a hedging instrument.

At each balance sheet date subsequent to initial recognition, financial assets at FVTPL are measured at fair value, with changes in fair value recognised directly in the income statement in the period in which they arise. The net gain or loss recognised in the income statement does not include any dividend or interest earned on the financial assets.

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Loans and receivables

Loans and receivables are non-derivative financial assets with fixed or determinable payments that are not quoted in an active market. At each balance sheet date subsequent to initial recognition, loans and receivables (including trade receivables, other receivables, time deposit, restricted bank deposits, bank balances and cash) are carried at amortised cost using the effective interest method, less any identified impairment losses.

The effective interest method is a method of calculating the amortised cost of a financial asset and of allocating interest income over the relevant period. The effective interest rate is the rate that exactly discounts estimated future cash receipts (including all fees on points paid or received that form an integral part of the effective interest rate, transaction costs and other premiums or discounts) through the expected life of the financial asset, or, where appropriate, a shorter period.

Income is recognised on an effective interest basis for debt instruments of which interest income is included in net gains or losses.

Available-for-sale financial assets

Available-for-sale financial assets are non-derivative financial assets that are either designated in this category or not classified in any of the other categories. The Group designated listed equity as available-for-sales financial assets.

At each balance sheet date subsequent to initial recognition, available-for-sale financial assets are measured at fair value. Unrealised gains or losses (except for changes in exchange rates for monetary items, interest, dividends and impairment losses which are recognised in the income statement) are recognised in equity until the financial asset is derecognised, at which time the cumulative gain or loss previously recognised in equity is taken to the income statement.

Impairment of financial assets

Financial assets, other than those at FVTPL, are assessed for indicators of impairment at each balance sheet date. Financial assets are impaired where there is objective evidence that, as a result of one or more events that occurred after the initial recognition of the financial asset, the estimated future cash flows of the financial assets have been impacted.

For an available-for-sale equity investment, a significant or prolonged decline in the fair value of that investment below its costs is considered to be objective evidence of impairment.

For all other financial assets, objective evidence of impairment could include:

- significant financial difficulty of the issuer or counterparty; or
- default or delinquency in interest or principal payments; or
- it becoming probable that the borrower will enter bankruptcy or financial re-organisation.

For certain categories of financial asset, such as trade receivables, assets that are assessed not to be impaired individually are subsequently assessed for impairment on a collective basis. Objective evidence of impairment for a portfolio of receivables could include the Group’s past experience of collecting payments, an increase in the number of delayed payment in the portfolio past the average credit period, observable changes in national or local economic conditions that correlate with default on receivables.

For financial assets carried at amortised cost, an impairment loss is recognised in the income statement when there is objective evidence that the asset is impaired, and is measured as the difference between the asset’s carrying amount and the present value of the estimated future cash flows discounted at the original effective interest rate.

For financial assets carried at cost, the amount of the impairment loss is measured as the difference between the asset’s carrying amount and the present value of the estimated future cash flows discounted at the current market rate of return for a similar financial asset. Such impairment loss will not be reversed in subsequent periods.

The carrying amount of the financial asset is reduced by the impairment loss directly for all financial assets with the exception of trade receivables, where the carrying amount is reduced through the use of an allowance

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account. Changes in the carrying amount of the allowance account are recognised in the income statement. When a trade receivable is considered uncollectible, it is written off against the allowance account. Subsequent recoveries of amounts previously written off are credited to the income statement.

For financial assets measured at amortised cost, if, in a subsequent period, the amount of impairment loss decreases and the decrease can be related objectively to an event occurring after the impairment losses was recognised, the previously recognised impairment loss is reversed through the income statement to the extent that the carrying amount of the asset at the date the impairment is reversed does not exceed what the amortised cost would have been had the impairment not been recognised.

Impairment losses on available-for-sale equity investments will not be reversed in the income statement in subsequent periods. Any increase in the fair value of available-for-sale equity-investments subsequent to an impairment loss being recognised is credited directly to equity.

Financial liabilities

Financial liabilities include secured bank loans, trade and other payables, accruals and other monetary liabilities. All financial liabilities are initially recognised at the fair value of the consideration received less directly attributable transaction costs. After initial recognition, they are subsequently measured at amortised cost using the effective interest method.

Financial guarantee contracts

Financial guarantee contracts in the scope of HKAS 39 are accounted for as financial liabilities. A financial guarantee contract is recognised initially at its fair value less transaction costs that are directly attributable to the acquisition or issue of the financial guarantee contract, except when such contract is recognised at fair value through profit or loss. Subsequent to initial recognition, the Group measures the financial guarantee contract at the higher of: (i) the amount of the best estimate of the expenditure required to settle the present obligation at the balance sheet date; and (ii) the amount initially recognised less, when appropriate, cumulative amortisation recognised in accordance with HKAS 18 Revenue.

Derecognition

Financial assets are derecognised when the rights to receive cash flows from the assets expire or, the financial assets are transferred and the Group has transferred substantially all the risks and rewards of ownership of the financial assets. On derecognition of a financial asset, the difference between the asset’s carrying amount and the sum of the consideration received and receivable and the cumulative gain or loss that had been recognised directly in equity is recognised in profit or loss.

Financial liabilities are derecognised when the obligation specified in the relevant contract is discharged, cancelled or expires. The difference between the carrying amount of the financial liability derecognised and the consideration paid and payable is recognised in the profit or loss.

Trademarks and patents

All costs associated with the development and registration of trademarks and patents are charged to the income statement in the period when such expenditure is incurred.

Inventories

Inventories are valued at the lower of cost, on the weighted average basis, and net realisable value after making due impairment for any obsolete or slow moving items. In the case of finished goods and work in progress, costs includes direct materials, direct labour, sub-contracting charges and, where applicable, production overheads. Net realisable value is determined by reference to estimated selling prices less all further costs to be incurred in selling and distribution.

Cash and cash equivalents

For the purpose of the consolidated cash flow statement, cash and cash equivalents comprise cash at bank and on hand, demand deposits with banks and other financial institutions, and short term highly liquid investments that are readily convertible into known amounts of cash and which are subject to an insignificant risk of changes in value, having been within three months of maturity at acquisition, less advances from banks repayable within three months from the date of the advance.

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Provisions

Provisions are recognised for liabilities of uncertain timing or amount when the Group has a legal or constructive obligation arising as a result of a past event, it is probable that an outflow of economic benefits will be required to settle the obligation, and a reliable estimate can be made.

When the effect of discounting is material, the amount recognised for a provision is the present value at the balance sheet date of the future expenditures expected to be required to settle the obligation. The increase in the discounted present value amount arising from the passage of time is included in finance costs in the income statement.

Where it is not probable that an outflow of economic benefits will be required, or the amount cannot be estimated reliably, the obligation is disclosed as a contingent liability, unless the probability of outflow of economic benefits is remote. Possible obligations, whose existence will only be confirmed by the occurrence or non-occurrence of one or more future events are also disclosed as contingent liabilities unless the probability of outflow of economic benefits is remote.

Taxation

Taxation represents the sum of the tax currently payable and deferred tax.

The tax currently payable is based on taxable profit for the year. Taxable profit differs from net profit as reported in the income statement because it excludes items of income or expense that are taxable or deductible in other years, and it further excludes items that are never taxable or deductible. The Group’s liability for the current tax is calculated using tax rates that have been enacted or substantively enacted by the balance sheet date.

Deferred tax is recognised on differences between the carrying amounts of assets and liabilities in the Financial Information and the corresponding tax base used in computation of taxable profit, and is accounted for using the balance sheet liability method. Deferred tax liabilities are generally recognised for all taxable temporary differences and deferred tax assets are recognised to the extent that it is probable that taxable profits will be available against which deductible temporary difference can be utilised. Such assets and liabilities are not recognised if the temporary difference arises from the initial recognition of other assets and liabilities in a transaction that affects neither the taxable profit nor the accounting profit.

Deferred tax liabilities are recognised for taxable temporary differences arising on investment in subsidiaries except where the Group is able to control the reversal of the temporary differences and it is probable that the temporary difference will not reverse in the foreseeable future.

The carrying amount of deferred tax assets is reviewed at each balance sheet date and reduced to the extent that it is no longer probable that sufficient taxable profit will be available to allow all or part of the assets to be recovered.

Deferred tax is calculated at the tax rates that are expected to apply in the period when the liability is settled or the asset realised. Deferred tax is charged or credited in the income statement, except when it relates to items charged or credited directly to equity, in which case the deferred tax is also dealt with in equity.

Revenue recognition

Revenue is recognised when it is probable that the economic benefits will flow to the Group and when the revenue can be measured reliably, on the following bases:

- (i) sale of goods, when the significant risks and rewards of ownership have been transferred to the buyer, provided that the Group maintains neither managerial involvement associated with ownership, nor effective control over the goods sold;
- (ii) licensing income, when the right to receive payment is established;
- (iii) interest income is recognised on an accrual basis using the effective interest method by applying the rate that discounts the estimated future cash receipts through the expected life of the financial instrument to the net carrying amount of the financial asset; and
- (iv) dividends income, when the shareholders’ right to receive payment is established.

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Employee benefits

Short term employee benefits and contributions to defined contribution retirement plans

Salaries, annual bonuses, paid annual leave, contributions to defined contribution plans and the cost of non-monetary benefits are accrued in the period in which the associated services are rendered by employees. Where payment or settlement is deferred and the effect would be material, these amounts are stated at their present values.

The Group also operates a defined contribution retirement benefits scheme: Mandatory Provident Fund (“MPF”) Scheme under the Mandatory Provident Fund Schemes Ordinance in Hong Kong. The MPF Scheme requires both the Group and the employees to contribute 5% of the employees’ monthly gross earnings with a ceiling of HK\$1,000 per month. When an employee leaves the scheme, the Group’s mandatory contribution vests fully with the employee. The contributions payable to the MPF Scheme are charged to the income statement as incurred.

The employees of the Group’s subsidiaries which operate in the PRC are required to participate in a defined contribution retirement benefits scheme which is the central pension scheme operated by local municipal government. These PRC subsidiaries are required to contribute a percentage of their payroll costs to the central pension scheme as specified by the local municipal government.

Termination benefits

Termination benefits are recognised when, and only when, the Group demonstrably commits itself to terminate employment or to provide benefits as a result of voluntary redundancy by having a detailed formal plan which is without realistic possibility of withdrawal.

Equity compensation benefit

The fair value of share options granted to employees is recognised as an employee cost with a corresponding increase in a capital reserve within equity. The fair value is measured at grant date using the Binomial Lattice Model, taking into account the terms and conditions upon which the options were granted. Where the employees have to meet vesting conditions before becoming unconditionally entitled to the options, the total estimated fair value of the options is spread over the vesting period, taking into account the probability that the options will vest.

During the vesting period, the number of share options that is expected to vest is reviewed. Any adjustment to the cumulative fair value recognised in prior years is charged/credited to the income statement for the period of the review, unless the original employee expenses qualify for recognition as an asset, with a corresponding adjustment to the capital reserve. On the vesting date, the amount recognised as an expense is adjusted to reflect the actual number of options that vest (with a corresponding adjustment to the share option reserve) except where forfeiture is only due to not achieving vesting conditions that relate to the market price of the Company’s shares. The equity amount is recognised in the share option reserve until either the option is exercised (when it is transferred to the share premium account) or the option expires (when it is released directly to retained profits).

Borrowing costs

Borrowing costs that are directly attributable to the acquisition, construction or production of an asset which necessarily takes a substantial period of time to get ready for its intended use or sale are capitalised as part of the cost of that assets. Other borrowing costs are expended in the period in which they are incurred.

The capitalisation of borrowing costs as part of the cost of a qualifying asset commences when expenditure for the asset is being incurred, borrowing costs are being incurred and activities that are necessary to prepare the qualifying asset for its intended use or sale are in progress. Capitalisation of borrowing costs is suspended or ceases when substantially all the activities necessary to prepare the qualifying asset for its intended use or sales are interrupted or complete.

Dividends

Final dividends proposed by the directors are classified as a separate allocation of retained profits within the equity section of the balance sheet, until they have been approved by the shareholders in a general meeting. When these dividends have been approved by the shareholders and declared, they are recognised as a liability.

Interim dividends are simultaneously proposed and declared, because the Company’s memorandum and articles of association grant the directors the authority to declare interim dividends. Consequently, interim dividends are recognised immediately as a liability when they are proposed and declared.

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Foreign currency translation

Items included in the Financial Information of each individual group entity are measured using Hong Kong dollars, Renminbi or United States dollar which are the currencies that determine the pricing of the transactions that the individual group entity undertakes (the “functional currency”).

Transactions in currencies other than an entity’s functional currency are initially recorded by the entity at the rates of exchange prevailing on the dates of the transactions. Monetary assets and liabilities denominated in such currencies are retranslated at the rates prevailing on the balance sheet date. Gains and losses arising on the translation of monetary items and settlement of monetary items are included in the income statement.

Non-monetary assets and liabilities that are measured in terms of historical cost in a foreign currency are translated using the foreign exchange rates ruling at the transaction dates. Non-monetary assets and liabilities denominated in foreign currencies that are stated at fair value are translated using the foreign exchange rates ruling at the dates the fair value was determined. Exchange differences arising on the retranslation of non-monetary items carried at fair value are included in profit or loss for the period except for differences arising on the translation of non-monetary items in respect of which gains and losses are recognised directly in equity, in which cases, the exchange differences are also recognised directly in equity.

For the purposes of presenting the Financial Information, the assets and liabilities of the PRC subsidiaries are translated into the presentation currency of the Company (i.e. Hong Kong dollars) at rates of exchange ruling at the balance sheet date, and their income and expenses are translated at the average exchange rates for each year, unless exchange rates fluctuate significantly during the period, in which case, the exchange rates ruling at the dates of transactions are used. Exchange differences arising, if any, are recognised as a separate component of equity (the exchange reserve).

On disposal of a subsidiary, the cumulative amount of the exchange differences recognised in equity which relate to that foreign operation is included in the calculation of the profit or loss on disposal.

Related parties

A party is considered to be related to the Group if:

- (i) the party has the ability, directly or indirectly through one or more intermediaries, to control the Group or exercise significant influence over the Group in making financial and operating decisions, or vice versa, or where the Group and the party are subject to common control or common significant influence;
- (ii) the party is a member of the key management personnel of the Group or its parent;
- (iii) the party is a close member of the family of any individual referred to in (i) or (ii);
- (iv) the party is an entity that is controlled, jointly controlled or significantly influenced by or for which significant voting power in such entity resides with, directly or indirectly, any individual referred to in (ii) or (iii); or
- (v) the party is a post-employment benefit plan for the benefit of employees of the Group, or of any entity that is a related party of the Group.

3. CRITICAL ACCOUNTING JUDGMENTS AND ESTIMATES

The selection of critical accounting policies, the judgments and other uncertainties affecting application of those policies and the sensitivity of reported results to changes in conditions and assumptions are factors to be considered when reviewing the Financial Information. The Group believes the following critical accounting policies involve the most significant judgments and estimates used in the preparation of the Financial Information.

(i) *Useful lives of property, plant and equipment*

The Group’s management determines the estimated useful lives and related depreciation charges for its property, plant and equipment. Management will revise the depreciation charge where useful lives are different to previously estimated, or will write-off or write-down technically obsolete or non-strategic assets that have been abandoned or sold.

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(ii) Net realisable value of inventories

Inventories are carried at the lower of cost and net realisable value. The cost of inventories is written down to net realisable value when there is an objective evidence that the cost of inventories may not be recoverable. The cost of inventories may not be recovered if those inventories are damaged, if they have become wholly or partially obsolete, or if their selling prices have declined. The cost of inventories may not also be recoverable if the estimated costs to be incurred to make the sales have increased. The amount written off to the income statement is the difference between the carrying value and net realisable value of the inventories. In determining whether the cost of inventories can be recoverable, significant judgement is required. In making this judgement, the Group evaluates, among other factors, the duration and extent by all means to which the amount will be recovered.

(iii) Estimated allowance for receivables

Management regularly reviews the recoverability of trade and other receivables and amounts due from related parties. Allowance for these receivables is made based on the evaluation of collectability and on management’s judgement by reference to the estimation of the future cash flows discounted at the effective interest rate to calculate the present value.

A considerable amount of judgement is required in assessing the ultimate realisation of these debtors, including their current creditworthiness. If the actual future cash flows were less than expected, additional allowance may be required.

(iv) Income tax provision

Determining income tax provisions involves judgement on the future tax treatment of certain transactions. The Group carefully evaluates tax implications of transactions, and tax provisions are made accordingly. The tax treatment of transactions is assessed periodically to include the effect of all changes in tax legislation and practices.

4. SEGMENT REPORTING

Segment information is presented by way of two segment formats: (i) on a primary segment reporting basis, by business segment; and (ii) on a secondary segment reporting basis, by geographical segment.

The Group’s operating businesses are structured and managed separately according to the nature of their operations and the products sold. Each of the Group’s business segments represents a strategic business unit that offers products which are subject to risks and returns that are different from those of the other business segments. Summary details of the business segments are as follows:

Home furniture:	the design, manufacture, sale and marketing of home furniture and bed mattresses
Branded distribution:	licensing of own brand names

In presenting information on the basis of geographical segments, segment revenue is based on the geographical location of customers. Segment assets and capital expenditure are based on the geographical location of the assets.

Intersegment sales and transfers are transacted with reference to the selling prices used for sales made to third parties at the then prevailing market prices.

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Business segments

	Year ended 31 December 2006		
	Home furniture HK\$'000	Branded distribution HK\$'000	Consolidated HK\$'000
Sales of furniture	342,227	–	342,227
Licensing income	–	27,399	27,399
Total	<u>342,227</u>	<u>27,399</u>	<u>369,626</u>
Segment result	6,041	23,373	29,414
Other income			2,304
Interest expense			(481)
Corporate and unallocated expenses			<u>(349)</u>
Profit before taxation			30,888
Taxation			<u>(2,137)</u>
Profit before minority interests			<u>28,751</u>
Assets			
Segment assets	195,487	26,675	222,162
Corporate and unallocated assets			<u>11,248</u>
			<u>233,410</u>
Liabilities			
Segment liabilities	90,908	–	90,908
Corporate and unallocated liabilities			<u>7,422</u>
			<u>98,330</u>
Other information			
Depreciation	2,848	–	<u>2,848</u>
Impairment of trade receivables	441	4,000	<u>4,441</u>
Impairment for inventories	2,000	–	<u>2,000</u>
Loss on disposal of property, plant and equipment	88	–	<u>88</u>
Write-off of other receivables	8,885	–	<u>8,885</u>
Capital expenditure	3,432	–	<u>3,432</u>

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	Year ended 31 December 2007		
	Home furniture HK\$'000	Branded distribution HK\$'000	Consolidated HK\$'000
Sales of furniture	464,760	–	464,760
Licensing income	–	27,909	27,909
Total	464,760	27,909	492,669
Segment result	11,482	33,882	45,364
Other income			1,962
Corporate and unallocated expenses			(5,094)
Profit before taxation			42,232
Taxation			(1,803)
Profit before minority interests			40,429
Assets			
Segment assets	273,221	16,007	289,228
Corporate and unallocated assets			1,176
			290,404
Liabilities			
Segment liabilities	112,588	–	112,588
Corporate and unallocated liabilities			7,066
			119,654
Other information			
Depreciation and amortisation	4,417	–	4,417
Impairment of trade receivables recognised/(reversed)	5,066	(5,979)	(913)
Impairment for inventories	501	–	501
Loss on disposal of property, plant and equipment	56	–	56
Capital expenditure	[61,095]	–	[61,095]

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	Year ended 31 December 2008		
	Home furniture HK\$'000	Branded distribution HK\$'000	Consolidated HK\$'000
Sales of furniture	[515,399]	[–]	[515,399]
Licensing income	[–]	[18,947]	[18,947]
Total	[515,399]	[18,947]	[534,346]
Segment result	[20,496]	[19,604]	[40,100]
Other income	[–]	[–]	[1,192]
Interest expenses			[(70)]
Corporate and unallocated expenses			[(7,182)]
Profit before taxation			[34,040]
Taxation			[(3,251)]
Profit before minority interests			[30,789]
Assets			
Segment assets	[327,854]	[10,641]	[338,495]
Corporate and unallocated assets			[14,664]
			[353,159]
Liabilities			
Segment liabilities	[136,637]	[16]	[136,653]
Corporate and unallocated liabilities			[7,152]
			[143,805]
Other information			
Depreciation and amortisation	[6,656]	[–]	[6,656]
Impairment of trade receivables reversed	[819]	[690]	[1,509]
Impairment for inventories	[2,165]	[–]	[2,165]
Loss on disposal of property, plant and equipment	[47]	[–]	[47]
Change in fair value of equity-investments at fair value through profit or loss	[–]	[–]	[974]
Impairment of available-for-sale investments	[–]	[–]	[2,714]
Gain on disposal of equity-investments at fair value through profits or loss	[–]	[–]	[797]
Capital expenditure	[53,518]	[–]	[53,518]

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Geographical segments

	Year ended 31 December		
	2006	2007	2008
	HK\$’000	HK\$’000	HK\$’000
Asia (excluding PRC)	127,850	172,942	[176,896]
Europe	24,817	32,287	[35,370]
PRC	175,829	238,931	[273,034]
Others	41,130	48,509	[49,046]
	<u> </u>	<u> </u>	<u> </u>
Revenue from external customers	369,626	492,669	[534,346]
	<u><u> </u></u>	<u><u> </u></u>	<u><u> </u></u>

	Year ended 31 December		
	2006	2007	2008
	HK\$’000	HK\$’000	HK\$’000
Asia (excluding PRC)	59,330	33,666	[52,981]
Europe	10,751	4,292	[2,680]
PRC	138,161	251,820	[293,416]
Others	25,168	626	[4,082]
	<u> </u>	<u> </u>	<u> </u>
Segment assets	233,410	290,404	[353,159]
	<u><u> </u></u>	<u><u> </u></u>	<u><u> </u></u>

	Year ended 31 December		
	2006	2007	2008
	HK\$’000	HK\$’000	HK\$’000
Asia (excluding PRC)	49	2,070	[12]
Europe	–	–	[–]
PRC	3,383	59,025	[53,506]
Others	–	–	[–]
	<u> </u>	<u> </u>	<u> </u>
Capital expenditure	3,432	[61,095]	[53,518]
	<u><u> </u></u>	<u><u> </u></u>	<u><u> </u></u>

Asia mainly covers Japan, Taiwan, Middle East and Southeast Asia; Europe mainly covers Sweden, Italy, Spain and Germany; and others mainly covers the United States, Canada, Angola and Ivory Coast.

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5. TURNOVER AND OTHER INCOME

Turnover represents gross invoiced sales, less returns, trade discounts and value added tax, and licensing income. An analysis of turnover and other income is as follows:

	Year ended 31 December		
	2006	2007	2008
	HK\$'000	HK\$'000	HK\$'000
Turnover			
Sales of goods	342,227	464,760	[515,399]
Licensing income	27,399	27,909	[18,947]
	<u>369,626</u>	<u>492,669</u>	<u>[534,346]</u>
Other income			
Bank interest income	266	338	[373]
Dividend income (i)	1,125	–	[360]
Exchange gain, net	–	1,190	[–]
Gain on disposal of equity-investment at fair value through profit or loss	–	–	[797]
Waiver of interest on loan from the Company’s holding company	569	–	[–]
Others (ii)	344	434	[459]
	<u>2,304</u>	<u>1,962</u>	<u>[1,989]</u>
Total turnover and other income recognised during the year	<u><u>371,930</u></u>	<u><u>494,631</u></u>	<u><u>[536,335]</u></u>

(i) The 2006 amount represents the net of the investment in Shenzhen Dahao and the recoupment from its dissolution in 2006. The 2008 amount represents dividend income from equity-investments at fair value through profit or loss.

(ii) Others include gain on disposal of property, plant and equipment and scrapped materials.

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6. PROFIT FROM OPERATING ACTIVITIES

Profit from operating activities is arrived at after charging/(crediting):

	Year ended 31 December		
	2006	2007	2008
	HK\$’000	HK\$’000	HK\$’000
Cost of inventories sold	297,526	395,937	[431,179]
Depreciation	2,848	3,938	[5,628]
Operating lease rentals			
– land and buildings	8,141	8,466	[8,976]
Auditors’ remuneration			
– current year provision	394	567	[1,200]
– prior year underprovision	–	162	[–]
Staff costs			
– directors’ emoluments (<i>note 7</i>)	3,138	7,712	[5,448]
– wages and salaries	19,127	28,963	[39,596]
– equity-settled share option expenses	–	1,304	[1,383]
– pension scheme contribution	1,695	3,956	[3,239]
Impairment of trade receivables recognised/(reversed)	4,441	(913)	[(1,509)]
Impairment for inventories	2,000	501	[2,165]
Trademarks and patents expenses	2,742	–	[–]
Write-off of other receivables	8,885	–	[–]
Waiver of interest on loan from the Company’s holding Company	(569)	–	[–]
Amortisation of prepaid lease payments	–	479	[1,028]
Exchange loss, net	698	–	[394]
Loss on disposal of property, plant and equipment	88	56	[47]
Provision for tax surcharge and penalty	–	2,661	[–]
Gain on disposal of equity-investments at fair value through profit or loss	–	–	[(797)]
Change in fair value of equity-investments at fair value through profit or loss	–	–	[974]
Impairment of available-for-sale investments	–	–	[2,714]
	<u> </u>	<u> </u>	<u> </u>

7. DIRECTORS’ EMOLUMENTS

Details of directors’ emoluments are as follows:

Year ended 31 December 2006

	Directors’ fees	Salaries	Bonus	Share options	Retirement scheme contributions	Total
	HK\$’000	HK\$’000	HK\$’000	HK\$’000	HK\$’000	HK\$’000
Directors						
Sung Kai Hing	–	1,002	–	–	12	1,014
Cheung Kong Cheung	–	1,002	–	–	12	1,014
Chan Kwok Kin	–	1,098	–	–	12	1,110
Huang Wei Ye	–	–	–	–	–	–
Au Hoi Tsun, Peter	–	–	–	–	–	–
Sung Yan Wai	–	–	–	–	–	–
Hui Tung Wah	–	–	–	–	–	–
	<u> </u>	<u> </u>	<u> </u>	<u> </u>	<u> </u>	<u> </u>
	–	3,102	–	–	36	3,138
	<u> </u>	<u> </u>	<u> </u>	<u> </u>	<u> </u>	<u> </u>

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Year ended 31 December 2007

	Directors’ fees HK\$’000	Salaries HK\$’000	Bonus HK\$’000	Share options HK\$’000	Retirement scheme contributions HK\$’000	Total HK\$’000
Directors						
Sung Kai Hing	–	1,002	600	271	12	1,885
Cheung Kong Cheung	–	1,002	600	271	12	1,885
Chan Kwok Kin	–	1,108	400	271	12	1,791
Huang Wei Ye	–	1,337	400	271	34	2,042
Fang Shin	–	–	–	–	–	–
Fang Yan Zau, Alexander	–	–	–	–	–	–
Li Sui Lin, Alice	–	–	–	–	–	–
	<u>–</u>	<u>4,449</u>	<u>2,000</u>	<u>1,084</u>	<u>70</u>	<u>7,603</u>
	<u>–</u>	<u>4,449</u>	<u>2,000</u>	<u>1,084</u>	<u>70</u>	<u>7,603</u>
Independent non-executive director						
Sun Jian	<u>20</u>	<u>–</u>	<u>–</u>	<u>89</u>	<u>–</u>	<u>109</u>
	<u>20</u>	<u>–</u>	<u>–</u>	<u>89</u>	<u>–</u>	<u>109</u>
	<u>20</u>	<u>–</u>	<u>–</u>	<u>89</u>	<u>–</u>	<u>109</u>

Year ended 31 December 2008

	Directors’ fees HK\$’000	Salaries HK\$’000	Bonus HK\$’000	Share options HK\$’000	Retirement scheme contributions HK\$’000	Total HK\$’000
Directors						
Sung Kai Hing	[–]	[1,002]	[–]	[271]	[12]	[1,285]
Cheung Kong Cheung	[–]	[1,002]	[–]	[271]	[12]	[1,285]
Chan Kwok Kin	[–]	[1,002]	[–]	[271]	[12]	[1,285]
Huang Wei Ye	[–]	[1,102]	[–]	[271]	[13]	[1,386]
Fang Shin	[–]	[–]	[–]	[–]	[–]	[–]
Fan Yan Zau, Alexander	[–]	[–]	[–]	[–]	[–]	[–]
Li Sui Lin, Alice	[–]	[–]	[–]	[–]	[–]	[–]
	<u>[–]</u>	<u>[4,108]</u>	<u>[–]</u>	<u>[1,084]</u>	<u>[49]</u>	<u>[5,241]</u>
	<u>[–]</u>	<u>[4,108]</u>	<u>[–]</u>	<u>[1,084]</u>	<u>[49]</u>	<u>[5,241]</u>
Independent non-executive director						
Sun Jian	<u>[40]</u>	<u>[–]</u>	<u>[–]</u>	<u>[167]</u>	<u>[–]</u>	<u>[207]</u>
	<u>[40]</u>	<u>[–]</u>	<u>[–]</u>	<u>[167]</u>	<u>[–]</u>	<u>[207]</u>
	<u>[40]</u>	<u>[–]</u>	<u>[–]</u>	<u>[167]</u>	<u>[–]</u>	<u>[207]</u>

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An analysis of directors’ emoluments by the number of directors and emolument range is as follows:

	Year ended 31 December		
	2006	2007	2008
	<i>Number of directors</i>	<i>Number of directors</i>	<i>Number of directors</i>
Nil to HK\$1,000,000	4	4	[4]
HK\$1,000,001 to HK\$1,500,000	3	–	[4]
HK\$1,500,001 to HK\$2,000,000	–	3	[–]
HK\$2,000,001 to HK\$2,500,000	–	1	[–]
	<u> </u>	<u> </u>	<u> </u>

During the Track Record Period, no amount was paid or payable by the Group to the directors as an inducement to join or upon joining the Group or as compensation for loss of office. There was also no arrangement under which a director waived or agreed to waive any emoluments during the Track Record Period.

Individuals with highest emoluments

Of the five individuals with the highest emoluments, Mr. Sung Kai Hing, Mr. Cheung Kong Cheung and Mr. Chan Kwok Kin were directors during the years ended 31 December 2006, 2007 and 2008. In addition, Mr. Huang Wei Ye was a director during the years ended 2007 and 2008. Their emoluments are disclosed in note 7 above. The aggregate of the emoluments in respect of the remaining individuals are as follows:

	Years ended 31 December		
	2006	2007	2008
	<i>HK\$’000</i>	<i>HK\$’000</i>	<i>HK\$’000</i>
Salaries and other emoluments	399	695	[745]
Discretionary bonuses	–	–	[–]
Retirement scheme contributions	9	12	[12]
	<u> </u>	<u> </u>	<u> </u>
	<u> </u>	<u> </u>	<u> </u>
	408	707	[757]
	<u> </u>	<u> </u>	<u> </u>

An analysis of their emoluments by number of employees and emolument range is set out below:

	Years ended 31 December		
	2006	2007	2008
Nil to HK\$1,000,000	2	1	[1]
	<u> </u>	<u> </u>	<u> </u>

No emoluments have been paid to these individuals as an inducement to join or upon joining the Group or as compensation for loss of office during the Track Record Period.

