MANWAH

# MAN WAH HOLDINGS LIMITED

(Incorporated in Bermuda with limited liability)
(Stock Code:01999)

Annual Report
2013

First Class Experience
Everyday

# Contents



# Corporate Information

## BOARD OF DIRECTORS

*Executive Directors*
Mr. Wong Man Li *(Chairman and Managing Director)*
Ms. Hui Wai Hing
Mr. Stephen Allen Barr
Mr. Wang Guisheng
Mr. Alan Marnie
Mr. Dai Quanfa (appointed on 19 July 2012)

*Non-executive Director*
Mr. Xie Fang (appointed on 20 May 2013)

*Independent non-executive Directors*
Mr. Ong Chor Wei (re-designated from Non-executive Director to Independent non-executive Director on 31 May 2012)
Mr. Chau Shing Yim, David
Mr. Lee Teck Leng, Robson
Ms. Chan Wah Man, Carman (resigned on 19 July 2012)
Mr. Kan Chung Nin, Tony (appointed on 20 May 2013)

## AUDIT COMMITTEE

Mr. Chau Shing Yim, David *(Chairman)*
Mr. Lee Teck Leng, Robson
Mr. Ong Chor Wei
Ms. Chan Wah Man, Carman (resigned on 19 July 2012)
Mr. Xie Fang (appointed on 20 May 2013)

## NOMINATION COMMITTEE

Mr. Wong Man Li *(Chairman)*
Mr. Lee Teck Leng, Robson
Mr. Chau Shing Yim, David
Ms. Chan Wah Man, Carman (resigned on 19 July 2012)
Mr. Wang Guisheng (appointed on 20 May 2013)
Mr. Kan Chung Nin, Tony (appointed on 20 May 2013)

## REMUNERATION COMMITTEE

Mr. Lee Teck Leng, Robson *(Chairman)*
Mr. Wong Man Li
Mr. Chau Shing Yim, David
Ms. Chan Wah Man, Carman (resigned on 19 July 2012)
Mr. Wang Guisheng (appointed on 20 May 2013)
Mr. Kan Chung Nin, Tony (appointed on 20 May 2013)

## COMPANY SECRETARY

Mr. Law Kim Fai

## AUDITOR

Deloitte Touche Tohmatsu
*Certified Public Accountants*
35th Floor, One Pacific Place
88 Queensway
Hong Kong

## BERMUDA SHARE REGISTRAR AND SHARE TRANSFER AGENT

Appleby Management (Bermuda) Ltd.
Canon's Court
22 Victoria Street
Hamilton 12
Bermuda

## HONG KONG SHARE REGISTRAR

Computershare Hong Kong Investor Services Limited
Shops 1712-1716
17th Floor
Hopewell Centre
183 Queen's Road East
Wanchai
Hong Kong

## REGISTERED OFFICE

Canon's Court
22 Victoria Street
Hamilton HM 12
Bermuda

## PRINCIPAL PLACE OF BUSINESS IN HONG KONG

1st Floor, Wah Lai Industrial Center
10-14 Kwei Tei Street, Fotan
New Territories, Hong Kong

## LEGAL ADVISERS

Reed Smith Richards Butler
Appleby

## PRINCIPAL BANKERS

Standard Chartered Bank
Hang Seng Bank
Hong Kong and Shanghai Banking Corporation Limited

## STOCK CODE

1999

## WEBSITE

www.manwahholdings.com

## INVESTOR RELATIONS CONSULTANT

Strategic Financial Relations Limited
29A & 2402, Admiralty Centre I
18 Harcourt Road
Hong Kong

# Directors' Biographies

### *Executive Directors*

**Mr. Wong Man Li,** aged 48, is our Chairman, Managing Director and our executive Director. Mr. Wong is also the Chairman of the Company's nomination committee and a member of the Company's remuneration committee. He is responsible for the day-to-day overall management of our Company and mapping our growth strategy. Mr. Wong founded our Group in 1992 and has served as our Chairman, Managing Director and executive Director since 17 November 2004. He is also a director of a number of subsidiaries of the Company. He has over 20 years of experience in the furniture industry. Since 21 February 2005, Mr. Wong has been the Vice President of the General Council of the International Furniture and Decoration Industry (Hong Kong) Association (國際傢俬業裝飾（香港）協會). In December 2007, Mr. Wong was recognised as one of the "Top Ten Outstanding Youth Industrialists of Hong Kong" (香港十大傑出青年工業家) and was elected as a committee member of the "Hong Kong Youth Industrialist Association" (香港青年工業家協會) in November 2008, Vice President of the 5th Council of Frontline Guangdong Huizhou Overseas Friendship Association (第五屆統戰部廣東惠州海外聯誼會) in January 2009 and a member of the 10th Committee of Huizhou Chinese People's Political Consultative Conference (惠州市第十屆政協委員) in February 2009. In January 2011, Mr. Wong was elected as a member and the Director of Sha Tin District Community Fund（沙田社區基金會). In January 2011, Mr. Wong received the 2010 Fellowship Award from Asian College of Knowledge Management and an Honorary Doctorate in Management from Lincoln University (2010年度亞洲知識管理學院院士暨林肯大學榮譽管理博士學位). Mr. Wong is the husband of Ms. Hui Wai Hing, an executive Director. Mr. Wong is the director of Man Wah Investments Limited, the controlling shareholder of the Company.

**Ms. Hui Wai Hing,** aged 50, is our executive Director and Vice President (General Administration and Retail Sales). She is also a director of a number of subsidiaries of the Company, and is responsible for our general administration and retail business functions in Hong Kong. She is the wife of Mr. Wong Man Li, our Chairman, Managing Director and executive Director. She joined our Group in 1992 and was appointed our Director on 17 November 2004. She has over 20 years of experience in the furniture industry, over 18 years of which is management experience in our Group.

**Mr. Stephen Allen Barr,** aged 55, is our executive Director and President of Man Wah USA, Inc. ("Man Wah USA"). Mr. Barr is responsible for mapping our sales strategies in the U.S. through Man Wah USA. Mr. Barr joined us in 2006 and was appointed as our executive Director on 5 March 2010. He has over 30 years of experience in the furniture industry having worked at Ashley Furniture Industries, Inc., Lackawanna Leather Corp. and Krause's Furniture Inc., in addition to having successfully established Leather Master USA. Prior to joining us, he was President of U.S. operations for HTL International Holdings Ltd, a Singapore-listed leather tanner and manufacturer of leather upholstery.

**Mr. Wang Guisheng,** aged 43, is our executive Director and Chief Financial Officer. Mr. Wang is also a member of the Company's nomination committee and remuneration committee. He joined the Company in November 2010 and was appointed as executive Director on 25 May 2011. He received a bachelor's degree from China Institute of Finance 中國金融學院 (now known as University of International Business and Economics 對外經濟貿易大學) in 1993. Mr. Wang is qualified as a Certified Public Accountant with The Chinese Institute of Certified Public Accountants and has been a fellow member of The Association of Chartered Certified Accountants of England since April 2003. Prior to joining the Company, Mr. Wang was the executive director and chief financial officer of Maoye International Holdings Limited (stock code: 848), a company listed on the Main Board of The Stock Exchange of Hong Kong Limited ("Stock Exchange"), from 31 August 2007 to 20 October 2010. In addition, Mr. Wang was the executive director of Chengshang Group Co., Ltd. (stock code: 600828), a company listed on the Shanghai Stock Exchange, from 19 July 2005 to 20 October 2010 and Qinhuangdao Bohai Logistics Holdings Corporations Ltd. (stock code: 000889), a company listed on the Shenzhen Stock Exchange, from 30 June 2010 to 20 October 2010.

**Mr. Alan Marnie**, aged 42, is our executive Director who joined the Group in September 2010. Mr. Marnie is also currently a chief executive officer of Man Wah (UK) Limited, a subsidiary of the Company. He is responsible in exploring the furniture market in United Kingdom, Europe, Africa, Asia and Oceania. Mr. Marnie has over 20 years of experience in the furniture industry in manufacturing, retail and marketing of furniture. Prior to joining the Group, he was employed by Homestyle Operations Limited ("Homestyle") as the managing director for Steinhoff Retail Furniture Division in the United Kingdom for 2 years from 2008 to 2010. Homestyle belongs to Steinhoff International Holding Ltd ("Steinhoff"), a company listed on the Johannesburg Stock Exchange, and is one of the largest furniture retailers in Europe. In addition, Mr. Marnie had also worked in Reid Furniture Limited, a company which was subsequently owned by Steinhoff, the largest furniture retailer of Scotland and Ireland at that time, for 19 years, and was its managing director and chief executive officer for 3 years and 2 years, respectively.

**Mr. Dai Quanfa**, aged 40, is our executive Director who joined the Group in 1995, and is currently a director of Man Wah Furniture Manufacturing (Huizhou) Co., Ltd. (敏華傢具製造（惠州）有限公司), Man Wah Furniture Manufacturing (Shenzhen) Co., Ltd. (敏華傢具製造（深圳）有限公司), King Famous Bedding Manufacturing (Shenzhen) Co., Ltd. (金雅典床俱製造（深圳）有限公司), Remaco Machinery Technology (Wujiang) Co., Ltd. (銳邁機械科技（吳江）有限公司) and Man Wah Furniture (China) Co., Ltd. (敏華傢具（中國）有限公司), subsidiaries of the Group, Mr. Dai is also a senior director of the manufacturing center of the Group. He is responsible for the Group's manufacture of furniture. Mr. Dai has over 19 years of experience in the furniture industry.

### *Non-executive Director*

**Mr. Xie Fang**, aged 38, is our non-executive Director and was appointed on 20 May 2013. Mr. Xie is also a member of the Company's audit committee. He has been the managing director of CDH Investments since 2006 where he is primarily responsible for private equity investments. Currently, he is also a director at Suntar Environment Engineering (Xiamen) Co., Ltd (三達（廈門）環境工程有限公司), Zhejiang Jindun Pressure Vessel Co., Ltd. (浙江金盾壓力容器有限公司), Access Universe International Limited (中經匯通有限責任公司) and MeiHua Holdings Group Co., Ltd. (梅花生物科技集團有限公司) (stock code: 600873), a company listed on the Shanghai Stock Exchange. From 2000 to 2002, he was a senior manager at the investment banking department of BOC International Holdings Limited (中銀國際控股有限公司). From 2002 to 2004, he was the vice president at Uni-Quantum Investment Advisory (Beijing) Co., Ltd. (量宇投資顧問（北京）有限公司). From 2004 to 2006, he was an investment manager at Shanghai NewMargin Ventures Co., Ltd. (上海永宣創業投資管理有限公司), formerly known as Shanghai Lianchuang Investment Management Co., Ltd. (上海聯創投資管理有限公司). Mr. Xie holds a bachelor degree in automation engineering (自動化工程系) and a master degree in management science and engineering (管理科學與工程系), both awarded by the Shanghai Jiao Tong University (上海交通大學).

### *Independent non-executive Directors*

**Mr. Lee Teck Leng, Robson**, aged 45, was our independent non-executive Director from 26 April 2005 until the delisting of our Company from the Singapore Stock Exchange Securities Trading Limited ("SGX-ST") effective from 15 September 2009. He was re-appointed as our independent non-executive Director on 5 March 2010. Mr. Lee is the Chairman of the Company's remuneration committee and a member of each of the Company's audit and nomination committees. Mr. Lee holds a Second Class Upper Honours Degree in Law from The National University of Singapore. Mr. Lee is currently a partner in the corporate finance and international finance practice of Shook Lin & Bok LLP and has been with the firm since 1994. Mr. Lee is also a partner in the firm's China practice, focusing on cross-border corporate transactions in the PRC. Mr. Lee is currently a non-executive director of Sheng Siong Group Ltd, chairman of the respective remuneration committees of Sim Lian Group Ltd, Best World International Ltd and Matex International Ltd and chairman of the respective nominating committees of Serial System Ltd and Youyue International Ltd, all of which are listed on the SGX-ST. In addition, Mr. Lee is a member of the audit committees of Sim Lian Group Ltd, Serial System Ltd, Youyue International Ltd, Best World International Ltd and Matex International Ltd. Mr. Lee is also a Director of the Singapore Chinese High School, in his capacity as a trustee of the land on which Hwa Chong Institution and Hwa Chong International School are situated. Mr. Lee was a director of Hwa Chong International School from 2004 to 2007 and a director of China Energy Ltd, a listed company on the SGX-ST, from 2006 to 2008.

**Mr. Chau Shing Yim, David,** aged 49, is our independent non-executive Director and was appointed on 5 March 2010. Mr. Chau is the Chairman of the Company's audit committee and a member of each of the Company's nomination committee and remuneration committee. Mr. Chau has over 20 years of experience in corporate finance, working on projects ranging from initial public offerings transactions and restructurings of PRC enterprises to cross-border and domestic takeovers transactions. Mr. Chau was formerly a partner of one of the big four accounting firms in Hong Kong, holding the position as their head of Merger and Acquisition and Corporate Advisory. He is a member of the Hong Kong Securities Institute, the Institute of Chartered Accountants in England and Wales ("ICAEW"), and was granted the Corporate Finance Qualification of the ICEAW, and the Hong Kong Institute of Certified Public Accountants ("HKICPA"), and was an ex-committee member of the Disciplinary Panel of the HKICPA. Mr. Chau is an executive director of Zhidao International (Holdings) Limited (formerly known as Ocean Grand Holdings Limited) (stock code: 1220), a non-executive director of Up Energy Development Group Limited (stock code: 307) and an independent non-executive director of Shandong Molong Petroleum Machinery Company Limited (stock code: 568), Lee & Man Paper Manufacturing Limited (stock code: 2314), Varitronix International Limited (stock code: 710) and Evergrande Real Estate Group Limited (stock code: 3333), all of which are listed on the Main Board of the Stock Exchange. He resigned as an independent non-executive director of Duoyuan Global Water Inc., which is listed on the New York Stock Exchange, in April 2012.

**Mr. Ong Chor Wei**, aged 43, is our independent non-executive Director. Mr. Ong was formerly our non-executive Director appointed on 5 March 2010 who was redesignated on 31 May 2012 as our independent non-executive Director. Mr. Ong is also a member of the Company's audit committee. Mr. Ong is currently an executive director of Net Pacific Financial Holdings Limited (previously known as K Plas Holdings Limited) and a non-executive director of each of Joyas International Holdings Limited which is listed on the SGX-ST. He is also an independent non-executive director of O-Net Communications (Group) Limited (stock code: 877), a company listed on the main board of the Stock Exchange. Previously, Mr. Ong served as a non-executive director of Jets Technics International Holdings Limited, a company listed on the SGX-ST. Mr. Ong has over 20 years of experience in finance and accounting. Mr. Ong holds a Bachelor of Laws degree from The London School of Economics and Political Science, University of London. He also holds a distance learning degree in Masters in Business Administration jointly awarded by The University of Wales and The University of Manchester. Mr. Ong is an associate member of ICAEW and a member of the HKICPA.

**Mr. Kan Chung Nin, Tony**, aged 62, LL.B., P.C.L.L., BBS, JP, is our independent non-executive Director and was appointed on 20 May 2013. Mr. Kan is also the members of the Company's nomination committee and remuneration committee. He is the Senior Partner of Tony Kan & Co., Solicitors & Notaries, practising as a Solicitor of the Supreme Court of Hong Kong since 1982. He is also a Solicitor of the Supreme Court of England and Wales, a Barrister and Solicitor of the Supreme Court of the Australian Capital Territory, as well as Advocate and Solicitor of the Supreme Court of the Republic of Singapore. He is also a China Appointed Attesting Officer and a Notary Public. Mr. Kan is currently a Committee Member of the National Committee of the Chinese People's Political Consultative Conference and was a Committee Member of the Guangdong Committee of the Chinese People's Political Consultative Conference for three consecutive terms. Mr. Kan had been an Elected Member of the Sha Tin District Council from 1985 to the end of 2011. He had also been an Elected Member of the Regional Council and he was elected as Vice Chairman of the Council in July 1997 until its dissolution at the end of 1999. Since 1988, Mr. Kan has served as a Councillor of Heung Yee Kuk in the New Territories and is currently an Ex Officio Member and Executive Committee Member of the Kuk. Mr. Kan is serving and has served on various advisory committees for the government, including Town Planning Board Member. He is currently a Member of the Building Committee of Hong Kong Housing Authority and a Member of the Election Committee of the Chief Executive of Hong Kong Special Administrative Region.

# Chairman's Statement

## Dear Shareholders,

On behalf of the Board of Directors of Man Wah Holdings Limited ("Man Wah" or the "Company"), I am pleased to present the audited annual results of the Company and its subsidiaries (the "Group") for the year ended 31 March 2013 ("FY2013", the "Review Period" or the "Current FY").

## Business Review

Despite numerous uncertainties being faced by major economies around the globe, the Group was able to maintain healthy and stable growth in each major market during the Review Period. By constantly enhancing its operational efficiency, the Group made consistent improvements to its various business and financial indicators, and achieved encouraging growth in profits.

In the overseas market, the Group consumer-oriented and further enhanced its competitive advantage through the development of new products and raising product quality and service standards, which has led to a steady growth of income.

In the North American market, the Group leveraged its superior research and development ("R&D") capabilities to introduce a range of revolutionary new products. The Group achieved outstanding results as it set the trend in the recliner sofa market and increased its market share. In the industry report released by the leading the United States ("U.S.") furniture magazine Furniture Today in May 2013, the Group was once again a top ten supplier to the U.S. furniture market, with the highest annual revenue growth rate in the top ten suppliers.

During the Review Period, the European economy had yet to display significant improvement as consumers continued to place emphasis on price-cost-performance of products. The Group grasped this opportunity and introduced products both quality and price advantages, which were sought after by many local consumers. With quality retailers gaining a better understanding of the Group's products, an increasing number of retailers began long-term and stable cooperative relationships as the Company's products became their top selling products.

In the Mainland market, negative impacts from a slow-down of real-estate transactions in first and second-tier cities in China due to macroeconomic policies launched by the Central Government, as offset by the progress of urbanization and urban residents constantly demanding better comfort in furniture products. Thus the Group's management had focused on the growing consumption power of residents of third and fourth-tier cities and actively expanded store networks and sales channels in these cities, which generated stable growth in sales income from Mainland China during the Review Period. As the Group's brand awareness continued to increase, the Group raised retail prices again in June 2012 while the volume of orders continued to rise, which led to even further growth in the Group's profit levels.

For internal operations, the Group remained vigilant and maintained strict control of internal costs, at the same time actively optimizing its procedure to further enhance the operating efficiency. During the Review Period, the selling and general administrative expense as a percentage of revenue decreased steadily, effectively enhancing profit margin levels.

## Prospects

As data such as new residential construction statistics in the U.S. continue to be positive, combined with the Group's innovative products and strong brand recognition, management believes that the U.S. market's demand for Man Wah's reclining sofas will continue to grow, which will be advantageous to the Group in achieving a greater market share in the U.S..

At the recent furniture industry trade show, the High Point Furniture Show, the Group's products attracted widespread recognition once again from customers. In particular, the innovative products introduced at the event received strong, positive feedback, making the event the Group's most successful overseas furniture show to date.

Along with the corporate development, the Group has gradually accumulated core competencies in R&D, manufacture and sales of furniture and cultivated a large group of professional talents. Therefore, the Group is constantly poised to grasp market opportunities to achieve better business development.

In other overseas markets such as Europe, with the expansion and development efforts from overseas sales teams in the past few years, a solid market and client base have gradually been established. The Group intends to maintain its steady collaboration with current clients and actively search for new clients to boost its market share.

In the Mainland China market, economic development and urbanization have led to increasing consumer demands in the quality of furniture products. According to Euromonitor International's ("Euromonitor") statistics, reclining sofas accounted for 39% of American sofa market, but only occupied less than 8.9% of the Chinese sofa market, indicating the vast development potential of the Chinese reclining sofa market. The Group's reclining sofas combine characteristics such as innovative design, comfort and high-cost-performance to build its reputation in the Mainland market. The Group is devoting greater efforts in developing regions with high growth potential and is introducing more high-cost-performance products tailored to the various needs of consumers. The Group intends to open not less than 200 retail stores in the coming year, most to be situated in third and fourth-tier cities. Also, the Group is allocating more resources to online sales and developing sales channels online to take advantage of the vast business opportunities in the online consumer market and forge positive ties between physical stores and online outlets. Since 1 May 2013, the Group raised both wholesale and retail prices for most sofa products in Mainland China by 5%, further enhancing the Group's profitability.

In terms of production capacity expansion, the Group will complete construction for phase 1 of the Tianjin factory in 2014, which is designed to boost the capacity to produce 200,000 additional sofa sets per year. The Group's annual sofa production capacity will then increase from the current 1,116,000 sets to 1,316,000 sets to better grasp opportunities arising from sales growth with higher flexibly.

In April 2013, the Group successfully solicited two renowned mainland strategic investors, CDH Investments ("CDH") and China Asset Management ("Huaxia") through the issue of convertible bonds. CDH and Huaxia have abundant experience and resource networks in investments, especially retail investments. We are confident that this will promote the rapid growth of Man Wah's business in the long run.

## Appreciation

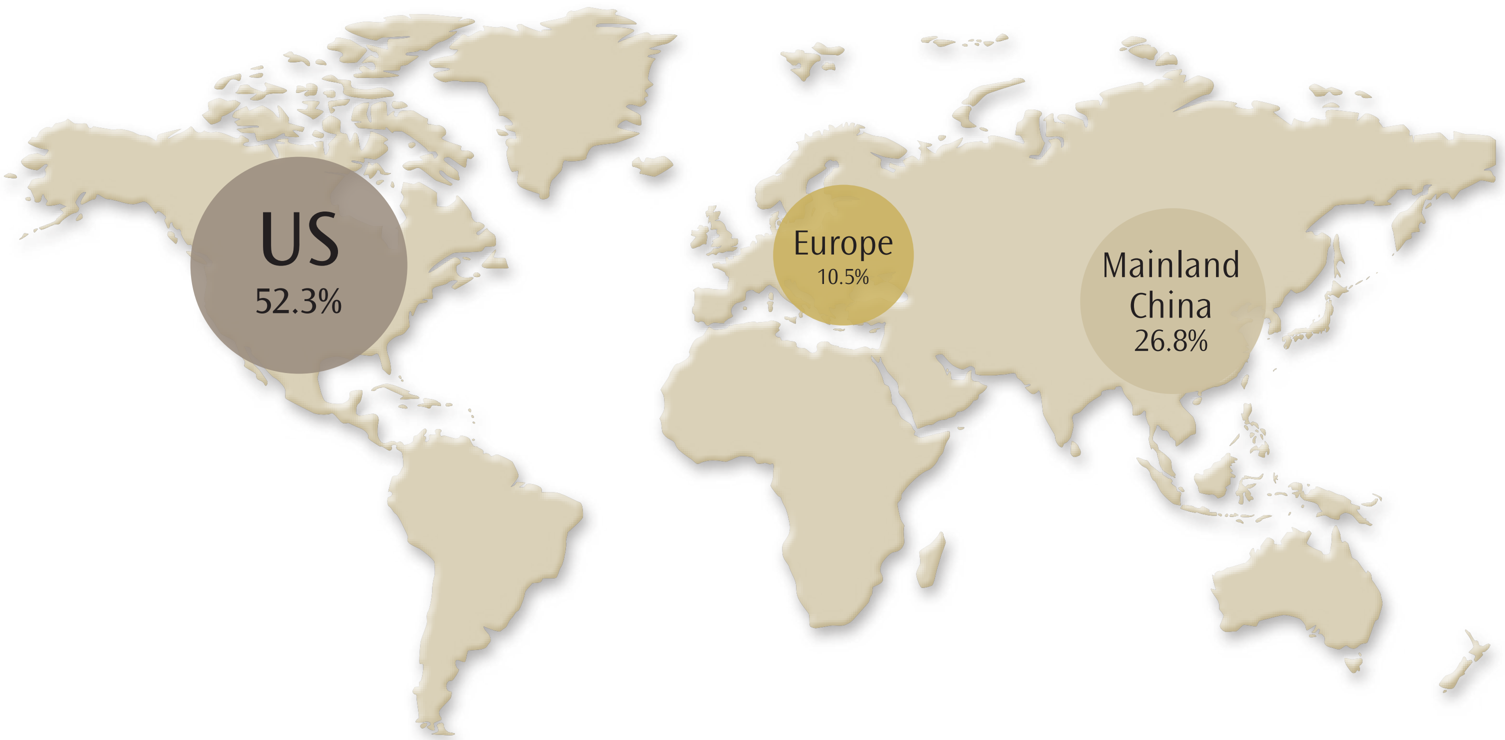
On behalf of the Board, I would like to extend my heartfelt thanks to the long-term support and trust of our shareholders and business partners. I would also like to thank the Group's employees for their consistent effort in aiding the Group to achieve an outstanding performance. The Group will continue to enhance its core competencies and strive to become the world's leading furniture producer.

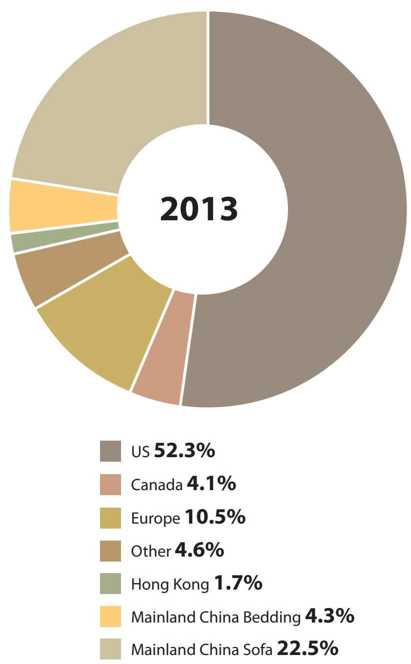
**Wong Man Li**
*Chairman*
**Man Wah Holdings Limited**

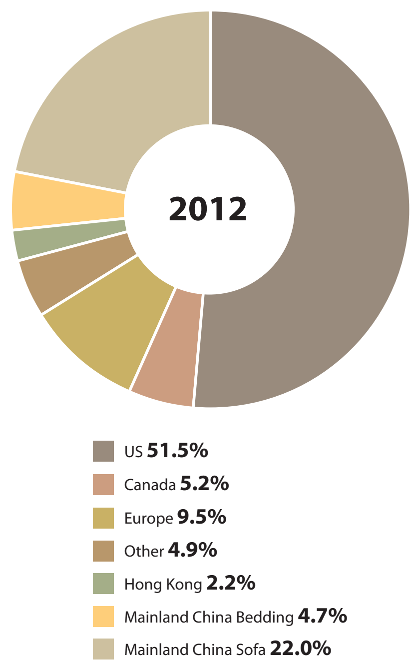
# Management Discussion and Analysis


# Man Wah International Markets

## Revenue by Geographical Segment



# Market Review

During FY2013, to capture the opportunities from the growing consumption level of Chinese consumers and the continued expansion of market shares in the European and the U.S. regions, the Group actively developed new products, and adjusted product mix to raise market shares and expand overall sales. The Group also devoted efforts to enhancing operational efficiency and strengthening control of costs. Thanks to these initiatives, the Group recorded a substantial increase in net profits during the Review Period compared with the corresponding period of last year.

## Sustained growth of strong demand in the Chinese market

During the past year, Mainland China's ongoing rapid urbanization continued. According to data from the Blue Book of Urban-Rural Integration released by the Institute of Modern Urban-Rural Development Planning of the Chinese Academy of Social Sciences in January this year, the urban population in China has grown to 691 million, exceeding its rural population. More than one million rural residents have relocated to second and third-tier cities. In view of this, during this year's regular meeting, the State Council has proposed the increase of a supply of regular commercial housing and land to fulfill the market's strong demand for urban housing. The Blue Book also points out that growth rate of urban residents income surpassed that of China's Gross Domestic Product ("GDP") for the first time last year, which indicates the vast domestic demand and purchasing potential of urban residents and also presents expansive room for development of the furniture market.

Also, despite the expansion of pilot locations where personal real-estate tax reforms have been implemented, higher down payments and loan interest rates of second houses and the introduction of property market adjustment policies such as the "Five Policies of State Council" by the Central Government to curb speculative housing purchases, the market demand for housing remains strong. The report of China Index Academy points out that the average price of newly built housing for 100 cities throughout China in March has risen for the tenth consecutive month with year-on-year increase by 1.42 percentage points to 3.9%. A sustained demand for housing in the market is expected, to propel the potential demand for furniture products.

## Steady growth of the reclining sofa market in European and U.S. markets

Driven by policies implemented by the U.S. government to stimulate the economy, the overall U.S. economy has improved moderately. Data from the U.S. Department of Commerce shows that U.S. GDP grew by 2.2% last year, higher than 1.8% recorded in the year before. The final figure of the University of Michigan's Index of Consumer Sentiment for March exceeded market expectations and rose to 78.6, indicating an improvement in the overall economy and sentiment in the consumer market, which in turn stimulated growth within the market. Also, the U.S. Department of Commerce announced a raise in new housing starts in February 2013. Building permits for private housing even rose to the highest point since 2008. All these indicators point to the accelerated recovery of the real estate market, which is expected to drive the demand for furniture products.



According to the market survey published by Euromonitor in May 2013, the Group's market share in the U.S. reclining sofa market rose from 8.5% in 2011 to 9.6% last year. In the market rankings for May 2013 of leading U.S. furniture magazine Furniture Today, the Group was once again a top ten supplier to the U.S. furniture market, with the highest annual revenue growth rate in the top ten suppliers.

In European markets, despite the economic crisis in Cyprus, the economies of most countries within the European region were only affected to a relatively small extent. Initial figures of GGDP in the first quarter this year released by The UK Statistics Authority recorded a slight year-on-year increase of 0.6% in that country. Statistics from the Federal Statistical Office of Germany revealed that the actual retail sales in that country during February were up by 0.4% month-on-month, which reflects a stabilizing economy. During the economic crisis, European consumers became more cautious in their spending. To cope with the situation, the Group introduced high-cost-performance products which became popular among European consumers. The Group is continuing to closely monitor trends in overseas markets and boost its market shares.

## Business Review

For the year ended 31 March 2013, the Group continued the manufacture and sale of furniture with an emphasis on reclining sofas, and achieved encouraging results in each major market.

### Retail Business

As at 31 March 2013, the Group had a total of 894 "CHEERS" and "ENLANDA" retail stores in Mainland China.

The Group owned 176 "CHEERS" and 86 "ENLANDA" retail stores located in 20 cities in Mainland China, including first-tiers cities such as Shenzhen, Guangzhou and Shanghai, as well as 8 "CHEERS" and "MOREWELL" retail stores in Hong Kong.

