2012

ANNUAL REPORT

興利

Hing Lee (HK) Holdings Limited

興利(香港)控股有限公司

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

Stock code : 396

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Corporate Information

BOARD OF DIRECTORS

Executive Directors

Mr. Sung Kai Hing
(Chairman and Chief Executive Officer)
Mr. Cheung Kong Cheung

Non-executive Director

Mr. Fang Yan Zau, Alexander

Independent non-executive Directors

Mr. Sun Jian
Ms. Shao Hanqing
Mr. Kong Hing Ki

AUDIT COMMITTEE

Mr. Kong Hing Ki *(Chairman)*
Mr. Sun Jian
Ms. Shao Hanqing

REMUNERATION COMMITTEE

Mr. Sun Jian *(Chairman)*
Ms. Shao Hanqing
Mr. Kong Hing Ki

NOMINATION COMMITTEE

Ms. Shao Hanqing *(Chairman)*
Mr. Sung Kai Hing
Mr. Cheung Kong Cheung
Mr. Sun Jian
Mr. Kong Hing Ki

COMPANY SECRETARIES

Mr. Wong Kit Wai, FHKICPA, ACIS
Ms. Kim Ling Cheung *(Assistant Secretary)*

AUTHORISED REPRESENTATIVES

Mr. Sung Kai Hing
Mr. Wong Kit Wai

PRINCIPAL BANKERS

The Hongkong and Shanghai Banking Corporation Limited
China Construction Bank Corporation

HEAD OFFICE AND PRINCIPAL PLACE OF BUSINESS IN HONG KONG

Unit 1101, 11th Floor, Delta House
3 On Yiu Street, Shatin, New Territories
Hong Kong

REGISTERED OFFICE

Clarendon House
2 Church Street
Hamilton HM 11
Bermuda

LEGAL ADVISERS

Sit, Fung, Kwong & Shum
Guangdong LianRui Law Firm
Conyers Dill & Pearman

AUDITORS

Baker Tilly Hong Kong Limited
Certified Public Accountants

HONG KONG SHARE REGISTRAR

Computershare Hong Kong Investor Services Limited

PRINCIPAL SHARE REGISTRAR AND TRANSFER OFFICE

Butterfield Fulcrum Group (Bermuda) Limited

STOCK CODE

396

COMPANY WEBSITE

www.hingleehk.com.hk

Financial Summary

(Expressed in Hong Kong dollars)

Consolidated Income Statements

	Year ended 31 December				
	2012	2011	2010	2009	2008
	HK$'000	HK$'000	HK$'000	HK$'000	HK$'000
Turnover	**604,595**	633,008	506,693	439,358	534,346
Cost of sales	**(505,790)**	(486,786)	(383,583)	(349,071)	(433,344)
Gross profit	**98,805**	146,222	123,110	90,287	101,002
Other income	**5,407**	6,733	3,551	3,123	1,989
Selling and distribution expenses	**(85,741)**	(62,203)	(45,819)	(41,351)	(35,533)
Administrative expenses	**(50,987)**	(39,678)	(32,737)	(29,451)	(33,348)
(Loss)/profit from operating activities	**(32,516)**	51,074	48,105	22,608	34,110
Finance costs	**(4,513)**	(2,437)	(2,635)	(623)	(70)
(Loss)/profit before taxation	**(37,029)**	48,637	45,470	21,985	34,040
Income tax	**(1,677)**	(2,914)	(5,170)	(2,360)	(3,251)
(Loss)/profit for the year	**(38,706)**	45,723	40,300	19,625	30,789

Assets and Liabilities

	As at 31 December				
	2012	2011	2010	2009	2008
	HK$'000	HK$'000	HK$'000	HK$'000	HK$'000
Non-current assets	**402,792**	368,952	218,997	188,180	127,943
Current assets	**322,402**	367,676	298,779	225,521	225,216
Current liabilities	**320,933**	328,928	208,182	107,566	111,433
Net current assets	**1,469**	38,748	90,597	117,955	113,783
Total assets less current liabilities	**404,261**	407,700	309,594	306,135	241,726
Non-current liabilities	**42,410**	–	8,532	42,518	32,372
Net assets	**361,851**	407,700	301,062	263,617	209,354
Equity attributable to equity holders of the Company	**354,368**	399,311	301,062	258,400	205,009

Chairman's Statement

On behalf of the Board of Directors (the "Board"), I am pleased to present the annual results of Hing Lee (HK) Holdings Limited (the "Company") and its subsidiaries (collectively the "Group") for the year ended 31 December 2012 ("Year 2012").

Year 2012 was a difficult year for the furniture markets. Despite China's economy maintaining steady growth, the unfavourable environments brought by the Chinese Government's macroeconomic austerity measures, as well as various other unfavorable factors have been affecting the operations of the Group.

In addition to the weak market conditions, many newly built home units were smaller in size. This led to a drop in demand for our large size classical furniture which resulted in diminished turnover in Year 2012. The Group has allocated more resources to the research and development ("R&D") of new products in response to market changes. New products targeting home of smaller size will be launched in the furniture fair in March 2013.

I would like to thank our business units for their valuable contributions and support in Year 2012. Many changes to the Company were instituted by our management team during the year by implementing prudent cost control measures to adjust to the tough economic environment. These changes will improve the Company's cost structure and position us to better compete for success in the years to come.

To maintain our competitiveness in the market, it is always our aim to seek collaboration partners to explore opportunities. We believe a well diversified product range can equip the Group to face new challenges in the market. We also proactively evaluate new technology and new area of business opportunities that is fitted to the market needs in order to widen our existing business lines.

APPRECIATION

On behalf of the Board, I would like to express my heartfelt appreciation to the management team and all staff for their hard work and dedication in the past years.

Last but not least, I would also like to express my sincere gratitude to our shareholders, customers and business partners for their continuous support. I am confident that with the team effort, we will be able to deliver encouraging results in the years to come.

Yours faithfully

Sung Kai Hing
Chairman and Chief Executive Officer

Hong Kong, 22 March 2013

BUSINESS REVIEW

The unfavourable environments brought by the Chinese Government's macroeconomic austerity measures, as well as various other unfavorable factors have been affecting the operations of the Group.

Many newly built home units were smaller in size. This led to a drop in demand for our large size classical furniture which resulted in diminished turnover in 2012. The Group has allocated more resources to the research and development ("R&D") of new products in response to market changes. In addition, various measures have been implemented to enhance our core competitiveness, in particular, costs control and information technology.

FINANCIAL REVIEW

Turnover

The Group's turnover decreased by approximately 4.5% from about HK$633.0 million for the year ended 31 December 2011 to HK$604.6 million for the year ended 31 December 2012. The decrease was primarily due to the decrease in domestic sales of approximately HK$43.8 million or 11.4%. The decrease in the domestic sales during the year was due to the decrease in demand of classical furniture which is large in size. In addition, the Group was adversely affected by the continuously restrictive housing policy of the Central Government and the low consumption sentiment.

Gross Profit

During the period under review, the Group's gross profit margin decreased by 6.8% percentage points to 16.3% (31 December 2011: 23.1%). The drop in the gross profit was the result of a number of factors. Firstly, the demand for Group's high price point classical furniture decreased. Secondly, in order to strengthen our distributors position and hence the Group's sales network, the Group offered discount to our strategic distributors. Moreover, the prices of major raw materials (such as MDF board, ironware, paint and sponge) and the costs of transportation generally increased when compared with the corresponding period of 2011.

Selling and Distribution Expenses

The Group's selling and distribution expenses amounted to about HK$85.7 million for the year ended 31 December 2012, against about HK$62.2 million for the year ended 31 December 2011. The increase in selling and distribution expenses was the result of the increase in staff costs, marketing promotional expenses, transportation costs and the general increase of expenses.

Administrative Expenses

For the year ended 31 December 2012, the Group's administrative expenses were approximately HK$51.0 million against about HK$39.7 million for the year ended 31 December 2011, representing an increase of about 28.5%. Such increase was mainly attributable to the increase in the staff costs.

Loss for the Year

Loss attributable to equity holders of the Company for the year ended 31 December 2012 was approximately HK$40.5 million as compared to profit attributable to equity holders of the Company of approximately HK$41.4 million for the corresponding period last year.

EMPLOYMENT AND REMUNERATION POLICY

As at 31 December 2012, the Group employed approximately 1,700 employees (2011: approximately 1,500). Salaries are reviewed annually and discretionary bonuses are paid on annual basis with reference to individual performance appraisals, inflation and prevailing market condition. Other benefits available to eligible employees include retirement benefits and medical insurance schemes. Share options may also be granted to eligible employees of the Group and other eligible participants.