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8. FINANCE COSTS

	Year ended 31 December		
	2006	2007	2008
	HK\$'000	HK\$'000	HK\$'000
Long-term borrowing interest expense	–	–	[2,279]
Short-term borrowing interest expense	189	–	[70]
	<u>189</u>	<u>–</u>	<u>[70]</u>
Total borrowing costs	189	–	[2,349]
Less: interest capitalised (i)	–	–	[(2,279)]
	<u>189</u>	<u>–</u>	<u>[70]</u>
Bank charges	292	–	[–]
Others	–	18	[–]
	<u>–</u>	<u>18</u>	<u>[–]</u>
	<u>481</u>	<u>18</u>	<u>[70]</u>

- (i) The interest capitalisation rate of the long-term borrowings is 0%, 0% and 100% for the years ended 31 December 2006, 2007 and 2008 respectively.

9. TAXATION

Taxation in the consolidated income statements represents:

	Year ended 31 December		
	2006	2007	2008
	HK\$'000	HK\$'000	HK\$'000
Current year provision			
– Hong Kong profits tax	1,455	752	[174]
– PRC enterprises income tax	228	1,051	[3,112]
Prior year underprovision/(overprovision)			
– Hong Kong profits tax	454	–	[(31)]
– PRC enterprises income tax	–	–	[(4)]
	<u>2,137</u>	<u>1,803</u>	<u>[3,251]</u>

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Reconciliation between tax expense and accounting profit at applicable tax rate:

	Year ended 31 December		
	2006	2007	2008
	HK\$'000	HK\$'000	HK\$'000
Profit before taxation	30,888	42,232	[34,040]
Tax at applicable Hong Kong profits tax rate	5,405	7,391	[5,617]
Tax effect of expenses that are not deductible in determining taxable profits (v)	3,770	1,966	[2,447]
Tax effect of income that is not taxable in determining taxable profits (vi)	(5,663)	(5,944)	[(3,780)]
Tax effect of different tax rates of subsidiaries operating in the PRC	(1,740)	(1,498)	[(1,031)]
Tax effect of accelerated tax allowance	–	(182)	[45]
Tax effect of utilisation of tax losses not recognised previously	(89)	(5)	[(171)]
Prior year underprovision/(overprovision)	454	–	[(35)]
Others	–	75	[159]
Taxation	2,137	1,803	[3,251]

- (i) Pursuant to the income tax rules and regulations, the Group is not subject to income tax in Bermuda and the BVI.
- (ii) The provision for Hong Kong profits tax for the year ended 2008 is calculated at 16.5% (2006 and 2007: 17.5%) of the estimated assessable profits for each respective year.
- (iii) Hing Lee Ideas Limited is subject to Company Income Tax in Malaysia. No provision is made during the Track Record Period as it has been dormant since its incorporation.
- (iv) Prior to 1 January 2008, Dongguan Super Furniture was subject to Enterprise Income Tax (“EIT”) in the PRC with a preferential EIT rate of 24% under 《中華人民共和國外商投資企業和外國企業所得稅法》 (the Income Tax Law of the People’s Republic of China for Enterprises with Foreign Investment and Foreign Enterprises) promulgated by 《全國人民代表大會》 (the National People’s Congress). Dongguan Super Furniture was also approved to be entitled to EIT full exemption for two years from its first profit making year and a 50% reduction for the following three years in accordance with 《東莞市外商投資企業和外國企業所得稅減免審批表》 (the Dongguan Municipal Income Tax Law for Enterprises with Foreign Investment and Foreign Enterprises) issued by 廣東省東莞市國家稅務局 (the Dongguan Municipal Office of the State Administration of Taxation), which in the opinion of Zhong Xin Law Firm Shanghai Branch, the PRC legal advisers of the Group, is an appropriate competent authority for granting the tax exemption to Dongguan Super Furniture under its jurisdiction in accordance with the provisions under relevant laws and regulations in the PRC.

Prior to 1 January 2008, Shenzhen Xingli and Shenzhen Xingli Zundian were subject to EIT in the PRC with a preferential EIT rate of 15% under 《深圳市人民政府關於寶安、龍崗兩個市轄區有關稅收政策問題的通知》 (the notice of Income Tax Law for Enterprises with Foreign Investment and Foreign Enterprises in Baoan and Longgang) issued by 深圳市人民政府 (the People’s Government of Shenzhen). Shenzhen Xingli and Shenzhen Xingli Zundian were also approved to be entitled to EIT full exemption for two years from its first profit making year and a 50% reduction for the following three years by 深圳市龍崗區國稅局 (the Shenzhen Municipal Office of State Administration of Taxation in Longgang district).

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With the New Enterprise Income Tax Law (the “New EIT Law”) becoming effective on 1 January 2008, all enterprises in the PRC are subject to a standard enterprise income tax rate of 25%.

However, there is a transitional period for enterprises which are currently entitled to preferential tax treatments granted by relevant tax authorities. In accordance with 《國務院關於實施企業所得稅過渡優惠政策的通知》(the Notice of the State Council on the Implementation of the Enterprise Income Tax Transitional Preferential Policy) issued on 26 December 2007:

- (a) from 1 January 2008, for enterprises that enjoy a preferential tax rate of 15%, the tax rate will be transitioned to 25% over five years at rates of 18% in 2008, 20% in 2009, 22% in 2010, 24% in 2011 and 25% in 2012; and
- (b) from 1 January 2008, the enterprises that originally enjoyed the preference of regular tax reduction and exemption, will continue to enjoy the original preference in accordance with the preferential measures and terms stipulated by the original tax law, administrative regulations and relevant documents until the expiration of the preference.

Dongguan Super Furniture was incorporated in October 2005 and did not generate any assessable profits in 2005 and therefore it was not required to pay any PRC EIT for the year of 2005. Dongguan Super Furniture was entitled to full exemption from the PRC EIT in 2006 and 2007, being its first two profitable years, and a 50% tax reduction of the PRC EIT rate of 25% in 2008 under the New EIT Law till 2010.

Shenzhen Xingli was exempted from the PRC EIT for its first two profitable years, commencing from 1 January 2003, and thereafter was entitled to a 50% tax reduction in the PRC EIT rate of 15% for the subsequent three consecutive years from 1 January 2005 to 31 December 2007. Shenzhen Xingli was subject to the PRC enterprise income tax rate of 18% in 2008.

Shenzhen Xingli Zundian was exempted from the PRC EIT for its first two profitable years, commencing from 1 January 2005, and thereafter was entitled to a 50% tax reduction in the PRC EIT for the subsequent three consecutive years from 1 January 2007 onwards. Shenzhen Xingli Zundian was entitled to a 50% tax reduction in the PRC EIT of 15% for the year 2007. Under the New EIT Law, it is expected that Shenzhen Xingli Zundian will be entitled to a 50% reduction of the PRC EIT rate of 18% and 20% for the year 2008 and 2009 respectively.

- (v) It mainly represents the tax effect of impairment for trade and other receivables and inventories of the Group’s PRC subsidiaries and certain expenses incurred by Great Ample and the Company.
- (vi) It mainly represents the tax effect of licensing income earned by Sharp Motion.

Details of unrecognised deferred tax assets at the balance sheet date are as follows:

	Year ended 31 December		
	2006	2007	2008
	HK\$’000	HK\$’000	HK\$’000
Excess of tax allowances over depreciation	6	188	[45]
Tax losses	(731)	(725)	[(513)]
	<u>(725)</u>	<u>(537)</u>	<u>[(468)]</u>

The deferred tax assets in respect of the tax losses have not been recognised in the financial statements due to the unpredictability of future profit streams.

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10. DIVIDENDS

Dividends recognised as distributions:

	Year ended 31 December		
	2006	2007	2008
	HK\$'000	HK\$'000	HK\$'000
Interim dividend paid during the year	–	5,957	[3,971]
Final dividend paid during the year	–	11,319	[–]
	<u>–</u>	<u>11,319</u>	<u>[–]</u>
	<u>–</u>	<u>17,276</u>	<u>[3,971]</u>

11. EARNINGS PER SHARE

Basic earnings per share

The calculation of basic earnings per share is based on the profit attributable to equity holders of the Company during the Track Record Period and on the basis of [●] shares of the Company in issue and issuable as at the date of the Document.

[There were no potential dilutive ordinary shares in existence during the Track Record Period and, therefore, no diluted earnings per share amounts have been presented.]

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12. PROPERTY, PLANT AND EQUIPMENT

	Leasehold improvements <i>HK\$'000</i>	Motor vehicles <i>HK\$'000</i>	Office equipment <i>HK\$'000</i>	Plant and machinery <i>HK\$'000</i>	Construction in progress <i>HK\$'000</i>	Total <i>HK\$'000</i>
Cost						
1 January 2006	1,874	2,481	1,600	23,498	–	29,453
Exchange realignment	67	45	37	585	–	734
Additions	40	234	261	2,897	–	3,432
Disposals	–	(68)	–	(135)	–	(203)
31 December 2006 and 1 January 2007	1,981	2,692	1,898	26,845	–	33,416
Exchange realignment	147	113	100	1,496	–	1,856
Additions	346	2,300	480	10,042	–	13,168
Disposals	–	(571)	(28)	(95)	–	(694)
31 December 2007 and 1 January 2008	2,474	4,534	2,450	38,288	–	47,746
Exchange realignment	[121]	[106]	[95]	[1,802]	[–]	[2,124]
Additions	[566]	[126]	[414]	[2,626]	[49,068]	[52,800]
Disposals	[–]	[(380)]	[(19)]	[(983)]	[–]	[(1,382)]
31 December 2008	[3,161]	[4,386]	[2,940]	[41,733]	[49,068]	[101,288]
Depreciation						
1 January 2006	564	1,338	939	11,360	–	14,201
Exchange realignment	18	3	10	64	–	95
Charge for the year	388	218	214	2,028	–	2,848
On disposals	–	(4)	–	(16)	–	(20)
31 December 2006 and 1 January 2007	970	1,555	1,163	13,436	–	17,124
Exchange realignment	71	23	37	293	–	424
Charge for the year	488	387	321	2,742	–	3,938
On disposals	–	(144)	(10)	(18)	–	(172)
31 December 2007 and 1 January 2008	1,529	1,821	1,511	16,453	–	21,314
Exchange realignment	[83]	[25]	[45]	[398]	[–]	[551]
Charge for the year	[629]	1,016	[371]	[3,612]	[–]	[5,628]
On disposals	[–]	[(278)]	[(14)]	[(351)]	[–]	[(643)]
31 December 2008	[2,241]	[2,584]	[1,913]	[20,112]	[–]	[26,850]
Net book value						
31 December 2008	[920]	[1,802]	[1,027]	[21,621]	[49,068]	[74,438]
31 December 2007	945	2,713	939	21,835	–	26,432
31 December 2006	1,011	1,137	735	13,409	–	16,292

As at 31 December 2008, the Group had pledged its construction in progress amounting approximately to [HK\$49,068,000] to secure general banking facilities granted to the Group (note 23).

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13. PREPAID LEASE PAYMENTS

The Group’s prepaid lease payments comprise leasehold land for industrial use in the PRC under medium-term leases, as follows:

	<i>HK\$’000</i>
Cost	
1 January 2006 and 2007	–
Additions	47,927
31 December 2007 and 1 January 2008	47,927
Exchange realignment	[2,776]
Additions	[718]
31 December 2008	[51,421]
Amortisation	
1 January 2006 and 2007	–
Charge for the year	479
31 December 2007 and 1 January 2008	479
Exchange realignment	[28]
Charge for the year	[1,028]
31 December 2008	[1,535]
Net book value	
31 December 2008	[49,886]
31 December 2007	47,448

An analysis for reporting purposes is as follows:

	As at 31 December		
	2006	2007	2008
	<i>HK\$’000</i>	<i>HK\$’000</i>	<i>HK\$’000</i>
Current portion	–	959	[1,029]
Non-current portion	–	46,489	[48,857]
	–	47,448	[49,886]

Prepaid lease payments are amortised over the term of the leases of 50 years, commencing from 29 June 2007 and expiring on 28 June 2057.

As at 31 December 2007 and 31 December 2008, the Group had pledged its leasehold land with carrying values of HK\$24,693,000 and [HK\$25,596,000] to secure general banking facilities granted to the Group respectively (note 23).

The land use rights of the above leasehold land are not allowed to be transferred or leased pursuant to the contracts for grant of the land use rights.

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14. AVAILABLE-FOR-SALE INVESTMENTS

	As at 31 December		
	2006	2007	2008
	HK\$’000	HK\$’000	HK\$’000
Listed equity-investments, at market value			
– Hong Kong	–	–	[4,648]

The equity investments were previously classified by the Group as financial assets at fair value through profit or loss. Since acquisition, the directors intended to hold the investments for trading. In response to the financial crisis during the second half of 2008, which is considered a “rare circumstance” by the directors, they changed their intention regarding the investments in that they decided to hold the investment for the long term. The directors consider that the reclassification of the investments is allowed under the amendments made to HKAS 39 and HKFRS 7 “Reclassification of Financial Assets” issued by the HKICPA in October 2008 which is retrospectively effective from 1 July 2008 and made the reclassification on 1 August 2008.

[As at [3 June] 2009, the market value of the above equity-investments was approximately HK\$[●].]

15. INVENTORIES

	As at 31 December 2006		
	At cost	At net realisable value	Total
	HK\$’000	HK\$’000	HK\$’000
Raw materials	7,046	–	7,046
Work in progress	8,312	–	8,312
Finished goods	8,580	15,513	24,093
	23,938	15,513	39,451

	As at 31 December 2007		
	At cost	At net realisable value	Total
	HK\$’000	HK\$’000	HK\$’000
Raw materials	9,731	158	9,889
Work in progress	8,533	–	8,533
Finished goods	37,303	1,248	38,551
	55,567	1,406	56,973

	As at 31 December 2008		
	At cost	At net realisable value	Total
	HK\$’000	HK\$’000	HK\$’000
Raw materials	[5,859]	[–]	[5,859]
Work in progress	[7,745]	[–]	[7,745]
Finished goods	[53,843]	[–]	[53,843]
	[67,447]	[–]	[67,447]

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The movement of impairment for inventories is as follows:

	As at 31 December		
	2006	2007	2008
	HK\$’000	HK\$’000	HK\$’000
At 1 January	1,340	3,340	[3,841]
Impairment for inventories	2,000	501	[2,165]
	<u>3,340</u>	<u>3,841</u>	<u>[6,006]</u>

16. TRADE RECEIVABLES

	As at 31 December		
	2006	2007	2008
	HK\$’000	HK\$’000	HK\$’000
Trade receivables	78,755	45,117	[39,250]
Less: impairment of trade receivables	(7,110)	(6,197)	[(4,688)]
	<u>71,645</u>	<u>38,920</u>	<u>[34,562]</u>

Trade receivables are non-interest bearing and are generally on 30 to 60 days’ terms.

The aging analysis of trade receivables is as follows:

	As at 31 December		
	2006	2007	2008
	HK\$’000	HK\$’000	HK\$’000
Within 3 months	42,600	30,539	[28,218]
3 months to 6 months	9,071	5,806	[4,605]
6 months to 12 months	960	2,487	[1,519]
Over 1 year	19,014	88	[220]
	<u>71,645</u>	<u>38,920</u>	<u>[34,562]</u>

The directors consider that the carrying amounts of trade receivables approximate to their fair values.

The movement of impairment of trade receivables is as follows:

	As at 31 December		
	2006	2007	2008
	HK\$’000	HK\$’000	HK\$’000
At 1 January	2,669	7,110	[6,197]
Impairment for doubtful debts recognised/(reversed)	4,441	(913)	[(1,509)]
	<u>7,110</u>	<u>6,197</u>	<u>[4,688]</u>

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The aging analysis of trade receivables that are neither individually nor collectively considered to be impaired are as follows:

	As at 31 December		
	2006	2007	2008
	HK\$'000	HK\$'000	HK\$'000
Past due but not impaired			
Within 3 months	15,892	9,704	[5,300]
3 months to 6 months	9,061	3,717	[4,605]
6 months to 12 months	946	453	[1,519]
Over 1 year	—	46	[220]
	<u>25,899</u>	<u>13,920</u>	<u>[11,644]</u>

Receivables that were neither past due nor impaired related to customers for whom there was no default. Receivables that were past due but not impaired related to customers that have good creditworthiness. Based on past experience, the management believes that no impairment is necessary in respect of these balances as there has not been a significant change in credit quality and the balances are still considered fully recoverable. The Group does not hold any collateral over these balances.

17. PREPAYMENTS, DEPOSITS AND OTHER RECEIVABLES

	As at 31 December		
	2006	2007	2008
	HK\$'000	HK\$'000	HK\$'000
Prepayments and deposits (i)	18,463	22,239	[18,406]
Other receivables (ii)	<u>9,994</u>	<u>10,520</u>	<u>[5,635]</u>
	<u>28,457</u>	<u>32,759</u>	<u>[24,041]</u>

- (i) Included in prepayments and deposits, HK\$16,082,000, HK\$12,458,000 and HK\$4,189,000 are advance payments to contracted manufacturers and suppliers as at 31 December 2006, 2007 and 2008, respectively. [The amounts were fully utilised subsequent to the respective balance sheet date.]

The prepayments and deposits account also includes capital expenditure deposits, prepaid expenses, rental and utility deposits.

- (ii) Other receivables primarily consist of VAT recoverable and staff advances for daily operations.

The directors consider that the carrying amounts of prepayments, deposits and other receivables approximate to their fair values.

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18. AMOUNTS DUE FROM/(TO) DIRECTORS

Details of the amounts due from/(to) directors of the Group are disclosed as follows:

Name of directors	Chan Kwok Kin	Cheung Kong Cheung	Sung Kai Hing	Huang Wei Ye
Balance				
– at 31 December 2008	[-]	[-]	[-]	[-]
– at 31 December 2007	–	–	–	–
– at 31 December 2006	HK\$1,789,000	HK\$1,889,000	HK\$(127,000)	HK\$(683,000)
Maximum balance outstanding				
– at 31 December 2008	[-]	[-]	[-]	[-]
– at 31 December 2007	HK\$1,789,000	HK\$1,889,000	–	–
– at 31 December 2006	HK\$1,789,000	HK\$1,889,000	N/A	N/A

The amounts due from the directors mainly represent directors’ advances for the purpose of purchasing plant and machinery on behalf of the Group and advances of business trips expenses. The amounts due to the directors mainly represent cash advances provided to the Group and dividends payable to the directors.

The above balances with the directors are non-trade in nature, unsecured, non-interest bearing and were fully settled by cash in 2007. There was no provision made against the principal amounts of these advances at 31 December 2006, 2007 and 2008.

Mr. Chan Kwok Kin and Mr. Huang Wei Ye resigned as directors of the Company on [29 May 2009]. However, they will remain as a member of the senior management of the Group.

19. RESTRICTED BANK DEPOSITS

Included in the restricted bank deposit of approximately HK\$[9,629,000] was a settlement guarantee to the main contractor for the new production facilities of the Group in Shenzhen, required by the 《深圳市建設工程擔保實施辦法》(Shenzhen Construction Assurance Practice Note) imposed by 《深圳市建設局》(Shenzhen Construction Bureau).] The settlement guarantee will be released upon the finalisation of the construction of the production facilities.

The remaining [HK\$300,000] represent deposits pledged by the Group to secure general banking facilities granted to Hing Lee Furniture.

20. BANK BALANCES AND CASH

	As at 31 December		
	2006	2007	2008
	HK\$’000	HK\$’000	HK\$’000
Bank deposit	–	–	[7,755]
Balances in bank	73,675	85,187	[80,434]
Cash on hand	212	5	[19]
	<u>73,887</u>	<u>85,192</u>	<u>[88,208]</u>

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Bank deposit bears interest at an effective interest rate of [0.4%] per annum as at 31 December 2008.

The average effective interest rate for “balances in bank” are 2.50%, 1.00% and [0.54]% for the years ended 31 December 2006, 2007 and 2008.

Bank balances and cash are denominated in the following currencies:

	As at 31 December		
	2006	2007	2008
	HK\$’000	HK\$’000	HK\$’000
Hong Kong dollars	17,224	22,794	[6,794]
Renminbi	44,940	48,487	[56,931]
United States dollars	11,723	13,911	[24,483]
	<u>73,887</u>	<u>85,192</u>	<u>[88,208]</u>

Renminbi is not a freely convertible currency and the remittance of funds out of the PRC is subject to exchange restrictions imposed by the PRC government.

21. TRADE PAYABLES

	As at 31 December		
	2006	2007	2008
	HK\$’000	HK\$’000	HK\$’000
Trade payables	<u>80,176</u>	<u>67,338</u>	<u>[61,221]</u>

Aging analysis of trade payables is as follows:

	As at 31 December		
	2006	2007	2008
	HK\$’000	HK\$’000	HK\$’000
Within 3 months	72,363	63,027	[56,880]
3 months to 1 year	5,511	3,930	[3,995]
Over 1 year	<u>2,302</u>	<u>381</u>	<u>[346]</u>
	<u>80,176</u>	<u>67,338</u>	<u>[61,221]</u>

Trade payables are non-interest bearing and are normally settled on 30-90 days credit terms. The directors consider that the carrying amounts of trade payables approximate to their fair values.

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22. OTHER PAYABLES AND ACCRUALS

	As at 31 December		
	2006	2007	2008
	HK\$'000	HK\$'000	HK\$'000
Other payables (i)	1,690	3,938	[3,430]
Accruals (ii)	5,332	7,822	[11,359]
Provision for tax surcharge and penalty (iii)	–	2,661	[2,661]
Deposits received (iv)	8,245	10,982	[16,738]
Advance from an independent third party (v)	–	23,580	–
	<u>15,267</u>	<u>48,983</u>	<u>[34,188]</u>

- (i) The other payables account includes payables for exhibitions and VAT payables.
- (ii) Accruals mainly consist of accrual for various recurring operating expenses.
- (iii) As detailed in the paragraph headed “The Group has a record of non-compliance with the Inland Revenue Ordinance” in the section headed “Risk factors”, one of the subsidiaries, Hing Lee Furniture failed to notify the Inland Revenue Department of Hong Kong (the “IRD”) of its chargeability to tax within the prescribed time limit for the years of assessment of 2005/2006, 2006/2007 and 2007/2008. The directors of Hing Lee Furniture made voluntary disclosure to the IRD on 15 October 2008 and final assessments have been issued by the IRD in January 2009. The tax accountant advises that Hing Lee Furniture’s voluntary disclosure might bear additional surcharge and penalty, and accordingly, provision totalling HK\$2,661,000, representing 100% of the tax undercharged, was made.
- (iv) Deposits received solely represent trade deposits received from local and overseas customers.
- (v) An advance of RMB22,000,000 (equivalent to HK\$23,580,000) is payable to a member of the Shenzhen Furniture Trade Association, an independent third party, for the purchase of a land use right located at Kengzi Town, Longgang Industrial Area, Shenzhen, the PRC. In the opinion of the PRC legal advisers of the Group, the advance to the Group does not constitute a loan arrangement under PRC laws [and is not in violation of any PRC laws and the Group would not be subject to any penalty]. The amount is interest free and was fully settled in 2008.

The directors consider that the carrying amounts of other payables, accruals, provision for tax surcharge and penalty and deposits received approximate to their fair values.

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23. SECURED BANK LOANS

All bank loans of the Group are denominated in Renminbi. They are wholly repayable as follows:

	Effective interest rate %	Maturity	As at 31 December		
			2006 HK\$’000	2007 HK\$’000	2008 HK\$’000
Within one year	7.92	Oct 2012	–	–	[11,441]
In the second year	7.92	Oct 2012	–	–	[11,441]
In the third to fifth years, inclusive	7.92	Oct 2012	–	–	[20,931]
			–	–	[43,813]
Portion classified as current liabilities			–	–	[(11,441)]
Portion classified as non- current liabilities			–	–	[32,372]

At 31 December 2008, the bank loans carry interest at 120% of the lending rate stipulated by The People’s Bank of China. The Group’s bank loans are secured by:

- (i) a letter of undertaking over the Group’s construction in progress outside Hong Kong (note 12);
- (ii) a legal charge over the Group’s medium-term leasehold land outside Hong Kong (note 13); and
- (iii) the directors’ personal guarantee (note 29(c)).

24. AMOUNT DUE TO A RELATED COMPANY

The amount due to a related company represents design fee payable to 深圳市景初家具設計有限公司 (Shenzhen Jing Chu Furniture Design Company Limited) (“Shenzhen Jing Chu”), a company 80% owned by Mr. Huang Wei Ye, a director of the Company and 20% owned by two independent third parties. The balance is unsecured, interest-free and had no fixed terms of repayment. The balance will be fully settled prior to [●].

In January 2009, Mr. Huang disposed of his entire interest in Shenzhen Jing Chu, therefore, Shenzhen Jing Chu has ceased to be a related company since then.

25. CURRENT TAX PAYABLE

	As at 31 December		
	2006 HK\$’000	2007 HK\$’000	2008 HK\$’000
PRC enterprises income tax payable	168	672	[1,030]
Hong Kong profits tax payable	1,909	2,661	[2,804]
	2,077	3,333	[3,834]

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26. SHARE CAPITAL AND RESERVES

(a) Share capital

	As at 31 December		
	2006 US\$'000	2007 US\$'000	2008 US\$'000
Authorised:			
50,000 ordinary shares of US\$1 each	50	50	[50]
	<u>50</u>	<u>50</u>	<u>[50]</u>
	HK\$'000	HK\$'000	HK\$'000
Issued and fully paid:			
49,644 ordinary shares of US\$1 each	387	387	[387]
	<u>387</u>	<u>387</u>	<u>[387]</u>

During 2006, 9,234 ordinary shares were issued at HK\$2,978 per share by capitalising the loan from the Company’s holding company of HK\$27,500,000 to provide additional capital for the Company.

(b) Share premium

	As at 31 December		
	2006 HK\$'000	2007 HK\$'000	2008 HK\$'000
At 1 January	16,922	44,350	44,350
Addition – 9,234 ordinary shares issued in 2006	27,428	–	[–]
	<u>27,428</u>	<u>–</u>	<u>[–]</u>
At 31 December	44,350	44,350	[44,350]
	<u>44,350</u>	<u>44,350</u>	<u>[44,350]</u>

(c) Nature and purpose of reserves

The movement in the Group’s reserves for the Track Record Period are presented in the consolidated statements of changes in equity.

(i) Exchange reserve

The exchange reserve comprises all foreign exchange differences arising from the translation of the financial statements of operations outside Hong Kong which are dealt with in accordance with the accounting policies as set out in “Foreign currency translation”.

(ii) Statutory reserve fund

Subsidiaries in the PRC are required to transfer 10% of the net profits, as determined in accordance with the PRC accounting rules and regulations, to statutory reserve fund until the reserve balance reaches 50% of the registered capital. The transfer of this fund must be made before distribution of dividends to equity holders.

The statutory reserve fund can be used to make good of previous years’ losses, if any, and may be converted into capital provided that the balance of the general reserve fund after such conversion is not less than 25% of their registered capital.

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(iii) *Merger reserve*

The Group’s merger reserve represents the difference between the aggregate net assets of the subsidiaries acquired by the Group and the nominal amount of the Company’s shares issued under the 2004 Reorganisation.

(iv) *Share option reserve*

The share option reserve comprises the fair value of share options granted which are yet to be exercised, as further explained in the accounting policies as set out in “Equity compensation benefit”. The amount will either be transferred to the share premium account where the related options are exercised, or be transferred to retained profits where the related options expired or be forfeited.

(d) **Share option scheme**

The Company operates a share option scheme whereby eligible employees of the Company or any of its subsidiaries may be granted share options to subscribe for shares of the Company’s common share at a specified exercise price.

40% was allocated to each of the four founding shareholders, and a further 40% to management personnel, respectively. The remaining 20% of the share options was allocated by the directors of the Company.

The options granted can be exercised during the period from the expiry date of the vesting period until the end of the contractual life of the option provided that the grantee remains an employee of the Company or any of its subsidiaries at the exercise date.

The Company estimated the fair value of each option as of the date of grant using the Binomial Lattice Model. The Binomial Lattice Model uses the following assumptions:

	Year ended 31 December 2006	Year ended 31 December 2007
Share price	HK\$3,701	HK\$5,713
Exercise price	HK\$3,217	HK\$3,217
Expected volatility	36.76%	37.13%
Expected dividend yield	6.16%	3.99%
Risk-free interest rate	3.73%	4.70%
Expected life, in years	10	10

The terms and conditions of the grants of the share options are as follows:

Date of grant	Number of instruments	Vesting conditions	Contractual life of option
On 31 December 2006	4,464	2 or 4 years from the date of grant	10 years
On 20 June 2007	496	4 years from the date of grant	10 years
	<u>4,960</u>		

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Details of movements in share options are as follows:

	31 December 2006		31 December 2007		31 December 2008	
	Number of share options	Weighted average exercise price HK\$	Number of share options	Weighted average exercise price HK\$	Number of share options	Weighted average exercise price HK\$
Outstanding at the beginning of the year	–	–	4,464	3,217	4,960	3,217
Granted during the year	4,464	3,217	496	3,217	[–]	[–]
Outstanding at the end of the year	<u>4,464</u>	<u>3,217</u>	<u>4,960</u>	<u>3,217</u>	<u>[4,960]</u>	<u>[3,217]</u>
Exercisable at the end of the year	<u>–</u>	<u>3,217</u>	<u>–</u>	<u>3,217</u>	<u>[3,968]</u>	<u>[3,217]</u>

The options outstanding at 31 December 2008 have a weighted average remaining contractual life of 8.05 years (2007: 9.05 years; 2006: 10 years).

Details of share options under the share option scheme held by the directors of the Company are as follows:

Name of director	Date of grant	Exercise price HK\$	Granted in 2006	Outstanding at 31 December 2006	Granted in 2007	Outstanding at 31 December 2007 and 31 December 2008
Sung Kai Hing	31 December 2006	3,217	496	496	–	496
Cheung Kong Cheung	31 December 2006	3,217	496	496	–	496
Chan Kwok Kin	31 December 2006	3,217	496	496	–	496
Huang Wei Ye	31 December 2006	3,217	496	496	–	496
Sun Jian	20 June 2007	3,217	–	–	248	248

Share options granted to the directors in December 2006 are exercisable from 31 December 2008 to 30 December 2016. Share options granted to the directors in June 2007 are exercisable from 21 June 2011 to 19 June 2017.