At the same time, distributors of the Group operated 443 "CHEERS" and 189 "ENLANDA" retail stores in second- and third-tier cities in Mainland China, including Qingdao, Chongqing and Nanjing, with coverage across 28 provinces.

### Internet sales business

Besides establishing physical stores in Mainland China, the Group has grasped the opportunity arising from the rapid development of e-commerce and officially established its online retail business in July 2011 and sales increased month by month. During the Review Period, it realized annual sales revenue of approximately HK$65,464,000 online, increasing by approximately 5.5 times compared with the last financial year, which was extremely encouraging. Currently, the Group continues to utilize TMALL as its primary internet sales platform, but it will also actively develop other online sales channels. Online sales are directed towards younger consumers. Emphasis is placed on reclining sofas with modern designs and high-cost-performance. These products are popular among young consumers and also nicely complement the merchandise in the Group's physical stores.

### Export business

Our "CHEERS" reclining sofa are directly exported to overseas retailers, including the U.S., Europe, Asia and some other areas. In the overseas market, the Group regularly participates in furniture exhibitions held in major markets to promote new products. Meanwhile, it has also set up local teams to build long term partnerships with local retailers. During FY2013, the Group participated in 8 overseas exhibitions, such as in Las Vegas, High Point and Cologne. 62 new export customers were added for the year.

In the U.S. market, the Group has continued to cooperate with major furniture retailers and constantly improved service, resulting in a stable growth in sales to existing customers. At the same time, it has further expanded its customer base. During FY2013, the Group procured more than 27 retailers as new customers. Sales from the U.S. increased year-on-year by 14.2% during FY2013.

In the European market, benefiting from its newly established professional and efficient local team, the Group has gradually extended cooperation with large furniture retailers. Recently, the Group's business in Europe has demonstrated rapid growth even though the market is still under the adverse influence of the European debt crisis. During FY2013, the Group obtained 20 new export customers from Europe and sales from the European market increased year-on-year by 24.5%.

## Product research and development

During FY2013, the Group's R&D team has accommodated the latest market demands and introduced a range of new sofas in a timely manner, which have been well received by the market. In response to high prices of genuine leather sofas caused by constantly rising genuine leather costs, the Group introduced reclining sofas made from "Leath-Aire", a revolutionary technological fabric which possesses near-genuine leather properties and is reasonably priced. Its introduction has been a huge success with overseas and domestic customers alike, and has generated of high volume of orders at the recently held High Point Market. As the supply of the new material begins to pick up, the Group expects Leath-Aire to make promising contributions to sales in the new year. During the Review Period, the Group's R&D team devoted its efforts to creating new textiles and new sofa structures and successfully developed more than 250 new sofa models within the year.

With the promotion of new products and adjustment in product mix, non-genuine leather sofa sales already account for more than 50% of overseas sofa sales during the Review Period. In Mainland China, non-genuine leather sofa sales have surpassed 20% of total sofas sold in terms of quantity. Therefore, it is obvious that non-genuine leather materials have tremendous market potential and can mitigate the negative effects of fluctuating genuine leather prices on gross profit. The new fabric is also beneficial to the Group's development of third and fourth-tier city markets in Mainland China.

In product research and development, besides revolutionizing the materials and appearance of sofas, substantial innovations and improvements have also been made to sofa structure and key components. Not only does this innovation benefit the Group's cost control efforts, it also ensures the quality of the Group's products. Moreover, the sofas produced and materials used by the Group have passed strict quality assurance tests in numerous countries and regions, which makes the Group's products safe to use for millions of consumers.

## FINANCIAL REVIEW

Revenue and gross profit margin

| | Revenue (HK$'000) | | | As a percentage of sales (%) | | Gross profit margin (%) | |
|---|---|---|---|---|---|---|---|
| | **FY2013** | FY2012 | Change (%) | **FY2013** | FY2012 | **FY2013** | FY2012 |
| Sofa export sales | **3,485,653** | 3,083,994 | 13.0% | **71.5%** | 71.1% | **31.3%** | 29.5% |
| Mainland China sofa sales | **1,098,029** | 951,653 | 15.4% | **22.5%** | 22.0% | **47.6%** | 44.0% |
| Mainland China bedding sales | **209,061** | 202,492 | 3.2% | **4.3%** | 4.7% | **53.9%** | 49.5% |
| HK retail & wholesale sales | **84,233** | 98,214 | -14.2% | **1.7%** | 2.2% | **52.0%** | 48.8% |
| Total | **4,876,976** | 4,336,353 | 12.5% | **100.0%** | 100.0% | **36.3%** | 34.0% |

During the FY2013, the total revenue of the Group increased by approximately 12.5% to approximately HK$4,876,976,000 (during the financial year ended 31 March 2012 ("FY2012"): approximately HK$4,336,353,000), whereas the overall gross profit margin displayed an upward trend month-on-month, rising from approximately 34.0% in FY2012 to approximately 36.3% in FY2013. Gross profit margin in the second half of the year during the Review Period reached approximately 36.9%.

During the FY 2013, cost of goods sold went up by approximately 8.5%, which was lower than the growth of revenue. Although the price of leather increased slightly during the FY 2013, the proportion of genuine leather in total cost continued to decline as the Group made timely adjustments to the product structure. Also, cost of other materials declined slightly, which led to a steady decrease of overall materials cost.

During the Review Period, the Group raised sales prices again according to product sales. In the Mainland China market, the average increase in the wholesale and retail price of sofa products reached 5% in June 2012. In overseas markets, the Group increased the selling price of products gradually since July, especially the selling price of genuine leather sofas with an average increase of over 2% in prices.

### Man Wah International Markets

*Sales Revenue Breakdown (by region, HK$'000)*

| | Mainland China | US | Europe | Canada | HK | Others |
|---|---|---|---|---|---|---|
| FY2013 | 1,307,090 | 2,550,195 | 511,102 | 200,906 | 84,233 | 223,450 |
| FY2012 | 1,154,145 | 2,232,350 | 410,484 | 226,736 | 98,214 | 214,424 |
| Change (%) | 13.3% | 14.2% | 24.5% | -11.4% | -14.2% | 4.2% |
| Percentage of total revenue (%) | 26.8% | 52.3% | 10.5% | 4.1% | 1.7% | 4.6% |

*Revenue, sales volume and average selling price of CHEERS brand sofa*

| | **FY2013** | FY2012 | Change (%) |
|---|---|---|---|
| Sales volume (sets) | **614,258** | 537,275 | 14.3% |
| Average Selling Price (HK$) | **7,139** | 7,196 | -0.8% |
| Sales revenue from sofa products (HK$'000) | **4,385,220** | 3,866,453 | 13.4% |

Note: In calculating selling prices, a proportion of business customer products and periphery products which were not applicable in the calculation of comparable average selling prices were not included.

During the Review Period, revenue from CHEERS brand sofa products increased by approximately 13.4% to approximately HK$4,385,220,000, accounting for approximately 89.9% of the total revenue of the Group. The increased revenue was mainly due to sales increasing by approximately 14.3% to 614,258 sets (FY2012: 537,275 sets) and our average selling price decreasing by approximately 0.8% to approximately HK$7,139 per set (FY2012: approximately HK$7,196). In Mainland China market, the average selling price decrease by approximately 3.9%, down from approximately HK$13,022 per set to approximately HK$12,518 per set. Average selling price in export markets also went down by approximately 0.7% as the price of each sofa set decreased from approximately HK$6,470 per set to approximately HK$6,425 per set. The major reason for the average selling price decrease was that the Company increased the proportion of non-leather sofa out of total sofa sales to minimize the impact to gross profit margin out of leather price fluctuation.

### *Sales revenue of CHEERS sofas in Mainland China*

During the Review Period, sales revenue of CHEERS sofas and related products from self-operated retail stores in Mainland China grew by approximately 10.4% to approximately HK$515.4 million (corresponding period last year: approximately HK$466.8 million). Growth of same-store sales was approximately -1.9% during the Review Period. While in the second half of the fiscal year, growth of same-store sales was approximately 5.8%, which was a substantial increase from the first half of the year. Sales from distributors was approximately HK$489.3 million (corresponding period last year: approximately HK$424.7 million), representing a growth of approximately 15.2%. During the Review Period, the Group allocated more resources towards the development of third tier and fourth tier city outlets. New stores consisted mainly of franchises, and were focused on promoting the non-genuine leather sofa products with high price-performance ratio during the Review Period.

The Group set up retail stores in furniture shopping malls. As at the end of the Review Period, the number of retail stores are as follows:

| | **31 March 2013** | 31 March 2012 | Change |
|---|---|---|---|
| Self-owned retail stores | **176** | 174 | 1.1% |
| Distributor-operated retail stores | **443** | 331 | 33.8% |
| Total | **619** | 505 | 22.6% |

***Sales revenue of sofa in the Mainland China's stores***

| | FY2013 HK$'000 | FY 2012 HK$'000 | Change |
|---|---|---|---|
| Self-owned retail stores | **515,416** | 466,827 | 10.4% |
| Distributor-operated retail stores | **489,343** | 424,661 | 15.2% |
| Total | **1,004,759** | 891,488 | 12.7% |

Note: The above figures include the sales of periphery sofa products but do not include sales to business customers.

## Internet sales business

During the Review Period, internet sales revenue was approximately HK$65.5 million, up by approximately 553.7% from approximately HK$10.0 million of the corresponding period last year. Currently, all internet sales are generated from the Group's CHEERS flagship store on the TMALL website (www.tmall.com). The primary are reclining chairs tailored for internet sales. The Group is currently the sales champion of single-seat sofas on the TMALL website.

## Sales to business customers

During the Review Period, the Group realized sales of approximately HK$27.8 million attributable to high-speed train manufacturing customers, representing a decrease of approximately 44.6% from approximately HK$50.2 million from the corresponding period last year. The decrease in sales was mainly attributable to the drastically cut back on the delivery of high-speed trains by those customers during the Review Period. The Group is in the process of developing more seating products better suited to high-speed trains and expects that they can contribute more to the Group's sales growth in the future.

***Sales revenue from ENLANDA products in Mainland China***

During the Review Period, sales revenue from ENLANDA products in Mainland China was approximately HK$209.1 million, representing an increase of approximately 3.2% from approximately HK$202.5 million in the corresponding period last year. Sales from self-operated retail stores were approximately HK$126.1 million, up by approximately 9.9% from approximately HK$114.7 million in the corresponding period last year. Growth of same-store sales during the Review Period was approximately 7.1%, and same-store-growth in the second half of the current FY was approximately 13.2%. Sales from distributor-operated retail stores were approximately HK$83.0 million, down by approximately 5.4% from approximately HK$87.8 million in the corresponding period last year.

The Group's ENLANDA brand products share similar distribution channels with CHEERS brand products, primarily by setting up retail stores in furniture shopping malls. As at the end of the Review Period, the number of retail stores are as follows:

| | 31 March 2013 | 31 March 2012 | Change |
|---|---|---|---|
| Self-owned retail stores | **86** | 75 | 14.7% |
| Distributor-operated retail stores | **189** | 162 | 16.7% |
| Total | **275** | 237 | 16.0% |

## Review on export business

During the Review Period, the Group's revenue from export sales was approximately HK$3,485.7 million, up by approximately 13.0% from approximately HK$3,084.0 million in the corresponding period last year.

The U.S. market, being the Group's largest export market, maintained stable growth during the Review Period. Sales was up by approximately 14.2% compared with the corresponding period last year. In the European market, the Group's sales grew by approximately 24.5%.

During the Review Period, the Group added a total of 62 new export customers. For existing customers, the Group has always satisfied their new demands by developing more appealing products. The Group achieved significant breakthrough in product development during the Review Period, especially in the innovation of new textiles and new structures. This has placed us further ahead of our competitors and also gradually enhances our bargaining power with large overseas customers.

## Cost of goods sold

*Cost of goods sold breakdown*

| | **FY2013 HK$'000** | FY2012 HK$'000 | Change (%) |
|---|---|---|---|
| Cost of raw materials | **2,711,316** | 2,569,013 | 5.5% |
| Labour Costs | **291,538** | 229,214 | 27.2% |
| Manufacturing overhead | **102,964** | 63,198 | 62.9% |
| Total | **3,105,818** | 2,861,425 | 8.5% |

| Major Raw Material | Average unit cost compared change (%) | % of total cost of sales |
|---|---|---|
| Leather | 1.2% | 30.5% |
| Metal | -4.5% | 20.1% |
| PVC | -4.6% | 2.2% |
| Wood | -0.4% | 8.5% |
| Fabric | -3.7% | 8.5% |
| Chemicals | -2.1% | 9.4% |

During the Review Period, overall cost of major raw materials decreased steadily. During FY2013, the price of leather increased by approximately 1.2%, while leather's proportion in total cost further decreased from approximately 35.8% last financial year to approximately 30.5%.

## Other income

During the FY2013, other income of the Group increased by approximately 36.4% to approximately HK$89,231,000, mainly due to the increase of income on structured deposit and sale of industrial waste (FY2012: approximately HK$65,400,000).

## Other gains and losses

During the FY2013, other gains and losses of the Group amounted to approximately HK$33,396,000, mainly attributable to the gain on forward contracts and foreign currency exchange gain (FY2012: approximately HK$4,807,000).

## Selling and distribution expenses

Selling and distribution expenses increased by approximately 6.7% from approximately HK$875.5 million in FY2012 to approximately HK$934.6 million in FY2013. However, the proportion of selling and distribution expenses to revenue (in percentage term) decreased from approximately 20.2% in FY2012 to approximately 19.2% in FY2013. The increase in expenses was mainly due to increased sales which led to an increase in relevant distribution expenses, including:

(a) overseas transportation and port fees increased by approximately 8.0% from approximately HK$381.5 million to approximately HK$412.0 million. As the Group's export container transportation prices were lower than the corresponding period from last year, overseas transportation and port fees decreased from accounting for approximately 8.8% of sales revenue to approximately 8.4%;

(b) rent, property management fees and utility increased by approximately 5.0% from approximately HK$170.2 million to approximately HK$178.8 million;

(c) advertising, promotion and brand building expenses decreased by approximately 3.5% from approximately HK$80.3 million to approximately HK$77.5 million;

(d) salaries, allowance of sales staff and commission increased by approximately 14.7% from approximately HK$110.2 million to approximately HK$126.5 million; and

(e) domestic transportation expenses decreased by approximately 9.0% from approximately HK$60.3 million to approximately HK$54.9 million.

## General and administrative expenses

Administrative expenses decreased by approximately 1.0% from approximately HK$329.2 million in FY2012 to approximately HK$325.9 million in FY2013. As a percentage of revenue, administrative expenses decreased from approximately 7.6% in FY2012 to approximately 6.7% in FY2013, including:

(a) salaries and allowance of employees decreased by approximately 2.4% from approximately HK$140.3 million to approximately HK$136.9 million;

(b) depreciation and amortization expenses increased by approximately 37.3% from approximately HK$57.9 million to approximately HK$79.5 million; and

(c) research and development expenses increased by approximately 20.7% from approximately HK$6.5 million to approximately HK$7.8 million.

## Share of results of jointly controlled entities

During the Review Period, share of profit of a jointly controlled entity of approximately HK$7,374,000 which all come from the profit from Home Expo (Hong Kong) Ltd (profit in FY2012: approximately HK$4,652,000).

## Interest expense on bank borrowing wholly repayable within five years

Interest expense on bank borrowing wholly repayable within five years increased from approximately HK$7,693,000 in FY 2012 to approximately HK$16,807,000 in FY 2013, representing an approximate increase of approximately 118.5%. It was mainly attributable to an increase in the Group's bank loans during the Review Period from HK$582,800,000 at the end of the previous financial year to approximately HK$745,660,000 at the end of FY 2013.

## Dividend

The Board declared a final dividend of HK 18.0 cents per share, together with an interim dividend of HK 10.0 cents per share, dividend declared was approximately 43.7% of profit attributable to owners of the Company for the FY2013.

## Working capital

As at 31 March 2013, our bank balances and cash were approximately HK$1,655,439,000.

We seek to effectively manage our cash flow and capital commitments and to ensure that we have sufficient funds to meet our existing and future cash requirements. We have not experienced and do not expect to experience any difficulties meeting our obligations as they become due.

## Liquidity and capital resources

As at 31 March 2013, the Group's short-term bank borrowings amounted to approximately HK$745,660,000, including approximately HK$655,660,000 were repayable within twelve months from 31 March 2013 and HK$90,000,000 were not repayable within twelve months from 31 March 2013 but contain a repayment on demand clause. Most of loans bore interest at variable rates.

The Group's primary source of operating funds are cash flow from operating activities and bank deposits. As at 31 March 2013, the Group's current ratio was 2.2 (31 March 2012: 2.4). The Group maintained a net cash position, reflecting its healthy financial position, paving the way for future development. As at 31 March 2013, the Group's gearing ratio was 21.5% (31 March 2012: 18.3%), which is defined as total borrowings divided by the sum of share capital and reserves of the Group.

## Allowance for inventories

For the FY2013, the Group made allowance for inventories of approximately HK$6,176,000 (FY2012: approximately HK$1,511,000).

## Impairment loss on trade receivables

For the FY2013, the Group provided impairment loss on trade receivables of approximately HK$546,000 (FY2012: HK$685,000).

## Pledge of assets

As at 31 March 2013, the Group did not have any pledged assets.

## Capital commitments and contingent liabilities

Save as disclosed in note 32 to the consolidated financial statements, the Group did not have any material capital commitment.

As at 31 March 2013, the Group did not have any contingent liabilities.

## Foreign currency risks

The Group's exposure to currency risks is attributable to the trade and other receivables, bank balances, trade and other payables and bank borrowings, which are denominated in currencies other than the functional currency of the entity to which they related. In order to lock-in costs of raw materials purchased in RMB and the payment of various expenses in RMB, the Group entered into a series of forward contracts which sold in USD and bought in RMB with a total amount of USD535,000,000. The completion date of such forward contracts range from April 2013 to October 2014, and the completion amount for each month is similar to the actual required amount of RMB for the completion month. For further details, please refer to note 22 of the consolidated financial statements.

## Significant investments and acquisitions

The Group did not have any significant investments or acquisitions or sales of subsidiaries during the FY2013. The Group continues to seek opportunities to acquire and merge with furniture companies to accelerate the development of the Company.

## Use of proceeds from the global offering

We have received gross proceeds from the listing of the Company's shares on The Stock Exchange of Hong Kong Limited ("Stock Exchange") of approximately HK$1,681,773,000. With reference to the supplemental prospectus of the Company dated 29 March 2010, the proceeds will be used for, among other things, (i) establishing 25 furniture outlets in the PRC, (ii) establishing a production and distribution centre in northern China, (iii) construction of new production and distribution facility in Wujiang, Jiangsu, (iv) expansion of "CHEERS" and "ENLANDA" retail stores in the PRC, (v) construction of phase 3 of our Huizhou facility, (vi) promotion and brand building, and (vii) for daily operation.

As at 31 March 2013, we have spent part of the proceeds on the above projects: (i) approximately HK$326,000,000 on construction of phase 3 in Daya Bay, Huizhou, (ii) approximately HK$493,600,000 on construction of new production and distribution facility in Wujiang, Jiangsu, (iii) approximately HK$126,447,000 on expansion of "CHEERS" and "ENLANDA" retail stores, (iv) approximately HK$208,651,000 on the promotion and brand building, (v) approximately HK$105,131,000 on establishing a new production and distribution centre in northern China, and (vi) approximately HK$34,779,000 on establishing furniture outlets in the PRC.

## Human resources

As at 31 March 2013, the Group had 8,575 employees (31 March 2012: 8,627 employees).

The Group provides introductory orientation programs and continuous training to its employees that cover industry knowledge, technology and product knowledge, industry quality standards and work safety standards to enhance the service quality and standard of its staff. The Group will strive to strengthen human resources management to provide strong support for the development of the Group's business through staff recruitment initiatives and the optimisation of the development of its organisation structure and corporate culture to ensure that the Group will be able to maintain sustainable development in the future. During the FY2013, as before, the Group arranged for more than 100 management staff attend a Mini Master of Business Administration course held at Peking University.

During FY2013, the total staff cost for the Group amounted to approximately HK$554,799,000 (FY2012: approximately HK$460,832,000), of which approximately HK$28,574,000 (FY2012: approximately HK$23,780,000) was Directors' emoluments.

# Corporate Governance Report

## CORPORATE GOVERNANCE PRACTICES

Man Wah Holdings Limited (the "Company") has a policy of seeking to comply with established best practice in corporate governance. The board ("Board") of directors ("Directors") of the Company believes that good corporate governance is crucial to improve the efficiency and performance of the Company and its subsidiaries (the "Group") and to safeguard the interests of its shareholders ("Shareholders"). Set out below are the principles of corporate governance as adopted by the Company during the financial year ended 31 March 2013 ("FY2013").

## CORPORATE GOVERNANCE CODE

The Board acknowledges the importance of the highest standards of corporate governance as the Board believes that effective corporate governance practices are fundamental to enhancing the shareholders' value and safeguarding interest of the shareholders. Accordingly, the Company has adopted sound corporate governance principles that emphasis an effective internal control and accountability to all shareholders.

The Company has applied the principles of and complied with the applicable code provisions of the Code on Corporate Governance Practices as set out in Appendix 14 (the "CG Code") to the Listing Rules during the Review Period, save for the deviation from code provisions A.2.1 and A.6.7 which are explained in the relevant paragraph in this annual report. The Company periodically reviews its corporate governance practices to ensure that these continue to meet the requirements of the CG Code.

Under the code provision A.2.1, the roles of chairman and chief executive officer should be separate and should not be performed by the same individual. The Company does not have any officer with the title of "chief executive officer". Mr. Wong Man Li, who acts as the Chairman and Managing Director of the Company, is also responsible for overseeing the general operations of the Group. The Board will meet regularly to consider major matters affecting the operations of the Group. The Board considers that this structure will not impair the balance of power and authority between the Board and the management of the Company. The roles of the respective executive directors and senior management who are in charge of different functions complement the role of the chairman and chief executive officer. The Board believes that this structure is conducive to strong and consistent leadership enabling the Group to operate efficiently.

Under the code provision A.6.7, independent non-executive Directors and non-executive Directors should attend general meetings of the Company. Mr. Lee Teck Leng, Robson, an independent non-executive Director and Ms. Chan Wah Man, Carman, a former independent non-executive Director could not attend the annual general meeting of the Company held on 19 July 2012 due to other business commitment.

## MODEL CODE FOR SECURITIES TRANSACTIONS

The Company has adopted the Model Code for Securities Transactions by Directors of Listed Issuers (the "Model Code") as set out in Appendix 10 of the Listing Rules as a code of conduct of the Company for Directors' securities transactions. The Company has made specific enquiry of all directors and the relevant employees regarding any non-compliance with the Model Code during the FY2013, and they all confirmed that they had fully complied with the required standard set out in the Model Code. Employees who are deemed to be in possession of unpublished price sensitive information in relation to the Company or its shares are prohibited from dealing in shares of the Company during the black-out period.

## CORPORATE GOVERNANCE FUNCTIONS

It is the responsibility of the Board to determine the appropriate corporate governance practices applicable to the Company's circumstances and to ensure processes and procedures are in place to achieve the Company's corporate governance objectives.

The duties of the Board performing corporate governance functions under Code include:

1. to develop and review the Company's policies and practices on corporate governance;

2. to review and monitor the training and continuous professional development of Directors and senior management of the Company;

3. to review and monitor the Company's policies and practices on compliance with legal and regulatory requirements;

4. to develop, review and monitor the code of conduct and compliance manual applicable to employees and Directors of the Company; and

5. to review the Company's compliance with the Code and disclosure in the Corporate Governance Report.

During the year under review, the Board considered the following corporate governance issues:

(i) adopted the Terms of Reference and Proceedings of the Board;

(ii) adopted the revised Terms of References of the Audit Committee and Remuneration Committee;

(iii) established the Nomination Committee and adopted its terms of reference;

(iv) adopted the Shareholders' Communication Policy and Procedures for Shareholders to propose a person for election as a Director;

(v) adopted the Policy for the employees to raise concerns about possible improprieties; and

(vi) reviewed the effectiveness of the internal controls and risk management systems of the Company through the Audit Committee.

## SHAREHOLDERS' MEETINGS

The annual general meeting and other general meetings of the Company are the primary forum for communication by the Company with the shareholders and for shareholders' participation. All shareholders are encouraged to attend the general meetings or to appoint proxies to attend and vote at meetings on their behalf if they are unable to attend the meetings.

During the year ended 31 March 2013, apart from the annual general meeting held on 19 July 2012, the Company has not held any other general meetings.

### Attendance records

During the FY2013, the annual general meetings were held and the attendance records are as follows:

| Board | | Meetings attended/Eligible to attend |
|---|---|---|
| *Executive Directors* | | |
| Mr. Wong Man Li *(Chairman)* | | 1/1 |
| Ms. Hui Wai Hing | | 1/1 |
| Mr. Stephen Allen Barr | | 1/1 |
| Mr. Wang Guisheng | | 1/1 |
| Mr. Alan Marnie | | 1/1 |
| Mr. Dai Quanfa | (appointed on 19 July 2012) | 1/1 |
| *Independent Non-executive Directors* | | |
| Mr. Chau Shing Yim, David | | 1/1 |
| Mr. Lee Teck Leng, Robson | | 0/1 |
| Ms. Chan Wah Man, Carman | (resigned on 19 July 2012) | 0/1 |
| Mr. Ong Chor Wei | (re-designated as independent non-executive director on 31 May 2012) | 1/1 |

## DIRECTORS' TRAINING AND PROFESSIONAL DEVELOPMENT

The Company has provided funding to encourage the Directors to participate in professional development courses and seminars to develop and refresh their knowledge and skills. During the year ended 31 March 2013, regulatory updates and relevant materials on amendment of Listing Rules were sent to the Directors for their awareness of the latest development on statutory requirements.

The training each Director received during the year ended 31 March 2013 is summarized as below:

| Name of Director | Reading materials regarding regulatory update and corporate governance matters | Attending seminars/in-house workshops relevant to the Company's business, Listing Rules compliance and risk management |
|---|---|---|
| *Executive Directors* | | |
| Mr. Wong Man Li | ✓ | ✓ |
| Ms. Hui Wai Hing | ✓ | ✓ |
| Mr. Stephen Allen Barr | ✓ | ✓ |
| Mr. Wang Guisheng | ✓ | ✓ |
| Mr. Alan Marnie | ✓ | ✓ |
| Mr. Dai Quanfa | ✓ | ✓ |
| *Independent non-executive Directors* | | |
| Mr. Ong Chor Wei | ✓ | ✓ |
| Mr. Chau Shing Yim, David | ✓ | ✓ |
| Mr. Lee Teck Leng, Robson | ✓ | ✓ |

## BOARD OF DIRECTORS

The Board currently comprises six executive Directors, one non-executive Director and four independent non-executive Directors ("INED"). The list of Directors is set out in the section headed "Directors' Report" of this annual report.

The Board has a balance of skills and experience appropriate for the requirements of the business of the Company. The Directors' biographical information is set out in the section headed "Directors' Biographies" of this annual report.

Save for the Directors' business relationships as a result of their respective directorships in the Company and the spousal relationship between the executive Directors Mr. Wong Man Li and Ms. Hui Wai Hing, as disclosed in each of their respective biographies in the section headed "Directors' Biographies" of this annual report, there are no financial, business, family or other material or relevant relationships among members of the Board and they are independent from each other.

The Board met regularly during the FY2013 on an ad hoc basis as required by business needs. The Board's primary purpose is to set and review the overall strategic development of the Group and to oversee the achievement of the plans to enhance shareholders' value. Daily operational decisions are delegated to the executive Directors.

### Role and function

The Board is responsible for overall strategic formulation and performance monitoring of the Group. It delegates day-to-day operations of the Company to the Executive Committee and senior management within the control and authority framework set by the Board. In addition, the Board has also delegated various responsibilities to the each of the Company's audit committee ("Audit Committee"), remuneration committee ("Remuneration Committee") and nomination committee ("Nomination Committee"). Further details of these committees are set out in the sections headed "Audit Committee", "Remuneration Committee" and "Nomination Committee" below.

### Board meetings

The Board has four scheduled meetings a year. Additional meetings would be arranged if and when required. The Directors can attend meetings in person or through other means of electronic communication in accordance with the bye-laws of the Company ("Bye-laws").

The company secretary of the Company ("Company Secretary") assists the Chairman in drawing the agenda of each meeting and each Director may request inclusion of matters in the agenda. Generally, at least 14 days' notice of a regular Board meeting is given and the Company aims at giving reasonable notice for all other Board meetings. The Company also aims at sending the agenda and the accompanying board papers, which are prepared in such form and quality as will enable the Board to make an informed decision on matters placed before it, to all Directors at a reasonable time before the intended date of a Board meeting.

All Directors have access to the Company Secretary who is responsible for ensuring that Board procedures are complied with and all applicable rules and regulations are followed.

The Company Secretary is responsible for taking minutes of Board and Board committee meetings, drafts and final versions of which would be sent to Directors for comments and records respectively, in both cases within a reasonable time after each meeting. Minutes are recorded in sufficient detail the matters considered by the Board and decisions reached, including any concerns raised by Directors or dissenting views (if any) expressed. Minutes of the Board and Board committees' meetings are kept by the Company Secretary and are open for inspection by any Director or committee member.

If a substantial shareholder of the Company or a Director has a conflict of interest in a matter (including material transaction with connected persons) which the Board has determined to be material, a Board meeting will be held instead of by way of resolution.

## Attendance records

During the FY2013, a total of four Board meetings were held and the attendance records are as follows:

| Board | | Meetings attended/Eligible to attend |
|---|---|---|
| *Executive Directors* | | |
| Mr. Wong Man Li *(Chairman)* | | 4/4 |
| Ms. Hui Wai Hing | | 4/4 |
| Mr. Stephen Allen Barr | | 4/4 |
| Mr. Wang Guisheng | | 4/4 |
| Mr. Alan Marnie | | 4/4 |
| Mr. Dai Quanfa | (appointed on 19 July 2012) | 2/2 |
| *Independent Non-executive Directors* | | |
| Mr. Chau Shing Yim, David | | 4/4 |
| Mr. Lee Teck Leng, Robson | | 4/4 |
| Ms. Chan Wah Man, Carman | (resigned on 19 July 2012) | 2/2 |
| Mr. Ong Chor Wei | (re-designated as independent non-executive director on 31 May 2012) | 4/4 |

## Access to information

The Directors may seek independent professional advice in appropriate circumstances, at the Company's expenses. The Company will, upon request, provide separate independent professional advice to Directors to assist the relevant Directors to discharge their duties to the Company.