Apart from regular on-the-job training, the Group also engages professional parties to provide training to its staff to ensure they can obtain updated job related knowledge and enhance the quality of work.

LIQUIDITY AND FINANCIAL RESOURCES

The Group's overall funding and treasury activities are currently managed and controlled by the senior management. There is no significant change in respect of treasury and financing policies from those of last year. Please refer to Note 30(a) to the financial statements of this annual report for the financial risk management of the Group.

The Group maintained cash and bank balances of HK$93.4 million as at 31 December 2012 (31 December 2011: HK$123.6 million).

As at 31 December 2012, the Group had bank borrowings amounting to HK$113.5 million (31 December 2011: HK$124.9 million). As at the same date, the gearing ratio (total debt/total equity) was 1.0 (31 December 2011: 0.81).

As at 31 December 2012, the current ratio (current assets/current liabilities) was 1.0 time (31 December 2011: 1.1) and the net current assets amounted to HK$1.5 million (31 December 2011: HK$38.7 million).

The ageing analysis of trade creditors and bills payable and the maturity profiles of bank borrowings are set out in Notes 23 and 24 to the financial statements of this annual report.

SEGMENT INFORMATION

An analysis of the Group's turnover and contribution to operating loss for the year by principal activities is set out in Note 13 to the financial statements of this annual report.

FOREIGN CURRENCY RISK

The Group is exposed to foreign currency risk primarily through sales and purchases that are denominated in a currency other than the functional currency of the operations to which they relate. The currency giving rise to this risk is primarily Hong Kong dollars, Renminbi and United States dollars. As most of the transactions are denominated and settled in the same currency, the Group's foreign currency risk is considered to be minimal by the Directors at the reporting date. The Group does not hold or issue any derivative financial instruments for trading purposes or for hedging against fluctuations in foreign exchange rates, but the management continuously monitors foreign exchange exposure and will consider hedging significant foreign currency exposure should the need arise.

CHARGE OF ASSETS

As at 31 December 2012, the Group had banking facilities which were secured by (i) a letter of undertaking over the Group's construction in progress and buildings; (ii) legal charges over the Group's medium-term leasehold land outside Hong Kong; (iii) restricted bank deposits of approximately HK$1.5 million; (iv) guarantees from the Government of the HKSAR under the Special Loan Guarantee Scheme and the SME Loan Guarantee Scheme.

SIGNIFICANT INVESTMENTS AND ACQUISITIONS

During the year under review, the Group did not have any significant investment and acquisition or disposal of subsidiaries and associated companies. However, in order to centralize the management and operation of the panel wood furniture business and hence enhance the efficiency of the Group, the Group is planning to build an office building in Shenzhen. It is intended that the construction costs will be funded by internal resources of the Group.

CONTINGENT LIABILITIES

As at 31 December 2012, the Group had no significant contingent liabilities.

PROFIT GUARANTEE

As disclosed in the announcement of the Company dated 31 March 2011, the Company and the purchaser (being a wholly-owned subsidiary of the Company) entered into an agreement with the Vendor and the remaining shareholders to acquire a total of 60% of the issued share capital in Astromax Investment Limited ("the Acquisition") and hence its subsidiaries (the "Astromax Group"). The Acquisition was completed in May 2011. Pursuant to the agreement in respect of the Acquisition, the Vendor has undertaken with the purchaser that for the financial year ending 31 December 2011, the net profit after tax and exceptional items shall not be less than HK$12,000,000 ("Net Profit"). If there is shortfall in relation to the Net Profit for the financial year ending 31 December 2011, the consideration for the acquisition shall be adjusted downwards by an amount equivalent to 1.5 times of the amount of the shortfall. In the event that the Net Profit is a negative figure, the consideration for the acquisition shall be adjusted downwards by an amount equivalent to the sum of HK$18,000,000 and the absolute value of such negative figure. The amount of adjustment shall be paid by the Vendor to the purchaser by cashier order.

According to the audited financial statements prepared under the PRC Generally Accepted Accounting Principles for the year ended 31 December 2011, the Guaranteed Profit has been met, no shortfall thereof is noted.

PROSPECTS

To cope with the uncertain market conditions and to strengthen the competitiveness of the Group, the Group has implemented and will continue to take a series of cost cutting programs to reduce its overhead costs and improve operating efficiency. Each department throughout the Group is required to rationalize its individual head counts to keep staff at a minimum.

The Group will continue to strengthen its position in the medium to high-end home furniture market with its plan to explore opportunities on distribution network expansion, as well as collaboration with property developers for home furniture projects. The Group will continue to actively participate in various international furniture exhibitions and marketing promotions and strengthen its design capacity. We will keep abreast of market trends and enhance the cost-saving and execution capabilities of our supply chain so as to optimise the product life cycle and shorten lead times. We will also fully utilise our R&D resources and design talents in order to cater to consumers' specific needs and preferences.

Despite the present difficult operating environment, the Group is optimistic over the long-term prospects of the furniture industry in China. The Group will also explore potential mergers and acquisition opportunities at appropriate time to further secure our market position and hence enhance shareholders' value.

CORPORATE GOVERNANCE

The directors of the Company (the "Directors" and each a "Director") recognize the importance of incorporating elements of good corporate governance in the management structures and internal control procedures of the Group so as to achieve effective accountability. The Directors continuously observe the principles of good corporate governance in the interests of shareholders and devote considerable effort to identifying and formalizing best practice.

During the year ended December 31, 2012, the Company has complied with the code provisions as set out in the Code on Corporate Governance Practices during the period from January 1, 2012 to March 31, 2012 and the Corporate Governance Code and Corporate Governance Report during the period from April 1, 2012 to December 31, 2012 (the "CG Code") contained in Appendix 14 of the Rules Governing the Listing of Securities (the "Listing Rules") on The Stock Exchange of Hong Kong Limited (the "Stock Exchange") except for the following deviation:

Code provision A.2.1

Code provision A.2.1 stipulates that the roles of chairman and chief executive officer should be separate and should not be performed by the same individual. Mr. Sung Kai Hing is the Chairman and Chief Executive Officer of the Company. The Board believes that vesting the roles of Chairman and Chief Executive Officer in the same individual provides the Group with strong and consistent leadership in the development and execution of long-term business strategies.

MODEL CODE FOR DIRECTORS' SECURITIES TRANSACTIONS

The Company has adopted the Model Code for Securities Transactions by Directors of Listed Issuers as set out in Appendix 10 to the Listing Rules ("Model Code") as the required standard for securities transactions by Directors. The Company has made specific enquiries of all Directors and all Directors have confirmed that they have complied with the required standards set out in the Model Code and its code of conduct regarding Directors' securities transactions during the year under review.

BOARD OF DIRECTORS

Composition of the Board

The Board members of the Company currently are:

Executive directors:

Mr. Sung Kai Hing *(Chairman and Chief Executive Officer)*
Mr. Cheung Kong Cheung

Non-executive director:

Mr. Fang Yan Zau, Alexander

Independent non-executive directors:

Mr. Sun Jian
Ms. Shao Hanqing
Mr. Kong Hing Ki

The biographical details of the Directors and other senior management are disclosed in the section headed "Biographical Details of Directors and Senior Management" on pages 20 to 22 in this Annual Report.

The composition of the Board is well balanced. Each of the Directors has relevant expertise and extensive corporate and strategic planning experiences that may contribute to the business of the Group. Upon reviewing (i) the directorships and major commitments of each Director; and (ii) the attendance rate of each Director at the meetings of the Board and its committees, the Board is satisfied that all Directors have spent sufficient time in performing their responsibilities during 2012.

The Company has complied with the requirements under Rule 3.10(1) and (2) of the Listing Rules during the year under review. All independent non-executive directors also meet the guidelines for assessment of their independence as set out in Rule 3.13 of the Listing Rules.

Functions of the Board

The Board supervises the management of the business and affairs of the Company. The Board's primary duty is to ensure the viability of the Company and to ensure that it is managed in the best interests of the shareholders as a whole while taking into account the interests of other stakeholders.

The Group has adopted internal guidelines in setting forth matters that require the Board's approval. Apart from its statutory responsibilities, the Board approves the Group's strategic plan, key operational initiatives, major investments and funding decisions. It also reviews the Group's financial performance, identifies principal risks of the Group's business and ensures implementation of appropriate systems to manage these risks. Daily business operations and administrative functions of the Group are delegated to the management.

The Board is also responsible for performing the functions set out in code provision D.3.1 of the CG Code. The Board will meet to develop, review and monitor the Company's corporate governance policies and practices, to review and monitor training and continuous professional development of Directors and senior management, to review and monitor the Company's policies and practices on compliance with legal and regulatory requirements, to develop, review and monitor the code of conduct and compliance manual applicable to employees and Directors and to review the Company's compliance with the CG Code and the disclosure in the corporate governance report.

