


# READY FOR THE UPTURN

ANNUAL REPORT 2009



HENG LONG INTERNATIONAL LTD.

Company Registration Number 200717235W



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# A tradition of QUALITY & STYLE



With a 50-year tradition, Heng Long has always believed in producing fine quality crocodilian leather. This emphasis on quality has supported our growth, bringing us from our humble beginnings as a small-scale crocodilian tannery to one of the world's top five tanneries, recognised by an increasing global market network of esteemed luxury and high-end fashion houses.

Listed in 2008, Heng Long's customer base includes over 80 customers spread across 20 countries. Our supplies are shipped to Europe, Asia, North and South America, Africa and Australia for the production of handbags, garments, shoes and boots, watch straps, and other accessories.

As a leading tannery, we were one of the first to attain ISO 9002 standards in 1998. Located in Singapore, our 6000 square metre operations encompass state-of-the-art production facilities.

While we are a modern enterprise, we still believe the unique skills developed in our luxury leather business distinguish us. As such, we continue to adopt a hands-on approach in the sourcing, tanning, and processing phases of our business, remaining nimble and relevant to evolving market needs

## Dear Shareholders,

Despite a very challenging first half year, the second half of FY2009 saw an improved performance amidst early signs that the economic crisis affecting the luxury industry has bottomed out. As a result and together with the strict implementation of cost control measures, we remained profitable for the year although revenue and net profit registered S\$34.0 million and S\$2.5 million respectively as compared to S\$68.2 million and S\$11.4 million recorded in the previous year.



### **Strengthening position in the global crocodilian skin trade**

As the crocodilian farming industry went through a period of consolidation during the crisis, we anticipated the production of skins to slow down in the next two years. In view of this, we continued to exercise our sourcing strategy of close cooperation with key suppliers during the year.

Going forward, as we continue to operate in an industry where the specific demands for skins of very high quality by luxury brands is always in short supply, we expect to benefit from our sourcing strategy when the industry recovers. This will enable us to further entrench our position as a major stockist and key proxy to the global luxury goods industry.

### **Enhancing long-term market share**

In response to the needs of our customers, we adopted flexible delivery and pricing policies during the year. While these policies have affected our margins and short-term financial performance, we were able to ensure a stable stream of revenue in FY2009 as well as strengthen the relationship with our business partners which will put us in good stead in the long term.

### **Seeking growth opportunities in the Asian markets**

Overall consumer sentiments have improved in the last six months and the global luxury goods industry has stabilised.

We started seeing a pick-up in orders from the watchstrap industry in December last year owing to excessive de-stocking in the watch retailing industry, and we are also receiving more enquiries and visits from existing and new customers in the leather handbags and accessories industry. As such, our Q4/2009 financial performance registered double digit improvements against Q3/2009. While these are encouraging signs, we can only be certain of a sustainable industry recovery upon monitoring the orders received over the next few quarters.

The long-term prospects of the global luxury goods industry remain optimistic. While Europe will remain our most important market, we expect Asia, backed by the emerging pool of affluent customers and their growing appetite for luxury goods, to fuel the group's growth in the near future.

Nevertheless, the long-term prospects of the global luxury goods industry remain optimistic. While Europe will remain our most important market, we expect Asia, backed by the emerging pool of affluent customers and their growing appetite for luxury goods, to fuel the group's growth in the near future. Most luxury brands and fashion houses, including our customers, have come to realise the necessity of establishing a presence in Asia for growth, and are actively expanding and diversifying into the Asian markets.

More importantly, these luxury and high-end fashion brands have come to realise the strategic usage of crocodilian leather to create new markets and enhance their luxury appeal and brand value.

As an independent top-tier tannery, coupled with our strong business advantage in Asia as compared to our international peers, we expect to ride on this positive trend and actively seek growth opportunities that may emerge in Asian markets such as Korea and China.

In short, we are ready for the upturn.

#### **Dividend**

To reward shareholders, the Board of Directors has recommended a first and final tax-exempt dividend of Singapore 0.5 cents per share or 54.0% dividend payout ratio for the financial year.

#### **Appreciation**

I would like to convey my heartfelt gratitude and appreciation to all stakeholders of Heng Long – Board of Directors, shareholders, management and staff, customers, suppliers, and business partners and associates – for your loyalty and continued support afforded to the company during these trying times. Thank you for the trust you have placed in the management team.

#### **Koh Long Cheok**

Non-Executive Chairman

## 亲爱的股东，

尽管在2009年上半年经历了非常严峻的挑战，然而，在下半年，一些好转的初期迹象显示，经济危机对奢侈品行业的影响已到了最低点。在此背景之下，公司业绩受到了一定的影响。但在对成本控制措施的严格执行下，我们的全年收入依然保持盈利。收入和净利润分别为3,400万新币和250万新币，前一年则为6,820万新币和1,140万新币。

### 加强在全球鳄鱼皮贸易市场中的地位

由于鳄鱼养殖业在危机期间进行了行业整合和巩固，所以我们预期在未来两年内鳄鱼皮的产量将有所减缓。有鉴于此，我们在过去的一年里继续与主要生皮供应商进行资源战略的密切合作。

展望未来，我们将继续为奢侈品牌提供非常高质量的皮革。而在这行业中，对这类皮革的特殊需求则往往供不应求。当行业复苏的时候，我们将会从之前所采取的资源战略中获益。这将能够大大巩固我们作为全球奢侈品行业中，主要鞣制好皮革供应商的地位。

### 提高长期市场份额

为了适应客户的需求，我们去年采取了灵活的交货和价格政策。虽然这些政策影响了我们的利润和短期的财务表现，但我们确保了2009财政年能获得稳定的收入。同时也加强了我们与业务伙伴之间的关系，这对我们的长期发展是非常有利的。

### 寻求在亚洲市场的增长机会

在过去6个月，整体消费情绪已见好转，全球奢侈品行业已趋于稳定。

我们看到去年12月，来自手表带行业的订单开始回升，这是由于手表零售行业过度压低库存的结果。同时，我们也接到了来自皮革手袋及相关产品行业新老客户的更多询问和拜访。因此，我们2009财政年第四季度的财务表现比起2009年第三季度有了两位数的提升。尽管这些迹象令人鼓舞，但我们只能根据对接下来几个季度所取得的订单监测中，确定产业复苏可否持续。

然而，全球奢侈品行业的长期前景依然乐观。虽然欧洲仍将是我們最重要的市场，但我们预计亚洲，这个蕴含丰富客户资源及其对奢侈品需求日益增长的市场，将推动集团未来几年的发展。大多数的奢侈品牌和时装公司，包括我们的客户，已经认识到在亚洲建立基地对企业发展的必要性，并正在积极地扩张和以多样性的投资进入亚洲市场。

全球奢侈品行业的长期前景是依然乐观。虽然欧洲仍将是我们最重要的市场，但我们预计亚洲，这个蕴含有丰富客户资源及其对奢侈品需求日益增长的市场，将推动集团未来几年的发展。

更重要的是，这些奢侈品和高档时装品牌已经认识到对鳄鱼皮进行战略使用，以创造新市场和增强他们奢侈品的吸引力和品牌价值。

作为一个独立的顶级皮革制造商，加上我们在亚洲比国际同行所具有更强大的业务优势，我们希望借助这一有利的趋势，积极寻求在亚洲市场(如韩国和中国)可能出现的成长机会。

总之，我们已做好了蓬勃发展的准备。

#### **派发股息**

为了回报股东，董事会提出了公司首次的年终派息方案，即每股派发0.5分新币(免税)。本年的股息支付率为54.0%。

#### **致谢**

我想向兴隆所有的股东、董事会成员、管理层和员工、客户、供应商、业务合作伙伴和联营公司，表达我衷心的感谢。你们对公司的忠诚和一直以来的支持，帮助公司渡过困难期，同时也感谢您对管理团队的信任。

**许隆石**  
非执行主席

With a 50-year tradition, we are one of the five top-tier tanneries in the world specialising in crocodilian leather. Led by a dedicated and experienced management team, Heng Long supplies fine quality crocodilian leather to global luxury and high-end fashion houses across the world.

# Exceptional QUALITY



At Heng Long, we have a progressive outlook and always look to develop and employ market-leading practices. Improving our production processes, we attained the ISO 9002 award in 1998, making Heng Long Leather among the first reptile skin tanneries in the world to be so awarded.

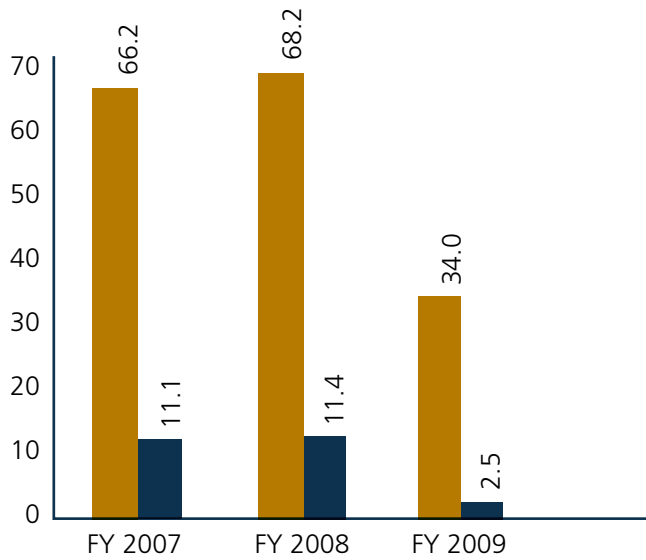
As one of the leading players in the industry, Heng Long takes pride in ensuring every piece of hide is meticulously made with the hallmark of quality and luxury. Such passion and pursuit over the last 50 years has won us the continual trust and support of our customers and suppliers.

Our dedicated management team has a combined experience of over 150 years. With our sourcing capabilities, consistent product quality, strong relationship with customers, and healthy balance sheet, we are confident of steering the company forward and strengthening our market position for the long term.

# FINANCIAL HIGHLIGHTS

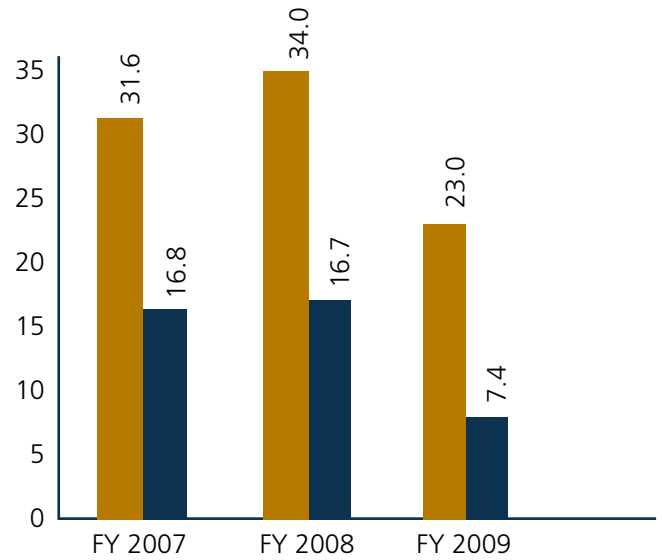
## REVENUE & NET PROFIT

(S\$ Million)



## GROSS MARGIN & NET MARGIN

%



## REVENUE BY GEOGRAPHICAL MARKETS



Europe	S\$ 16.5 Million (48.5%)
Asia Pacific	S\$ 14.4 Million (42.4%)
Americas	S\$ 1.8 Million (5.3%)
Others	S\$ 1.3 Million (3.8%)
<b>Total</b>	<b>S\$ 34.0 Million</b>

**Financial Performance**

Revenue decreased 50.1% to S\$34.0 million in FY2009 from S\$68.2 million in FY2008, while net profit decreased 78.1% to S\$2.5 million in FY2009 from S\$11.4 million in FY2008.

Revenue took a decline in FY2009 mainly due to the contraction of consumer spending on luxury goods arising from the global economic crisis. In terms of revenue contribution by geographical markets, Europe, the Group's largest contributing market, accounted for S\$16.5 million or 48.5% of full-year revenue. Asia Pacific came in second, contributing S\$14.4 million or 42.4% of full-year revenue. Americas accounted for S\$1.8 million or 5.3% of full-year revenue, and the remaining contribution of S\$1.3 million or 3.8% of full year revenue came collectively from other countries such as Australia, Middle East and Africa.

Due to the introduction of flexible pricing policies, changes in sales mix, and lower capacity utilisation in FY2009, the Group's gross profit decreased 66.4% to S\$7.8 million in FY2009 from S\$23.2 million in FY2008. The move to introduce flexible pricing policies was in line with the Group's business strategy to maintain market share amid the challenging business environment. As such, gross profit margin decreased 11.1% to 22.9% in FY2009 from 34.0% in FY2008.

To improve cost and operational efficiency, the Group reduced its key operating expenses in FY2009. Administrative expenses decreased 37.2% to S\$4.9 million in FY2009 from S\$7.8 million in FY2008 due to reduction in staff cost and lower sales incentive.

Finance costs decreased 49.9% to S\$335,000 in FY2009 from S\$669,000 in FY2008 owing to lower interest rates and lower average borrowings.



### **Financial Position**

Current assets stood at S\$107.6 million in FY2009, of which S\$87.4 million or 81.2% of current assets were attributed to inventories. Inventories increased 11.2% to S\$87.4 million at end 2009 from S\$78.6 million at end 2008 as the Group received raw crocodilian skins in FY2009 it committed in FY2008. The purchase of raw skins was in line with the Group's sourcing strategy of ensuring long-term supply of good quality crocodilian skins in anticipation of reduced world supply of skins in the next two years.

In tandem with lower revenue, trade and other receivables decreased 34.0% to S\$14.0 million at end 2009 from S\$21.2 million at end 2008. Trade and other payables also reduced 10.9% to S\$4.1 million at end 2009 from S\$4.6 million at end 2008.

The Group's total assets stood at S\$111.6 million at end 2009 as compared to S\$112.5 million at end 2008.



### Cash Flow

Net cash used in operating activities amounted S\$985,000 in FY2009. This comprised operating profit before working capital changes of S\$4.2 million adjusted for net working capital changes of S\$2.2 million, interest expense paid of S\$272,000, and income tax paid of S\$2.8 million.

Net cash used in operating activities decreased to S\$985,000 in FY2009 from net cash generated from operations of S\$4.1 million in FY2008 due to the increase of inventories of S\$8.8 million and decrease in operating payables of S\$580,000. Net working capital outflow was offset by a decrease in operating receivables of S\$7.2 million.

Net cash used in investing activities maintained at S\$524,000 in FY2009 as compared to S\$208,000 in FY2008 as minimal capital expenditures were incurred during the year.

Net cash used in financing activities amounted S\$972,000 in FY2009 as compared to net cash generated from financing activities of S\$3.7 million in FY2008. The change was mainly attributable to dividends paid amounting S\$3.4 million and trust receipts repaid of S\$6.0 million, offset by short-term loans obtained of S\$8.7 million in FY2009.

The Group registered a net decrease in cash and cash equivalents of S\$2.5 million in FY2009, and ended the year with cash and cash equivalents of S\$5.9 million.

Heng Long's belief in the importance of environmental sustainability is an important facet of its operating philosophy.

practising  
**GREEN** and  
**ENVIRONMENTAL**  
friendliness



Heng Long demonstrates leadership and responsibility in promoting the conservation and sustainable use of crocodilians as renewable natural resources by working closely with relevant government and non-government organisations. The activities of the company comply with international regulations set by the Convention on International Trade in Endangered Species of Wild Fauna and Flora (CITES).

The world's crocodilian skins trade is an important part of a successful wildlife conservation programme for crocodilian species. It is regulated by CITES, making it highly-controlled with limited supply from the world's population of crocodilians. Being one of the largest buyers of classic crocodilian skins selected from alligator and Nile crocodile species as well as a major stockist of such crocodilian skins, we count ourselves among the top five tanneries of crocodilian leather in the world.

Heng Long is a founding member of the Singapore Reptile Skin Trade Association (SRSTA). SRSTA comprises members whom are local manufacturers, traders and other parties in the reptile skin trade industry. SRSTA primarily comes together to spearhead activities and make recommendations to the government on matters relating to the local reptile skin trade industry

Heng Long is actively involved in the Crocodile Specialist Group (CSG), an international non-government organisation committed to the protection and conservation of endangered crocodilian species. Two of the directors of the Group are steering committee members of the CSG.

With over 80 direct customers, of which more than 70% are long-standing, repeat clients, our global market reach spans Europe to Asia, covering reputable watch strap makers and luxury fashion houses such as Prada, Stefano Ricci, Testoni, Nancy Gonzalez and local brand Kwanpen.

# Strategy for GROWTH



Focusing on high-quality crocodilian leather, we have developed a significant market presence in Europe as well as a growing network in emerging Asian markets such as China and Korea.

Going forward, we target a more diverse geographical revenue base with contributions led by the high-end luxury market in Europe and an expanding Asian segment.



## BOARD OF DIRECTORS



TOP ROW, LEFT TO RIGHT: KOH CHOON HEONG , DR GIAM CHOO HOO, SOH GIM TEIK, ANG MIAH KHIANG  
BOTTOM ROW, LEFT TO RIGHT: KOH LONG CHEOK, KOH CHON TONG

### KOH LONG CHEOK

NON-EXECUTIVE CHAIRMAN

Koh Long Cheok is the Non-Executive Chairman of our Group. He has over 60 years of experience in all aspects of the exotic skins industry, including the sourcing, grading, tanning and trading of exotic skins. Koh Long Cheok has been a director of Heng Long Leather since its incorporation in 1979 and has played a pivotal role in the growth and development of our Group from a traditional crocodilian tannery to an international crocodilian tannery. He has successfully guided the transition of the management of the Group to a new generation.

### KOH CHON TONG

MANAGING DIRECTOR

Koh Chon Tong is our Managing Director. He has over 30 years of experience in the exotic skins industry and has been the managing director of Heng Long Leather since its incorporation in 1979. He is involved in the formulation of our Group's strategic direction and expansion plans, and managing our Group's overall business development. In addition, he oversees our sales and marketing department and the day-to-day operations of our Group. Koh Chon Tong was responsible for improving our production processes which led to our ISO 9002 award in 1998, making Heng Long Leather amongst the first reptile skin tanneries in the world to be so awarded. Koh Chon Tong obtained his Diploma in Business Studies from Ngee Ann Technical College in 1974. Koh Chon Tong is the co-founder of the Singapore Reptile Skin Trade Association and has been its secretary since its establishment in 1987.