The Board is supplied with relevant information by the senior management pertaining to matters to be brought before the Board for decision as well as reports relating to operational and financial performance of the Group before each Board meeting. Where any Director requires more information than is volunteered by the management, each Director has the right to separately and independently access to the Company's senior management to make further enquiries if necessary.

## Appointments and re-election of Directors

Directors were nominated by members of the Board during the year to fill casual vacancies or as an addition to existing Board. The nomination committee, in consultation with the Board, determines the selection criteria and identifies candidates with the appropriate expertise and experience for the appointments of new Directors. The nomination committee then nominates the most suitable candidate to be appointed to the Board.

According to the Bye-laws, any Director so appointed by the Board shall hold office, in the case of filling a casual vacancy, only until the next following general meeting of the Company or, in the case of an addition to their number, until the next following annual general meeting of the Company who shall then be eligible for re-election at such general meeting. Every Director (including the non-executive Director and INEDs) is appointed for a specific term and is subject to retirement by rotation at least once every three years.

Every newly appointed Director will be given an introduction of regulatory requirements. The Directors are continually updated on the latest development of the Listing Rules and other applicable statutory requirements to ensure compliance and upkeep of good corporate governance practice.

## Chairman and Managing Director

Mr. Wong Man Li serves as the Chairman and Managing Director of the Company. He is responsible for the day-to-day overall management of our Company and mapping our growth strategy. With the support of the executive Directors and the Company Secretary, the Chairman seeks to ensure that all Directors are properly briefed on issues arising at Board meetings and receive adequate and reliable information in a timely manner.

## Non-executive Director

The term of appointment of the Company's non-executive Director ("NED"), Mr. Xie Fang, were from 20 May 2013 for three years or any of CDH Fund IV, L.P. and its affiliates holding not less than HK$100 million of the convertible bonds due 2018 issued and to be issued by the Company under a subscription agreement dated 17 April 2013 entered into between the Company. CDH W-Tech Limited and ChinaAMC Capital Management Limited. Please refer to the announcements of the Company dated 17 April 2013 and 20 May 2013 for detail.

## Independent Non-executive Directors

Pursuant to Rules 3.10(1) and 3.10(2) of the Listing Rules, the Company has currently appointed four independent non-executive Directors for a term of three years. One of the INEDs, Mr Chau Shing Yim, David, has appropriate professional qualifications or accounting or related financial management expertise. Every Director is subject to retirement by rotation at least once every three years in accordance with the Bye-laws.

The term of appointment of Mr. Ong Chor Wei as the Company's non-executive Director was from 9 April 2010 for three years. Mr. Ong was subsequently re-designated as an independent non-executive Director on 31 May 2012 appointed for a term of three years.

The INEDs are considered by the Board to be independent of the management and free of any relationship that could materially interfere with the exercise of their independent judgments. The Board considered that each of the INEDs brings his or her own relevant expertise to the Board and its deliberations. None of the INEDs has any business or financial interests with the Group nor has any relationship with other Directors.

## Directors' and Auditors' Responsibilities for Accounts

The Directors' responsibilities for the accounts and the responsibilities of the external auditor to the Shareholders are set out on page 48 of this annual report.

## Board Committees

The Board has established the following committees to oversee particular aspects of the Company's affairs and to assist in the execution of the Board's responsibilities. All committees have their own terms of reference. All resolutions passed by the committees will be reported to the Board at the next Board meeting.

## Audit Committee

An Audit Committee of the Board has been established with specific written terms of reference which deal clearly with its authorities and duties. The Audit Committee currently consists of three INEDs, namely, Mr. Chau Shing Yim, David, Mr. Lee Teck Leng, Robson and Mr. Ong Chor Wei, and a NED, namely, Mr. Xie Fang. None of the members of the Audit Committee are former partners of the auditor of the Company within the past financial year. The principal duties of the Audit Committee include, among other things:

- review the audit plans of our external auditors;
- review external auditors' reports;
- review the cooperation given by our officers to the external auditors;
- review our financial statements before their submission to the Board;
- review, approve and monitor internal control procedures and risk management systems;
- review the effectiveness of our internal audit function;
- review and approve the terms and conditions for all interested person transactions;
- nominate external auditors for appointment;
- review and ratify interested person transactions to ensure that they comply with the approved internal control procedures and have been conducted on an arm's length basis; and
- review our financial and accounting policies and practices.

The Audit Committee has explicit authority to investigate any activity within its terms of reference and the authority to obtain outside legal or other independent professional advice if it considers necessary. It is given access to and assistance from the employees and reasonable resources to discharge its duties properly.

During the FY2013, the Board had no disagreement with the Audit Committee's view on the selection, appointment, resignation or dismissal of the external auditor. The financial statements for the financial year ended 31 March 2013 have been reviewed by the Audit Committee.

During the FY2013, two meetings of the Audit Committee were held and the Audit committee's primary responsibilities include overseeing the relationship with the Company's external auditor, review of financial information of the Group, and oversight of the Group's financial reporting system, internal control procedures and risk management. The Company has adopted a term of reference of the Audit Committee, which complies with the provisions of the Code. The terms of reference of the Audit Committee are available on the Company's website. The members of the Audit Committee during the FY2013 and their attendance were as follows:

| **Audit Committee** | | **Meetings attended/Eligible to attend** |
|---|---|---|
| Mr. Chau Shing Yim, David *(Chairman)* | | 2/2 |
| Ms. Chan Wah Man, Carman | (resigned on 19 July 2012) | 1/1 |
| Mr. Lee Teck Leng, Robson | | 2/2 |
| Mr. Ong Chor Wei | | 2/2 |

## Nomination Committee

A Nomination Committee of the Board has been established with specific written terms of reference which deal clearly with its authorities and duties. The Nomination Committee currently consists of three INEDs, namely, Mr. Lee Teck Leng, Robson, Mr. Chau Shing Yim, David and Mr. Kan Chung Nin, Tony, and two executive Directors of the Company, namely, Mr. Wong Man Li and Mr. Wang Guisheng. The principal duties of the Nomination Committee include, among other things:

- nomination of the Directors having regard to the Directors' contribution and performance;
- determining on an annual basis whether or not a Director is independent;
- deciding whether or not a Director is able to and has been adequately carrying out his duties as a Director; and
- reviewing and assessing the adequacy of the corporate governance guidelines of the Company and to recommend any proposed changes to the Board for approval.

Where vacancies exist at the Board, candidates are proposed and put forward to the Nomination Committee for consideration. The recommendations of the Nomination Committee will then be tendered to the Board for approval. In considering the nomination of a new Director, the Nomination Committee will take into account the qualification, ability, working experience, leadership and professional ethics of the candidates. In determining the independence of Directors, the Board follows the requirements set out in the Listing Rules.

The Nomination Committee has explicit authority to seek any necessary information from the employees within its scope of duties and the authority to obtain outside independent professional advice if it considers necessary.

During the FY2013, two meetings of the Nomination Committee was held and the Nomination Committee reviewed the structure of the Board and determined the policy for the nomination of Directors.

The members of the Nomination Committee during the FY2013 and their attendance were as follows:

| **Nomination Committee** | | **Meetings attended/Eligible to attend** |
|---|---|---|
| Mr. Wong Man Li *(Chairman)* | | 2/2 |
| Mr. Lee Teck Leng, Robson | | 1/2 |
| Ms. Chan Wah Man, Carman | (resigned on 19 July 2012) | 1/1 |
| Mr. Chau Shing Yim, David | | 2/2 |

## Remuneration Committee

A Remuneration Committee of the Board has been established with specific written terms of reference which deal clearly with its authorities and duties. The Remuneration Committee currently consists of three INEDs, namely, Mr. Lee Teck Leng, Robson, Mr. Chau Shing Yim, David and Mr. Kan Chung Nin, Tony, and two executive Directors of the Company, namely, Mr. Wong Man Li and Mr. Wang Guisheng. The principal duties of the Remuneration Committee include, among other things:

- review the remuneration of the executive Directors and to provide a greater degree of objectivity and transparency in the setting of remuneration; and
- assessing performance of the executive Directors and determines specific remuneration packages for each executive Director and our Managing Director.

The Remuneration Committee may consult the Chairman about their proposals relating to the remuneration of other executive Directors. The Remuneration Committee takes into consideration industry practices and norms in compensation, in addition to the performance relative to the industry and the performance of the individual Directors. The Company reviews the remuneration package annually taking into consideration of the market practice, competitive market position and individual performance.

During the FY2013, four meetings of the Remuneration Committee were held. The work done by the Remuneration Committee during the FY2013 includes the following:

(i) determining the policy for the remuneration of executive Directors; and
(ii) assessing performance of executive Directors.

In order to attract, retain, and motivate executives and key employees serving the Group, the Company has adopted a share option scheme and a share award scheme in April 2010 and January 2011, respectively. Both incentive schemes enable the eligible persons to obtain an ownership interest in the Company and thus to reward the participants who contribute to the success of the Group's operations.

Details of the remuneration of the Directors of the Company for the FY2013 are set out in note 9 to the consolidated financial statements and details of the share option scheme and share award scheme are set out in note 35 to the consolidated financial statements.

The members of the Remuneration Committee during the FY2013 and their attendance were as follows:

| **Remuneration Committee** | | **Meetings attended/Eligible to attend** |
|---|---|---|
| Mr. Lee Teck Leng, Robson *(Chairman)* | | 3/4 |
| Mr. Wong Man Li | | 4/4 |
| Ms. Chan Wah Man, Carman | (resigned on 19 July 2012) | 2/2 |
| Mr. Chau Shing Yim, David | | 4/4 |

## RISK MANAGEMENT

The Company improves its business and operational activities by identifying the areas of significant business risks via a regular review and taking appropriate measures to control and mitigate these risks. The management of the Company reviews all significant control policies and procedures and highlights all significant matters to the Board and Audit Committee.

## COMMUNICATION WITH SHAREHOLDERS AND INVESTOR RELATIONS

The Company recognises the importance of open communication and fair disclosure. It is the Company's policy to ensure that all shareholders are equally informed of all major corporate developments.

All shareholders have proper notice of any general meeting of the Company at which the Directors and the committees' members are available to give explanation on any query raised by the shareholders. Major information of the Company could be obtained from the Company's website or financial reports and circulars sent to the shareholders. Any enquiries by the shareholders requiring the Board's attention can also be sent in writing to the Investor Relations Manager of the Company whose contact details are set out in the paragraph headed "Shareholders' rights – (c) Right to put enquiries to the Board" below.

Resolutions put to the vote at the general meetings of the Company shall be decided on a poll, save that the chairman of the meeting may in good faith allow a resolution which relates purely to a procedural or administrative matter to be voted on by a show of hands. Procedures for conducting a poll will be explained to the shareholders at each general meeting and questions from shareholders regarding the voting procedures will be answered. The poll results will be posted on the websites of the Stock Exchange and the Company respectively in the manner prescribed under the Listing Rules.

As part of a regular program of investor relations, senior executives may hold briefings or road shows after the results announcement and attend conferences with institutional investors and analysts to engage in two-way communications on Company's performance, objectives and developments. Company visits can be arranged upon specific request.

## Shareholders' rights

### *(a) Right to convene special general meeting*

Bye-laws

(i) Bye-law 62 sets out the position under the Bye-laws where a requisition is made by shareholders of the Company (the "Shareholders" and each a "Shareholder"). Bye-law 62 provides that a special general meeting ("SGM") shall be convened on requisition, as provided by the Companies Act (as defined therein), or, in default, may be convened by the requisitionists.

Companies Act

(ii) Pursuant to section 74 of the Companies Act, a Shareholder or Shareholders holding at the date of the deposit of the requisition not less than one-tenth of the paid-up capital of the Company as at the date of the deposit carries the right of voting at general meetings of the Company may requisition the directors of the Company (the "Directors" and each a "Director") to forthwith proceed duly to convene an SGM by depositing a written requisition at the registered office of the Company.

(iii) The written requisition must state the purposes of the meeting (including the resolutions to be considered at the meeting), signed by the requisitionists, deposited at the registered office of the Company at Canon's Court, 22 Victoria Street, Hamilton HM12, Bermuda and may consist of several documents in like form each signed by one or more requisitionists.

(iv) If the Directors do not within twenty-one days from the date of the deposit of the requisition proceed duly to convene an SGM, the requisitionists, or any of them representing more than one half of the total voting rights of all of them, may themselves convene an SGM, but any SGM so convened shall not be held after the expiration of three months from the date of deposit of the requisition.

(v) An SGM so convened by the requisitionists shall be convened in the same manner, as nearly as possible, as that in which meetings are to be convened by the Directors.

### *(b) Right to put forward proposals at general meetings*

Companies Act

(i) Sections 79 and 80 of the Companies Act allow certain Shareholder(s) to requisition the Company to give notice to the shareholders in respect of any resolution which is intended to be moved at an annual general meeting ("AGM") of the Company or circulate a statement in respect of any proposed resolution or business to be considered at a general meeting of the Company. Under section 79 of the Companies Act, at the expense of the requisitionists unless the Company otherwise resolves, it shall be the duty of the Company on the requisition in writing by such number of Shareholders:–

(a) to give to the Shareholders entitled to receive notice of the next AGM notice of any resolution which may properly be moved and is intended to be moved at that meeting;

(b) to circulate to the Shareholders entitled to have notice of any general meeting sent to them any statement of not more than one thousand words with respect to the matter referred to in any proposed resolution or the business to be dealt with at that meeting.

(ii) The number of Shareholders necessary to make the above-mentioned requisitions to the Company shall be:–

(aa) either any number of Shareholders representing not less than one-twentieth of the total voting rights of all the Shareholders having at the date of the requisition a right to vote at the meeting to which the requisition relates; or

(bb) not less than one hundred Shareholders.

(iii) Notice of any such intended resolution shall be given, and any such statement shall be circulated, to Shareholders entitled to have notice of the meeting sent to them by serving a copy of the resolution or statement on each such Shareholder in any manner permitted for service of notice of the meeting, and notice of any such resolution shall be given to any other Shareholder by giving notice of the general effect of the resolution in any manner permitted for giving him notice of meeting of the Company, provided that the copy shall be served, or notice of the effect of the resolution shall be given, as the case may be, in the same manner and, so far as practicable, at the same time as notice of the meeting and, where it is not practicable for it to be served or given at that time, it shall be served or given as soon as practicable thereafter.

(iv) Section 80 of the Companies Act sets out the conditions to be met before the Company is bound to give any notice of resolution or to circulate any statement. Pursuant to section 80 of the Companies Act, the Company shall not be bound to give notice of any resolution or to circulate any statement as mentioned in paragraph 2.1 above unless:–

(aa) a copy of the requisition signed by the requisitionists, or two or more copies which between them contain the signatures of all the requisitionists, is deposited at the registered office of the Company:–

(i) in the case of a requisition requiring notice of a resolution, not less than six weeks before the meeting; and

(ii) in the case of any other requisition, not less than one week before the meeting; and

(bb) there is deposited or tendered with the requisition a sum reasonably sufficient to meet the Company's expense in giving effect to the procedures in paragraph (i) above (i.e. the giving of notice of resolution and/or circulation of statement).

Provided that if, after a copy of the requisition requiring notice of a resolution has been deposited at the registered office of the Company, an AGM is called for a date six weeks or less after the copy has been deposited, the copy though not deposited within the above-mentioned time shall be deemed to have been properly deposited for the purposes thereof.

*(c) Right to put enquiries to the Board*

Shareholders may at any time send their enquiries and concerns to the Board in writing for the attention of the Investor Relations Manager of the Company whose contact details are as follows:

1st Floor, Wah Lai Industrial Center
10-14 Kwei Tei Street, Fotan
New Territories, Hong Kong

Fax: (852) 2712 0630

Email: ir@manwahgroup.com

The Investor Relations Manager of the Company shall forward the shareholders' enquiries and concerns to the Board and/or relevant committees of the Board to answer the shareholders' questions where appropriate.

## DIRECTORS' AND OFFICERS' LIABILITY INSURANCE

Insurance cover has been taken out for Directors' and Officers' Liability to provide adequate cover, as determined by the Board, in respect of the Board members and senior management members of the Company and has been renewed in March 2012 for FY2013. Such insurance has also been renewed on 31 March 2013 with a term from 1 April 2013 until 31 March 2014.

## INTERNAL CONTROL

The Board is of the opinion that sound internal control systems will contribute to the effectiveness and efficiency of operations of the Group and to the safeguard of the Group's assets as well as the shareholders' investment.

The Board is responsible for overall ensuring, maintaining and overseeing the internal control systems of the Group. The Executive Committee helps the Board to discharge its responsibilities of ensuring and maintaining sound internal control functions by reviewing and monitoring the internal control systems annually and processes so as to ensure that they can provide reasonable assurance against material errors of the Group. The Board has reviewed the effectiveness of the internal control systems and considers the internal control systems effective and adequate.

## COMPANY SECRETARY

Mr. Law Kim Fai has been the Company Secretary of the Company since June 2011. Mr. Law reports to the Chairman of the Company and is responsible for advising the Board on corporate governance matters. Mr. Law has confirmed that he has taken no less than 15 hours of relevant professional training during the Review Period.

## AUDITOR'S REMUNERATION

The Audit Committee of the Company is responsible for considering the appointment of the external auditor.

During the FY2013, the remuneration paid or payable to the Company's auditor, Messrs. Deloitte Touche Tohmatsu, is set out as follows:

| **Services rendered paid/payable** | **Fee**<br>HK$'000 |
|---|---|
| Statutory audit services | 2,548 |
| Non-statutory audit services: | |
| Tax advisory services | 189 |
| Others | 886 |
| | 3,623 |

## DIRECTORS' RESPONSIBILITY FOR THE FINANCIAL STATEMENTS

The Directors acknowledge their responsibility for preparing financial statements of the Group which give a true and fair view of the state of affairs of the Group on a going concern basis and in presenting the financial statements, announcements and other financial disclosures required under the Listing Rules, the Directors aim to present a balanced, clear and understandable assessment of the Group's position and prospects.

# Directors' Report

The directors ("Directors") of Man Wah Holdings Limited (the "Company") present their annual report and the audited consolidated financial statements of the Company for the financial year ended 31 March 2013 ("FY2013").

## CORPORATE REORGANISATION

The Company was incorporated with limited liability in Bermuda.

The shares ("Shares") of the Company were listed on the main board of the Stock Exchange with effect from 9 April 2010.

## PRINCIPAL ACTIVITIES

The Company acts as an investment holding company. The activities of its principal subsidiaries, associate and jointly controlled entities are set out in notes 37, 16(a) and 16(b), respectively to the consolidated financial statements.

## RESULTS AND APPROPRIATIONS

The results of the Company and together with its subsidiaries (referred to as the "Group") for the year ended 31 March 2013 are set out in the consolidated statement of comprehensive income on page 50 of the annual report.

An interim dividend of HK10.0 cents per Share amounting to HK$89,104,000 was paid to the shareholders of the Company ("Shareholders") during the FY2013. The Directors recommend the payment of a final dividend of HK18.0 cents per Share to the Shareholders on the register of members on 24 July 2013, amounting to approximately HK$159,390,000, and the retention of the remaining profit for the year.

## PROPERTY, PLANT AND EQUIPMENT

During the FY2013, the Group revalued all of its investment properties as at 31 March 2013. The net increase in fair value of investment properties, which has been credited directly to consolidated statement of comprehensive income, amounted to approximately HK$1,723,000.

Details of movements during the FY2013 in the property, plant and equipment of the Group are set out in note 12 to the consolidated financial statements.

## SHARE CAPITAL

Details of movements during the FY2013 in the share capital of the Company are set out in note 27 to the consolidated financial statements.

## DISTRIBUTABLE RESERVES OF THE COMPANY

The Company's reserves available for distribution to shareholders as at the end of the FY2013 were as follows:

| | **2013** | 2012 |
|---|---|---|
| | **HK$'000** | HK$'000 |
| Contributed surplus | **1,270,368** | 1,428,856 |
| Accumulated losses | **(706)** | (289,768) |
| | **1,269,662** | 1,139,088 |

Under the Companies Act 1981 of Bermuda (as amended), the contributed surplus account of the Company is available for distribution. However, the Company cannot declare or pay a dividend, or make a distribution out of contributed surplus if:

(a) it is, or would after the payment be, unable to pay its liabilities as they become due; or

(b) the realisable value of its assets would thereby be less than the aggregate of its liabilities and its issued share capital and share premium accounts.

## DIRECTORS

The Directors of the Company during the FY2013 and up to the date of this annual report were:

*Executive Directors:*
Mr. Wong Man Li
Ms. Hui Wai Hing
Mr. Stephen Allen Barr
Mr. Wang Guisheng
Mr. Alan Marnie
Mr. Dai Quanfa (appointed on 19 July 2012)

*Non-executive Director:*
Mr. Xie Fang (appointed on 20 May 2013)

*Independent Non-executive Directors:*
Mr. Chau Shing Yim, David
Mr. Lee Teck Leng, Robson
Ms. Chan Wah Man, Carman (resigned on 19 July 2012)
Mr. Ong Chor Wei (re-designated as independent non-executive director on 31 May 2012)
Mr. Kan Chung Nin, Tony (appointed on 20 May 2013)

In accordance with bye-law 102 of the Company's bye-laws, Mr. Dai Quanfa, Mr. Xie Fang and Mr. Kan Chung Nin, Tony will retire at the forthcoming annual general meeting. In accordance with bye-law 99 of the Company's bye-laws, Mr. Wang Guisheng, Mr. Ong Chor Wei, Mr. Stephen Allen Barr and Mr. Lee Teck Leng Robson will retire by rotation. Mr. Wang Guisheng, Mr. Ong Chor Wei, Mr. Stephen Allen Barr, Mr. Lee Teck Leng Robson, Mr. Dai Quanfa, Mr. Xie Fang and Mr. Kan Chung Nin, Tony, all being eligible, will offer themselves for re-election at the forthcoming annual general meeting to be held in July 2013.

# DIRECTORS' SERVICE CONTRACTS

No directors being proposed for re-election at the forthcoming annual general meeting has a service contract with the Company or its subsidiaries which is not determinable by the Group within one year without payment of compensation (other than statutory compensation).

# DIRECTORS' INTERESTS IN SECURITIES

As at 31 March 2013, the interests of the directors, chief executives and their associates in the shares, underlying shares and debentures of the Company and its associated corporations (within the meaning of Part XV of the Securities and Futures Ordinance ("SFO")), as recorded in the register maintained by the Company pursuant to Section 352 of the Securities and Futures Ordinance, or as otherwise notified to the Company and the Stock Exchange pursuant to the Model Code for Securities Transactions by Directors of Listed Issuers (the "Model Code") set out in appendix 10 of the Listing Rules were as follows:

**Long positions in shares, underlying shares and debentures of the Company**

| Name of director | Capacity | Number of shares held | Approximate percentage of the issued share capital of the Company[1] |
|---|---|---|---|
| Mr. Wong Man Li | Interest in controlled corporation | 607,648,400[2] | 68.20% |
| | Spouse | 288,000[2] | 0.03% |
| Ms. Hui Wai Hing | Beneficial owner | 288,000[3] | 0.03% |
| | Spouse | 607,648,400 | 68.20% |
| Mr. Stephen Allen Barr | Beneficial owner | 6,386,400[4] | 0.72% |
| Mr. Wang Guisheng | Beneficial owner | 1,219,600[5] | 0.14% |
| Mr. Alan Marnie | Beneficial owner | 911,600[6] | 0.10% |
| Mr. Dai Quanfa | Beneficial owner | 610,000[7] | 0.07% |

Notes:

1. The percentage of the Company's issued share capital is based on the 891,030,000 Shares issued as at 31 March 2013.

2. These 607,648,400 Shares are beneficially owned by Man Wah Investments Limited which, in turn, is owned by Mr. Wong Man Li and Ms. Hui Wai Hing as to 80% and 20%, respectively. Mr. Wong is therefore deemed to be interested in the entire 607,648,400 Shares held by Man Wah Investments Limited. Mr. Wong is also the sole director of Man Wah Investments Limited. Mr. Wong is also deemed, under Part XV of the SFO, to be interested in the 288,000 Shares in which Ms. Hui Wai Hing, the spouse of Mr. Wong, has a long position.

3. This figure represents the 288,000 Share Options granted to Ms. Hui under the Share Option Scheme that are exercisable. Upon exercise of the Share Options, Ms. Hui will acquire an aggregate of 288,000 Shares.

4. This figure represents the aggregate number of 1,746,400 Shares held by Mr. Barr and 4,640,000 Share Options granted to Mr. Barr under the Share Option Scheme that are exercisable. Upon exercise of the Share Options, Mr. Barr will acquire an aggregate of 6,386,400 Shares.

5. This figure represents the aggregate number of the 1,189,600 Share Options granted to Mr. Wang under the Share Option Scheme and 30,000 Shares awarded to Mr. Wang on 15 June 2011 to be vested on 15 June 2014. Upon exercise of the Share Options and when the Shares awarded are vested, Mr. Wang will acquire an aggregate of 1,219,600 Shares.

6. This figure represents the 911,600 Share Options granted to Mr. Marnie under the Share Option Scheme that are exercisable. Upon exercise of the Share Options, Mr. Marnie will acquire 911,600 Shares.

7. This figure represents the aggregate number of the 600,000 Share Options granted to Mr. Dai under the Share Option Scheme and 10,000 Shares awarded to Mr. Dai on 11 February 2011 to be vested on 31 December 2013. Upon exercise of the Share Options and when the Shares awarded are vested, Mr. Dai will acquire an aggregate of 610,000 Shares.

**Long positions in the shares of our associated corporation (as defined in the SFO)**

| Name of Director | Name of associated corporation | Capacity | Number of issued shares held | Percentage in the associated corporation |
|---|---|---|---|---|
| Mr. Wong Man Li | Man Wah Investments Limited | Beneficial owner | 800 | 80% |
| Ms. Hui Wai Hing | Man Wah Investments Limited | Beneficial owner | 200 | 20% |

Save as disclosed above, as at 31 March 2013, none of the Company's Directors, chief executives nor their associates had any other personal, family, corporate and other interests or short positions 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) as recorded in the register required to be kept under Section 352 of the SFO or as otherwise notified to the Company and the Stock Exchange pursuant to the Model Code.

Other than those disclosed in this section and the section headed "Share Options", no right to subscribe for equity or debt securities of the Company has been granted by the Company to, nor have any such rights been exercised by, any Directors or chief executives during the year ended 31 March 2013.

## ARRANGEMENTS TO PURCHASE SHARES OR DEBENTURES

Other than shareholdings disclosed above, at no time during the year was the Company or any of its subsidiaries a party to any arrangements to enable the directors of the Company to acquire benefits by means of the acquisition of shares in, or debentures of, the Company or any other body corporate.

## SUBSTANTIAL SHAREHOLDERS

As at 31 March 2013, the register of substantial shareholders maintained by the Company pursuant to Section 336 of the SFO shows that other than the interests disclosed above in respect of certain directors, the following shareholders had notified the Company of relevant interests in the issued share capital of the Company.

**Long position in shares and underlying shares of the Company**

| Name of shareholder | Capacity | Number of issued ordinary shares held | Approximate percentage of the issued share capital of the Company[1] |
|---|---|---|---|
| Man Wah Investments Limited | Beneficial | 607,648,400 | 68.20% |

Note: The percentage of the Company's issued share capital is based on the 891,030,000 Shares issued as at 31 March 2013.

Other than as disclosed above, the Company has not been notified of any other relevant interest or short position in the issued share capital of the Company as at 31 March 2013.

## SHARE OPTION SCHEME

On 5 March 2010, the Scheme which complies with the requirements of Chapter 17 of the Listing Rules was adopted by the shareholders of the Company.

The purpose of the share option scheme ("Share Option Scheme") is to enable the Company to grant share options to selected participants as incentives or rewards for their contributions to the Company and/or its subsidiaries and/or its associated companies. The Scheme will remain in force for a period of 10 years commencing on 5 March 2010, being the date of adoption of the Scheme, to 4 March 2020.

Under the Share Option Scheme, the directors may, at their discretion, offer directors (including executive and non-executive directors), executives, officers, employees or shareholders of the Company or any of its subsidiaries or any of its associated companies, and any suppliers, customers, consultants, advisers, agents, partners or business associates who, in the sole discretion of the Directors, will contribute or have contributed to the Company or any of its subsidiaries or any of its associated companies, share options to subscribe for shares of the Company. The total number of shares of the Company which may be issued upon exercise of all outstanding share options granted under the Share Option Scheme is 96,508,800 which represents approximately 10.90% of the issued share capital of the Company as at the date of authorising these financial statements. The total number of shares of the Company issued and to be issued upon the exercise of share options granted under the Share Option Scheme (including exercised, cancelled and outstanding share options) to each grantee in any 12-month period up to the date of grant shall not exceed 1% of the issued share capital of the Company as at the date of grant. Any further grant of share options in excess of this limit is subject to the Company's shareholders' approval in a general meeting. In addition, any share options granted to a substantial shareholder or an independent non-executive director of the Company, or to any of their associates, in excess of in aggregate 0.1% of the shares of the Company in issue (based on the date of offer) and an aggregate value of HK$5,000,000 (based on the closing price of the Company's shares at the date of each offer), within any 12-month period, are subject to shareholders' approval in advance in a general meeting. Share options granted to a director, chief executive or substantial shareholder of the Company, or to any of their associates, are subject to approval in advance by the independent non-executive directors of the Company.

The period during which a share option may be exercised will be determined by the Company's directors at their absolute discretion, save that no share option may be exercised more than 10 years after it has been granted under the Share Option Scheme. There is no requirement that a share option must be held for any minimum period before it can be exercised but the Company's directors are empowered to impose at their discretion any such minimum period at the time of grant of any share options.

The exercise price in relation to each share option will be determined by the Company's directors at their absolute discretion and shall not be less than the highest of (i) the official closing price of the shares of the Company as stated in the daily quotation sheet of the Stock Exchange on the date of offer of share options; (ii) the average of the official closing prices of the shares of the Company as stated in the daily quotation sheets of the Stock Exchange for the five business days immediately preceding the date of offer of share options; and (iii) the nominal value of the share of the Company on the date of offer of share options. Each of the grantees is required to pay HK$1 as consideration for the grant of share options in accordance with the Share Option Scheme. The offer of share options must be accepted within 28 days from the date of the offer.

Share options do not confer rights on the holders to dividends or to vote at general meetings.