During the year of 2012, in relation to the corporate governance functions, the Board has reviewed the Company's compliance with the CG Code and the regulatory and statutory requirements, and the disclosure in the corporate governance report.

BOARD MEETINGS AND PROCEDURES

The Board met four times during the year ended 31 December 2012. The attendance record of each Director at these regular board meetings is set out in the following table:

Directors	**Board Meetings**	
	Held	**Attended**
Mr. Sung Kai Hing	4	4
Mr. Cheung Kong Cheung	4	4
Mr. Fang Yan Zau, Alexander	4	4
Mr. Sun Jian	4	4
Ms. Shao Hanqing	4	4
Mr. Kong Hing Ki	4	4

Board members were provided with complete, adequate and timely information to allow them to fulfill their duties properly. In compliance with code provision A.1.3 of the CG Code, at least 14 days' notice have been given for a regular Board meeting to give all Directors an opportunity to attend. Notice, agenda and board papers of regular Board meetings were sent to all Directors within reasonable time and at least 3 days prior to the meetings. Directors were free to contribute and share their views at meetings and major decisions would only be taken after deliberation at Board meetings. Directors who were considered having conflict of interests or material interests in the proposed transactions or issues to be discussed would not be counted in the quorum of meeting and would abstain from voting on the relevant resolution. Sufficient resources are provided including for seeking independent professional advice to enable Directors to discharge their duties and responsibilities. Full minutes were prepared after the meetings and the draft minutes were sent to all Directors for their comment, the final version of which were endorsed in the subsequent Board meeting.

The non-executive Director and all independent non-executive Directors have been appointed for a fixed term as disclosed in the sub-section "Directors" in the section headed "Directors' Report" in this annual report. Every Director is subject to re-election on retirement by rotation in accordance with the bye-laws of the Company.

The Company has received from each of its independent non-executive Directors an annual confirmation of his/her independence pursuant to Rule 3.13 of the Listing Rules and it still considers the independent non-executive Directors to be independent.

DIRECTORS' CONTINUOUS TRAINING AND DEVELOPMENT

Directors should participate in continuous professional development to develop and refresh their knowledge and skills. This is to ensure that their contribution into the Board remains informed and relevant. The Directors are committed to complying with code provision A.6.5 of the CG Code which came into effect on April 1, 2012 on Directors' training. All Directors have participated in continuous professional development and provided a record of training they received for the financial year ended December 31, 2012 to the Company.

According to the records provided by the Directors, the training received by each of the Directors during the financial year ended 31 December 2012 is summarized as follows:–

Directors	**Type of continuous professional development training**
Executive Directors	
Sung Kai Hing	A,B
Cheung Kong Cheung	A,B
Non-Executive Director	
Fang Yan Zau, Alexander	A,B
Independent Non-Executive Directors	
Sun Jian	A,B
Shao Hanqing	A,B
Kong Hing Ki	A,B

Note:

A: Attending seminar(s) or training session(s)

B: Reading newspapers, journals and updates relating to the Company's business or directors' duties and responsibilities, the latest development of the Listing Rules and other applicable regulatory requirements etc.

BOARD COMMITTEES

The Board has established specific committees, namely the Audit Committee, Remuneration Committee and Nomination Committee, with written terms of reference to assist them in the efficient implementation of their functions. Specific responsibilities have been delegated to the above committees.

AUDIT COMMITTEE

The Company has set up an Audit Committee with written terms of reference which are in compliance with the code provisions of the Code. The primary duties of the Audit Committee are to review and supervise the financial reporting process and internal control system of the Group. The Audit Committee currently has three members comprising Mr. Kong Hing Ki (Chairman), Mr. Sun Jian, and Ms. Shao Hanqing, all being independent non-executive Directors.

During the year under review, the Audit Committee had held 2 meetings, the attendance of the members is set out below:

Directors	Meetings of the Audit Committee	
	Held	Attended
Mr. Sun Jian	2	2
Ms. Shao Hanqing	2	2
Mr. Kong Hing Ki	2	2

The Audit Committee has reviewed the accounting policies and practices adopted by the Group and the annual and interim results of the Group as well as assessed the effectiveness of the Group's internal control and risk management system. The Audit Committee reported that there was no material uncertainty that cast doubt on the Company's going concern ability.

REMUNERATION COMMITTEE

The Company has set up a Remuneration Committee with written terms of reference which are in compliance with the code provisions of the Code. The Remuneration Committee shall make recommendations to the Board on, among other matters, the Company's policy and structure for the remuneration of all Directors and the senior management of the Group and are delegated by the Board the responsibility to determine on behalf of the Board the remuneration for Directors and senior management of the Group. The Remuneration Committee consists of three members, namely, Mr. Sun Jian (Chairman), Ms. Shao Hanqing and Mr. Kong Hing Ki, all being independent non-executive Directors.

The remuneration of the Directors was determined with reference to their respective experience, responsibilities with the Group and general market conditions. Any discretionary bonus is linked to the performance of the Group and of the individual Director.

One meeting was held during the year ended 31 December 2012 to review the remuneration and incentive package of the senior management. Attendance of the members is set out below:

Directors	**Meetings of the Remuneration Committee Held**	**Attended**
Mr. Sun Jian	1	1
Ms. Shao Hanqing	1	1
Mr. Kong Hing Ki	1	1

Details of the remuneration of each Director for 2012 are set out in the Note 8 to the consolidated financial statements in this annual report.

The biographies of members of the senior management team at the date of this annual report are disclosed in the section headed "Biographical Details of Directors and Senior Management" in this annual report. Remuneration payable to senior management (excluding Directors) for the year ended 31 December 2012 is within the following bands:

	Number of individuals	
	2012	2011
Nil – HK$1,000,000	**5**	4
HK$1,000,001 – HK$1,500,000	**2**	3

In addition, the Company has adopted a pre-IPO share option scheme (the "Pre-IPO Share Option Scheme") and a share option scheme (the "Share Option Scheme") both on 29 May 2009. The purpose of the Pre-IPO Share Option Scheme is to grant new options to replace the options granted under a share option scheme previously adopted by the Company and to continue to give the participants of the Pre-IPO Share Option Scheme an opportunity to share in the success of the Group and to motivate the participants to optimize their performance and efficiency and also to retain participants whose contributions are important to the long-term growth and profitability of the Group. The purpose of the Share Option Scheme is to enable the Company to grant option to eligible participants as incentives or rewards for their contribution to the growth of the Group and to provide the Group with a more flexible means to reward and remunerate the eligible participants.

NOMINATION COMMITTEE

The Company has set up a Nomination Committee with written terms of reference which are in compliance with the code provisions of the CG Code. The Nomination Committee shall make recommendations to the Board on appointment of Directors and succession planning for Directors. The Nomination Committee consists of five members, namely, Ms. Shao Hanqing (Chairman), Mr. Sung Kai Hing, Mr. Cheung Kong Cheung, Mr. Sun Jian and Mr. Kong Hing Ki.

One meeting was held during the year ended 31 December 2012 for reviewing the structure, size and composition of the Board. Attendance of the members is set out below:

Directors	**Meetings of the Nomination Committee**	
	Held	**Attended**
Ms. Shao Hanqing	1	1
Mr. Sung Kai Hing	1	1
Mr. Cheung Kong Cheung	1	1
Mr. Sun Jian	1	1
Mr. Kong Hing Ki	1	1

ACCOUNTABILITY AND AUDIT

Directors' Responsibility for the Accounts

The Directors are responsible for the preparation of the financial statements which give a true and fair view of the state of affairs of the Company and its subsidiaries, in accordance with accounting principles generally accepted in Hong Kong.

The statement by the auditors of the Company about their responsibilities for the financial statements is set out in the report of the independent auditor's report contained in this Annual Report. There are no material uncertainties relating to events or conditions that may cast significant doubt on the Company's ability to continue as a going concern.

EXTERNAL AUDITORS' REMUNERATION

The Company engaged Baker Tilly Hong Kong Limited ("Baker Tilly") as its external auditors for year ended 31 December 2012. Analysis of the remuneration in respect of audit is included in Note 6 to the consolidated financial statements in this Annual Report. No non-audit services have been provided by the external auditors during the year under review.

INTERNAL CONTROLS

The compliance and internal audit department, which is independent to the Company's daily operations and accounting functions, is responsible for establishing the Group's internal control framework, covering all material controls including financial, operational and compliance controls.

The compliance and internal audit department also formulates the internal audit plan and procedures, conducts periodic independent reviews on the operations of individual divisions to identify any irregularities and risks, develops action plans and recommendations to address the identified risks, and reports to the management on any key findings and progress of the internal audit process.