## KOH CHOON HEONG

### EXECUTIVE DIRECTOR

Koh Choon Heong is our Executive Director and joined our Group in 1992. He is responsible for overseeing the purchasing, finance and sales operations of our Group. Prior to joining our Group in 1992, Koh Choon Heong was a director of the Prebon group of financial broking companies, heading its regional finance and futures broking divisions. Koh Choon Heong obtained a Bachelor of Accountancy degree from the University of Singapore (now known as the National University of Singapore) in 1978. Koh Choon Heong was admitted as an Associate of the Institute of Chartered Accountants in England and Wales in 1982 and has also been a non-practising member of the Institute of Certified Public Accountants of Singapore since 1983. He is currently a deputy vice-chairman in the industry group of the steering committee in the IUCN-Crocodile Specialist Group (CSG).

## ANG MIAH KHIANG

### LEAD INDEPENDENT DIRECTOR

Ang Miah Khiang was appointed Independent Director of our Group on 12 May 2008. He spent the greater part of his career in the SME financing business, having held the position of Managing Director of GE Commercial Financing (Singapore) Ltd, formerly known as Heller Financial (S) Ltd. He was also concurrently regional director for GE related businesses in Asia Pacific. Ang Miah Khiang is a Fellow of the Institute of Certified Public Accountants of Singapore and holds a Bachelor of Accountancy degree from the University of Singapore (now known as the National University of Singapore). He is also an independent director of several other listed companies.

## SOH GIM TEIK

### INDEPENDENT DIRECTOR

Soh Gim Teik was appointed an Independent Director of the Group on 12 May 2008. He is a member of the Institute of Certified Public Accountants of Singapore ('ICPAS') and a Fellow of the Singapore Institute of Directors. He is the Chairman of the CFO Committee of the Institute of Certified Public Accountants, Singapore ('ICPAS'), and a committee member of the Professional Accountants in Business Committee of the International Federation of Accountants ('IFAC'). Currently serving as an independent director on the boards of other SGX listed companies, he has previously served as a director in a Hong Kong listed company as well as in various other private companies in Singapore, Malaysia, Thailand, Taiwan and the PRC. Additionally, he is also a director and finance committee chairperson in a number of charitable and non-profit organisations. He has more than 30 years experience in finance and management and holds a Bachelor of Accountancy degree from the University of Singapore (now known as the National University of Singapore).

## DR GIAM CHOO HOO

### INDEPENDENT DIRECTOR

Dr Giam Choo Hoo was appointed Independent Director on 12 May 2008. He is currently an independent consultant on international wildlife conservation. From 1961 until his retirement in 1995, he was the Deputy-Director of the Primary Production Department, Ministry of National Development, Singapore (now known as the AVA). Holding a veterinary degree from the University of Liverpool (UK), he became a member of the Royal College of Veterinary Surgeons of England in 1961. Dr Giam has been actively involved in the United Nations CITES for more than 20 years. He was the leader of the Singapore CITES delegations at the UN Conferences of the Parties from 1986 to 1995. Since 1994, he has remained a member of the CITES Animals Committee. Dr Giam was a founding board member of Jurong Bird Park and retired as its Deputy Chairman in 1996. He was President of the Singapore Veterinary Association and the Association of Veterinary Surgeons Malaysia/Singapore. He has been for many years the Singapore Representative to the Commonwealth Veterinary Association, and remains an active participant. Dr Giam is also a committee member of the IUCN-Crocodile Specialist Group Steering Committee.

## KEY EXECUTIVES

### BALDWIN FOO

#### FINANCIAL CONTROLLER

Baldwin Foo is our Financial Controller and joined our Group in July 2009. He is responsible for the financial, accounting and taxation functions of our Group. His responsibilities include overseeing the operations of the finance department as well as the compliance and reporting obligations of our Group. He has accumulated more than 15 years of experience in the financial field. Baldwin Foo obtained a Bachelor of Arts (Accounting and Finance) degree from Middlesex University, United Kingdom in 1994.

### IRENE WEE HONG LEE

#### ACCOUNTS MANAGER

Irene Wee Hong Lee is our Accounts Manager and joined our Group in 1998. She is responsible for overseeing the day-to-day accounts operation of our Group. She has over 14 years of experience in accounting. Prior to joining our Company, she was the assistant accounts manager of Bell & Order Engineering Pte Ltd from 1994 to 1998 where she was responsible for overseeing the accounts department and implementing and enhancing accounting policies and control systems. Irene Wee Hong Lee obtained a Bachelor of Business (Accountancy) degree from the Royal Melbourne Institute of Technology in 2002 and a Diploma in Business from Temasek Polytechnic in 1993.

### KOH WEIKANG

#### ASSISTANT FACTORY MANAGER/PAYROLL MANAGER

Koh Weikang is our Assistant Factory Manager and Payroll Manager. He joined our Group in 2008. As Assistant Factory Manager, he assists the Factory Manager in planning, organising and controlling production resources as well as overall plant maintenance. As Payroll Manager, Koh Weikang is responsible for overseeing payroll functions and ensuring the smooth administration of the monthly and annual payroll matters of the Group. Koh Weikang obtained a Bachelor of Commerce in Management and Marketing Management from Murdoch University, Perth, Western Australia in 2008.

### LIU WEN ANG

#### TECHNICAL MANAGER

Liu Wen Ang is our Technical Manager and joined our Group in 2006. He has over 30 years of experience in leather chemicals and technology. Liu Wen Ang is responsible for our research and development functions including product development, monitoring the technical quality of our products and providing technical advice and support to our customers. From 1990 to 2006, he was the application manager in the leather chemicals division of Stahl Asia Pte Ltd, responsible for new product development, co-ordinating the running of its technical application lab and attending leather fairs. Liu Wen Ang graduated with a Diploma of Animal Science from Taiwan National Pingtung College of Agriculture in 1976.

### LU EE FONG

#### FACTORY MANAGER

Lu Ee Fong is our Factory Manager and joined our Group in 1996. He is responsible for planning, organising and controlling production resources and overall plant maintenance. He has over 17 years of technical and management experience in engineering. He joined our Company in 1996 as its maintenance manager and subsequently was promoted to factory manager in 1998. From 1994 to 1996, he was a manufacturing and process engineer with Specialty Electronics (S) Pte Ltd and was responsible for the assembly line transfer activity from the United States. From 1989 to 1994, he was a manufacturing and process engineer with Walbro Singapore Pte Ltd. Lu Ee Fong obtained a Bachelor of Science degree in Business and Management Studies from the University of Bradford in 1998 and a Bachelor of Engineering degree from the Royal Melbourne Institute of Technology in 2007.

### ONG GUEK YANG

#### HUMAN RESOURCE MANAGER

Ong Guek Yang is our Human Resource Manager and joined our Group in 2007. She is responsible for overseeing the human resources matters of our Company. Prior to joining our Company, she was a human resource specialist in AP Communications Pte Ltd, a marketing and event company, from 2006 to 2007, responsible for proposing and implementing human resources initiatives. From 2002 to 2006, she was a human resource executive at Orchid Country Club responsible for human resources matters such as welfare projects and training and development functions. From 2000 to 2002, she was a human resource executive in Network Foods International Ltd and from 1997 to 2000, she was a payroll assistant of Tricon Restaurants Singapore Ltd. Ong Guek Yang graduated with a Graduate Diploma in Human Capital Management from the Singapore Human Resources Institute in 2005.

### PHAN YEOK SENG

#### QUALITY MANAGEMENT MANAGER

Phan Yeok Seng is our Quality Management Manager and joined our Group in 1997. He is currently responsible for establishing, implementing and maintaining quality management processes and the inspection of all incoming raw skins. Prior to joining our company, he was an assistant quality control manager with Superview Technology Pte Ltd from 1994 to 1997 and a senior quality control technician with Mitsubishi Electronics Manufacturing Singapore Private Limited from 1984 to 1994. Phan Yeok Seng obtained a Diploma in Industrial Relations from the Institute of Labour Studies, Singapore in 1994.

### TOH KHENG SONG

#### TREASURY AND CORPORATE AFFAIRS MANAGER

Toh Kheng Song is our Treasury and Corporate Affairs Manager and joined our Group in 1988. Her current responsibilities include matters relating to treasury functions, maintenance of relationships with banks, inbound and outbound logistics and shipping arrangements as well as invoicing matters. Toh Kheng Song graduated with a Bachelor of Accountancy degree from the University of Singapore (now known as the National University of Singapore) in 1978 and has been a non-practising Member of the Institute of Certified Public Accountants of Singapore since 1998.

## BOARD OF DIRECTORS

KOH LONG CHEOK, **NON-EXECUTIVE CHAIRMAN**  
KOH CHON TONG, **MANAGING DIRECTOR**  
KOH CHOON HEONG, **EXECUTIVE DIRECTOR**  
ANG MIAH KHIANG, **LEAD INDEPENDENT DIRECTOR**  
SOH GIM TEIK, **INDEPENDENT DIRECTOR**  
DR GIAM CHOO HOO, **INDEPENDENT DIRECTOR**

## KEY EXECUTIVES

BALDWIN FOO, **FINANCIAL CONTROLLER**  
IRENE WEE HONG LEE, **ACCOUNTS MANAGER**  
KOH WEIKANG, **ASSISTANT FACTORY MANAGER/  
PAYROLL MANAGER**  
LIU WEN ANG, **TECHNICAL MANAGER**  
LU EE FONG, **FACTORY MANAGER**  
ONG GUEK YANG, **HUMAN RESOURCE MANAGER**  
PHAN YEOK SENG, **QUALITY MANAGEMENT MANAGER**  
TOH KHENG SONG, **TREASURY & CORPORATE AFFAIRS MANAGER**

## AUDIT COMMITTEE

SOH GIM TEIK, **CHAIRMAN**  
ANG MIAH KHIANG  
DR GIAM CHOO HOO

## NOMINATING COMMITTEE

ANG MIAH KHIANG, **CHAIRMAN**  
SOH GIM TEIK  
DR GIAM CHOO HOO

## REMUNERATION COMMITTEE

ANG MIAH KHIANG, **CHAIRMAN**  
SOH GIM TEIK  
DR GIAM CHOO HOO

## INDEPENDENT AUDITOR

FOO KON TAN GRANT THORNTON LLP  
Public Accountants and  
Certified Public Accountants  
47 Hill Street #05-01  
Singapore Chinese Chamber  
of Commerce & Industry Building  
Singapore 179365

Partner-in-charge: YEO BOON CHYE  
(appointed on 14 November 2007)

## COMPANY SECRETARY

WEE WOON HONG, LLB (HONS)

## REGISTERED OFFICE

50 Defu Lane 7  
Singapore 539356  
Tel: 6282 2622  
Fax: 6284 8209

## SHARE REGISTRAR

B.A.C.S. PRIVATE LIMITED  
63 Cantonment Road  
Singapore 089758

## PRINCIPAL BANKERS

THE ROYAL BANK OF SCOTLAND N.V.,  
SINGAPORE BRANCH  
Level 23  
One Raffles Quay  
South Tower  
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OVERSEA-CHINESE BANKING CORPORATION LIMITED  
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## CORPORATE GOVERNANCE, FINANCIAL STATEMENTS, AND OTHER INFORMATION

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# Report of Corporate Governance

The Board of Directors (“the Board”) of Heng Long International Ltd. (“the Company”) is committed to maintaining a high standard of corporate governance within the Company and its subsidiaries (the “Group”) to ensure greater transparency and to protect the interests of the Company’s shareholders.

The Company has, since its listing on the SGX-ST on 9 July 2008, put in place various policies and practices that will safeguard the interests of shareholders and enhance shareholders’ value as part of its effort to maintain high standards of corporate governance. This section outlines the main corporate governance practices and procedures adopted by the Company with reference made to each of the principles of the Code of Corporate Governance 2005 (“the Code”).

## The Board’s Conduct of its Affairs

**Principle 1:** Every company should be headed by an effective board to lead and control the company.

The Board is entrusted with the responsibility for the overall management of the business and corporate affairs of the Group. Apart from these, the Board’s roles include providing entrepreneurial leadership, evaluating the adequacy of the internal controls, risk management and review management performance.

Matters which specifically require the Board’s decision or approval are those involving:

- corporate strategy and business plans;
- investment and divestment proposals;
- funding decisions of the Group;
- nominations of Directors for appointment to the Board and appointment of key personnel;
- announcements of quarterly, half-year and full-year results, the annual report and accounts;
- material acquisitions and disposal of assets;
- approval of annual budget and project budget; and
- all matters of strategic importance.

To assist the Board in the execution of its responsibilities, the Board is supported by three committees, namely the Audit Committee (the “AC”), the Nominating Committee (the “NC”) and the Remuneration Committee (the “RC”). Each committee operates within clearly defined terms of reference and functional procedures. All Directors objectively take decisions in the interests of the Company.

The number of Board and committee meetings held and attended by each member of the Board and committees for the financial year ended 31 December 2009 (“FY2009”) is set out as follows:

Names of Directors	Board		Audit Committee		Nominating Committee		Remuneration Committee	
	No. of Meetings Held	No. of Meetings Attended	No. of Meetings Held	No. of Meetings Attended	No. of Meetings Held	No. of Meetings Attended	No. of Meetings Held	No. of Meetings Attended
Koh Long Cheok	4	4	NA	NA	NA	NA	NA	NA
Koh Chon Tong	4	4	4*	4*	1*	1*	1*	1*
Koh Choon Heong	4	4	4*	4*	1*	1*	1*	1*
Ang Miah Khiang	4	4	4	4	1	1	1	1
Soh Gim Teik	4	4	4	4	1	1	1	1
Dr Giam Choo Hoo	4	4	4	4	1	1	1	1

Note:

- \* By invitation

# Report of Corporate Governance

In addition, corporate events and actions requiring the Board's approval are discussed over the telephone/email and/or through passing directors' resolutions in writing.

The Company's Articles of Association provides for the Directors to participate in Board and Board Committee meetings by means of telephone conference.

To get a better understanding of the Group's business, the Directors are also given the opportunity to visit the Group's operational facilities and meet with the Management.

The Board has received relevant training to familiarise themselves with the roles and responsibilities as directors of a public company.

Upon appointment of the Executive Director, the Company provides a formal letter to the Executive Director explaining the roles, duties and responsibilities as a member of the Board.

## **Board Composition and Balance**

**Principle 2:** There should be a strong and independent element in the board, which is able to exercise objective judgement on corporate affairs independently, in particular, from management. No individual or small group of individuals should be allowed to dominate the board's decision making.

There is a strong and independent element on the Board. The Board comprises six Directors, three of whom are Independent Directors.

The Board currently comprises:

### **Non-Executive Director**

Mr Koh Long Cheok (Non-Executive Chairman)

### **Executive Directors**

Mr Koh Chon Tong (Managing Director)

Mr Koh Choon Heong (Executive Director)

### **Independent Directors**

Mr Ang Miah Khiang (Lead Independent Director)

Mr Soh Gim Teik

Dr Giam Choo Hoo

The independence of each Director is reviewed annually by the NC. The NC adopts the definition in the Code and guidelines provided in the Audit Committee Guidance Committee Guidebook as to what constitutes an independent director in its review to ensure that the Board consists of persons who, together, will provide core competencies necessary to meet the Company's objectives. The NC is of the view that Mr Ang Miah Khiang, Mr Soh Gim Teik and Dr Giam Choo Hoo are independent.

The Board through the NC has examined its size and is of the view that it is an appropriate size for effective decision-making, taking into account the scope and nature of the operations of the Company. The NC is of the view that no individual or small group of individuals dominates the Board's decision-making process.

There is adequate relevant competence on the part of the Directors, who, as a group, carry specialist backgrounds in accounting, finance, business and management and strategic planning.

The Non-Executive Directors constructively participate in developing and setting proposals on business strategies for the Company.

# Report of Corporate Governance

## Chairman and Executive Directors

**Principle 3:** There should be a clear division of responsibilities at the top of the company – the working of the board and the executive responsibility of the company's business – which will ensure a balance of power and authority, such that no one individual represents a considerable concentration of power.

There is a clear division of responsibilities between the Chairman and Executive Directors, which ensures there is a balance of power and authority at the top of the Group. The Group keeps the posts of Chairman and Executive Directors separate. Mr Koh Long Cheok is the Non-Executive Chairman while Mr Koh Chon Tong and Mr Koh Choon Heong are the Managing Director and Executive Director, respectively. The Chairman leads the Board and is responsible for its workings and proceedings. The Managing Director and Executive Director are responsible for the conduct of the Group's daily business operations.

As Mr Koh Long Cheok, is the father of both Mr Koh Chon Tong and Mr Koh Choon Heong, the Board has appointed Mr Ang Miah Kiang as the Lead Independent Director to co-ordinate and to lead the Independent Directors to provide a non-executive perspective and contribute a balanced viewpoint to the Board as well as address shareholders' needs should it arise.

## Board Membership

**Principle 4:** There should be a formal and transparent process for the appointment of new directors to the board. As a principle of good corporate governance, all directors should be required to submit themselves for re-nomination and re-election at regular intervals.

The NC comprises three independent Directors. The members are:

- Mr Ang Miah Kiang (Chairman)
- Mr Soh Gim Teik
- Dr Giam Choo Hoo.

The NC has written terms of reference that describe the responsibilities of its members.

The principal functions of the NC are as follows:

- to review and recommend the nomination or re-nomination of the Directors having regard to the Director's contribution and performance;
- to determine on an annual basis whether or not a Director is independent;
- to assess the performance of the Board and contribution of each Director to the effectiveness of the Board; and
- to review and approve any new employment of related persons and the proposed terms of their employment.

Articles of Association of the Company provide that at least one-third of the directors shall retire from office by rotation at each AGM of the Company and, all Directors shall retire from office at least once every three years. A retiring director is eligible for re-election by the shareholders of the Company at the AGM. The NC assesses and recommends to the Board whether retiring Directors are suitable for re-election. The NC has recommended the re-appointment of Mr Koh Long Cheok and Dr Giam Choo Hoo (pursuant to Section 153(6) of the Companies Act, Cap. 50) and re-election of Mr Koh Choon Heong (pursuant to Article 107 of the Articles of Association) who are retiring at the forthcoming Annual General Meeting (the "AGM") to be held on 27 April 2010. The Board has accepted the recommendations and the retiring Directors will be offering themselves for re-appointment and re-election.

The NC considers that the multiple board representations held presently by some Directors do not impede their respective performance in carrying out their duties towards the Company.

# Report of Corporate Governance

Key information regarding the Directors is set out below:

<b>Name and Age of Director</b>	<b>Date of First Appointment</b>	<b>Date of Last Re-election</b>	<b>Present Directorships in Other Listed Companies</b>
Koh Long Cheok, 80	12 May 2008	29 April 2009	Nil
Koh Chon Tong, 59	18 Sept 2007	29 April 2009	Nil
Koh Choon Heong, 57	18 Sept 2007	6 June 2008	Nil
Ang Miah Khiang, 56	12 May 2008	6 June 2008	1. Avaplas Ltd 2. Asia Enterprises Holding Ltd 3. Uni-Asia Finance Corporation
Soh Gim Teik, 55	12 May 2008	6 June 2008	1. Advanced Holdings Ltd 2. BBR Holdings (S) Ltd 3. Craft Print International Ltd 4. UMS Holdings Ltd 5. QAF Ltd
Dr Giam Choo Hoo, 75	12 May 2008	29 April 2009	Nil

Note:

The academic, professional qualifications and major appointments of the members of the Board and the Directors' interests in shares are set out under the "Board of Directors" and "Directors' Report" sections respectively of this Annual Report.