As at the date of 31 March 2013, since the adoption of the Share Option Scheme, the total number of Share Options the Company granted to the employees and some of the Directors and their connected persons amounted to 32,915,200 Share Options (including the 2,358,000 Share Options lapsed due to the resignation of persons who are not Directors). As at the date of this report, the number of Share Options that could still be granted under the Share Option Scheme was 64,260,800 representing 7.26% of the 885,502,000 Shares in issue as at 30 May 2013, being the date of this report.

## SHARE OPTIONS

On 5 March 2010, the share option scheme ("Share Option Scheme") which complies with the requirements of Chapter 17 of the Listing Rules was adopted by the Shareholders. Details of movements in the share options under the Scheme ("Share Options") during the FY2013 were as follows:

| | | | | | Number of Share Options[1] | | | | |
|---|---|---|---|---|---|---|---|---|---|
| Grantee | Date of grant[2] | Vesting period | Exercisable period | Exercise price per share HK$ | Outstanding at 1.4.2012 | Granted during the FY2013 | Cancelled/ Lapsed during the FY2013 | Exercised during the FY2013 | Outstanding at 31.3.2013 |
| Mr. Wong Man Li | 1.2.2013 | 1.2.2013 – 31.1.2015 | 1.2.2015 – 31.1.2017 | 7.17 | – | 136,000 | – | – | 136,000 |
| | | 1.2.2013 – 31.1.2016 | 1.2.2016 – 31.1.2018 | 7.17 | – | 136,000 | – | – | 136,000 |
| | | 1.2.2013 – 31.1.2017 | 1.2.2017 – 31.1.2019 | 7.17 | – | 136,000 | – | – | 136,000 |
| Ms. Hui Wai Hing | 1.2.2013 | 1.2.2013 – 31.1.2015 | 1.2.2015 – 31.1.2017 | 7.17 | – | 96,000 | – | – | 96,000 |
| | | 1.2.2013 – 31.1.2016 | 1.2.2016 – 31.1.2018 | 7.17 | – | 96,000 | – | – | 96,000 |
| | | 1.2.2013 – 31.1.2017 | 1.2.2017 – 31.1.2019 | 7.17 | – | 96,000 | – | – | 96,000 |
| Mr. Stephen Allen Barr | 18.10.2010 | 18.10.2010 – 17.4.2012 | 18.4.2012 – 17.10.2020 | 10.18 | 2,100,000 | – | – | – | 2,100,000 |
| | | 18.10.2010 – 17.10.2015 | 18.10.2015 – 17.10.2020 | 10.18 | 2,000,000 | – | – | – | 2,000,000 |
| | 30.6.2011 | 30.6.2011 – 29.6.2013 | 30.6.2013 – 29.6.2015 | 8.11 | 240,000 | – | – | – | 240,000 |
| | 6.7.2011 | 6.7.2011 – 5.7.2014 | 6.7.2014 – 5.7.2016 | 8.55 | 300,000 | – | – | – | 300,000 |
| Mr. Wang Guisheng | 6.7.2011 | 6.7.2011 – 5.7.2014 | 6.7.2014 – 5.7.2016 | 8.55 | 200,000 | – | – | – | 200,000 |
| | 8.2.2012 | 8.2.2012 – 7.2.2014 | 8.2.2014 – 7.2.2016 | 4.72 | 54,000 | – | – | – | 54,000 |
| | | 8.2.2012 – 7.2.2015 | 8.2.2015 – 7.2.2017 | 4.72 | 54,000 | – | – | – | 54,000 |
| | | 8.2.2012 – 7.2.2016 | 8.2.2016 – 7.2.2018 | 4.72 | 54,000 | – | – | – | 54,000 |
| | | 8.2.2012 – 7.2.2017 | 8.2.2017 – 7.2.2019 | 4.72 | 54,000 | – | – | – | 54,000 |
| | 1.2.2013 | 1.2.2013 – 31.1.2015 | 1.2.2015 – 31.1.2017 | 7.17 | – | 258,400 | – | – | 258,400 |
| | | 1.2.2013 – 31.1.2016 | 1.2.2016 – 31.1.2018 | 7.17 | – | 257,600 | – | – | 257,600 |
| | | 1.2.2013 – 31.1.2017 | 1.2.2017 – 31.1.2019 | 7.17 | – | 257,600 | – | – | 257,600 |
| Mr. Alan Marnie | 6.7.2011 | 6.7.2011 – 5.7.2014 | 6.7.2014 – 5.7.2016 | 8.55 | 300,000 | – | – | – | 300,000 |
| | 1.6.2012 | 1.6.2012 – 31.5.2013 | 1.6.2013 – 3.3.2020 | 3.50 | – | 611,600 | – | – | 611,600 |
| Mr. Dai Quanfa | 6.7.2011 | 6.7.2011 – 5.7.2014 | 6.7.2014 – 5.7.2016 | 8.55 | 120,000 | – | – | – | 120,000 |
| | 8.2.2012 | 8.2.2012 – 7.2.2014 | 8.2.2014 – 7.2.2016 | 4.72 | 26,400 | – | – | – | 26,400 |
| | | 8.2.2012 – 7.2.2015 | 8.2.2015 – 7.2.2017 | 4.72 | 26,400 | – | – | – | 26,400 |
| | | 8.2.2012 – 7.2.2016 | 8.2.2016 – 7.2.2018 | 4.72 | 26,400 | – | – | – | 26,400 |
| | | 8.2.2012 – 7.2.2017 | 8.2.2017 – 7.2.2019 | 4.72 | 26,000 | – | – | – | 26,000 |
| | 1.2.2013 | 1.2.2013 – 31.1.2015 | 1.2.2015 – 31.1.2017 | 7.17 | – | 125,200 | – | – | 125,200 |
| | | 1.2.2013 – 31.1.2016 | 1.2.2016 – 31.1.2018 | 7.17 | – | 124,800 | – | – | 124,800 |
| | | 1.2.2013 – 31.1.2017 | 1.2.2017 – 31.1.2019 | 7.17 | – | 124,800 | – | – | 124,800 |
| Other employees | 6.7.2011 | 6.7.2011 – 5.7.2014 | 6.7.2014 – 5.7.2016 | 8.55 | 3,090,000 | – | (340,000) | – | 2,750,000 |
| | 8.2.2012 | 8.2.2012 – 7.2.2014 | 8.2.2014 – 7.2.2016 | 4.72 | 1,778,000 | – | (320,000) | – | 1,458,000 |
| | | 8.2.2012 – 7.2.2015 | 8.2.2015 – 7.2.2017 | 4.72 | 1,778,000 | – | (320,000) | – | 1,458,000 |
| | | 8.2.2012 – 7.2.2016 | 8.2.2016 – 7.2.2018 | 4.72 | 1,778,000 | – | (320,000) | – | 1,458,000 |
| | | 8.2.2012 – 7.2.2017 | 8.2.2017 – 7.2.2019 | 4.72 | 1,717,200 | – | (308,000) | – | 1,409,200 |
| | 1.2.2013 | 1.2.2013 – 31.1.2015 | 1.2.2015 – 31.1.2017 | 7.17 | – | 4,766,000 | (28,400) | – | 4,737,600 |
| | | 1.2.2013 – 31.1.2016 | 1.2.2016 – 31.1.2018 | 7.17 | – | 4,652,000 | (27,200) | – | 4,624,800 |
| | | 1.2.2013 – 31.1.2017 | 1.2.2017 – 31.1.2019 | 7.17 | – | 4,651,600 | (27,200) | – | 4,624,400 |
| | | | | | 15,722,400 | 16,525,600 | (1,690,800) | – | 30,557,200 |
| Number of Share Options exercisable at 31 March 2013 | | | | | | | | | 2,100,000 |

Notes:

1. Number of shares in the Company over which options granted under the Share Option Scheme are exercisable.

2. The closing price of the Share immediately before the date on which the Share Options were granted on (i) 18 October 2010, i.e. on 15 October 2010 was HK$10.00, (ii) 30 June 2011, i.e. on 29 June 2011 was HK$8.01, (iii) 6 July 2011, i.e. on 5 July 2011 was HK$8.43, (iv) 8 February 2012, i.e. on 7 February 2012 was HK$4.20, (v) 1 June 2012, i.e on 31 May 2012 was HK$3.37 and (vi) 1 February 2013, i.e. on 31 January 2013 was HK$7.14.

## SHARE AWARD SCHEME

The Company adopted a share award scheme (the "Share Award Scheme") on 27 January 2011 (the "Adoption Date") with a duration of 10 years commencing from the Adoption Date. The objective of the Share Award Scheme is to recognise the contributions by certain directors, employees of the Group (the "Selected Participants") and to give incentive to them in order to retain them for the continual operation and development of the Group, and to attract suitable personnel for further development of the Group. The Company has set up the Employees' Share Award Scheme Trust (the "Trust") to administer and hold the Company's shares before they are vested and transferred to the Selected Participants. Upon granting of shares to Selected Participants, the Trust purchases the Company's shares being awarded from the open market with funds provided by the Company by way of contributions. 100% of awarded shares of the Company and the related income derived therefore are vested on the third anniversary date of the grant date. Vesting of the awarded shares of the Company and related income will be conditional on the Selected Participants remaining an employee of the Group until and on each of the relevant vesting dates and his/her execution of the relevant documents to effect the transfer from the Trustee within the period stipulated. An award shall automatically lapse forthwith when a Selected Participants ceases to be an employee of the Group, or the subsidiary employing the Selected Participants ceases to be a subsidiary, or an order for the winding-up of the Company is made or a resolution is passed for the voluntary winding-up of the Company.

Where the awarded shares of the Company do not vest in accordance with the Share Award Scheme, the Trust shall hold such shares of the Company and the related income for the benefit of one or more employees of the Group as it determines in its discretion, after having taken into account the recommendations of the board of directors of the Company. Please refer to Company's announcement dated 31 January 2012 for further information on the Share Award Scheme. Details of the movements in the number of shares granted by the Company to employees of the Company (other than directors) during the year are as follows:

| **Category** | **Date of grant** | **Fair value per share[1]** HK$ | **As at 1.4.2012** | **Granted during the FY2013** | **Cancelled/ lapsed during the FY2013** | **As at 31.3.2013** |
|---|---|---|---|---|---|---|
| Employees | 11 February 2011 | 12.34 | 270,600 | – | (32,600) | **238,000** |
| Mr. Wang Guisheng | 15 June 2011 | 8.60 | 30,000 | – | – | **30,000** |
| Mr. Dai Quanfa[2] | 11 February 2011 | 12.34 | 10,000 | – | – | **10,000** |
| | | | 310,600 | – | (32,600) | **278,000** |

Notes:

1. The fair value of the awarded Shares was calculated based on the closing price per Share on the date of grant.

2. Mr. Dai Quanfa was appointed as an executive Director of the Company on 19 July 2012, and the 10,000 Shares awarded was granted on 11 February 2011.

## CONFIRMATION OF INDEPENDENCE BY INDEPENDENT NON-EXECUTIVE DIRECTORS

The Company has received, from each of the Independent Non-executive Directors, an annual confirmation of his independence pursuant to Rule 3.13 of the Listing Rules. The Company considers all of the independent non-executive directors are independent.

## CONNECTED TRANSACTIONS AND CONTINUING CONNECTED TRANSACTIONS

During the FY2013, the Company and the Group had continuing connected transactions, certain details of which have been disclosed in the prospectus of the Company dated 18 March 2010 and note 29 to the consolidated financial statements. Such continuing connected transaction are exempted from the reporting, announcement, shareholders' approval and annual review requirements under the Listing Rules. Save as the above continuing connected transactions, there were no transactions which need to be disclosed as connected transactions and continuing connected transactions in accordance with the requirements of the Listing Rules.

## DIRECTORS' INTEREST IN CONTRACTS OF SIGNIFICANCE

No contracts of significance, to which the Company or its subsidiaries was a party, and in which a director of the Company had a material interest, whether directly and indirectly, subsisted at the end of the FY2013 or at any time during the FY2013.

## NON-COMPETITION UNDERTAKING

Each of Man Wah Investments Limited and Mr. Wong Man Li (each a "Non-Compete Covenantor") has entered into a deed of non-competition dated 5 March 2010 with the Company, to the effect that each of them will not directly or indirectly participate in, or hold any right or interest, or otherwise be involved in any business which may be in competition with the business of the Group from time to time.

## MAJOR CUSTOMERS AND SUPPLIERS

In the FY2013, sales to the Group's five largest customers and purchases from the five largest suppliers accounted for approximately 28.6% and 33.4% of the total revenue and purchases for the year, respectively. The Group's largest supplier accounted for around 10.7% of the total purchase for the year, and none of the Group's customer individually accounted for more than 10% of the total revenue of the Group.

At no time during the FY2013 did a director, an associate of a director or a shareholder of the Company (which to the knowledge of the directors owns more than 5% of the Company's share capital) have an interest in any of the Group's five largest customers or suppliers.

## RETIREMENT BENEFITS SCHEMES

Other than operating a Hong Kong Mandatory Provident Fund Scheme and participating in the People's Republic of China state-managed retirement benefits scheme, the Group has not operated any other retirement benefits schemes for the Group's employees. Particulars of the retirement benefits schemes are set out in note 28 to the consolidated financial statements.

## DONATIONS

During the FY2013, the Group made charitable and other donations amounting to approximately HK$4,813,000.

## EVENT AFTER THE REVIEW PERIOD

On 17 April 2013, the Company, CDH W-Tech Limited ("CDH") and ChinaAMC Capital Management Limited ("Huaxia") entered into a subscription agreement, pursuant to which CDH and Huaxia have severally but not jointly and conditionally agreed to subscribe for the Tranche I Bonds (in the principal amount of HK$700,000,000) and Tranche II Bonds (in the principal amount of HK$150,000,000) respectively. Tranche I Bonds were issued on 20 May 2013. Details of issuing the Convertible Bonds and completion of the Tranche I Bonds had been disclosed in the announcement date 17 April 2013 and 20 May 2013 respectively. Tranche II Bonds are expected to be issued on or before 28 June 2013. If Tranche II Bonds is successfully completed, the Company will make further announcement and undertake the necessary compliance with the Listing Rules in due course.

## PRE-EMPTIVE RIGHTS

There are no provisions for pre-emptive rights under the Company's Bye-laws, or the laws of Bermuda, which would oblige the Company to offer new shares on a pro-rata basis to existing Shareholders.

## PURCHASE, SALE OR REDEMPTION OF THE COMPANY'S LISTED SECURITIES

During the FY2013, the Company repurchased a total of 52,117,200 ordinary shares of the Company at an aggregate purchase price of HK$179,334,526 on the Stock Exchange. Details of the repurchases of such ordinary shares were as follows:

| Month of repurchase | Number of ordinary shares repurchased | Price per ordinary share Highest *(HK$)* | Price per ordinary share Lowest *(HK$)* | Aggregate purchase price *(HK$)* |
|---|---|---|---|---|
| June 2012 | 31,752,800 | 3.81 | 3.13 | 113,701,194 |
| July 2012 | 11,000,000 | 3.35 | 3.13 | 35,339,366 |
| August 2012 | 6,974,400 | 3.29 | 2.78 | 21,195,493 |
| September 2012 | 2,390,000 | 3.87 | 3.61 | 9,098,473 |
| Total | 52,117,200 | | | 179,334,526 |
| | | | Total expenses on shares repurchased | 372,960 |
| | | | Total | 179,707,486 |

The 52,117,200 repurchased ordinary shares were cancelled during the FY2013. Apart from the 52,117,200 repurchased ordinary shares within the Review Period, 5,528,000 ordinary shares were repurchased during April 2013 and will be cancelled around June 2013. The issued share capital of the Company was accordingly reduced by the par value of the repurchased ordinary shares so cancelled. The above repurchases were effected by the Directors pursuant to the mandate from shareholders, with a view to benefiting shareholders as a whole in enhancing the net assets and earnings per share of the Company.

Save as disclosed above, there was no purchase, sale or redemption by the Company, or any of its subsidiaries, of any listed securities of the Company during the FY2013 and until the date of this annual report.

## EMOLUMENT POLICY

The emolument policy of the employees of the Group is set up by the Remuneration Committee and the employees' emoluments are determined on the basis of their merit, qualifications and competence.

The emoluments of the Directors of the Company are decided by the Remuneration Committee, having regard to the Group's operating results, individual performance and comparable market statistics.

The emoluments of the Directors and employees of the Group include a share option scheme and share award scheme, details of which are disclosed in pages 42 to 44 of this annual report.

## SUFFICIENCY OF PUBLIC FLOAT

Based on information that is publicly available to the Company and within the knowledge of the Directors, the Company has maintained a sufficient public float as at the date of this annual report.

## AUDITOR

A resolution will be proposed at the forthcoming annual general meeting of the Company to re-appoint Messrs. Deloitte Touche Tohmatsu as auditor of the Company.

On behalf of the board

**Wong Man Li**
*Chairman*
30 May 2013

# Independent Auditor's Report

Deloitte.
德勤

**TO THE MEMBERS OF MAN WAH HOLDINGS LIMITED**
*(incorporated in Bermuda with limited liability)*

We have audited the consolidated financial statements of Man Wah Holdings Limited (the "Company") and its subsidiaries (collectively referred to as the "Group") set out on pages 50 to 112, which comprise the consolidated statement of financial position as at 31 March 2013, and consolidated statement of comprehensive income, consolidated statement of changes in equity and consolidated statement of cash flows for the year then ended, and a summary of significant accounting policies and other explanatory information.

## Directors' Responsibility for the Consolidated Financial Statements

The directors of the Company are responsible for the preparation of consolidated financial statements that give a true and fair view in accordance with International Financial Reporting Standards issued by the International Accounting Standards Board and the disclosure requirements of the Hong Kong Companies Ordinance, and for such internal control as the directors determine is necessary to enable the preparation of consolidated financial statements that are free from material misstatement, whether due to fraud or error.

## Auditor's Responsibility

Our responsibility is to express an opinion on these consolidated financial statements based on our audit and to report our opinion solely to you, as a body, in accordance with section 90 of the Companies Act 1981 of Bermuda, and for no other purpose. We do not assume responsibility towards or accept liability to any other person for the contents of this report. We conducted our audit in accordance with Hong Kong Standards on Auditing issued by the Hong Kong Institute of Certified Public Accountants. Those standards require that we comply with ethical requirements and plan and perform the audit to obtain reasonable assurance about whether the consolidated financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the consolidated financial statements. The procedures selected depend on the auditor's judgment, including the assessment of the risks of material misstatement of the consolidated financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the entity's preparation of the consolidated financial statements that give a true and fair view in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of accounting estimates made by the directors, as well as evaluating the overall presentation of the consolidated financial statements.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion.

## Opinion

In our opinion, the consolidated financial statements give a true and fair view of the state of affairs of the Group as at 31 March 2013, and of the Group's profit and cash flows for the year then ended in accordance with International Financial Reporting Standards and have been properly prepared in accordance with the disclosure requirements of the Hong Kong Companies Ordinance.

**Deloitte Touche Tohmatsu**
*Certified Public Accountants*
Hong Kong
30 May 2013

# Consolidated Statement of Comprehensive Income

For the year ended 31 March 2013

| | Notes | 2013<br>HK$'000 | 2012<br>HK$'000 |
|---|---|---|---|
| Revenue | 5 | **4,876,976** | 4,336,353 |
| Cost of goods sold | | **(3,105,818)** | (2,861,425) |
| Gross profit | | **1,771,158** | 1,474,928 |
| Other income | | **89,231** | 65,400 |
| Other gains and losses | 6 | **33,396** | 4,807 |
| Selling and distribution expenses | | **(934,550)** | (875,458) |
| Administrative expenses | | **(325,907)** | (329,169) |
| Share of profit of a jointly controlled entity | | **7,374** | 4,652 |
| Share of loss of an associate | | **(1)** | – |
| Interest expense on bank borrowings wholly repayable within five years | | **(16,807)** | (7,693) |
| Profit before income tax | | **623,894** | 337,467 |
| Income tax expense | 7 | **(58,050)** | (35,293) |
| Profit for the year | 8 | **565,844** | 302,174 |
| Other comprehensive income | | | |
| Exchange differences arising on translation | | **27,582** | 64,995 |
| Total comprehensive income for the year | | **593,426** | 367,169 |
| Profit for the year attributable to: | | | |
| Owners of the Company | | **568,401** | 303,345 |
| Non-controlling interests | | **(2,557)** | (1,171) |
| | | **565,844** | 302,174 |
| Total comprehensive income (expense) for the year attributable to: | | | |
| Owners of the Company | | **595,757** | 367,520 |
| Non-controlling interests | | **(2,331)** | (351) |
| | | **593,426** | 367,169 |
| **Earnings per share** | | | |
| Basic (HK cents) | 10 | **62.85** | 31.47 |
| Diluted (HK cents) | | **62.79** | 31.46 |

# Consolidated Statement of Financial Position

At 31 March 2013

| | Notes | 2013 HK$'000 | 2012 HK$'000 |
|---|---|---|---|
| Non-current assets | | | |
| Property, plant and equipment | 12 | **1,531,884** | 1,371,095 |
| Investment properties | 13 | **31,894** | 29,974 |
| Lease premium for land | 14 | **445,464** | 362,570 |
| Intangible assets | 15 | **1,082** | 1,293 |
| Interest in a jointly controlled entity | 16 | **7,721** | 4,847 |
| Interest in an associate | 16 | **4** | – |
| Loan to an associate | 16 | **19,040** | – |
| Deposit paid for an equity investment | 17 | **–** | 3,701 |
| Available-for-sale investment | 17 | **3,749** | – |
| Deferred tax assets | 18 | **2,293** | 453 |
| Refundable earnest money paid for lease premium for land | 19 | **4,226** | 13,247 |
| Deposit paid for acquisition of a land lease | | **16,244** | 11,281 |
| Derivative financial instruments | 22 | **558** | – |
| Deposits paid for acquisition of property, plant and equipment | | **38,595** | 20,062 |
| | | **2,102,754** | 1,818,523 |
| Current assets | | | |
| Inventories | 20 | **635,668** | 545,902 |
| Trade receivables | 21 | **369,119** | 390,714 |
| Other receivables and prepayments | 21 | **197,640** | 206,946 |
| Lease premium for land | 14 | **9,567** | 7,619 |
| Derivative financial instruments | 22 | **24,586** | – |
| Tax recoverable | | **317** | 12,604 |
| Pledged bank deposits | 30 | **–** | 310,881 |
| Restricted bank balances | 23 | **5,967** | – |
| Bank balances and cash | 23 | **1,655,439** | 1,190,072 |
| | | **2,898,303** | 2,664,738 |
| Current liabilities | | | |
| Trade payables | 24 | **259,135** | 294,759 |
| Other payables and accruals | 24 | **311,793** | 225,196 |
| Bank borrowings | 25 | **745,660** | 582,800 |
| Tax payable | | **9,345** | 6,029 |
| | | **1,325,933** | 1,108,784 |
| Net current assets | | **1,572,370** | 1,555,954 |
| Total assets less current liabilities | | **3,675,124** | 3,374,477 |
| Non-current liabilities | | | |
| Deferred tax liabilities | 18 | **5,908** | 4,669 |
| Derivative financial instruments | 22 | **249** | – |
| Government grant receipt in advance | 26 | **200,394** | 180,890 |
| | | **206,551** | 185,559 |
| | | **3,468,573** | 3,188,918 |

# Consolidated Statement of Financial Position

At 31 March 2013

| | Note | **2013** **HK$'000** | 2012 HK$'000 |
|---|---|---|---|
| Capital and reserves | | | |
| Share capital | 27 | **356,412** | 379,097 |
| Reserves | | **3,073,600** | 2,779,372 |
| Equity attributable to owners of the Company | | **3,430,012** | 3,158,469 |
| Non-controlling interests | | **38,561** | 30,449 |
| | | **3,468,573** | 3,188,918 |

The consolidated financial statements on pages 50 to 112 were approved and authorised for issue by the Board of Directors on 30 May 2013 and are signed on its behalf by:

**Wong Man Li**
*DIRECTOR*

**Wang Guisheng**
*DIRECTOR*

# Consolidated Statement of Changes in Equity

For the year ended 31 March 2013

| | Attributable to owners of the Company | | | | | | | | | | | | | |
|---|---|---|---|---|---|---|---|---|---|---|---|---|---|---|
| | Share capital HK$'000 | Treasury shares HK$'000 (note iv) | Share premium HK$'000 | Special reserve HK$'000 (note i) | Other reserve HK$'000 (note ii) | PRC statutory reserve HK$'000 (note iii) | Translation reserve HK$'000 | Shares held under share award scheme HK$'000 | Share award scheme reserve HK$'000 | Share option reserve HK$'000 | Retained profits HK$'000 | Sub-total HK$'000 | Non-controlling interests HK$'000 | Total HK$'000 |
| At 1 April 2011 | 388,454 | – | 1,526,063 | (16,132) | (3,714) | 52,802 | 86,755 | (6,476) | 244 | 3,742 | 1,062,869 | 3,094,607 | 128 | 3,094,735 |
| Profit (loss) for the year | – | – | – | – | – | – | – | – | – | – | 303,345 | 303,345 | (1,171) | 302,174 |
| Other comprehensive income for the year | – | – | – | – | – | – | 64,175 | – | – | – | – | 64,175 | 820 | 64,995 |
| Total comprehensive income (expense) for the year | – | – | – | – | – | – | 64,175 | – | – | – | 303,345 | 367,520 | (351) | 367,169 |
| Capital contribution by non-controlling interests | – | – | – | – | – | – | – | – | – | – | – | – | 30,442 | 30,442 |
| Acquisition of additional interest in a subsidiary | – | – | – | – | (230) | – | – | – | – | – | – | (230) | 230 | – |
| Recognition of equity-settled share-based payments | – | – | – | – | – | – | – | – | 1,491 | 10,104 | – | 11,595 | – | 11,595 |
| Transfer to PRC statutory reserves | – | – | – | – | – | 10,410 | – | – | – | – | (10,410) | – | – | – |
| Repurchase of shares | (9,357) | (1,838) | (119,312) | – | – | – | – | – | – | – | – | (130,507) | – | (130,507) |
| Dividends paid (note 11) | – | – | – | – | – | – | – | – | – | – | (184,516) | (184,516) | – | (184,516) |
| At 31 March 2012 | 379,097 | (1,838) | 1,406,751 | (16,132) | (3,944) | 63,212 | 150,930 | (6,476) | 1,735 | 13,846 | 1,171,288 | 3,158,469 | 30,449 | 3,188,918 |
| Profit (loss) for the year | – | – | – | – | – | – | – | – | – | – | 568,401 | 568,401 | (2,557) | 565,844 |
| Other comprehensive income for the year | – | – | – | – | – | – | 27,356 | – | – | – | – | 27,356 | 226 | 27,582 |
| Total comprehensive income (expense) for the year | – | – | – | – | – | – | 27,356 | – | – | – | 568,401 | 595,757 | (2,331) | 593,426 |
| Capital contribution by non-controlling interests | – | – | – | – | – | – | – | – | – | – | – | – | 10,443 | 10,443 |
| Cancellation of treasury shares | (1,838) | 1,838 | – | – | – | – | – | – | – | – | – | – | – | – |
| Repurchase of shares | (20,847) | – | (158,488) | – | – | – | – | – | – | – | – | (179,335) | – | (179,335) |
| Recognition of equity-settled share-based payments | – | – | – | – | – | – | – | – | 1,156 | 6,096 | – | 7,252 | – | 7,252 |
| Transfer to PRC statutory reserves | – | – | – | – | – | 16,934 | – | – | – | – | (16,934) | – | – | – |
| Dividends paid (note 11) | – | – | – | – | – | – | – | – | – | – | (152,131) | (152,131) | – | (152,131) |
| At 31 March 2013 | 356,412 | – | 1,248,263 | (16,132) | (3,944) | 80,146 | 178,286 | (6,476) | 2,891 | 19,942 | 1,570,624 | 3,430,012 | 38,561 | 3,468,573 |

# Consolidated Statement of Changes in Equity

For the year ended 31 March 2013

Notes:

(i) Special reserve arose from the acquisition of equity interest of certain subsidiaries through a corporate reorganisation. It represents the difference between the nominal value of share capital of those subsidiaries at the date of acquisition and the nominal value of the shares issued by the Company as consideration for the acquisition.

(ii) Other reserve arose from the acquisition of the additional equity interest of subsidiaries. It represents the difference between the carrying amount of the net assets of the subsidiaries attributable to the additional interest at the dates of acquisition and the fair value of consideration paid by the Company.

(iii) The statutory reserve represents the amount transferred from profit after taxation of the subsidiaries established in the mainland of People's Republic of China (the "PRC") in accordance with the relevant PRC laws until the PRC statutory reserve reaches 50% of the registered capital of the respective subsidiaries. The statutory reserve can be applied either in setting off the accumulated losses or increasing capital.

(iv) The treasury shares repurchased by the Company prior to 31 March 2012 were cancelled on 20 April 2012.