The Audit Committee which comprises all the independent non-executive Directors has the duties to, among other things, review the internal control systems and procedures for compliance with the relevant accounting, financial and Listing Rules requirements.

In addition, the executive Directors have attended external continuous training sessions relating to corporate governance to further enhance their knowledge on various on-going obligations and duties of a listed issuer and its directors under the Listing Rules and the Hong Kong Code on Takeovers and Mergers.

During the year under review, Baker Tilly carried out an assessment on the Company's internal control systems and procedures in relation to financial reporting, disclosure under the Listing Rules and the Companies Ordinance, and risk management. Baker Tilly advised that there is no material findings which has to be brought to the attention of the Board or the shareholders of the Company. After due and careful inquiries, the Audit Committee and the Board considered the policies and procedures of internal control covering all material controls including financial, operational and compliance controls and risk management system are effective and adequate and will conduct ongoing review on the effectiveness of the system. The Audit Committee also considered, after due and careful inquiries, that the Company has complied with the internal control system and the relevant accounting, financial and Listing Rules requirements.

COMMUNICATIONS WITH SHAREHOLDERS AND INVESTORS

The general meetings of the Company provide a forum for communication between the shareholders and the Board. The Chairman of the Board as well as the chairman of the Audit Committee, Nomination Committee and Remuneration Committee, or in their absence, other members of the respective committees, are available to answer questions at the shareholders' meetings.

The Company held one general meeting, being the annual general meeting, in 2012. The attendance record of the Directors at such meeting is set out below:

Directors	Attendance
Executive Directors	
Sung Kai Hing	1
Cheung Kong Cheung	1
Non-Executive Director	
Fang Yan Zau, Alexander	1
Independent Non-Executive Directors	
Sun Jian	1
Shao Hanqing	1
Kong Hing Ki	1

In order to keep shareholders well informed of the business activities and direction of the Group, information about the Group has also been provided to the shareholders through financial reports and announcements. The Company has established its own corporate website www.hingleehk.com.hk to facilitate effective communication with its shareholders and the public. The Company will continue to enhance communications and relationships with its shareholders and investors.

Shareholders, investors and interested parties can make enquiries to the Company through the following means:

By e-mail:	kevinwong@hingleehk.com.hk
Telephone number:	(852) 2151-9600
By post:	Unit 1101, 11/F Delta House 3 On Yiu Street Shatin, N.T. Hong Kong
Attention:	Public Relationship

SHAREHOLDERS' RIGHTS

(a) Right to convene special general meeting

Pursuant to the bye-laws of the Company, members holding at the date of deposit of the requisition not less than one-tenth of the paid up capital of the Company carrying the right of voting at general meetings of the Company shall at all times have the right, by written requisition to the Board or the company secretary of the Company, to require a special general meeting to be called by the Board for the transaction of any business specified in such requisition; and such meeting shall be held within two months after the deposit of such requisition.

The written requisition must state the purposes of the meeting, signed by the requisitionist(s) and deposited at the registered office of the Company and at the Company's head office and principal place of business in Hong Kong at Unit 1101, 11th Floor, Delta House, 3 On Yiu Street, Shatin, New Territories, Hong Kong, and such request may consist of several documents in like form, each signed by one or more of the requisitionist(s).

The request will be verified with the Company's branch share registrar in Hong Kong and upon the confirmation of the branch share registrar that the request is in order, the company secretary of the Company will ask the Board to convene a special general meeting by serving sufficient notice in accordance with all relevant statutory and regulatory requirements to all registered members. On the contrary, if the request is verified as not in order, the requisitionist(s) will be advised of this outcome and accordingly, a special general meeting will not be convened as requested.

If within twenty-one days of such deposit the Board fails to proceed to convene such meeting the requisitionists, or any of them representing more than one half of the total voting rights of all of them, may themselves do so in accordance with the provisions of section 74(3) of the Companies Act 1981 of Bermuda.

(b) Right to put forward proposals at general meetings

Pursuant to the Companies Act 1981 of Bermuda, either any number of the registered Shareholders holding not less than one-twentieth (5%) of the paid-up capital of the Company carrying the right of voting at general meetings of the Company ("Requisitionists"), or not less than 100 of such registered Shareholders, can request the Company in writing to (a) give to Shareholders entitled to receive notice of the next general meeting notice of any resolution which may properly be moved and is intended to be moved at that meeting; and (b) circulate to Shareholders entitled to have notice of any general meeting any statement of not more than 1,000 words with respect to the matter referred to in any proposed resolution or the business to be dealt with at that meeting. The requisition signed by all the Requisitionists must be deposited at the registered office of the Company and the Company's head office and principal place of business in Hong Kong with a sum reasonably sufficient to meet the Company's relevant expenses and not less than six weeks before the meeting in case of a requisition requiring notice of a resolution or not less than one week before the meeting in the case of any other requisition. Provided that if, after a copy of the requisition notice of a resolution has been deposited at the registered office of the Company, an AGM is called for a date six weeks or less after the requisition has been deposited, the requisition though not deposited within the time required shall be deemed to have been properly deposited for the purposes thereof.

As regard the procedures for proposing a person for election as a Director, please refer to the procedures made available on the website of the Company at www.hingleehk.com.hk.

To safeguard shareholders' interests and rights, separate resolutions will be proposed at shareholders' meetings on each substantially separate issue, including the election of individual directors.

All resolutions put forward at a shareholders' meeting will be taken by poll pursuant to the Listing Rules. The chairman of the shareholders" meeting will explain detailed procedures for conducting a poll answer any questions from shareholder regarding voting by way of poll. The poll results will be posted on the websites of the Stock Exchange and the Company after the shareholders' meeting.

COMPANY SECRETARY

Mr. Wong Kit Wai is an employee of the Company and was appointed as the company secretary of the Company in May 2009. The biographical details of Mr. Wong are set out in the section headed "Biographical Details of Directors and Senior Management".

According to Rule 3.29 of the Listing Rules, Mr. Wong has taken no less than 15 hours of relevant professional training during the financial year ended 31 December 2012.

CONSTITUTIONAL DOCUMENTS

There are no changes in the Company's constitutional documents during the year.

PUBLICATION OF AUDITED FINANCIAL RESULTS

The Company's financial results announcement for the financial year ended 31 December 2012 and this Annual Report are published on the website of the Stock Exchange at www.hkex.com.hk and on the Company's website at www.hingleehk.com.hk.

DIRECTORS AND SENIOR MANAGEMENT

Executive Director

Mr. Sung Kai Hing (宋啟慶先生), aged 56, is an Executive Director, the Chairman and the Chief Executive Officer of the Company and one of the founders of the Group and he has over 17 years of experience in the furniture industry. Mr. Sung was appointed as a Director on 20 April 2004. He is primarily responsible for the overall strategic planning and business development of the Group as well as overseeing the daily operations of the Group. Besides, he is also a director of certain subsidiaries of the Company and a member of the Nomination Committee.

Mr. Sung has been appointed as a part-time instructor with specialisation in business operation, strategic planning and supply chain management at 南京林業大學 (Nanjing Forestry University) and 中南林業科技大學 (Central South University of Forestry and Technology) (formerly known as (Central South Forestry University)) since June 2004 and November 2004 respectively.

Mr. Cheung Kong Cheung (張港璋先生), aged 51, is an Executive Director and one of the founders of the Group and he has over 17 years of experience in the furniture industry. Mr. Cheung was appointed as a Director on 20 April 2004. He is responsible for the administration and human resources management, as well as upholstered furniture business of the Group. Besides, he is also a director of certain subsidiaries of the Company and a member of the Nomination Committee. He has been appointed as a part-time instructor with specialisation in international trade and trading of home furniture at 南京林業大學 (Nanjing Forestry University) and 中南林業科技大學 (Central South University of Forestry and Technology) (formerly known as 中南林學院 (Central South Forestry University)) since June 2004 and November 2004 respectively.

Non-executive Director

Mr. Fang Yan Zau, Alexander (方仁宙先生), aged 41, is a Non-Executive Director and was appointed as a Director on 28 July 2006. He has over 11 years of experience in business development. Mr. Fang is currently an independent non-executive director of Chinney Alliance Group Limited (stock code: 385), a company whose shares are listed on the Main Board of The Stock Exchange of Hong Kong Limited, he was a director of Pandatel AG which is a listed public company at Frankfurt Stock Exchange and principally engaged in the provision of telecommunication related services, from January 2006 to 2009. Mr. Fang holds a master of business administration degree in general management from J. L. Kellogg School of Management, Northwestern University and a Bachelor of Science degree in accounting from University of Southern California. Mr. Fang is the son of Mr. Fang Shin who is the controlling shareholder of the Company.