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27. OPERATING LEASE ARRANGEMENTS

The Group as lessee

The total future minimum lease payments under non-cancellable operating leases are payable as follows:

	As at 31 December		
	2006	2007	2008
	HK\$'000	HK\$'000	HK\$'000
Within one year	5,394	7,609	[6,526]
In the second and fifth years inclusive	14,886	15,439	[18,057]
Over five years	18,908	19,333	[18,707]
	<u>39,188</u>	<u>42,381</u>	<u>[43,290]</u>

The Group as lessor

The total future minimum lease payments under non-cancellable operating leases the Group contracted with tenants are as follows:

	As at 31 December		
	2006	2007	2008
	HK\$'000	HK\$'000	HK\$'000
Within one year	–	–	[305]
In the second and fifth years inclusive	–	–	[218]
Over five years	–	–	[109]
	<u>–</u>	<u>–</u>	<u>[632]</u>

28. CAPITAL COMMITMENTS

Capital commitments outstanding at each of the balance sheet dates which were not provided at respective balance sheet date are as follows:

	As at 31 December		
	2006	2007	2008
	HK\$'000	HK\$'000	HK\$'000
Contracted for but not provided:			
– Construction of factory building	2,357	[2,687]	[38,921]
– Acquisition of property, plant and equipment	271	[870]	[79]
	<u>2,628</u>	<u>3,557</u>	<u>[39,000]</u>
Authorised but not contracted for:			
– Construction of factory building	–	68,094	[–]
– Acquisition of property, plant and equipment	–	25,000	[25,000]
	<u>–</u>	<u>93,094</u>	<u>[25,000]</u>

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29. RELATED PARTY TRANSACTIONS

- (a) During the Track Record Period, the Group had the following transactions with related parties, summarised as follows:

	Year ended 31 December		
	2006 HK\$’000	2007 HK\$’000	2008 HK\$’000
Continuing transactions			
Design fee paid to Shenzhen Jing Chu (i)	613	355	[916]
Discontinuing transactions			
Purchase of motor vehicles from the directors (ii)	–	1,500	[–]

- (i) During the Track Record Period, the service fees payable to Shenzhen Jing Chu take the forms of (i) a fixed design fee (in respect of Shenzhen Xingli: RMB2,000 per drawing for each product; in respect of Shenzhen Xingli Zundian: RMB1,000 per drawing for each product); plus (ii) commission based on certain percentages of the invoiced amount of Shenzhen Xingli and Shenzhen Xingli Zundian derived from the sale of the products designed by Shenzhen Jing Chu for a period of 3 years commencing from the date of the agreement. The rate of commission payable by Shenzhen Xingli is no more than 2% (depending on the pricing of the relevant products) and the rate payable by Shenzhen Xingli Zundian is 1.5% in respect of products for domestic sales or export. Design fee paid to Shenzhen Jing Chu was mutually agreed between both parties. In the opinion of the directors, the transactions were entered into in the ordinary and usual course of business and on normal commercial terms.
- (ii) The consideration for the purchase of motor vehicles from Mr. Chan Kwok Kin and Mr. Cheung Kong Cheung, both of whom are directors of the Company, was mutually agreed between both parties. In the opinion of the directors, the transactions were entered into in the ordinary and usual course of business and on normal commercial terms.
- (b) Emoluments for key management personnel of the Group, including amounts paid to the Company’s directors and certain of the highest paid employees as disclosed in note 7, is as follows:

	Year ended 31 December		
	2006 HK\$’000	2007 HK\$’000	2008 HK\$’000
Short-term employee benefits	3,102	8,337	[6,144]
Post-employment benefits	36	82	[61]
	3,138	8,419	[6,205]

- (c) Guarantees provided by directors

Personal guarantees to the Group’s bank loans disclosed in note 23 were provided by Mr. Sung Kai Hing, Mr. Cheung Kong Cheung, Mr. Chan Kwok Kin and Mr. Huang Wai Ye, both are a director of the Company, for amount of HK\$11,000,000, HK\$11,000,000, HK\$9,386,300 and RMB8,824,200, respectively. Both Mr. Chan Kwok Kin and Mr. Huang Wei Ye resigned as directors of the Company on [29 May 2009] but remain as members of the senior management.

These personal guarantees will be released prior to [●].

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- (d) Due to a related company

Details of the Group’s amount due to a related company as at each of the balance sheet date of the Track Record Period are disclosed in note 24 of the Accountants’ Report.

- (e) Ultimate controlling party

Details of the Company’s ultimate holding company and ultimate controlling party are discussed in note 1 of the Accountants’ Report. In the period from November 2004 to July 2006, the Company’s ultimate holding company was Omnicorp Limited. In July 2006, Omnicorp Limited disposed of its interest in the Company to Triple Express Enterprises Limited (“Triple Express”), the current ultimate holding company of the Company. Triple Express is beneficially owned by Mr. Fang Shin.

30. FINANCIAL RISK MANAGEMENT AND ESTIMATION OF FAIR VALUES

(a) Financial risk management

The Group is exposed to a variety of risks including credit risk, liquidity risk, business risk, cash flow and interest rate risk and foreign currency risk arising in the normal course of the Group’s business activities.

The Group does not have any written risk management policies and guidelines. The directors monitor the financial risk management of the Group and take measures as considered necessary from time to time to minimise such financial risks.

(i) Credit risk

Credit risk arises from the possibility that customers may not be able to settle obligations within the normal terms of transactions. The Group performs ongoing credit evaluation of the debtors’ financial condition and maintains an account for allowance for doubtful debts based upon the expected collectibles of all trade and other receivables. At the balance sheet date, there were no major concentrations of credit risk.

The maximum exposure to credit risk is therefore represented by the carrying amount of each financial asset as stated in the balance sheet.

Cash is held with financial institutions of good standing.

(ii) Liquidity risk

Liquidity risk is the risk that an enterprise will encounter difficulty in raising funds to meet commitments associated with financial instruments. Liquidity risk may result from an inability to sell a financial asset quickly at close to its fair value.

Prudent liquidity risk management implies maintaining sufficient cash. The Group monitors and maintains a level of bank balances deemed adequate to finance the Group’s operations.

(iii) Cash flow and interest rate risk

Cash flow interest rate risk is the risk that future cash flows of a financial instrument will fluctuate because of changes in market interest rates. Fair value interest rate risk is the risk where the value of a financial instrument will fluctuate due to changes in market interest rates.

Interest-bearing financial assets are mainly bank balances and bank deposits. Interest-bearing financial liabilities are mainly secured bank loans. The Group currently does not have an interest rate hedging policy and will consider enter into interest rate hedging should the need arise. The Group ensures that it borrows at competitive interest rates under favourable terms and conditions. The maturity of the financial instruments of the Group that are exposed to interest rate risk are disclosed in notes 20 and 23.

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(iv) Foreign currency risk

Foreign currency risk is the risk that the value or future cash flows of a financial instrument will fluctuate due to changes in foreign exchange rates.

The Group is exposed to foreign currency risk primarily through sales and purchases that are denominated in a currency other than the functional currency of the operations to which they relate. The currency giving rise to this risk is primarily Renminbi and United States dollars. Hence, the Group’s foreign currency risk is considered to be minimal by the directors of the Company. The Group does not hold or issue any derivative financial instruments for trading purposes or to hedge against fluctuations in foreign exchange rates, but the management continuously monitors foreign exchange exposure and will consider hedging significant foreign currency exposure should the need arise.

(b) Capital management

The Group manages its capital to ensure that entities in the Group will be able to continue as a going concern while maximising the return to stakeholders through maintaining healthy capital ratio.

The capital structure of the Group consists of available-for-sale investments disclosed in note [14], bank balances and cash disclosed in note [20], secured bank loans disclosed in note [23] and equity attributable to equity holders of the Company, comprising issued capital reserves and retained profits disclosed in the statement of changes in equity.

The directors review the capital structure on an annual basis. As a part of this review, management considers the cost of capital, the changes in economic conditions and the risk characteristics of each class of capital. The directors will balance the Group’s overall capital structure through the payment of dividends.

The Group’s overall strategy for the period remained unchanged during the Track Record Period.

Secured bank loans amounting to HK\$[43,813,000] (see note [23] above) were obtained as part of the capital structure of the Group in 2008. However, as the bank and cash balances of the Group exceed the bank loan amount, the Group does not have net indebtedness to banks.

	As at 31 December		
	2006	2007	2008
	HK\$’000	HK\$’000	HK\$’000
Bank balances and cash	73,887	85,192	[88,208]
Less: Secured bank loans	—	—	[(43,813)]
Net cash	<u>73,887</u>	<u>85,192</u>	<u>[44,395]</u>
Equity	<u>135,080</u>	<u>170,750</u>	<u>[209,354]</u>
Net debt-to-equity ratio	<u>N/A</u>	<u>N/A</u>	<u>[N/A]</u>

(c) Estimation of fair values

The notional amounts of financial assets and liabilities with a maturity of less than one year (including trade and other receivables, prepayments and deposits, time deposits, bank balances and cash, trade and other payables and accruals) are assumed to approximate their fair values.

The fair value of non-trade balances due from/to subsidiaries has not been determined as the timing of the expected cash flows of these balances cannot be reasonably determined because of the relationship.

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31. THE COMPANY’S BALANCE SHEET

	<i>Notes</i>	As at 31 December		
		2006 <i>HK\$’000</i>	2007 <i>HK\$’000</i>	2008 <i>HK\$’000</i>
Non-current asset				
Investment in a subsidiary		156	156	[156]
Current assets				
Prepayments and deposits		–	–	[8,505]
Dividend receivable		15,310	15,000	[13,475]
Amounts due from subsidiaries		43,901	40,710	[39,913]
Bank balances and cash		1,008	1,042	[70]
		<u>60,219</u>	<u>56,752</u>	<u>[61,963]</u>
Current liabilities				
Other payables and accruals		380	525	[657]
Amounts due to subsidiaries		800	1,222	[9,658]
Amounts due to directors		2,916	–	[–]
		<u>4,096</u>	<u>1,747</u>	<u>[10,315]</u>
Net current assets		<u>56,123</u>	<u>55,005</u>	<u>[51,648]</u>
Total assets less current liabilities/net assets		<u>56,279</u>	<u>55,161</u>	<u>[51,804]</u>
Equity				
Share capital	26(a)	387	387	[387]
Share premium	26(b)	44,350	44,350	[44,350]
Share option reserve	26(c)(iv)	–	2,477	[5,110]
Retained profits		11,542	7,947	[1,957]
Total equity		<u>56,279</u>	<u>55,161</u>	<u>[51,804]</u>

32. THE COMPANY’S CORPORATE GUARANTEE

	As at 31 December		
	2006 <i>HK\$’000</i>	2007 <i>HK\$’000</i>	2008 <i>HK\$’000</i>
Corporate guarantee given and utilised	<u>–</u>	<u>–</u>	<u>43,813</u>

The Company provided corporate guarantee to Shenzhen Xingli to the extent of HK\$77,000,000 as at 31 December 2007 and 2008 (2006: Nil) in relation to the payments for bank loans as set out in note 23, HK\$43,813,000 (2007 & 2006: Nil) of which was utilised.

In the opinion of the directors of the Company, no material liabilities will arise from the above guarantee which arose in the ordinary course of business and the fair value of the corporate guarantee granted by the Company is immaterial.

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C SUBSEQUENT EVENTS

The following significant transactions took place subsequent to 31 December 2008:

On [29 May 2009], resolutions of the shareholders were passed to approve the termination of the share option scheme of the Company adopted on 22 December 2006.

On [29 May 2009], resolutions of the shareholders were passed to approve the matters set out in the paragraph headed “Written resolutions of the Shareholders on [●]” in Appendix V to this document.

D SUBSEQUENT FINANCIAL STATEMENTS

No audited financial statements have been prepared by the Company or any of the companies now comprising the Group in respect of any period subsequent to 31 December 2008.

Yours faithfully,
Moore Stephens
Certified Public Accountants
Hong Kong

APPENDIX III

PROPERTY VALUATION

The following is the text of a letter, summary of values and valuation certificates, prepared for the purpose of incorporation of this document received from Greater China Appraisal Limited, an independent valuer, in connection with their valuations of the property interests of the Group as at [●] 2009:

Room 2703
Shui On Centre
6-8 Harbour Road
Wanchai
Hong Kong

[[●] 2009]

The Directors
Hing Lee (HK) Holdings Limited
Unit 1101, 11th Floor
Delta House
3 On Yiu Street
Shatin
New Territories
Hong Kong

Dear Sirs,

In accordance with your instructions to value the property interests of Hing Lee (HK) Holdings Limited (“the Company”) and its subsidiaries (together referred to as “the Group”) in the People’s Republic of China (“the PRC”) and Hong Kong, we confirm that we have carried out inspections, made relevant enquires and obtained such further information as we consider necessary for the purpose of providing the market value of such properties as at [31 March 2009] (referred to as the “valuation date”).

This letter which forms part of our valuation report explains the basis and methodology of valuation, and clarifies our assumptions made, titleship of properties and the limiting conditions.

BASIS OF VALUATION

The valuation of such properties is our opinion of the market value which we would define as intended to mean “the estimated amount for which a property should exchange on the date of valuation between a willing buyer and a willing seller in an arm’s-length transaction after proper marketing wherein the parties had each acted knowledgeably, prudently and without compulsion”.

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VALUATION METHODOLOGY

[Unless otherwise stated, all properties are valued by the comparison method where comparison based on prices realized or market prices of comparable properties is made. Comparable properties of similar size, character and location are analyzed and carefully weighed against all the respective advantages and disadvantages of each property in order to arrive at a fair comparison of capital values.]

ASSUMPTIONS

Our valuation has been made on the assumption that the owner sells the properties in an open market in their existing states without the benefit of any deferred terms contracts, leaseback, joint ventures, management agreements or any similar arrangement which would serve to increase the value of the properties.

For properties that are held under long term land use rights, we have assumed that the owners of the properties have free and uninterrupted rights to use or transfer the properties for the whole of the unexpired term of the respective land use rights. In our valuation, we have assumed that the properties can be freely disposed of and transferred to third parties in an open market without any additional payment to the relevant government authorities. Unless otherwise stated, vacant possession is assumed for the properties concerned.

We have assumed that all consents, approvals and licences from relevant government authorities for the buildings and structures erected thereon have been granted. Also, we have assumed that all buildings and structures fall within the site are held by the owner or permitted to be occupied by the owner.

It is assumed that all applicable zoning and use regulations and restrictions have been complied with unless nonconformity has been stated, defined, and considered in the appraisal report. Moreover, it is assumed that the utilization of the land and improvements is within the boundaries of the site held by the owner or permitted to be occupied by the owner. In addition, we have assumed that no encroachment or trespass exists, unless noted in the report.

No environment impact study has been ordered or made. Full compliance with applicable national, provincial and local environmental laws, rules and regulations is assumed. It is also assumed that all required licences, consents, or other legislative or administrative authority from any local, provincial, or national government or private entity or organization either have been or can be obtained or renewed for any use which the report covers.

Other special assumptions of each property, if any, have been stated out in the footnotes of the valuation certificates for the respective properties.

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PROPERTY VALUATION

TITLE INVESTIGATION

We have been provided with copies of title documents regarding the property interests of the Group in the PRC under valuation. However, due to the current registration system of the PRC, no investigations have been made for the legal title or any liabilities attached to the properties.

We have been provided with copies of tenancy agreements of the properties leased by the Group. However, we have not inspected the original documents to verify ownership or to ascertain the existence of any amendments which do not appear on the copies handed to us.

As far as the properties in the PRC concerned, we have relied upon the legal opinions given by Zhong Xin Law Firm Shanghai Branch (the “PRC Lawyer”) in relation to the legal title to the properties located in the PRC under valuation.

All legal documents disclosed in this report, if any, are for reference only and no responsibility is assumed for any legal matters concerning the legal title to the properties set out in this report.

LIMITING CONDITIONS

We have not carried out detailed site measurements to verify the correctness of the land or building areas in respect of the relevant properties but have assumed that the areas shown on the legal documents provided to us are correct. Based on our experience of valuation of similar properties, we consider the assumptions so made to be reasonable. All documents and contracts have been used as reference only and all dimensions, measurements and areas are approximations.

We have inspected the exterior and, where possible, the interior of the properties. However, no structural survey has been made and we are therefore unable to report as to whether the properties are free from rot, infestation or any other structural defects. No tests were carried out on any of the services.

No site investigations have been carried out to determine the suitability of the ground conditions or the services for any property development. Our valuation is made on the basis that these aspects are satisfactory and that no extraordinary expenses or delays will be incurred during the construction period.

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PROPERTY VALUATION

We do not investigate any industrial safety, environmental and health related regulations in association with any particular manufacturing process of the Group. It is assumed that all necessary licences, procedures and measures were implemented in accordance with government legislation and guidance.

Having examined all relevant documentation, we have relied to a very considerable extent on the information provided by the Group and have accepted advice given to us by the Group on such matters as planning approvals, statutory notices, easements, tenure, occupation, lettings, construction costs, rentals, site and floor areas and in the identification of the property in which the Group has valid interests. We have had no reason to doubt the truth and accuracy of the information provided to us by the Group. We were also advised by the Group that no material factors have been omitted from the information to reach an informed view, and have no reason to suspect that any material information has been withheld.

No allowances have been made in our valuation for any charges, mortgages or amounts owing on the properties valued nor for any expenses or taxation which may be incurred in effecting a sale. Unless otherwise stated, it is assumed that the properties are free of encumbrances, restrictions and outgoings of an onerous nature which could affect their values.

For properties that are located in a relatively under-developed market, the PRC, assumptions are often based on imperfect market evidence. A range of values may be attributable to the properties depending upon the assumptions made. While the valuer has exercised his professional judgment in arriving at the values, report readers are urged to consider carefully the nature of such assumptions which are disclosed in the valuation report and should exercise caution in interpreting the valuation report.

OPINION OF VALUE

Valuation figures of the properties held by the Group are shown in the attached summary of valuation and their respective valuation certificates.

For properties that are leased by the Group from independent third parties under tenancy agreements, they have no commercial value due to inclusion of non-alienation clause or otherwise due to lack of substantial profit rent.

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PROPERTY VALUATION

REMARKS

Our valuation has been prepared in accordance with generally accepted valuation procedures and in compliance with the requirements of the Rules Governing the Listing of Securities on The Stock Exchange of Hong Kong Limited.

In valuing the properties, we have complied with the requirements contained in the HKIS Valuation Standards on Properties (1st Edition 2005) published by the Hong Kong Institute of Surveyors and effective from 1 January 2005.

Valuation figures of the properties in the PRC and Hong Kong are denominated in Renminbi (RMB) and Hong Kong Dollars (HK\$) respectively.

We enclose herewith the summary of valuation and the valuation certificates.

This valuation report is issued subject to our General Service Conditions.

Yours faithfully,
For and on behalf of
GREATER CHINA APPRAISAL LIMITED
K. K. Ip *BLE LLD*
Chartered Valuation Surveyor
Registered Professional Surveyor
Managing Director

Note: Mr. K. K. Ip, who is a chartered valuation surveyor and registered professional surveyor, has substantial experience in valuation of property in the PRC and Hong Kong since 1992.

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PROPERTY VALUATION

SUMMARY OF VALUATION

No.	Property	Market value as at [31 March 2009] (RMB)

Group I – Property interests held by the Group in the PRC

1.	Land Lot G14309-0285 Kengzi Town Longgang Industrial Area Longgang District Shenzhen Guangdong Province The PRC	[No commercial value]
2.	Land Lot G14310-0206 Kengzi Town Longgang Industrial Area Longgang District Shenzhen Guangdong Province The PRC	[No commercial value]

Sub-total: [No commercial value]

Group II – Property interests leased by the Group in the PRC

3.	Levels 1, 2 and 4 Block 2 Longbi Industrial City Bantian Longgang District Shenzhen Guangdong Province The PRC	[No commercial value]

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PROPERTY VALUATION

No.	Property	Market value as at [31 March 2009] (RMB)
4.	Levels 1 to 6 Block 3 Longbi Industrial City Bantian Longgang District Shenzhen Guangdong Province The PRC	[No commercial value]
5.	Levels 2, 5 and 6 Block 11 Longbi Industrial City Bantian Longgang District Shenzhen Guangdong Province The PRC	[No commercial value]
6.	Units 601-632 and 709-712 Block 20 Longbi Industrial City Bantian Longgang District Shenzhen Guangdong Province The PRC	[No commercial value]
7.	Units 716-717 Block 22 Longbi Industrial City Bantian Longgang District Shenzhen Guangdong Province The PRC	[No commercial value]

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PROPERTY VALUATION

No.	Property	Market value as at [31 March 2009] (RMB)
8.	East wing of Level 3 Block C5 Zhonghao Industrial City Xuexiang Village Bantian Road Longgang District Shenzhen Guangdong Province The PRC	[No commercial value]
9.	Factory building, office building, dormitory building, canteen building, open space and ancillary facilities at Xuexiang Garden New Village Buji County Longgang District Shenzhen Guangdong Province The PRC	[No commercial value]
10.	Warehouse at Xuexiang Garden New Village Buji County Longgang District Shenzhen Guangdong Province The PRC	[No commercial value]
11.	Factory building and dormitory building at Yuanshanbei Village Changping County Dongguan Guangdong Province The PRC	[No commercial value]
		Sub-total: [No commercial value]

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PROPERTY VALUATION

No. Property	Market value as at [31 March 2009] (HK\$)

Group III – Property interests leased by the Group in Hong Kong

12. Unit 1101, 11/F Delta House 3 On Yiu Street Shatin, New Territories Hong Kong	[No commercial value]

Sub-total:	[No commercial value]

Total:	[No commercial value]
	=====

APPENDIX III

PROPERTY VALUATION

VALUATION CERTIFICATE

Group I – Property interests held by the Group in the PRC

No.	Property	Description and tenure	Particulars of occupancy	Market value as at [31 March 2009] (RMB)															
1.	Land Lot G14309-0285 Kengzi Town Longgang Industrial Area Longgang District Shenzhen Guangdong Province The PRC	The property comprises a land parcel (the “Land”) with an area of approximately 43,817.36 square metres, which will be developed into an industrial area for furniture manufacturing. As advised by the Company, 3 buildings (the “Buildings”) which comprise a factory building, an administration and dormitory building and a warehouse with a total planned gross floor area of approximately 38,869.34 square metres will be built on the Land. Detailed breakdown is as follows: <table><thead><tr><th>Building</th><th>No. of storey</th><th>Gross floor area (sq.m.)</th></tr></thead><tbody><tr><td>Factory</td><td>3</td><td>29,965.54</td></tr><tr><td>Administration/ Dormitory</td><td>8</td><td>8,798.80</td></tr><tr><td>Warehouse</td><td>1</td><td><u>105.00</u></td></tr><tr><td>Total:</td><td></td><td><u><u>38,869.34</u></u></td></tr></tbody></table> Construction of the Buildings has been commenced in 2008 and is expected to be completed in [June 2009]. The land use rights of the Land have been granted to the Group for a term of 50 years from 29 June 2007 to 28 June 2057 for industrial use.	Building	No. of storey	Gross floor area (sq.m.)	Factory	3	29,965.54	Administration/ Dormitory	8	8,798.80	Warehouse	1	<u>105.00</u>	Total:		<u><u>38,869.34</u></u>	Superstructure of the factory buildings and the dormitory buildings has been completed, and internal renovation and installation of building services are being carried out.	[No commercial value] (see note v)
Building	No. of storey	Gross floor area (sq.m.)																	
Factory	3	29,965.54																	
Administration/ Dormitory	8	8,798.80																	
Warehouse	1	<u>105.00</u>																	
Total:		<u><u>38,869.34</u></u>																	

Notes:

- (i) According to a Real Estate Ownership Certificate (Shen Fang Di Zi No. 8000007396) dated 20 September 2007 issued by 深圳市人民政府 (the People’s Government of Shenzhen), the land use rights of the Land was granted to Shenzhen Xingli Furniture Company Limited (“Shenzhen Xingli”, a wholly-owned subsidiary of the Company) for a term of 50 years commencing from 29 June 2007 and expiring on 28 June 2057 for industrial use.

APPENDIX III

PROPERTY VALUATION

- (ii) According to a 深圳市土地使⽤權出讓合同 (Shenzhen Land Use Rights Agreement) (Shen Di He Zi (2007) No. 5058) entered into between Shenzhen Xingli and 深圳市國⼟資源和房產管理局 (Shenzhen Municipal Bureau of Land Resources and Housing Management) dated 29 June 2007, the land use rights of the Land was agreed to be granted to Shenzhen Xingli at a total consideration of RMB22,593,085 which includes land premium, land development fee and municipal facilities fee. The land use conditions are as follows:
 - (a) Land use: Industrial
 - (b) Land use rights term: 50 years commencing from 29 June 2007 and expiring on 28 June 2057
 - (c) Type of buildings: Industrial
 - (d) Construction density: not more than 40%
 - (e) Plot ratio: not more than 1.70
 - (f) Total gross floor area: 74,490 square metres (including 63,863 square metres for factory, 1,667 square metres for administration office, 7,760 square metres for dormitory and 1,200 square metres for canteen)
 - (g) Green land ratio: not less than 30%
 - (h) Land for administration and dormitory facilities should not be more than 7% of the total land area
 - (i) The construction work should be completed before 28 June 2009
 - (j) Transferring or leasing of the Land is not allowed. 深圳市國⼟資源和房產管理局 (Shenzhen Municipal Bureau of Land Resources and Housing Management) has the right to resume the land use rights if Shenzhen Xingli does not use the Land for industrial purpose.
- (iii) Shenzhen Xingli has obtained a 中華人民共和國建築工程施工許可證 (Construction Work Commencement Permit) (No. 44030720080502101) dated 21 May 2008 and 3 sets of 建設工程規劃許可證 (Construction Work Planning Approval) (Shen Gui Jian Xu Zi LG-2008-0079, 0080 and 0081) dated between 12 March 2008 and 13 March 2008 by which Shenzhen Xingli is allowed to construct a factory building, a dormitory building and a warehouse with planned gross floor area of 29,965.54 square metres, 8,798.80 square metres and 105 square metres respectively on the Land.
- (iv) According to the 深圳市土地使⽤權出讓合同 (Shenzhen Land Use Rights Agreement), the construction work should be completed before 28 June 2009. Shenzhen Xingli will be subject to a fine of 5%, 10% and 15% of the total consideration if the construction work is not completed for a period less than 6 months, for a period from 6 months to 1 year and for a period from 1 year to 2 years respectively after 28 June 2009, or the Land will be resumed by 深圳市國⼟資源和房產管理局 (Shenzhen Municipal of Land Resources and Housing Management) if the construction work is not completed 2 years after 28 June 2009.
- (v) The property is subject to a mortgage in favour of The Hongkong and Shanghai Banking Corporation Limited Shenzhen Branch for a banking facility of RMB70,000,000.
- (vi) Due to the non-transferability of the property, we have assigned no commercial value to the property. For reference purpose, assuming free from all encumbrances, the replacement cost of the property as at the valuation date is approximately RMB[87,000,000] which has taken into account the incurred cost of construction-in-progress of approximately RMB58,000,000 reflecting the physical state of construction on site as at the valuation date.
- (vii) Opinions of the PRC Lawyer are summarized as follows:
 - (a) In respect of the Land, Shenzhen Xingli is in possession of a Real Estate Ownership Certificate by which the land use rights of the Land have been granted to Shenzhen Xingli for a term of 50 years from 29 June 2007 to 28 June 2057 for industrial use. However, in accordance with a condition of the contract for grant of land use rights of the Land, the land use rights of the Land are not allowed to be transferred or leased.
 - (b) In respect of the Buildings planned to be built, Shenzhen Xingli has obtained 3 Construction Work Planning Approval.
 - (c) The consideration payable under the State-owned Land Use Rights Grant Contract has been settled in full.
 - (d) The property is subject to a mortgage in favour of The Hongkong and Shanghai Banking Corporation Limited Shenzhen Branch. The mortgage is legal and valid.

APPENDIX III

PROPERTY VALUATION

VALUATION CERTIFICATE

No.	Property	Description and tenure	Particulars of occupancy	Market value as at [31 March 2009] (RMB)															
2.	Land Lot G14310-0206 Kengzi Town Longgang Industrial Area Longgang District Shenzhen Guangdong Province The PRC	The property comprises a land parcel (the “Land”) with an area of approximately 41,064.83 square metres, which will be developed into an industrial area for furniture manufacturing. As advised by the Company, 3 buildings (the “Buildings”) which comprise 2 factory buildings and a dormitory building with a total planned gross floor area of approximately 34,443.96 square metres will be built on the Land. Detailed breakdown is as follows: <table><tr><th>Building</th><th>No. of storey</th><th>Gross floor area (sq.m.)</th></tr><tr><td>Factory no. 1</td><td>3</td><td>25,139.20</td></tr><tr><td>Dormitory</td><td>8</td><td>6,577.16</td></tr><tr><td>Factory no. 4</td><td>1</td><td><u>2,727.60</u></td></tr><tr><td colspan="2">Total:</td><td><u><u>34,443.96</u></u></td></tr></table>	Building	No. of storey	Gross floor area (sq.m.)	Factory no. 1	3	25,139.20	Dormitory	8	6,577.16	Factory no. 4	1	<u>2,727.60</u>	Total:		<u><u>34,443.96</u></u>	Construction work has been suspended after the foundation reinforcement work of factory no. 1 has completed. The property is currently vacant.	[No commercial value] (see note iv)
Building	No. of storey	Gross floor area (sq.m.)																	
Factory no. 1	3	25,139.20																	
Dormitory	8	6,577.16																	
Factory no. 4	1	<u>2,727.60</u>																	
Total:		<u><u>34,443.96</u></u>																	
Foundation reinforcement work of factory no. 1 has been completed in 2008. Further construction work has been suspended pending completion of public road works near the Land. As planned by the Company, construction work of the Buildings will be resumed before June 2010 and completed before mid-2011. The land use rights of the Land have been granted to the Group for a term of 50 years from 29 June 2007 to 28 June 2057 for industrial use.																			