# Consolidated Statement of Cash Flows

For the year ended 31 March 2013

| | **2013** **HK$'000** | 2012 HK$'000 |
|---|---|---|
| OPERATING ACTIVITIES | | |
| Profit before income tax | **623,894** | 337,467 |
| Adjustments for: | | |
| Amortisation of intangible assets | **225** | 221 |
| Depreciation | **123,796** | 87,857 |
| Equity-settled share-based payments expense | **6,096** | 10,104 |
| Expense recognised in respect of share award scheme | **1,156** | 1,491 |
| Fair value gain on investment properties | **(1,723)** | (907) |
| Interest expense on bank borrowings wholly repayable within five years | **16,807** | 7,693 |
| Impairment loss on amount due from a non-controlling interest | **–** | 1,012 |
| Impairment loss on other receivables | **–** | 297 |
| Allowance for inventories | **6,176** | 1,511 |
| Impairment loss on trade receivables | **546** | 685 |
| Interest income | **(2,837)** | (9,837) |
| Income on structured deposits | **(48,279)** | (34,032) |
| (Gain) loss on changes in fair value of derivative financial instruments | **(26,056)** | 17 |
| (Gain) loss on disposal of property, plant and equipment | **(273)** | 931 |
| Release of lease premium for land | **12,520** | 2,227 |
| Share of profit of a jointly controlled entity | **(7,374)** | (4,652) |
| Share of loss of an associate | **1** | – |
| Operating cash flows before movements in working capital | **704,675** | 402,085 |
| Increase in inventories | **(89,637)** | (147,115) |
| Decrease (increase) in trade receivables | **21,836** | (57,495) |
| Decrease (increase) in other receivables and prepayments | **24,165** | (73,181) |
| Decrease in derivative financial instruments | **1,161** | 1,288 |
| (Decrease) increase in trade payables | **(39,418)** | 75,849 |
| Increase in other payables and accruals | **53,475** | 52,045 |
| Cash generated from operations | **676,257** | 253,476 |
| Interest paid | **(16,807)** | (7,693) |
| Interest received | **2,837** | 9,837 |
| Income tax paid | **(56,306)** | (51,958) |
| NET CASH FROM OPERATING ACTIVITIES | **605,981** | 203,662 |
| INVESTING ACTIVITIES | | |
| Proceeds on disposal of structured deposits | **8,154,354** | 7,574,119 |
| Withdrawal in (placement of) pledged bank deposits | **314,882** | (310,881) |
| Government grant received | **59,620** | 180,890 |
| Refund of earnest money for lease premium for land | **8,701** | – |
| Dividend received from a jointly controlled entity | **4,500** | – |
| Proceeds from disposal of property, plant and equipment | **3,536** | 5,415 |
| Investment on structured deposits | **(8,106,075)** | (7,540,087) |
| Purchase of property, plant and equipment | **(264,487)** | (536,038) |
| Payment of lease premium for land | **(92,315)** | (268,058) |
| Deposits paid for acquisition of property, plant and equipment | **(38,341)** | (20,062) |
| Loan to an associate | **(19,040)** | – |
| Placement of restricted bank balances | **(5,967)** | – |
| Net payment of deposit paid for lease premium for land | **(4,963)** | – |
| Investment in an associate | **(5)** | – |
| Deposit paid for an equity investment | **–** | (3,701) |
| Repayment from a jointly controlled entity | **–** | 4,995 |
| NET CASH FROM (USED IN) INVESTING ACTIVITIES | **14,400** | (913,408) |

## Consolidated Statement of Cash Flows

For the year ended 31 March 2013

| | 2013 HK$'000 | 2012 HK$'000 |
|---|---|---|
| FINANCING ACTIVITIES | | |
| Repayment of bank borrowings | **(387,766)** | (15,000) |
| Repurchase of shares | **(179,335)** | (130,507) |
| Dividends paid | **(152,131)** | (184,516) |
| New bank borrowings raised | **550,660** | 580,300 |
| Capital contribution by a non-controlling interest | **10,443** | 30,442 |
| NET CASH (USED IN) FROM FINANCING ACTIVITIES | **(158,129)** | 280,719 |
| NET INCREASE (DECREASE) IN CASH AND CASH EQUIVALENTS | **462,252** | (429,027) |
| CASH AND CASH EQUIVALENTS AT BEGINNING OF THE YEAR | **1,190,072** | 1,611,164 |
| Effect of foreign exchange rate changes | **3,115** | 7,935 |
| CASH AND CASH EQUIVALENTS AT END OF THE YEAR, represented by bank balances and cash | **1,655,439** | 1,190,072 |

# Notes to the Consolidated Financial Statements

For the year ended 31 March 2013

## 1. GENERAL

The Company was incorporated and registered as an exempted company with limited liability in Bermuda under the Companies Act 1981 of Bermuda (as amended). Its shares are listed on The Stock Exchange of Hong Kong Limited (the "Hong Kong Stock Exchange") with effect from 9 April 2010. The Company's immediate and ultimate holding company is Man Wah Investments Limited, which is owned by Mr. Wong Man Li, a director of the Company.

The Company acts as an investment holding company. The principal activities of its principal subsidiaries, a jointly controlled entity and an associate are set out in notes 37, 16(b) and 16(a) respectively.

The address of the registered office and principal place of business of the Company are disclosed in the corporate information section of the annual report.

The functional currency of the Company is United States dollars ("USD"). The consolidated financial statements of the Company are presented in Hong Kong dollars ("HKD") for the convenience of the shareholders as the Company is listed in Hong Kong.

## 2. APPLICATION OF NEW AND REVISED INTERNATIONAL FINANCIAL REPORTING STANDARDS ("IFRSs")

In the current year, the Group has applied the following new and revised IFRSs issued by the International Accounting Standards Board ("IASB"):

Amendments to IFRS 7 Financial Instruments: Disclosures – Transfers of Financial Assets; and

Amendments to IAS 12 Deferred Tax: Recovery of Underlying Assets.

The application of these new and revised IFRSs in the current year has had no material impact on the Group's financial performance and positions for the current and prior years and/or on the disclosures set out in the consolidated financial statements.

## 2. APPLICATION OF NEW AND REVISED INTERNATIONAL FINANCIAL REPORTING STANDARDS ("IFRSs") – Continued

### *New and revised IFRSs issued but not yet effective*

The Group has not early applied the following new and revised IFRSs that have been issued but are not yet effective:

| | |
|---|---|
| Amendments to IFRSs | Annual Improvements to IFRSs 2009-2011 Cycle[1] |
| Amendments to IFRS 7 | Disclosures-Offsetting Financial Assets and Financial Liabilities[1] |
| Amendments to IFRS 9 and IFRS 7 | Mandatory Effective Date of IFRS 9 and Transition Disclosures[3] |
| Amendments to IFRS 10, IFRS 11 and IFRS 12 | Consolidated Financial Statements, Joint arrangements and Disclosure of Interest in Other Entities: Transition Guidance[1] |
| Amendments to IFRS 10, IFRS 12 and IAS 27 | Investment Entities[2] |
| IFRS 9 | Financial Instruments[3] |
| IFRS 10 | Consolidated Financial Statements[1] |
| IFRS 11 | Joint Arrangements[1] |
| IFRS 12 | Disclosure of Interests in Other Entities[1] |
| IFRS 13 | Fair Value Measurement[1] |
| IAS 19 (as revised in 2011) | Employee Benefits[1] |
| IAS 27 (as revised in 2011) | Separate Financial Statements[1] |
| IAS 28 (as revised in 2011) | Investments in Associates and Joint Ventures[1] |
| Amendments to IAS 1 | Presentation of Items of Other Comprehensive Income[4] |
| Amendments to IAS 32 | Offsetting Financial Assets and Financial Liabilities[2] |
| IFRIC 20 | Stripping Costs in the Production Phase of a Surface Mine[1] |
| IFRIC 21 | Levies[2] |

[1] Effective for annual periods beginning on or after 1 January 2013.
[2] Effective for annual periods beginning on or after 1 January 2014.
[3] Effective for annual periods beginning on or after 1 January 2015.
[4] Effective for annual periods beginning on or after 1 July 2012.

## 2. APPLICATION OF NEW AND REVISED INTERNATIONAL FINANCIAL REPORTING STANDARDS ("IFRSs") – Continued

### *IFRS 9 Financial Instruments*

IFRS 9 issued in 2009 introduces new requirements for the classification and measurement of financial assets. IFRS 9 amended in 2010 includes the requirements for the classification and measurement of financial liabilities and for derecognition.

Key requirements of IFRS 9 are described as follows:

- All recognised financial assets that are within the scope of IAS 39 *Financial Instruments*: *Recognition and Measurement* are subsequently measured at amortised cost or fair value. Specifically, debt investments that are held within a business model whose objective is to collect the contractual cash flows, and that have contractual cash flows that are solely payments of principal and interest on the principal outstanding are generally measured at amortised cost at the end of subsequent accounting periods. All other debt investments and equity investments are measured at their fair values at the end of subsequent reporting periods. In addition, under IFRS 9, entities may make an irrevocable election to present subsequent changes in the fair value of an equity investment (that is not held for trading) in other comprehensive income, with only dividend income generally recognised in profit or loss.

- With regard to the measurement of financial liabilities designated as at fair value through profit or loss, IFRS 9 requires that the amount of change in the fair value of the financial liability that is attributable to changes in the credit risk of that liability is presented in other comprehensive income, unless the recognition of the effects of changes in the liability's credit risk in other comprehensive income would create or enlarge an accounting mismatch in profit or loss. Changes in fair value of financial liabilities attributable to changes in the financial liabilities' credit risk are not subsequently reclassified to profit or loss. Under IAS 39, the entire amount of the change in the fair value of the financial liability designated as fair value through profit or loss was presented in profit or loss.

IFRS 9 is effective for annual periods beginning on or after 1 January 2015, with earlier application permitted.

The directors anticipate that the adoption of IFRS 9 for annual periods beginning on 1 April 2015 will not have significant impact on amounts reported in respect of the Group's financial assets and financial liabilities.

## 2. APPLICATION OF NEW AND REVISED INTERNATIONAL FINANCIAL REPORTING STANDARDS ("IFRSs") – Continued

### *New and revised standards on consolidation, joint arrangements, associates and disclosures*

In June 2012, a package of five standards on consolidation, joint arrangements, associates and disclosures was issued, including IFRS 10, IFRS 11, IFRS 12, IAS 27 (as revised in 2011) and IAS 28 (as revised in 2011).

Key requirements of these five standards are described below.

IFRS 10 replaces the parts of IAS 27 *Consolidated and Separate Financial Statements* that deal with consolidated financial statements and SIC 12 *Consolidation – Special Purpose Entities*. IFRS 10 includes a new definition of control that contains three elements: (a) power over an investee, (b) exposure, or rights, to variable returns from its involvement with the investee, and (c) the ability to use its power over the investee to affect the amount of the investor's returns. Extensive guidance has been added in IFRS 10 to deal with complex scenarios.

IFRS 11 replaces IAS 31 *Interests in Joint Ventures* and SIC 13 *Jointly Controlled Entities – Non-Monetary Contributions by Venturers*. IFRS 11 deals with how a joint arrangement of which two or more parties have joint control should be classified. Under IFRS 11, joint arrangements are classified as joint operations or joint ventures, depending on the rights and obligations of the parties to the arrangements. In contrast, under IAS 31, there are three types of joint arrangements: jointly controlled entities, jointly controlled assets and jointly controlled operations.

In addition, joint ventures under IFRS 11 are required to be accounted for using the equity method of accounting, whereas jointly controlled entities under IAS 31 can be accounted for using the equity method of accounting or proportionate accounting.

IFRS 12 is a disclosure standard and is applicable to entities that have interests in subsidiaries, joint arrangements, associates and/or unconsolidated structured entities. In general, the disclosure requirements in IFRS 12 are more extensive than those in the current standards.

In July 2012, the amendments to IFRS 10, IFRS 11 and IFRS 12 were issued to clarify certain transitional guidance on the application of these five IFRSs for the first time.

These five standards are effective for annual periods beginning on or after 1 April 2013. Earlier application is permitted provided that all of these five standards are applied early at the same time.

The directors anticipate that these five standards will be adopted in the Group's consolidated financial statements for the annual period beginning on 1 April 2013 would have no significant impact on its results of performance and financial position.

### *IFRS 13 Fair Value Measurement*

IFRS 13 establishes a single source of guidance for fair value measurements and disclosures about fair value measurements. The standard defines fair value, establishes a framework for measuring fair value, and requires disclosures about fair value measurements. The scope of IFRS 13 is broad; it applies to both financial instrument items and non-financial instrument items for which other IFRSs require or permit fair value measurements and disclosures about fair value measurements, except in specified circumstances. In general, the disclosure requirements in IFRS 13 are more extensive than those in the current standards. For example, quantitative and qualitative disclosures based on the three-level fair value hierarchy currently required for financial instruments only under IFRS 7 *Financial Instruments: Disclosures* will be extended by IFRS 13 to cover all assets and liabilities within its scope.

## 2. APPLICATION OF NEW AND REVISED INTERNATIONAL FINANCIAL REPORTING STANDARDS ("IFRSs") – Continued

### *IFRS 13 Fair Value Measurement – Continued*

IFRS 13 is effective for annual periods beginning on or after 1 April 2013, with earlier application permitted. The directors anticipate that the application of the new standard for annual period beginning on 1 April 2013 may affect certain amounts reported in the consolidated financial statements and result in more extensive disclosures in the consolidated financial statements.

### *Amendments to IAS 1 Presentation of Items of Other Comprehensive Income*

The amendments to IAS 1 introduce new terminology for the statement of comprehensive income and income statement. Under the amendments to IAS 1, a "statement of comprehensive income" is renamed as a "statement of profit or loss and other comprehensive income" and an "income statement" is renamed as a "statement of profit or loss". The amendments to IAS 1 retain the option to present profit or loss and other comprehensive income in either a single statement or in two separate but consecutive statements. However, the amendments to IAS 1 require items of other comprehensive income to be grouped into two categories: (a) items that will not be reclassified subsequently to statement of profit or loss; and (b) items that may be reclassified subsequently to statement of profit or loss when specific conditions are met. Income tax on items of other comprehensive income is required to be allocated on the same basis – the amendments do not change the option to present items of other comprehensive income either before tax or net of tax.

The amendments to IAS 1 are effective for annual periods beginning on or after 1 July 2012. The presentation of items of other comprehensive income will be modified accordingly when the amendments are applied in future accounting periods.

The directors anticipate that other amendments will have no effect on the Group's consolidated financial statements.

## 3. SIGNIFICANT ACCOUNTING POLICIES

The consolidated financial statements have been prepared in accordance with International Financial Reporting Standards. In addition, the consolidated financial statements include applicable disclosures required by the Rules Governing the Listing of Securities on the Hong Kong Stock Exchange and by the Hong Kong Companies Ordinance.

The consolidated financial statements have been prepared on the historical cost basis except for certain properties and financial instruments, which are measured at fair values, as explained in the accounting policies set out below. Historical cost is generally based on the fair value of the consideration given in exchange for goods and service.

The principal accounting policies are set out below.

### Basis of consolidation

The consolidated financial statements incorporate the financial statements of the Company and the entities controlled by the Company (its subsidiaries). Control is achieved where the Company has the power to govern the financial and operating policies of an entity so as to obtain benefits from its activities.

Income and expenses of subsidiaries acquired or disposed of during the year are included in the consolidated statement of comprehensive income from the effective date and acquisition or up to the effective date of disposal.

# 3. SIGNIFICANT ACCOUNTING POLICIES – Continued

## Basis of consolidation – Continued

Where necessary, adjustments are made to the financial statements of subsidiaries to bring their accounting policies in line with those used by other members of the Group.

All significant intra-group transactions, balances, income and expenses are eliminated in full on consolidation.

Non-controlling interests in subsidiaries are presented separated from the Group's entity therein.

### *Allocation of total comprehensive income/expense to non-controlling interests*

Total comprehensive income and expenses of a subsidiary is attributed to the owners of the Company and to the non-controlling interests even if this result in the non-controlling interests having a deficit balance.

### *Changes in the Group's ownership interests in existing subsidiaries*

Changes in the Group's ownership interests in existing subsidiaries that do not result in the Group losing control over the subsidiaries are accounted for as equity transactions. The carrying amounts of the Group's interests and the non-controlling interests are adjusted to reflect the changes in their relative interests in the subsidiaries. Any difference between the amount by which the non-controlling interests are recognised up to the date of changes in shareholding and the fair value of the consideration paid or received is recognised directly in equity and attributed to owners of the Company.

## Investments in associates

An associate is an entity over which the Group has significant influence and that is neither a subsidiary nor an interest in a joint venture. Significant influence is the power to participate in the financial and operating policy decisions of the investee but is not control or joint control over those policies.

The results and assets and liabilities of associates are incorporated in these consolidated financial statements using the equity method of accounting. The financial statements of associates used for equity accounting purposes are prepared using uniform accounting policies as those of the Group for like transactions and events in similar circumstances. Under the equity method, investments in associates are initially recognised in the consolidated statement of financial position at cost and adjusted thereafter to recognise the Group's share of the profit or loss and other comprehensive income of the associates. When the Group's share of losses of an associate exceeds the Group's interest in that associate (which includes any long-term interests that, in substance, form part of the Group's net investment in the associate), the Group discontinues recognising its share of further losses. Additional losses are recognised only to the extent that the Group has incurred legal or constructive obligations or made payments on behalf of that associate.

The requirements of IAS 39 are applied to determine whether it is necessary to recognise any impairment loss with respect to the Group's investment in an associate. When necessary, the entire carrying amount of the investment is tested for impairment in accordance with IAS 36 *Impairment of Assets* as a single asset by comparing its recoverable amount (higher of value in use and fair value less costs to sell) with its carrying amount. Any impairment loss recognised forms part of the carrying amount of the investment. Any reversal of that impairment loss is recognised in accordance with IAS 36 to the extent that the recoverable amount of the investment subsequently increases.

When a group entity transacts with its associate, profits and losses resulting from the transactions with the associate are recognised in the Group' consolidated financial statements only to the extent of interests in the associate that are not related to the Group.

# 3. SIGNIFICANT ACCOUNTING POLICIES – Continued

## Jointly controlled entities

Joint venture arrangements that involve the establishment of a separate entity in which venturers have joint control over the economic activity of the entity are referred to as jointly controlled entities.

The results and assets and liabilities of jointly controlled entities are incorporated in the consolidated financial statements using the equity method of accounting. Under the equity method, investments in jointly controlled entities are initially recognised in the consolidated statement of financial position at cost and adjusted thereafter to recognise the Group's share of the profit or loss and other comprehensive income of the jointly controlled entities. When the Group's share of losses of a jointly controlled entity equals or exceeds its interest in that jointly controlled entity (which includes any long-term interests that, in substance, form part of the Group's net investment in the jointly controlled entity), the Group discontinues recognising its share of further losses. Additional losses are recognised only to the extent that the Group has incurred legal or constructive obligations or made payments on behalf of that jointly controlled entity.

The requirements of IAS 39 are applied to determine whether it is necessary to recognise any impairment loss with respect to the Group's investment in a jointly controlled entity. When necessary, the entire carrying amount of the investment is tested for impairment in accordance with IAS 36 Impairment of Assets as a single asset by comparing its recoverable amount (higher of value in use and fair value less costs to sell) with its carrying amount. Any impairment loss recognised forms part of the carrying amount of the investment. Any reversal of that impairment loss is recognised in accordance with IAS 36 to the extent that the recoverable amount of the investment subsequently increases.

When a group entity transacts with a jointly controlled entity, profits and losses resulting from the transactions with the jointly controlled entity are recognised in the Group's consolidated financial statements only to the extent of interests in the jointly controlled entity that are not related to the Group.

## Property, plant and equipment

Property, plant and equipment other than construction in progress are stated in the consolidated statement of financial position at cost less subsequent accumulated depreciation and any accumulated impairment losses, if any.

Depreciation is recognised so as to write off the cost of items of property, plant and equipment (other than construction in progress) less their residual values over their estimated useful lives, using the straight-line method. The estimated useful lives, residual values and depreciation methods are reviewed at the end of each reporting period, with the effect of any changes in estimate accounted for on a prospective basis.

Properties in the course of construction for production, supply or administrative purposes are carried at cost, less any recognised impairment loss. Costs include professional fees and, for qualifying assets, borrowing costs capitalised in accordance with the Group's accounting policy. Such properties are classified to the appropriate categories 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.

An item of property, plant and equipment is derecognised upon disposal or when no future economic benefits are expected to arise from the continued use of the asset. Any gain or loss arising on the disposal or retirement of an item of property, plant and equipment is determined as the difference between the sales proceeds and the carrying amount of the asset and is recognised in profit or loss.

# 3. SIGNIFICANT ACCOUNTING POLICIES – Continued

## Investment properties

Investment properties are properties held to earn rentals and/or for capital appreciation.

Investment properties are initially measured at cost, including any directly attributable expenditure. Subsequent to initial recognition, investment properties are measured at their fair values using the fair value model. Gains or losses arising from changes in the fair value of investment property are included in profit or loss for the period in which they arise.

An investment property is derecognised upon disposal or when the investment property is permanently withdrawn from use and no future economic benefits are expected from its disposal. Any gain or loss arising on derecognition of the asset (calculated as the difference between the net disposal proceeds and the carrying amount of the asset) is included in the profit or loss in the period in which the item is derecognised.

### *Leasehold land and building*

When a lease includes both land and building elements, the Group assesses the classification of each element as a finance or an operating lease separately based on the assessment as to whether substantially all the risks and rewards incidental to ownership of each element have been transferred to the Group unless it is clear that both elements are operating lease in which case the entire lease is classified as an operating lease. Specifically, the minimum lease payments (including any lump-sum upfront payments) are allocated between the land and the building elements in proportion to the relative fair values of the leasehold interests in the land element and building element of the lease at the inception of the lease.

To the extent the allocation of the lease payments can be made reliably, interest in leasehold land that is accounted for as an operating lease is presented as "lease premium for land" in the consolidated statement of financial position and is amortised over the lease term on a straight-line basis except for those that are classified and accounted for as investment properties under the fair value model.

## Intangible assets

### *Intangible assets acquired separately*

Intangible assets acquired separately and with finite useful lives are carried at cost less accumulated amortisation and any accumulated impairment losses. Amortisation for intangible assets with finite useful lives is provided on a straight-line basis over their estimated useful lives. The estimated useful life and amortisation method are reviewed at the end of each reporting period, with the effective of any changes in estimate being accounted for on a prospective basis.

Gains or losses arising from derecognition of an intangible asset are measured at the difference between the net disposal proceeds and the carrying amount of the asset and are recognised in profit or loss in the period when the asset is derecognised.

# 3. SIGNIFICANT ACCOUNTING POLICIES – Continued

## Intangible assets – Continued

### *Research and development expenditure*

Expenditure on research activities is recognised as an expense in the period in which it is incurred.

An internally-generated intangible asset arising from development activities (or from the development phase of an internal project) is recognised if, and only if, all of the following have been demonstrated:

- the technical feasibility of completing the intangible asset so that it will be available for use or sale;
- the intention to complete the intangible asset and use or sell it;
- the ability to use or sell the intangible asset;
- how the intangible asset will generate probable future economic benefits;
- the availability of adequate technical, financial and other resources to complete the development and to use or sell the intangible asset; and
- the ability to measure reliably the expenditure attributable to the intangible asset during its development.

The amount initially recognised for the internally-generated intangible asset is the sum of the expenditure incurred from the date when the intangible asset first meets the recognition criteria listed above. Where no internally-generated intangible asset can be recognised, development expenditure is charged to profit or loss in the period in which it is incurred.

Subsequent to initial recognition, the internally-generated intangible asset is measured at cost less accumulated amortisation and accumulated impairment losses (if any), on the same basis as intangible assets acquired separately.

## Impairment losses on tangible and intangible assets

At the end of the reporting period, the Group reviews the carrying amounts of its tangible and intangible assets to determine whether there is any indication that those assets have suffered an impairment loss. If any such indication exists, the recoverable amount of the asset is estimated in order to determine the extent of the impairment loss, if any. When it is not possible to estimate the recoverable amount of an individual asset, the Group estimates the recoverable amount of the cash-generating unit to which the asset belongs. Where a reasonable and consistent basis of allocation can be identified, corporate assets are also allocated to individual cash-generating units, or otherwise they are allocated to the smallest group of cash-generating units for which a reasonable and consistent allocation basis can be identified. Recoverable amount is the higher of fair value less costs to sell and value in use. 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 for which the estimates of future cash flows have not been adjusted. If the recoverable amount of an asset (or a cash-generating unit) is estimated to be less than its carrying amount, the carrying amount of the asset (or a cash-generating unit) is reduced to its recoverable amount. An impairment loss is recognised as an expense immediately.

Where an impairment loss subsequently reverses, the carrying amount of the asset is increased to the revised estimate of its recoverable amount, but so that the increased carrying amount does not exceed the carrying amount that would have been determined had no impairment loss been recognised for the asset (or a cash-generating unit) in prior years. A reversal of an impairment loss is recognised as income.

# 3. SIGNIFICANT ACCOUNTING POLICIES – Continued

## Financial instruments

Financial assets and financial liabilities are recognised in the consolidated statement of financial position when a group entity becomes a party to the 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 are added to or deducted from the fair value of the financial assets or financial liabilities, as appropriate, on initial recognition.

### ***Financial assets***

The Group's financial assets are classified as loans and receivables and available-for-sale financial assets. The classification depends on the nature and purpose of the financial assets and is determined at the time of initial recognition.

*Effective interest method*

The effective interest method is a method of calculating the amortised cost of a financial instrument and of allocating interest income or expense over the relevant period. The effective interest rate is the rate that exactly discounts estimated future cash receipts or payments (including all fees 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 instrument, or, where appropriate, a shorter period to the net carrying amount on initial recognition.

Interest income is recognised on an effective interest basis for debt instruments.

*Loans and receivables*

Loans and receivables are non-derivative financial assets with fixed or determinable payments that are not quoted in an active market. Subsequent to initial recognition, loans and receivables (including trade and other receivables, loan to a jointly controlled entity and bank balances and cash) carried at amortised cost using the effective interest method, less any identified impairment losses (see accounting policy on impairment of financial assets below).

*Available-for-sale financial assets*

Available-for-sale financial assets are non-derivatives that are either designated or not classified as financial assets at fair value through profit or loss, loans and receivables or held-to-maturity investments.

Available-for-sale equity investments that do not have a quoted market price in an active market and whose fair value cannot be reliably measured must be settled by delivery of such unquoted equity investments are measured at cost less any identified impairment losses at the end of each reporting period (see the accounting policy in respect of impairment of financial assets below).

# 3. SIGNIFICANT ACCOUNTING POLICIES – Continued

## Financial instruments – Continued

### *Financial assets – Continued*

*Impairment of financial assets*

Financial assets are assessed for indicators of impairment at the end of the reporting period. Financial assets are considered to be 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 affected.

Objective evidence of impairment could include:

- significant financial difficulty of the issuer or counterparty; or
- breach of contract, such as default or delinquency in interest and principal payments; or
- it becoming probable that the borrower will enter bankruptcy or financial re-organisation.

For certain categories of loans and receivables, such as trade receivables, assets that are assessed not to be impaired individually are subsequently, in addition, 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 payments in the portfolio past the average credit period of 30 to 90 days for export customers and 180 days for high speed train manufactures, as well as observable changes in national or local economic conditions that correlate with default on receivables.

An impairment loss is recognised in profit or loss 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 financial asset's 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 account. Changes in the carrying amount of the allowance account are recognised in profit or loss. 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 profit or loss.

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 profit or loss 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.

# 3. SIGNIFICANT ACCOUNTING POLICIES – Continued

## Financial instruments – Continued

### *Financial liabilities and equity instruments*

Financial liabilities and equity instruments issued by a group entity are classified as either financial liabilities or as equity instruments in accordance with the substance of the contractual arrangements and the definitions of a financial liability and an equity instrument.

*Equity instrument*

An equity instrument is any contract that evidences a residual interest in the assets of the Group after deducting all of its liabilities. Equity instruments issued by the Group are recognised at the proceeds received, net of direct issue costs.

Repurchase of the Company's own equity instruments (treasury shares) is recognised and deducted directly from equity attributable to the owners of the Company until the shares are cancelled or reissued. No gain or loss is recognised in profit or loss on the purchase, sale, issue or cancellation of the Company's own equity instruments.

*Effective interest method*

The effective interest method is a method of calculating the amortised cost of a financial liability and of allocating interest expense over the relevant period. The effective interest rate is the rate that exactly discounts estimated future cash payments (including all fees paid or received that form an integral part of the effective interest rate, transaction costs and other premiums to discounts) through the expected life of the financial liability, or, where appropriate, a shorter period to the net carrying amount on initial recognition.

Interest expense is recognised on an effective interest basis.

*Financial liabilities*

The Group's financial liabilities (including trade and other payables and bank borrowings) are subsequently measured at amortised cost, using the effective interest method.

### *Derivative financial instruments*

Derivatives are initially recognised at fair value at the date a derivative contract is entered into and are subsequently remeasured to their fair value at the end of the reporting period. The resulting gain or loss is recognised in profit or loss immediately.

### *Derecognition*

The Group derecognises a financial asset only when the contractual rights to the cash flows from the asset expire, or when it transfers the financial asset and substantially all the risks and rewards of ownership of the asset to another entity. If the Group neither transfers nor retains substantially all the risks and rewards of ownership and continues to control the transferred asset, the Group continues to recognise the asset to the extent of its continuing involvement and recognises an associated liability. If the Group retains substantially all the risks and rewards of ownership of a transferred financial asset, the Group continues to recognise the financial asset and also recognises a collateralised borrowing for the proceeds received.

# 3. SIGNIFICANT ACCOUNTING POLICIES – Continued

## Financial instruments – Continued

### *Derecognition – Continued*

On derecognition of a financial asset in its entirety, the difference between the asset's carrying amount and the sum of the consideration received and receivable is recognised in profit or loss.

The Group derecognises financial liabilities, when, and only when, the Group's obligations are discharged, cancelled or expires. The difference between the carrying amount of the financial liability derecognised and the consideration paid and payable is recognised in profit or loss.

## Share-based payment transactions

### *Equity-settled share-based payment transactions*

*Share options granted to employees*

The fair value of services received determined by reference to the fair value of share options granted at the grant date is expensed on a straight-line basis over the vesting period, with a corresponding increase in equity (share option reserve).

At the end of the reporting period, the Group revises its estimates of the number of options that are expected to ultimately vest. The impact of the revision of the original estimates during the vesting period, if any, is recognised in profit or loss such that the cumulative expense reflects the revised estimate, with a corresponding adjustment to the share option reserve.

When the share options are exercised, the amount previously recognised in the share option reserve will be transferred to share premium. When the share options are forfeited after the vesting date or are still not exercised at the expiry date, the amount previously recognised in the share option reserve will be transferred to retained profits.

For shares of the Company granted under the Share Award Scheme (as defined in note 35), the fair value of the employee services received is determined by reference to the fair value of shares granted at the grant date and is expensed on a straight-line basis over the vesting period, with a corresponding increase in equity (share award scheme reserve). At the end of the reporting period, the Group revises its estimates of the number of shares that are expected to ultimately vest. The impact of the revision of the estimates, if any, is recognised in profit or loss with a corresponding adjustment to the share award scheme reserve.

## Leasing

Leases are classified as finance leases whenever the terms of the lease transfer substantially all the risks and rewards of ownership to the lessee. All other leases are classified as operating leases.

### *The Group as lessor*

Rental income from operating leases is recognised in profit or loss on a straight-line basis over the term of the relevant lease.

# 3. SIGNIFICANT ACCOUNTING POLICIES – Continued

## Leasing – Continued

### *The Group as lessee*

Operating lease payments are recognised as an expense on a straight-line basis over the lease term, except where another systematic basis is more representative of the time pattern in which economic benefits from the leased asset are consumed.

In the event that lease incentives are received to enter into operating leases, such incentives are recognised as a liability. The aggregate benefit of incentives is recognised as a reduction of rental expense on a straight-line basis, except where another systematic basis is more representative of the time pattern in which economic benefits from the leased asset are consumed.