Independent non-executive Director

Mr. Sun Jian (孫堅先生), aged 48, was appointed as an Independent Non-Executive Director on 1 July 2007. He is also the Chairman of the Remuneration Committee and a member of the Audit Committee and the Nomination Committee. He has over 13 years of experience in retail businesses and is a director and the chief executive officer of Home Inns & Hotel Management, Inc., a company which is principally engaged in the hotel industry with its shares listed on the National Association of Securities Dealers Automated Quotation System in the U.S.. Mr. Sun obtained a bachelor's degree in hygiene management from 上海醫科大學 (Shanghai Medical University) (subsequently renamed as 復旦大學上海醫學院 (Shanghai Medical College of Fudan University)) in July 1987. He is the vice president of 中國連鎖經營協會 (China Chain Store & Franchise Association).

Ms. Shao Hanqing (邵漢青女士), aged 75, was appointed as an Independent Non-Executive Director on 29 May 2009. She is also the Chairman of the Nomination Committee and a member of the Audit Committee and the Remuneration Committee. She is a part-time professor and a mentor to the doctorate candidates of the economics faculty of 中國人民大學 (Renmin University of China). Ms. Shao was a vice-chairlady of 中國人民政治協商會議廣東省深圳市委員會 (Shenzhen Committee of Chinese People's Political Consultative Conference) from April 1997 to May 2000 and was elected as a fellow in the World Academy of Productivity Science by World Confederation of Productivity Science in 2006. Ms. Shao is an independent director of 方大集團股份有限公司 (China Fangda Group Co., Ltd.), a company listed on 深圳證券交易所 (the Shenzhen Stock Exchange). Ms. Shao obtained a bachelor's degree of national economic planning from 中國人民大學 (Renmin University of China) in 1964.

Mr. Kong Hing Ki (江興琪先生), aged 42, was appointed as an Independent Non-Executive Director on 29 May 2009. He is also the Chairman of the Audit Committee and a member of the Remuneration Committee and the Nomination Committee. He has over 16 years of experience in accounting, auditing and finance, gained from international accountancy and commercial firms. He is an independent non-executive director of KEE Holdings Company Limited (stock code: 2011), a company whose shares are listed on the Main Board of The Stock Exchange of Hong Kong Limited, and also an independent non-executive director of RENHENG Enterprise Holdings Limited (stock code: 8012), a company whose shares are listed on the Growth Enterprise Market of The Stock Exchange of Hong Kong Limited. Mr. Kong holds a bachelor's degree of commerce from Australian National University and a master of business administration degree from Deakin University. He is a fellow member of the Hong Kong Institute of Certified Public Accountants and a member of CPA Australia.

SENIOR MANAGEMENT

Mr. Huang Wei Ye (黃偉業先生), aged 58, is one of the founders of the Group. He joined the Group in 1995 and is the head of the Group's design and development department, as well as the production department, and is responsible for overseeing the design, development and manufacture of the Group's furniture products. He is also a director of certain subsidiaries of the Company. Mr. Huang has over 22 years of experience in the furniture industry. Mr. Huang is currently the Chairman of Shenzhen Furniture Trade Association. Mr. Huang has been appointed as a part-time instructor with specialisation in product design, production strategies and industry trend analysis at 南京林業大學 (Nanjing Forestry University) and 中南林業科技大學 (Central South University of Forestry and Technology) (formerly known as 中南林學院 (Central South Forestry University)) since 2003. He obtained a master of business administration degree from 北京大學 (Peking University) in July 2007.

Mr. Chan Kwok Kin (陳國堅先生), aged 55, is one of the founders of the Group. Being the head of the sales and marketing department, as well as the procurement department of the Group, he is responsible for formulating the Group's sales and marketing strategies and procurement policies and overseeing the Group's sales and marketing activities. He is also a director of certain subsidiaries of the Company. Mr. Chan has over 17 years of experience in the furniture industry. He was appointed as a part-time instructor with specialisation in sales and marketing strategies and brand development at 南京林業大學 (Nanjing Forestry University) and 中南林業科技大學 (Central South University of Forestry and Technology) (formerly known as 中南林學院 (Central South Forestry University)) since 2004.

Mr. Wu Guo Long (吳國龍先生), aged 38, is the vice design and development manager of the Group. Since January 2008, he has been appointed as the general manager of Shenzhen Xingli Furniture Company Limited ("Shenzhen Xingli"). Mr. Wu joined the Group in 1996 after graduation from the university and has over 12 years of experience in the furniture industry. He obtained a bachelor's degree in interior and furniture design in 1996 from 中南林學院 (Central South Forestry University) (subsequently renamed as 中南林業科技大學 (Central South University of Forestry and Technology) in 2005).

Mr. Tao Limin (陶利民先生), aged 33, is the production manager of the Group and the head of the production department of the Group's factories in the PRC. He is responsible for overseeing the production operations at all the Group's factories in the PRC. Mr. Tao has extensive experience in furniture industry. He obtained a diploma in wood science and engineering in 2004 from 中南林學院 (Central South University of Forestry and Technology) (subsequently renamed as 中南林業科技大學 (Central South University of Forestry and Technology) in 2005). Mr. Tao joined the Group in 2010.

Mr. Pu Cai Jun (蒲采君先生), aged 50, is the financial controller of the PRC Operation. He is responsible for all financial and accounting matters in respect of the PRC subsidiaries of the Group. Mr. Pu joined the Group in 2002 and has over 12 years of experience in financial controlling. He was the finance manager of Dahao Furniture during the period from 1985 to 2002. He obtained a bachelor's degree in accounting from 湖南財經學院 (Hunan Finance and Economics Institute) in July 1991.

Mr. Tse Kin Hung (謝建雄先生), aged 40, is the financial controller of the Group. He is responsible for the financial and accounting matters of Group. He is a fellow member of the Association of Chartered Certified Accountants and a practising certificate holder of the Hong Kong Institute of Certified Public Accountants. Mr. Tse has over 10 years of experience in finance, auditing and accounting. Prior to joining the Group in 2008, Mr. Tse worked for Moores Rowland, Pacific CMA, Inc. and Kaisa Group Holdings Ltd (stock code 1638), a Company whose shares are listed on the Main Board of the Stock Exchange of Hong Kong Limited. Mr. Tse graduated from Hong Kong Polytechnic University with a bachelor's degree in business studies in 1996.

CHIEF FINANCIAL OFFICER AND COMPANY SECRETARY

Mr. Wong Kit Wai (黃杰偉先生), aged 43, is the chief financial officer and the company secretary of the Group. He is responsible for supervising the Group's financial management and overseeing the company secretarial and compliance affairs of the Group. Mr. Wong joined the Group in January 2007 and has over 11 years of experience in accounting and finance. He obtained a master of business administration degree from Deakin University, Australia and a bachelor of commerce degree from The University of New South Wales. He is a fellow member of Hong Kong Institute of Certified Public Accountants and a member of CPA Australia. Besides, Mr. Wong is an associate member of the Hong Kong Institute of Chartered Secretaries and an associate member of The Institute of Chartered Secretaries and Administrators, the United Kingdom.

The board (the "Board") of directors (the "Directors") of the Company submit herewith their annual report and the audited consolidated financial statements of the Company and its subsidiaries (collectively, the "Group") for the year ended 31 December 2012.

GENERAL INFORMATION

The Company was incorporated in the British Virgin Islands ("BVI") on 20 April 2004 and was re-domiciled and continued in Bermuda with limited liability on 30 March 2007. The registered office address is Clarendon House, 2 Church Street, Hamilton HM11, Bermuda.

PRINCIPAL PLACE OF BUSINESS

The principal place of business of the Company is located at Unit 1101, 11th Floor, Delta House, 3 On Yiu Street, Shatin, New Territories, Hong Kong.

PRINCIPAL ACTIVITIES

The principal business activities of the Group are the design, manufacture, sale and marketing of home furniture products including mainly wood-based furniture, sofa, mattresses and licensing of its own brands and product designs.

RESULTS

The results of the Group for the year ended 31 December 2012 are set out in the consolidated income statement on page 37 of this annual report.

DIVIDENDS

The Board does not recommend the payment of a final dividend for the year ended 31 December 2012 (2011: HK1.95 cents per ordinary share).

PROPERTY, PLANT AND EQUIPMENT

Details of movements in property, plant and equipment of the Group during the year ended 31 December 2012 are set out in Note 14 to the consolidated financial statements in this annual report.

SHARE CAPITAL

Details of the Company's paid up capital for the year ended 31 December 2012 are set out in Note 28 to the consolidated financial statements in this annual report. No shares are issued by the Company during the year.