## Board Performance

**Principle 5:** There should be a formal assessment of the effectiveness of the board as a whole and contribution by each director to the effectiveness of the board.

The Board has implemented an annual performance evaluation process to assess the contribution by each individual Director and the effectiveness of the Board as a whole. The purpose of the evaluation process is to increase the overall effectiveness of the Board. The assessments are made against pre-established criteria, which are derived from the Board's charter and responsibilities. The results of the evaluation are used constructively by the NC to discuss improvements with the Board.

## Access to Information

**Principle 6:** In order to fulfil their responsibilities, board members should be provided with complete, adequate and timely information prior to board meetings and on an on-going basis.

Directors are furnished regularly with information from Management about the Group as well as the relevant background information relating to the business to be discussed at Board meetings. Prior to each Board/committee meeting, all Directors/committee members are each provided with the relevant documents and information to enable them to obtain a comprehensive understanding of the issues to be deliberated upon to enable them to arrive at an informed decision.

The Directors are provided with the contact details of the Company's senior management and Company Secretary to facilitate separate and independent access.

The Company Secretary (or the representatives) attends all Board/committee meetings. The Company Secretary assists the Company's Management in ensuring that appropriate procedures are followed and that the requirements of the Companies Act, Chapter 50, and the provisions in the Listing Manual of the SGX-ST are complied with. The decision to appoint or remove the Company Secretary is a decision made by the Board as a whole.

The Directors, either as a group or individually, may seek and obtain independent professional advice to assist them in discharging their duties and responsibilities as Directors of the Company, at the expense of the Company.

# Report of Corporate Governance

## Procedures for Developing Remuneration Policies

**Principle 7:** There should be a formal and transparent procedure for fixing the remuneration packages of individual directors. No director should be involved in deciding his own remuneration.

The RC comprises three Independent Directors. The members are:

- Mr Ang Miah Kiang (Chairman)
- Mr Soh Gim Teik
- Dr Giam Choo Hoo.

The RC has written terms of reference that describe the responsibilities of its members.

The principal functions of the RC are as follows:

1. to recommend to the Board a framework of remuneration for the Directors and senior management and to determine specific remuneration packages for each Executive Director; and
2. to perform annual review of the remuneration of employees related to the directors and substantial shareholders.

The RC covers all aspects of remuneration, including but not limited to Directors' fees, salaries, allowances, bonuses, options and benefits in kind. Each RC member shall abstain from voting on any resolutions and making any recommendations and/or participating in any deliberations of the RC in respect of his remuneration package.

The RC has authority to seek any external professional advice on matters relating to remuneration of Directors as and when the need arises.

## Level and Mix of Remuneration

**Principle 8:** The level of remuneration should be appropriate to attract, retain and motivate the directors needed to run the company successfully but companies should avoid paying more for this purpose. A proportion of remuneration, especially those of executive directors, should be linked to performance.

The Company has a remuneration policy, which comprises a fixed component and a variable component in the form of a base salary and a variable bonus. The remuneration packages are designed to align interests of Executive Directors with those of shareholders and link rewards to corporate and individual performance.

The Independent Directors do not have service agreements with the Company. They are paid fixed Directors' fees, which are determined by the Board, appropriate to the level of their contribution, taking into account factors such as the effort and time spent and the responsibilities of the Independent Directors. The fees are subject to approval by the shareholders at each AGM. Except as disclosed, the Independent Directors do not receive any other remuneration from the Company.

The Company had entered into separate service agreements with the two Executive Directors, namely Mr Koh Chon Tong and Mr Koh Choon Heong for an initial period of two years commencing from 1 January 2008. The service agreements have been recently renewed, with effect from 1 January 2010, on some revised terms and conditions agreed by the two Executive Directors and the Company. Under the revised service agreements, the employment of each Executive Director is renewable automatically every 3 years unless terminated by either party by giving not less than three months' notice in writing.

The Company does not have any employee share option scheme or other long-term employee incentive scheme.

# Report of Corporate Governance

## Disclosure on Remuneration

**Principle 9:** Each company should provide clear disclosure of its remuneration policy, level and mix of remuneration and the procedures for setting remuneration in the company's annual report.

The Company Directors and key executive officers receiving remuneration from the Group for FY2009 are as follows:

Remuneration Band	2009	2008
	Number of Executive Directors	
<b>Executive Directors</b>		
\$250,000 to below \$500,000	2	2
Below \$250,000	–	–
Total	2	2
<b>Number of Key Executives</b>		
<b>Key Executives</b>		
Below \$250,000	8	7
Total	8	7

A breakdown, showing the level and mix of each individual Director's remuneration in FY2009 is as follows:

	Fee <sup>(1)</sup> %	Fixed Salary %	Variable/ Performance related Bonus %	Other Benefits %	Total %
<b>Executive Directors</b>					
<b>\$250,000 to below \$500,000</b>					
Koh Chon Tong	–	81	17	2	100
Koh Choon Heong	–	78	19	3	100
<b>Non-executive /Independent Directors</b>					
<b>Below \$250,000</b>					
Koh Long Cheok	–	–	–	100	100
Ang Miah Khiang	100	–	–	–	100
Soh Gim Teik	100	–	–	–	100
Dr Giam Choo Hoo	100	–	–	–	100

Note:

(1) These fees are subject to the approval of the shareholders at the forthcoming AGM.

Mdm Toh Kheng Song and Mr Koh Weikang are the wife and son of Mr Koh Choon Heong and Mr Koh Chon Tong respectively and their remuneration comprised fixed salaries and were less than \$250,000 during the year. The Board is of the view that given the sensitive and confidential nature of employees' remuneration, detailed disclosure of the top five key executives is not in the best interests of the Company and the Group. Such disclosure would disadvantage the Group in relation to its competitors and may affect adversely the cohesion and spirit of team work prevailing among the employees of the Group.

Save as disclosed, there is no employee of the Group who is an immediate family member of any Director whose remuneration exceeds \$150,000 during the financial year.

The RC has reviewed and approved the remuneration packages of the Directors and key executives, having regard to their contributions as well as the financial performance and commercial needs of the Group and has ensured that the Directors and key executives are adequately but not excessively remunerated.

# Report of Corporate Governance

## Accountability

**Principle 10:** The board is accountable to the shareholders while the management is accountable to the board.

For the financial performance reporting via the SGXNET to SGX-ST, and the annual report to the shareholders, the Board has a responsibility to present a fair assessment of the Group's financial position, including the prospects of the Group.

The Board ensures that the Management maintains a sound system of internal control to safeguard the shareholders' investment and the Group's assets.

The Management will provide all members of the Board with management accounts of the Group's performance, with explanatory details on its operations on a quarterly basis. Board papers are given prior to Board/committee meetings to facilitate effective discussion and decision-making.

## Audit Committee

**Principle 11:** The board should establish an audit committee with written terms of reference which clearly sets out its authority and duties.

The AC is made up of three Independent Directors. The members are:

- Mr Soh Gim Teik (Chairman)
- Mr Ang Miah Khiang
- Dr Giam Choo Hoo.

The AC has written terms of reference clearly setting out its authority and duties.

Two of the members have accounting and related financial management expertise. The Board is of the view that the AC has the necessary experience and expertise required to discharge its duties.

The AC has explicit authority to investigate any matter within its terms of reference, full access to and co-operation by Management and full discretion to invite any Director or executive officer to attend its meetings, and reasonable resources to enable it to discharge its functions properly.

The AC schedules a minimum of four meetings in each financial year. The meetings are held, inter alia, for the following purposes:-

- to review with the external auditors the audit plan, their evaluation of the system of internal accounting controls, their letter to Management and the Management's response;
- to review the quarterly and annual financial statements and results announcements before submission to the Board for approval, focusing in particular on changes in accounting policies and practices, major risk areas, significant adjustments resulting from the audit, compliance with accounting standards and compliance with the Listing Manual and any other relevant statutory or regulatory requirements;
- to review the internal control procedures and ensure co-ordination between the external auditors and Management, and review the assistance given by Management to the auditors, and discuss problems and concerns, if any, arising from audits, and any matters which the auditors may wish to discuss (in the absence of Management, where necessary);
- to review and discuss with the external auditors any suspected fraud or irregularity, or suspected infringement of any relevant laws, rules or regulations, which has or is likely to have a material impact on the Group's operating results or financial position, and Management's response;

# Report of Corporate Governance

- to consider and recommend the appointment or re-appointment of the external auditors and matters relating to the resignation or dismissal of the auditors;
- to review interested person transactions (if any) falling within the scope of Chapter 9 of the Listing Manual;
- to review potential conflicts of interests (if any);
- to review and approve all hedging policies and instruments (if any) to be implemented by the Group;
- to undertake such other reviews and projects as may be requested by the Board, and report to the Board its findings from time to time on matters arising and requiring the attention of the AC;
- to review and establish procedures for receipt, retention and treatment of complaints received by the Group regarding inter alia, criminal offences involving the Group or its employees, questionable accounting, auditing, business, safety or other matters that impact negatively on the Group; and
- generally undertake such other functions and duties as may be required by statute or the Listing Manual, or by such amendments as may be made thereto from time to time.

In addition, the AC is given the task to commission investigations into matters where there is suspected fraud or irregularity, or failure of internal controls or infringement of any law, rule or regulation, which has or is likely to have a material impact on the Company's operating results or financial position, and to review the findings thereof.

The AC has met with the external auditors, without the presence of Management, to review the adequacy of audit arrangements, with emphasis on the scope and quality of their audit, and the independence, objectivity and observations of the auditors.

The AC confirms that it has undertaken a review of all non-audit services provided by the auditors and that such non-audit services would not, in the AC's opinion, affect the independence of the auditors. In the AC's opinion, Foo Kon Tan Grant Thornton LLP is suitable for re-appointment and it has accordingly recommended to the Board that Foo Kon Tan Grant Thornton LLP be nominated for re-appointment as auditors of the Company at the forthcoming AGM.

## Internal Controls

**Principle 12:** The board should ensure that the management maintains a sound system of internal controls to safeguard the shareholders' investments and the company's assets.

The Board believes that, in the absence of any evidence to the contrary, the system of internal controls maintained by the Group's Management provides reasonable assurance against material financial misstatements or loss and includes the safeguarding of assets, the maintenance of proper accounting records, the reliability of financial information, compliance with appropriate legislation, regulations and best practices and the identification and management of business risks.

The Board notes that no system of internal control can provide absolute assurance against the occurrence of material errors, poor judgement in decision-making, human error, fraud or other irregularities.

# Report of Corporate Governance

## Internal Audit

**Principle 13:** The company should establish an internal audit function that is independent of the activities it audits.

The AC is aware of the need to establish a system of internal controls within the Group to safeguard the shareholders' interests and the Group's assets, and to manage risks. The system is intended to provide reasonable but not absolute assurance against material misstatements or loss, and to safeguard assets and ensure maintenance of proper accounting records, reliability of financial information, compliance with appropriate legislation, regulation and best practice, and the identification and containment of business risks.

The size of the operations of the Group does not warrant the Group having an in-house internal audit function. The Group has therefore appointed a professional firm to undertake the functions of an internal auditor.

The AC meets with the internal auditors, without the presence of Management, at least annually, to review the adequacy of audit arrangements.

## Communication with Shareholders

**Principle 14:** Companies should engage in regular, effective and fair communication with shareholders.

The Company is committed to maintaining and improving its level of corporate transparency of financial results and other pertinent information. Other than the routine announcements made in accordance with the requirements of the Listing Manual, the Company has issued additional announcements and press releases to update shareholders on the activities of the Company and the Group during the year.

The Company does not practise selective disclosure. Price-sensitive information is first publicly released before the Company meets with any group of investors or analysts. Results and annual reports are announced or issued within the mandatory period (and where this is not possible, relevant extensions of time are sought in accordance with applicable laws, regulations and rules).

**Principle 15:** Companies should encourage greater shareholder participation at AGMs, and allow shareholders the opportunity to communicate their views on various matters affecting the company.

Shareholders are encouraged to attend the Company's AGMs to ensure a high level of accountability. The AGM is the principal forum for dialogue with shareholders. The Company recognises the value of feedback from shareholders. During the AGMs, shareholders are given ample time and opportunities to air their views and concerns.

If any shareholder is unable to attend, he/she is allowed to appoint up to two proxies to attend and vote on his/her behalf at the AGMs through proxy forms sent in advance.

Separate resolutions are proposed at general meetings for each distinct issue.

The Chairpersons and/or members of the Board, AC, NC and RC are normally present for all general meetings and available to address questions at general meetings. External auditors are also present to assist the Directors in addressing any queries by shareholders.

# Report of Corporate Governance

## **Dealing in Securities**

The Company has adopted policies in line with the requirements of the Listing Manual of the SGX-ST on dealings in the Company's securities.

The Company prohibits its officers from dealing in the Company's shares on short-term considerations or when they are in possession of unpublished price-sensitive information. They are not allowed to deal in the Company's shares during the period commencing two weeks and one month prior to the announcements of the Group's interim and full year results respectively and ending on the date of the announcements of the relevant results.

In addition, Directors and key executives are expected to observe insider trading laws at all times even when dealing in securities within the permitted trading period.

## **Material Contracts and Loans**

Pursuant to Rule 1207(8) of the Listing Manual of the SGX-ST, the Company confirms that except as disclosed in the Directors' Report and Financial Statements, there were no other material contracts and loans of the Company and its subsidiaries involving the interests of any Director or controlling shareholder, either still subsisting at the end of the financial year or if not then subsisting, which were entered into since the end of the previous financial year.

## **Implementation of Whistle-Blowing Policy**

The Group has implemented a whistle-blowing policy whereby accessible channels are provided for employees to raise concerns about possible improprieties in financial reporting or other matters and to ensure that arrangements are in place for independent investigation of such matters and appropriate follow-up action and protection from possible retaliation or victimization.

## **Use of IPO Proceeds**

The proceeds raised from the initial public offering of its shares had been utilised for general working capital purposes.

## **Risk Management**

The Company does not have a Risk Management Committee. However, the Executive Directors and Management regularly reviews the Group's business and operational activities to identify areas of significant business risks as well as appropriate measures to control and mitigate these risks. Management reviews significant control policies and procedures and highlights the significant matters to the Board and the AC.

The Group's financial risk management objectives and policies is disclosed under Note 34 of the Notes to the Financial Statements of this Annual Report.

# Report of Corporate Governance

## Interested Person Transactions

The Company has adopted an internal policy in respect of any transaction with an interested person, which sets out the procedures for review and approval of such transaction.

All interested person transactions will be documented and submitted periodically to the AC for their review to ensure that such transactions are carried out on an arm's length basis and on normal commercial terms and are not prejudicial to the Company.

The AC reviewed the following significant transactions entered into by the Company with its interested persons for FY2009 in accordance with its existing procedures:

<b>Name of interested Person</b>	<b>Aggregate value of all interested person transactions during the financial year under review (excluding transactions less than \$100,000 and transactions conducted under shareholders' mandate pursuant to Rule 920)</b>	<b>Aggregate value of all interested person transactions conducted under shareholders' mandate pursuant to Rule 920 (excluding transactions less than \$100,000)</b>
<u>Heng Long Holdings Pte. Ltd.</u>		
a) Rental of vehicle <sup>(i)</sup>	\$12,000	–
b) Sale of vehicle <sup>(ii)</sup>	\$140,000	–
<u>Heng Long Investment Pte. Ltd.</u>		
a) Interest charge to the Group <sup>(iii)</sup>	\$71,374	–

Notes:

- (i) 3 months rental of \$12,000 were based on current market rate of \$4,000 quoted for same model.
- (ii) A motor vehicle was sold to the Group for \$140,000. The purchase price was based on a willing-buyer and willing-seller basis with reference to several quotes which the Group had obtained.
- (iii) Interest payables on any outstanding amount were based on the average of the prevailing 3-month average fixed deposit and short-term loan interest rates of our principal bankers. This is pertaining to the total loan of \$10.4 million owing by the Group as at 31 December 2007, as disclosed in the "Past Transactions" section of the Prospectus.

The Board confirms that each of these interested person transactions was entered into on an arm's length basis and on normal commercial terms and are not prejudicial to the interests of the shareholders of the Company.

The full details of each of these interested person transactions can be found in the section of the Prospectus dated 26 June 2008 titled "Interested Person Transactions".

# Directors' Report

The directors submit this annual report to the members together with the audited statement of financial position of the Company and the consolidated financial statements of the Group for the financial year ended 31 December 2009.

## Names of directors

The directors in office at the date of this report are:

Koh Long Cheok (Non-Executive Chairman)  
Koh Chon Tong (Managing Director)  
Koh Choon Heong (Executive Director)  
Ang Miah Khiang (Lead Independent Director)  
Soh Gim Teik (Independent Director)  
Dr Giam Choo Hoo (Independent Director)

## Arrangements to enable directors to acquire shares or debentures

During and at the end of the financial year, neither the Company nor its subsidiary was a party to any arrangement the object of which was to enable the directors to acquire benefits through the acquisition of shares in or debentures of the Company or of any other corporate body.

## Directors' interest in shares or debentures

According to the Register of Directors' shareholdings kept by the Company under Section 164 of the Companies Act, Cap. 50, none of the directors who held office at the end of the financial year was interested in shares or debentures of the Company and its related corporations, except as follows:

	Number of ordinary shares fully paid			
	Shares registered in the name of director		Shares in which director is deemed to have an interest	
	As at 1.1.2009	<b>As at 31.12.2009</b>	As at 1.1.2009	<b>As at 31.12.2009</b>
The Company - <u>Heng Long International Ltd.</u>				
Koh Long Cheok	4,000,000	<b>2,000,000</b>	4,000,000	<b>2,000,000</b>
Koh Chon Tong	-	-	179,018,000	<b>177,518,000</b>
Koh Choon Heong	-	-	179,018,000	<b>177,518,000</b>
Ang Miah Khiang	150,000	<b>150,000</b>	-	-
Soh Gim Teik	150,000	<b>150,000</b>	550,000	<b>550,000</b>
Dr Giam Choo Hoo	150,000	<b>150,000</b>	-	-
The immediate and ultimate holding company - <u>Heng Long Holdings Pte. Ltd.</u>				
Koh Long Cheok	1,087,362	<b>1,087,362</b>	-	-
Koh Chon Tong	-	-	4,349,446	<b>4,349,446</b>
Koh Choon Heong	-	-	4,349,446	<b>4,349,446</b>

## Directors' interest in shares or debentures (cont'd)

There are no changes to the above shareholdings as at 21 January 2010.