## Inventories

Inventories are stated at the lower of costs and net realisable value. Cost is calculated using the weighted average cost method.

## Revenue recognition

Revenue is measured at the fair value of the consideration received or receivable and represents amounts receivable for goods sold in the normal course of business, net of discounts and sales related taxes.

Revenue from sale of sofas and other furniture is recognised when goods are delivered and title has passed.

Interest income from a financial asset is recognised when it is probable that the economic benefits will flow to the Group and the amount of income can be measured reliably. Interest income from a financial asset is accrued on a time basis, by reference to the principal outstanding and at the effective interest rate applicable, which is the rate that exactly discounts the estimated future cash receipts through the expected life of the financial asset to that asset's net carrying amount on initial recognition.

Dividend income from investments is recognised when shareholders' rights to received payment have been established (provide that it is probable that the economic benefits will flow to the Group and the amount of revenue can be measure reliably).

## Borrowing costs

Borrowing costs directly attributable to the acquisition, construction or production of qualifying assets, which are assets that necessarily take a substantial period of time to get ready for their intended use or sale, are added to the cost of those assets, until such time as the assets are substantially ready for their intended use or sale. Investment income earned on the temporary investment of specific borrowings pending their expenditure on qualifying assets is deducted from the borrowing costs eligible for capitalisation.

All other borrowing costs are recognised in profit or loss in the year in which they are incurred.

## 3. SIGNIFICANT ACCOUNTING POLICIES – Continued

### Retirement benefit costs

Payments to defined contribution retirement benefit plans are recognised as an expense when employees have rendered service entitling them to the contributions.

### Government grants

Government grants are not recognised until there is reasonable assurance that the Group will comply with the conditions attaching to them and that the grants will be received.

Government grants are recognised in profit or loss on a systematic basis over the periods in which the Group recognises as expenses the related costs for which the grants are intended to compensate. Specifically, government grants whose primary condition is that the Group should purchase, construct or otherwise acquire non-current assets are recognised as a deduction from the carrying amount of the relevant asset in the consolidated statement of financial position and transferred to profit or loss over the useful lives of the related assets. Government grants that are receivable as compensation for expenses or losses already incurred or for the purpose of giving immediate financial support to the Group with no future related costs are recognised in profit or loss in the period in which they become receivable.

### Taxation

Income tax expense 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 profit before income tax as reported in the consolidated statement of comprehensive income 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 current tax is calculated using tax rates that have been enacted or substantively enacted by the end of the reporting period.

Deferred tax is recognised on temporary differences between the carrying amounts of assets and liabilities in the consolidated financial statements and the corresponding tax base used in the computation of taxable profit. Deferred tax liabilities are generally recognised for all taxable temporary differences. Deferred tax assets are generally recognised for all deductible temporary differences to the extent that it is probable that taxable profits will be available against which those deductible temporary differences 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 associated with investments in subsidiaries and interests in joint ventures, except where the Group is able to control the reversal of the temporary difference and it is probable that the temporary difference will not reverse in the foreseeable future. Deferred tax assets arising from deductible temporary differences associated with such investments and interests are only recognised to the extent that it is probable that there will be sufficient taxable profits against which to utilise the benefits of the temporary differences and they are expected to reverse in the foreseeable future.

The carrying amount of deferred tax assets is reviewed at the end of the reporting period and reduced to the extent that it is no longer probable that sufficient taxable profits will be available to allow all or part of the asset to be recovered.

# 3. SIGNIFICANT ACCOUNTING POLICIES – Continued

## Taxation – Continued

Deferred tax assets and liabilities are measured at the tax rates that are expected to apply in the period in which the liability is settled or the asset is realised, based on tax rates (and tax laws) that have been enacted or substantively enacted by the end of the reporting period.

The measurement of deferred tax liabilities and assets reflects the tax consequences that would follow from the manner in which the Group expects, at the end of the reporting period, to recover or settle the carrying amount of its assets and liabilities.

For the purposes of measuring deferred tax liabilities or deferred tax assets for investment properties that are measured using the fair value model, the carrying amounts of such properties are presumed to be recovered entirely through sale, unless the presumption is rebutted. The presumption is rebutted when the investment property is depreciable and is held within a business model whose objective is to consume substantially all of the economic benefits embodied in the investment property over time, rather than through sale. If the presumption is rebutted, deferred tax liabilities and deferred tax assets for such investment properties are measured in accordance with the above general principles set out in IAS 12 (i.e. based on the expected manner as to how the properties will be recovered).

Current and deferred tax is recognised in profit or loss, except when it relates to items that are recognised in other comprehensive income or directly in equity, in which case the current and deferred tax is also recognised in other comprehensive income or directly in equity respectively. Where current tax or deferred tax arises from the initial accounting for a business combination, the tax effect is included in the accounting for the business combination.

## Foreign currencies

In preparing the financial statements of each individual group entity, transactions in currencies other than the functional currency of that entity (foreign currencies) are recorded in the respective functional currency (i.e. the currency of the primary economic environment in which the entity operates) at the rates of exchanges prevailing on the dates of the transactions. At the end of the reporting period, monetary items denominated in foreign currencies are retranslated at the rates prevailing at that date. Non-monetary items carried at fair value that are denominated in foreign currencies are retranslated at the rates prevailing on the date when the fair value was determined. Non-monetary items that are measured in terms of historical cost in a foreign currency are not retranslated.

Exchange differences arising on the settlement of monetary items, and on retranslation of monetary items are recognised in profit or loss for the period in which they arise. Exchange differences arising on the retranslation of non-monetary items carried at fair value are included in profit or loss for the period.

For the purposes of presenting the consolidated financial statements, the assets and liabilities of the Group's foreign operations are translated into the presentation currency of the Group (i.e. HKD) at the rate of exchange prevailing at the end of the reporting period, and their income and expenses are translated at the average exchange rates for the year. Exchange differences arising, if any, are recognised in other comprehensive income and accumulated in equity under the heading of translation reserve (attributed to non-controlling interest as appropriate).

## 4. CRITICAL ACCOUNTING JUDGMENTS AND KEY SOURCES OF ESTIMATION UNCERTAINTY

In the application of the Group's accounting policies, which are described in note 3, the directors of the Company are required to make judgments, estimates and assumptions about the carrying amounts of assets and liabilities that are not readily apparent from other sources. The estimates and associated assumptions are based on historical experience and other factors that are considered to be relevant. Actual results may differ from these estimates.

The estimates and underlying assumptions are reviewed on an ongoing basis. Revisions to accounting estimates are recognised in the period in which the estimate is revised if the revision affects only that period, or in the period of the revision and future periods if the revision affects both current and future periods.

### Key source of estimation uncertainty

The following are the key assumptions concerning the future, and other key sources of estimation uncertainty at the end of the reporting period, that have a significant risk of causing a material adjustment to the carrying amounts of assets and liabilities within the next financial year.

#### *Estimated impairment of trade and bills receivables*

When there is objective evidence of impairment loss, the Group takes into consideration the estimation of future cash flows. The amount of the impairment loss is measured as the difference between the asset's carrying amount and the present value of estimated future cash flows (excluding future credit losses that have not been incurred) discounted at the financial asset's original effective interest rate (i.e. the effective interest rate computed at initial recognition). Where the actual future cash flows are less than expected, a material impairment loss may arise. As at 31 March 2013, the carrying amount of trade and bills receivables is HK$369,119,000 (2012: carrying amount of HK$390,714,000).

#### *Allowance for inventories*

The management of the Group reviews its inventories at the end of the reporting period and makes allowance for obsolete and slow-moving inventory items identified that no longer suitable for use in production or for future sale Management estimates the net realisable value for such items based on the market conditions at the end of reporting period by reference to the latest invoice prices. The Group carries out an inventory review on a product-by-product basis at the end of the reporting period and makes allowance for obsolete items. As at 31 March 2013, the carrying amount of inventories is HK$635,668,000, net of allowance for inventories of HK$6,176,000 (2012: carrying amount of HK$545,902,000, net of allowance for inventories of HK$1,511,000).

### Critical judgments in applying accounting policies

The following are the critical judgments, apart from those involving estimation (see above), that the directors have made in the process of applying the Group's accounting policies and that have the most significant effect on the amounts recognised in the consolidated financial statements.

#### *Recognition of deferred taxation*

At 31 March 2013, the Group provided for deferred tax liabilities of approximately HK$2,976,000 (2012: HK$2,976,000) in relation to the earnings expected to be distributed from the subsidiaries. Deferred tax liabilities have not been provided on the distributable profits of those subsidiaries that the Group plans to retain in the respective entities for their daily operations and future developments. In case where the actual distribution of profits are larger than expected, material tax liabilities will arise, which will be recognised in the profit or loss for the period in which such profits are declared or the future development plan of the Group vanished, whichever is earlier.

No deferred tax assets have been recognised in respect of the unused tax losses of approximately HK$173,361,000 (2012: HK$170,738,000) due to the unpredictability of future profit streams. The realisability of the deferred tax asset mainly depends on whether sufficient future profits or taxable temporary differences will be available in the future. In cases where the actual future profits generated are less than or more than expected, a material reversal or recognition of deferred tax assets may arise, which would be recognised in profit or loss for the period in which such a reversal or recognition takes place.

## 5. REVENUE AND SEGMENT INFORMATION

Revenue represents the amounts received and receivable for goods sold, net of sales taxes and returns.

Information reported to the Company's executive directors, being the chief operating decision makers of the Group, in respect of the sofa business focused on the location of customers. Furthermore, information for bedding products is reported separately to the Company's executive directors for the purposes of allocating resources to the segments and assessing the performance of the segment. The Group's operating and reportable segments, based on the information reported to the Company's executive directors, for the purposes of resource allocation and performance assessment are as follows:

| | |
|---|---|
| Sofa (export sales) | – manufacture and sale of sofa for customers located outside Mainland China and Hong Kong |
| Sofa (retail and wholesale in Mainland China) | – manufacture and distribution of sofa in Mainland China through self-owned shops and distributors |
| Sofa (retail and wholesale in Hong Kong) | – distribution of sofa in Hong Kong through wholesale and self-owned shops |
| Bedding products | – manufacture and distribution of mattress and bedding products in Mainland China |

The Company's executive directors make decisions based on the operating results of each segment and review reports on the aging analysis of trade receivables and expected usage of inventories of the Group as a whole. No information of segment assets and liabilities is reviewed by the Company's executive directors for the assessment of performance of different operating segments. Therefore, only the segment revenue and segment results are presented.

The accounting policies of the operating segments are the same as the Group's accounting policies described in note 3. Segment results represent the profit before income tax earned by each segment without allocation of interest income, income on structured deposits, interest expense on bank borrowings wholly repayable within five years, rental income, net exchange gain, central administrative costs and director's emoluments, fair value gain on investment properties, share of profit of a jointly controlled entity, share of loss of an associate and gain (loss) on changes in fair value of derivative financial instruments. This is the measure reported to the executive directors for the purposes of resource allocation and performance assessment.

## 5. REVENUE AND SEGMENT INFORMATION – Continued

The information of segment revenue and segment results are as follows:

**For the year ended 31 March 2013**

| | Sofa (export sales) HK$'000 | Sofa (retail and wholesale in Mainland China) HK$'000 | Sofa (retail and wholesale in Hong Kong) HK$'000 | Bedding products HK$'000 | Total segments HK$'000 | Elimination HK$'000 | Total HK$'000 |
|---|---|---|---|---|---|---|---|
| REVENUE | | | | | | | |
| External sales | 3,485,653 | 1,098,029 | 84,233 | 209,061 | 4,876,976 | – | 4,876,976 |
| Inter-segment sales | 42,369 | 42,345 | – | – | 84,714 | (84,714) | – |
| | 3,528,022 | 1,140,374 | 84,233 | 209,061 | 4,961,690 | (84,714) | 4,876,976 |
| RESULTS | | | | | | | |
| Segment results | 419,705 | 169,135 | 6,599 | 26,721 | 622,160 | (10,526) | 611,634 |
| Interest income | | | | | | | 2,837 |
| Income on structured deposits | | | | | | | 48,279 |
| Rental income | | | | | | | 3,002 |
| Exchange gain – net | | | | | | | 5,890 |
| Fair value gain on investment properties | | | | | | | 1,723 |
| Gain on changes in fair value of derivative financial instruments | | | | | | | 26,056 |
| Interest expense on bank borrowings wholly repayable within five years | | | | | | | (16,807) |
| Central administrative costs and directors' emoluments | | | | | | | (66,093) |
| Share of profit of a jointly controlled entity | | | | | | | 7,374 |
| Share of loss of an associate | | | | | | | (1) |
| Profit before income tax | | | | | | | 623,894 |

# 5. REVENUE AND SEGMENT INFORMATION – Continued

For the year ended 31 March 2012

| | Sofa (export sales) HK$'000 | Sofa (retail and wholesale in Mainland China) HK$'000 | Sofa (retail and wholesale in Hong Kong) HK$'000 | Bedding products HK$'000 | Total segments HK$'000 | Elimination HK$'000 | Total HK$'000 |
|---|---|---|---|---|---|---|---|
| REVENUE | | | | | | | |
| External sales | 3,083,994 | 951,653 | 98,214 | 202,492 | 4,336,353 | – | 4,336,353 |
| Inter-segment sales | 267,977 | 46,728 | – | 9,263 | 323,968 | (323,968) | – |
| | 3,351,971 | 998,381 | 98,214 | 211,755 | 4,660,321 | (323,968) | 4,336,353 |
| RESULTS | | | | | | | |
| Segment results | 304,165 | 79,962 | (291) | 8,450 | 392,286 | (26,342) | 365,944 |
| Interest income | | | | | | | 9,837 |
| Income on structured deposits | | | | | | | 34,032 |
| Rental income | | | | | | | 2,892 |
| Exchange gain – net | | | | | | | 6,842 |
| Fair value gain on investment properties | | | | | | | 907 |
| Loss on changes in fair value of derivative financial instruments | | | | | | | (17) |
| Interest expense on bank borrowings wholly repayable within five years | | | | | | | (7,693) |
| Central administrative costs and directors' emoluments | | | | | | | (79,929) |
| Share of profit of a jointly controlled entity | | | | | | | 4,652 |
| Profit before income tax | | | | | | | 337,467 |

Inter-segment sales are charged at prevailing market price.

## 5. REVENUE AND SEGMENT INFORMATION – Continued

Other information:

| | **Sofa (export sales)** HK$'000 | **Sofa (retail and wholesale in Mainland China)** HK$'000 | **Sofa (retail and wholesale in Hong Kong)** HK$'000 | **Bedding products** HK$'000 | **Consolidated and segment total** HK$'000 |
|---|---|---|---|---|---|
| Amounts included in the measure of segment result: | | | | | |
| For the year ended 31 March 2013 | | | | | |
| (Gain) loss on disposal of property, plant and equipment | **283** | **(107)** | **(453)** | **4** | **(273)** |
| Depreciation and amortisation | **62,025** | **52,227** | **2,068** | **7,701** | **124,021** |
| Release of lease premium for land | **2,499** | **10,021** | **–** | **–** | **12,520** |
| Impairment loss on trade receivables | **546** | **–** | **–** | **–** | **546** |
| Allowance for inventories | **6,176** | **–** | **–** | **–** | **6,176** |
| For the year ended 31 March 2012 | | | | | |
| Loss on disposal of property, plant and equipment | 297 | 237 | 52 | 345 | 931 |
| Depreciation and amortisation | 50,105 | 27,979 | 2,865 | 7,129 | 88,078 |
| Release of lease premium for land | 2,227 | – | – | – | 2,227 |
| Impairment loss on trade receivables | 685 | – | – | – | 685 |
| Impairment loss on amount due from a non-controlling interest | 1,012 | – | – | – | 1,012 |
| Impairment loss on other receivables | 297 | – | – | – | 297 |
| Allowance for inventories | – | – | – | 1,511 | 1,511 |

## 5. REVENUE AND SEGMENT INFORMATION – Continued

Geographical information:

Revenue from external customers by geographical location of customers are as follows:

| | 2013<br>HK$'000 | 2012<br>HK$'000 |
|---|---|---|
| United States of America ("U.S.") | **2,550,195** | 2,232,350 |
| Canada | **200,906** | 226,736 |
| PRC (including Hong Kong) | **1,391,323** | 1,252,359 |
| Europe (note) | **511,102** | 410,484 |
| Others (note) | **223,450** | 214,424 |
| | **4,876,976** | 4,336,353 |

Note: The countries included in these two categories included mainly United Kingdom, Ireland, Spain, Russia, Australia, South Africa, Korea and New Zealand. No further analysis by countries of these two categories is presented because the revenue from each individual country is insignificant to the total revenue.

All of the Group's non-current assets are located in Mainland China and Hong Kong at the end of the reporting period.

Information about major customers:

During the year, none of the Group's customers individually contributed more than 10% of the Group's revenue (2012: none). The top five customers contributed around 29% (2012: 28%) of revenue of the Group for the year ended 31 March 2013.

Revenue from major products:

The Group's revenue from its major products, sofa and bedding products is disclosed in the segment revenue disclosures.

## 6. OTHER GAINS AND LOSSES

| | 2013<br>HK$'000 | 2012<br>HK$'000 |
|---|---|---|
| Exchange gain – net | **5,890** | 6,842 |
| Fair value gain on investment properties | **1,723** | 907 |
| Gain (loss) on disposal of property, plant and equipment | **273** | (931) |
| Gain (loss) on changes in fair value of derivative financial instruments | **26,056** | (17) |
| Impairment loss on trade receivables | **(546)** | (685) |
| Impairment loss on other receivables | **–** | (297) |
| Impairment loss on amount due from a non-controlling interest | **–** | (1,012) |
| | **33,396** | 4,807 |

## 7. INCOME TAX EXPENSE

| | **2013** **HK$'000** | 2012 HK$'000 |
|---|---|---|
| Current tax: | | |
| PRC Enterprise Income Tax | **56,832** | 30,381 |
| U.S. | **2,325** | 1,878 |
| | **59,157** | 32,259 |
| (Over)underprovision in prior years: | | |
| Hong Kong | **–** | 9 |
| PRC Enterprise Income Tax | **(65)** | 2,098 |
| U.S. | **(445)** | 927 |
| | **(510)** | 3,034 |
| Deferred tax (note 18): | | |
| Current year | **(597)** | – |
| | **58,050** | 35,293 |

Hong Kong Profits Tax is calculated at 16.5% of the estimated assessable profit for the year of 2013. No provision for Hong Kong Profits Tax has been made in both years as the Group had no assessable profits arising in Hong Kong.

Under the Law of the PRC on Enterprise Income Tax (the "EIT Law") and Implementation Regulations of the EIT Law, the tax rate of the PRC subsidiaries is 25% from 1 January 2008 onwards.

## 7. INCOME TAX EXPENSE – Continued

The EIT Law imposes withholding tax upon the distribution of the profits earned by the Company's PRC subsidiaries on or after 1 January 2008 to their non-resident shareholders, details of which are set out in note 18.

The U.S. income tax charge comprises federal income tax calculated at 34% and state income tax calculated from 0 to 9.8% on the estimated assessable profits of the subsidiary of the Company which was incorporated in the U.S..

As stated on Decree Law No. 58/99/M, Chapter 2, Article 12, dated 18 October 1999, the Group's Macau subsidiary is exempted from Macao Complementary Tax.

The tax charge for the year can be reconciled to the profit before income tax per the consolidated statement of comprehensive income as follows:

| | **2013 HK$'000** | 2012 HK$'000 |
|---|---|---|
| Profit before income tax | **623,894** | 337,467 |
| Tax at the PRC Enterprise Income Tax rate (25%) | **155,973** | 84,367 |
| Tax effect of expenses not deductible in determining taxable profit | **10,210** | 14,871 |
| Tax effect of income not taxable in determining taxable profit | **(7,591)** | (2,159) |
| (Over) underprovision in prior years | **(510)** | 3,034 |
| Effect of different tax rates of subsidiaries operating in other jurisdiction | **2,431** | 4,606 |
| Tax effect of tax losses not recognised | **7,096** | 12,870 |
| Utilisation of tax losses previously not recognised | **(8,637)** | (2,040) |
| Tax effect of share of results of a jointly controlled entity | **(1,216)** | (768) |
| Tax effect of profit of subsidiaries under concessionary rate | **–** | (2,691) |
| Tax effect of profit of a subsidiary under tax exemption in Macau | **(99,706)** | (76,797) |
| Tax charge for the year | **58,050** | 35,293 |

## 8. PROFIT FOR THE YEAR

| | 2013 HK$'000 | 2012 HK$'000 |
|---|---|---|
| Profit for the year has been arrived at after charging (crediting): | | |
| Directors' emoluments (note 9) | **28,574** | 23,780 |
| Other staff costs | | |
| Salaries and other allowances, including share option expense | **494,091** | 422,283 |
| Retirement benefit scheme contributions, excluding those of directors | **31,122** | 13,478 |
| Share award scheme expense | **1,012** | 1,291 |
| Total staff costs | **554,799** | 460,832 |
| Auditor's remuneration | **2,548** | 2,500 |
| Release of lease premium for land | **12,520** | 2,227 |
| Amortisation of intangible assets (recognised in selling and distribution expenses) | **225** | 221 |
| Depreciation | **123,796** | 87,857 |
| Cost of inventories recognised as an expense | **3,083,936** | 2,851,334 |
| Research and development expenditure | **15,706** | 8,580 |
| Allowance for inventories (recognised in cost of goods sold) | **6,176** | 1,511 |
| Recognised in other income include: | | |
| Interest income | **(2,837)** | (9,837) |
| Income on structured deposits | **(48,279)** | (34,032) |
| Rental income from investment properties | **(3,002)** | (2,892) |
| Government grant recognised in other income | **(3,941)** | (2,861) |
| | **(58,059)** | (49,622) |

## 9. DIRECTORS', CHIEF EXECUTIVE'S AND EMPLOYEES' EMOLUMENTS

### Directors

Details of the emoluments paid to the directors of the Company for the year are as follows:

| Name of directors | Directors' fee HK$'000 | Performance related incentive payments (note vii) HK$'000 | Salaries and other allowances HK$'000 | Share-based payment HK$'000 | Retirement benefit scheme contributions HK$'000 | Total HK$'000 |
|---|---|---|---|---|---|---|
| For the year ended 31 March 2013 | | | | | | |
| Mr. Wong Man Li | **208** | **182** | **1,157** | **33** | **15** | **1,595** |
| Ms. Hui Wai Hing | **208** | **142** | **960** | **24** | **15** | **1,349** |
| Mr. Stephen Allen Barr | **187** | **31** | **10,665** | **2,961** | **56** | **13,900** |
| Mr. Wang Guisheng | **208** | **232** | **1,584** | **440** | **26** | **2,490** |
| Mr. Alan Marine | **187** | **858** | **5,293** | **466** | **639** | **7,443** |
| Mr. Dai Quanfa (note i) | **187** | **112** | **541** | **125** | **7** | **972** |
| Mr. Ong Chor Wei | **250** | **–** | **–** | **–** | **–** | **250** |
| Mr. Lee Teck Leng Robson | **250** | **–** | **–** | **–** | **–** | **250** |
| Ms. Chan Wah Man Carman (note ii) | **75** | **–** | **–** | **–** | **–** | **75** |
| Mr. Chau Shing Yim David | **250** | **–** | **–** | **–** | **–** | **250** |
| | **2,010** | **1,557** | **20,200** | **4,049** | **758** | **28,574** |
| For the year ended 31 March 2012 | | | | | | |
| Mr. Wong Man Li | – | 9 | 1,190 | – | 12 | 1,211 |
| Ms. Hui Wai Hing | – | 9 | 951 | – | 12 | 972 |
| Mr. Li Jianhong (note iii) | – | – | 783 | 56 | 8 | 847 |
| Mr. Stephen Allen Barr | – | 1,272 | 3,303 | 8,895 | – | 13,470 |
| Mr. Yu Tung Wan (note iii) | – | – | 452 | 43 | – | 495 |
| Mr. Wang Guisheng (note iv) | – | 532 | 1,204 | 277 | 9 | 2,022 |
| Mr. Alan Marine (note v) | – | – | 2,584 | 66 | – | 2,650 |
| Mr. Francis Lee Fook Wah (note vi) | 250 | – | 863 | – | – | 1,113 |
| Mr. Ong Chor Wei | 250 | – | – | – | – | 250 |
| Mr. Lee Teck Leng Robson | 250 | – | – | – | – | 250 |
| Ms. Chan Wah Man Carman | 250 | – | – | – | – | 250 |
| Mr. Chau Shing Yim David | 250 | – | – | – | – | 250 |
| | 1,250 | 1,822 | 11,330 | 9,337 | 41 | 23,780 |

## 9. DIRECTORS', CHIEF EXECUTIVE'S AND EMPLOYEES' EMOLUMENTS – Continued

Notes:

(i) Appointed as an executive director of the Company on 19 July 2012.

(ii) Resigned as independent non-executive director of the Company on 19 July 2012.

(iii) Resigned as executive directors of the Company on 6 October 2011.

(iv) Appointed as an executive director of the Company on 25 May 2011.

(v) Appointed as an executive director of the Company on 6 October 2011.

(vi) Mr. Francis Lee Fook Wah resigned as an executive director and was appointed as a non-executive director of the Company on 28 January 2011. He resigned as a non-executive director of the Company on 1 February 2012.

(vii) Performance related incentive payments are recommended by the Remuneration Committee and is approved by the board of directors, having regard to the Group's operating result, individual performance and comparable market statistics.

Mr. Wong Man Li is also the Chief Executive of the Company and his emoluments disclosed above include those for services rendered by him as the Chief Executive.

Of the five individuals with the highest emoluments in the Group, four (2012: four) were directors of the Company. The remuneration of the remaining one individual for the year ended 31 March 2013 is as follows:

| | **2013**<br>**HK$'000** | 2012<br>HK$'000 |
|---|---|---|
| Salaries and other allowances | **1,680** | 1,728 |

During the year, no emoluments were paid by the Group to any of the directors or the five highest paid individuals (including directors and employees) as an inducement to join or upon joining the Group or as compensation for loss of office (2012: nil). None of the directors waived any emoluments during the year (2012: none).

## 10. EARNINGS PER SHARE

The calculation of the basic and diluted earnings per share for the year is based on the following data:

| | **2013**<br>**HK$'000** | 2012<br>HK$'000 |
|---|---|---|
| **Earnings** | | |
| Profit for the year attributable to owners of the Company for the purposes of basic and diluted earnings per share | **568,401** | 303,345 |

## 10. EARNINGS PER SHARE – Continued

| | 2013 Number of shares '000 | 2012 Number of shares '000 |
|---|---|---|
| **Number of shares** | | |
| Weighted average number of ordinary shares in issue during the year for the purposes of basic earnings per share | **904,433** | 963,792 |
| Effect of dilutive potential ordinary shares | | |
| – Unvested awarded shares | **289** | 344 |
| – Share option | **509** | – |
| Weighted average number of ordinary shares in issue during the year for the purposes of diluted earnings per share | **905,231** | 964,136 |

The weighted average number of shares for the years ended 31 March 2013 and 2012 have been arrived at after eliminating the shares of the Company held under the share award scheme as detailed in note 35.

The computation of diluted earnings per share for the years ended 31 March 2012 does not assume the exercise of the Company's outstanding share options because the exercise price of these options was higher than the average market price of shares for the year.

## 11. DIVIDENDS

During the year, the Company recognised the following dividends as distribution:

| | 2013 HK$'000 | 2012 HK$'000 |
|---|---|---|
| Final dividend for 2012 of HK$0.07 (2012: HK$0.13 for 2011) per share | **63,027** | 126,248 |
| Interim dividend for 2013 of HK$0.1 (2012: HK$0.06 for 2012) per share | **89,104** | 58,268 |
| | **152,131** | 184,516 |

A final dividend of HK18 cents per share in respect of the year ended 31 March 2013, amounting to approximately HK$159,390,000 has been proposed by the Board of Directors and is subject to approval by the shareholders in the forthcoming annual general meeting.

## 12. PROPERTY, PLANT AND EQUIPMENT

| | Leasehold land and buildings in Hong Kong | Buildings in the PRC | Leasehold improvements | Plant and machinery | Furniture, fittings and office equipment | Motor vehicles | Construction in progress | Total |
|---|---|---|---|---|---|---|---|---|
| | HK$'000 | HK$'000 | HK$'000 | HK$'000 | HK$'000 | HK$'000 | HK$'000 | HK$'000 |
| COST | | | | | | | | |
| At 1 April 2011 | – | 366,250 | 102,135 | 195,606 | 64,221 | 24,038 | 271,749 | 1,023,999 |
| Exchange adjustments | – | 14,981 | 5,249 | 5,266 | 2,722 | 684 | 12,084 | 40,986 |
| Additions | 22,260 | 24,059 | 29,172 | 70,717 | 24,888 | 5,955 | 374,724 | 551,775 |
| Transfers | – | 173,040 | 48,466 | 7,964 | 1,873 | – | (231,343) | – |
| Disposals/written off | – | – | (4,531) | (2,013) | (2,527) | (4,768) | – | (13,839) |
| At 31 March 2012 | 22,260 | 578,330 | 180,491 | 277,540 | 91,177 | 25,909 | 427,214 | 1,602,921 |
| Exchange adjustments | – | 6,958 | 2,152 | 2,503 | 1,148 | 243 | 5,499 | 18,503 |
| Additions | – | 1,831 | 21,756 | 75,810 | 62,626 | 9,977 | 101,070 | 273,070 |
| Transfers | – | 469,802 | 9,873 | 9,676 | – | 9,523 | (498,874) | – |
| Disposals/written off | – | – | (18,235) | (2,021) | (2,894) | (6,255) | – | (29,405) |
| At 31 March 2013 | 22,260 | 1,056,921 | 196,037 | 363,508 | 152,057 | 39,397 | 34,909 | 1,865,089 |
| ACCUMULATED DEPRECIATION | | | | | | | | |
| At 1 April 2011 | – | 25,785 | 38,273 | 56,975 | 16,326 | 9,639 | – | 146,998 |
| Exchange adjustments | – | 878 | 1,602 | 939 | 774 | 270 | – | 4,463 |
| Provided for the year | 367 | 12,359 | 36,352 | 18,042 | 15,440 | 5,297 | – | 87,857 |
| Eliminated on disposals/ written off | – | – | (873) | (1,110) | (1,878) | (3,631) | – | (7,492) |
| At 31 March 2012 | 367 | 39,022 | 75,354 | 74,846 | 30,662 | 11,575 | – | 231,826 |
| Exchange adjustments | – | 617 | 1,451 | 734 | 759 | 164 | – | 3,725 |
| Provided for the year | 446 | 17,114 | 46,104 | 32,737 | 21,878 | 5,517 | – | 123,796 |
| Eliminated on disposals/ written off | – | – | (17,862) | (656) | (2,526) | (5,098) | – | (26,142) |
| At 31 March 2013 | 813 | 56,753 | 105,047 | 107,661 | 50,773 | 12,158 | – | 333,205 |
| CARRYING VALUES | | | | | | | | |
| At 31 March 2013 | 21,447 | 1,000,168 | 90,990 | 255,847 | 101,284 | 27,239 | 34,909 | 1,531,884 |
| At 31 March 2012 | 21,893 | 539,308 | 105,137 | 202,694 | 60,515 | 14,334 | 427,214 | 1,371,095 |

## 12. PROPERTY, PLANT AND EQUIPMENT – Continued

The above items of property, plant and equipment are depreciated on a straight-line basis at the following rates per annum:

| | |
|---|---|
| Leasehold land and buildings | 50 years or over the term of the relevant lease for land, whichever is shorter |
| Leasehold improvements | 5 years or over the term of the relevant lease, whichever is shorter |
| Plant and machinery | 10% – 20% |
| Furniture, fittings and office equipment | 20% – 33% |
| Motor vehicles | 20% |

The Group's leasehold land is situated in Hong Kong with medium-term lease.