PRE-IPO SHARE OPTION SCHEME

On 22 December 2006, the Company adopted a share option scheme (the "2006 Scheme") under which options to subscribe for shares of the Company had been granted to certain Directors or employees of the Group, all of which were cancelled and replaced by options granted under the Pre-IPO Share Option Scheme. The purpose of the Pre-IPO Share Option Scheme is to grant new options to replace the options granted under the 2006 Scheme and to continue to give the participants of the Pre-IPO Share Option Scheme an opportunity to share in the success of the Group and to motivate the participants to optimize their performance and efficiency and also to retain participants whose contributions are important to the long-term growth and profitability of the Group. The principal terms of the Pre-IPO Share Option Scheme, approved by the written resolutions of the shareholders on 29 May 2009, are substantially the same as the terms of the Share Option Scheme except that:

(a) the subscription price for Shares under the Pre-IPO Share Option Scheme is at HK$1.0647 per Share;

(b) the total number of Shares which may be issued upon the exercise of all options granted under the Pre-IPO Share Option Scheme is 14,986,695 Shares, representing approximately 7.49% of the total issued share capital of the Company immediately following completion of the placing and public offer and the capitalisation issue of the Shares but excluding the issue and allotment of Shares upon the exercise of the options which were granted under the Pre-IPO Share Option Scheme and which may be granted under any other schemes of the Company;

(c) save for options which have been granted, no further options will be offered or granted as the Pre-IPO Share Option Scheme shall end on the day immediately prior to 22 June 2009 (the date when the Shares were first listed on the Main Board of The Stock Exchange of Hong Kong LImited (the "Stock Exchange")) (the "Listing Date"); and

(d) the Company by ordinary resolution in general meeting or the Board may at any time terminate the operation of the Pre-IPO Share Option Scheme and in such event, no further option shall be offered but the provisions of the Pre-IPO Share Option Scheme shall remain in full force and effect in all other respects in respect of any options granted thereto but not yet exercised at the time of termination.

The vesting period of the options granted under the Pre-IPO Share Option Scheme is determined by reference to the outstanding vesting period of the replaced options granted under the 2006 Scheme, but no option granted under the Pre-IPO Share Option Scheme will be exercisable within the first six months after the Listing Date. Details of the vesting period and expiry date of the options granted under the Pre-IPO Share Option Scheme are set out in the Prospectus.

As at the date of this annual report, certain Directors and employees of the Group were granted share options to subscribe for Shares at the exercise price of HK$1.0647 per Share under the Pre-IPO Share Option Scheme. Details of the share options movements during the year ended 31 December 2012 under the Pre-IPO Share Option Scheme are as follows:

	Number of share options						
Name	**Outstanding share options granted under the Pre-IPO Share Option Scheme as at 1 January 2012**	**Date of grant**	**Granted during the year**	**Exercised during the year**	**Cancelled/ Lapsed during the year**	**Outstanding share options granted under the Pre-IPO Share Option Scheme as at 31 December 2012**	**Exercise period**
Directors of the Company							
Mr. Sung Kai Hing	1,498,670	29 May 2009	–	–	–	1,498,670	23/12/2009 – 30/12/2016
Mr. Cheung Kong Cheung	1,498,670	29 May 2009	–	–	–	1,498,670	23/12/2009 – 30/12/2016
Mr. Sun Jian	374,667	29 May 2009	–	–	–	374,667	23/12/2009 – 19/6/2017
	187,334		–	–	–	187,334	20/6/2010 – 19/6/2017
	187,334		–	–	–	187,334	20/6/2011 – 19/6/2017
Other employees							
In aggregate	3,746,675	29 May 2009	–	–	–	3,746,675	23/12/2009 – 30/12/2016
	374,667		–	–	–	374,667	23/12/2009 – 19/6/2017
	374,668		–	–	–	374,668	31/12/2009 – 30/12/2016
	374,667		–	–	–	374,667	31/12/2010 – 30/12/2016
	187,334		–	–	–	187,334	20/6/2010 – 19/6/2017
	187,334		–	–	–	187,334	20/6/2011 – 19/6/2017
Total	8,992,020		–	–	–	8,992,020	

Note: The closing price before the date of grant is not available as the Shares were first listed on the Stock Exchange on 22 June 2009.

SHARE OPTION SCHEME

The Company adopted a Share Option Scheme (the "Share Option Scheme") by a written resolution of the shareholders on 29 May 2009. The purpose of the Share Option Scheme is to enable the Company to grant options to full-time or part-time employees, directors, consultants, advisers, distributor, contractor, supplier, service provider, agent, customer and business partner of the Company and/or any of its subsidiaries (the "Eligible Participants") as incentives or rewards for their contribution to the growth of the Group and to provide the Group with a more flexible means to reward, remunerate, compensate and/or provide benefits to the Eligible Participants.

Details of the principal terms of the Share Option Scheme are set out in the Prospectus. Certain principal terms of the Share Option Scheme are summarized as follows and in Note 27 to the consolidated financial statement in this annual report:

The Share Option Scheme was adopted for a period of 10 years commencing from 29 May 2009 and will remain in force until 28 May 2019, after which period no further options will be offered or granted but the provisions of the Share Option Scheme shall remain in full force and effect in all other respects with respect to options granted during the life of the Share Option Scheme. The Company may by ordinary resolution in general meeting or the Board may at any time terminate the Share Option Scheme without prejudice to the exercise of options granted prior to such termination.

The subscription price for Shares in respect of any particular option granted under the Share Option Scheme shall be such price as the Board shall determine, provided that such price shall be at least the highest of (i) the closing price per Share on the Main Board as stated in the Stock Exchange's daily quotation sheet on the date of offer of the option, which must be a business day; and (ii) the average closing price per Share on Main Board as stated in the Stock Exchange's daily quotation sheets for the five (5) business days immediately preceding the date of offer of the option; and (iii) the nominal value of a Share. Subject to such terms and conditions as the Board may determine in its absolute discretion, there is no general requirement on the minimum period for which an option must be held before an option can be exercised under the Share Option Scheme.

The total number of Shares which may be issued upon exercise of all options to be granted under the Share Option Scheme and any other share option schemes of the Company (excluding the share options granted under the Pre-IPO Share Option Scheme) must not, in aggregate, exceed 10% of the issued share capital of the Company as at the Listing Date, such 10% being equivalent to 20,000,000 Shares. As at the date of this report, options for the subscription of 4,000,000 Shares (representing approximately 1.65% of the issued share capital of the Company) are available for issue under the Share Option Scheme. In addition, if any options subsequently lapsed in accordance with the terms of the Share Option Scheme, such options will not be counted for the purpose of calculating the said 10% limit.

As at the date of this annual report, options for the subscription of 16,000,000 Shares have been granted to certain Directors and employees of the Group under the Share Option Scheme. Details of the share options movements during the year ended 31 December 2012 under the Share Option Scheme are as follows:

	Number of share options						
Name	Outstanding share options granted under the Share Option Scheme as at 1 January 2012	Date of grant	Granted during the period	Exercised during the period	Cancelled/ Lapsed during the period	Outstanding share options granted under the Share Option scheme as at 31 December 2012	Exercise period
Directors of the Company							
Mr. Sung Kai Hing	750,000	5 May 2011#	-	-	-	750,000	5/5/2012 - 4/5/2014
	750,000	5 May 2011#	-	-	-	750,000	1/1/2013 - 4/5/2014
Mr. Cheung Kong Cheung	750,000	5 May 2011#	-	-	-	750,000	5/5/2012 - 4/5/2014
	750,000	5 May 2011#	-	-	-	750,000	1/1/2013 - 4/5/2014
Mr. Sun Jian	150,000	23 April 2010*	-	-	-	150,000	23/4/2011 - 22/4/2013
	150,000	23 April 2010*	-	-	-	150,000	1/1/2012 - 22/4/2013
Ms. Shao Hanqing	150,000	23 April 2010*	-	-	-	150,000	23/4/2011 - 22/4/2013
	150,000	23 April 2010*	-	-	-	150,000	1/1/2012 - 22/4/2013
Mr. Kong Hing Ki	150,000	23 April 2010*	-	-	-	150,000	23/4/2011 - 22/4/2013
	150,000	23 April 2010*	-	-	-	150,000	1/1/2012 - 22/4/2013
Other employees							
In aggregate	5,550,000	23 April 2010*	-	-	-	5,550,000	23/4/2011 - 22/4/2013
	5,550,000	23 April 2010*	-	-	-	5,550,000	1/1/2012 - 22/4/2013
	500,000	5 May 2011#	-	-	-	500,000	5/5/2012 - 4/5/2014
	500,000	5 May 2011#	-	-	-	500,000	1/1/2013 - 4/5/2014
Total	16,000,000		-	-	-	16,000,000	

Notes:

* The exercise price of the options granted on 22 April 2010 under the Share Option Scheme as set out above is HK$1.422 per Share. The closing price of the Shares immediately before the date of grant of such options was HK$1.39 per Share.