APPENDIX III

PROPERTY VALUATION

Notes:

- (i) According to a Real Estate Ownership Certificate (Shen Fang Di Zi No. 8000007712) dated 30 January 2008 issued by 深圳市人民政府 (the People’s Government of Shenzhen), the land use rights of the Land was granted to Shenzhen Xingli Zundian Furniture Company Limited (“Shenzhen Xingli Zundian”, a wholly-owned subsidiary of the Company) for a term of 50 years commencing from 29 June 2007 and expiring on 28 June 2057 for industrial use.
- (ii) According to a 深圳市土地出讓合同 (Shenzhen Land Use Rights Agreement) (Shen Di He Zi (2007) No. 5057) entered into between Shenzhen Xingli Zundian and 深圳市國土資源和房產管理局 (Shenzhen Municipal Bureau of Land Resources and Housing Management) dated 29 June 2007, the land use rights of the Land was agreed to be granted to Shenzhen Xingli Zundian at a total consideration of RMB21,094,404 which includes land premium, land development fee and municipal facilities fee. The land use conditions are as follows:
 - (a) Land use: Industrial
 - (b) Land use rights term: 50 years commencing from 29 June 2007 and expiring on 28 June 2057
 - (c) Type of buildings: Industrial
 - (d) Construction density: not more than 40%
 - (e) Plot ratio: not more than 1.80
 - (f) Total gross floor area: 73,917 square metres (including 62,829 square metres for factory, 4,408 square metres for administration office, 5,470 square metres for dormitory and 1,210 square metres for canteen)
 - (g) Green land ratio: not less than 30%
 - (h) Land for administration and dormitory facilities should not be more than 7% of the total land area
 - (i) The construction work should be completed before 28 June 2009
 - (j) Transferring or leasing of the Land is not allowed. 深圳市國土資源和房產管理局 (Shenzhen Municipal Bureau of Land Resources and Housing Management) has the right to retract the land grant if Shenzhen Xingli Zundian does not use the Land for industrial purpose.
- (iii) Shenzhen Xingli Zundian has obtained 3 sets of Construction Work Planning Approval (Shen Gui Jian Xu Zi LG-2008-0083, 0084 and 0085) dated 13 March 2008 by which Shenzhen Xingli Zundian is allowed to construct factory no. 1, a dormitory building and factory no. 4 with planned gross floor area of 25,139.20 square metres, 6,577.16 square metres and 2,727.60 square metres respectively on the Land.
- (iv) Shenzhen Xingli Zundian has obtained a Construction Work Commencement Permit (No. 44030720080603201) dated 27 June 2008 by which Shenzhen Xingli Zundian is allowed to commence the foundation reinforcement work of the factory building.
- (v) According to the 關於延長G14310-0206號宗地的開發期限的批覆函 (Extension Approval of Development Deadline for Land Lot G14310-0206) (Shen Guo Fang Long Han (2008) No. 804) issued by 深圳市國土資源和房產管理局 (Shenzhen Municipal Bureau of Land Resources and Building Housing Management) Longguan District on 13 August 2008, Shenzhen Xingli Zundian should commence the construction work before 26 October 2008 and complete the construction work before 26 October 2009. In case of delay, Shenzhen Xingli Zundian will be subject to a fine of 5%, 10% and 15% of the total consideration if the construction work is not completed for a period less than 6 months, for a period from 6 months to 1 year and for a period from 1 year to 2 years respectively after 26 October 2009, or the Land will be resumed by 深圳市國土資源和房產管理局 (Shenzhen Municipal Bureau of Land Resources and Building Housing Management) if the construction work is not completed 2 years after 26 October 2009.

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- (vi) Due to the non-transferability of the property, we have assigned no commercial value to the property. For reference purpose, assuming free from all encumbrances, the replacement cost of the property as at the valuation date is approximately RMB[27,000,000].
- (vii) Opinions of the PRC Lawyer are summarized as follows:
 - (a) In respect of the Land, Shenzhen Xingli Zundian is in possession of a Real Estate Ownership Certificate by which the land use rights of the Land have been granted to Shenzhen Xingli Zundian for a term of 50 years from 29 June 2007 to 28 June 2057 for industrial use. However, in accordance with a condition of the contract for grant of land use rights of the Land, the land use rights of the Land are not allowed to be transferred or leased.
 - (b) According to the land use conditions of the State-owned Land Use Rights Grant Contract, Shenzhen Xingli Zundian is required to complete construction work before 28 June 2009. Shenzhen Xingli Zundian has further obtained an Extension Approval of Development Deadline for Land Lot G14310-0206 issued by 深圳市國土資源和房產管理局龍崗分局 (Longgang branch of Shenzhen Municipal Bureau of Land Resources and Building Administration Bureau) on 13 August 2008 which allows Shenzhen Xingli Zundian to commence the construction work before 26 October 2008 and complete before 26 October 2009.
 - (c) As the foundation reinforcement work, which forms part of the construction work on the Land, has been commenced on 1 July 2008, Shenzhen Xingli Zundian conforms to the relevant laws, rules and regulations and the requirements set out in the Shenzhen Land Use Rights Agreement.
 - (d) 深圳市國土資源和房產管理局 (Shenzhen Municipal Bureau of Land Resources and Building Housing Management) noted that as a consequence of incompleteness of public road works by the local municipal government, the construction work had to be suspended. The PRC Lawyer was informed that further extension of the completion date would be given to Shenzhen Xingli Zundian upon completion of the related public road works. There will be no legal impediment for Shenzhen Xingli Zundian to obtain such approval on further extension of the completion date if Shenzhen Xingli Zundian makes application to the relevant authorities.
 - (e) The consideration payable under the State-owned Land Use Rights Grant Contract has been settled in full.
 - (f) The property is free from all encumbrances.

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PROPERTY VALUATION

VALUATION CERTIFICATE

Group II – Property interests leased by the Group in the PRC

No.	Property	Description and occupancy	Market value as at [31 March 2009] (RMB)
3.	Levels 1, 2 and 4 Block 2 Longbi Industrial City Bantian Longgang District Shenzhen Guangdong Province The PRC	The property comprises 3 floors within a 7-storey factory building which was completed in [2005]. The total gross floor area of the property is approximately 5,179 square metres. According to a tenancy agreement dated 10 December 2008 between 龍璧工業區開發(深圳)有限公司 (Dragon Jade Industrial District Development (Shenzhen) Company Limited), an independent third party to the Group as lessor and Shenzhen Xingli Zundian as lessee, the property is leased to Shenzhen Xingli Zundian for a term from 1 January 2009 to 30 June 2009 at a monthly rent of RMB77,161.34, exclusive of management fee and utility charges. As advised by the Company, the tenancy agreement will be renewed upon expiry. The tenancy is not assignable. The property is currently occupied by Shenzhen Xingli Zundian as workshops for production of wood panel furniture.	[No commercial value]

Note:

Opinions of the PRC Lawyer are summarized as follows:

- (a) The lessor has obtained legal title to the property. Shenzhen Xingli Zundian has the right to occupy and use the property during the term of the tenancy agreement.
- (b) The tenancy agreement is legal, valid and binding.
- (c) The tenancy agreement has been registered at the property leasing administration authority.
- (d) The tenancy agreement conforms to the requirements of the relevant laws, rules and regulations in the PRC.
- (e) The existing use of the property complies with its prescribed use.
- (f) The property is subject to a mortgage. However, no consent for the lease is required from the mortgagee.

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No.	Property	Description and occupancy	Market value as at [31 March 2009] (RMB)
4.	Levels 1 to 6 Block 3 Longbi Industrial City Bantian Longgang District Shenzhen Guangdong Province The PRC	The property comprises 6 floors within a 6-storey factory building which was completed in [1994]. The total gross floor area of the property is approximately 6,693.91 square metres. According to a tenancy agreement dated 10 December 2008 between 龍璧工業區開發(深圳)有限公司 (Dragon Jade Industrial District Development (Shenzhen) Company Limited), an independent third party to the Group as lessor and Shenzhen Xingli Zundian as lessee, the property is leased to Shenzhen Xingli Zundian for a term from 1 January 2009 to 30 June 2009 at a monthly rent of RMB91,371.87, exclusive of management fee and utility charges. As advised by the Company, the tenancy agreement will be renewed upon expiry. The tenancy is not assignable. The property is currently occupied by Shenzhen Xingli Zundian as workshops for production of wood panel furniture.	[No commercial value]

Note:

Opinions of the PRC Lawyer are summarized as follows:

- (a) The lessor has obtained legal title to the property. Shenzhen Xingli Zundian has the right to occupy and use the property during the term of the tenancy agreement.
- (b) The tenancy agreement is legal, valid and binding.
- (c) The tenancy agreement has been registered at the property leasing administration authority.
- (d) The tenancy agreement conforms to the requirements of the relevant laws, rules and regulations in the PRC.
- (e) The existing use of the property complies with its prescribed use.
- (f) The property is subject to a mortgage. However, no consent for the lease is required from the mortgagee.

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No.	Property	Description and occupancy	Market value as at [31 March 2009] (RMB)
5.	Levels 2, 5 and 6 Block 11 Longbi Industrial City Bantian Longgang District Shenzhen Guangdong Province The PRC	The property comprises 3 floors within a 6-storey factory building which was completed in [1995]. The total gross floor area of the property is approximately 5,620.02 square metres. According to a tenancy agreement dated 10 December 2008 between 龍璧工業區開發(深圳)有限公司 (Dragon Jade Industrial District Development (Shenzhen) Company Limited), an independent third party to the Group as lessor and Shenzhen Xingli Zundian as lessee, the property is leased to Shenzhen Xingli Zundian for a term from 1 January 2009 to 31 December 2009 at a monthly rent of RMB70,812.25, exclusive of management fee and utility charges. The tenancy is not assignable. The property is currently occupied by Shenzhen Xingli Zundian as workshops for production of wood panel furniture.	[No commercial value]

Note:

Opinions of the PRC Lawyer are summarized as follows:

- (a) The lessor has obtained legal title to the property. Shenzhen Xingli Zundian has the right to occupy and use the property during the term of the tenancy agreement.
- (b) The tenancy agreement is legal, valid and binding.
- (c) The tenancy agreement has been registered at the property leasing administration authority.
- (d) The tenancy agreement conforms to the requirements of the relevant laws, rules and regulations in the PRC.
- (e) The existing use of the property complies with its prescribed use.
- (f) The property is subject to a mortgage. However, no consent for the lease is required from the mortgagee.

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No.	Property	Description and occupancy	Market value as at [31 March 2009] (RMB)
6.	Units 601-632 and 709-712 Block 20 Longbi Industrial City Bantian Longgang District Shenzhen Guangdong Province The PRC	The property comprises 36 units on Level 6 and Level 7 within a 7-storey dormitory building which was completed in [1994]. The total gross floor area of the property is approximately [1,332] square metres. According to a tenancy agreement dated 8 January 2009 between 龍璧工業區開發(深圳)有限公司 (Dragon Jade Industrial District Development (Shenzhen) Company Limited), an independent third party to the Group as lessor and Shenzhen Xingli Zundian as lessee, the property is leased to Shenzhen Xingli Zundian for a term from 1 January 2009 to 30 June 2009 at a monthly rent of RMB17,160, exclusive of management fee. As advised by the Company, the tenancy agreement will be renewed upon expiry. [The tenancy is not assignable.] The property is currently occupied by Shenzhen Xingli Zundian as dormitory.	[No commercial value]

Note:

Opinions of the PRC Lawyer are summarized as follows:

- (a) The lessor has obtained legal title to the property. Shenzhen Xingli Zundian has the right to occupy and use the property during the term of the tenancy agreement.
- (b) The tenancy agreement is legal, valid and binding.
- (c) The tenancy agreement has been registered at the property leasing administration authority.
- (d) The tenancy agreement conforms to the requirements of the relevant laws, rules and regulations in the PRC.
- (e) The existing use of the property complies with its prescribed use.
- (f) The property is subject to a mortgage. However, no consent for the lease is required from the mortgagee.

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PROPERTY VALUATION

VALUATION CERTIFICATE

No.	Property	Description and occupancy	Market value as at [31 March 2009] (RMB)
7.	Units 716-717 Block 22 Longbi Industrial City Bantian Longgang District Shenzhen Guangdong Province The PRC	The property comprises 2 units on Level 7 within a 15-storey dormitory building which was completed in [2005]. The total gross floor area of the property is approximately [100] square metres. According to a tenancy agreement dated 8 January 2009 between 龍壁工業區開發(深圳)有限公司 (Dragon Jade Industrial District Development (Shenzhen) Company Limited), an independent third party to the Group as lessor and Shenzhen Xingli Zundian as lessee, the property is leased to Shenzhen Xingli Zundian for a term from 1 January 2009 to 30 June 2009 at a monthly rent of RMB1,360, exclusive of management fee. As advised by the Company, the tenancy agreement will be renewed upon expiry. [The tenancy is not assignable.] The property is currently occupied by Shenzhen Xingli Zundian as dormitory.	[No commercial value]

Note:

Opinions of the PRC Lawyer are summarized as follows:

- (a) The lessor has obtained legal title to the property. Shenzhen Xingli Zundian has the right to occupy and use the property during the term of the tenancy agreement.
- (b) The tenancy agreement is legal, valid and binding.
- (c) The tenancy agreement has been registered at the property leasing administration authority.
- (d) The tenancy agreement conforms to the requirements of the relevant laws, rules and regulations in the PRC.
- (e) The existing use of the property complies with its prescribed use.
- (f) The property is subject to a mortgage. However, no consent for the lease is required from the mortgagee.

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PROPERTY VALUATION

VALUATION CERTIFICATE

No.	Property	Description and occupancy	Market value as at [31 March 2009] (RMB)
8.	East wing of Level 3 Block C5 Zhonghao Industrial City Xuexiang Village Bantian Road Longgang District Shenzhen Guangdong Province The PRC	The property comprises an unit on Level 3 within a 6-storey factory building which was completed in [1993]. The gross floor area of the property is approximately [1,250] square metres. According to a tenancy agreement dated 8 July 2008 between 姚淑先、姚玉鶯、姚順鶯 and 姚美鶯 (Yao Shuxian, Yao Yuying, Yao Shunying and Yao Meiyang), independent third parties to the Group as lessor and Shenzhen Xingli Zundian as lessee, the property is leased to Shenzhen Xingli Zundian for a term from 19 June 2008 to 18 June 2009 at a monthly rent of RMB15,000, [exclusive of management fee and utility charges]. As advised by the Company, the tenancy agreement will not be renewed after expiry. [The tenancy is not assignable.] The property is currently occupied by Shenzhen Xingli Zundian as warehouse.	[No commercial value]

Note:

Opinions of the PRC Lawyer are summarized as follows:

- (a) The lessor has obtained legal title to the property. Shenzhen Xingli Zundian has the right to occupy and use the property during the term of the tenancy agreement.
- (b) The tenancy agreement is legal, valid and binding.
- (c) The tenancy agreement has been registered at the property leasing administration authority.
- (d) The tenancy agreement conforms to the requirements of the relevant laws, rules and regulations in the PRC.
- (e) The existing use of the property complies with its prescribed use.
- (f) The property is subject to a mortgage. However, no consent for the lease is required from the mortgagee.

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PROPERTY VALUATION

VALUATION CERTIFICATE

No.	Property	Description and occupancy	Market value as at [31 March 2009] (RMB)
9.	Factory building, office building, dormitory building, canteen building, open space and ancillary facilities at Xuexiang Garden New Village Buji County Longgang District Shenzhen Guangdong Province The PRC	The property comprises a 3-storey factory building, a 5-storey office building, a 7-storey dormitory building, a single storey canteen building (the “Buildings”), open space and ancillary facilities which were completed in [2002]. The total gross floor area of the Buildings is approximately 24,774.05 square metres and the area of the open space is approximately 1,500 square metres. According to a tenancy agreement dated 30 June 2003 between 深圳市億源通實業發展有限公司 (Shenzhen Yiyuantong Enterprises Development Company Limited), an independent third party to the Group as lessor and Shenzhen Xingli as lessee, the office building of the property is leased to Shenzhen Xingli for a term of 15 years from 1 April 2003 to 1 April 2018 and the factory building, the dormitory building, the canteen building and the ancillary facilities of the property are leased to Shenzhen Xingli for a term of 15 years from 15 March 2003 to 15 March 2018. The monthly rent of the Buildings is RMB227,921 for the first year and RMB253,934 from the second to the fifth year. From the sixth to tenth year of the lease term, the rent shall be adjusted for not more than or less than 10% of the rent based on the second year. From the eleventh to fifteenth year, the rent shall be adjusted for not more than or less than 10% of the rent based on the tenth year. The monthly rent for the open space is RMB3,000, which shall be adjusted along with the rent for the Buildings subject to mutual agreement. The tenancy is not assignable without the lessor’s consent. The property is currently occupied by Shenzhen Xingli as production plant of wood panel products.	[No commercial value]

Notes:

- (i) Opinions of the PRC Lawyer are summarized as follows:
 - (a) The lessor has obtained legal title to the property. Shenzhen Xingli has the right to occupy and use the property during the term of the tenancy agreement.
 - (b) The tenancy agreement is legal, valid and binding.
 - (c) Shenzhen Xingli has requested but the lessor has not yet proceeded to register the tenancy agreement at the property leasing administration authority. There exists a risk that Shenzhen Xingli will be requested to move out from the property. Shenzhen Xingli may claim for compensation of losses arising from relocation and differentials of rent.
 - (d) As it is the lessor’s failure to provide the relevant title documents for registration which resulted in the delay in registering with the relevant property leasing administration authority, Shenzhen Xingli is not liable for the administrative penalty.

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- (e) According to a supplementary agreement dated 25 January 2007 between Shenzhen Yiyuantong Enterprises Development Company Limited and Shenzhen Xingli, Shenzhen Yiyuantong Enterprises Development Company Limited will be responsible for the compensation of all fees or losses arising from the relocation of the production plant with an amount not less than RMB2,000,000.
 - (f) According to a supplement agreement dated 1 June 2008 between the lessor and Shenzhen Xingli, Shenzhen Xingli can terminate the tenancy agreement prior to one month’s notice or pay one month rent as payment in lieu of notice after leasing the property for more than a year.
 - (g) The property is being used for its prescribed use as a production plant.
 - (h) The property is subject to a mortgage. However, no consent for the lease is required from the mortgagee.
- (ii) As advised by the Directors, the Group plans to relocate the production facilities and non-production facilities of this property to the Group’s new production base following completion of construction expected in June 2009 and mid 2011 respectively. The Group will terminate the existing tenancy agreement after completion of relocation.

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PROPERTY VALUATION

VALUATION CERTIFICATE

No.	Property	Description and occupancy	Market value as at [31 March 2009] (RMB)
10.	Warehouse at Xuexiang Garden New Village Buji County Longgang District Shenzhen Guangdong Province The PRC	The property comprises 2 blocks of single-storey warehouse which was completed in [2005]. The total gross floor area of the property is approximately 1,455.00 square metres. According to a tenancy agreement dated 1 June 2008 between 深圳市億源通實業發展有限公司 (Shenzhen Yiyuantong Enterprises Development Company Limited), an independent third party to the Group as lessor and Shenzhen Xingli as lessee, the property is leased to Shenzhen Xingli for a term of 15 years from 1 June 2008 to 1 June 2023 at a monthly rent of RMB18,188.00 exclusive of management fee and utility charges. [The tenancy is not assignable]. The property is currently occupied by Shenzhen Xingli as warehouse.	[No commercial value]

Notes:

- (i) Opinions of the PRC Lawyer are summarized as follows:
 - (a) No title documents have been provided to confirm lessor’s legal title to the property. The PRC Lawyer is unable to ascertain the legality of the tenancy agreement.
 - (b) Since title documents are unavailable for registration, the tenancy agreement has not yet been registered at the property leasing administration authority. There exists a risk that Shenzhen Xingli will be requested to move out from the property.
 - (c) As it is the lessor’s failure to provide the relevant title documents for registration which resulted in the delay in registering with the relevant property leasing administration authority, Shenzhen Xingli is not liable for the administrative penalty.
 - (d) According to a supplement agreement dated 1 June 2008 between the lessor and Shenzhen Xingli, Shenzhen Xingli can terminate the tenancy agreement prior to one month’s notice or pay one month rent as payment in lieu of notice after leasing the property for more than a year.
 - (e) The property is being used for its prescribed use as a warehouse.
 - (f) The property is not subject to any mortgage.
- (ii) As advised by the Directors, the Group plans to relocate the warehousing facilities of this property to the Group’s new production base following completion of construction expected in June 2009. The Group will terminate the existing tenancy agreement after completion of relocation.

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VALUATION CERTIFICATE

No.	Property	Description and occupancy	Market value as at [31 March 2009] (RMB)
11.	Factory building and dormitory building at Yuanshanbei Village Changping County Dongguan Guangdong Province The PRC	The property comprises a 3-storey factory building and a 5-storey dormitory building which were completed in [1993]. The total gross floor area of the property is approximately 6,091.28 square metres. According to a tenancy agreement dated 26 March 2009 between 袁淑英女士 (Ms. Yuan Shuying), an independent third party to the Group as lessor and Dongguan Super Furniture Company Limited (“Dongguan Super Furniture”, a 78%-owned subsidiary of the Company) as lessee, the property is leased to Dongguan Super Furniture for a term of 3 years from 26 March 2009 to 25 March 2012 at a monthly rent of RMB42,644.00. The tenancy is not assignable without the lessor’s consent. The property is currently occupied by Dongguan Super Furniture as production plant of mattress and upholstery products.	[No commercial value]

Note:

Opinions of the PRC Lawyer are summarized as follows:

- (a) According to a Collectively-owned Land Use Right Certificate dated 18 December 1996, the land use right of the land where the property situated is held by Yuanshanbei Management Zone.
- (b) According to two sets of Real Estate Ownership Certificate, the property is held by Dongguan Rich with collectively-owned land nature. Dongguan Rich was dissolved on 20 October 2006.
- (c) According to the Disposal Agreement for the Factory and Dormitory of Dongguan Rich (“Disposal Agreement”) dated 25 March 2009, the shareholders of Dongguan Rich agreed to return its factory and dormitory to Yuanshanbei Management Zone after Dongguan Rich dissolved. The Disposal Agreement conforms to the relevant laws, it is legal and binding.
- (d) Dongguan Super Furniture signed a Tenancy Agreement (“Tenancy Agreement”) on 26 March 2009 with 袁淑英女士 (Ms. Yuan Shuying). By an Authorization Letter dated 25 March 2009, 袁淑英女士 (Ms. Yuan Shuying) is authorized by the Village Committee of Yuanshanbei Management Zone to lease the property within the period from 25 March 2009 until terminated by the Village Committee of Yuanshanbei Management Zone.
- (e) The Village Committee of Yuanshanbei Management Zone has the right to lease the property. The Authorization Letter and the Tenancy Agreement are legal and binding. Dongguan Super Furniture has the right to occupy and use the property during the term of the tenancy agreement.
- (f) The Tenancy Agreement has been registered at the relevant property administration authority which issued a Property Leasing Permit for the period from 26 March 2009 to 25 March 2010. Upon expiry, 袁淑英女士 (Ms. Yuan Shuying) will have to extend the Property Leasing Permit. There is no legal impediment for 袁淑英女士 (Ms. Yuan Shuying) to obtain such permit extension.
- (g) The property is being used for its prescribed use as production plant and dormitory.
- (h) The property is not subject to any mortgage.

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Group III – Property interests leased by the Group in Hong Kong

No.	Property	Description and occupancy	Market value as at [31 March 2009] (HK\$)
12.	Unit 1101, 11/F Delta House 3 On Yiu Street Shatin New Territories Hong Kong	The subject development, namely Delta House, is an industrial/office development that comprises a 24-storey North Wing and a 17-storey South Wing erected upon 2 basement levels of car parking spaces. The development was completed in 1999. The property comprises an office unit on the 11th Floor of the North Wing of Delta House. The gross floor area of the property is approximately 2,357.00 square feet (218.97 square metres). According to a tenancy agreement dated 23 October 2008 between Harriman Leasing Limited (acts as the leasing agent of the landlord, Delta Realty Limited), an independent third party to the Group and Hing Lee (China) Company Limited (“Hing Lee (China)”), a wholly-owned subsidiary of the Company) as lessee, the property is leased to Hing Kee (China) for a term of 3 years from 27 November 2008 to 26 November 2011 at a monthly rent of HK\$32,526.60, exclusive of government rates, government rent, service fee and utility charges. The tenancy is not assignable. The property is currently occupied and used by Hing Lee (China) as an office.	[No commercial value]

Notes:

- (i) According to the report on tenancy issued by Sit, Fung, Kwong & Shum, Solicitors,
 - (a) the tenancy agreement is good, valid and legally enforceable and subsisting and binding as between the landlord and the tenant in accordance with its terms, and
 - (b) the user of the property should not use or permit or suffer the premises to be used for any purpose other than office use.
- (ii) The existing use of the property complies with its prescribed use.
- (iii) The property is not subject to any mortgage.

APPENDIX IV

SUMMARY OF THE CONSTITUTION OF THE COMPANY AND BERMUDA COMPANY LAW

Set out below is a summary of certain provisions of the memorandum of continuance (the “Memorandum of Continuance”) and bye-laws (the “Bye-laws”) of the Company and of certain aspects of Bermuda company law.

1. MEMORANDUM OF CONTINUANCE

The Memorandum of Continuance states, inter alia, that the liability of members of the Company is limited to the amount, if any, for the time being unpaid on the Shares respectively held by them and that the Company is an exempted company as defined in the Companies Act. The Memorandum of Continuance also states that the objects of the Company are unrestricted and that the Company has the capacity, rights, powers and privileges of a natural person. As an exempted company, the Company will be carrying on business outside Bermuda from a place of business within Bermuda.

In accordance with and subject to section 42A of the Companies Act, the Memorandum of Continuance empowers the Company to purchase its own shares and pursuant to its Bye-laws, this power is exercisable by the board of Directors (the “board”) upon such terms and subject to such conditions as it thinks fit.

2. BYE-LAWS

The Bye-laws were adopted on [●]. The following is a summary of certain provisions of the Bye-laws:

(a) Directors

(i) Power to allot and issue shares and warrants

Subject to any special rights conferred on the holders of any shares or class of shares, any share may be issued with or have attached thereto such rights, or such restrictions, whether with regard to dividend, voting, return of capital, or otherwise, as the Company may by ordinary resolution determine (or, in the absence of any such determination or so far as the same may not make specific provision, as the board may determine). Subject to the Companies Act, any preference shares may be issued or converted into shares that are liable to be redeemed, at a determinable date or at the option of the Company or, if so authorised by the Memorandum of Continuance, at the option of the holder, on such terms and in such manner as the Company before the issue or conversion may by ordinary resolution determine. The board may issue warrants conferring the right upon the holders thereof to subscribe for any class of shares or securities in the capital of the Company on such terms as it may from time to time determine.

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Subject to the provisions of the Companies Act, the Bye-laws, any direction that may be given by the Company in general meeting and, where applicable, the rules of any Designated Stock Exchange (as defined in the Bye-laws) and without prejudice to any special rights or restrictions for the time being attached to any shares or any class of shares, all unissued shares in the Company shall be at the disposal of the board, which may offer, allot, grant options over or otherwise dispose of them to such persons, at such times, for such consideration and on such terms and conditions as it in its absolute discretion thinks fit, but so that no shares shall be issued at a discount.

Neither the Company nor the board shall be obliged, when making or granting any allotment of, offer of, option over or disposal of shares, to make, or make available, any such allotment, offer, option or shares to members or others with registered addresses in any particular territory or territories being a territory or territories where, in the absence of a registration statement or other special formalities, this would or might, in the opinion of the board, be unlawful or impracticable. Members affected as a result of the foregoing sentence shall not be, or be deemed to be, a separate class of members for any purpose whatsoever.

(ii) Power to dispose of the assets of the Company or any of its subsidiaries

There are no specific provisions in the Bye-laws relating to the disposal of the assets of the Company or any of its subsidiaries.

Note: The Directors may, however, exercise all powers and do all acts and things which may be exercised or done or approved by the Company and which are not required by the Bye-laws or the Companies Act to be exercised or done by the Company in general meeting.

(iii) Compensation or payments for loss of office

Payments to any Director or past Director of any sum by way of compensation for loss of office or as consideration for or in connection with his retirement from office (not being a payment to which the Director is contractually entitled) must be approved by the Company in general meeting.

(iv) Loans and provision of security for loans to Directors

There are no provisions in the Bye-laws relating to the making of loans to Directors. However, the Companies Act contains restrictions on companies making loans or providing security for loans to their directors, the relevant provisions of which are summarised in the paragraph headed “Bermuda Company Law” in this Appendix.

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**SUMMARY OF THE CONSTITUTION OF
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(v) Financial assistance to purchase shares of the Company

Neither the Company nor any of its subsidiaries shall directly or indirectly give financial assistance to a person who is acquiring or proposing to acquire shares in the Company for the purpose of that acquisition whether before or at the same time as the acquisition takes place or afterwards, provided that the Bye-laws shall not prohibit transactions permitted under the Companies Act.

(vi) Disclosure of interests in contracts with the Company or any of its subsidiaries

A Director may hold any other office or place of profit with the Company (except that of auditor of the Company) in conjunction with his office of Director for such period and, subject to the Companies Act, upon such terms as the board may determine, and may be paid such extra remuneration (whether by way of salary, commission, participation in profits or otherwise) in addition to any remuneration provided for by or pursuant to any other Bye-laws. A Director may be or become a director or other officer of, or a member of, any company promoted by the Company or any other company in which the Company may be interested, and shall not be liable to account to the Company or the members for any remuneration, profits or other benefits received by him as a director, officer or member of, or from his interest in, such other company. Subject as otherwise provided by the Bye-laws, the board may also cause the voting power conferred by the shares in any other company held or owned by the Company to be exercised in such manner in all respects as it thinks fit, including the exercise thereof in favour of any resolution appointing the Directors or any of them to be directors or officers of such other company, or voting or providing for the payment of remuneration to the directors or officers of such other company.

Subject to the Companies Act and to the Bye-laws, no Director or proposed or intending Director shall be disqualified by his office from contracting with the Company, either with regard to his tenure of any office or place of profit or as vendor, purchaser or in any other manner whatsoever, nor shall any such contract or any other contract or arrangement in which any Director is in any way interested be liable to be avoided, nor shall any Director so contracting or being so interested be liable to account to the Company or the members for any remuneration, profit or other benefits realised by any such contract or arrangement by reason of such Director holding that office or the fiduciary relationship thereby established. A Director who to his knowledge is in any way, whether directly or indirectly, interested in a contract or arrangement or proposed contract or arrangement with the Company shall declare the nature of his interest at the meeting of the board at which the question of entering into the contract or arrangement is first taken into consideration, if he knows his interest then exists, or in any other case, at the first meeting of the board after he knows that he is or has become so interested.

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A Director shall not vote (nor be counted in the quorum) on any resolution of the board approving any contract or arrangement or other proposal in which he or any of his associates is materially interested but this prohibition shall not apply to any of the following matters, namely:

- (aa) any contract or arrangement for giving to such Director or his associate(s) any security or indemnity in respect of money lent by him or any of his associates or obligations incurred or undertaken by him or any of his associates at the request of or for the benefit of the Company or any of its subsidiaries;
- (bb) any contract or arrangement for the giving of any security or indemnity to a third party in respect of a debt or obligation of the Company or any of its subsidiaries for which the Director or his associate(s) has himself/themselves assumed responsibility in whole or in part whether alone or jointly under a guarantee or indemnity or by the giving of security;
- (cc) any contract or arrangement concerning an offer of shares or debentures or other securities of or by the Company or any other company which the Company may promote or be interested in for subscription or purchase, where the Director or his associate(s) is/are or is/are to be interested as a participant in the underwriting or sub-underwriting of the offer;
- (dd) any contract or arrangement in which the Director or his associate(s) is/are interested in the same manner as other holders of shares or debentures or other securities of the Company by virtue only of his/their interest in shares or debentures or other securities of the Company;
- (ee) any contract or arrangement concerning any other company in which the Director or his associate(s) is/are interested only, whether directly or indirectly, as an officer or executive or a shareholder or in which the Director and any of his associates are not in aggregate beneficially interested in 5 percent. or more of the issued shares or of the voting rights of any class of shares of such company (or of any third company through which his interest or that of any of his associates is derived); or
- (ff) any proposal or arrangement concerning the adoption, modification or operation of a share option scheme, a pension fund or retirement, death, or disability benefits scheme or other arrangement which relates both to Directors, his associates and employees of the Company or of any of its subsidiaries and does not provide in respect of any Director, or his associate(s), as such any privilege or advantage not accorded generally to the class of persons to which such scheme or fund relates.