Mr Koh Chon Tong and Mr Koh Choon Heong, by virtue of Section 7 of the Singapore Companies Act, Cap. 50, are deemed to be interested in the whole of the issued share capital of the wholly-owned subsidiary of the Company.

## Directors' benefits

Since the end of the previous financial year, no director has received or has become entitled to receive a benefit under a contract which is required to be disclosed under Section 201(8) of the Companies Act, Cap. 50, except for salaries, bonuses and fee that are disclosed in Notes 21 and 24 to the financial statements.

## Share options

No options were granted during the financial year to take up unissued shares of the Company or any subsidiary.

No shares were issued during the financial year by virtue of the exercise of options to take up unissued shares of the Company or any subsidiary.

There were no unissued shares under option at the end of the financial year.

## Audit Committee

The Audit Committee at the end of the financial year comprises the following members:

Soh Gim Teik (Chairman)  
Ang Miah Kiang  
Dr Giam Choo Hoo

The Audit Committee performs the functions set out in Section 201B(5) of the Companies Act, Cap. 50, the SGX Listing Manual and Code of Corporate Governance. In performing its functions, the Audit Committee reviewed the following:

- (i) overall scope of both the internal and external audits and the assistance given by the Company's officers to the auditor. It met with the Company's internal and external auditors to discuss the results of their respective examinations and their evaluation of the Company's system of internal accounting controls;
- (ii) the quarterly financial information and the statement of financial position of the Company and the consolidated financial statements of the Group for the financial year ended 31 December 2009 as well as the independent auditor's report thereon; and
- (iii) interested person transactions (as defined in Chapter 9 of the Listing Manual of the SGX-ST).

The Audit Committee has full access to management and is given the resources required for it to discharge its functions. It has full authority and the discretion to invite any director or executive officer to attend its meetings. The Audit Committee also recommends the appointment of the external auditor and reviews the level of audit and non-audit fees.

The Audit Committee is satisfied with the independence and objectivity of the external auditor and has recommended to the Board of Directors that the auditor, Foo Kon Tan Grant Thornton LLP, be nominated for re-appointment as auditor at the forthcoming Annual General Meeting of the Company.

# Directors' Report

## **Independent auditor**

The independent auditor, Foo Kon Tan Grant Thornton LLP, Certified Public Accountants, has expressed its willingness to accept re-appointment.

## **Other information required by the SGX-ST**

### **Material information**

Apart from the Service Agreements between certain directors and the Company, there are no material contracts to which the Company or its subsidiary, is a party which involve directors' interests subsisted or have been entered into during the financial year.

### **Interested person transactions**

There were no interested person transactions as defined in Chapter 9 of the SGX-ST Listing Manual conducted during the financial year except as disclosed under "Interested Person Transactions" in the Report of Corporate Governance.

On behalf of the Directors

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KOH CHON TONG

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KOH CHOON HEONG

Dated: 5 March 2010

# Statement by Directors

In the opinion of the directors, the accompanying statements of financial position, consolidated statement of comprehensive income, consolidated statement of changes in equity and the consolidated statement of cash flows, together with the notes thereon, are drawn up so as to give a true and fair view of the state of affairs of the Company and of the Group as at 31 December 2009 and of the results of the business, changes in equity and cash flows of the Group for the financial year then ended on that date, and at the date of this statement, there are reasonable grounds to believe that the Company will be able to pay its debts as and when they fall due.

On behalf of the Directors

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KOH CHON TONG

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KOH CHOON HEONG

Dated: 5 March 2010

# Independent Auditor's Report

to the Members of Heng Long International Ltd.

We have audited the accompanying financial statements of Heng Long International Ltd. (the "Company") and its subsidiary (the "Group"), which comprise the statements of financial position of the Company and the Group as at 31 December 2009, the consolidated statement of comprehensive income, consolidated statement of changes in equity and consolidated statement of cash flows of the Group for the year then ended, and a summary of significant accounting policies and other explanatory notes.

## **Management's responsibility for the financial statements**

Management is responsible for the preparation and fair presentation of these financial statements in accordance with the provisions of the Singapore Companies Act, Cap. 50 (the "Act") and Singapore Financial Reporting Standards. This responsibility includes:

- (a) devising and maintaining a system of internal accounting controls sufficient to provide a reasonable assurance that assets are safeguarded against loss from unauthorised use or disposition; and transactions are properly authorised and that they are recorded as necessary to permit the preparation of true and fair profit and loss accounts and balance sheets and to maintain accountability of assets;
- (b) selecting and applying appropriate accounting policies; and
- (c) making accounting estimates that are reasonable in the circumstances.

## **Auditor's responsibility**

Our responsibility is to express an opinion on these financial statements based on our audit. We conducted our audit in accordance with Singapore Standards on Auditing. Those standards require that we comply with ethical requirements and plan and perform the audit to obtain reasonable assurance about whether the financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the auditor's judgement, including the assessment of the risks of material misstatement of the financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the entity's preparation and fair presentation of the financial statements 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 management, as well as evaluating the overall presentation of the financial statements.

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

# Independent Auditor's Report

to the Members of Heng Long International Ltd.

## Opinion

In our opinion:

- (a) the consolidated financial statements of the Group and the statement of financial position of the Company are properly drawn up in accordance with the provisions of the Act and Singapore Financial Reporting Standards so as to give a true and fair view of the state of affairs of the Company and of the Group as at 31 December 2009, and the results, changes in equity and cash flows of the Group for the financial year ended on that date; and
- (b) the accounting and other records required by the Act to be kept by the Company and by the subsidiary incorporated in Singapore of which we are the auditor, have been properly kept in accordance with the provisions of the Act.

Foo Kon Tan Grant Thornton LLP  
Public Accountants and  
Certified Public Accountants

Singapore, 5 March 2010

# Statements of Financial Position

as at 31 December 2009

	Note	The Company		The Group	
		31 December 2009	31 December 2008	31 December 2009	31 December 2008
		\$	\$	\$	\$
<b>Assets</b>					
<b>Non-Current</b>					
Property, plant and equipment	6	–	–	<b>4,001,252</b>	4,342,098
Subsidiary	7	<b>69,854,356</b>	69,931,793	–	–
		<b>69,854,356</b>	69,931,793	<b>4,001,252</b>	4,342,098
<b>Current</b>					
Inventories	8	–	–	<b>87,356,781</b>	78,585,865
Trade and other receivables	9	<b>7,276</b>	–	<b>13,987,676</b>	21,169,611
Cash and cash equivalents	10	<b>4,857</b>	2	<b>6,215,616</b>	8,372,220
		<b>12,133</b>	2	<b>107,560,073</b>	108,127,696
<b>Total assets</b>		<b>69,866,489</b>	69,931,795	<b>111,561,325</b>	112,469,794
<b>Equity</b>					
<b>Capital and Reserves</b>					
Share capital	11	<b>70,203,139</b>	70,203,139	<b>70,203,139</b>	70,203,139
Merger reserve	12	–	–	<b>(46,000,000)</b>	(46,000,000)
(Accumulated losses)/retained profits		<b>(497,335)</b>	(271,442)	<b>56,508,008</b>	57,455,924
		<b>69,705,804</b>	69,931,697	<b>80,711,147</b>	81,659,063
<b>Liabilities</b>					
<b>Non-Current</b>					
Deferred tax liabilities	13	–	–	<b>167,000</b>	270,000
Obligations under hire purchase	14	–	–	–	21,707
Amount owing to a related company	15	–	–	<b>3,465,545</b>	5,465,545
		–	–	<b>3,632,545</b>	5,757,252
<b>Current</b>					
Trade and other payables	16	<b>160,685</b>	98	<b>4,054,308</b>	4,640,180
Obligations under hire purchase	14	–	–	<b>26,026</b>	101,043
Derivative financial instrument	17	–	–	–	95,600
Amount owing to ultimate holding company	18	–	–	<b>357</b>	63,645
Amount owing to a related company	15	–	–	<b>4,170,972</b>	2,099,598
Bank borrowings (unsecured)	19	–	–	<b>18,349,790</b>	15,314,352
Current tax payable		–	–	<b>616,180</b>	2,739,061
		<b>160,685</b>	98	<b>27,217,633</b>	25,053,479
<b>Total equity and liabilities</b>		<b>69,866,489</b>	69,931,795	<b>111,561,325</b>	112,469,794

The annexed notes form an integral part of and should be read in conjunction with these financial statements.

# Consolidated Statement of Comprehensive Income

for the financial year ended 31 December 2009

	Note	Year ended 31 December 2009 \$	Year ended 31 December 2008 \$
Revenue	5	<b>34,015,784</b>	68,161,543
Cost of sales		<b>(26,175,987)</b>	(44,992,918)
Gross profit		<b>7,839,797</b>	23,168,625
Other operating income	20	<b>479,169</b>	181,013
Administrative expenses	21	<b>(4,870,353)</b>	(7,778,761)
Other operating expenses	22	<b>(104,210)</b>	(207,073)
Finance costs	23	<b>(334,777)</b>	(669,377)
Share issue expenses		-	(767,982)
Profit before taxation	25	<b>3,009,626</b>	13,926,445
Taxation	26	<b>(527,142)</b>	(2,541,987)
Profit after taxation		<b>2,482,484</b>	11,384,458
Other comprehensive income	27	-	-
<b>Total comprehensive income</b>		<b>2,482,484</b>	11,384,458
Earnings per share	28	<b>Cents</b>	Cents
– Basic		<b>0.93</b>	4.89
– Diluted		<b>0.93</b>	4.89

Note. The distribution costs which include freight and insurance charges are borne by the customers of the Group as stipulated in the terms of the contract.

The annexed notes form an integral part of and should be read in conjunction with these financial statements.

# Consolidated Statement of Changes in Equity

for the financial year ended 31 December 2009

	<b>Note</b>	<b>Share Capital</b> \$	<b>Merger reserve</b> \$	<b>Retained profits</b> \$	<b>Total</b> \$
Balance at 1 January 2008		2,000,002	–	49,671,466	51,671,468
Deemed distribution to the then equity owners pursuant to the Restructuring Exercise		(2,000,000)	–	–	(2,000,000)
New shares issued pursuant to the Restructuring Exercise	11	48,000,000	–	–	48,000,000
Merger reserve pursuant to the Restructuring Exercise	12	–	(46,000,000)	–	(46,000,000)
Proceeds from new shares	11	23,120,000	–	–	23,120,000
Share issue expenses	11	(916,863)	–	–	(916,863)
Total comprehensive income		–	–	11,384,458	11,384,458
2007 dividend paid	29	–	–	(3,600,000)	(3,600,000)
Balance at 31 December 2008		70,203,139	(46,000,000)	57,455,924	81,659,063
Total comprehensive income		–	–	2,482,484	2,482,484
2008 dividend paid	29	–	–	(3,430,400)	(3,430,400)
Balance at 31 December 2009		70,203,139	(46,000,000)	56,508,008	80,711,147

The annexed notes form an integral part of and should be read in conjunction with these financial statements.

# Consolidated Statement of Cash Flows

for the financial year ended 31 December 2009

	Year ended 31 December 2009	Year ended 31 December 2008
	\$	\$
<b>Cash Flows from Operating Activities</b>		
Profit before taxation	3,009,626	13,926,445
Adjustments for:		
Depreciation of property, plant and equipment	899,045	910,959
Property, plant and equipment written off	935	6,737
Loss on disposal of property, plant and equipment	1,625	–
Fair value gain on interest rate swap	–	(27,658)
Interest expense	334,777	669,377
Interest income	(17,621)	(68,457)
Operating profit before working capital changes	4,228,387	15,417,403
Increase in inventories	(8,770,916)	(4,098,638)
Decrease/(increase) in operating receivables	7,162,684	(5,103,580)
(Decrease)/increase in operating payables	(580,224)	889,200
Cash generated from operations	2,039,931	7,104,385
Interest paid	(272,339)	(937,807)
Income tax paid	(2,753,023)	(2,065,137)
Net cash (used in)/generated from operating activities	(985,431)	4,101,441
<b>Cash Flows from Investing Activities</b>		
Purchase of property, plant and equipment (Note A)	(560,874)	(257,358)
Proceeds from sale of property, plant and equipment	115	–
Interest received	36,872	49,206
Net cash used in investing activities	(523,887)	(208,152)
<b>Cash Flows from Financing Activities</b>		
Dividend paid	(3,430,400)	(3,600,000)
Settlement of derivative financial instrument	(95,600)	–
Net proceeds from issue of share of the Company	–	22,203,137
Repayment to finance lease obligations	(96,724)	(77,250)
Repayment to ultimate holding company	(60,000)	(1,874,574)
Repayment to a related company	–	(698,002)
Short term loans obtained/(repaid)	8,690,000	(9,060,000)
Trust receipts repaid	(5,979,271)	(3,162,139)
Net cash (used in)/generated from financing activities	(971,995)	3,731,172
Net (decrease)/increase in cash and cash equivalents	(2,481,313)	7,624,461
Cash and cash equivalents at beginning of year	8,333,074	708,613
Cash and cash equivalents at end of year (Note 10)	5,851,761	8,333,074

Note

- A. Property, plant and equipment  
During the financial year ended 31 December 2008, the Group acquired property, plant and equipment with an aggregate cost of \$457,358 of which \$200,000 was acquired by means of hire purchase. Cash payments of \$257,358 were made to purchase property, plant and equipment.

The annexed notes form an integral part of and should be read in conjunction with these financial statements.

# Notes to the Financial Statements

for the financial year ended 31 December 2009

## 1 General information

The financial statements of the Company and the Group for the year ended 31 December 2009 were authorised for issue in accordance with a resolution of the directors on the date of the Statement by Directors.

The Company is incorporated and is domiciled in Singapore and is listed on the Singapore Exchange.

The registered office of the Company is located at 50 Defu Lane 7, Singapore 539356.

The principal activity of the Company is that of an investment holding company. The principal activities of the subsidiary are stated in Note 7 to the financial statements.

The immediate and ultimate holding company is Heng Long Holdings Pte. Ltd., a company incorporated in Singapore.

## 2 Basis of preparation

### Basis of preparation

The financial statements are prepared in accordance with Singapore Financial Reporting Standards ("FRS") including related Interpretations to FRS ("INT FRS") promulgated by the Accounting Standards Council ("ASC"). The financial statements have been prepared under the historical cost convention, unless as disclosed in the accounting policies below.

The consolidated financial statements are presented in Singapore dollars, which is the Company's functional currency. All financial information are presented in Singapore dollars, unless otherwise stated.

### Significant accounting estimates and judgements

The preparation of the financial statements in conformity with FRS requires the use of judgements, estimates and assumptions that affect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities at the date of the financial statements and the reported amounts of revenue and expenses during the financial year. Although these estimates are based on management's best knowledge of current events and actions, actual results may differ from those estimates.

The critical accounting estimates and assumptions used and areas involving a high degree of judgement are described below.

### Critical assumptions used and accounting estimates in applying accounting policies

#### Income taxes

Significant judgement is required in determining the capital allowances and deductibility of certain expenses during the estimation of the provision for income tax. There are certain transactions and computations for which the ultimate tax determination is uncertain during the course of business. The Group recognises liabilities for expected tax issues based on estimates of whether additional taxes will be due. When the final tax outcome of these matters is different from the amounts that were initially recognised, such differences will impact the income tax and deferred tax provisions in the period in which such determination is made (see Note 26).

#### Depreciation of property, plant and equipment

Property, plant and equipment are depreciated on a straight-line basis over their estimated useful lives. Management estimates the useful lives of property, plant and equipment to be within 5 to 28 years. The carrying amount of the Group's property, plant and equipment as at 31 December 2009 is \$4,001,252. Changes in the expected level of usage and technological developments could impact the economic useful lives and the residual values of these assets, therefore future depreciation charges could be revised.

# Notes to the Financial Statements

for the financial year ended 31 December 2009

## 2 Basis of preparation (cont'd)

### Critical judgements and key sources of estimation uncertainty

In the process of applying the entity's accounting policies, which are described in Note 4 to the financial statements, management had made the following judgements that have the most significant effect on the amounts recognised in the financial statements:

#### Impairment of loans and receivables

The Group makes allowances for bad and doubtful debts based on an assessment of the recoverability of trade and other receivables. Allowances are applied to trade and other receivables where events or changes in circumstances indicate that the balances may not be collectible. The identification of bad and doubtful debts requires the use of judgement and estimates. Where the expected outcome is different from the original estimate, such difference will impact carrying value of trade and other receivables and doubtful debt expenses in the period in which such estimate has been changed (see Note 9).

#### Allowances for inventory obsolescence

Inventories are stated at the lower of cost and net realisable value. In determining the net realisable value, the directors estimate the future selling price in the ordinary course of business, less the estimated costs of selling expenses. The carrying amounts of inventories at the financial position date are disclosed in Note 8 to the financial statements.

## 3(a) Interpretations and amendments to published standards effective in 2009

On 1 January 2009, the following new or amended FRS and Interpretations to FRS ("INT FRS") are mandatory for application:

FRS 1 (Revised 2008)	Presentation of Financial Statements
Amendments to FRS 1 (Revised 2008)	Amendments relating to puttable financial instruments and obligations arising on liquidation
FRS 2 (Revised)	Inventories
FRS 23 (Revised)	Borrowing costs
Amendments to FRS 27	Amendments relating to cost of an investment in a subsidiary, jointly controlled entity or associate
Amendments to FRS 32	Amendments relating to puttable financial instruments and obligations arising on liquidation
Amendments to FRS 39	Amendments relating to reclassification of financial assets
Amendments to FRS 101	Amendments relating to cost of an investment in a subsidiary, jointly controlled entity or associate
Amendments to FRS 102	Amendments relating to vesting conditions and cancellations
Amendments to FRS 107	Amendments relating to reclassification of financial assets
Amendments to FRS 107	Financial Instruments: Disclosures - Improving disclosures about financial instruments
FRS 108	Operating Segments
Amendments to INT FRS 109 and FRS 39	Embedded Derivatives
INT FRS 113	Customer Loyalty Programmes
INT FRS 116	Hedges of a Net Investment in a Foreign Operation
Improvements to FRSs 2008	

The adoption of these FRS and INT FRS, where relevant to the Group, did not result in substantial changes to the Group's accounting policies nor any significant impact on these financial statements except for the following:

# Notes to the Financial Statements

for the financial year ended 31 December 2009

## 3(a) Interpretations and amendments to published standards effective in 2009 (cont'd)

### FRS 1 (Revised) Presentation of Financial Statements

The revised standard requires all changes in equity arising from transactions with owners in their capacity as owners to be presented separately from components of comprehensive income. Components of comprehensive income are presented in the primary statement of comprehensive income, comprising profit or loss for the year and other comprehensive income.

The "balance sheets" and "cash flow statement" have been re-titled to "statements of financial position" and "statement of cash flows" respectively.