The exercise price of the options granted on 5 May 2011 under the Share Option Scheme as set out above is HK$1.80 per Share. The closing price of the Shares immediately before the date of grant of such options was HK$1.60 per share.

PRE-EMPTIVE RIGHTS

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

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

During the year, the Company and its subsidiaries has not purchased, sold or redeemed any of the Company's listed securities.

RESERVES

Details of movements in the reserves of the Company and the Group during the year are set out in Note 28 to the financial statements in this annual report.

DISTRIBUTABLE RESERVES

As at 31 December 2012, the Company's reserves available for distribution, calculated in accordance with the provisions of the Companies Act 1981 of Bermuda, amounted to HK$153.8 million.

MAJOR CUSTOMERS AND SUPPLIERS

Sales to the Group's five largest customers accounted for approximately 31.7% of the total sales for the year and sales to the largest customer included therein amounted to 8.7%. Purchases from the Group's five largest suppliers accounted for approximately 23.9% of the total purchase for the year and purchase from the Group's largest supplier included therein amounted to 4.9%.

None of the Directors or any of their associates or any shareholders (which, to the best knowledge of the directors, own more than 5% of the Company's issued share capital) had any interest in the Group's five largest customers and suppliers.

DIRECTORS

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

Executive directors:

Mr. Sung Kai Hing *(Chairman and Chief Executive Officer)* (appointed on 20 April 2004)
Mr. Cheung Kong Cheung (appointed on 20 April 2004)

Non-executive director:

Mr. Fang Yan Zau, Alexander (appointed on 28 July 2006)

Independent non-executive directors:

Mr. Sun Jian (appointed on 1 July 2007)
Ms. Shao Hanqing (appointed on 29 May 2009)
Mr. Kong Hing Ki (appointed on 29 May 2009)

Pursuant to bye-law 84 of the bye-laws of the Company, at each annual general meeting, one-third of the Directors for the time being shall retire from office by rotation.

By virtue of bye-law 84 of the bye-laws of the Company, the office of certain Directors, namely Mr. Shao Hanqing and Mr. Kong Hing Ki will end at the forthcoming annual general meeting. All of the above Directors, being eligible, will offer themselves for re-election at the Annual General Meeting.

Each of the executive Directors has entered into a service contract with the Company for an initial term of three years with effect from the Listing Date and thereafter be continuous unless and until terminated by not less than three months' prior notice in writing served by either party on the other or by payment of three months' fixed salary in lieu of such notice.

Each of the non-executive Director and independent non-executive Directors has entered into a letter of appointment with the Company for a period of two years commencing from 22 June 2011.

No Director proposed for re-election at the forthcoming annual general meeting has a service contract with the Company which is not determinable by the Company within one year without payment of compensation, other than statutory compensation.

The Company has received from each of the independent non-executive Directors, namely, Mr. Sun Jian, Ms. Shao Hanqing and Mr. Kong Hing Ki, an annual confirmation of independence pursuant to Rule 3.13 of the Rules Governing the Listing of Securities on the Stock Exchange and the Company considers them to be independent.

BIOGRAPHIES OF DIRECTORS AND OTHER SENIOR MANAGEMENT

The biographical details of Directors and other senior management are disclosed in the section headed "Biographical Details of Directors and Senior Management" on pages 20 to 22 in this annual report.

INTERESTS OF DIRECTORS IN CONTRACTS

During the year ended 31 December 2012, none of the Directors had a material interest, whether directly or indirectly, in any contract of significance to which the Company or any of its subsidiaries or affiliates was a party.

DIRECTORS' INTEREST IN COMPETING BUSINESS

None of the Directors or any of their respective associates had any interest in a business which competes or likely to compete, either directly or indirectly, with the business of the Group.

DIRECTORS' AND CHIEF EXECUTIVE'S INTERESTS AND SHORT POSITIONS IN SHARES, UNDERLYING SHARES AND DEBENTURES

As at 31 December 2012, the interests and short positions of the Directors and chief executive of the Company in shares, underlying shares and debentures of the Company or any of its associated corporations (within the meaning of Part XV of the Securities and Futures Ordinance (Chapter 571 of the Laws of Hong Kong) (the "SFO") which were required to be entered into the register required to be kept under section 352 of the SFO or otherwise were required to be notified to the Company and the Stock Exchange pursuant to Divisions 7 and 8 of Part XV of the SFO (including interests and short positions which they are taken or deemed to have under such provisions of the SFO) and/or the Model Code for Securities Transactions by Directors of Listed Issuers set out in Appendix 10 to the Listing Rules (the "Model Code"), were as follows:

(i) Long positions in shares of HK$0.01 each of the Company ("Shares")

Name of Director/ chief executive	Nature of interests	Number of Shares	Approximate percentage of the issued share capital of the Company
Mr. Sung Kai Hing *(note 1)*	Interest of a controlled corporation	18,280,155	7.54%
Mr. Cheung Kong Cheung *(note 2)*	Interest of a controlled corporation	18,280,155	7.54%

Notes:

1. The Shares were held by King Right Holdings Limited ("King Right"), a company beneficially wholly-owned by Mr. Sung Kai Hing, who is also the sole director of King Right. By virtue of the SFO, Mr. Sung Kai Hing is deemed to be interested in the same parcel of Shares in which King Right is interested.

2. The Shares were held by United Sino Limited ("United Sino"), a company beneficially wholly- owned by Mr. Cheung Kong Cheung, who is also the sole director of United Sino. By virtue of the SFO, Mr. Cheung Kong Cheung is deemed to be interested in the same parcel of Shares in which United Sino is interested.

(ii) Rights to acquire shares or debentures

As at 31 December 2012, details of the share options granted by the Company to the Directors were as follows:

Name of Director	Date of grant	Exercise price	Exercise period	Outstanding as at 31 December 2012
Mr. Sung Kai Hing	29 May 2009	HK$1.0647	23 December 2009 to 30 December 2016	1,498,670
	5 May 2011	HK$1.80	5 May 2012 to 4 May 2014	750,000
	5 May 2011	HK$1.80	1 January 2013 to 4 May 2014	750,000
Mr. Cheung Kong Cheung	29 May 2009	HK$1.0647	23 December 2009 to to 30 December 2016	1,498,670
	5 May 2011	HK$1.80	5 May 2012 to 4 May 2014	750,000
	5 May 2011	HK$1.80	1 January 2013 to 4 May 2014	750,000
Mr. Sun Jian	29 May 2009	HK$1.0647	23 December 2009 to 19 June 2017	374,667
			20 June 2010 to 19 June 2017	187,334
			20 June 2011 to 19 June 2017	187,334
	23 April 2010	HK$1.4220	23 April 2011 to 22 April 2013	150,000
			1 January 2012 to 22 April 2013	150,000
Ms. Shao Hanqing	23 April 2010	HK$1.4220	23 April 2011 to 22 April 2013	150,000
			1 January 2012 to 22 April 2013	150,000
Mr. Kong Hing Ki	23 April 2010	HK$1.4220	23 April 2011 to 22 April 2013	150,000
			1 January 2012 to 22 April 2013	150,000
				7,646,675

Note: The Company's shares were first listed on the Main Board of the Stock Exchange on 22 June 2009. The offer price of the Shares under the initial public offering is HK$1.02 per Share.

Save as disclosed above, as at 31 December 2012, none of the Directors or chief executive of the Company had or was deemed to have any interests or short position in the shares, underlying shares and debentures of the Company and its associate corporations (within the meaning of Part XV of the SFO), which were required to be entered into the register required to be kept under section 352 of the SFO or as otherwise notified to the Company and the Stock Exchange pursuant to Divisions 7 and 8 of Part XV of the SFO or the Model Code.