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(vii) Remuneration

The ordinary remuneration of the Directors shall from time to time be determined by the Company in general meeting, such remuneration (unless otherwise directed by the resolution by which it is voted) to be divided amongst the Directors in such proportions and in such manner as the board may agree or, failing agreement, equally, except that any Director holding office for part only of the period in respect of which the remuneration is payable shall only rank in such division in proportion to the time during such period for which he held office. The Directors shall also be entitled to be prepaid or repaid all travelling, hotel and incidental expenses reasonably incurred or expected to be incurred by them in attending any board meetings, committee meetings or general meetings or separate meetings of any class of shares or of debentures of the Company or otherwise in connection with the discharge of their duties as Directors.

Any Director who, by request, goes or resides abroad for any purpose of the Company or who performs services which in the opinion of the board go beyond the ordinary duties of a Director may be paid such extra remuneration (whether by way of salary, commission, participation in profits or otherwise) as the board may determine and such extra remuneration shall be in addition to or in substitution for any ordinary remuneration provided for by or pursuant to any other Bye-law. A Director appointed to be a managing director, joint managing director, deputy managing director or other executive officer shall receive such remuneration (whether by way of salary, commission or participation in profits or otherwise or by all or any of those modes) and such other benefits (including pension and/or gratuity and/or other benefits on retirement) and allowances as the board may from time to time decide. Such remuneration may be either in addition to or in lieu of his remuneration as a Director.

The board may establish or concur or join with other companies (being subsidiary companies of the Company or companies with which it is associated in business) in establishing and making contributions out of the Company's monies to any schemes or funds for providing pensions, sickness or compassionate allowances, life assurance or other benefits for employees (which expression as used in this and the following paragraph shall include any Director or ex-Director who may hold or have held any executive office or any office of profit with the Company or any of its subsidiaries) and ex-employees of the Company and their dependants or any class or classes of such persons.

The board may pay, enter into agreements to pay or make grants of revocable or irrevocable, and either subject or not subject to any terms or conditions, pensions or other benefits to employees and ex-employees and their dependants, or to any of such persons, including pensions or benefits additional to those, if any, to which such employees or ex-employees or their dependants are or may become entitled

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under any such scheme or fund as is mentioned in the previous paragraph. Any such pension or benefit may, as the board considers desirable, be granted to an employee either before and in anticipation of, or upon or at any time after, his actual retirement.

(viii) Retirement, appointment and removal

At each annual general meeting, one third of the Directors for the time being (or if their number is not a multiple of three, then the number nearest to but not less than one third) will retire from office by rotation provided that every Director shall be subject to retirement at least once every three years. The Directors to retire in every year will be those who have been longest in office since their last re-election or appointment but as between persons who became or were last re-elected Directors on the same day those to retire will (unless they otherwise agree among themselves) be determined by lot.

Note: There are no provisions relating to retirement of Directors upon reaching any age limit.

The Directors shall have the power from time to time and at any time to appoint any person as a Director either to fill a casual vacancy on the board or, subject to authorisation by the members in general meeting, as an addition to the existing board but so that the number of Directors so appointed shall not exceed any maximum number determined from time to time by the members in general meeting. Any Director appointed by the Board to fill a casual vacancy shall hold office until the first general meeting of Members after his appointment and be subject to re-election at such meeting and any Director appointed by the Board as an addition to the existing Board shall hold office only until the next following annual general meeting of the Company and shall then be eligible for re-election. Neither a Director nor an alternate Director is required to hold any shares in the Company by way of qualification.

A Director may be removed by an ordinary resolution of the Company before the expiration of his period of office (but without prejudice to any claim which such Director may have for damages for any breach of any contract between him and the Company) provided that the notice of any such meeting convened for the purpose of removing a Director shall contain a statement of the intention to do so and be served on such Director fourteen (14) days before the meeting and, at such meeting, such Director shall be entitled to be heard on the motion for his removal. Unless otherwise determined by the Company in general meeting, the number of Directors shall not be less than two. There is no maximum number of Directors unless otherwise determined from time to time by members of the Company.

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The board may from time to time appoint one or more of its body to be managing director, joint managing director, or deputy managing director or to hold any other employment or executive office with the Company for such period (subject to their continuance as Directors) and upon such terms as the board may determine and the board may revoke or terminate any of such appointments (but without prejudice to any claim for damages that such Director may have against the Company or vice versa). The board may delegate any of its powers, authorities and discretions to committees consisting of such Director or Directors and other persons as the board thinks fit, and it may from time to time revoke such delegation or revoke the appointment of and discharge any such committees either wholly or in part, and either as to persons or purposes, but every committee so formed shall, in the exercise of the powers, authorities and discretions so delegated, conform to any regulations that may from time to time be imposed upon it by the board.

(ix) Borrowing powers

The board may from time to time at its discretion exercise all the powers of the Company to raise or borrow money, to mortgage or charge all or any part of the undertaking, property and assets (present and future) and uncalled capital of the Company and, subject to the Companies Act, to issue debentures, bonds and other securities of the Company, whether outright or as collateral security for any debt, liability or obligation of the Company or of any third party.

Note: These provisions, in common with the Bye-laws in general, can be varied with the sanction of a special resolution of the Company.

(b) Alterations to constitutional documents

The Bye-laws may be rescinded, altered or amended by the Directors subject to the confirmation of the Company in general meeting. The Bye-laws state that a special resolution shall be required to alter the provisions of the Memorandum of Continuance, to confirm any such rescission, alteration or amendment to the Bye-laws or to change the name of the Company.

(c) Alteration of capital

The Company may from time to time by ordinary resolution in accordance with the relevant provisions of the Companies Act:

- (i) increase its capital by such sum, to be divided into shares of such amounts as the resolution shall prescribe;
- (ii) consolidate and divide all or any of its capital into shares of larger amount than its existing shares;

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- (iii) divide its shares into several classes and without prejudice to any special rights previously conferred on the holders of existing shares as the directors may determine;
- (iv) sub-divide its shares or any of them into shares of smaller amount than is fixed by the Memorandum of Continuance;
- (v) change the currency denomination of its share capital;
- (vi) make provision for the issue and allotment of shares which do not carry any voting rights; and
- (vii) cancel any shares which, at the date of passing of the resolution, have not been taken, or agreed to be taken, by any person, and diminish the amount of its capital by the amount of the shares so cancelled.

The Company may, by special resolution, subject to any confirmation or consent required by law, reduce its authorised or issued share capital or, save for the use of share premium as expressly permitted by the Companies Act, any share premium account or other undistributable reserve.

(d) Variation of rights of existing shares or classes of shares

Subject to the Companies Act, all or any of the special rights attached to the shares or any class of shares may (unless otherwise provided for by the terms of issue of that class) be varied, modified or abrogated either with the consent in writing of the holders of not less than three-fourths of the issued shares of that class or with the sanction of a special resolution passed at a separate general meeting of the holders of the shares of that class. To every such separate general meeting the provisions of the Bye-laws relating to general meetings will mutatis mutandis apply, but so that the necessary quorum (other than at an adjourned meeting) shall be two persons (or in the case of a member being a corporation its duly authorised representative) holding or representing by proxy not less than one-third in nominal value of the issued shares of that class and at any adjourned meeting two holders present in person or (in the case of a member being a corporation) its duly authorised representative or by proxy whatever the number of shares held by them shall be a quorum. Every holder of shares of the class shall be entitled to one vote for every such share held by him.

(e) Special resolution-majority required

A special resolution of the Company must be passed by a majority of not less than three-fourths of the votes cast by such members as, being entitled so to do, vote in person or, in the case of such members as are corporations, by their duly authorised representatives or, where proxies are allowed, by proxy at a general meeting of which notice specifying the intention to propose the resolution as a special resolution, has been duly given in accordance with sub-paragraph (i) below.

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(f) Voting rights

Subject to any special rights or restrictions as to voting for the time being attached to any shares by or in accordance with the Bye-laws, at any general meeting every member present in person or by proxy or (being a corporation) by its duly authorised representative shall have one vote for every fully paid share of which he is the holder but so that no amount paid up or credited as paid up on a share in advance of calls or installments is treated for the foregoing purposes as paid up on the share.

A member entitled to more than one vote need not use all his votes or cast all the votes he uses in the same way.

At any general meeting a resolution put to the vote of the meeting is to be decided by way of a poll.

If a recognised clearing house (or its nominee(s)) is a member of the Company it may authorise such persons as it thinks fit to act as its representative(s) at any meeting of the Company or at any meeting of any class of members of the Company provided that, if more than one person is so authorised, the authorisation shall specify the number and class of shares in respect of which each such person is so authorised. A person authorised pursuant to this provision shall be deemed to have been duly authorised without further evidence of the facts and be entitled to exercise the same powers on behalf of the recognised clearing house (or its nominee(s)) as if such person was the registered holder of the shares held by that clearing house (or its nominee(s)) in respect of the number and class of shares specified in the relevant authorisation.

Where the Company has any knowledge that any shareholder is, under the rules of the Designated Stock Exchange (as defined in the Bye-laws), required to abstain from voting on any particular resolution of the Company or restricted to voting only for or only against any particular resolution of the Company, any votes cast by or on behalf of such shareholder in contravention of such requirement or restriction shall not be counted.

(g) Requirements for annual general meetings

An annual general meeting of the Company must be held in each year other than the year in which its statutory meeting is convened at such time (within a period of not more than 15 months after the holding of the last preceding annual general meeting unless a longer period would not infringe the rules of any Designated Stock Exchange (as defined in the Bye-laws)) and place as may be determined by the board.

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(h) Accounts and audit

The board shall cause true accounts to be kept of the sums of money received and expended by the Company, and the matters in respect of which such receipt and expenditure take place, and of the property, assets, credits and liabilities of the Company and of all other matters required by the provisions of the Companies Act or necessary to give a true and fair view of the Company's affairs and to explain its transactions.

The accounting records shall be kept at the registered office or, subject to the Companies Act, at such other place or places as the board decides and shall always be open to inspection by any Director. No member (other than a Director) shall have any right of inspecting any accounting record or book or document of the Company except as conferred by law or authorised by the board or the Company in general meeting.

Subject to the Companies Act, a printed copy of the Directors' report, accompanied by the balance sheet and profit and loss account, including every document required by law to be annexed thereto, made up to the end of the applicable financial year and containing a summary of the assets and liabilities of the Company under convenient heads and a statement of income and expenditure, together with a copy of the auditors' report, shall be sent to each person entitled thereto at least twenty-one (21) days before the date of the general meeting and at the same time as the notice of annual general meeting and laid before the Company at the annual general meeting in accordance with the requirements of the Companies Act provided that this provision shall not require a copy of those documents to be sent to any person whose address the Company is not aware of or to more than one of the joint holders of any shares or debentures; however, to the extent permitted by and subject to compliance with all applicable laws, including the rules of the Designated Stock Exchange (as defined in the Bye-laws), the Company may send to such persons summarised financial statements derived from the Company's annual accounts and the directors' report instead provided that any such person may by notice in writing served on the Company, demand that the Company sends to him, in addition to summarised financial statements, a complete printed copy of the Company's annual financial statement and the directors' report thereon.

Subject to the Companies Act, at the annual general meeting or at a subsequent special general meeting in each year, the members shall appoint an auditor to audit the accounts of the Company and such auditor shall hold office until the members appoint another auditor. Such auditor may be a member but no Director or officer or employee of the Company shall, during his continuance in office, be eligible to act as an auditor of the Company. The remuneration of the auditor shall be fixed by the Company in general meeting or in such manner as the members may determine.

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The financial statements of the Company shall be audited by the auditor in accordance with generally accepted auditing standards. The auditor shall make a written report thereon in accordance with generally accepted auditing standards and the report of the auditor shall be submitted to the members in general meeting. The generally accepted auditing standards referred to herein may be those of a country or jurisdiction other than Bermuda. If the auditing standards of a country or jurisdiction other than Bermuda are used, the financial statements and the report of the auditor should disclose this fact and name such country and jurisdiction.

(i) Notices of meetings and business to be conducted thereat

An annual general meeting shall be called by notice of not less than twenty-one (21) clear days and not less than twenty (20) clear business days and any special general meeting at which it is proposed to pass a special resolution shall be called by notice of not less than twenty-one (21) clear days and not less than ten (10) clear business day. All other special general meetings shall be called by notice of not less than fourteen (14) clear days and not less than ten (10) clear business day. If permitted by the rules of the Designated Stock Exchange (as defined in the Bye-laws), a general meeting may be called by shorter notice if it is so agreed (i) in the case of an annual general meeting, by all the members entitled to attend and vote thereat and (ii) in the case of any other meeting, by a majority in number of the members having a right to attend and vote at such meeting, being a majority together holding not less than ninety-five per cent. (95%) in nominal value of the issued shares giving that right. The notice must specify the time and place of the meeting and, in the case of special business, the general nature of that business. The notice convening an annual general meeting shall specify the meeting as such.

(j) Transfer of shares

All transfers of shares may be effected by an instrument of transfer in the usual or common form or in a form prescribed by the Designated Stock Exchange or in such other form as the board may approve and which may be under hand or, if the transferor or transferee is a clearing house or its nominee(s), by hand or by machine imprinted signature or by such other manner of execution as the board may approve from time to time. The instrument of transfer shall be executed by or on behalf of the transferor and the transferee provided that the board may dispense with the execution of the instrument of transfer by the transferee in any case in which it thinks fit, in its discretion, to do so and the transferor shall be deemed to remain the holder of the share until the name of the transferee is entered in the register of members in respect thereof. The board may also resolve either generally or in any particular case, upon request by either the transferor or the transferee, to accept mechanically executed transfers.

The board in so far as permitted by any applicable law may, in its absolute discretion, at any time and from time to time transfer any share upon the principal register to any branch register or any share on any branch register to the principal register or any other branch register.

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Unless the board otherwise agrees, no shares on the principal register shall be transferred to any branch register nor may shares on any branch register be transferred to the principal register or any other branch register. All transfers and other documents of title shall be lodged for registration and registered, in the case of shares on a branch register, at the relevant registration office and, in the case of shares on the principal register, at the registered office in Bermuda or such other place in Bermuda at which the principal register is kept in accordance with the Companies Act.

The board may, in its absolute discretion, and without assigning any reason, refuse to register a transfer of any share (not being a fully paid up share) to a person of whom it does not approve or any share issued under any share incentive scheme for employees upon which a restriction on transfer imposed thereby still subsists, and it may also refuse to register any transfer of any share to more than four joint holders or any transfer of any share (not being a fully paid up share) on which the Company has a lien.

The board may decline to recognise any instrument of transfer unless a fee of such maximum sum as any Designated Stock Exchange (as defined in the Bye-laws) may determine to be payable or such lesser sum as the Directors may from time to time require is paid to the Company in respect thereof, the instrument of transfer, if applicable, is properly stamped, is in respect of only one class of share and is lodged at the relevant registration office or registered office or such other place at which the principal register is kept accompanied by the relevant share certificate(s) and such other evidence as the board may reasonably require to show the right of the transferor to make the transfer (and if the instrument of transfer is executed by some other person on his behalf, the authority of that person so to do).

The registration of transfers may be suspended and the register closed on giving notice by advertisement in an appointed newspaper and, where applicable, any other newspapers in accordance with the requirements of any Designated Stock Exchange (as defined in the Bye-laws), at such times and for such periods as the board may determine and either generally or in respect of any class of shares. The register of members shall not be closed for periods exceeding in the whole thirty (30) days in any year.

(k) Power for the Company to purchase its own shares

The Bye-laws supplement the Company's Memorandum of Continuance (which gives the Company the power to purchase its own shares) by providing that the power is exercisable by the board upon such terms and conditions as it thinks fit.

(l) Power for any subsidiary of the Company to own shares in the Company

There are no provisions in the Bye-laws relating to ownership of shares in the Company by a subsidiary.

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(m) Dividends and other methods of distribution

Subject to the Companies Act, the Company in general meeting may declare dividends in any currency to be paid to the members but no dividend shall be declared in excess of the amount recommended by the board. The Company in general meeting may also make a distribution to its members out of contributed surplus (as ascertained in accordance with the Companies Act). No dividend shall be paid or distribution made out of contributed surplus if to do so would render the Company unable to pay its liabilities as they become due or the realisable value of its assets would thereby become less than the aggregate of its liabilities and its issued share capital and share premium account.

Except in so far as the rights attaching to, or the terms of issue of, any share may otherwise provide, (i) all dividends shall be declared and paid according to the amounts paid up on the shares in respect whereof the dividend is paid but no amount paid up on a share in advance of calls shall for this purpose be treated as paid up on the share and (ii) all dividends shall be apportioned and paid pro rata according to the amount paid up on the shares during any portion or portions of the period in respect of which the dividend is paid. The Directors may deduct from any dividend or other monies payable to a member by the Company on or in respect of any shares all sums of money (if any) presently payable by him to the Company on account of calls or otherwise.

Whenever the board or the Company in general meeting has resolved that a dividend be paid or declared on the share capital of the Company, the board may further resolve either (a) that such dividend be satisfied wholly or in part in the form of an allotment of shares credited as fully paid up, provided that the shareholders entitled thereto will be entitled to elect to receive such dividend (or part thereof) in cash in lieu of such allotment, or (b) that shareholders entitled to such dividend will be entitled to elect to receive an allotment of shares credited as fully paid up in lieu of the whole or such part of the dividend as the board may think fit. The Company may also upon the recommendation of the board by an ordinary resolution resolve in respect of any one particular dividend of the Company that it may be satisfied wholly in the form of an allotment of shares credited as fully paid up without offering any right to shareholders to elect to receive such dividend in cash in lieu of such allotment.

Whenever the board or the Company in general meeting has resolved that a dividend be paid or declared the board may further resolve that such dividend be satisfied wholly or in part by the distribution of specific assets of any kind.

All dividends or bonuses unclaimed for one year after having been declared may be invested or otherwise made use of by the board for the benefit of the Company until claimed and the Company shall not be constituted a trustee in respect thereof. All dividends or bonuses unclaimed after a period of six years from the date of declaration shall be forfeited by the board and shall revert to the Company.

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(n) Proxies

Any member of the Company entitled to attend and vote at a meeting of the Company is entitled to appoint another person as his proxy to attend and vote instead of him. A member who is the holder of two or more shares may appoint more than one proxy to represent him and vote on his behalf at a general meeting of the Company or at a class meeting. A proxy need not be a member of the Company. In addition, a proxy or proxies representing either a member who is an individual or a member which is a corporation shall be entitled to exercise the same powers on behalf of the member which he or they represent as such member could exercise.

(o) Call on shares and forfeiture of shares

Subject to the Bye-laws and to the terms of allotment, the board may from time to time make such calls upon the members in respect of any monies unpaid on the shares held by them respectively (whether on account of the nominal value of the shares or by way of premium). A call may be made payable either in one lump sum or by installments. If the sum payable in respect of any call or instalment is not paid on or before the day appointed for payment thereof, the person or persons from whom the sum is due shall pay interest on the same at such rate not exceeding twenty per cent. (20%) per annum as the board may agree to accept from the day appointed for the payment thereof to the time of actual payment, but the board may waive payment of such interest wholly or in part. The board may, if it thinks fit, receive from any member willing to advance the same, either in money or money's worth, all or any part of the monies uncalled and unpaid or installments payable upon any shares held by him, and upon all or any of the monies so advanced the Company may pay interest at such rate (if any) as the board may decide.

If a member fails to pay any call on the day appointed for payment thereof, the board may serve not less than fourteen (14) clear days' notice on him requiring payment of so much of the call as is unpaid, together with any interest which may have accrued and which may still accrue up to the date of actual payment and stating that, in the event of non-payment at or before the time appointed, the shares in respect of which the call was made will be liable to be forfeited.

If the requirements of any such notice are not complied with, any share in respect of which the notice has been given may at any time thereafter, before the payment required by the notice has been made, be forfeited by a resolution of the board to that effect.

Such forfeiture will include all dividends and bonuses declared in respect of the forfeited share and not actually paid before the forfeiture.

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A person whose shares have been forfeited shall cease to be a member in respect of the forfeited shares but shall, notwithstanding, remain liable to pay to the Company all monies which, at the date of forfeiture, were payable by him to the Company in respect of the shares, together with (if the board shall in its discretion so require) interest thereon from the date of forfeiture until the date of actual payment at such rate not exceeding twenty per cent. (20%) per annum as the board determines.

(p) Inspection of register of members

The register and branch register of members shall be open to inspection between 10:00 a.m. and 12:00 noon on every business day by members of the public without charge at the registered office or such other place in Bermuda at which the register is kept in accordance with the Companies Act, unless the register is closed in accordance with the Companies Act.

(q) Quorum for meetings and separate class meetings

For all purposes the quorum for a general meeting shall be two 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. In respect of a separate class meeting (other than an adjourned meeting) convened to sanction the modification of class rights the necessary quorum shall be two persons holding or representing by proxy not less than one-third in nominal value of the issued shares of that class.

(r) Rights of the minorities in relation to fraud or oppression

There are no provisions in the Bye-laws relating to rights of minority shareholders in relation to fraud or oppression. However, certain remedies are available to shareholders of the Company under Bermuda law, as summarised in paragraph 4(e) of this Appendix.

(s) Procedures on liquidation

A resolution that the Company be wound up by the court or be wound up voluntarily shall be a special resolution.

If the Company shall be wound up (whether the liquidation is voluntary or by the court) the liquidator may, with the authority of a special resolution and any other sanction required by the Companies Act, divide among the members in specie or kind the whole or any part of the assets of the Company whether the assets shall consist of property of one kind or shall consist of properties of different kinds and the liquidator may, for such purpose, set such value as he deems fair upon any one or more class or classes of property to be divided as aforesaid and may determine how such division shall be carried out as between the members or different classes of members. The liquidator may, with the like authority, vest any part of the assets in trustees upon such trusts for the benefit of members as the liquidator, with the like authority, shall think fit, but so that no contributory shall be compelled to accept any shares or other property in respect of which there is a liability.

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(t) Untraceable members

The Company may sell any of the shares of a member who is untraceable if (i) all cheques or warrants (being not less than three in total number) for any sum payable in cash to the holder of such shares have remained uncashed for a period of 12 years; (ii) upon the expiry of the 12-year period, the Company has not during that time received any indication of the existence of the member; and (iii) the Company has caused an advertisement to be published in accordance with the rules of the Designated Stock Exchange (as defined in the Bye-laws) giving notice of its intention to sell such shares and a period of three months, or such shorter period as may be permitted by the Designated Stock Exchange (as defined in the Bye-laws), has elapsed since such advertisement and the Designated Stock Exchange (as defined in the Bye-laws) has been notified of such intention. The net proceeds of any such sale shall belong to the Company and upon receipt by the Company of such net proceeds, it shall become indebted to the former member of the Company for an amount equal to such net proceeds.

(u) Other provisions

The Bye-laws provide that to the extent that it is not prohibited by and is in compliance with the Companies Act, if warrants to subscribe for shares have been issued by the Company and the Company does any act or engages in any transaction which would result in the subscription price of such warrants being reduced below the par value of a share, a subscription rights reserve shall be established and applied in paying up the difference between the subscription price and the par value of a share on any exercise of the warrants.

The Bye-laws also provide that the Company is required to maintain at its registered office a register of directors and officers in accordance with the provisions of the Companies Act and such register is open to inspection by members of the public without charge between 10:00 a.m. and 12:00 noon on every business day.

3. VARIATION OF MEMORANDUM OF CONTINUANCE AND BYE-LAWS

The Memorandum of Continuance may be altered by the Company in general meeting. The Bye-laws may be amended by the Directors subject to the confirmation of the Company in general meeting. The Bye-laws state that a special resolution shall be required to alter the provisions of the Memorandum of Continuance or to confirm any amendment to the Bye-laws or to change the name of the Company. For these purposes, a resolution is a special resolution if it has been passed by a majority of not less than three-fourths of the votes cast by such members of the Company as, being entitled to do so, vote in person or, in the case of such members as are corporations, by their respective duly authorised representatives or, where proxies are allowed, by proxy at a general meeting of which notice specifying the intention to propose the resolution as a special resolution has been duly given in accordance with paragraph 2(i) above . Except in the case of an annual general meeting, the aforementioned notice

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requirement may be waived by a majority in number of the members having the right to attend and vote at the relevant meeting, being a majority together holding not less than 95 percent in nominal value of the shares giving that right.

4. BERMUDA COMPANY LAW

The Company is continued in Bermuda and, therefore, operates subject to Bermuda law. Set out below is a summary of certain provisions of Bermuda company law, although this does not purport to contain all applicable qualifications and exceptions or to be a complete review of all matters of Bermuda company law and taxation, which may differ from equivalent provisions in jurisdictions with which interested parties may be more familiar:

(a) Share capital

The Companies Act provides that where a company issues shares at a premium, whether for cash or otherwise, a sum equal to the aggregate amount or value of the premiums on those shares shall be transferred to an account, to be called the "share premium account", to which the provisions of the Companies Act relating to a reduction of share capital of a company shall apply as if the share premium account were paid up share capital of the company except that the share premium account may be applied by the company:

- (i) in paying up unissued shares of the company to be issued to members of the company as fully paid bonus shares;
- (ii) in writing off:
 - (aa) the preliminary expenses of the company; or
 - (bb) the expenses of, or the commission paid or discount allowed on, any issue of shares or debentures of the company; or
- (iii) in providing for the premiums payable on redemption of any shares or of any debentures of the company.

In the case of an exchange of shares the excess value of the shares acquired over the nominal value of the shares being issued may be credited to a contributed surplus account of the issuing company.

The Companies Act permits a company to issue preference shares and subject to the conditions stipulated therein to convert those preference shares into redeemable preference shares.

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The Companies Act includes certain protections for holders of special classes of shares, requiring their consent to be obtained before their rights may be varied. Where provision is made by the memorandum of association or bye-laws for authorising the variation of rights attached to any class of shares in the company, the consent of the specified proportions of the holders of the issued shares of that class or the sanction of a resolution passed at a separate meeting of the holders of those shares is required, and where no provision for varying such rights is made in the memorandum of association or bye-laws and nothing therein precludes a variation of such rights, the written consent of the holders of three-fourths of the issued shares of that class or the sanction of a resolution passed as aforesaid is required.

(b) Financial assistance to purchase shares of a company or its holding company

A company is prohibited from providing financial assistance for the purpose of an acquisition of its own or its holding company's shares unless there are reasonable grounds for believing that the company is, and would after the giving of such financial assistance be, able to pay its liabilities as they become due. In certain circumstances, the prohibition from giving financial assistance may be excluded such as where the assistance is only an incidental part of a larger purpose or the assistance is of an insignificant amount such as the payment of minor costs.

(c) Purchase of shares and warrants by a company and its subsidiaries

A company may, if authorised by its memorandum of association or bye-laws, purchase its own shares. Such purchases may only be effected out of the capital paid up on the purchased shares or out of the funds of the company otherwise available for dividend or distribution or out of the proceeds of a fresh issue of shares made for the purpose. Any premium payable on a purchase over the par value of the shares to be purchased must be provided for out of funds of the company otherwise available for dividend or distribution or out of the company's share premium account. Any amount due to a shareholder on a purchase by a company of its own shares may (i) be paid in cash; (ii) be satisfied by the transfer of any part of the undertaking or property of the company having the same value; or (iii) be satisfied partly under (i) and partly under (ii). Any purchase by a company of its own shares may be authorised by its board of directors or otherwise by or in accordance with the provisions of its bye-laws. Such purchase may not be made if, on the date on which the purchase is to be effected, there are reasonable grounds for believing that the company is, or after the purchase would be, unable to pay its liabilities as they become due. The shares so purchased may either be cancelled or held as treasury shares. Any purchased shares that are cancelled will, in effect, revert to the status of authorised but unissued shares. If shares of the company are held as treasury shares, the company is prohibited to exercise any rights in respect of those shares, including any right to attend and vote at meetings, including a meeting under a scheme of arrangement, and any purported exercise of such a right is void. No dividend shall be paid to the company in respect of shares held by the company as treasury shares; and no

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other distribution (whether in cash or otherwise) of the company's assets (including any distribution of assets to members on a winding up) shall be made to the company in respect of shares held by the company as treasury shares. Any shares allotted by the company as fully paid bonus shares in respect of shares held by the company as treasury shares shall be treated for the purposes of the Companies Act as if they had been acquired by the company at the time they were allotted.

A company is not prohibited from purchasing and may purchase its own warrants subject to and in accordance with the terms and conditions of the relevant warrant instrument or certificate. There is no requirement under Bermuda law that a company's memorandum of association or its bye-laws contain a specific provision enabling such purchases.

Under Bermuda law, a subsidiary may hold shares in its holding company and in certain circumstances, may acquire such shares. The holding company is, however, prohibited from giving financial assistance for the purpose of the acquisition, subject to certain circumstances provided by the Companies Act. A company, whether a subsidiary or a holding company, may only purchase its own shares if it is authorised to do so in its memorandum of association or bye-laws pursuant to section 42A of the Companies Act.

(d) Dividends and distributions

A company may not declare or pay a dividend, or make a distribution out of contributed surplus, if there are reasonable grounds for believing that (i) the company is, or would after the payment be, unable to pay its liabilities as they become due; or (ii) the realisable value of the company's assets would thereby be less than the aggregate of its liabilities and its issued share capital and share premium accounts. Contributed surplus is defined for purposes of section 54 of the Companies Act to include the proceeds arising from donated shares, credits resulting from the redemption or conversion of shares at less than the amount set up as nominal capital and donations of cash and other assets to the company.

(e) Protection of minorities

Class actions and derivative actions are generally not available to shareholders under the laws of Bermuda. The Bermuda courts, however, would ordinarily be expected to permit a shareholder to commence an action in the name of a company to remedy a wrong done to the company where the act complained of is alleged to be beyond the corporate power of the company or is illegal or would result in the violation of the company's memorandum of association and bye-laws. Furthermore, consideration would be given by the court to acts that are alleged to constitute a fraud against the minority shareholders or, for instance, where an act requires the approval of a greater percentage of the company's shareholders than actually approved it.