## 13. INVESTMENT PROPERTIES

| | HK$'000 |
|---|---|
| FAIR VALUE | |
| At 1 April 2011 | 28,547 |
| Exchange adjustments | 520 |
| Fair value gain | 907 |
| At 31 March 2012 | 29,974 |
| Exchange adjustments | 197 |
| Fair value gain | 1,723 |
| At 31 March 2013 | 31,894 |

The investment properties were stated at fair value as at 31 March 2013 and 31 March 2012 based on the professional valuation carried out by Cushman & Wakefield Valuation Advisory Services (HK) Limited, an independent firm of professional valuer. The fair values were determined by adopting the investment method by capitalisation of net rental income of the property derived from the existing tenancy and making reference to market evidence of transaction prices for similar properties in the same locations and conditions, where appropriate.

The carrying value of investment properties shown above comprises:

| | **2013** **HK$'000** | 2012 HK$'000 |
|---|---|---|
| Properties in Hong Kong under medium-term lease | **16,400** | 14,800 |
| Properties in the PRC under medium-term lease | **15,494** | 15,174 |
| | **31,894** | 29,974 |

## 14. LEASE PREMIUM FOR LAND

The Group's leasehold land is held under medium-term lease of 50 years and is situated in the PRC.

| | **2013** **HK$'000** | 2012 HK$'000 |
|---|---|---|
| Analysed for reporting purposes as: | | |
| Current asset | **9,567** | 7,619 |
| Non-current asset | **445,464** | 362,570 |
| | **455,031** | 370,189 |

As at 31 March 2013, the Group had not obtained land use right certificates for leasehold land located in Wujiang, the PRC, with a carrying value of approximately HK$270,723,000 (2012: HK$268,058,000). The directors of the Company expect to obtain the land use right certificates for the leasehold land in 2013.

## 15. INTANGIBLE ASSETS

| | Trademarks HK$'000 |
|---|---|
| COST | |
| At 1 April 2011 | 1,736 |
| Exchange adjustments | 63 |
| At 31 March 2012 | 1,799 |
| Exchange adjustments | 24 |
| At 31 March 2013 | 1,823 |
| AMORTISATION | |
| At 1 April 2011 | 271 |
| Exchange adjustments | 14 |
| Charge for the year | 221 |
| At 31 March 2012 | 506 |
| Exchange adjustments | 10 |
| Charge for the year | 225 |
| At 31 March 2013 | 741 |
| CARRYING VALUE | |
| At 31 March 2013 | 1,082 |
| At 31 March 2012 | 1,293 |

The above intangible assets have finite useful lives and are amortised on a straight-line basis over 8 years.

## 16. INTERESTS IN AN ASSOCIATE/A JOINTLY CONTROLLED ENTITY

### (a) Interest in an associate

| | 2013<br>HK$'000 |
|---|---|
| Costs of unlisted investment in an associate | 5 |
| Share of post-acquisition loss | (1) |
| | 4 |
| Loan to an associate (note) | 19,040 |

Note: The amount was unsecured, interest-free and with no fixed repayment terms. The Group would not demand for repayment in the next twelve months from 31 March 2013 and the amount was therefore shown in the consolidated statement of financial position as a non-current asset at 31 March 2013.

As at 31 March 2013, the Group had interest in the following associate:

| Name of associate | Form of business structure | Place of incorporation | Class of shares held | Effective equity interest and voting power held by the Group<br>2013 | Principal activity |
|---|---|---|---|---|---|
| China Yield Limited<br>溢中有限公司 | Incorporated | Hong Kong | Ordinary shares | 50% | Property investment |

The unaudited financial information in respect of the associate is set out below:

| | 2013<br>HK$'000 |
|---|---|
| Total assets | 38,091 |
| Total liabilities | 38,083 |
| Net assets | 8 |
| Group's share of net assets | 4 |
| Total revenue | – |
| Total loss for the year | (2) |
| Group's share of loss for the year | (1) |

## 16. INTERESTS IN AN ASSOCIATE/A JOINTLY CONTROLLED ENTITY – Continued

### (b) Interest in a jointly controlled entity

| | **2013 HK$'000** | 2012 HK$'000 |
|---|---|---|
| Cost of unlisted investment in a jointly controlled entity | **5** | 5 |
| Share of post-acquisition profit, net of dividend received | **7,716** | 4,842 |
| | **7,721** | 4,847 |

As at 31 March 2013 and 2012, the Group had interest in the following jointly controlled entity:

| **Name of jointly controlled entity** | **Form of business structure** | **Place of incorporation** | **Class of shares held** | **Effective equity interest and voting power held by the Group** | | **Principal activity** |
|---|---|---|---|---|---|---|
| | | | | **2013** | 2012 | |
| Home Expo (Hong Kong) Limited 家居博覽（香港）有限公司 | Incorporated | Hong Kong | Ordinary shares | **50%** | 50% | Sub-leasing of properties |

The unaudited financial information in respect of the Group's jointly controlled entity attributable to the Group's interest therein is set out below:

| | **2013 HK$'000** | 2012 HK$'000 |
|---|---|---|
| Current assets | **11,462** | 8,635 |
| Non-current assets | **113** | 90 |
| Current liabilities | **3,854** | 3,878 |
| Revenue | **22,666** | 17,429 |
| Expenses | **15,292** | 12,777 |

## 17. AVAILABLE-FOR-SALE INVESTMENT/DEPOSIT PAID FOR AN EQUITY INVESTMENT

| | 2013<br>HK$'000 | 2012<br>HK$'000 |
|---|---|---|
| Unlisted investments in equity investment | **3,749** | – |
| Deposit paid for an equity investment | **–** | 3,701 |

The above unlisted equity investments represent investment in unlisted equity securities issued by a private entity incorporated in the PRC. It was recognised as deposit paid as at the year ended 31 March 2012 and transferred to available-for- sale investment during the current year. It is measured at cost less impairment at the end of the reporting period because the range of reasonable fair value estimates is so significant that the directors of the Group are of the opinion that their fair values cannot be measured reliably.

## 18. DEFERRED TAXATION

| | 2013<br>HK$'000 | 2012<br>HK$'000 |
|---|---|---|
| Deferred tax assets | **(2,293)** | (453) |
| Deferred tax liabilities | **5,908** | 4,669 |
| | **3,615** | 4,216 |

The following are the major deferred tax assets and liabilities recognised by the Group and movements thereon during the year:

| | **Withholding tax**<br>HK$'000 | **Accelerated tax depreciation**<br>HK$'000 | **Fair value change in investment properties**<br>HK$'000 | **Inventory provision**<br>HK$'000 | **Total**<br>HK$'000 |
|---|---|---|---|---|---|
| At 1 April 2011 and 31 March 2012 | 2,976 | 876 | 364 | – | 4,216 |
| Exchange adjustments | – | – | 13 | (17) | (4) |
| Charge (credit) to profit or loss | – | 81 | 653 | (1,331) | (597) |
| At 31 March 2013 | 2,976 | 957 | 1,030 | (1,348) | 3,615 |

## 18. DEFERRED TAXATION – Continued

The Group had unused tax losses of HK$166,590,000 (2012: HK$170,738,000) as at 31 March 2013 available for offset against future profits. No deferred tax asset has been recognised due to the unpredictability of future profit stream. Most of the unused tax losses can be carried forward up to five years from the years in which the loss was originated to offset future taxable profits, with expiry dates ranging from 2014 to 2017 (2012: ranging from 2013 to 2016).

Under the EIT Law as described in note 7, withholding tax is imposed on dividends declared in respect of profits earned by the PRC subsidiaries from 1 January 2008 onwards. Except for deferred tax liability of HK$2,976,000 (2012: HK$2,976,000) which has been provided for, deferred taxation has not been provided for in the consolidated financial statements in respect of temporary differences attributable to accumulated profits of the PRC subsidiaries amounting to HK$932,560,000 (2012: HK$749,748,000) as at 31 March 2013 as the Group is able to control the timing of the reversal of the temporary differences and it is probable that the temporary differences will not reverse in the foreseeable future.

## 19. REFUNDABLE EARNEST MONEY PAID FOR LEASE PREMIUM FOR LAND

The balance of RMB3,382,000 (2012: RMB10,738,000), equivalent to HK$4,226,000 (2012: HK$13,247,000), represents the refundable earnest money for acquisition of ownership interest in land located in Tianjin, the PRC.

## 20. INVENTORIES

| | **2013 HK$'000** | 2012 HK$'000 |
|---|---|---|
| Raw materials | **262,109** | 200,590 |
| Work-in-progress | **104,341** | 60,118 |
| Finished goods | **269,218** | 285,194 |
| | **635,668** | 545,902 |

## 21. TRADE AND OTHER RECEIVABLES AND PREPAYMENTS

| | **2013 HK$'000** | 2012 HK$'000 |
|---|---|---|
| **Trade receivables** | | |
| Trade and bills receivables | **369,119** | 390,714 |
| **Other receivables and prepayments** | | |
| Valued added taxes recoverable | **96,197** | 65,751 |
| Deposits | **32,652** | 27,359 |
| Sundry receivables | **28,325** | 46,143 |
| Prepayments | **40,466** | 67,693 |
| | **197,640** | 206,946 |

## 21. TRADE AND OTHER RECEIVABLES AND PREPAYMENTS – Continued

Other than cash and credit card sales for retail transactions, the Group generally allows a credit period of 30 to 90 days for export customers and 180 days for high speed train manufacturers which are state-owned enterprises. The aged analysis of the Group's trade and bills receivables (net of allowance for doubtful debts) presented based on the invoice date at the end of the reporting period is as follows:

| | 2013<br>HK$'000 | 2012<br>HK$'000 |
|---|---|---|
| 0 – 30 days | **243,706** | 247,670 |
| 31 – 60 days | **82,114** | 100,832 |
| 61 – 90 days | **33,575** | 9,364 |
| Over 90 days | **9,724** | 32,848 |
| | **369,119** | 390,714 |

Before accepting any new customer, the Group assesses the potential customer's credit quality and defines its credit limits based on results from investigation of historical credit records of these customers.

Included in the Group's trade and bills receivable balance are receivables with aggregate carrying amount of approximately HK$39,842,000 (2012: HK$34,037,000) which are past due at the end of the reporting period for which the Group has not recognised impairment loss. There has not been a significant change in credit quality and the amounts are still considered to be recoverable. The Group does not hold any collateral over these balances.

The remaining trade and bills receivable balances of HK$329,277,000 (2012: HK$356,677,000) are neither past due nor impaired at the end of the reporting period for which the Group has not recognised an impairment loss since they are mainly the customers with good credit quality based on their repayment history.

### Aging of trade and bills receivables which are past due but not impaired

| | 2013<br>HK$'000 | 2012<br>HK$'000 |
|---|---|---|
| Within 30 days | **7,257** | – |
| 31 – 60 days | **9,608** | 10,890 |
| 61 – 90 days | **17,603** | 4,676 |
| Over 90 days | **5,374** | 18,471 |
| | **39,842** | 34,037 |

## 21. TRADE AND OTHER RECEIVABLES AND PREPAYMENTS – Continued

The Group has provided fully for all receivables over 365 days because historical experience is such that receivables that are past due beyond 365 days are generally not recoverable.

The Group's trade and other receivables that are not denominated in the functional currencies of the respective entities are as follows:

| | 2013<br>HK$'000 | 2012<br>HK$'000 |
|---|---|---|
| **Trade receivables** | | |
| HKD | **3,493** | 2,750 |
| **Other receivables** | | |
| HKD | **20,725** | 16,301 |

## 22. DERIVATIVE FINANCIAL INSTRUMENTS

| | 2013<br>Assets<br>HK$'000 | <br>Liabilities<br>HK$'000 |
|---|---|---|
| Derivatives not under hedge accounting: | | |
| **Non-current** | | |
| Fair value of foreign currency forward contracts | **558** | **249** |
| **Current** | | |
| Fair value of foreign currency forward contracts | **24,586** | **–** |
| | **25,144** | **249** |

At the end of the reporting period, the fair values of the Group's outstanding foreign currency forward contracts, all net settlement, are measured using prevailing forward exchange rates matching the remaining maturities of the contracts.

## 22. DERIVATIVE FINANCIAL INSTRUMENTS – Continued

Major terms of foreign currency forward contracts outstanding at 31 March 2013 are as follows:

| Notional amount | Maturity | Exchange rates |
|---|---|---|
| Buy RMB in total of USD475,000,000 | Ranging from 26 April 2013 to 15 October 2014 | RMB/USD ranging from 6.3046 to 6.3685 |
| Buy RMB in total of USD60,000,000 | Ranging from 30 June 2014 to 30 July 2014 | RMB/USD ranging from 6.3430 to 6.3495 |

Increase in the fair values of foreign currency forward contacts amounting to HK$26,056,000 (2012: decrease by HK$17,000) have been recognised in profit or loss.

## 23. RESTRICTED BANK BALANCES/BANK BALANCES

Bank balances carry interest at prevailing deposit rates ranging from 0.001% to 2.85% (2012: 0.05% to 2.85%) per annum.

The restricted bank balances represent deposits to banks for use of bank facilities and carry interest at prevailing deposit rate from 0.35% to 3.25% per annum.

The Group's cash and bank balances that are not denominated in the functional currencies of the respective entities are as follows:

| | **2013 HK$'000** | 2012 HK$'000 |
|---|---:|---:|
| USD | **9,707** | 229,324 |
| HKD | **4,640** | 31,201 |

## 24. TRADE AND OTHER PAYABLES AND ACCRUALS

| | **2013 HK$'000** | 2012 HK$'000 |
|---|---:|---:|
| Trade and bills payables | **259,135** | 294,759 |
| Trade deposits received from customers | **91,684** | 72,756 |
| Accruals | **174,612** | 109,037 |
| Payables for acquisition of property, plant and equipment | **33,551** | 25,750 |
| Others | **11,946** | 17,653 |
| | **311,793** | 225,196 |

The credit period on purchases of goods generally ranges from 30 to 60 days.

## 24. TRADE AND OTHER PAYABLES AND ACCRUALS – Continued

The aged analysis of the Group's trade and bills payables presented based on the invoice date at the end of the reporting period is as follows:

| | 2013<br>HK$'000 | 2012<br>HK$'000 |
|---|---|---|
| 0 – 30 days | 205,318 | 259,362 |
| 31 – 60 days | 35,537 | 27,461 |
| 61 – 90 days | 17,321 | 358 |
| Over 90 days | 959 | 7,578 |
| | 259,135 | 294,759 |

The Group's trade and other payables that are not dominated in the functional currencies of the respective entities are as follows:

| | 2013<br>HK$'000 | 2012<br>HK$'000 |
|---|---|---|
| HKD | 2,378 | – |

## 25. BANK BORROWINGS

| | 2013<br>HK$'000 | 2012<br>HK$'000 |
|---|---|---|
| Bank loans analysed as: | | |
| Secured | – | 305,300 |
| Unsecured (note) | 745,660 | 277,500 |
| | 745,660 | 582,800 |

The scheduled principal repayment dates of the Company with reference to the bank loan agreements are as follows:

| | 2013<br>HK$'000 | 2012<br>HK$'000 |
|---|---|---|
| Carrying amount repayable within one year shown under current liabilities* | 655,660 | 462,800 |
| Carrying amount of bank loans that are not repayable within one year from the end of the reporting period but contain a repayment on demand clause (shown under current liabilities) | 90,000 | 120,000 |
| | 745,660 | 582,800 |

* These bank loans also contain a repayment on demand clause.

note: An amount of approximately HK$12,495,000 included in the Group's bank borrowing as at 31 March 2013, represents an entrusted loan through a bank, according to the arrangement made by a non-controlling interest. The loan carries interest at 4.56% per annum and are repayable within one year.

The Group's bank borrowings carry interest at variable rates which are mainly subject to interest at Hong Kong Interbank Offered Rate plus a spread, ranging from 1.65% to 3.29% or best lending rate quoted by the Hongkong and Shanghai Banking Corporation Limited plus 1% ("Best Lending Rate") for the year. The weighted average effective interest rate of the above variable-rate bank borrowings was 2.8% (2012: 3.1%) per annum.

## 25. BANK BORROWINGS – Continued

The Group's bank borrowings that are not denominated in the functional currencies of the respective entities are as follows:

| | **2013 HK$'000** | 2012 HK$'000 |
|---|---|---|
| HKD | **345,000** | 427,500 |

## 26. GOVERNMENT GRANT RECEIPT IN ADVANCE

During the year ended 31 March 2012, the Mainland China government granted a subsidy of RMB146,629,000 (approximately HK$180,890,000) in respect of the Group's development of manufacturing plant in Wujiang City, the PRC. Such amount was fully paid to the Group prior to the development of the plant. The amount (net of tax) will be set off against the construction costs of the assets in the coming years.

During the current year, the PRC government granted a subsidy of RMB56,344,000 (approximately HK$70,404,000) in respect of the Group's development of manufacturing plant in Tianjin City, the PRC. Such amount was fully paid to the Group prior to the development of the plant. The amount (net of tax) will be set off against the construction costs of the assets. During the year, an amount of HK$10,784,000 had set off against the construction costs of the assets.

## 27. SHARE CAPITAL

| | **Number of shares** '000 | **Amounts** HK$'000 |
|---|---|---|
| **Authorised:** | | |
| Ordinary shares at 1 April 2011, 31 March 2012 and 31 March 2013 – HK$0.40 each | 1,250,000 | 500,000 |
| **Issued and fully paid:** | | |
| At 1 April 2011 | 971,136 | 388,454 |
| Repurchase of shares (note a) | (23,394) | (9,357) |
| At 31 March 2012 | 947,742 | 379,097 |
| Repurchase of shares (note a) | (52,117) | (20,847) |
| Cancellation of shares (note b) | (4,595) | (1,838) |
| At 31 March 2013 | 891,030 | 356,412 |

Notes:

(a) During the year ended 31 March 2012, 27,988,400 ordinary shares at HK$0.40 each of the Company were repurchased at a price ranging from HK$4.27 to HK$5.71 per share. On 9 February 2012, 23,394,000 shares were cancelled. The remaining 4,594,400 shares were recognised as treasury shares at 31 March 2012.

During the current year, 52,117,200 ordinary shares of the Company at HK$0.4 each were repurchased at a price ranging from HK$2.78 to HK$3.87 per share.

(b) 4,594,400 ordinary shares of the Company at HK$0.4 each, recognised as treasury shares at 31 March 2012, were cancelled on 20 April 2012.

## 28. RETIREMENT BENEFIT PLANS

The Group operates a Mandatory Provident Fund Scheme for all qualifying employees in Hong Kong. The assets of the scheme are held separately from those of the Group, in funds under the control of trustees. The Group contributes 5% of relevant payroll costs to the scheme capped at a maximum of HK$1,250 per month, starting in June 2012. This contribution is matched by the employee.

The employees of the Group in the PRC are members of government-managed retirement benefit schemes operated by the respective local government in the PRC. The Group is required to contribute a specified percentage of payroll cost to the retirement benefit scheme to fund the benefits. The only obligation of the Group with respect to these schemes is to make the specified contributions.

## 29. RELATED PARTY DISCLOSURES

### (I) Related party transactions

During the year, the Group entered into the following transactions with related parties:

| | **2013**<br>**HK$'000** | 2012<br>HK$'000 |
|---|---|---|
| Rental expense paid to related parties (note) | **1,591** | 1,523 |
| Rental expense paid to a jointly controlled entity | **2,184** | 2,215 |

Note: Mr. Wong Man Li and Ms. Hui Wai Hing, who are directors of the Company, are also directors and shareholders of these related companies.

### (II) Related party balances

Details of outstanding balances with related parties of the Group are set out in note 16.

### (III) Compensation of key management personnel

The emoluments of directors who are also identified as members of key management of the Group during the year are set out in note 9.

## 30. PLEDGED BANK DEPOSITS

At 31 March 2012, bank deposits with balance of HK$310,881,000 were pledged to banks for banking facilities granted to the Group.

Pledged bank deposits carried interest at prevailing deposit rates ranging from 0.05% to 2.85% per annum.

# 31. OPERATING LEASES

## The Group as lessee

| | 2013<br>HK$'000 | 2012<br>HK$'000 |
|---|---|---|
| Minimum lease payments paid under operating leases recognised as an expense | **128,219** | 129,647 |

At the end of the reporting period, the Group had commitments for future minimum lease payments under non-cancellable operating leases which fall due as follows:

| | 2013<br>HK$'000 | 2012<br>HK$'000 |
|---|---|---|
| Within one year | **61,527** | 86,339 |
| In the second to fifth year inclusive | **26,585** | 26,721 |
| | **88,112** | 113,060 |

Operating lease payments represent rentals payable by the Group for certain of its office premises and retail shops. Leases are negotiated and rentals are fixed for a period of one to three years.

## The Group as lessor

Property rental income earned during the year was as follows:

| | 2013<br>HK$'000 | 2012<br>HK$'000 |
|---|---|---|
| Rental income | **3,002** | 2,892 |
| Less: outgoings | **(22)** | (2) |
| | **2,980** | 2,890 |

The properties have committed tenants at the end of the reporting period as follows:

| | 2013<br>HK$'000 | 2012<br>HK$'000 |
|---|---|---|
| Within one year | **613** | 2,410 |
| In the second to fifth year inclusive | **–** | 522 |
| | **613** | 2,932 |

The properties generate rental yield of 9% (2012: 10%) on an ongoing basis. All of the properties held have committed tenants for the contract terms of two years.

## 32. CAPITAL COMMITMENTS

| | 2013 HK$'000 | 2012 HK$'000 |
|---|---|---|
| Capital expenditure contracted for but not provided for in the consolidated financial statements in respect of | | |
| – acquisition of property, plant and equipment | **60,630** | 45,079 |
| – construction of production plant | **3,359** | 56,209 |
| – lease premium for land | **43,381** | 69,400 |
| | **107,370** | 170,688 |
| Capital expenditure authorised for but not contracted for in the consolidated financial statements in respect of | | |
| – lease premium for land | **–** | 81,452 |

## 33. CAPITAL RISK MANAGEMENT

The Group manages its capital to ensure that the entities in the Group will be able to continue as a going concern while maximising the return to stakeholders through the optimisation of the debt and equity balance. The overall strategy remains unchanged from prior year.

The capital structure of the Group consists of net debt, which includes bank borrowings disclosed in note 25 cash and cash equivalents disclosed in note 23 and equity attributable to owners of the Company, comprising issued share capital as disclosed in note 27 and reserves.

The directors of the Company review the capital structure regularly. As part of this review, the directors consider the cost of capital and the risks associates with each class of the capital. Based on the recommendations of the directors, the Group will balance its overall capital structure through the payment of dividends and new share issues as well as the issue of new debt or the redemption of existing debt.

## 34. FINANCIAL INSTRUMENTS

### Categories of financial instruments

| | 2013 HK$'000 | 2012 HK$'000 |
|---|---|---|
| **Financial assets** | | |
| Loans and receivables (including cash and cash equivalents) | **2,077,890** | 1,937,810 |
| Available-for-sale investment | **3,749** | – |
| Derivative financial instruments | **25,144** | – |
| **Financial liabilities** | | |
| Amortised cost | **1,050,292** | 885,828 |
| Derivative financial instruments | **249** | – |

# 34. FINANCIAL INSTRUMENTS – Continued

## Financial risk management objectives and policies

The Group's major financial instruments include available-for-sale investment, a loan to a jointly controlled entity, trade and other receivables, trade and other payables, derivative financial instruments, bank balances and cash, restricted bank balances and bank borrowings. Details of these financial instruments are disclosed in the respective notes. The risks associated with these financial instruments and the policies on how to mitigate these risks are set out below. Management manages and monitors these exposures to ensure appropriate measures are implemented on a timely and effective manner. There has been no change to the Group's exposure to financial risks or the manner in which it manages and measures the risk.

### *Currency risk*

The Group's exposure to currency risk attributable to monetary assets and liabilities (the trade and other receivables, bank balances and cash, trade and other payables and bank borrowings), which are denominated in currencies other than the functional currency of the entity to which they related (including those between HKD against USD as disclosed in respective notes). As HKD are pegged to USD, the Group does not have material risk on such currency. The Group currently does not have a foreign currency hedging policy. However, management monitors foreign exchange exposure and will consider hedging significant foreign currency exposure should the need arise. Details of foreign currency forward contracts entered into by the Group as at the end of reporting period are set out in note 22.

At the end of the reporting period, the carrying amount of the Group's monetary assets, monetary liabilities and inter-group advance denominated in currencies other than the respective functional currencies of the relevant group entities are as follows:

*Assets*

| | **2013**<br>**HK$'000** | 2012<br>HK$'000 |
|---|---|---|
| USD | **9,707** | 229,324 |
| HKD | **47,898** | 50,252 |

*Liabilities*

| | **2013**<br>**HK$'000** | 2012<br>HK$'000 |
|---|---|---|
| HKD | **347,378** | 427,500 |

In addition, the Group is exposed to foreign currency risk as a result of inter-group advance denominated in currencies other than the respective functional currencies of the relevant group entities, as follows:

| | **2013**<br>**HK$'000** | 2012<br>HK$'000 |
|---|---|---|
| HKD | **665,305** | 756,839 |

# 34. FINANCIAL INSTRUMENTS – Continued

## Financial risk management objectives and policies – Continued

### *Currency risk – Continued*

The following table details the Group's sensitivity to a 5% appreciation and depreciation in the functional currencies of the relevant group entities against the above foreign currencies. 5% is the sensitivity rate used when reporting foreign currency risk internally to key management personnel and represents management's assessment of the reasonably possible change in foreign exchange rates. The sensitivity analysis includes only outstanding foreign currency denominated monetary items. The sensitivity analysis adjusts their translation at the year end for a 5% change in foreign currency rates. The sensitivity analysis includes external loans as well as advance to foreign operations within the Group where the denomination of the loan is in a currency other than the functional currency of the lender or the borrower. A positive number below indicates an increase in post-tax profit where the functional currency of the group entity strengthens 5% against the above foreign currencies. For a 5% weakening of functional currency of the group entity against the above foreign currencies, there would be an equal and opposite impact on the profit for the year.

| | **2013**<br>**HK$'000** | 2012<br>HK$'000 |
|---|---|---|
| Increase (decrease) in profit for the year | | |
| – HKD | **37,452** | 37,499 |
| – USD | **(405)** | (9,574) |

For the outstanding forward contracts, if the market forward exchange rate of RMB against USD had been 100 basis points higher/lower, profit before taxation for the year ended 31 March 2013 would increase/decrease by HK$6,635,000 (2012: Nil) as a result of the changes in the market foreign currency forward exchange rate of RMB against USD.

### *Interest rate risk*

Interest rate risk arises from the potential changes in interest rates that may have an adverse effect on the Group's results for the current reporting period and in future years. The Group is exposed to cash flow interest rate risk arising from the volatility of Hong Kong Interbank Offered Rate or Best Lending Rate as all bank loans, cash and cash equivalents are at floating rates or at prevailing deposit rates. The Group generally does not take a speculative view on the movement in interest rates and, therefore, does not use interest rate derivative instruments to hedge exposed risks.

The sensitivity analysis below has been determined based on the exposure to interest rates on the Group's variable rate borrowings, restricted bank balances and bank balances at the end of the reporting period and prepared assuming the financial instruments outstanding at the end of the reporting period were outstanding for the whole year. A 50 basis point increase or decrease is used by management for the assessment of the reasonably possible change in interest rates.

# 34. FINANCIAL INSTRUMENTS – Continued

## Financial risk management objectives and policies – Continued

### *Interest rate risk – Continued*

If interest rates on restricted bank balances and bank balances had been 50 basis points higher/lower and all other variables were held constant, the Group's post-tax profit for the year ended 31 March 2013 would increase/decrease by HK$6,861,000 (2012: HK$6,155,000). This is mainly attributable to the Group's exposure to interest rates on its variable-rate bank deposits.

If interest rates on bank loans had been 50 basis points higher/lower and all other variables were held constant, the Group's post-tax profit for the year ended 31 March 2013 would decrease/increase by HK$3,061,000 (2012: HK$2,433,000). This is mainly attributable to the Group's exposure to interest rates on its variable-rate bank loans.

### *Credit risk*

Credit risk refers to the risk that debtors will default on their obligations to repay the amounts owing to the Group, resulting in a loss to the Group. The Group has adopted procedures in extending credit terms to customers and in monitoring its credit risk.

The Group's current credit practices include assessing the customers' credit reliability and periodic review of their financial status to determine credit limits to be granted. In addition, most of the Group's exposure on trade receivables was covered by insurance. The Group has purchased a credit insurance from certain insurance corporations on most of overseas sales to compensate for losses from debts that are not collectible.

The credit risk on liquid funds is limited because the counterparties are banks which are reputable in the opinion of management.

The maximum exposure to credit risk in the event that the counterparties fail to perform their obligations as at end of the financial year in relation to each class of recognised financial assets is the carrying amount of those assets as stated in the consolidated statement of financial position of the Group.

#### *Significant concentrations of credit risk*

Concentrations of credit risk exist when changes in economic, industry or geographical factors similarly affect the Group's counterparties whose aggregate credit exposure is significant in relation to the Group's total credit exposure.