### FRS 107 Financial Instruments: Disclosures - Improving disclosures about financial instruments

The amendments to FRS 107 introduce new disclosures relating to fair value measurements and liquidity risk.

### FRS 108 Operating segments

FRS 108 requires a 'management approach', under which segment information is presented on the same basis as that used for internal reporting purposes. The Group determined that the reportable operating segments are the same as the business segments previously identified under FRS 14 Segment Reporting.

## 3(b) FRS and INT FRS issued but not yet effective

At the date of authorisation of these financial statements, the following FRS and INT FRS were issued but not yet effective:

		Effective date (Annual periods beginning on or after)
FRS 24 (Revised)	Related Party Disclosures	1.1.2011
FRS 27 (Revised)	Consolidated and Separate Financial Statements	1.7.2009
Amendments to FRS 32	Classification of Rights Issues	1.2.2010
Amendments to FRS 39	Financial Instruments: Recognition and Measurement - Eligible Hedged Items	1.7.2009
FRS 101 (Revised)	First-time Adoption of Financial Reporting Standards	1.7.2009
Amendments to FRS 101	Additional Exemptions for First-time Adopters	1.1.2010
Amendments to FRS 102	Group Cash-settled Share-based Payment Transactions	1.1.2010
FRS 103 (Revised)	Business Combinations	1.7.2009
Amendments to INT FRS 109 and FRS 39	Embedded derivatives	30.6.2009
Amendments to INT FRS 114	Prepayments of a Minimum Funding Requirement	1.1.2011
INT FRS 117	Distribution of Non-cash Assets to Owners	1.7.2009
INT FRS 118	Transfer of Assets from Customers	1.7.2009
INT FRS 119	Extinguishing Financial Liabilities with Equity Instruments	1.7.2010
Improvements to FRSs 2009		22.6.2009

The directors do not anticipate that the adoption of these FRS and INT FRS in future periods, where relevant to the Group, will have a material impact on the financial statements of the Group.

# Notes to the Financial Statements

for the financial year ended 31 December 2009

## 4 Summary of significant accounting policies

### Consolidation

The financial statements of the Group include the financial statements of the Company and its subsidiary made up to the end of the financial year. Information on its subsidiary is given in Note 7 to the financial statements.

All inter-company balances and significant inter-company transactions and resulting unrealised profits or losses are eliminated on consolidation and the consolidated financial statements reflect external transactions and balances only. The results of subsidiary acquired or disposed of during the financial year, if any, are included in or excluded from the consolidated income statement from the effective date in which control is transferred to the Group or in which control ceases, respectively.

### Property, plant and equipment and depreciation

Property, plant and equipment are stated at cost less accumulated depreciation and accumulated impairment losses, if any. Depreciation is computed utilising the straight-line method to write off the cost of these assets over their estimated useful lives as follows:

Leasehold properties	28 years or over the remaining useful life, whichever is lesser
Plant and machinery	6 - 7 years
Furniture, fittings and office equipment	5 - 10 years
Motor vehicles	6 - 7 years

No depreciation has been provided on asset-in-progress.

The residual values, if any, and useful lives of property, plant and equipment are reviewed, and adjusted as appropriate at each financial position date. The useful lives and depreciation method are reviewed at each financial year-end to ensure that the method and period of depreciation are consistent with previous estimates and the expected pattern of consumption of the future economic benefits embodied in the items of property, plant and equipment.

The cost of property, plant and equipment includes expenditure that is directly attributable to the acquisition of the items. Dismantlement, removal or restoration costs are included as part of the cost of property, plant and equipment if the obligation for dismantlement, removal or restoration is incurred as a consequence of acquiring or using the asset. Cost may also include transfers from equity of any gains/losses on qualifying cash flow hedges of foreign currency purchases of property, plant and equipment.

Subsequent expenditure relating to property, plant and equipment that have been recognised is added to the carrying amount of the asset when it is probable that future economic benefits, in excess of the standard of performance of the asset before the expenditure was made, will flow to the Group and the cost can be reliably measured. Other subsequent expenditure is recognised as an expense during the financial year in which it is incurred.

For acquisitions and disposals during the financial year, depreciation is provided from the month of acquisition and to the month of disposal respectively.

Fully depreciated property, plant and equipment are retained in the books of accounts until they are no longer in use.

### Subsidiary

A subsidiary is an entity controlled by the Group. Control exists when the Group has the power to govern the financial and operating policies of an entity so as to obtain benefits from its activities. The existence and effect of potential voting rights that are currently exercisable or convertible are considered when assessing whether there is control.

Shares in subsidiary are stated at cost less allowance for any impairment losses on an individual subsidiary basis.

# Notes to the Financial Statements

for the financial year ended 31 December 2009

## 4 Summary of significant accounting policies (cont'd)

### **Inventories**

Inventories are stated at the lower of cost and net realisable value. Cost is determined on a first-in, first-out basis. In the case of manufactured inventories, cost consists of cost of raw materials, direct labour and an appropriate proportion of production overheads.

Allowance is made, where necessary, for obsolete, slow-moving and defective inventories in arriving at the net realisable value. Net realisable value is the estimated selling price in the ordinary course of business less the estimated costs necessary to make the sale.

### **Financial assets**

Financial assets include cash and financial instruments. Financial assets, other than hedging instruments, can be divided into the following categories: financial assets at fair value through profit or loss, held-to-maturity investments, loans and receivables and available-for-sale financial assets. Financial assets are assigned to the different categories by management on initial recognition, depending on the purpose for which the investments were acquired. The designation of financial assets is re-evaluated and classification may be changed at the reporting date with the exception that the designation of financial assets at fair value through profit or loss is not revocable.

All financial assets are recognised on their trade date - the date on which the Company and the Group commit to purchase or sell the asset. Financial assets are initially recognised at fair value, plus directly attributable transaction costs except for financial assets at fair value through profit or loss, which are recognised at fair value.

Derecognition of financial instruments occurs when the rights to receive cash flows from the investments expire or are transferred and substantially all of the risks and rewards of ownership have been transferred. An assessment for impairment is undertaken at least at each financial position date whether or not there is objective evidence that a financial asset or a group of financial assets is impaired.

The Company and the Group do not have any investments and accordingly, there is no investment to be classified as financial assets at fair value through profit or loss, assets held-to-maturity or available-for-sale.

### **Loans and receivables**

Loans and receivables are non-derivative financial assets with fixed or determinable payments that are not quoted in an active market. They arise when the Company and the Group provide money, goods or services directly to a debtor with no intention of trading the receivables. They are included in current assets, except for maturities greater than 12 months after the financial position date. These are classified as non-current assets, if any.

Loans and receivables are subsequently measured at amortised cost using the effective interest method less provision for impairment. Any change in their value is recognised in the income statement. Any reversal shall not result in a carrying amount that exceeds what the amortised cost would have been had any impairment loss not been recognised at the date the impairment is reversed. Any reversal is recognised in the income statement.

Receivables are provided against when there is objective evidence that the Company and the Group will not be able to collect all amounts due to it in accordance with the original terms of the receivables. The amount of the write-down is determined as the difference between the asset's carrying amount and the present value of estimated future cash flows.

Loans and receivables include trade and other receivables and deposits held in banks.

### **Cash and cash equivalents**

For the purpose of presentation in the consolidated statement of cash flows, cash and cash equivalents include cash on hand, deposits with financial institutions which are subject to an insignificant risk of change in value, and bank overdrafts. Bank overdrafts are presented as current borrowings on the statements of financial position.

# Notes to the Financial Statements

for the financial year ended 31 December 2009

## 4 Summary of significant accounting policies (cont'd)

### Share capital

Ordinary shares are classified as equity. Incremental costs directly attributable to the issuance of new ordinary shares are deducted against the share capital account.

### Dividends

Final dividends proposed by the directors are not accounted for in shareholders' equity as an appropriation of retained profits, until they have been approved by the shareholders in a general meeting. When these dividends have been approved by the shareholders and declared, they are recognised as a liability.

Interim dividends are simultaneously proposed and declared, because of the articles of association of the Company grant the directors the authority to declare interim dividends. Consequently, interim dividends are recognised directly as a liability when they are proposed and declared.

### Financial liabilities

The Company's and the Group's financial liabilities include bank borrowings, obligations under hire purchase, trade and other payables and inter-company balances.

Financial liabilities are recognised when the Company and the Group become a party to the contractual agreements of the instrument. All interest-related charges are recognised as an expense in "finance costs" in the income statement.

Borrowings are recognised initially at fair value of proceeds received less attributable transaction costs, if any. Borrowings are subsequently stated at amortised cost which is the initial fair value less any principal repayments. Any difference between the proceeds (net of transaction costs) and the redemption value is taken to the income statement over the period of the borrowings using the effective interest method.

Borrowings which are due to be settled within 12 months after the financial position date are included in current liabilities in the statements of financial position even though the original terms was for a period longer than twelve months and an agreement to refinance, or to reschedule payments, on a long-term basis is completed after the financial position date and before the financial statements are authorised for issue. Borrowings to be settled within the Group's normal operating cycle are classified as current. Other borrowings due to be settled more than 12 months after the financial position date, if any, are included in non-current liabilities in the statements of financial position.

Trade and other payables and inter-company balances are initially measured at fair value, and subsequently measured at amortised cost, using the effective interest method.

### Financial guarantees

The Company has issued corporate guarantees to banks for bank borrowings of its subsidiary. These guarantees are financial guarantee contracts as they require the Company to reimburse the banks if the subsidiary fail to make principal or interest payments when due in accordance with the terms of their borrowings.

Financial guarantee contracts are initially recognised at their fair value plus transaction costs.

Financial guarantee contracts are subsequently amortised to the income statement over the period of the subsidiary's borrowings, unless the Company has incurred an obligation to reimburse the bank for an amount higher than the unamortised amount. In this case, the financial guarantee contracts shall be carried at the expected amount payable to the bank.

# Notes to the Financial Statements

for the financial year ended 31 December 2009

## 4 Summary of significant accounting policies (cont'd)

### **Contingent liabilities**

A contingent liability is a possible obligation that arises from past events and whose existence will only be confirmed by the occurrence or non-occurrence of one or more uncertain future events not wholly within the control of the Company and the Group. It can also be a present obligation arising from past events that is not recognised because it is not probable that outflow of economic resources will be required or the amount of obligation cannot be measured reliably. A contingent liability is not recognised but is disclosed in the notes to the financial statements. When a change in the probability of an outflow occurs so that outflow is probable and can be measured reliably, they will then be recognised as a provision.

### **Related parties**

Related parties are entities with one or more common direct/indirect shareholders and/or directors and in which one party has the ability to control or exercise significant influence over the other party in financial and operating decision making.

### **Leases**

#### **Operating lease**

Leases of assets in which a significant portion of the risks and rewards of ownership are retained by the lessor are classified as operating leases.

Rentals on operating leases are charged to the income statement on a straight-line basis over the lease term. Lease incentives, if any, are recognised as an integral part of the net consideration agreed for the use of the leased asset. Penalty payments on early termination, if any, are recognised in the income statement when incurred.

#### **Hire purchase**

Where assets are financed by hire purchase agreements that give rights approximating to ownership, the assets are capitalised as if they had been purchased outright at values equivalent to the lower of the fair values of the leased assets and the present value of the total minimum lease payments during the periods of the leases. The corresponding lease commitments are included under liabilities. The excess of lease payments over the recorded lease obligations are treated as finance charges which are amortised over each lease to give a constant effective rate of charge on the remaining balance of the obligation.

The leased assets are depreciated on a straight-line basis over their estimated useful lives as detailed in the accounting policy on "Property, plant and equipment and depreciation".

### **Provisions**

Provisions are recognised when the Company and the Group have a present obligation (legal or constructive) as a result of a past event, it is probable that an outflow of resources embodying economic benefits will be required to settle the obligation and a reliable estimate can be made of the amount of the obligation.

The directors review the provisions annually and where in their opinion, the provision is inadequate or excessive, due adjustment is made.

If the effect of the time value of money is material, if any, provisions are discounted using a current pre-tax rate that reflects, where appropriate, the risks specific to the liability. Where discounting is used, the increase in the provision due to the passage of time is recognised as finance costs.

# Notes to the Financial Statements

for the financial year ended 31 December 2009

## 4 Summary of significant accounting policies (cont'd)

### Income taxes

Current income tax for current and prior periods is recognised at the amount expected to be paid to or recovered from the tax authorities, using the tax rates and tax laws that have been enacted or substantively enacted by the financial position date.

Deferred income tax is recognised for all temporary differences arising between the tax bases of assets and liabilities and their carrying amounts in the financial statements except when the deferred income tax arises from the initial recognition of an asset or liability in a transaction that is not a business combination and affects neither accounting or taxable profit or loss at the time of the transaction.

A deferred income tax asset is recognised to the extent that is probable that future taxable profit will be available against which the deductible temporary differences and tax losses can be utilised.

Deferred income tax is measured:

- (i) at the tax rates that are enacted to apply when the related deferred income tax is realised or the deferred income tax liability is settled, based on tax rates and tax laws that have been enacted or substantively enacted by the date of the financial position; and
- (ii) based on the tax consequence that will follow from the manner in which the Company and the Group expect, at the date of the financial position, to recover or settle the carrying amounts of its assets and liabilities.

Current and deferred income taxes are recognised as income or expense in the profit or loss, except to the extent that the tax arises from a transaction which is recognised directly in equity.

### Impairment of non-financial assets

The carrying amounts of the Company's and the Group's non-financial assets subject to impairment are reviewed at each financial position date to determine whether there is any indication of impairment. If any such indication exists, the asset's recoverable amount is estimated. Recoverable amount is defined as the higher of fair value less cost to sell and value-in-use.

For the purposes of assessing impairment, recoverable amount is determined on an individual asset basis unless the asset does not generate cash flows that are largely independent of those from other assets. In such case, recoverable amount is determined for the cash-generating units to which the asset belongs.

An impairment loss is recognised for the amount by which the asset's or cash-generating unit's carrying amount exceeds its recoverable amount. Impairment losses are charged to the income statement unless it reverses a previous revaluation in which case it will be charged to equity.

An impairment loss is reversed if there has been a change in the estimates used to determine the recoverable amount or when there is an indication that the impairment loss recognised for the asset no longer exists or decreases.

An impairment loss is reversed only to the extent that the asset's carrying amount does not exceed the carrying amount that would have been determined if no impairment loss had been recognised.

A reversal of an impairment loss on a revalued asset is credited directly to equity. However, to the extent that an impairment loss on the same revalued asset was previously recognised as an expense in the income statement, a reversal of that impairment loss is recognised as income in the income statement.

# Notes to the Financial Statements

for the financial year ended 31 December 2009

## 4 Summary of significant accounting policies (cont'd)

### **Employee benefits**

#### **Pension obligations**

The Group contributes to the Central Provident Fund ("CPF"), a defined contribution plan regulated and managed by the Government of Singapore in respect of eligible employees. The Group's contributions to CPF are charged to the income statement in the period to which the contributions relate.

#### **Employee leave entitlements**

Employee entitlements to annual leave are recognised when they accrue to employees. Accrual is made for the unconsumed leave as a result of services rendered by employees up to the financial position date.

#### **Key management personnel**

Key management personnel are those persons having the authority and responsibility for planning, directing and controlling the activities of the Group. Directors are considered key management personnel.

### **Revenue recognition**

Revenue is recognised when the significant risks and rewards of ownership have been transferred to the buyer. Revenue excludes relevant goods and services tax ("GST") and is arrived at after deduction of trade discounts. No revenue is recognised if there are significant uncertainties regarding recovery of the consideration due, associated costs or the possible return of goods.

Revenue from sale of goods is recognised when goods are sold to customers, which generally coincides with their delivery and acceptance.

Interest income is recognised on a time-apportioned basis using the effective interest method.

### **Functional currency**

Items included in the financial statements of the Company and the Group are measured using the currency that best reflects the economic substance of the underlying events and circumstances relevant to that entity ("the functional currency"). The statement of financial position of the Company and the consolidated financial statements of the Group are presented in Singapore dollar (to the nearest dollar) which is also the functional currency of the Company.

### **Conversion of foreign currencies**

#### **Transactions and balances**

Transactions in a currency other than the functional currency ("foreign currency") are translated into the functional currency using the exchange rates at the dates of the transactions. Currency translation differences from the settlement of such transactions and from the translation of monetary assets and liabilities denominated in foreign currencies at the closing rates at the financial position date are recognised in the income statement, unless they arise from borrowings in foreign currencies, other currency instruments designated and qualifying as net investment hedges and net investment in foreign operations. These currency translation differences, if any, are recognised in the currency translation reserve in the financial statements and transferred to the income statement as part of the gain or loss on disposal of the foreign operation.

# Notes to the Financial Statements

for the financial year ended 31 December 2009

## 4 Summary of significant accounting policies (cont'd)

### Financial instruments

Financial instruments carried on the statements of financial position include cash and cash equivalents, financial assets and financial liabilities. The particular recognition methods adopted are disclosed in the individual policy statements associated with each item. These instruments are recognised when contracted for.

Disclosures on financial risk management objectives and policies are provided in Note 34 to the financial statements.

### Operating segments

For management purposes, operating segments are organised based on their products and services which are independently managed by the respective segment managers responsible for the performance of the respective segments under their charge. The segment managers are directly accountable to the chief executive officer who regularly reviews the segment results in order to allocate resources to the segments and to assess segment performance.

## 5 Revenue

The principal activities of the Group consist of those of importing, exporting and processing of leather materials.

Revenue representing sale of leather materials, excluding applicable GST, is detailed as follows:

	2009	2008
	\$	\$
Raw crocodilian skin	<b>160,017</b>	1,727,857
Crusted crocodilian skin	<b>3,788,444</b>	4,717,581
Finished crocodilian leather	<b>28,390,618</b>	60,542,121
Other exotic skin or leather	<b>1,676,705</b>	1,183,922
	<b>34,015,784</b>	68,171,481
Less: discount	–	(9,938)
	<b>34,015,784</b>	68,161,543

# Notes to the Financial Statements

for the financial year ended 31 December 2009

## 6 Property, plant and equipment

The Group	Leasehold properties \$	Plant and machinery \$	Furniture, fittings and office equipment \$	Motor vehicles \$	Asset-in- -progress \$	Total \$
<b>Cost</b>						
Balance as at 1 January 2008	5,114,635	6,033,270	1,881,519	213,383	–	13,242,807
Additions	–	114,666	71,485	271,207	–	457,358
Disposals	–	(3,050)	(46,064)	–	–	(49,114)
Balance as at 31 December 2008	5,114,635	6,144,886	1,906,940	484,590	–	13,651,051
Additions	–	227,134	14,774	140,000	178,966	560,874
Disposals	–	–	(10,531)	–	–	(10,531)
Balance as at 31 December 2009	5,114,635	6,372,020	1,911,183	624,590	178,966	14,201,394
<b>Accumulated depreciation</b>						
Balance as at 1 January 2008	2,350,865	4,582,848	1,298,669	207,989	–	8,440,371
Depreciation for the year	318,323	373,822	176,977	41,837	–	910,959
Disposals	–	(3,050)	(39,327)	–	–	(42,377)
Balance as at 31 December 2008	2,669,188	4,953,620	1,436,319	249,826	–	9,308,953
Depreciation for the year	318,323	339,771	164,114	76,837	–	899,045
Disposals	–	–	(7,856)	–	–	(7,856)
Balance as at 31 December 2009	2,987,511	5,293,391	1,592,577	326,663	–	10,200,142
<b>Net book value</b>						
Balance as at 31 December 2009	2,127,124	1,078,629	318,606	297,927	178,966	4,001,252
Balance as at 31 December 2008	2,445,447	1,191,266	470,621	234,764	–	4,342,098

(a) Depreciation is charged to:

The Group	Note	2009 \$	2008 \$
Cost of sales		<b>658,095</b>	692,144
Administrative expenses	21	<b>240,950</b>	218,815
		<b>899,045</b>	910,959

(b) The net book value of a motor vehicle acquired under hire purchase contract for the Group amounted to \$189,845 (2008 - \$230,526).