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Any member of a company who complains that the affairs of the company are being conducted or have been conducted in a manner oppressive or prejudicial to the interests of some part of the members, including himself, may petition the court which may, if it is of the opinion that to wind up the company would unfairly prejudice that part of the members but that otherwise the facts would justify the making of a winding up order on just and equitable grounds, make such order as it thinks fit, whether for regulating the conduct of the company's affairs in future or for the purchase of shares of any members of the company by other members of the company or by the company itself and in the case of a purchase by the company itself, for the reduction accordingly of the company's capital, or otherwise. Bermuda law also provides that the company may be wound up by the Bermuda court, if the court is of the opinion that it is just and equitable to do so. Both these provisions are available to minority shareholders seeking relief from the oppressive conduct of the majority, and the court has wide discretion to make such orders as it thinks fit.

Except as mentioned above, claims against a company by its shareholders must be based on the general laws of contract or tort applicable in Bermuda.

A statutory right of action is conferred on subscribers of shares in a company against persons, including directors and officers, responsible for the issue of a document in respect of damage suffered by reason of an untrue statement therein, but this confers no right of action against the company itself. In addition, such company, as opposed to its shareholders, may take action against its officers including directors, for breach of their statutory and fiduciary duty to act honestly and in good faith with a view to the best interests of the company.

(f) Management

The Companies Act contains no specific restrictions on the power of directors to dispose of assets of a company, although it specifically requires that every officer of a company, which includes a director, managing director and secretary, in exercising his powers and discharging his duties must do so honestly and in good faith with a view to the best interests of the company and exercise the care, diligence and skill that a reasonably prudent person would exercise in comparable circumstances. Furthermore, the Companies Act requires that every officer should comply with the Companies Act, regulations passed pursuant to the Companies Act and the bye-laws of the company. The directors of a company may, subject to the bye-laws of the company, exercise all the powers of the company except those powers that are required by the Companies Act or the bye-laws to be exercised by the members of the company.

(g) Accounting and auditing requirements

The Companies Act requires a company to cause proper records of accounts to be kept with respect to (i) all sums of money received and expended by the company and the matters in respect of which the receipt and expenditure takes place; (ii) all sales and purchases of goods by the company and (iii) the assets and liabilities of the company.

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Furthermore, it requires that a company keeps its records of account at the registered office of the company or at such other place as the directors think fit and that such records shall at all times be open to inspection by the directors or the resident representative of the company. If the records of account are kept at some place outside Bermuda, there shall be kept at the office of the company in Bermuda such records as will enable the directors or the resident representative of the company to ascertain with reasonable accuracy the financial position of the company at the end of each three month period, except that where the company is listed on an appointed stock exchange, there shall be kept such records as will enable the directors or the resident representative of the company to ascertain with reasonable accuracy the financial position of the company at the end of each six month period.

The Companies Act requires that the directors of the company must, at least once a year, lay before the company in general meeting financial statements for the relevant accounting period. Further, the company's auditor must audit the financial statements so as to enable him to report to the members. Based on the results of his audit, which must be made in accordance with generally accepted auditing standards, the auditor must then make a report to the members. The generally accepted auditing standards may be those of a country or jurisdiction other than Bermuda or such other generally accepted auditing standards as may be appointed by the Minister of Finance of Bermuda under the Companies Act; and where the generally accepted auditing standards used are other than those of Bermuda, the report of the auditor shall identify the generally accepted auditing standards used. All members of the company are entitled to receive a copy of every financial statement prepared in accordance with these requirements, at least five (5) days before the general meeting of the company at which the financial statements are to be tabled. A company the shares of which are listed on an appointed stock exchange may send to its members summarized financial statements instead. The summarized financial statements must be derived from the company's financial statements for the relevant period and contain the information set out in the Companies Act. The summarized financial statements sent to the company's members must be accompanied by an auditor's report on the summarized financial statements and a notice stating how a member may notify the company of his election to receive financial statements for the relevant period and/or for subsequent periods.

The summarized financial statements together with the auditor's report thereon and the accompanied notice must be sent to the members of the company not less than twenty-one (21) days before the general meeting at which the financial statements are laid. Copies of the financial statements must be sent to a member who elects to receive the same within seven (7) days of receipt by the company of the member's notice of election.

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(h) Auditors

At each annual general meeting, a company must appoint an auditor to hold office until the close of the next annual general meeting; however, this requirement may be waived if all of the shareholders and all of the directors, either in writing or at the general meeting, agree that there shall be no auditor.

A person, other than an incumbent auditor, shall not be capable of being appointed auditor at an annual general meeting unless notice in writing of an intention to nominate that person to the office of auditor has been given not less than twenty-one (21) days before the annual general meeting. The company must send a copy of such notice to the incumbent auditor and give notice thereof to the members not less than seven (7) days before the annual general meeting. An incumbent auditor may, however, by notice in writing to the secretary of the company waive the requirements of the foregoing.

Where an auditor is appointed to replace another auditor, the new auditor must seek from the replaced auditor a written statement as to the circumstances of the latter's replacement. If the replaced auditor does not respond within fifteen (15) days, the new auditor may act in any event. An appointment as auditor of a person who has not requested a written statement from the replaced auditor is voidable by a resolution of the shareholders at a general meeting. An auditor who has resigned, been removed or whose term of office has expired or is about to expire, or who has vacated office is entitled to attend the general meeting of the company at which he is to be removed or his successor is to be appointed; to receive all notices of, and other communications relating to, that meeting which a member is entitled to receive; and to be heard at that meeting on any part of the business of the meeting that relates to his duties as auditor or former auditor.

(i) Exchange control

An exempted company is usually designated as "non-resident" for Bermuda exchange control purposes by the Bermuda Monetary Authority. Where a company is so designated, it is free to deal in currencies of countries outside the Bermuda exchange control area which are freely convertible into currencies of any other country. The permission of the Bermuda Monetary Authority is required for the issue of shares and securities by the company and the subsequent transfer of such shares and securities. In granting such permission, the Bermuda Monetary Authority accepts no responsibility for the financial soundness of any proposals or for the correctness of any statements made or opinions expressed in any document with regard to such issue. Before the company can issue or transfer any further shares and securities in excess of the amounts already approved, it must obtain the prior consent of the Bermuda Monetary Authority.

The Bermuda Monetary Authority has granted general permission for the issue and transfer of shares and securities to and between persons regarded as resident outside Bermuda for exchange control purposes without specific consent for so long as any equity

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securities, including shares, are listed on an appointed stock exchange (as defined in the Companies Act). Issues to and transfers involving persons regarded as "resident" for exchange control purposes in Bermuda will be subject to specific exchange control authorisation.

(j) Taxation

Under present Bermuda law, no Bermuda withholding tax on dividends or other distributions, nor any Bermuda tax computed on profits or income or on any capital asset, gain or appreciation will be payable by an exempted company or its operations, nor is there any Bermuda tax in the nature of estate duty or inheritance tax applicable to shares, debentures or other obligations of the company held by non-residents of Bermuda. Furthermore, a company may apply to the Minister of Finance of Bermuda for an assurance, under the Exempted Undertakings Tax Protection Act 1966 of Bermuda, that no such taxes shall be so applicable until 28th March 2016, although this assurance will not prevent the imposition of any Bermuda tax payable in relation to any land in Bermuda leased or let to the company or to persons ordinarily resident in Bermuda.

(k) Stamp duty

An exempted company is exempt from all stamp duties except on transactions involving "Bermuda property". This term relates, essentially, to real and personal property physically situated in Bermuda, including shares in local companies (as opposed to exempted companies). Transfers of shares and warrants in all exempted companies are exempt from Bermuda stamp duty.

(l) Loans to directors

Bermuda law prohibits the making of loans by a company to any of its directors or to their families or companies in which they hold more than a twenty per cent. (20%) interest, without the consent of any member or members holding in aggregate not less than nine-tenths of the total voting rights of all members having the right to vote at any meeting of the members of the company. These prohibitions do not apply to (a) anything done to provide a director with funds to meet the expenditure incurred or to be incurred by him for the purposes of the company, provided that the company gives its prior approval at a general meeting or, if not, the loan is made on condition that it will be repaid within six months of the next following annual general meeting if the loan is not approved at or before such meeting, (b) in the case of a company whose ordinary business includes the lending of money or the giving of guarantees in connection with loans made by other persons, anything done by the company in the ordinary course of that business, or (c) any advance of moneys by the company to any officer or auditor under Section 98(2)(c) of the Companies Act which allows the company to advance moneys to an officer or auditor of the company for the costs incurred in defending any civil or criminal proceedings against them, on condition that the officer or auditor shall repay the advance if any allegation of fraud or dishonesty is proved against them. If the approval of the company is not given for a loan, the directors who authorised it will be jointly and severally liable for any loss arising therefrom.

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(m) Inspection of corporate records

Members of the general public have the right to inspect the public documents of a company available at the office of the Registrar of Companies in Bermuda which will include the company's certificate of incorporation, its memorandum of association (including its objects and powers) and any alteration to the company's memorandum of association. The members of the company have the additional right to inspect the bye-laws of a company, minutes of general meetings and the company's audited financial statements, which must be presented to the annual general meeting. Minutes of general meetings of a company are also open for inspection by directors of the company without charge for not less than two (2) hours during business hours each day. The register of members of a company is open for inspection by members of the public without charge. The company is required to maintain its share register in Bermuda but may, subject to the provisions of the Companies Act, establish a branch register outside Bermuda. Any branch register of members established by the company is subject to the same rights of inspection as the principal register of members of the company in Bermuda. Any person may on payment of a fee prescribed by the Companies Act require a copy of the register of members or any part thereof which must be provided within fourteen (14) days of a request. Bermuda law does not, however, provide a general right for members to inspect or obtain copies of any other corporate records.

A company is required to maintain a register of directors and officers at its registered office and such register must be made available for inspection for not less than two (2) hours in each day by members of the public without charge. If summarized financial statements are sent by a company to its members pursuant to section 87A of the Companies Act, a copy of the summarized financial statements must be made available for inspection by the public at the registered office of the company in Bermuda.

(n) Winding up

A company may be wound up by the Bermuda court on application presented by the company itself, its creditors or its contributors. The Bermuda court also has authority to order winding up in a number of specified circumstances including where it is, in the opinion of the Bermuda court, just and equitable that such company be wound up.

A company may be wound up voluntarily when the members so resolve in general meeting, or, in the case of a limited duration company, when the period fixed for the duration of the company by its memorandum expires, or the event occurs on the occurrence of which the memorandum provides that the company is to be dissolved. In the case of a voluntary winding up, such company is obliged to cease to carry on its business from the time of passing the resolution for voluntary winding up or upon the expiry of the period or the occurrence of the event referred to above. Upon the appointment of a liquidator, the responsibility for the company's affairs rests entirely in his hands and no future executive action may be carried out without his approval.

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Where, on a voluntary winding up, a majority of directors make a statutory declaration of solvency, the winding up will be a members' voluntary winding up. In any case where such declaration has not been made, the winding up will be a creditors' voluntary winding up.

In the case of a members' voluntary winding up of a company, the company in general meeting must appoint one or more liquidators within the period prescribed by the Companies Act for the purpose of winding up the affairs of the company and distributing its assets. If the liquidator at any time forms the opinion that such company will not be able to pay its debts in full, he is obliged to summon a meeting of creditors.

As soon as the affairs of the company are fully wound up, the liquidator must make up an account of the winding up, showing how the winding up has been conducted and the property of the company has been disposed of, and thereupon call a general meeting of the company for the purposes of laying before it the account and giving an explanation thereof. This final general meeting requires at least one month's notice published in an appointed newspaper in Bermuda.

In the case of a creditors' voluntary winding up of a company, the company must call a meeting of creditors of the company to be summoned on the day following the day on which the meeting of the members at which the resolution for winding up is to be proposed is held. Notice of such meeting of creditors must be sent at the same time as notice is sent to members. In addition, such company must cause a notice to appear in an appointed newspaper on at least two occasions.

The creditors and the members at their respective meetings may nominate a person to be liquidator for the purposes of winding up the affairs of the company provided that if the creditors nominate a different person, the person nominated by the creditors shall be the liquidator. The creditors at the creditors' meeting may also appoint a committee of inspection consisting of not more than five persons.

If a creditors' winding up continues for more than one year, the liquidator is required to summon a general meeting of the company and a meeting of the creditors at the end of each year to lay before such meetings an account of his acts and dealings and of the conduct of the winding up during the preceding year. As soon as the affairs of the company are fully wound up, the liquidator must make an account of the winding up, showing how the winding up has been conducted and the property of the company has been disposed of, and thereupon shall call a general meeting of the company and a meeting of the creditors for the purposes of laying the account before such meetings and giving an explanation thereof.

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THE COMPANY AND BERMUDA COMPANY LAW**

5. GENERAL

Conyers Dill & Pearman, the Company’s legal advisers on Bermuda law, have sent to the Company a letter of advice summarising certain aspects of Bermuda company law. This letter, together with a copy of the Companies Act, is available for inspection as referred to in the paragraph headed “Documents available for inspection” in Appendix [VI]. Any person wishing to have a detailed summary of Bermuda company law or advice on the differences between it and the laws of any jurisdiction with which he is more familiar is recommended to seek independent legal advice.

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FURTHER INFORMATION ABOUT THE COMPANY AND ITS SUBSIDIARIES

A. FURTHER INFORMATION ABOUT THE COMPANY

1. Incorporation

The Company was incorporated in BVI under the International Business Companies Act of BVI with limited liability under the name of “Windsor Treasure Holdings Limited” on 20 April 2004, and changed its name on 7 October 2004 to “Windsor Treasure Group Holdings Limited” and on 3 May 2007 to “HingLi Home Concepts Ltd.”. The Company (re-named as “Hing Lee (HK) Holdings Limited” on 19 November 2008) was subsequently redomiciled to Bermuda and continued as an exempted company under the Companies Act on 30 March 2007.

The Company has established a principal place of business in Hong Kong at [Unit 1101, 11/F., Delta House, 3 On Yiu Street, Shatin, New Territories, Hong Kong] and was registered as a non-Hong Kong company in Hong Kong under Part XI of the Companies Ordinance on 21 October 2008, with Mr. Sung appointed as the authorised representative of the Company for the acceptance of service of process and notice on behalf of the Company in Hong Kong. As the Company has redomiciled and continued its existence in Bermuda, the corporate structure and the Bye-Laws are subject to the relevant laws and regulations of Bermuda. A summary of various provisions of the Bye-Laws and relevant aspects of the Companies Act is set out in Appendix IV to this document.

2. Changes in the share capital of the Company

As at the date of incorporation of the Company, the authorised share capital of the Company was US\$50,000.00 divided into 50,000 shares of US\$1.00 each. The following alterations in the share capital of the Company have taken place since its date of incorporation up to the date of this document:

- (a) On 20 April 2004, a total of 10,000 shares of US\$1.00 each were issued for cash at par, as to (i) 2,624 shares to Mr. Sung; (ii) 2,524 shares to Mr. Chan; (iii) 2,524 shares to Mr. Cheung; and (iv) 2,328 shares to Mr. Huang which were fully paid.
- (b) On 28 July 2004, the Founders transferred their respective shares to their respective investment vehicles at par, as to (i) 2,224 shares and 400 shares from Mr. Sung to Capitalrise Group Limited and Bloominvest Group Limited respectively; (ii) 2,224 shares and 300 shares from Mr. Chan to Good Profit Trading Limited and Hero Profit International Limited respectively; (iii) 2,224 shares and 300 shares from Mr. Cheung to Metronet Investments Limited and Ace Victory Investments Limited respectively; and (iv) 1,289 shares and 1,039 shares from Mr. Huang to Even Skill Technology Limited and Wellasia International Limited respectively.

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- (c) On 23 November 2004, a total of 20,000 shares of US\$1.00 each were issued and allotted, credited as fully paid, as to (i) 4,448 shares to Capitalrise Group Limited and 802 shares to Bloominvest Group Limited (each as directed by Mr. Sung); (ii) 4,448 shares to Good Profit Trading Limited and 602 shares to Hero Profit International Limited (each as directed by Mr. Chan); (iii) 4,448 shares to Metronet Investments Limited and 602 shares to Ace Victory Investments Limited (each as directed by Mr. Cheung) and (iv) 2,578 shares to Even Skill Technology Limited and 2,072 shares to Wellasia International Limited (each as directed by Mr. Huang), as the consideration for the acquisition of the entire issued share capital in Great Ample (the intermediate holding company of the Group) (other than 1 share in Great Ample which was then already held by the Company) from the Founders.
- (d) On 24 November 2004, pursuant to a sale and purchase agreement dated 19 August 2004, (i) a total of 10,410 shares of US\$1.00 each were acquired by Talent Sino Holdings Limited, a wholly-owned subsidiary of Omnicorp Limited, from the investment vehicles of the Founders as set out in paragraphs (b) and (c) above at a total consideration of HK\$17,003,000 which was satisfied by the issue of 17,003,000 new shares of Omnicorp Limited at an issue price of HK\$1.00 each to the respective vendors and (ii) 10,410 shares of US\$1.00 each were issued and allotted to Talent Sino Holdings Limited at a total issue price of HK\$17,003,000 in cash which were fully paid.
- (e) On 8 June 2005, each of Good Profit Trading Limited, Metronet Investments Limited, Even Skill Technology Limited and Capitalrise Group Limited transferred 600 shares of US\$1.00 each at par value to each of Capital Trinity Limited and Brilliant Team Holdings Limited (the investment vehicles of Ms. Xu Cai Xia and Mr. Su Yi respectively) as nominees to hold such shares for Ms. Xu Cai Xia, Mr. Su Yi and 8 members of the senior management.
- (f) On 28 July 2006, in accordance with an agreement dated 22 May 2006, a total of 20,820 shares of US\$1.00 each, being the entire shareholding then held by Talent Sino Holdings Limited, and the shareholder's loan owing by the Company to Talent Sino Holdings Limited were transferred from Talent Sino Holdings Limited to Triple Express at a total cash consideration of HK\$96,000,000.
- (g) On 31 December 2006, 9,234 shares of US\$1.00 each were issued and allotted, credited as fully paid, to Triple Express by way of capitalisation of the shareholder's loan of HK\$27,500,000.00 owing by the Company to Triple Express pursuant to a subscription agreement dated 31 December 2006.

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- (h) On 31 January 2007, the following transfers of shares took place:
- (i) 3,157 shares and 785 shares of US\$1.00 each were transferred from Capitalrise Group Limited and Bloominvest Group Limited respectively to King Right Holdings Limited, being the new investment vehicle of Mr. Sung, at par;
 - (ii) 3,157 shares and 589 shares of US\$1.00 each were transferred from Good Profit Trading Limited and Hero Profit International Limited respectively to Golden Sunday Limited, being the new investment vehicle of Mr. Chan, at par;
 - (iii) 3,157 shares and 589 shares of US\$1.00 each were transferred from Metronet Investments Limited and Ace Victory Investments Limited respectively to United Sino Limited, being the new investment vehicle of Mr. Cheung, at par;
 - (iv) 1,325 shares and 2,031 shares of US\$1.00 each were transferred from Even Skill Technology Limited and Wellasia International Limited respectively to Top Right Trading Limited, being the new investment vehicle of Mr. Huang, at par;
 - (v) 2,304 shares and 96 shares of US\$1.00 each were transferred from Capital Trinity Limited to Golden Sunday Limited and United Sino Limited respectively at par;
 - (vi) 2,335 shares and 65 shares of US\$1.00 each were transferred from Brilliant Team Holdings Limited to Top Right Trading Limited and United Sino Limited respectively at par; and
 - (vii) 2,143 shares and 2,108 shares of US\$1.00 each were transferred from Triple Express to United Sino Limited and King Right Holdings Limited respectively for a consideration of HK\$3,217 per share.
- (i) On 5 May 2009, the currency denomination of the issued and unissued share capital of the Company was changed from United States Dollars to Hong Kong Dollars by adopting the exchange rate of US\$1.00 to HK\$7.80 such that the Company's authorised share capital has become HK\$390,000 divided into 50,000 shares of HK\$7.80 each and the issued share capital has become HK\$387,223.20 divided into 49,644 shares of HK\$7.80 each and immediately thereafter, each of the issued and unissued shares of HK\$7.80 each in the share capital of the Company was subdivided into 780 shares of HK\$0.01 each so that the share capital of the Company comprised 38,722,320 issued shares and 277,680 unissued shares of HK\$0.01 each.

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- (j) Pursuant to the written resolutions of the Shareholders passed on 29 May 2009, the authorised share capital of the Company was increased from HK\$390,000 to HK\$10,000,000 by the creation of an additional of 961,000,000 Shares of HK\$0.01 each.
- (k) Conditional on the share premium account of the Company being credited as a result of [●], the Directors were authorised to capitalise an amount of HK\$[●] from the amount standing to the credit of the share premium account of the Company and that the said sum be capitalised and applied to pay up in full at par a total of [●] Shares, such Shares to be allotted and issued, credited as fully paid at par, to the holders of Shares whose names appear on the register of members of the Company at the close of business on 29 May 2009 or as each of them may direct in writing, in proportion (or as nearly as possible without involving the issue of fractions of Shares) to their respective shareholdings in the Company.
- (l) Immediately upon completion of [●] (but without taking into account of any Shares which may be allotted and issued pursuant to the exercise of subscription rights under any options granted under [●] and options which may be granted under the Share Option Scheme), [●] Shares will be issued fully paid or credited as fully paid and [●] Shares will remain unissued.

Save as disclosed herein and in the paragraph headed “Written resolutions of the Shareholders on 29 May 2009” below, there has been no alteration in the share capital of the Company since the date of its incorporation.

3. Written resolutions of the Shareholders on 29 May 2009

[●]

4. Subsidiaries

The subsidiaries of the Company are listed in the accountant’s report set out in Appendix [I] to this document. The following alterations in the share capital (or registered capital, as the case may be) of the subsidiaries of the Company have taken place within the two years immediately preceding the date of this document:

(a) *Hander International*

Hander International was incorporated in Hong Kong with limited liability on 12 November 2007. On the same day, 1 share of HK\$1.00 was issued and allotted to Cartech Limited as subscriber for cash at par and was fully paid. Such share was transferred by the subscriber to Springrich Investments for a cash consideration of HK\$1.00 on 10 December 2007.

On 20 December 2007, 77 shares of HK\$1.00 each and 22 shares of HK\$1.00 each were issued and allotted to Springrich Investments and Cheernew Investments Limited respectively for a cash consideration of HK\$1.00 per share, all of which were fully paid.

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(b) *Hanmix*

Hanmix was incorporated in Hong Kong with limited liability on 15 November 2007. On the same day, 1 share of HK\$1.00 was issued and allotted to Cartech Limited as subscriber for cash at par and was fully paid. Such share was transferred by the subscriber to Success Profit for a cash consideration of HK\$1.00 on 10 December 2007.

(c) *Dongguan Super Furniture*

The interests of Springrich Investments and Cheernew Investments Limited in Dongguan Super Furniture were transferred by them to Hander International at a cash consideration of US\$1,310,400 and US\$369,600 respectively pursuant to an agreement dated 28 December 2007, the approval of which was obtained from the relevant authority on 30 May 2008. As a result of the transfer, Hander International was deemed to be indebted to Springrich Investments and Cheernew Investments Limited for a sum of US\$1,310,400 and US\$369,600 respectively.

(d) *Shenzhen Xingli*

The interests of Success Profit in Shenzhen Xingli were transferred by Success Profit to Hanmix at a cash consideration of RMB1,000,000 pursuant to an agreement dated 28 December 2007, the approval of which was obtained from the relevant authority on 16 May 2008. As a result of the transfer, Hanmix was deemed to be indebted to Success Profit for a sum of RMB1,000,000.

(e) *Hing Lee Ideas*

Hing Lee Ideas was incorporated in the Federal Territory of Labuan, Malaysia with limited liability on 3 January 2008. It has an authorised share capital of US\$10,000 divided into 10,000 shares of US\$1.00 each. 1 share of US\$1.00 was issued and allotted to Capico Asset Management Sdn. Bhd. as subscriber for cash at par and was fully paid. Such share was transferred by the subscriber to Great Ample for a cash consideration of US\$1.00 on 23 January 2008.

Save as mentioned herein, there has been no alteration in the share capital (or registered capital, as the case may be) of the subsidiaries of the Company within the two years immediately preceding the date of this document.

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5. Further information about the Company’s subsidiaries in the PRC

The Company has interests in a number of subsidiaries in the PRC. Set out below is a summary of the corporate information of these PRC subsidiaries:

Shenzhen Xingli

- (i) Corporate name : 深圳興利家具有限公司 (Shenzhen Xingli Furniture Company Limited)
- (ii) Date of incorporation : 16 December 2002
- (iii) Registered office : 深圳市龍崗區布吉鎮雪象花園新村一棟1-3層
- (iv) Economic nature : Wholly foreign-owned enterprise
- (v) Registered owner : Hanmix
- (vi) Total investment capital : RMB112,000,000.00
- (vii) Registered capital : RMB60,000,000.00
- (viii) Attributable interest to the Group : 100%
- (ix) Term of operation : 16 December 2002 to 16 December 2012
- (x) Scope of business : Develop, design, manufacture and sale of panel furniture, solid wood furniture, soft furniture, steel furniture, lighting, bed accessories and decorative furniture and import and export of goods and technologies (excluding distribution and state exclusive or controlled goods)
- (xi) Directors : Mr. Chan Kwok Kin (陳國堅), Mr. Huang Wei Ye (黃偉業), Mr. Wu Guo Long (吳國龍), Mr. Su Yi (蘇毅)
- (xii) Legal representative : Mr. Chan Kwok Kin (陳國堅)

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Shenzhen Xingli Zundian

- (i) Corporate name : 深圳興利尊典家具有限公司 (Shenzhen Xingli Zundian Furniture Company Limited)
- (ii) Date of incorporation : 28 December 2004
- (iii) Registered office : 深圳市龍崗區布吉坂田吉華路龍壁工業區
2#首、二層
- (iv) Economic nature : Wholly foreign-owned enterprise
- (v) Registered owner : Hing Lee (China)
- (vi) Total investment capital : RMB100,000,000.00
- (vii) Registered capital : RMB40,000,000.00
- (viii) Attributable interest to the Group : 100%
- (ix) Term of operation : 28 December 2004 to 28 December 2014
- (x) Scope of business : Develop, design, manufacture and sale of panel furniture, solid wood furniture, soft furniture, steel furniture, lighting, bed accessories and decorative furniture and import and export of goods and technologies (excluding distribution and state exclusive or controlled goods)
- (xi) Directors : Mr. Huang Wei Ye (黃偉業), Mr. Wu Guo Long (吳國龍), Huang Zhi Bin (黃志斌)
- (xii) Legal representative : Mr. Huang Wei Ye (黃偉業)

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Dongguan Super Furniture

- (i) Corporate name : 東莞興展家具有限公司 (Dongguan Super Furniture Company Limited)
- (ii) Date of incorporation : 14 October 2005
- (iii) Registered office : 東莞市常平鎮袁山貝村
- (iv) Economic nature : Wholly foreign-owned enterprise
- (v) Registered owner : Hander International
- (vi) Total investment capital : USD1,680,000.00
- (vii) Registered capital : USD1,680,000.00
- (viii) Attributable interest to the Group : 78%
- (ix) Term of operation : 14 October 2005 to 14 October 2017
- (x) Scope of business : Manufacture and sale of mattress, bed accessories and bedroom furniture
- (xi) Directors : Mr. Cheung Kong Cheung (張港璋), Mr. Chan Kwok Kin (陳國堅), Mr. Su Yi (蘇毅)
- (xii) Legal representative : Mr. Cheung Kong Cheung (張港璋)

APPENDIX V

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6. Repurchase by the Company of its own Shares

This section includes information required by the Stock Exchange to be included in this document concerning the repurchase by the Company of its own securities.

(a) Relevant legal and regulatory requirements

The Listing Rules permit companies whose primary listings are on the Stock Exchange to repurchase their own shares on the Stock Exchange subject to certain restrictions, amongst which it is provided that:

(i) Shareholders’ approval

All proposed repurchases of securities (which must be fully-paid up in the case of shares) by a company with its primary listing on the Stock Exchange must be approved in advance by an ordinary resolution of its shareholders, either by way of a general mandate or by specific approval of a particular transaction.

Pursuant to the written resolutions of the Shareholders passed on 29 May 2009, conditional upon [●], a general unconditional mandate (the “**Repurchase Mandate**”) was given to the Directors to exercise all the powers of the Company to repurchase the Shares with an aggregate nominal amount not exceeding 10% of the aggregate nominal amount of the share capital of the Company in issue immediately following completion of [●] (but excluding any Shares which may be issued pursuant to the exercise of options granted under or which may be granted under [●] and the Share Option Scheme). The Repurchase Mandate will remain in effect until the conclusion of the next annual general meeting of the Company, or the expiration of the period within which the next annual general meeting of the Company is required by any applicable law or the Bye-Laws to be held, or when it is revoked, varied or renewed by an ordinary resolution of the Shareholders in general meeting, whichever is the earliest.

(ii) Source of funds

Repurchases must be paid out of funds legally available for the purpose in accordance with the Bye-Laws and the applicable laws of Bermuda. A listed company may not repurchase its own securities on the Stock Exchange for a consideration other than cash or for settlement otherwise than in accordance with the trading rules of the Stock Exchange from time to time.

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Under the Companies Act, any repurchase of shares may only be effected out of the capital paid up on the repurchased shares or out of the funds of the Company otherwise available for dividend or distribution or out of the proceeds of a fresh issue of shares made for the purpose of the repurchase. Any premium payable on a repurchase over the par value of the shares to be repurchased must be provided for out of funds of the Company otherwise available for dividend or distribution or out of the Company's share premium account.

(b) Reasons for repurchases

The Directors believe that it is in the best interests of the Company and the Shareholders for the Directors to have a general authority from the Shareholders to enable the Company to repurchase Shares in the market. Repurchases of Shares will only be made when and to the extent that the Directors believe that such repurchases will benefit the Company and its Shareholders. Such repurchases may, depending on the market conditions and funding arrangements at the time, lead to an enhancement of the net asset value per Share and/or the earnings per Share.

(c) Funding of repurchases

In repurchasing the Shares, the Company may only apply funds of the Company legally available for such purpose in accordance with its memorandum of continuance and Bye-Laws, the Listing Rules and the applicable laws and regulations of Bermuda.

On the basis of the current financial position of the Company as disclosed in this document, and taking into account the current working capital position of the Company, the Directors consider that, if the Repurchase Mandate were to be exercised in full, it might have a material adverse impact on the working capital and/or the gearing position of the Company as compared with the position disclosed in this document. However, the Directors do not propose to exercise the Repurchase Mandate to such an extent as would, in the circumstances, have a material adverse effect on the working capital position of the Company or the gearing levels which in the opinion of the Directors are from time to time appropriate for the Company.

(d) Number of Shares which may be repurchased

On the basis of [●] Shares in issue immediately following the completion of [●] (without taking into account the exercise of the options granted under [●] and which may be granted under the Share Option Scheme), the Directors would be authorised under the Repurchase Mandate to repurchase up to [●] Shares during the period in which the Repurchase Mandate remains in force.