The Group has concentration of credit risk as follows: 3% (2012: 12%) and 36% (2012: 49%) of the total trade receivables was due from the Group's largest customer and the five largest customers respectively, which are engaged in trading of sofa segment. Apart from delegating a team for determining the credit limits, credit approval and other monitoring procedures on customers, the Group also explores new markets and new customers in order to minimise the concentration of credit risk. Other than the above, no other concentration of credit risk exists on Group's trade receivables.

# 34. FINANCIAL INSTRUMENTS – Continued

## Financial risk management objectives and policies – Continued

### *Liquidity risk management*

In the management of the liquidity risk, the Group monitors and maintains a level of cash and cash equivalents deemed adequate by management to finance the Group's operations and mitigate the effects of fluctuations in cash flows. Management monitors the utilisation of borrowings on a regular basis.

The following tables detail the Group's remaining contractual maturity for its non-derivative financial liabilities. The tables have been drawn up based on the undiscounted cash flows of financial liabilities based on the earliest dates on which the Group can be required to pay. Specifically, bank borrowings with a repayment on demand clause are included in the earliest time band regardless of the probability of the banks choosing to exercise their rights. The tables include both interest and principal cash flows. To the extent that interest flows are floating rate, the undiscounted amount is derived from the interest rate at the end of the reporting period.

In addition, the following table details the Group's liquidity analysis for its derivative financial instruments. The tables have been drawn up based on the undiscounted contractual net cash (inflows) and outflows on derivative instruments that settle on a net basis. The derivative financial instruments were denominated in USD. The amount is retranslated to HKD for the presentation in the liquidity tables. The liquidity analysis for the Group's derivative financial instruments are prepared based on the contractual maturities as the management consider that the contractual maturities are essential for an understanding of the timing of the cash flows of derivatives.

*Liquidity tables*

| | Weighted average effective interest rate % | On demand or less than 1 year HK$'000 | 1 to 5 years HK$'000 | Total undiscounted cash flows HK$'000 | Carrying amount HK$'000 |
|---|---|---|---|---|---|
| **As at 31 March 2013** | | | | | |
| **Non-derivative financial liabilities** | | | | | |
| Trade and other payables | **–** | **304,632** | **–** | **304,632** | **304,632** |
| Bank borrowings – variable rate | **2.8** | **745,999** | **–** | **745,999** | **745,660** |
| | | **1,050,631** | **–** | **1,050,631** | **1,050,292** |
| **Derivatives – net settlement** | | | | | |
| Foreign currency forward contracts (liabilities) | | **–** | **249** | **249** | **249** |

| | Weighted average effective interest rate % | On demand or less than 1 month HK$'000 | Total undiscounted cash flows HK$'000 | Carrying amount HK$'000 |
|---|---|---|---|---|
| **As at 31 March 2012** | | | | |
| **Non-derivative financial liabilities** | | | | |
| Trade and other payables | – | 303,028 | 303,028 | 303,028 |
| Bank borrowings – variable rate | 3.1 | 582,800 | 582,800 | 582,800 |
| | | 885,828 | 885,828 | 885,828 |

# 34. FINANCIAL INSTRUMENTS – Continued

## Financial risk management objectives and policies – Continued

### *Liquidity risk management – Continued*

Bank loans with a repayment on demand clause are included in the "on demand or less than 1 year" time band in the above maturity analysis. As at 31 March 2013, the aggregate undiscounted principal amounts of these bank loans amounted to HK$90,000,000 (2012: HK$120,000,000). Taking into account the Group's financial position, the directors do not believe that it is probable that the banks will exercise their discretionary rights to demand immediate repayment. The directors believe that such bank loans will be repaid in 2013 to 2017 in accordance with the scheduled repayment dates set out in the loan agreements. At that time, the aggregate principal and interest cash outflows will amount to HK$100,004,000 (2012: HK$141,082,000).

## Fair value measurement of financial assets and financial liabilities

An analysis of financial instruments that are measured subsequent to initial recognition at fair value is set out below, grouped into Level 2 based on the degree to which the fair value is observable.

Level 2 fair value measurements are those derived from inputs other than quoted prices included within Level 1 that are observable for the asset or liability, either directly (i.e. as prices) or indirectly (i.e. derived from prices).

| | **2013**<br>**HK$'000** | 2012<br>HK$'000 |
|---|---|---|
| Level 2 | | |
| Derivative financial assets | **25,144** | – |
| Derivative financial liabilities | **249** | – |

There were no transfer between Level 1 and 2 in the current and prior years.

The fair values of financial assets and financial liabilities are determined as follows:

- foreign currency forward contracts are measured using quoted forward exchange rates matching the remaining maturities of the contracts; and
- the fair value of other financial assets and financial liabilities (excluding derivative instruments) is determined in accordance with generally accepted pricing models based on discounted cash flow analysis.

The fair values of financial assets and financial liabilities carried at amortised cost in the consolidated financial statements approximate their carrying amounts.

# 35. SHARE OPTION SCHEMES AND SHARE AWARD SCHEME

## Share option schemes

On 5 March 2010, a share option scheme was adopted by the shareholders of the Company (the "Share Option Scheme"). The purpose of the Share Option Scheme is to enable the Company to grant share options to selected participants as incentives or rewards for their contributions to the Company and/or its subsidiaries and/or its associated companies. The Share Option Scheme will remain in force for a period of 10 years commencing on 5 March 2010, being the date of adoption of the Share Option Scheme, to 4 March 2020.

Under the Share Option Scheme, the directors may, at their discretion, offer directors (including executive and non-executive directors), executives, officers, employees or shareholders of the Company or any of its subsidiaries, and any suppliers, customers, consultants, advisers, agents, partners or business associates who, in the sole discretion of the directors, will contribute or have contributed to the Company or any of its subsidiaries or any of its associated companies, share options to subscribe for shares of the Company. The maximum number of shares of the Company available for issue upon exercise of all share options which may be granted under the Scheme is 96,508,800. The total number of shares of the Company issued and to be issued upon the exercise of share options granted under the Share Option Scheme (including exercised, cancelled and outstanding share options) to each grantee in any 12-month period up to the date of grant shall not exceed 1% of the issued share capital of the Company as at the date of grant. Any further grant of share options in excess of this limit is subject to shareholders' approval in a general meeting. In addition, any share options granted to a substantial shareholder or an independent non-executive director of the Company, or to any of their associates, in excess of in aggregate 0.1% of the shares of the Company in issue (based on the date of offer) and an aggregate value of HK$5,000,000 (based on the closing price of the Company's shares at the date of each offer), within any 12-month period, are subject to shareholders' approval in advance in a general meeting. Share options granted to a director, chief executive or substantial shareholder of the Company, or to any of their associates, are subject to approval in advance by the independent non-executive directors.

The period during which a share option may be exercised will be determined by the directors at their absolute discretion, save that no share option may be exercised more than 10 years after it has been granted under the Share Option Scheme. There is no requirement that a share option must be held for any minimum period before it can be exercised but the directors are empowered to impose at their discretion any such minimum period at the time of grant of any share options.

The exercise price in relation to each share option will be determined by the directors at their absolute discretion and shall not be less than the highest of (i) the official closing price of the shares of the Company as stated in the daily quotation sheet of Hong Kong Stock Exchange on the date of offer of share options; (ii) the average of the official closing prices of the shares of the Company as stated in the daily quotation sheets of the Hong Kong Stock Exchange for the five business days immediately preceding the date of offer of share options; and (iii) the nominal value of the share of the Company on the date of offer of share options. Each of the grantees is required to pay HK$1 as consideration for the grant of share options in accordance with the Share Option Scheme. The offer of share options must be accepted within 28 days from the date of the offer.

## 35. SHARE OPTION SCHEMES AND SHARE AWARD SCHEME – Continued

### Share option schemes – Continued

Share options do not confer rights on the holders to dividends or to vote at general meetings.

Details of the share options granted by the Company are as follows:

| | Date of grant | Number of share options granted | Exercise period | Exercise price | Fair value |
|---|---|---|---|---|---|
| | | | | HK$ | HK$'000 |
| Tranche 1 | 18.10.2010 | 2,100,000 | 18.4.2012 – 17.10.2020 | 10.18 | 9,629 |
| | | 2,000,000 | 18.10.2015 – 17.10.2020 | 10.18 | 9,579 |
| Tranche 2 | 30.6.2011 | 240,000 | 30.6.2013 – 29.6.2015 | 8.11 | 770 |
| Tranche 3 | 6.7.2011 | 4,500,000 | 6.7.2014 – 5.7.2016 | 8.55 | 5,292 |
| Tranche 4 | 8.2.2012 | 1,903,200 | 8.2.2014 – 7.2.2016 | 4.72 | 1,295 |
| | | 1,903,200 | 8.2.2015 – 7.2.2017 | 4.72 | 872 |
| | | 1,903,200 | 8.2.2016 – 7.2.2018 | 4.72 | 569 |
| | | 1,840,000 | 8.2.2017 – 7.2.2019 | 4.72 | 360 |
| Tranche 5 | 1.6.2012 | 611,600 | 1.6.2013 – 3.3.2020 | 3.50 | 454 |
| Tranche 6 | 1.2.2013 | 5,381,600 | 1.2.2015 – 31.1.2017 | 7.17 | 5,493 |
| | | 5,266,400 | 1.2.2016 – 31.1.2018 | 7.17 | 3,986 |
| | | 5,266,000 | 1.2.2017 – 31.1.2019 | 7.17 | 2,713 |

# 35. SHARE OPTION SCHEMES AND SHARE AWARD SCHEME – Continued

## Share option schemes – Continued

The following tables disclose details of movements of the Company's share options held by directors and employees during the current and prior years:

| | | Number of share options | | | | | | | |
|---|---|---|---|---|---|---|---|---|---|
| Options | Vesting period | Outstanding at 1.4.2011 | Granted during the year | Lapsed during the year | Outstanding at 31.3.2012 | Granted during the year | Transferred during the year Note | Lapsed during the year | Outstanding at 31.3.2013 |
| Directors | | | | | | | | | |
| Tranche 1 | 18.10.2010 – 17.4.2012 | 2,100,000 | – | – | 2,100,000 | – | – | – | 2,100,000 |
| | 18.10.2010 – 17.10.2015 | 2,000,000 | – | – | 2,000,000 | – | – | – | 2,000,000 |
| Tranche 2 | 30.6.2011 – 29.6.2013 | – | 240,000 | – | 240,000 | – | – | – | 240,000 |
| Tranche 3 | 6.7.2011 – 5.7.2014 | – | 800,000 | – | 800,000 | – | 120,000 | – | 920,000 |
| Tranche 4 | 8.2.2012 – 7.2.2014 | – | 54,000 | – | 54,000 | – | 26,400 | – | 80,400 |
| | 8.2.2012 – 7.2.2015 | – | 54,000 | – | 54,000 | – | 26,400 | – | 80,400 |
| | 8.2.2012 – 7.2.2016 | – | 54,000 | – | 54,000 | – | 26,400 | – | 80,400 |
| | 8.2.2012 – 7.2.2017 | – | 54,000 | – | 54,000 | – | 26,000 | – | 80,000 |
| Tranche 5 | 1.6.2012 – 31.5.2013 | – | – | – | – | 611,600 | – | – | 611,600 |
| Tranche 6 | 1.2.2013 – 31.1.2015 | – | – | – | – | 615,600 | – | – | 615,600 |
| | 1.2.2013 – 31.1.2016 | – | – | – | – | 614,400 | – | – | 614,400 |
| | 1.2.2013 – 31.1.2017 | – | – | – | – | 614,400 | – | – | 614,400 |
| | | 4,100,000 | 1,256,000 | – | 5,356,000 | 2,456,000 | 225,200 | – | 8,037,200 |
| Employees | | | | | | | | | |
| Tranche 3 | 6.7.2011 – 5.7.2014 | – | 3,700,000 | (490,000) | 3,210,000 | – | (120,000) | (340,000) | 2,750,000 |
| Tranche 4 | 8.2.2012 – 7.2.2014 | – | 1,849,200 | (44,800) | 1,804,400 | – | (26,400) | (320,000) | 1,458,000 |
| | 8.2.2012 – 7.2.2015 | – | 1,849,200 | (44,800) | 1,804,400 | – | (26,400) | (320,000) | 1,458,000 |
| | 8.2.2012 – 7.2.2016 | – | 1,849,200 | (44,800) | 1,804,400 | – | (26,400) | (320,000) | 1,458,000 |
| | 8.2.2012 – 7.2.2017 | – | 1,786,000 | (42,800) | 1,743,200 | – | (26,000) | (308,000) | 1,409,200 |
| Tranche 6 | 1.2.2013 – 31.1.2015 | – | – | – | – | 4,766,000 | – | (28,400) | 4,737,600 |
| | 1.2.2013 – 31.1.2016 | – | – | – | – | 4,652,000 | – | (27,200) | 4,624,800 |
| | 1.2.2013 – 31.1.2017 | – | – | – | – | 4,651,600 | – | (27,200) | 4,624,400 |
| | | – | 11,033,600 | (667,200) | 10,366,400 | 14,069,600 | (225,200) | (1,690,800) | 22,520,000 |
| Exercisable at the end of the reporting period | | | | | – | | | | 2,100,000 |

Note: Mr. Dai Quanfa was originally an employee of the Group and appointed as a director with effect from 19 July 2012. The share options granted to him was disclosed under the category of directors accordingly.

# 35. SHARE OPTION SCHEMES AND SHARE AWARD SCHEME – Continued

## Share option schemes – Continued

The fair values of the share options at the dates of grant were calculated using the Binomial Option Pricing model after taking into account the different vesting periods. The assumptions used for the calculation are as follows:

| | Tranche 1 | Tranche 2 | Tranche 3 | Tranche 4 | Tranche 5 | Tranche 6 |
|---|---|---|---|---|---|---|
| Closing share price at date of grant | HK$10.18 | HK$8.11 | HK$8.55 | HK$4.72 | HK$3.50 | HK$7.17 |
| Exercise price | HK$10.18 | HK$8.11 | HK$8.55 | HK$4.72 | HK$3.50 | HK$7.17 |
| Suboptimal exercise factor | 2.2 | 2.8 | 2.2 to 2.8 | 2.2 to 2.8 | 2.8 | 2.2 to 2.8 |
| Expected volatility | 52.468% | 60.94% | 56.78% | 51.59% to 58.68% | 50.33% | 53.03% to 55.59% |
| Expected dividend yield | 2.89% | 3.26% | 3.09% | 4.03% | 3.71% | 2.41% |
| Risk free rate | 2.54% | 1.003% | 1.42% | 0.466% to 0.999% | 0.72% | 0.436% to 0.737% |
| Fair value | HK$4.58 to HK$4.79 | HK$3.21 | HK$0.89 to HK$3.46 | HK$0.19 to HK$0.86 | HK$0.74 | HK$0.43 to HK$1.57 |

The variables and assumptions used above are based on the directors' best estimate. The value of an option varies with different variables of certain subjective assumptions.

The Group recognised an expense of HK$6,096,000 for the year ended 31 March 2013 (2012: HK$10,104,000) in relation to the share options granted by the Company.

## Share Award Scheme

The Company adopted a share award scheme (the "Share Award Scheme") on 27 January 2011 (the "Adoption Date") with a duration of 10 years commencing from the Adoption Date. The objective of the Share Award Scheme is to recognise the contributions by certain directors, employees of the Group (the "Selected Participants") and to give incentive to them in order to retain them for the continual operation and development of the Group, and to attract suitable personnel for further development of the Group. The Company has set up the Employees' Share Award Scheme Trust (the "Trust") to administer and hold the Company's shares before they are vested and transferred to the Selected Participants. The Trust purchases the Company's shares being awarded from the open market with funds provided by the Company by way of contributions. 100% of awarded shares of the Company and the related income derived therefore are vested on the third anniversary date of the grant date. Vesting of the awarded shares of the Company and related income will be conditional on the Selected Participants remaining an employee of the Group until and on each of the relevant vesting dates and his/her execution of the relevant documents to effect the transfer from the Trustee within the period stipulated. An award shall automatically lapse forthwith when a Selected Participant ceases to be an employee of the Group, or the subsidiary employing the Selected Participant ceases to be a subsidiary, or an order for the winding-up of the Company is made or a resolution is passed for the voluntary winding-up of the Company.

# 35. SHARE OPTION SCHEMES AND SHARE AWARD SCHEME – Continued

## Share Award Scheme – Continued

Where the awarded shares of the Company do not vest in accordance with the Share Award Scheme, the Trust shall hold such shares of the Company and the related income for the benefit of one or more employees of the Group as it determines in its discretion, after having taken into account the recommendations of the board of directors of the Company. Details of the movements in the number of shares granted by the Company during the year are as follows:

| Category | Date of grant | Vesting period | Fair value per share (Note 1) HK$ | As at 1.4.2011 | Granted during the year | Lapsed during the year | As at 31.3.2012 | Transfer (Note 2) | Lapsed during the year | As at 31.3.2013 |
|---|---|---|---|---|---|---|---|---|---|---|
| Employees | 11.2.2011 | 11.2.2011 – 31.12.2013 | 12.34 | 350,800 | – | (70,200) | 280,600 | (10,000) | (32,600) | **238,000** |
| Directors | 15.6.2011 | 15.6.2011 – 15.6.2013 | 8.6 | – | 84,000 | (54,000) | 30,000 | 10,000 | – | **40,000** |
| | | | | 350,800 | 84,000 | (124,200) | 310,600 | – | (32,600) | **278,000** |

Note 1: The fair value of the awarded shares was calculated based on the closing price per share on the date of grant.

Note 2: Mr. Dai Quanfa was originally an employee of the Group and appointed as a director with effect from 19 July 2012. The share awards granted to him was disclosed under the category of directors accordingly.

The equity-settled share-based payments charged to the profit or loss was HK$1,156,000 for the year ended 31 March 2013 (2012: HK$1,491,000).

# 36. EVENT AFTER THE REPORTING PERIOD

On 17 April 2013, the Company has entered into the subscription agreement with two independent third parties (the "Investors"), pursuant to which the Investors have severally but not jointly and conditionally agreed to subscribe for the Tranche I Bonds (in the principal amount of HK$700,000,000) and tranche II bonds (in the principal amount of HK$150,000,000) respectively.

The initial conversion price (subject to adjustment) is HK$8.25 per share, representing (i) a premium of approximately 14.58% over the closing price of the shares as quoted on the Hong Kong Stock Exchange on 16 April 2013, (ii) a premium of approximately 17.76% to the five-day average closing price of the shares over the five trading days up to and including 16 April 2013, and (iii) a premium of approximately 17.39% to the ten-day average closing price of the shares over the ten trading days up to and including 16 April 2013.

Assuming full conversion of the bonds at the initial conversion price of HK$8.25, the bonds will be convertible into approximately 103,030,302 shares in aggregate, representing approximately 11.56% of the total issued share capital of the Company as at the date of the agreement.

The estimated net proceeds of the issue of the convertible bonds, after deduction of expenses, are approximately HK$849,500,000. The net proceeds are all intended to be used by the Company for general corporate and business development and working capital requirements. The issuance of tranche I bonds transaction has completed on 20 May 2013. The directors of the Company is in the process of assessing the financial impact on the convertible bonds.

## 37. PARTICULAR OF THE PRINCIPAL SUBSIDIARIES

Details of the Company's principal subsidiaries as at 31 March 2013 and 2012 are as follows:

| Name of subsidiary | Place/Country of incorporation or establishment/ operations | Issued and fully paid share capital/ registered capital | Attributable equity interest held by the Group 31 March 2013 | 2012 | Principal activities |
|---|---|---|---|---|---|
| ***Directly owned*** | | | | | |
| Man Wah Group Limited | British Virgin Islands ("BVI") | US$50,000 | **100%** | 100% | Investment holding |
| Man Wah USA, Inc. | United States of America | US$310,000 | **100%** | 100% | Advertising and marketing of home finishing products |
| Man Wah UK Ltd. | United Kingdom | GBP100 | **100%** | 100% | Advertising and marketing of home finishing goods |
| ***Indirectly owned*** | | | | | |
| Man Wah Industrial Company Limited 敏華實業有限公司 | Hong Kong | HK$3,000,000 | **100%** | 100% | Investment holding, manufacturing and trading of sofa and other furniture |
| Man Wah Furniture (China) Co., Ltd.*[1] 敏華家具（中國）有限公司 | The PRC | US$11,000,000 | **100%** | 100% | Trading of sofa and other furniture |
| Man Wah (Macao Commercial Offshore) Limited 敏華（澳門離岸商業服務) 有限公司 | Macau | MOP100,000 | **100%** | 100% | Offshore sales, management business consultancy, back office support |
| Man Wah Industrial (Wujiang) Co., Ltd.*[1] 敏華實業（吳江）有限公司 | The PRC | US$60,000,000 | **100%** | 100% | Manufacturing and trading of sofa, bedding products, other furniture and foam |

## 37. PARTICULAR OF THE PRINCIPAL SUBSIDIARIES – Continued

| Name of subsidiary | Place/Country of incorporation or establishment/ operations | Issued and fully paid share capital/ registered capital | Attributable equity interest held by the Group 31 March 2013 | 2012 | Principal activities |
|---|---|---|---|---|---|
| ***Indirectly owned – continued*** | | | | | |
| Man Wah Furniture Headquarter (Wujiang) Co., Ltd.*1 敏華家具總部（吳江）有限公司 | The PRC | US$37,500,000 | **100%** | 100% | Trading of sofa, bedding products, other furniture and foam |
| Remaco Machinery Technology (Wujiang) Co., Ltd. *1 鋭邁機械科技（吳江）有限公司 | The PRC | RMB75,000,000 | **55%** | 55% | Manufacturing of sofa and other furniture |
| Man Wah (International) Industrial Limited 敏華（國際）實業有限公司 | Hong Kong | HK$100 | **100%** | 100% | Trading of sofa and other furniture and property investment |
| Man Wah Rong Furniture (Shenzhen) Co., Ltd.*1 敏華榮家具（深圳）有限公司 | The PRC | US$200,000 | **100%** | 100% | Designing and manufacturing of sofa and trading of other furniture |
| Man Wah Furniture Manufacturing (Huizhou) Co., Ltd.*1 敏華家具製造（惠州）有限公司 ("Man Wah Huizhou") | The PRC | US$82,000,000 | **100%** | 100% | Manufacturing and trading of sofa |
| Man Wah Furniture Manufacturing (Shenzhen) Co., Ltd.*1 敏華家具製造（深圳）有限公司 | The PRC | HK$142,000,000 | **100%** | 100% | Manufacturing of sofa |
| Famous Bedding Company Limited 雅典床具有限公司 | Hong Kong | HK$100 | **100%** | 100% | Investment holding |

## 37. PARTICULAR OF THE PRINCIPAL SUBSIDIARIES – Continued

| Name of subsidiary | Place/Country of incorporation or establishment/ operations | Issued and fully paid share capital/ registered capital | Attributable equity interest held by the Group 31 March 2013 | 2012 | Principal activities |
|---|---|---|---|---|---|
| ***Indirectly owned – continued*** | | | | | |
| King Famous Bedding Manufacturing (Shenzhen) Co., Ltd.*[1] 金雅典床具制造（深圳）有限公司 | The PRC | HK$1,000,000 | **100%** | 100% | Manufacturing and trading of mattress and bedding accessories |

* English translated name is for identification only.

1 These companies were established in the PRC in the form of wholly foreign-owned enterprise.

The above table only lists the subsidiaries of the Company which, in the opinion of the directors, principally affected the results or assets of the Group. To give details of other subsidiaries would, in the opinion of the directors, result in particulars of excessive length.

None of the subsidiaries had any loan capital subsisting at the end of the year or at any time during the year.

# Particulars of Major Properties

| Location | | Existing use | Lease term | Attributable interest of the Group |
|---|---|---|---|---|
| **Investment properties** | | | | |
| 1. | All the portion of Ground Floor and whole of 1st Floor (and the flat roof appertaining thereto), Circle Court, Nos. 3 & 5 Java Road, North Point, Hong Kong | Commercial | Medium | 100% |
| 2. | Factory No. 1 and portion of Dormitory No. 1 located at Man Wah Technological and Industrial Zone, Western Section of Daya Bay Economic and Technological Development Zone, Huizhou City, Guangdong Province, the PRC | Industrial | Medium | 100% |
| **Properties for the Group's own use** | | | | |
| 3. | Unit 1904, Tower 1, Huiyang World Trade Plaza, Baiyun Er Road, Danshui Town, Huiyang District, Huizhou City, Guangdong Province, the PRC | Commercial | Long | 100% |
| 4. | Portion held for owner occupation in Industrial Complex located at Man Wah Technological and Industrial Zone Western Section of Daya Bay Economic and Technological Development Zone, Huizhou City, Guangdong Province, the PRC | Industrial | Long | 100% |
| 5. | Industrial Complex located at Man Wah Industrial Zone No. 189 Industrial District, Henggang Town, Longgang, Shenzhen City, Guangdong Province, the PRC | Industrial | Medium | 100% |
| 6. | No. 5555, TongJin Road, Economic Development Zone, Wujiang City, Jiangsu Province, the PRC | Industrial | Long | 100% |

# Financial Summary

| | Year ended 31 March | | | | |
|---|---|---|---|---|---|
| | 2009 HK$'000 | 2010 HK$'000 | 2011 HK$'000 | 2012 HK$'000 | **2013 HK$'000** |
| | (restated) | (restated) | | | |
| **RESULTS** | | | | | |
| Revenue | 1,963,837 | 2,932,217 | 3,808,210 | 4,336,353 | **4,876,976** |
| Profit before income tax | 249,452 | 668,912 | 680,714 | 337,467 | **623,894** |
| Income tax expense | (21,408) | (51,567) | (59,412) | (35,293) | **(58,050)** |
| Profit for the year | 228,044 | 617,345 | 621,302 | 302,174 | **565,844** |
| Attributable to | | | | | |
| – Owners of the Company | 223,509 | 605,799 | 622,296 | 303,345 | **568,401** |
| – Non-controlling interests | 4,535 | 11,546 | (994) | (1,171) | **(2,557)** |
| | 228,044 | 617,345 | 621,302 | 302,174 | **565,844** |
| Earnings per share | | | | | |
| – Basic (HK cents) | 31.63 | 85.09 | 64.46 | 31.47 | **62.85** |
| – Diluted (HK cents) | N/A | N/A | 64.45 | 31.46 | **62.79** |

| | As at 31 March | | | | |
|---|---|---|---|---|---|
| | 2009 HK$'000 | 2010 HK$'000 | 2011 HK$'000 | 2012 HK$'000 | **2013 HK$'000** |
| | (restated) | | | | |
| **ASSETS AND LIABILITIES** | | | | | |
| Total assets | 1,226,747 | 1,668,971 | 3,525,044 | 4,483,261 | **5,001,057** |
| Total liabilities | (412,495) | (518,339) | (430,309) | (1,294,343) | **(1,532,484)** |
| | 814,252 | 1,150,632 | 3,094,735 | 3,188,918 | **3,468,573** |
| Equity attributable to owners of the Company | 804,245 | 1,150,632 | 3,094,607 | 3,158,469 | **3,430,012** |
| Non-controlling interests | 10,007 | – | 128 | 30,449 | **38,561** |
| | 814,252 | 1,150,632 | 3,094,735 | 3,188,918 | **3,468,573** |

Note: The Company has accounted for the transferal of entire equity interests of Famous Bedding to the Company by means of an exchange of shares on 7 December 2009 ("Corporate Reorganisation"), in accordance with the principles of merger accounting to prepare the consolidated financial statements, assuming that the current group structure had been in existence throughout the years presented.

## STATEMENT OF FINANCIAL POSITION OF THE COMPANY

| | 2013<br>RMB'000 | 2012<br>RMB'000 |
|---|---|---|
| Non-current Assets | | |
| Investments in subsidiaries | **252,479** | 252,479 |
| Current Assets | | |
| Prepayments and other receivables | **478** | 14,218 |
| Amounts due from subsidiaries | **1,472,638** | 1,476,203 |
| Bank balances | **236** | 10,539 |
| | **1,473,352** | 1,500,960 |
| Current Liabilities | | |
| Amounts due to subsidiaries | **83,176** | 225,309 |
| Accruals | **224** | 2,678 |
| | **83,400** | 227,987 |
| Net Current Assets | **1,389,952** | 1,272,973 |
| Total Assets less Current Liabilities | **1,642,431** | 1,525,452 |
| Capital and Reserves | | |
| Share capital | **356,412** | 379,097 |
| Reserves | **1,286,019** | 1,146,355 |
| | **1,642,431** | 1,525,452 |

## MOVEMENT IN RESERVES

| | Equity attributable to equity holders of the Company | | | | | | | |
|---|---|---|---|---|---|---|---|---|
| | Share capital HK$'000 | Treasury shares HK$'000 | Contributed surplus HK$'000 | Share option reserve HK$'000 | Shares held under share award scheme HK$'000 | Share award scheme reserve HK$'000 | Retained profits HK$'000 | Total HK$'000 |
| At 1 April 2011 | 388,454 | – | 1,548,106 | 3,742 | (6,476) | 244 | (267,361) | 1,666,709 |
| Profit for the year | – | – | – | – | – | – | 162,109 | 162,109 |
| Total comprehensive income for the year | – | – | – | – | – | – | 162,109 | 162,109 |
| Recognition of equity-settled share-based payments | – | – | – | 10,104 | – | 1,491 | – | 11,595 |
| Share repurchased and cancelled | (9,357) | – | (119,250) | – | – | – | – | (128,607) |
| Shares repurchased but not cancelled | – | (1,838) | – | – | – | – | – | (1,838) |
| Dividends paid | – | – | – | – | – | – | (184,516) | (184,516) |
| At 31 March 2012 | 379,097 | (1,838) | 1,428,856 | 13,846 | (6,476) | 1,735 | (289,768) | 1,525,452 |
| Profit for the year | – | – | – | – | – | – | 441,193 | 441,193 |
| Total comprehensive income for the year | – | – | – | – | – | – | 441,193 | 441,193 |
| Recognition of equity-settled share-based payments | – | – | – | 6,096 | – | 1,156 | – | 7,252 |
| Share repurchased and cancelled | (20,847) | – | (158,488) | – | – | – | – | (179,335) |
| Cancellation of treasury shares | (1,838) | 1,838 | – | – | – | – | – | – |
| Dividends paid | – | – | – | – | – | – | (152,131) | (152,131) |
| At 31 March 2013 | 356,412 | – | 1,270,368 | 19,942 | (6,476) | 2,891 | (706) | 1,642,431 |