# Notes to the Financial Statements

for the financial year ended 31 December 2009

## 6 Property, plant and equipment (cont'd)

(c) The leasehold properties comprise:

Location	Description	Floor area (sq metres)	Tenure	Net book value
				\$
50 Defu Lane 7 Singapore 539356	Office, leather processing facilities and warehouse	3,523	30 + 30 years commencing 1 August 1990	1,863,094
12 Defu Lane 8 Singapore 539317	Leather processing area facilities and warehouse	3,082	30 years commencing 1 March 1983	264,030
				<b>2,127,124</b>

The above leasehold properties belong to the Group, where the Group leases the use of land from the Housing and Development Board ("HDB") (Note 30.2).

## 7 Subsidiary

	2009	2008
	\$	\$
The Company		
Unquoted equity investment, at cost	<b>48,000,000</b>	48,000,000
Amount owing by subsidiary	<b>21,854,356</b>	21,931,793
	<b>69,854,356</b>	69,931,793

The subsidiary is:

Name	Country of incorporation/ principal place of business	Cost of investment		Percentage of equity held		Principal activities
		2009	2008	2009	2008	
		\$	\$			
Heng Long Leather Co. (Pte) Ltd <sup>(1)</sup>	Singapore	<b>48,000,000</b>	48,000,000	<b>100%</b>	100%	Importing, exporting and processing of leather materials

(1) Audited by Foo Kon Tan Grant Thornton LLP

The amount owing by subsidiary, Heng Long Leather Co. (Pte) Ltd, represents an extension of net investment in the subsidiary, is unsecured and interest-free. There are no fixed terms of repayment and the settlements are neither planned nor likely to be settled in the foreseeable future. Accordingly, it is not practicable to determine the fair value of this amount owing.

# Notes to the Financial Statements

for the financial year ended 31 December 2009

## 8 Inventories

The Group	2009 \$	2008 \$
<u>At cost</u>		
Raw materials	<b>18,715,159</b>	17,337,532
Work-in-progress		
- crust	<b>50,004,523</b>	38,555,196
- others	<b>9,000,868</b>	14,299,106
Finished/trading goods	<b>7,397,825</b>	7,026,963
Chemicals	<b>720,914</b>	753,693
	<b>85,839,289</b>	77,972,490
<u>At net realisable value</u>		
Work-in-progress		
- crust	<b>1,517,492</b>	613,375
	<b>87,356,781</b>	78,585,865
Included in cost of sales:		
- cost of inventories charged	<b>20,104,565</b>	37,509,025
- inventory written down	<b>1,356,176</b>	333,132
	<b>21,460,741</b>	37,842,157

Owing to the nature of the business, the extent of stock holding is influenced by the availability of the market supply. The normal processing period for work-in-progress for crust approximates one month. The ageing of work-in-progress inventory turnover approximates 906 (2008 - 438) days.

The ageing of raw materials inventory turnover which carries beyond one-year period approximates 252 (2008 - 184) days. No provision for inventory obsolescence is required.

The inventory written down relates to work-in-progress for crust which has been written down to its net realisable value at the financial position date.

# Notes to the Financial Statements

for the financial year ended 31 December 2009

## 9 Trade and other receivables

	Note	The Company		The Group	
		2009 \$	2008 \$	2009 \$	2008 \$
Trade receivables		-	-	<b>4,457,414</b>	9,041,431
Advances paid to suppliers		-	-	<b>8,993,783</b>	11,742,020
Advances paid to an agent		-	-	<b>8,603</b>	19,354
Prepayments		<b>7,276</b>	-	<b>75,284</b>	80,602
Deposits		-	-	<b>136,281</b>	68,277
Other receivables		-	-	<b>371,888</b>	233,409
		<b>7,276</b>	-	<b>9,585,839</b>	12,143,662
Impairment loss on other receivables					
Balance at beginning of year		-	-	<b>(15,482)</b>	(15,482)
Allowance for the year	22	-	-	<b>(40,095)</b>	-
Balance at end of year		-	-	<b>(55,577)</b>	(15,482)
Net other receivables		<b>7,276</b>	-	<b>9,530,262</b>	12,128,180
		<b>7,276</b>	-	<b>13,987,676</b>	21,169,611

Trade and other receivables are denominated in the following currencies:

United States dollar	-	-	<b>11,159,765</b>	19,712,335
Singapore dollar	<b>7,276</b>	-	<b>1,430,259</b>	1,438,593
Euro dollar	-	-	<b>1,397,652</b>	18,683
	<b>7,276</b>	-	<b>13,987,676</b>	21,169,611

Trade receivables are usually due within 30 to 90 days and do not bear any effective interest rate. All trade receivables are subject to credit risk exposure. However, the Group does not identify specific concentrations of credit risk with regards to trade and other receivables, as the amounts recognised resemble a large number of receivables from various customers.

The ageing analysis of the trade receivables approximates 72 (2008 - 39) days.

- (i) Financial assets that are neither past due nor impaired

Trade receivables that are neither past due nor impaired are substantially customers with a good collection track record with the Group.

# Notes to the Financial Statements

for the financial year ended 31 December 2009

## 9 Trade and other receivables (cont'd)

(ii) Financial assets that are past due but not impaired

The ageing analysis of trade receivables past due but not impaired is as follows:

The Group	2009 \$	2008 \$
Trade receivables past due:		
Less than 31 days	<b>863,700</b>	3,441,109
31 to 60 days	<b>703,199</b>	2,468,131
61 to 90 days	<b>778,407</b>	404,090
More than 90 days	<b>371,733</b>	1,332,332
	<b>2,717,039</b>	7,645,662

Based on historical default rates, the Group believes that no impairment allowance is necessary in respect of past due trade receivables. These receivables are mainly arising by customers that have a good credit record with the Group.

The advances paid to suppliers are unsecured, interest-free and represent down-payment for the supply of raw materials.

Impairment on other receivables is made on specific debt for which the directors of the Group are of the opinion that debts are not recoverable.

## 10 Cash and cash equivalents

	The Company		The Group	
	2009 \$	2008 \$	2009 \$	2008 \$
Cash on hand	<b>2</b>	2	<b>24,124</b>	11,678
Bank balances	<b>4,855</b>	–	<b>6,191,492</b>	2,360,542
Fixed deposits	–	–	–	6,000,000
	<b>4,857</b>	2	<b>6,215,616</b>	8,372,220

Cash and cash equivalents are denominated in the following currencies:

United States dollar	–	–	<b>4,809,459</b>	2,362,594
Singapore dollar	<b>4,857</b>	2	<b>1,400,123</b>	6,005,672
Others	–	–	<b>6,034</b>	3,954
	<b>4,857</b>	2	<b>6,215,616</b>	8,372,220

The fixed deposits matured at dates which were within one to two months from the end of the financial year ended 31 December 2008 with a weighted average interest rate of 1.0% per annum.

# Notes to the Financial Statements

for the financial year ended 31 December 2009

## 10 Cash and cash equivalents (cont'd)

For the purpose of presenting the consolidated statement of cash flows, the year-end cash and cash equivalents comprise the following:

The Group	Note	2009 \$	2008 \$
Cash on hand		24,124	11,678
Bank balances		6,191,492	2,360,542
Fixed deposits		-	6,000,000
		<b>6,215,616</b>	8,372,220
Bank overdrafts (unsecured)	19	(363,855)	(39,146)
		<b>5,851,761</b>	8,333,074

## 11 Share capital

	No. of shares		Amount	
	2009	2008	2009 \$	2008 \$
The Company				
<u>Issued and fully paid ordinary shares, with no par value</u>				
Balance at beginning of year	268,000,000	2	70,203,139	2
Issue of shares pursuant to the Restructuring Exercise	-	199,999,998	-	48,000,000
Issue of shares	-	68,000,000	-	23,120,000
Share issue expenses	-	-	-	(916,863)
Balance at end of year	<b>268,000,000</b>	268,000,000	<b>70,203,139</b>	70,203,139

The holders of ordinary shares are entitled to receive dividends as declared from time to time and are entitled to one vote per share at meetings of the Company. All shares rank equally with regard to the Company's residual assets.

Pursuant to a restructuring agreement dated 9 May 2008, the Company acquired the entire issued share capital of Heng Long Leather Co. (Pte) Ltd, now a subsidiary to the Company, for a consideration of \$48,000,000, after adjusting for dividend of \$3,600,000 declared in respect of the financial year ended 31 December 2007 (Note 29). This consideration was satisfied by the issue of 199,999,998 shares.

During the financial year ended 31 December 2008, the Company issued 68,000,000 ordinary shares for a total consideration of \$23,120,000 for cash in connection with the admission of the Company to the Official List of the SGX-ST on 9 July 2008.

## 12 Merger reserve

The merger reserve arises from the difference between the purchase consideration and the carrying value of the share capital acquired under the pooling-of-interests method of consolidation in the Restructuring Exercise described in Note 11.

# Notes to the Financial Statements

for the financial year ended 31 December 2009

## 13 Deferred tax liabilities

The Group	Note	2009 \$	2008 \$
Balance at beginning of year		270,000	220,000
Transfer (to)/from income statement	26	(103,000)	50,000
Balance at end of year		167,000	270,000

The balance on deferred tax liabilities comprises:

Tax on excess of net book value over tax written down value of property, plant and equipment	201,460	292,310
Others	(34,460)	(22,310)
	167,000	270,000

## 14 Obligations under hire purchase

The Group	2009 \$	2008 \$
Minimum instalments payable		
Due not later than one year	26,250	105,000
Due later than one year and not later than five years	–	21,875
Due later than five years	–	–
	26,250	126,875
Finance charges allocated to future periods	(224)	(4,125)
Present value of minimum hire purchase payments	26,026	122,750
Present value of minimum hire purchase payments		
Due not later than one year	26,026	101,043
Due later than one year and not later than five years	–	21,707
Due later than five years	–	–
	26,026	122,750

The obligations under hire purchase are secured by the underlying asset and a guarantee provided by a director of the Company.

## 15 Amount owing to a related company

The Group	2009 \$	2008 \$
Advances owing to a related party	7,465,545	7,465,545
Interest payable	170,972	99,598
	7,636,517	7,565,143
Less: Amount repayable within one year	(4,170,972)	(2,099,598)
Amount payable after one year	3,465,545	5,465,545

The advances owing to a related company are unsecured and repayable in eight bi-annual instalments within 48 months commencing 9 July 2008.

# Notes to the Financial Statements

for the financial year ended 31 December 2009

## 15 Amount owing to a related company (cont'd)

During the financial year ended 31 December 2009, the first and second instalments repayable on 9 January 2009 and 9 July 2009 have been both deferred to 9 January 2010 as approved by the Audit Committee on 5 August 2009. Subsequent to the financial position date, the repayment date of the said instalments is deferred to 9 July 2010 as approved by the Audit Committee on 25 February 2010.

Interest is charged at the rate of 0.9% (2008 - 1.3%) per annum, calculated by reference to The Royal Bank of Scotland average fixed deposit and short-term loan rates.

Had the interest cost been charged at the prevailing prime lending rate which is about 5.5% (2008 - 5.5%) per annum, the interest cost would be \$417,856 (2008 - \$433,934).

## 16 Trade and other payables

	The Company		The Group	
	2009	2008	2009	2008
	\$	\$	\$	\$
Trade payables	-	-	<b>804,633</b>	386,316
GST payables	-	-	<b>73,363</b>	98,489
Accrued interest	-	-	<b>32,676</b>	38,324
Accrued salaries and related costs	-	-	<b>666,788</b>	1,550,859
Directors' fee payable	<b>150,000</b>	-	<b>150,000</b>	222,000
Commission payable	-	-	<b>1,119,199</b>	1,152,617
	<b>150,000</b>	-	<b>2,846,659</b>	3,448,605
Other payables				
Advances received from customers	-	-	<b>797,085</b>	768,826
Other sundry payables	<b>10,685</b>	98	<b>410,564</b>	422,749
	<b>10,685</b>	98	<b>1,207,649</b>	1,191,575
	<b>160,685</b>	98	<b>4,054,308</b>	4,640,180

Trade and other payables are denominated in the following currencies:

United States dollar	-	-	<b>2,623,952</b>	2,270,556
Singapore dollar	<b>160,685</b>	98	<b>1,430,356</b>	2,369,624
	<b>160,685</b>	98	<b>4,054,308</b>	4,640,180

The fair value of trade and other payables have not been disclosed as, due to their short duration, management considers the carrying amounts recognised in the statements to the financial position to be reasonable approximation of their fair values.

The ageing of trade payables approximates 10 (2008 - 3) days.

Commission payable relates to liability due to agents of the subsidiary for securing sales orders and procuring supply of goods.

The advances received from customers represent down-payment for orders placed with the subsidiary.

# Notes to the Financial Statements

for the financial year ended 31 December 2009

## 17 Derivative financial instrument

The Group	2009 \$	2008 \$
Interest rate swap		
- contract notional amount (\$10,000,000)	-	95,600

Interest rate swap was entered to minimise exposure to interest rate movements. Fair value gains and losses on interest rate swap were taken to the income statement.

## 18 Amount owing to ultimate holding company

The Group	2009 \$	2008 \$
Advances owing to ultimate holding company	-	60,000
Interest payable	357	3,645
	<b>357</b>	<b>63,645</b>

The advances owing to ultimate holding company were unsecured and repayable on demand.

Interest was charged at the rate of 1.1% (2008 - 1.4%) per annum, calculated by reference to The Royal Bank of Scotland average fixed deposit and short-term loan rates.

Had the interest cost been charged at the prevailing prime lending rate which was about 5.5% (2008 - 5.5%) per annum, the interest cost would have been \$1,909 (2008 - \$43,922).

## 19 Bank borrowings (unsecured)

The Group	Note	2009 \$	2008 \$
<u>Short-Term Loans</u>			
#1	(a)(i)	<b>4,140,000</b>	-
#2	(b)(i)	<b>950,000</b>	-
#3	(c)(i)	<b>1,200,000</b>	-
#4	(d)(i)	<b>2,400,000</b>	-
		<b>8,690,000</b>	-
<u>Bank Overdrafts</u>			
#1	(a)(ii)	-	29
#2	(b)(ii)	<b>2,933</b>	-
#3	(c)(ii)	<b>2,547</b>	-
#4	(d)(ii)	<b>5,660</b>	-
#5	(e)	<b>352,715</b>	39,117
		<b>363,855</b>	39,146

# Notes to the Financial Statements

for the financial year ended 31 December 2009

## 19 Bank borrowings (unsecured) (cont'd)

The Group	Note	2009 \$	2008 \$
<u>Trust Receipts</u>			
#1	(a)(iii)	<b>3,198,110</b>	4,019,364
#2	(b)(iii)	<b>309,197</b>	4,475,417
#3	(c)(iii)	<b>5,788,628</b>	6,780,425
		<b>9,295,935</b>	15,275,206
		<b>18,349,790</b>	15,314,352

Bank borrowings are denominated in the following currencies:

The Group	2009 \$	2008 \$
United States dollar	<b>9,295,935</b>	4,802,898
Singapore dollar	<b>9,053,855</b>	10,511,454
	<b>18,349,790</b>	15,314,352

- (a) The bank facilities #1 of \$10,100,000 (2008 - \$11,000,000) granted to the subsidiary are:
- (i) the fixed short term loans of \$4,140,000 which are repayable between 4 January 2010 and 15 January 2010. Interest is charged at variable rates from 1.6% to 1.8% per annum. Subsequent to the financial position date,
    - fixed short term loans amounting to \$980,000 were rolled over on the said due dates and have been repaid on 12 February 2010 and 5 March 2010; and
    - the remaining fixed short term loans amounting to \$3,160,000 were rolled over on the said due dates and are repayable on 22 March 2010;
  - (ii) the bank overdraft as at 31 December 2008 which was repayable on demand and the effective interest charged was at 5.8% per annum;
  - (iii) the trust receipts for which the maturity periods are between 91 days to 151 days (2008 - 31 days to 180 days). Interest is charged at varied rates from 1.3% to 1.4% (2008 - 1.3% to 6.0%) per annum; and
  - (iv) the banker's guarantee of \$100,000 for which \$60,800 is utilised as security deposit against electricity supply to the subsidiary.
- (b) The bank facilities #2 of \$8,000,000 (2008 - \$8,000,000) granted to the subsidiary are:
- (i) the fixed advance facility loan of \$950,000, which is repayable on 26 January 2010. Interest is charged at 1.5% per annum. Subsequent to the financial position date, this fixed advance facility loan was rolled over on the said due date and is repayable on 26 April 2010;
  - (ii) the bank overdraft which is repayable on demand. The effective interest charged is at 5.3% per annum; and
  - (iii) the trust receipts for which the maturity periods are between 32 days to 48 days (2008 - 31 days to 92 days). Interest is charged at 1.3% (2008 - varied rates from 1.2% to 2.8%) per annum.

# Notes to the Financial Statements

for the financial year ended 31 December 2009

## 19 Bank borrowings (unsecured) (cont'd)

- (c) The bank facilities #3 of \$8,250,000 (2008 - \$8,250,000) granted to the subsidiary are:
- (i) the specific advance facility loan of \$1,200,000 which is a variable-debt obligation is repayable on 4 January 2010. Interest is charged at 1.6% per annum. Subsequent to the financial position date, this specific advance facility loan was rolled over on the said due date and is repayable on 23 March 2010;
  - (ii) the bank overdraft which is repayable on demand. The effective interest charged is at 5.5% per annum; and
  - (iii) the trust receipts for which the maturity periods are between 29 days to 180 days (2008 - 60 days to 160 days). Interest is charged at 1.3% (2008 - varied rates from 1.8% to 2.8%) per annum.
- (d) The bank facilities #4 of \$3,450,000 (2008 - \$3,450,000) granted to the subsidiary are:
- (i) the revolving credit facility loan of \$2,400,000 which is repayable on 4 January 2010. The effective interest rate is 1.4% per annum. Subsequent to the financial position date, this revolving credit facility loan was rolled over on the said due date and is repayable on 8 April 2010; and
  - (ii) the bank overdraft which is repayable on demand. The effective interest charged is at 5.8% per annum.
- (e) The bank facilities #5 of \$5,000,000 (2008 - \$5,000,000) granted to the subsidiary consist of bank overdraft which is repayable on demand. The effective interest charged is at 5.0% (2008 - 5.0%) per annum.