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(e) General

None of the Directors nor, to the best of their knowledge, having made all reasonable enquiries, any of their respective associates, have any present intention, if the Repurchase Mandate is exercised, to sell any Shares to the Company or its subsidiaries.

The Directors [have undertaken] to the Stock Exchange that, so far as the same may be applicable, they will exercise the Repurchase Mandate in accordance with the Listing Rules, the Bye-Laws and the applicable laws and regulations of Bermuda.

If as a result of any repurchase of Shares, a Shareholder's proportionate interest in the voting rights of the Company is increased, such increase will be treated as an acquisition for the purpose of the Takeovers Code. Accordingly, a Shareholder, or a group of Shareholders acting in concert (as defined in the Takeovers Code), depending on the level of increase of the Shareholder's interest, could obtain or consolidate control of the Company and become obliged to make a mandatory offer in accordance with Rule 26 of the Takeovers Code. Save as aforesaid, the Directors are not aware of any consequences which would arise under the Takeovers Code as a consequence of any repurchases of Shares pursuant to the Repurchase Mandate.

Any repurchase of Shares which results in the number of Shares held by the public being reduced to less than the prescribed percentage of the Shares then in issue could only be implemented with the approval of the Stock Exchange to waive the Listing Rules requirements regarding public shareholding. However, the Directors do not propose to exercise the Repurchase Mandate to such an extent that in the circumstances, there is insufficient public float as prescribed under the Listing Rules.

No connected person of the Company has notified the Company that he has a present intention to sell Shares to the Company, or has undertaken not to do so, if the Repurchase Mandate is exercised.

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B. FURTHER INFORMATION ABOUT THE BUSINESS

1. Summary of material contracts

The following contracts (not being contracts in the ordinary course of business) have been entered into by the Company or its subsidiaries within the two years immediately preceding the date of this document and are or may be material:

- (i) a contract entered into between Shenzhen Xingli Zundian and 深圳市國土資源和房產管理局 (Shenzhen Municipal Bureau of Land Resources and Housing Management) dated 29 June 2007 in relation to the grant of land use rights over the land numbered G14310-0206 of area of approximately 41,064.83 sq.m. for a term commencing from 29 June 2007 to 28 June 2057 to Shenzhen Xingli Zundian for a cash consideration of RMB21,094,404;
- (ii) a contract entered into between Shenzhen Xingli and 深圳市國土資源和房產管理局 (Shenzhen Municipal Bureau of Land Resources and Housing Management) dated 29 June 2007 in relation to the grant of land use rights over the land numbered G14309-0285 of area of approximately 43,817.36 sq.m. for a term commencing from 29 June 2007 to 28 June 2057 to Shenzhen Xingli for a cash consideration of RMB22,593,085;
- (iii) an agreement between Hing Lee Furniture Group Limited and May Day Design dated 8 October 2007 (as supplemented by a letter from Hing Lee Furniture Group Limited to May Day Design dated 28 November 2008 and countersigned by May Day Design) in relation to the engagement of the latter for the purpose of constructing a strategy to reach the European and international market for the Group for a cash consideration of 176,000 Euros payable in stages;
- (iv) an agreement between Shenzhen Xingli and Schuler Business Solutions AG ("SBS") dated 9 November 2007 in relation to the provision of technical services by SBS for the layout of the veneer furniture factory and modern furniture factory in Shenzhen for a consulting fee of 98,000 Euros payable in stages;
- (v) a contract between Shenzhen Xingli and 廣東五華二建工程有限公司 (Guangdong Wu Hua Er Jian Construction Company Limited) ("**Guangdong Wu Hua**") dated 23 April 2008 in relation to the first phase construction of the new production plant, dormitory and warehouse of Shenzhen Xingli for a contract sum of RMB56,614,336.46 (save that a bonus of RMB50,000 will be paid by Shenzhen Xingli to Guangdong Wu Hua for each day of early completion of the construction work before the agreed completion date subject to a cap of 3% of the contract sum);

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- (vi) a supplemental agreement to the contract referred to in paragraph (v) above dated 10 June 2008 between Shenzhen Xingli and Guangdong Wu Hua in relation to the foundation work of the new production plant, dormitory and warehouse for a contract sum of RMB1,850,940;
- (vii) a deed of confirmation dated 28 November 2008 signed by Success Profit, Mr. Sung, Mr. Chan, Mr. Cheung and the then shareholders of LFST (being Mr. Huang, Ye Jian Qun, Wu Guo Long and Lin Qi Sheng) confirming that (a) Success Profit issued 2,100 new shares to each of Mr. Sung, Mr. Chan and Mr. Cheung in satisfaction of the consideration payable to them respectively for the acquisition of their equity interests in Shenzhen Xingli by Success Profit and (b) the consideration paid by Success Profit to LFST in cash for the acquisition of LFST’s equity interests in Shenzhen Xingli by Success Profit was applied towards the subscription of 3,700 shares in Success Profit which were allotted and issued to Mr. Huang;
- (viii) the Non-competition Deed dated [●] executed by Triple Express, Mr. Fang Shin and the Founders in favour of the Company (for itself and as trustee for its subsidiaries) containing the non-competition undertakings as more particularly set out in the paragraph headed “Non-competition undertakings” in the section headed “Business” in this document;
- (ix) the Deed of Indemnity dated [●] executed by the Founders and their respective investment vehicles (namely, King Right Holdings Limited, United Sino Limited, Golden Sunday Limited and Top Right Trading Limited) in favour of the Company (for itself and as trustee for its subsidiaries) containing, among other things, indemnities as more particularly set out in the paragraph headed “Tax and other indemnities” in the section headed “Other information” in this Appendix; and
- (x) [●]

2. Intellectual property

A. Trademarks

(a) Trademarks owned by the Group

As at the Latest Practicable Date, the Group was the owner of the following registered trademarks, details of which are as follows:

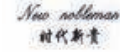
(i) Trademarks registered in the PRC

Trademark	Registration number	Registered owner	Class	Duration of validity
	3951830	Sharp Motion	20	7 December 2006 to 6 December 2016

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Trademark	Registration number	Registered owner	Class	Duration of validity
	3951832	Sharp Motion	20	7 September 2006 to 6 September 2016
	3951954	Sharp Motion	20	21 September 2006 to 20 September 2016
	4110515	Sharp Motion	20	21 April 2007 to 20 April 2017
	1636912	Sharp Motion	20	21 September 2001 to 20 September 2011
瑞珀 SCRIDE	1628947	Sharp Motion	20	7 September 2001 to 6 September 2011
	1616907	Sharp Motion	20	14 August 2001 to 13 August 2011
	1640913	Shenzhen Xingli Zundian	20	28 September 2001 to 27 September 2011
	1684968	Shenzhen Xingli Zundian	20	21 December 2001 to 20 December 2011
世紀葵花	1801273	Sharp Motion	20	7 July 2002 to 6 July 2012
	1816405	Sharp Motion	20	28 July 2002 to 27 July 2012
	3018122	Sharp Motion	20	28 February 2003 to 27 February 2013
	1931952	Sharp Motion	20	7 August 2002 to 6 August 2012
	2002415	Sharp Motion	20	7 January 2005 to 6 January 2015
欧瑞	1751356	Sharp Motion	20	21 April 2002 to 20 April 2012

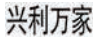
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Trademark	Registration number	Registered owner	Class	Duration of validity
	3939923	Sharp Motion	20	21 September 2006 to 20 September 2016
	3827179	Sharp Motion	20	21 April 2006 to 20 April 2016
	3216213	Sharp Motion	20	7 January 2006 to 6 January 2016
	3216308	Sharp Motion	20	28 October 2003 to 27 October 2013
	1929758	Sharp Motion	20	14 October 2002 to 13 October 2012
	1930747	Sharp Motion	24	7 November 2003 to 6 November 2013
	3477994	Sharp Motion	20	28 January 2005 to 27 January 2015
品至 PZ-king	3446378	Sharp Motion	20	7 December 2004 to 6 December 2014
	3079844	Sharp Motion	20	7 April 2003 to 6 April 2013
	1761259	Sharp Motion	24	7 May 2002 to 6 May 2012
	1728905	Sharp Motion	20	14 March 2002 to 13 March 2012
万家兴利	3951831	Sharp Motion	20	21 January 2009 to 20 January 2019
	3954555	Sharp Motion	20	21 January 2009 to 20 January 2019
	3954556	Sharp Motion	20	21 January 2009 to 20 January 2019

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(ii) Trademarks registered outside the PRC

Trademark	Place of registration	Registration number	Registered owner	Class	Duration of validity
	Hong Kong	300757152	Sharp Motion	20, 24	9 November 2006 to 8 November 2016
	Hong Kong	300757143	Sharp Motion	20, 24	9 November 2006 to 8 November 2016
	Hong Kong	300174807	Hing Lee Furniture Group Limited	20	10 March 2004 to 9 March 2014
	Hong Kong	300174780	Hing Lee Furniture Group Limited	20	10 March 2004 to 9 March 2014
	Hong Kong	300174799	Hing Lee Furniture Group Limited	20	10 March 2004 to 9 March 2014
	Hong Kong	300174816	Hing Lee Furniture Group Limited	20	10 March 2004 to 9 March 2014
	Hong Kong	300228096	Hing Lee Furniture Group Limited	20	7 June 2004 to 6 June 2014

(b) Application for registration of trademarks

As at the Latest Practicable Date, the Group had applied for registration of the following trademarks, the certificates of registration of which have not yet been granted, details of which are as follows:

(i) Applications for trademarks in the PRC

Trademark	Application number	Name of applicant	Class	Application date (Note 1)
	4832633	Sharp Motion	20	12 August 2005
	5427465	Sharp Motion	20	19 June 2006
慕莎	5694266	Sharp Motion	20	1 November 2006
慕莎	5694267	Sharp Motion	24	1 November 2006
	5694268	Sharp Motion	20	1 November 2006

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Trademark	Application number	Name of applicant	Class	Application date (Note 1)
	5694269	Sharp Motion	24	1 November 2006
	6487601	Sharp Motion	20	2 January 2008
	6574137	Sharp Motion	20	3 March 2008
	6574136	Sharp Motion	20	3 March 2008
	7114832	Sharp Motion	20	16 December 2008

(ii) Applications for trademarks outside the PRC

Trademark	Place of application	Application number	Name of applicant	Class	Application date (Note 2)
	Italy	TO2008C001973	Shenzhen Xingli Zundian	20	11 June 2008

Notes:

1. According to the PRC Legal Advisers, the time required for completion of the registration procedures cannot be ascertained as it depends on the progress of the examination and approval procedures of 中華人民共和國國家工商行政管理總局商標局 (Trademark Office of State Administration for Industry and Commerce of the PRC). According to the PRC Legal Advisers, 中華人民共和國國家工商行政管理總局商標局 (Trademark Office of State Administration for Industry and Commerce of the PRC) will examine whether the subject trademarks are distinctive, distinguishable and in conflict with any prior right acquired by another person. Subject to the passing of the examination of 中華人民共和國國家工商行政管理總局商標局 (Trademark Office of State Administration for Industry and Commerce of the PRC) in relation to the above, the PRC Legal Advisers have advised that there would be no legal impediments for the Group to obtain the approval for the registration of such trademarks.
2. According to a legal opinion from an Italian legal adviser obtained by the Group, [under normal circumstances, the completion of the registration procedures is expected to take three to four years from the filing date. The Group was advised by the Italian legal adviser that the chance of refusal of such registration was very low. However, the fact that the Italian Trademark and Patent Office issues a certificate of registration does not mean that the relevant trademark is valid since the novelty, which is a requirement by law, has not been examined by the said Office and the novelty of such trademark may be eventually contested by legal action, though such risk is considered to be low by such Italian legal adviser.]

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B. Patents

(a) Patents owned by the Group

As at the Latest Practicable Date, the Group was the owner of the following patents, details of which are as follows:

Patents	Place of registration	Registration number	Registered owner	Date of application (Note)
床 (Bed) (JX20T8)	PRC	200630018240.0	Shenzhen Xingli Zundian	18 August 2006
床 (Bed) (M63T8)	PRC	200630018232.6	Shenzhen Xingli Zundian	18 August 2006
床 (Bed) (JX09T8)	PRC	200630018229.4	Shenzhen Xingli Zundian	18 August 2006
床 (Bed) (JX03T8)	PRC	200630018230.7	Shenzhen Xingli Zundian	18 August 2006
梳妝台 (Dressing table) (JH01T2)	PRC	200730006069.6	Sharp Motion	14 February 2007
床 (Bed) (M63T8)	PRC	200730006072.8	Sharp Motion	14 February 2007

Note: The validity period of the patents is 10 years from the date of application.

(b) Application for registration of patents

As at the Latest Practicable Date, the Group had applied for registration of the following patents, the certificates of registration of which have not yet been granted, details of which are as follows:

Patents	Place of application	Application number	Applicant	Application date (Note)
床 (Bed) (JN16T8)	PRC	200730154374.X	Sharp Motion	17 August 2007
床 (Bed) (JK02T8)	PRC	200730154376.9	Sharp Motion	17 August 2007
躺椅 (Deck chair) (H2886)	PRC	200730154377.3	Sharp Motion	17 August 2007
床頭櫃 (Bedside cupboard) (JK02T1)	PRC	200730154383.9	Sharp Motion	17 August 2007
床 (Bed) (JN17T8)	PRC	200730154382.4	Sharp Motion	17 August 2007
床 (Bed) (JK01T8)	PRC	200730154381.X	Sharp Motion	17 August 2007

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Patents	Place of application	Application number	Applicant	Application date (Note)
床頭櫃 (Bedside cupboard) (JK01T1)	PRC	200730154380.5	Sharp Motion	17 August 2007
裝飾櫃 (Ornament cabinet) (JNN710)	PRC	200730154379.2	Sharp Motion	17 August 2007
組合櫃 (Combination cabinet) (JNN305)	PRC	200730154378.8	Sharp Motion	17 August 2007
床頭櫃 (Bedside cupboard) (JN16T1)	PRC	200730154373.5	Sharp Motion	17 August 2007
二門餐邊櫃 (Two-door dining cabinet) (DR17)	PRC	200830008759.X	Sharp Motion	11 March 2008
床頭屏風 (Bedside shield) (BD8)	PRC	200830008760.2	Sharp Motion	11 March 2008
趟門餐衣櫃 (Cabinet with sliding door(s)) (DR18)	PRC	200830008764.0	Sharp Motion	11 March 2008
茶几 (Coffee table) (DR25)	PRC	200830008758.5	Sharp Motion	11 March 2008
妝台 (Dressing table) (BD23)	PRC	200830008755.1	Sharp Motion	11 March 2008
折疊門餐邊櫃 (Dining cabinet with foldable door(s)) (DR22)	PRC	200830009039.5	Sharp Motion	11 March 2008
床頭櫃 (Bedside cupboard) (BD27)	PRC	200830008762.1	Sharp Motion	11 March 2008
八斗櫃 (Eight-drawer cabinet) (BD25)	PRC	200830008763.6	Sharp Motion	11 March 2008
床 (Bed) (BDR2)	PRC	200830008756.6	Sharp Motion	11 March 2008
床尾凳 (Bed-end chair) (BD3)	PRC	200830008757.0	Sharp Motion	11 March 2008
折疊床頭屏風 (Foldable bedside shield) (BD31)	PRC	200830008768.9	Sharp Motion	11 March 2008
三位沙發 (Three-seat sofa) (DR27)	PRC	200830008761.7	Sharp Motion	11 March 2008
餐椅 (Dining chair) (DR9)	PRC	200830008753.2	Sharp Motion	11 March 2008
扶手餐椅 (Dining chair with armrest) (DR13)	PRC	200830008747.7	Sharp Motion	11 March 2008
妝鏡 (Dressing mirror) (BD29)	PRC	200830008754.7	Sharp Motion	11 March 2008
架子床 (Bunk bed) (BD36)	PRC	200830008751.3	Sharp Motion	11 March 2008
四門衣櫃 (Four-door wardrobe (BD15)	PRC	200830008752.8	Sharp Motion	11 March 2008

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Patents	Place of application	Application number	Applicant	Application date (Note)
茶几 (Coffee table) (DR24)	PRC	200830008766.X	Sharp Motion	11 March 2008
二門書架 (Two-door bookshelf) (DR26A)	PRC	200830008769.3	Sharp Motion	11 March 2008
三門書架 (Three-door bookshelf) (DR26B)	PRC	200830008750.9	Sharp Motion	11 March 2008
四門書架 (Four-door bookshelf) (DR26C)	PRC	200830008765.5	Sharp Motion	11 March 2008
書台 (Desk) (DR26D)	PRC	200830008746.2	Sharp Motion	11 March 2008
床 (Bed) (BD1)	PRC	200830008749.6	Sharp Motion	11 March 2008
餐桌 (Dining table) (DR1)	PRC	200830008748.1	Sharp Motion	11 March 2008

Note: According to the PRC Legal Advisers, the time required for completion of the registration procedures cannot be ascertained as it depends on the progress of the examination and approval procedures of 中華人民共和國國家知識產權局 (the State Intellectual Property Office of the PRC). The PRC Legal Advisers have also advised that the subject designs must not be identical with or similar to any design which, before the date of filing, has been publicly disclosed in publications in the country or abroad or has been publicly used in the country, and must not be in conflict with any prior right of any other person. Subject to the examination of 中華人民共和國國家知識產權局 (the State Intellectual Property Office of the PRC) in relation to the above, the compliance of the application procedures by the Group as required under 中華人民共和國專利法 (the Patent Law of the PRC) and the payment of the relevant fees involved in the applications, the PRC Legal Advisers have advised that there would be no legal impediments for the Group to obtain the approval for the registration of such patents.

C. Domain name

As at the Latest Practicable Date, the Group was the registrant of the following domain name:

Domain name	Registration date	Expiry date
www.hingleegroup.com (Note)	24 October 2003	24 October 2010

Note: The contents contained in the website above do not form part of this document.

Save as disclosed above, there are no other trademarks, patents or other intellectual property rights which are material in relation to the business of the Group.

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C. FURTHER INFORMATION ABOUT DIRECTORS, MANAGEMENT STAFF AND SUBSTANTIAL SHAREHOLDERS

1. Disclosure of interests or short position of Directors and chief executive of the Company in the shares, underlying shares or debentures of the Company and its associated corporations

Immediately following completion of [●] and assuming that the options granted under [●] and which may be granted under the Share Option Scheme are not exercised, the interests and/or short positions of the Directors and the chief executive of the Company in any shares, underlying shares and debentures of the Company or any of its associated corporations (within the meaning of Part XV of the SFO), which once the Shares are [●], (a) will have to be disclosed pursuant to Divisions 7 and 8 of Part XV of the SFO (including interests in which they are taken or deemed to have taken under the SFO), (b) will be required pursuant to section 352 of the SFO, to be entered in the register required to be kept therein, or (c) will be required pursuant to the Model Code for Securities Transactions by Directors of Listed Issuers set out in Appendix 10 to the Listing Rules to be notified to the Company and the Stock Exchange, are as follows:

(i) Long positions in Shares

Name of Director/ chief executive	Number of Shares	Capacity	Note	Approximate percentage of shareholding %
Mr. Sung	[●]	Interest of a controlled corporation	1	[●]
Mr. Cheung	[●]	Interest of a controlled corporation	2	[●]

Notes:

- [King Right Holdings Limited (“**King Right**”) is the registered and beneficial owner of these Shares. By virtue of the SFO, Mr. Sung is deemed to be interested in the same parcel of Shares in which King Right is interested since Mr. Sung owns the entire issued share capital of King Right.]
- [United Sino Limited (“**United Sino**”) is the registered and beneficial owner of these Shares. By virtue of the SFO, Mr. Cheung is deemed to be interested in the same parcel of Shares in which United Sino is interested since Mr. Cheung owns the entire issued share capital of United Sino.]

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(ii) Interest in share options granted by the Company

Name of Director	Date of grant	Exercise price per Share	Number of Shares subject to options granted under [●]	Expiry date	Vesting period
Mr. Sung	[●]	[●]	[●] [●]	[●]	[●]
Mr. Cheung	[●]	[●]	[●] [●]	[●]	[●]
Mr. Sun Jian	[●]	[●]	[●] [●]	[●]	[●]

2. Particulars of service contracts and letters of appointment

(a) Executive Directors

Each of the executive Directors has entered into a service contract with the Company on 29 May 2009 for an initial term of 3 years with effect from [●] and thereafter be continuous unless and until terminated by not less than three months' prior notice in writing served by either party on the other. The aggregate annual basic salary (excluding the bonus mentioned below) of all the executive Directors is HK\$2,000,000 and the basic salary of each executive Director is subject to annual review with such increment (if any) at such rate to be determined by the remuneration committee of the Company and approved by a majority in number of the members of the Board (excluding the Director whose salary is under review) and the relevant executive Director shall abstain from voting and shall not be counted in the quorum in respect of the proposed resolution regarding the increment.

Pursuant to the terms of the service contracts entered into between each executive Director and the Company, the annual salary of each executive Director is as follows:

Name	Annual salary (HK\$)
Mr. Sung	1,000,000
Mr. Cheung	1,000,000

Each of the executive Directors may be entitled to a discretionary bonus determined and approved by the Board provided that the aggregate amount of such bonus payable in each financial year to all the executive Directors shall not exceed 5% of the audited consolidated net profit of the Group (before taxation but after minority interests and the taxation attributable to the minority interests).

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(b) *Non-executive Director and independent non-executive Directors*

Each of the non-executive Director and the independent non-executive Directors has entered into a letter of appointment with the Company for a period of 2 years commencing from [●] subject to the provision of retirement and rotation of Directors under the Bye-Laws.

Pursuant to the terms of the letters of appointment entered into between the non-executive Director and the independent non-executive Directors on the one part and the Company on the other part, the annual director’s fee payable to each of them is as follows:

Name	Annual Director’s fee ([HK\$])
Fang Yan Zau, Alexander	100,000
Sun Jian	100,000
Shao Hanqing	100,000
Kong Hing Ki	100,000

The non-executive Director and the independent non-executive Directors are not entitled to any bonus.

- (c) Each of the Directors is entitled to reimbursement for all necessary and reasonable out-of-pocket expenses properly incurred in the course of appointment.
- (d) Save as disclosed in this document, none of the Directors has entered into any service agreements with any member of the Group (excluding contracts expiring or determinable by the employer within one year without payment of compensation other than statutory compensation).

3. **Directors’ remuneration**

- (a) The aggregate sums of approximately HK\$3,138,000, HK\$7,712,000 and HK\$[5,448,000] were paid to the Directors as remuneration (including benefits in kind and share option benefits vested) by the Group for the three financial years ended 31 December 2008 respectively. Further information in respect of the Directors’ remuneration is set out in the accountant’s report in Appendix [I] to this document.
- (b) Under the arrangements currently in force, it is estimated that an aggregate of approximately HK\$[3,379,000] will be paid to the Directors as remuneration (including benefits in kind and share option benefits vested but excluding any discretionary bonus which may be paid to any executive Director) by the Group for the financial year ending 31 December 2009.

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- (c) None of the Directors has been paid any sum of money for each of the three financial years ended 31 December 2006, 2007 and 2008 respectively for (i) the loss of office as director or any other office in connection with the management affairs of any member of the Group; or (ii) as an inducement to join or upon joining any member of the Group.
- (d) There has been no arrangement under which a Director has waived or agreed to waive any emoluments in each of the three financial years ended 31 December 2006, 2007 and 2008 respectively.

4. Substantial Shareholders

So far as the Directors are aware, immediately following completion of [●] and assuming that the options granted under [●] and which may be granted under the Share Option Scheme are not exercised, the following persons (other than the Directors or chief executive of the Company) will have an interest and/or a short position in the Shares or underlying Shares or debentures of the Company that would fall to be disclosed to the Company under the provisions of Divisions 2 and 3 of Part XV of the SFO (including interests and/or short positions which they are taken or deemed to have under such provisions of the SFO) or will be expected, directly or indirectly, to be interested in 10% or more of nominal value of any class of share capital carrying right to vote in all circumstances at general meetings of any member of the Group, once the Shares are [●]:

(i) Long positions in Shares

Name	Capacity	Number of Shares	Approximate percentage of shareholding %	Note
Triple Express	Beneficial owner	[●]	[●]	1
Mr. Fang Shin	Interest of a controlled corporation	[●]	[●]	1
Mrs. Fang Chang Rose Jean	Family interests	[●]	[●]	1
King Right	Beneficial owner	[●]	[●]	2
Ms. Wong Wai King	Family interests	[●]	[●]	2
United Sino	Beneficial owner	[●]	[●]	3
Ms. Li Xin	Family interests	[●]	[●]	3
Golden Sunday Limited	Beneficial owner	[●]	[●]	4
Mr. Chan	Interest of a controlled corporation	[●]	[●]	4
Ms. Ho Fung Ying	Family interests	[●]	[●]	4
Top Right Trading Limited	Beneficial owner	[●]	[●]	5
Mr. Huang	Interest of a controlled corporation	[●]	[●]	5
Ms. Ye Jian Qun	Family interests	[●]	[●]	5

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Notes:

1. Triple Express is a company beneficially wholly-owned by Mr. Fang Shin. By virtue of the SFO, Mr. Fang Shin is deemed to be interested in the same parcel of Shares in which Triple Express is interested. Mrs. Fang Chang Rose Jean is the spouse of Mr. Fang Shin and is deemed to be interested in the same parcel of Shares in which Mr. Fang Shin is interested by virtue of the SFO.
2. King Right is a company beneficially wholly-owned by Mr. Sung, who is also the sole director of King Right. Ms. Wong Wai King is the spouse of Mr. Sung and is deemed to be interested in the same parcel of Shares in which Mr. Sung is interested by virtue of the SFO.
3. United Sino is a company beneficially wholly-owned by Mr. Cheung, who is also the sole director of United Sino. Ms. Li Xin is the spouse of Mr. Cheung and is deemed to be interested in the same parcel of Shares in which Mr. Cheung is interested by virtue of the SFO.
4. Golden Sunday Limited (“**Golden Sunday**”) is a company beneficially wholly-owned by Mr. Chan. By virtue of the SFO, Mr. Chan is deemed to be interested in the same parcel of Shares in which Golden Sunday is interested. Ms. Ho Fung Ying is the spouse of Mr. Chan and is deemed to be interested in the same parcel of Shares in which Mr. Chan is interested by virtue of the SFO.
5. Top Right Trading Limited (“**Top Right**”) is a company beneficially wholly-owned by Mr. Huang. By virtue of the SFO, Mr. Huang is deemed to be interested in the same parcel of Shares in which Top Right is interested. Ms. Ye Jian Qun is the spouse of Mr. Huang and is deemed to be interested in the same parcel of Shares in which Mr. Huang is interested by virtue of the SFO.

(ii) Long positions in shares of the subsidiaries of the Company

Name of subsidiary of the Company	Name of substantial shareholder	Interest in share capital/equity interest	Approximate percentage of shareholding %
Hander International	Cheernew Investments Limited	22 ordinary shares	22%

5. Agency fees or commissions received

[Save as disclosed in this document, no commissions, discounts, brokerages or other special terms have been granted in connection with the issue or sale of any capital of the Company or any of its subsidiaries within the two years immediately preceding the date of this document.]

6. Related party transactions

Save as disclosed in note 29 under the heading “Related party transactions” in the section headed “Notes to the combined financial statements” of the accountants’ report set out in Appendix [I] to this document and the sub-section headed “Transactions with Shenzhen Jing Chu” under the section headed “Business” in this document, the Group has not entered into any related party transactions within the two years immediately preceding the date of this document.

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7. Disclaimers

Save as disclosed in this document:

- (a) none of the Directors and the chief executive of the Company has any interest or short position in the shares, underlying shares or debentures of the Company or any of its associated corporations (within the meaning of Part XV of the SFO) immediately following completion of [●] and assuming that the options granted under [●] and which may be granted under the Share Option Scheme are not exercised, which will have to be notified to the Company and the Stock Exchange pursuant to Divisions 7 and 8 of Part XV of the SFO (including interests which they are taken or deemed to have taken under such provision of the SFO), or will be required, pursuant to section 352 of the SFO, to be entered in the register referred to therein, or will be required, pursuant to the Model Code for Securities Transactions by Directors of Listed Issuers set out in Appendix 10 to the Listing Rules, in each case once the Shares are [●];
- (b) the Directors are not aware of any person (other than the Directors or chief executive of the Company) who will, immediately following completion of [●] (without taking into account any Shares which may be taken up under [●]) and assuming that the options granted under [●] and which may be granted under the Share Option Scheme are not exercised, have an interest and/or a short position in the Shares or underlying Shares in respect of equity derivatives or debentures of the Company that would fall to be disclosed to the Company under the provisions of Divisions 2 and 3 of Part XV of the SFO (including interests and/or short positions which they are taken or deemed to have under such provisions of the SFO) or who will be expected, directly or indirectly, to be interested in 10% or more of nominal value of any class of share capital carrying right to vote in all circumstances at general meetings of any member of the Group;
- (c) none of the Directors and the experts referred to in the paragraph headed "Qualification and consent of experts" in the section headed "Other information" in this Appendix has any direct or indirect interest in the promotion of the Company, or in any assets which have, within the two years immediately preceding the date of this document, been acquired or disposed of by, or leased to, any member of the Group, or are proposed to be acquired or disposed of by, or leased to, any member of the Group, other than the disposal of a motor vehicle to the Group by Mr. Cheung at a cash consideration of HK\$600,000 in July 2007;
- (d) none of the Directors and the experts referred to in the paragraph headed "Qualification and consent of experts" in the section headed "Other information" in this Appendix is materially interested in any contract or arrangement subsisting at the date of this document which is significant in relation to the business of the Group taken as a whole;

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- (e) none of the Directors has any existing or proposed service contracts with any member of the Group (excluding contracts expiring or determinable by the employer within one year without payment of compensation (other than statutory compensation)); and
- (f) none of the Directors, the promoters and the experts referred to in the paragraph headed “Qualification and consent of experts” in the section headed “Other information” in this Appendix has received any agency fee, commissions, discounts, brokerage or other special terms from the Group within the two years immediately preceding the date of this document in connection with the issue or sale of any capital of any member of the Group.

D. [●]

E. SHARE OPTION SCHEME

The purpose of the Share Option Scheme is to enable the Company to grant options to full-time or part-time employees, directors (including executive, non-executive or independent non-executive) and any consultants or advisers (whether professional or otherwise and whether on an employment or contractual or honorary basis or otherwise and whether paid or unpaid), distributor, contractor, supplier, service provider, agent, customer and business partner of the Company and/or any of its subsidiaries (the “**Eligible Participants**”) as incentives or rewards for their contribution to the growth of the Group and to provide the Group with a more flexible means to reward, remunerate, compensate and/or provide benefits to the Eligible Participants. The following is a summary of the principal terms of the Share Option Scheme conditionally adopted by a written resolution of the Shareholders on 29 May 2009 (the “**Adoption Date**”).