All bank borrowings are secured by corporate guarantees provided by the Company.

In respect of the financial guarantees provided by the Company, there were no financial impacts on the financial statements as the interest charged by the said banks approximated the prevailing market rates.

As at the financial position date, the Group has unutilised bank facilities of \$16,389,000 (2008 - \$20,385,000).

The subsidiary has financial covenants attached to all bank loan facilities which relate to restriction of limits imposed on the maintenance of its tangible net-worth, the Group's consolidated net-worth, the limits on leverage and gearing ratio. As at the financial position date, the subsidiary has observed these financial covenants accordingly.

The gearing ratio is calculated as net debt divided by total capital. Net debt is calculated as borrowings plus trade and other payables less cash and cash equivalents. Total capital is calculated as equity plus net debt.

	2009 \$	2008 \$
Net debt	<b>23,851,382</b>	19,333,850
Total equity	<b>80,711,147</b>	81,659,063
Total capital	<b>104,562,529</b>	100,992,913
Gearing ratio	<b>0.23</b>	0.19

The Company and the Group manage the liquidity risk by maintaining sufficient cash to enable them to meet their normal operating commitments and having an adequate amount of committed credit facilities.

# Notes to the Financial Statements

for the financial year ended 31 December 2009

## 20 Other operating income

The Group	2009 \$	2008 \$
Interest income		
- call account (US\$)	5,719	14,143
- current account	1,755	3,427
- fixed deposits	10,147	50,887
	<b>17,621</b>	68,457
Gain on foreign exchange	416,190	18,856
Miscellaneous income	45,358	93,700
	<b>479,169</b>	181,013
Effective interest rate (per annum)		
- call account (US\$)	0.2%	1.8%
- fixed deposits	0.4%	1.0%

## 21 Administrative expenses

The Group	Note	2009 \$	2008 \$
Employee benefit costs	24	2,234,960	3,613,484
Directors' fee	25	150,000	267,000
Commission expenses		930,838	2,211,563
Legal and professional fees		244,313	187,832
Operating lease rentals		21,105	23,533
Depreciation expense	6(a)	240,950	218,815
Stamp duty		-	103,351
Other expenses		1,048,187	1,153,183
		<b>4,870,353</b>	7,778,761

## 22 Other operating expenses

The Group	Note	2009 \$	2008 \$
Fair value (gain)/ loss on interest rate swap			
- realised		-	150,788
- unrealised		-	(27,658)
		-	123,130
Loss on disposal of property, plant and equipment	25	1,625	-
Property, plant and equipment written off	25	935	6,737
Property tax		61,555	77,206
Impairment on other receivables	9	40,095	-
		<b>104,210</b>	207,073

# Notes to the Financial Statements

for the financial year ended 31 December 2009

## 23 Finance costs

The Group	Note	2009 \$	2008 \$
Interest expense			
- holding company		357	11,742
- related company		71,374	99,598
- bank overdrafts		6,739	8,217
- trust receipts		158,721	400,490
- short-term loans		93,685	143,455
- hire purchase contract		3,901	5,875
		<b>334,777</b>	<b>669,377</b>
Effective interest rate (per annum)			
- holding company	18	1.1%	1.4%
- related company	15	0.9%	1.3%
- bank overdrafts		5.1%	5.3%
- trust receipts		1.4%	2.6%
- short-term loans		1.4%	2.0%
- hire purchase contract		5.2%	5.2%

## 24 Employee benefit costs

The Group	Note	2009 \$	2008 \$
Directors			
- Directors' salaries and related costs		713,023	1,613,000
- Directors' CPF contributions		8,112	11,893
Key management personnel (other than directors)			
- Salaries and related costs		1,017,210	1,251,923
- CPF contributions		77,996	94,994
Other than directors and key management personnel			
- Salaries and related costs		2,576,242	4,658,677
- CPF contributions		139,702	196,839
		<b>4,532,285</b>	<b>7,827,326</b>
As disclosed in:			
Cost of sales		2,297,325	4,213,842
Administrative expenses	21	2,234,960	3,613,484
		<b>4,532,285</b>	<b>7,827,326</b>

# Notes to the Financial Statements

for the financial year ended 31 December 2009

## 25 Profit before taxation

The Group	Note	2009 \$	2008 \$
Profit before taxation has been arrived at			
after charging/(crediting):			
Depreciation of property, plant and equipment	6	<b>899,045</b>	910,959
Gain on foreign exchange	20	<b>(416,190)</b>	(18,856)
Operating lease rentals		<b>247,916</b>	276,451
Provision for directors' fee	21	<b>150,000</b>	267,000
Loss on disposal of property, plant and equipment	22	<b>1,625</b>	-
Property, plant and equipment written off	22	<b>935</b>	6,737

## 26 Taxation

The Group	Note	2009 \$	2008 \$
Current taxation		<b>630,142</b>	2,656,355
Deferred tax liabilities	13	<b>(103,000)</b>	73,321
		<b>527,142</b>	2,729,676
Over provision in respect of prior years			
- current taxation		-	(164,368)
- deferred tax liabilities	13	-	(23,321)
		<b>527,142</b>	2,541,987

The tax expense on the results of the financial year varies from the amount of income tax determined by applying the Singapore's statutory rate of income tax on the Group's results as a result of the following:

Profit before taxation	<b>3,009,626</b>	13,926,445
Tax at statutory rate of 17% (2008 - 18%)	<b>511,636</b>	2,506,760
Tax effect on non-deductible expenses	<b>85,162</b>	250,366
Tax effect on non-taxable income	<b>(28,714)</b>	-
Change in tax rate of 1% (2008 - Nil)	<b>(15,017)</b>	-
Singapore statutory stepped income exemption	<b>(25,925)</b>	(27,450)
	<b>527,142</b>	2,729,676

During the financial year, the Singapore corporate tax rate was reduced from 18% to 17% for the year of assessment 2010 and onwards.

## 27 Other comprehensive income

The Group did not generate any other comprehensive income for the financial years ended 31 December 2009 and 2008.

# Notes to the Financial Statements

for the financial year ended 31 December 2009

## 28 Earnings per share

Basic earnings per share is calculated by dividing net profit attributable to equity holders of the Group by the weighted average number of ordinary shares outstanding during the financial year.

Diluted earnings per share is calculated by dividing net profit attributable to equity holders of the Group by the weighted average number of ordinary shares outstanding during the financial year plus the weighted average number of ordinary shares that would be issued on conversion of all dilutive potential ordinary shares into ordinary shares.

	2009 \$	2008 \$
Net profit attributable to equity holders of the Group	<b>2,482,484</b>	11,384,458
	← No. of shares →	
Weighted average number of ordinary shares outstanding for basic and diluted earnings per share	<b>268,000,000</b>	232,699,454
Basic and diluted earnings per share (cents)	<b>0.93</b>	4.89

As there are no dilutive potential ordinary shares, the basic and the diluted earnings per share are the same.

## 29 Dividends

	2009 \$	2008 \$
The Company and the Group		
Ordinary dividends proposed		
- final one-tier tax-exempt dividend of 0.50 cents (2008 - 1.28 cents) per share	<b>1,340,000</b>	3,430,400
Ordinary dividends paid		
- final one-tier tax-exempt dividend of 1.28 cents (2008 - \$1.80) per share paid in respect of the previous financial year	<b>3,430,400</b>	*3,600,000

At the Annual General Meeting on 27 April 2010, a final one-tier tax-exempt dividend of 0.50 cents per share amounting to \$1,340,000 will be proposed. These financial statements do not reflect these dividends payable, which will be accounted for as a reduction in equity as a distribution of retained profits in the financial year ending 31 December 2010.

\* Prior to the official listing of the Company on the SGX-ST, Heng Long Leather Co. (Pte) Ltd, now a subsidiary to the Company, proposed a final one-tier tax-exempt dividend of \$1.80 per share amounting to \$3,600,000 in respect of the financial year ended 31 December 2007 on 7 March 2008 (Note 11).

## 30 Commitments

### 30.1 Capital commitments

	2009 \$	2008 \$
The Group		
Capital expenditure contracted but not provided for in the financial statements	<b>93,105</b>	19,065

# Notes to the Financial Statements

for the financial year ended 31 December 2009

## 30 Commitments (cont'd)

### 30.2 Operating lease commitments (non-cancellable)

At the financial position date, the Group was committed to making the following lease rental payments under non-cancellable operating leases for leasehold land and office equipment:

	<b>2009</b>	2008
	\$	\$
Not later than one year	<b>300,672</b>	241,116
Later than one year and not later than five years	<b>891,664</b>	992,648
Later than five years	<b>714,823</b>	798,927

- (a) The lease on the Group's leasehold land with a land square area of 3,498.8 m<sup>2</sup> on which rental is payable is located at 50 Defu Lane 7 Singapore 539356. This 30-years lease operates effectively on 1 August 1990 and expires on 31 July 2020. The monthly rental which is subject to a revision which approximates the market rate is \$10,669 (2008 - \$10,113).
- (b) The lease on the Group's leasehold land with a land square area of 4,872.3 m<sup>2</sup> on which rental is payable is located at 12 Defu Lane 8 Singapore 539317 became effective on 29 October 2005. The original term of the lease is 30 years and the expiry date is 1 March 2013. The monthly rental which is subject to a revision which approximates the market rate is \$14,082 (2008 - \$13,348).
- (c) The lease on the Group's office equipment with a period of 5 years is due to expire on 31 August 2014.

### 30.3 Purchase Commitments

The final quantity of the crocodilian skins to be purchased by the Group and the prices to be paid will depend on the availability of sufficient crocodilian skins according to the specifications prescribed by the Group in terms of size and quality. In this regard, the rearing of crocodilians to a commercially accepted size is a slow process, which usually takes one to five years. The sizes and quality of these crocodilian skins are dependent on the breeding process of the crocodilians and whether these crocodilians are infected by any diseases affecting their skins.

Generally, the Group's commitment to the price of crocodilian skins is based on the size and quality of each crocodilian skin, and the quantity committed is expressed in a range of numbers for the respective size and quality of crocodilian skins required by the Group. The actual quantity of crocodilian skins and the total value paid by the Group will be ascertained after the Group has selected the crocodilian skins that meet its specifications and quality requirements near the time of delivery.

## 31 Contingent liabilities

### The Company

The Company has issued corporate guarantees to banks for loan facilities totalling \$48,800,000 (2008 - \$49,700,000) granted to the subsidiary, Heng Long Leather Co. (Pte) Ltd, for which the Company is exposed to liability which is capped at \$36,300,000 (2008 - \$37,200,000).

As at the financial position date, the bank borrowings stood at \$18,349,790 (2008 - \$15,314,352).

There is no effect on the financial guarantees as to the interest cost as the variable interest rate debt obligations are at prevailing market interest rate.

# Notes to the Financial Statements

for the financial year ended 31 December 2009

## 32 Significant related party transactions

Other than the related party information disclosed elsewhere in the financial statements, the following are significant related party transactions entered into between the Group and its related parties at agreed rates:

	2009	2008
The Group	\$	\$
Interest charged by a related company	71,374	99,598
Interest charged by ultimate holding company	357	11,742
Car rental charged by ultimate holding company	12,000	60,000
Purchase of motor vehicle from ultimate holding company	140,000	–
Sales to a related party	46,119	–

## 33 Operating segments

The Group has only one operating segment, which is the processing and sale of leather materials. The Group's processing activities operate predominantly in Singapore. Geographical segment based on where the customers are located as follows:

	2009	2008
The Group	\$	\$
Geographical revenue		
- Asia Pacific	14,445,018	16,073,956
- Europe	16,470,112	41,129,935
- Americas	1,842,997	7,533,545
- Others	1,257,657	3,424,107
	<b>34,015,784</b>	<b>68,161,543</b>

## 34 Financial risk management objectives and policies

The board of directors meets periodically to analyse and formulate measures to manage the Group's exposure to market risk, including principally changes in interest rates and currency exchange rates. Generally, the Group employs a conservative strategy regarding its risk management.

As at 31 December 2009, the Group's financial instruments mainly consisted of cash and cash equivalents, receivables and payables.

### 34.1 Fair value interest rate risk

Fair value interest rate risk is the risk that the value of a financial instrument will fluctuate due to changes in market interest rates.

The Group's interest rate risk arises mainly from bank borrowings. The interest rates and terms of repayment of the bank borrowings are disclosed in Note 19 to the financial statements.

The Group entered into interest rate swap contracts that entitle them to receive interest at floating rates on notional principal amounts and oblige them to pay interest at a fixed rate on the same amounts. The interest rate swaps allowed the Group to raise borrowings at floating rates and swap them into fixed rates that are lower than those available if it borrowed at fixed rates directly. Under the interest rate swaps, the Group agreed with the bank to exchange, at specified intervals (semi-annual), the difference between fixed rate and floating rate interest amounts calculated by reference to the agreed notional principal amounts. At 31 December 2009 and 2008, the fixed interest rate was 3.57% per annum and the floating rates are linked to swap offer rate.

# Notes to the Financial Statements

for the financial year ended 31 December 2009

## 34 Financial risk management objectives and policies (cont'd)

### 34.1 Fair value interest rate risk (cont'd)

The net fair value adjustment of the above interest rate swap contract as at the financial position date was:

	2009	2008
The Group	\$	\$
Notional principal amount	-	10,000,000
Fair value (gain)/ loss on derivative financial instrument		
- unrealised	-	(27,658)
- realised	-	150,788

The interest rate swap contract as at 31 December 2008 matured on 23 March 2009 and there is no open position as at 31 December 2009.

The fair value of interest rate swap contract had been calculated using rates quoted by the Group's bankers at the financial position date.

### 34.2 Foreign currency risk

Foreign currency risk is the risk that the value of a financial instrument will fluctuate due to changes in foreign exchange rates.

Although the Group carries out its business in the Republic of Singapore, most of the transactions are denominated in United States dollar ("US\$"). The Group monitors its foreign currency exposure closely.

The Group constantly manages its foreign exchange exposure to limit the adverse impact of the foreign exchange rate fluctuations on its financial performance. There is a need for the Group to manage its foreign exchange risks as its sales are mainly denominated in US\$ and purchases of its raw skins are mainly denominated in US\$, whilst the purchases of the chemicals used in the production process are denominated in US\$, Euro and S\$. The Group is subject to foreign exchange risks to the extent that (i) the revenue, purchases and operating costs are not naturally matched in the same currency; and (ii) there are timing differences between the invoicing and collection or payment, which expose the Group to any adverse fluctuation of the various currencies against S\$.

To manage the Group's foreign exchange risk, the Group monitors the exchange rate between US\$ and S\$ on a regular basis, in consultation with the bankers. The Group may adjust the selling price of its products (in US\$ term) and/or arrange trade financing in US\$ term for specific purchases of raw materials from time to time taking into consideration the prevailing rates as well as the movements of the exchange rates.

Generally, the finance department will monitor the foreign exchange risk exposure on a daily basis and consult the Executive Directors on the appropriate actions to be taken. The Group will seek the Board of Directors' specific approval prior to trading in any financial and foreign exchange instruments.

A 5% (2008 - 5%) strengthening/weakening of the US\$ against Singapore dollar at the reporting date would have either increased or decreased the Group's net profit before tax by approximately \$202,000 (2008 - \$750,000).

Exposures to foreign exchange rates vary during the period depending on the volume of overseas transactions. Nonetheless, the analysis above is considered to be representative of the Group's exposure to currency risk.

# Notes to the Financial Statements

for the financial year ended 31 December 2009

## 34 Financial risk management objectives and policies (cont'd)

### 34.3 Credit risk

Credit risk is the risk that one party to a financial instrument will fail to discharge an obligation and cause the other party to incur a financial loss.

The carrying amounts of trade and other receivables represent the Group's maximum exposure to credit risk in relation to its financial assets. The Group has no other significant concentration of credit risk other than as at 31 December 2009, the five largest trade receivables which represents approximately 79% of the total trade receivables at the financial position date. No other financial assets carry a significant exposure to credit risk.

The Group extends various credit terms to its customers after taking into consideration their payment track record, financial background, length of business relationship, frequency of purchases and the size of the transaction. All credit terms, such as credit limit and credit period, granted to customers and any changes to the terms, must be approved by the management.

For existing customers, the sales terms vary from cash to 90 days credit term. In respect of sales on cash term, the Group requires its overseas customers to make 100% payment or issue letter of credit to the Group prior to shipment. For sales to its agents, the Group would grant a credit term of between 14 to 30 days or letter of credit of up to 60 days tenure.

For new customers, the Group normally requests for a deposit of up to 30% of the order value payable at the point of order and the balance amount is usually payable by way of letter of credit or telegraphic transfer upon completion of order but prior to shipment.

It is the Group's practice to monitor and follow up on the payment status of each customer through the combined efforts of its sales and marketing and finance departments. Before the Group accepts an order, it will evaluate the prospective customer's creditworthiness. The Group conducts regular reviews on the payment status of the various customers so that the Group can follow up on customers with outstanding balances. For long overdue receivables, the Group may issue letters of demand and/or proceed with legal action to collect the debts after considering various factors such as the quantum of the debts, the reasons for the delay in payment and its relationship with such customers.

There is no impairment losses recognised in the relevant periods since all receivables are collected within the credit period granted except for a balance of approximately \$56,000 (2008 - \$15,000) for other receivables, as disclosed in Note 9 to the financial statements.

### 34.4 Liquidity risk

Liquidity or funding risk is the risk that an enterprise will encounter difficulty in raising funds to meet commitments associated with financial instruments. Liquidity risk may result from an inability to sell a financial asset quickly at close to its fair value.

As mentioned in Note 9 to the financial statements, the Group is required to extend advances to suppliers to meet the production demand.

Pending the availability of bank facilities, the Group continues to manage its liquidity risk by ensuring the availability of adequate funds to meet all its obligations in a timely and cost-effective manner.