No options will be granted under the Share Option Scheme unless the grant of such options is in compliance with all the requirements of the Listing Rules.

1. Terms of the Share Option Scheme

(a) *Who may join*

The Board may, at its absolute discretion, offer the Eligible Participants options to subscribe for such number of Shares as the Board may determine at a subscription price determined in accordance with paragraph (b) below, and subject to the other terms of the Share Option Scheme summarised below.

An offer of grant of an option shall remain open for acceptance by the Eligible Participant concerned for such period as determined by the Board, which period shall not be more than fourteen (14) days from the date of the offer, provided that no such offer shall be open for acceptance after the tenth anniversary of the Adoption Date or after the Share Option Scheme has been terminated in accordance with the provisions thereof. Upon acceptance of the offer, the grantee shall pay

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HK\$1.00 to the Company by way of consideration for the grant and the date on which the option is offered shall be deemed to be the date of grant of the relevant option, except in determining the date of grant for the purpose of calculating the subscription price under paragraph (b) where paragraphs (c)(v) and (d)(iii) apply.

(b) Price of Shares

[●]

(c) Maximum number of Shares

- (i) The maximum aggregate number of Shares which may be issued upon exercise of all outstanding options granted and yet to be exercised under the Share Option Scheme and any other share option schemes of the Company must not exceed 30% of the issued share capital of the Company from time to time. No options may be granted under the Share Option Scheme if this will result in such limit being exceeded.
- (ii) The total number of Shares which may be issued upon exercise of all options to be granted under the Share Option Scheme and any other share option schemes of the Company (excluding [●]) must not, in aggregate, exceed 10% of the issued share capital of the Company as at [●] (the “**Scheme Mandate Limit**”) (such 10% being equivalent to [●] Shares based on [●] Shares expected then to be in issue) unless Shareholders’ approval has been obtained pursuant to paragraph (iii) or (iv) below. Any options lapsed in accordance with the terms of the Share Option Scheme or any other share option scheme of the Company shall not be counted for the purpose of calculating the Scheme Mandate Limit.
- (iii) The Board may seek approval by Shareholders in general meeting to renew the Scheme Mandate Limit. However, the total number of Shares which may be issued upon exercise of all options to be granted under the Share Option Scheme and any other share option schemes of the Company in these circumstances must not exceed 10% of the issued share capital of the Company at the date of approval of the renewed limit (the “**Renewed Scheme Mandate Limit**”).
- (iv) Subject to paragraph (i) above, the Board may seek separate Shareholders’ approval in general meeting to grant options beyond the Scheme Mandate Limit or the Renewed Scheme Mandate Limit (as the case may be) provided that the options in excess of the Scheme Mandate Limit or the Renewed Scheme Mandate Limit are granted only to the Eligible Participants specifically identified by the Company before such approval is sought and the Company must issue a circular to its Shareholders containing a generic description of the specified Eligible

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Participants who may be granted such options, the number and terms of the options to be granted, the purpose of granting options to such Eligible Participants with an explanation as to how the terms of the options serve such purpose, the information required under Rule 17.02(2)(d) of the Listing Rules and the disclaimer required under Rule 17.02(4) of the Listing Rules.

- (v) Unless approved by the Shareholders in the manner set out in this paragraph (v), the total number of Shares issued and to be issued upon exercise of the options granted to each Eligible Participant (including both exercised and outstanding options under the Share Option Scheme) in any 12-month period must not exceed 1% of the issued share capital of the Company. Where any further grant of options to an Eligible Participant would result in the total number of Shares issued and to be issued upon exercise of all options granted and to be granted to such Eligible Participant (including exercised, cancelled and outstanding options under the Share Option Scheme) in the 12-month period up to and including the date of such further grant representing in aggregate over 1% of the issued share capital of the Company as at the date of such further grant, such further grant must be subject to the separate approval of Shareholders at general meeting with such Eligible Participant and his associates abstaining from voting. A circular must be sent to the Shareholders disclosing the identity of the Eligible Participant, the number and the terms of the options previously granted and to be granted and containing the information required under Rule 17.02(2)(d) of the Listing Rules and the disclaimer required under Rule 17.02(4) of the Listing Rules. The number and terms (including the subscription price for Shares) of the options to be granted to such Eligible Participant must be fixed before Shareholders' approval and the date of the Board meeting for proposing such further grant should be taken as the date of grant for the purpose of calculating the subscription price under paragraph (b) above.

(d) Restrictions on grant of options

- (i) No offer for the grant of an option shall be made after a price sensitive event has occurred or a price sensitive matter has been the subject of a decision of the Directors, until such price sensitive information has been announced in accordance with the relevant requirements of the Listing Rules and, in particular, no Eligible Participant shall be granted an option during the period commencing one month immediately preceding the earlier of:
 - (1) the date of the Board meeting (as such date is first notified to the Stock Exchange in accordance with the Listing Rules) for the approval of the annual results, the interim results or the quarterly or any other interim period results of the Company (whether or not required under the Listing Rules); and

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- (2) the deadline for the Company to publish announcement of its annual results, interim results or quarterly results under the Listing Rules or any other interim period results (whether or not required under the Listing Rules),

and ending on the date of announcement for such results. For the avoidance of doubt, the period during which no options shall be granted mentioned above shall include any period of delay in the publications of a results announcement.

- (ii) Any grant of options to a connected person of the Company or any of its associates must be approved by all of the independent non-executive Directors (excluding any independent non-executive Director who is the grantee of the options).
- (iii) Where options are proposed to be granted to a substantial Shareholder or an independent non-executive Director or any of their respective associates, and the proposed grant of options would result in the total number of Shares issued and to be issued upon exercise of all options already granted and to be granted (including options exercised, cancelled and outstanding) to such person in the 12-month period up to and including the date of such grant representing in aggregate over 0.1% of the total issued share capital of the Company on the date of offer and having an aggregate value, based on the closing price of the Shares on the date of each grant, in excess of HK\$5 million, such further grant of options must be subject to the approval of the Shareholders taken on a poll in general meeting. In addition, the date of the Board meeting for proposing such further grant should be taken as the date of grant for the purpose of calculating the subscription price under paragraph (b) above. The connected person involved in such proposed grant and all other connected persons of the Company must abstain from voting in such general meeting (except that any connected person may vote against the proposed grant provided that his intention to do so has been stated in the Shareholders' circular). A Shareholders' circular must be prepared and sent by the Company containing (1) details of the number and terms (including the subscription price) of the options to be granted to each participant, which must be fixed before the Shareholders' meeting; (2) a recommendation from the independent non-executive Directors (excluding the independent non-executive Director who is the grantee of the options) to the independent Shareholders as to voting; (3) the information required under Rules 17.02(2)(c) and (d) of the Listing Rules and the disclaimer required under Rule 17.02(4) of the Listing Rules; and (4) the information required under Rule 2.17 of the Listing Rules.

(e) Time of and restrictions on exercise of options

An option may be exercised in whole or in part in accordance with the terms of the Share Option Scheme at any time during a period to be notified by the Board to each grantee, the expiry date of such period not to exceed 10 years from the date of grant of the option.

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There is no general requirement on the minimum period for which an option must be held or the performance targets which must be achieved before an option can be exercised under the terms of the Share Option Scheme. However, the Board may offer to grant any options subject to such terms and conditions in relation to the minimum period of the options to be held and/or the performance targets to be achieved before such options can be exercised as the Board may determine in its absolute discretion.

(f) Assignment

Options granted under the Share Option Scheme shall be personal to the grantee, which shall not sell, transfer, charge, mortgage, encumber or create any interest in favour of any third party over or in relation to any option or attempt so to do. Any breach of the foregoing by the grantee shall entitle the Company to cancel any option granted to such grantee (to the extent not already exercised).

(g) Rights on death of grantee

If the grantee of an option (being an individual) ceases to be an Eligible Participant by reason of death and none of the events set out in paragraph (i) below which would be a ground for the termination of his employment, directorship, appointment or engagement arises, his personal representative may exercise the option up to the entitlement of the grantee as at the date of death (to the extent which has become exercisable but not already exercised) within a period of twelve (12) months after the date of death (or such longer period as the Board may determine or, if any of the events referred to in paragraphs (k), (l) and (m) below occurs during such period, his personal representative(s) may exercise the option pursuant to paragraphs (k), (l) and (m) below within such period), failing which the option will lapse.

(h) Rights on winding up of, or material changes in, the grantee

If a grantee (being a corporation):

- (i) commences winding up by whatever means, whether voluntarily or not;
or
- (ii) suffers a change in its constitution, management, directors, shareholding or beneficial ownership which in the opinion of the Board is material,

the option (to the extent not already exercised) shall lapse on the date of the commencement of winding up of the grantee or on the date of notification by the Company that the said change in constitution, management, directors, shareholding or beneficial shareholding is material, as the case may be, and not be exercisable unless the Board otherwise determines in which event the option (or such remaining

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part thereof) shall be exercisable within such period as the Board may in its absolute discretion determine following the date of such occurrence. A resolution of the Board resolving that the grantee's option has lapsed by reason of material change in the constitution, management, directors, shareholding or beneficial ownership as aforesaid shall be final and conclusive.

(i) Rights on dismissal of grantee

If the grantee of an option ceases to be an Eligible Participant by reason of the termination of his employment, directorship, appointment or engagement on any one or more of the grounds that he has been guilty of serious misconduct, or appears either to be unable to pay or to have no reasonable prospect of being able to pay his debts or has become insolvent or has made any arrangements or composition with his creditors generally, or has breached or failed to comply with any provisions of the relevant service contract, letter of appointment or other contracts or agreements of the grantee with the Company or the relevant subsidiary for the employment, appointment or engagement, or has been convicted of any criminal offence involving his integrity or honesty or on any other ground on which an employer would be entitled to terminate his employment at common law or pursuant to any applicable laws or under the service contract, letter of appointment or other contract or agreement for the employment, appointment or engagement of the grantee with the Company or the relevant subsidiary of the grantee with the Company or the relevant subsidiary, his option (to the extent not already exercised) will lapse and become not exercisable on the date of termination of his employment, directorship, appointment or engagement. A resolution of the board of directors of the Company or the relevant subsidiary to the effect that the employment, directorship, appointment or engagement of a grantee has or has not been terminated on one or more of the grounds specified in this paragraph (i) shall be conclusive.

(j) Right on cessation of eligibility for other reasons

If the grantee of an option ceases to be an Eligible Participant for any other reason, the grantee may exercise the option up to his entitlement at the date of cessation (to the extent which has become exercisable but not already exercised) within three (3) months following the date of such cessation (or such longer period as the Board may determine or, if any of the events referred to in paragraphs (k), (l) and (m) below occurs during such period, he may exercise the option pursuant to paragraphs (k), (l) and (m) below within such period), failing which the option will lapse. The date of cessation as aforesaid shall be the last working day with the Company or the relevant subsidiary whether salary or compensation is paid in lieu of notice or not, or the last date of office or appointment as director, or the last date of appointment or engagement as consultant or advisor to the Company or the relevant subsidiary, as the case may be, in the event of which, the date of cessation as determined by a resolution of the Board or the board of directors or governing body of the relevant subsidiary shall be conclusive.

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(k) Rights on a general offer

If a general (or partial) offer (whether by takeover offer or scheme of arrangement or otherwise in like manner) is made to all the holders of Shares (or all such holders other than the offeror and/or any person controlled by the offeror and/or any person acting in concert with the offeror), the terms of which have been approved by any relevant regulatory authority and are in accordance with the applicable laws and regulatory requirements and becomes, or is declared unconditional prior to the expiry of the option, the Company shall within seven (7) days of such offer becoming or being declared unconditional give notice thereof to the grantee, whereupon the grantee (or his personal representatives) shall be entitled to exercise the option in full or in part (to the extent which has become exercisable but not already exercised) at any time within fourteen (14) days after the date of such notice and, to the extent any of the options have not been so exercised, such option shall upon the expiry of such period lapse.

(l) Rights on winding up

In the event that a notice is given by the Company to its Shareholders to convene a general meeting for the purpose of considering and, if thought fit, approving a resolution to voluntarily wind up the Company, the Company shall on the same date as it despatches such notice of the proposed general meeting to each Shareholder give notice thereof to the grantee (or his personal representative), who may, by notice in writing to the Company (such notice to be received by the Company not later than five (5) business days prior to the proposed general meeting) accompanied by a remittance/payment for the full amount of the aggregate subscription price for the Shares in respect of which the notice is given, exercise the option (to the extent which has become exercisable but not already exercised) either to its full extent or to the extent specified in such notice and the Company shall, as soon as possible and in any event no later than the business day immediately prior to the date of the proposed general meeting, allot and issue such number of Shares to the grantee which falls to be issued on such exercise, credited as fully paid up and register the grantee as holder thereof. Any options shall, to the extent they have not been so exercised, lapse and determine.

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(m) Rights on compromise or arrangement

If, pursuant to the Companies Act or other applicable law, a compromise or scheme of arrangement between the Company and its members and/or creditors is proposed for the purpose of or in connection with the reconstruction of the Company or its amalgamation with any other company or companies, the Company shall give notice thereof to all grantees (or to their personal representatives) on the same day as it gives notice to the members or creditors of the Company summoning a meeting to consider such compromise or scheme of arrangement. Upon receipt of the notice, the grantee may, during the period commencing on the date of the notice and ending on the earlier of:

- (i) the date two calendar months thereafter; and
- (ii) the date on which such compromise or arrangement is sanctioned by the court,

exercise his option (to the extent which has become exercisable but not already exercised), conditional upon the compromise or arrangement being sanctioned by the court and becoming effective. The Company may require the grantee to transfer or otherwise deal with the Shares issued as a result of the exercise of the options in these circumstances so as to place the grantee in the same position as nearly as would have been the case had such Shares been subject to the compromise or arrangement. Upon such compromise or arrangement becoming effective, all options shall, to the extent that they have not been so exercised, lapse and determine. If for any reason such compromise or arrangement is not approved by the court (whether upon the terms presented to the court or upon any other terms as may be approved by such court) the rights of the grantees to exercise their respective options shall with effect from the date of the making of the order by the court be restored in full but only up to the extent not already exercised and shall thereupon become exercisable (but subject to the other terms of the Share Option Scheme) as if such compromise or arrangement had not been proposed by the Company and no claim shall lie against the Company or any of its officers for any loss or damage sustained by any grantee as a result of the aforesaid suspension.

(n) Effects of alterations to share capital

In the event of any capitalisation of profits or reserves, rights issue or other similar offer of securities to holders of Shares, consolidation, subdivision, or reduction of the share capital of the Company in accordance with legal requirements and the requirements of the Stock Exchange (other than an issue of Shares as consideration in respect of a transaction to which the Company and/or any of its subsidiaries is a party), the number or nominal amount of Shares subject to the option granted pursuant to the Share Option Scheme so far as unexercised and/or the subscription price or any combination thereof, shall be adjusted in such manner as

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the auditors for the time being of the Company or an independent financial adviser to be appointed by the Company for such purpose shall certify in writing to the Board to be in their opinion fair and reasonable provided always that:

- (i) no such adjustments shall be made the effect of which would be to enable any Share to be issued at less than its nominal value;
- (ii) such adjustments shall be made on the basis that the grantee shall have as nearly as possible the same proportion of the issued share capital of the Company to which the grantee was entitled before such adjustments,

and in each case, any adjustment must be made in compliance with the Listing Rules (including Chapter 17 thereof), the supplemental guidance issued on 5 September 2005 and any future guidance or interpretation of the Listing Rules issued by the Stock Exchange from time to time. In addition, in respect of any such adjustments, other than any adjustment made on a capitalisation issue, the auditors for the time being of the Company or an independent financial adviser must confirm to the Directors in writing that the adjustments satisfy the requirements of the relevant provisions of the Listing Rules or the relevant guidance or interpretation thereof.

(o) Ranking of Shares

The Shares to be issued and allotted upon the exercise of options granted under the Share Option Scheme will be subject to all the provisions of the Bye-Laws for the time being in force and will rank *pari passu* in all respects with the fully paid Shares in issue on the date on which Shares are allotted to the grantee (or his personal representative(s)) (the “**Allotment Date**”) and accordingly will entitle the holders to participate in all dividends or other distributions declared, paid or made on or after the Allotment Date other than any dividend or other distribution previously declared or recommended or resolved to be paid or made if the record date therefor is before the Allotment Date.

Unless the context otherwise requires, references to “**Shares**” in the Share Option Scheme include references to shares in the share capital of the Company of any such nominal amount as shall result from a sub-division or a consolidation, reclassification or reconstruction of the share capital of the Company from time to time forming part of the ordinary equity share capital.

(p) Lapse of option

The right to exercise an option shall lapse automatically (to the extent not already exercised) immediately upon the earliest of:

- (i) the expiry of the period referred to in paragraph (e) above;
- (ii) the expiry of the periods referred to paragraphs (g), (h), (j), (k), (l) and (m) above;

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- (iii) subject to paragraph (l) above, the date of the commencement of the winding-up of the Company;
- (iv) the date on which the grantee ceases to be an Eligible Participant by reason of the termination of his employment, directorship, appointment or engagement referred to in paragraph (i) above; or
- (v) the date on which the grantee sells, transfers, charges, mortgages, encumbers or creates any interest in favour of any third party over or in relation to any option or attempts so to do in breach of the Share Option Scheme.

(q) Period of the Share Option Scheme

Subject to the fulfilment of the conditions of the Share Option Scheme and the earlier termination by Shareholders' resolution in general meeting or the Board, the Share Option Scheme shall be valid and effective for a period of ten (10) years commencing from the Adoption Date, after which period no further Options will be offered or granted but the provisions of the Share Option Scheme shall remain in full force and effect in all other respects with respect to options granted during the life of the Share Option Scheme.

(r) Alteration to the Share Option Scheme and the terms of options granted under the Share Option Scheme

All provisions of the Share Option Scheme may, subject to the Listing Rules, be altered from time to time in any respect by a resolution of the Board save that the following alterations shall require the prior sanction of an ordinary resolution of the Company in general meeting (with all grantees, prospective grantees and their associates abstaining from voting and the votes taken by poll):

- (i) any alterations of the provisions relating to the matters set out in Rule 17.03 of the Listing Rules to the advantage of the grantees or the Eligible Participants;
- (ii) any alterations of the terms and conditions of the Share Option Scheme which are of a material nature or any change to the terms of options granted under the Share Option Scheme (except where the alterations take effect automatically under the existing terms of the Share Option Scheme); and
- (iii) any change to the authority of the Board in relation to any alteration to the terms of the Share Option Scheme.

No such alteration shall operate to affect adversely the terms of issue of any option granted or agreed to be granted prior to such alteration except with the

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consent or sanction of such majority of the grantees as would be required of the Shareholders under the Bye-Laws for the time being for a variation of the rights attached to the Shares. Any amended terms of the Share Option Scheme or options shall still comply with the relevant requirements of Chapter 17 of the Listing Rules (subject to such waiver as may be granted by the Stock Exchange from time to time).

In respect of any meeting of grantees which may be held for this purpose, all the provisions of the constitutional documents for the time being of the Company as to general meetings of the Company shall mutatis mutandis apply as though the options were a class of shares forming part of the capital of the Company except that:

- (i) not less than seven (7) days' notice of such meeting shall be given;
- (ii) a quorum at any such meeting shall be two (2) grantees present in person or by proxy and holding options entitling them to the issue of one-tenth in nominal value of all Shares which would fall to be issued upon the exercise of all options then outstanding unless there is only one grantee holding all options then outstanding, in which case the quorum shall be one grantee;
- (iii) every grantee present in person or by proxy at any such meeting shall be entitled on a show of hands to one vote, and on a poll, to one vote for each Share to which he would be entitled upon exercise in full of his options then outstanding;
- (iv) any grantee present in person or by proxy may demand a poll; and
- (v) if any such meeting is adjourned for want of a quorum, such adjournment shall be to such date and time, not being less than seven (7) or more than fourteen (14) days thereafter, and to such place as may be appointed by the chairman of the meeting. At any adjourned meeting those grantees who are then present in person or by proxy shall form a quorum and at least seven (7) days' notice of any adjourned meeting shall be given in the same manner as for an original meeting and such notice shall state that those grantees who are then present in person or by proxy shall form a quorum.

Where there is any proposed change to the terms of any options granted to a connected person of the Company who is also a substantial Shareholder (as defined in the Listing Rules) or an independent non-executive Director or any of their respective associates (except where the change takes effect automatically under the existing terms of the Share Option Scheme), then the proposed change must be subject to the approval of the Shareholders taken on poll at general meeting and to such other requirements of the Listing Rules. The connected person involved in such

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proposed change and all other connected persons of the Company must abstain from voting in such general meeting (except that any connected person may vote against the proposed change provided that his intention to do so has been stated in the circular). A Shareholders’ circular must be prepared and sent by the Company explaining the proposed change and disclosing the original terms of the options, and containing a recommendation from the independent non-executive Directors (excluding an independent non-executive Director who is the holder of the options which terms are to be changed) on whether or not to vote in favour of the proposed change and containing such other information required under the Listing Rules.

(s) Administration of the Share Option Scheme

The Share Option Scheme shall be administered by the Board.

Options may be granted on such terms and conditions in relation to their vesting, exercise or otherwise as the Board may determine in its absolute discretion, provided that such terms and conditions shall not be inconsistent with any other terms and conditions of the Share Option Scheme.

(t) Termination of the Share Option Scheme

The Company by ordinary resolution in general meeting or the Board may at any time terminate the operation of the Share Option Scheme and in such event no further option shall be offered but the provisions of the Share Option Scheme shall remain in full force and effect in all other respects in respect of any options granted prior thereto but not yet exercised at the time of termination. Upon such termination, details of the options granted, including options exercised or outstanding shall be disclosed in the circular to Shareholders seeking approval of the first new scheme to be established after such termination.

(u) Cancellation of options

Subject to paragraph (f) above, any cancellation of options granted but not exercised shall be approved by the Board. Cancelled options may be re-issued after such cancellation has been approved, provided that re-issued options shall only be granted in compliance with the terms of the Share Option Scheme and the requirements of the Listing Rules and provided further that new options may be issued to a grantee in place of his cancelled options only if there are available unissued options (excluding the cancelled options) within the Scheme Mandate Limit or the Renewed Scheme Mandate Limit.

Any reference to the “**Board**” above shall include a duly authorised committee of the Board.

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F. OTHER INFORMATION

1. Tax and other indemnities

[The Founders and their respective investment vehicles (namely King Right, United Sino, Golden Sunday and Top Right) (collectively the “**Indemnifiers**”) have, pursuant to the Deed of Indemnity (the document referred to in paragraph (ix) in the sub-section headed “Summary of material contracts” in this Appendix), given joint and several indemnities in favour of the Company (for itself and as trustee for other members of the Group), in connection with, inter alia:

- (i) estate duty which might be payable by any member of the Group by reason of transfer of property on or before the date on which [●] becomes unconditional (the “**Effective Date**”);
- (ii) any tax liabilities falling on any member of the Group resulting from or by reference to any income, profits or gains, transactions, events, matters or things earned, accrued or received, entered into or occurring on or before the Effective Date;
- (iii) any expenses, payments, sums, outgoing, fees, demands, claims, damages, losses, costs, charges, liabilities, fines, penalties and tax (collectively, the “**Costs**”) which any member of the Group may incur, suffer or accrue, directly or indirectly, from or on the basis of or in connection with any failure, delay or defects of corporate, regulatory compliance under, or any breach of any provision of, the Companies Ordinance, the Business Registration Ordinance, the Inland Revenue Ordinance or other applicable laws by any member of the Group on or before the Effective Date;
- (iv) any Costs which any member of the Group may incur, suffer or accrue, directly or indirectly, from or on the basis of or in connection with any litigation, arbitration or other proceedings or investigations against any member of the Group arising or accruing in relation to the operation of the Group or any member thereof on or before the Effective Date;
- (v) any Costs which any member of the Group may incur, suffer or accrue, directly or indirectly, from or on the basis of or in connection with:
 - (a) any default, failure or delay in complying with, or any breach of, any law in the PRC by any of Shenzhen Xingli, Shenzhen Xingli Zundian and Dongguan Super Furniture (collectively, the “**PRC Subsidiaries**” and each a “**PRC Subsidiary**”) on or before the Effective Date;

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- (b) any default, failure or delay of any PRC Subsidiary in setting up, or making contributions towards all kinds of insurances, funds, contributions or otherwise required to be insured or made by such PRC Subsidiary under the laws in the PRC for the benefits of their respective employees, or any part thereof on or before the Effective Date;
- (c) any default, failure or delay in registering, or any non-registration of, any tenancy agreement or arrangement entered into, or purported to be entered into, by any PRC Subsidiary as lessee on or before the Effective Date in respect of any leased property located in the PRC;
- (d) any termination or invalidity of any tenancy agreement or arrangement entered into, or purported to be entered into, by any PRC Subsidiary as lessee on or before the Effective Date in respect of any leased property in the PRC by reason of the lack of power, authority or capacity of the lessor or purported lessor in letting the relevant property to the relevant PRC Subsidiary or in entering into the relevant tenancy agreement or arrangement, including but not limited to any and all Costs in respect of relocation and removal of the relevant PRC Subsidiary to a new premises;
- (e) any default, failure or delay in the construction of the Shenzhen Xingli Zundian Production Base or any non-compliance or breach of any term or condition of the contract for grant of land use rights in Shenzhen (Shen Di He Zi 2007 No. 5057) dated 29 June 2007 including but not limited to the resumption of the relevant land by the PRC government authorities;
- (f) any default, failure or delay in the construction of the Shenzhen Xingli Production Base or any non-compliance or breach of any term or condition of the contract for grant of land use rights in Shenzhen (Shen Di He Zi 2007 No. 5058) dated 29 June 2007, including but not limited to the resumption of the relevant land by the PRC government authorities;
- (g) any use of any intellectual property by any PRC Subsidiary under any licence agreements or arrangements entered into or purported to be entered into, between such PRC Subsidiary and Sharp Motion on or before the Effective Date; and
- (h) any claim against any member of the Group in respect of any of the foregoing.

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The Indemnifiers will, however, not be liable under the Deed of Indemnity under the following circumstances:

- (i) In respect of any taxation and taxation claims to the extent that:
 - (a) provision or reserve has been made for such taxation in the audited consolidated accounts of the Group as set out in Appendix I to this document;
 - (b) such taxation or liability falling on any member of the Group in respect of its accounting period commencing after 31 December 2008 and ending on the Effective Date, unless such taxation or liability would not have arisen but for some act or omission of, or transaction voluntarily effected by, any member of the Group with the prior written consent or agreement or acquiescence of the Indemnifiers other than any of the following (in which case the limitation of liability shall still apply):
 - (1) any such act, omission or transaction carried out or effected in the ordinary course of business or in the ordinary course of acquiring and disposing of capital assets after 31 December 2008; and
 - (2) any such act, omission or transaction carried out, effected or entered into pursuant to a legally binding commitment created on or before 31 December 2008;
 - (c) such tax claim arises or is incurred as a result of the imposition of taxation as a consequence of any retrospective change in the law or interpretation or practice coming into force after the Effective Date or to the extent that such claim arises or is increased by an increase in tax rates after such date with retrospective effect; or
 - (d) any provision or reserve made for taxation in the audited consolidated accounts of the Group as set out in Appendix I to this document which is finally established to be an excessive reserve or over provision, then the Indemnifiers' liability (if any) in respect of taxation shall be reduced by an amount not exceeding such over-provision or excessive reserve, provided that the amount of any such over-provision or excessive reserve applied pursuant to this paragraph to reduce the Indemnifiers' liability in respect of such taxation shall not be available in respect of any liability arising thereafter in which event the Indemnifiers shall be obliged to indemnify each member of the Group against any liability, loss or damage arising from such liability.

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(ii) In respect of the indemnity contained in paragraphs (iii) to (v) above to the extent that:

- (a) provision or reserve has been made for such liabilities in the audited consolidated accounts of the Group as set out in Appendix I to this document; or
- (b) any Costs falling within paragraphs (iii) to (v) above arises or is incurred as a consequence of any retrospective change in the applicable law or the interpretation or practice thereof by the relevant authority coming into force after the Effective Date or to the extent that the same arises or is increased by reason of such retrospective changes.]

2. **Litigation**

As at the Latest Practicable Date, [no member of the Group was engaged in any litigation, arbitration or claim of material importance and no litigation, arbitration or claim of material importance is known to the Directors to be pending or threatened by or against any member of the Group.]

3. [●]

4. [●]

5. [●]

6. [●]

7. **Promoter**

The promoters of the Company are the Founders. Save as disclosed in this document, no cash, securities or other benefits has been paid, allotted or given within the two years immediately preceding the date of this document, or is intended to be paid or given, to the promoters in connection with [●] or the related transactions described in this document.

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8. Qualification and consent of experts

The following are the qualifications of the experts who have given opinions or advice which are contained in, or referred to in, this document:

Expert	Qualification
Moore Stephens Certified Public Accountants	Certified Public Accountants
Greater China Appraisal Limited	Independent property valuers
Sit, Fung, Kwong & Shum	Legal advisers as to Hong Kong laws
Zhong Xin Law Firm Shanghai Branch	Legal advisers as to PRC laws
Conyers Dill & Pearman	Bermuda barristers and attorneys
Studio Torta, Jorio, Prato, Boggio & Partners	Legal advisers as to Italian laws

[●]

9. Binding effect

[●]

10. No material adverse change

[The Directors confirmed there had been no material adverse change in the financial or trading position or prospects of the Group since [31 December 2008], being the date to which the latest audited financial statements of the Company were made up.]

11. Miscellaneous

- (a) [Save as disclosed in this document,
 - (i) within the two years immediately preceding the date of this document, no share or loan capital of the Company or any of its subsidiaries has been issued or agreed to be issued fully or partly paid either for cash or for a consideration other than cash;
 - (ii) no share or loan capital of the Company or any of its subsidiaries is under option or is agreed conditionally or unconditionally to be put under option; and

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- (iii) no founders, management or deferred shares of the Company or any of its subsidiaries have been issued or agreed to be issued.]
- (b) [None of Moore Stephens, Greater China Appraisal Limited, Sit, Fung, Kwong & Shum, Zhong Xin Law Firm Shanghai Branch, Conyers Dill & Pearman and Studio Torta, Jorio, Prato, Boggio & Partners:
 - (i) is interested beneficially or non-beneficially in any shares in any member of the Group; or
 - (ii) has any right or option (whether legally enforceable or not) to subscribe for or to nominate persons to subscribe for securities in any member of the Group [save in connection with [●]].]
- (c) [No member of the Group is presently listed on any stock exchange or traded on any trading system.]
- (d) The English text of this document shall prevail over the Chinese text.

[12. Bilingual document]

The English language and Chinese language versions of this document are being published separately, in reliance upon the exemption provided in Section 4 of the Companies Ordinance (Exemption of Companies and Prospectus from Compliance with Provisions) Notice (Chapter 32L of the Laws of Hong Kong).]