# Notes to the Financial Statements

for the financial year ended 31 December 2009

## 34 Financial risk management objectives and policies (cont'd)

### 34.4 Liquidity risk (cont'd)

The table below analyses the maturity profile of the Group's financial liabilities based on contractual undiscounted cashflows:

	Less than 1 year \$	Between 2 to 5 years \$	Total \$
<b>As at 31 December 2009</b>			
Trade and other payables	4,054,308	–	4,054,308
Amount owing to ultimate holding company	359	–	359
Amount owing to a related company	4,206,826	3,502,458	7,709,284
Bank borrowings (unsecured)	18,386,512	–	18,386,512
Obligations under hire purchase	26,250	–	26,250
	26,674,255	3,502,458	30,176,713
<b>As at 31 December 2008</b>			
Trade and other payables	4,640,180	–	4,640,180
Derivative financial instrument	95,600	–	95,600
Amount owing to ultimate holding company	64,096	–	64,096
Amount owing to a related company	2,145,827	5,592,767	7,738,594
Bank borrowings (unsecured)	15,327,540	–	15,327,540
Obligations under hire purchase	105,000	21,875	126,875
	22,378,243	5,614,642	27,992,885

### 34.5 Price risk

Price risk is the risk that the value of a financial instrument will fluctuate due to changes in market prices whether those changes are caused by factors specific to the individual security or its issuer or factors affecting all securities traded in the market.

The Group does not hold any quoted or marketable financial instrument. Hence, there is no exposure to any movement in market prices.

Although the Group is exposed to the market price for its principal raw materials which relates mainly to leather materials from crocodile species, the extent of the price fluctuations may not have material impact on the net profit as such price adjustment is factored into the selling price when securing sales order.

## 35 Financial instruments

### Fair values

The carrying amount of the financial assets and financial liabilities with a maturity of less than one year is assumed to approximate their fair values.

The Group does not anticipate that the carrying amounts recorded at financial position date would be significantly different from the values that would eventually be received or settled.

# Notes to the Financial Statements

for the financial year ended 31 December 2009

## 36 Critical accounting estimates

Estimates are continually evaluated and are based on historical experiences and other factors, including expectations of future events that are believed to be reasonable under the circumstances.

The Group makes estimates and assumptions concerning the future. The resulting accounting estimates will, by definition, seldom equal the related actual results. The estimates and assumptions that have a significant risk of causing a material adjustment to the carrying amounts of assets and liabilities within the next financial year are discussed below.

(i) Net realisable value of inventories

Net realisable value of inventories is the estimated selling price in the ordinary course of business, less estimated costs of completed and selling expenses. These estimates are based on the current market condition and the historical expense of selling products of "similar nature". It could change significantly as a result of competitors in response to severe industry's cycles.

## 37 Capital management

The Group's objectives when managing capital are:

- (a) To safeguard the Group's ability to continue as a going concern;
- (b) To support the Group's stability and growth; and
- (c) To provide capital for the purpose of strengthening the Group's risk management capability.

The Group actively and regularly reviews and manages its capital structure to ensure optimal capital structure and shareholder returns, taking into consideration the future capital requirements of the Group and capital efficiency, prevailing and projected profitability, projected operating cash flows, projected capital expenditures and projected strategic investment opportunities. The Group currently does not adopt any formal dividend policy.

There were no changes in the Group's approach to capital management during the year.

# Statistics of Shareholdings

as at 15 March 2010

Issued and fully paid-up share capital	:	S\$71,120,002
Total number of shares in issue	:	268,000,000
Class of shares	:	Ordinary shares
Voting rights	:	On show of hands – each member presents in person or by proxy shall have one vote.
	:	On poll – every member presents in person or by proxy shall have one vote for every share he holds or represents.

There are no treasury shares held in the issued share capital of the Company.

## Shareholdings Held In Hands of Public

Based on the information provide and to the best knowledge of the Directors, approximately 24.43% of the ordinary shares of the Company were held in the hands of the public as at 15 March 2010 and therefore Rule 723 of the Listing Manual of Singapore Exchange Securities Trading Limited is complied with.

## Distribution of Shareholdings

Range of Shareholding		Number of Shareholders	%	Number of Shares	%
1	- 999	0	0.00	0	0.00
1,000	- 10,000	359	53.26	1,907,000	0.71
10,001	- 1,000,000	303	44.96	35,682,000	13.31
1,000,001	and above	12	1.78	230,411,000	85.98
<b>Total</b>		<b>674</b>	<b>100.00</b>	<b>268,000,000</b>	<b>100.00</b>

# Statistics of Shareholdings

as at 15 March 2010

## Statistics of Shareholdings (Cont'd)

### Twenty Largest Shareholders

No.	Name of Shareholders	Shares Held	Percentage
1.	Heng Long Holdings Pte Ltd	161,518,000	60.27
2.	C H Koh Holdings Pte Ltd	16,000,000	5.97
3.	CT Koh Holdings Pte Ltd	16,000,000	5.97
4.	CIMB-GK Securities Pte. Ltd.	14,667,000	5.47
5.	Phillip Securities Pte Ltd	5,146,000	1.92
6.	Wee Ee Lim	4,150,000	1.55
7.	Kwang Sia Pte Ltd	3,000,000	1.12
8.	United Overseas Bank Nominees	2,030,000	0.76
9.	Cheng Buay Sching	2,000,000	0.75
10.	Jost Thomas Erich Gottfried	2,000,000	0.75
11.	Koh Long Cheok	2,000,000	0.75
12.	Hay Siew Keng	1,900,000	0.71
13.	Koh Moey Phua @ Koh Mui Hua	1,000,000	0.37
14.	Koh Mooi Ee	1,000,000	0.37
15.	Koh Mui Geak	1,000,000	0.37
16.	Quek Suan Kiat	1,000,000	0.37
17.	Taman Buaya Langkawi Sdn Bhd	1,000,000	0.37
18.	Teo Cheng Tuan Donald	1,000,000	0.37
19.	Tan Kok King	884,000	0.33
20.	HSBC (Singapore) Nominees Pte Ltd	874,000	0.33
Total		238,169,000	88.87

### Substantial Shareholders

Name of Substantial Shareholder	Direct Interest		Deemed Interest	
	Number of Shares	%	Number of Shares	%
Heng Long Holdings Pte. Ltd.	161,518,000	60.27	0	0
C T Koh Holdings Pte. Ltd.	16,000,000	5.97	0	0
C H Koh Holdings Pte. Ltd.	16,000,000	5.97	0	0
Koh Chon Tong <sup>(1)</sup>	0	0	177,518,000	66.24
Koh Choon Heong <sup>(2)</sup>	0	0	177,518,000	66.24

Notes:

- (1) Mr Koh Chon Tong is deemed to be interested in 161,518,000 shares held by Heng Long Holdings Pte. Ltd. and 16,000,000 shares held by C T Koh Holdings Pte. Ltd.
- (2) Mr Koh Choon Heong is deemed to be interested in 161,518,000 shares held by Heng Long Holdings Pte. Ltd. and 16,000,000 shares held by C H Koh Holdings Pte. Ltd.

# Notice of Annual General Meeting

## HENG LONG INTERNATIONAL LTD.

(Company Registration Number 200717235W)  
(Incorporated in the Republic of Singapore)

**NOTICE IS HEREBY GIVEN** that the Third Annual General Meeting of **Heng Long International Ltd.** (the “**Company**”) will be held at The Pines, 30 Stevens Road, Singapore 257840 on Tuesday, 27 April 2010 at 10.00 a.m., for the following purposes:

### AS ORDINARY BUSINESS:

1. To receive and adopt the Directors’ Report and the Audited Accounts for the financial year ended 31 December 2009 together with the Auditor’s Report thereon. **(Resolution 1)**
2. To approve the payment of a first and final (tax exempt one-tier) dividend of 0.5 Singapore cents per ordinary share for the financial year ended 31 December 2009. (2008: 1.28 Singapore cents) **(Resolution 2)**
3. To approve the payment of Directors’ fees of S\$150,000 for the financial year ended 31 December 2009. (2008: S\$150,000) **(Resolution 3)**
4. To re-elect Mr Koh Choon Heong, a Director retiring by rotation under Article 107 of the Company’s Articles of Association. **(Resolution 4)**
5. To re-appoint Mr Koh Long Cheok as a Director of the Company pursuant to Section 153(6) of the Companies Act, Cap. 50, to hold office from the date of this Annual General Meeting until the next Annual General Meeting. **(Resolution 5)**
6. To re-appoint Dr Giam Choo Hoo as a Director of the Company pursuant to Section 153(6) of the Companies Act, Cap. 50, to hold office from the date of this Annual General Meeting until the next Annual General Meeting. (see explanatory note 1) **(Resolution 6)**
7. To re-appoint Messrs Foo Kon Tan Grant Thornton LLP as Auditors of the Company and to authorise the Directors to fix their remuneration. **(Resolution 7)**

### AS SPECIAL BUSINESS:

To consider and, if thought fit, to pass the following Resolutions as Ordinary Resolutions, with or without any modifications:

#### 8. **Authority to Allot and Issue Shares**

“That pursuant to Section 161 of the Companies Act, Cap. 50 and Rule 806 of the Listing Manual of the Singapore Exchange Securities Trading Limited (“SGX-ST”), the Directors of the Company be authorised and empowered to:

- (a) (i) issue shares in the Company (“shares”) whether by way of rights, bonus or otherwise; and/or
- (ii) make or grant offers, agreements or options (collectively, “Instruments”) that might or would require shares to be issued, including but not limited to the creation and issue of options, warrants, debentures or other instruments convertible into shares,

at any time and upon such terms and conditions and for such purposes and to such persons as the Directors of the Company may in their absolute discretion deem fit; and

# Notice of Annual General Meeting

- (b) (notwithstanding the authority conferred by this Resolution may have ceased to be in force) issue shares in pursuance of any Instrument made or granted by the Directors of the Company while this Resolution was in force,

provided that:

- (1) the aggregate number of shares (including shares to be issued in pursuance of the Instruments, made or granted pursuant to this Resolution) to be issued pursuant to this Resolution shall not exceed fifty per centum (50%) of the total number of issued shares in the capital of the Company (as calculated in accordance with sub-paragraph (2) below), of which the aggregate number of shares and Instruments to be issued other than on a pro rata basis to existing shareholders of the Company shall not exceed twenty per centum (20%) of the total number of issued shares in the capital of the Company (as calculated in accordance with sub-paragraph (2) below);
- (2) (subject to such calculation as may be prescribed by the SGX-ST) for the purpose of determining the aggregate number of shares that may be issued under sub-paragraph (1) above, the total number of issued shares shall be based on the total number of issued shares in the capital of the Company at the time of the passing of this Resolution, after adjusting for:
- (a) new shares arising from the conversion or exercise of any convertible securities;
- (b) new shares arising from exercising share options or vesting of share awards which are outstanding or subsisting at the time of the passing of this Resolution; and
- (c) any subsequent bonus issue, consolidation or subdivision of shares;
- (3) the 50% limit in sub-paragraph (1) above may be increased to 100% for the Company to undertake pro-rata renounceable rights issues;
- (4) in exercising the authority conferred by this Resolution, the Company shall comply with the provisions of the Listing Manual of the SGX-ST for the time being in force (unless such compliance has been waived by the SGX-ST) and the Articles of Association of the Company; and
- (5) unless revoked or varied by the Company in a general meeting, such authority shall continue in force until the conclusion of the next Annual General Meeting of the Company or the date by which the next Annual General Meeting of the Company is required by law to be held, whichever is earlier.”  
(see explanatory note 2)

## 9. Authority to Issue Shares at a Discount

“That subject to and pursuant to the share issue mandate in Resolution 8 above being obtained, authority be and is hereby given to the Directors to issue new shares other than on a pro-rata basis to shareholders of the Company at an issue price per new share which shall be determined by the Directors in their absolute discretion provided that such price shall not represent more than 20% discount for new shares to the weighted average price per share determined in accordance with the requirements of the SGX-ST.”  
(see explanatory note 3)

**(Resolution 9)**

10. To transact any other business that may be properly transacted at an Annual General Meeting.

BY ORDER OF THE BOARD

**Wee Woon Hong**  
Company Secretary  
Singapore

8 April 2010

# Notice of Annual General Meeting

## EXPLANATORY NOTES:

1. Dr Giam Choo Hoo will, upon re-appointment as a Director of the Company, remain as a member of the Audit, Nominating and Remuneration Committees of the Company, and will be considered independent for the purposes of Rule 704(8) of the Listing Manual of the SGX-ST.
2. The Ordinary Resolution 8 in proposed item 8 above, if passed, will empower the Directors of the Company from the date of this Annual General Meeting until the date of the next Annual General Meeting of the Company, or the date by which the next Annual General Meeting of the Company is required by law to be held or such authority is varied or revoked by the Company in a general meeting, whichever is the earlier, to issue shares, make or grant instruments convertible into shares and to issue shares pursuant to such instruments, up to a number not exceeding, in total, 50% of the total number of issued shares in the capital of the Company, of which up to 20% may be issued other than on a pro-rata basis to existing shareholders of the Company. The 50% limit referred to in the preceding sentence may be increased to 100% for the Company to undertake pro-rata renounceable rights issues from the date of this Annual General Meeting until 31 December 2010 or such timeline as may be prescribed by the SGX-ST.
3. The Ordinary Resolution 9 proposed in item 9 above, if passed, will empower the Directors of the Company from the date of this Annual General Meeting until 31 December 2010 or such timeline as may be prescribed by the SGX-ST to issue new shares (other than on a pro-rata basis to existing shareholders of the Company) at an issue price of up to 20% discount to the weighted average price per share.

## Notes:

- (i) A member of the Company entitled to attend and vote at the above Annual General Meeting may appoint not more than two proxies to attend and vote instead of him.
- (ii) Where a member appoints two proxies, he shall specify the proportion of his shareholding to be represented by each proxy in the instrument appointing the proxies. A proxy need not be a member of the Company.
- (iii) If the member is a corporation, the instrument appointing the proxy must be under seal or the hand of an officer or attorney duly authorised.
- (iv) The instrument appointing a proxy must be deposited at the Registered Office of the Company at 50 Defu Lane 7 Singapore 539356, not less than 48 hours before the time appointed for holding the above Annual General Meeting.

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# HENG LONG INTERNATIONAL LTD.

(Company Registration Number 200717235W)  
(Incorporated in the Republic of Singapore)

**Important:**

1. For investors who have used their CPF monies to buy the shares, this report is forwarded to them at the request of their CPF Approved Nominees and is sent solely FOR INFORMATION ONLY.
2. This Proxy Form is not valid for use by CPF investors and shall be ineffective for all intents and purposes if used or purported to be used by them.

## PROXY FORM ANNUAL GENERAL MEETING

\*I/We, \_\_\_\_\_ (Name) of

\_\_\_\_\_ (Address)

being a \*member/members of HENG LONG INTERNATIONAL LTD. (the "Company") hereby appoint:

Name	Address	NRIC/Passport Number	Proportion of Shareholdings (%)

and/or (delete as appropriate)

Name	Address	NRIC/Passport Number	Proportion of Shareholdings (%)

or failing \*him/her, the Chairman of the Annual General Meeting ("AGM") of the Company as \*my/our \*proxy/proxies to attend and to vote for \*me/us on \*my/our behalf and, if necessary to demand a poll, at the AGM of the Company to be held at The Pines, 30 Stevens Road, Singapore 257840 on Tuesday, 27 April 2010 at 10.00 a.m. and at any adjournment thereof.

(Please indicate with an "X" in the spaces provided whether you wish your vote(s) to be cast for or against the Ordinary Resolutions as set out in the Notice of AGM. In the absence of specific directions, the \*proxy/proxies will vote or abstain as \*he/they may think fit, as \*he/they will on any other matter arising at the AGM.)

No.	Resolutions relating to:	For	Against
	<b>Ordinary Business:</b>		
1.	Adoption of Directors' and Auditor's Reports and Audited Accounts		
2.	Payment of proposed first and final dividend		
3.	Approval of Directors' Fees amounting to S\$150,000		
4.	Re-election of Mr Koh Choon Heong as a Director		
5.	Re-appointment of Mr Koh Long Cheok as a Director		
6.	Re-appointment of Dr Giam Choo Hoo as a Director		
7.	Re-appointment of Messrs Foo Kon Tan Grant Thornton LLP as Auditors		
	<b>Special Business:</b>		
8.	Approval to allot and issue of shares		
9.	Authority to issue shares at a discount		

\* Delete accordingly

Dated this \_\_\_\_\_ day of \_\_\_\_\_ 2010

Total Number of Shares held

\_\_\_\_\_  
Signature(s) of Shareholder(s)/or  
Common Seal of Corporate Shareholder

**IMPORTANT: PLEASE READ NOTES OVERLEAF**



**Notes :**

1. Please insert the total number of shares held by you. If you have shares entered against your name in the Depository Register (as defined in Section 130A of the Companies Act, Cap. 50), you should insert that number of shares. If you have shares registered in your name in the Register of Members, you should insert that number of shares. If you have shares entered against your name in the Depository Register and the Register of Members, you should insert the aggregate number of shares entered against your name in the Depository Register and registered in your name in the Register of Members. If no number is inserted, the instrument appointing a proxy or proxies shall be deemed to relate to all the shares held by you.
2. A member of the Company entitled to attend and vote at the AGM of the Company is entitled to appoint not more than two proxies to attend and vote on his/her behalf. A proxy need not be a member of the Company.
3. The instrument appointing a proxy or proxies must be deposited at the Company's registered office at 50 Defu Lane 7 Singapore 539356, not less than 48 hours before the time appointed for the AGM.
4. Where a member appoints more than one proxy, he/she shall specify the proportion of his/her shareholdings to be represented by each proxy. If no percentage is specified, the first named proxy shall be deemed to represent 100 per cent. of the shareholding and the second named proxy shall be deemed to be an alternate to the first named.
5. The instrument appointing a proxy or proxies must be under the hand of the appointor or his attorney duly authorised in writing. Where the instrument appointing a proxy or proxies is executed by a corporation, it must be executed either under its Common Seal or under the hand of its attorney or a duly authorised officer.
6. Where an instrument appointing a proxy is signed on behalf of the appointor by an attorney, the letter or power of attorney or a duly certified copy thereof must (failing previous registration with the Company) be lodged with the instrument of proxy, failing which the instrument may be treated as invalid.
7. A corporation which is a member may authorise by resolution of its directors or other governing body such person as it thinks fit to act as its representative at the AGM, in accordance with Section 179 of the Companies Act, Cap. 50.
8. The submission of an instrument or form appointing a proxy by a member does not preclude him/her from attending and voting in person at the AGM if he/she so wishes.
9. The Company shall be entitled to reject the instrument appointing a proxy or proxies if it is incomplete, improperly completed, illegible or where the true intentions of the appointor are not ascertainable from the instructions of the appointor specified in the instrument appointing a proxy or proxies. In addition, in the case of a member whose shares are entered against his/her name in the Depository Register, the Company may reject any instrument of proxy lodged if such member, being the appointor, is not shown to have shares entered against his/her name in the Depository Register 48 hours before the time appointed for holding the AGM, as certified by The Central Depository (Pte) Limited to the Company.



**HENG LONG INTERNATIONAL LTD.**

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Tel 6282 2622 | Fax 6284 8209