SUBSTANTIAL SHAREHOLDERS

As at 31 December 2012, the persons (not being a Director or chief executive of the Company) who have interest or short position in the shares or underlying shares of the Company as recorded in the register required to be kept under section 336 of the SFO were as follows:

Long positions in Shares of HK$0.01 each

Name	Capacity	Number of Shares	Approximate percentage of shareholding %	Note
Triple Express Enterprises Limited ("Triple Express")	Beneficial owner	67,964,104	28.04	1
Mr. Fang Shin	Interest of a controlled corporation	67,964,104	28.04	1
Mrs. Fang Chang Rose Jean	Family interests	67,964,104	28.04	1
Top Prospect International Limited ("Top Prospect")	Beneficial owner	36,404,000	15.02	2
Mr. Yuan Han Xiang	Interest of a controlled corporation	36,404,000	15.02	2
King Right Holdings Limited ("King Right")	Beneficial owner	18,280,155	7.54	3
Ms. Wong Wai King	Family interests	18,280,155	7.54	3
United Sino Limited ("United Sino")	Beneficial owner	18,280,155	7.54	4
Ms. Li Xin	Family interests	18,280,155	7.54	4
Golden Sunday Limited ("Golden Sunday")	Beneficial owner	18,280,155	7.54	5
Mr. Chan Kwok Kin	Interest of a controlled corporation	18,280,155	7.54	5
Ms. Ho Fung Ying	Family interests	18,280,155	7.54	5
Top Right Trading Limited ("Top Right")	Beneficial owner	17,195,431	7.09	6
Mr. Huang Wei Ye	Interest of a controlled corporation	17,195,431	7.09	6
Ms. Ye Jian Qun	Family interests	17,195,431	7.09	6

Notes:

1. Triple Express is a company beneficially wholly-owned by Mr. Fang Shin. By virtue of the SFO, Mr. Fang Shin is deemed to be interested in the same parcel of Shares in which Triple Express is interested. Mrs. Fang Chang Rose Jean is the spouse of Mr. Fang Shin and is deemed to be interested in the same parcel of Shares in which Mr. Fang Shin is interested by virtue of the SFO.

2. Top Prospect is a company beneficially wholly-owned by Mr. Yuan Han Xiang. By virtue of the SFO, Mr. Yuan Han Xiang is deemed to be interested in the same parcel of Shares in which Top Prospect is interested.

3. King Right is a company beneficially wholly-owned by Mr. Sung Kai Hing, who is also the sole director of King Right. Ms. Wong Wai King is the spouse of Mr. Sung Kai Hing and is deemed to be interested in the same parcel of Shares in which Mr. Sung Kai Hing is interested by virtue of the SFO.

4. United Sino is a company beneficially wholly-owned by Mr. Cheung Kong Cheung, who is also the sole director of United Sino. Ms. Li Xin is the spouse of Mr. Cheung Kong Cheung and is deemed to be interested in the same parcel of Shares in which Mr. Cheung is interested by virtue of the SFO.

5. Golden Sunday is a company beneficially wholly-owned by Mr. Chan Kwok Kin. By virtue of the SFO, Mr. Chan is deemed to be interested in the same parcel of Shares in which Golden Sunday is interested. Ms. Ho Fung Ying is the spouse of Mr. Chan and is deemed to be interested in the same parcel of Shares in which Mr. Chan is interested by virtue of the SFO.

6. Top Right is a company beneficially wholly-owned by Mr. Huang Wei Ye. By virtue of the SFO, Mr. Huang Wei Ye is deemed to be interested in the same parcel of Shares in which Top Right is interested. Ms. Ye Jian Qun is the spouse of Mr. Huang Wei Ye and is deemed to be interested in the same parcel of Shares in which Mr. Huang is interested by virtue of the SFO.

Save as disclosed above, the Company had not been notified by any persons (other than Directors or chief executive of the Company) who had interests or short positions in the shares or underlying shares of the Company which would fall to be disclosed to the Company under the provision of Divisions 2 and 3 of Part XV of the SFO or which were recorded in the register required to be kept by the Company pursuant to Section 336 of the SFO.

Events after the reporting period

There are no significant events subsequent to 31 December 2012 which would materially affect the Group's and the Company's operating and financial performance as of the date of this annual report.

Corporate Governance

The Company is committed to maintaining the highest standard of corporate governance practices. Information on the corporate governance practices adopted by the Company is set out in the Corporate Governance Report on pages 9 to 19 of this annual report.

Sufficiency of Public Float

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

AUDITORS

After the resignation of Moore Stephens as auditors of the Company on 29 October 2009, Baker Tilly Hong Kong Limited ("Baker Tilly") was appointed as the auditors of the Company on 2 November 2009. Baker Tilly shall hold office until the conclusion of the forthcoming annual general meeting. Baker Tilly, being eligible, will offer themselves for reappointment. A resolution for reappointment of Baker Tilly as auditors of the Company is to be proposed at the forthcoming annual general meeting.

APPRECIATION

On behalf of the Board, we would like to express my sincere gratitude to our shareholders, customers and business partners for their continuous supports. Our thanks also go to all staff members of the Group for their contributions and commitment to the continuous success of the Group.

By Order of the Board of
Hing Lee (HK) Holdings Limited
Sung Kai Hing
Chairman and Chief Executive Officer
Hong Kong, 22 March 2013

BAKER TILLY
HONG KONG | 天職香港

Independent auditor's report to the shareholders of
Hing Lee (HK) Holdings Limited

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

We have audited the consolidated financial statements of Hing Lee (HK) Holdings Limited (the "Company") and its subsidiaries (together referred to as the "Group") set out on pages 37 to 116, which comprise the consolidated and company statements of financial position as at 31 December 2012, and the consolidated income statement, the consolidated statement of comprehensive income, the consolidated statement of changes in equity and the consolidated cash flow statement for the year then ended, and a summary of significant accounting policies and other explanatory information.

Directors' responsibility for the consolidated financial statements

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

Auditor's responsibility

Our responsibility is to express an opinion on these consolidated financial statements based on our audit. This report is made solely to you, as a body, in accordance with Section 90 of the Bermuda Companies Act 1981, and for no other purpose. We do not assume responsibility towards or accept liability to any other person for the contents of this report.

We conducted our audit in accordance with Hong Kong Standards on Auditing issued by the Hong Kong Institute of Certified Public Accountants. Those standards require that we comply with ethical requirements and plan and perform the audit to obtain reasonable assurance about whether the consolidated financial statements are free from material misstatement.

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

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

Opinion

In our opinion, the consolidated financial statements give a true and fair view of the state of affairs of the Company and of the Group as at 31 December 2012 and of the Group's loss and cash flows for the year then ended in accordance with Hong Kong Financial Reporting Standards and have been properly prepared in accordance with the disclosure requirements of the Hong Kong Companies Ordinance.

Baker Tilly Hong Kong Limited
Certified Public Accountants
Hong Kong, 22 March 2013
Lo Wing See
Practising certificate number P04607

Consolidated income statement

for the year ended 31 December 2012
(Expressed in Hong Kong dollars)

	Note	2012 HK$'000	2011 HK$'000
Turnover	4	**604,595**	633,008
Cost of sales		**(505,790)**	(486,786)
Gross profit		**98,805**	146,222
Other income	5	**5,407**	6,733
Selling and distribution expenses		**(85,741)**	(62,203)
Administrative expenses		**(50,987)**	(39,678)
(Loss)/profit from operating activities		**(32,516)**	51,074
Finance costs	6(a)	**(4,513)**	(2,437)
(Loss)/profit before taxation	6	**(37,029)**	48,637
Income tax	7	**(1,677)**	(2,914)
(Loss)/profit for the year		**(38,706)**	45,723
Attributable to:			
Equity shareholders of the Company	10	**(40,520)**	41,418
Non-controlling interests		**1,814**	4,305
(Loss)/profit for the year		**(38,706)**	45,723
(Loss)/earnings per share (HK cents)	12		
– Basic		**(16.72)**	18.01
– Diluted		**(16.72)**	17.81

The notes on pages 45 to 116 form part of the consolidated financial statements. Details of dividends payable to equity shareholders of the Company attributable to the (loss)/profit for the year are set out in note 28(b).

Consolidated statement of comprehensive income

for the year ended 31 December 2012
(Expressed in Hong Kong dollars)

	Note	2012 HK$'000	2011 HK$'000
(Loss)/profit for the year		**(38,706)**	45,723
Other comprehensive (loss)/income for the year	*11*		
Exchange differences on translation of financial statements of overseas subsidiaries		**(249)**	12,107
Available-for-sale investments:			
Gain/(loss) on fair value changes of available-for-sale investments		**18**	(15)
Reclassification adjustments upon disposal of available-for-sale investments		**–**	(2,563)
		(231)	9,529
Total comprehensive (loss)/income for the year		**(38,937)**	55,252
Attributable to:			
Equity shareholders of the Company		**(40,751)**	50,947
Non-controlling interests		**1,814**	4,305
Total comprehensive (loss)/income for the year		**(38,937)**	55,252

The notes on pages 45 to 116 form part of the consolidated financial statements.

Consolidated statement of financial position

as at 31 December 2012
(Expressed in Hong Kong dollars)

	Note	2012 HK$'000	2011 HK$'000
Non-current assets			
Property, plant and equipment	*14*	**301,947**	266,997
Prepaid lease payments	*15*	**48,660**	49,791
Goodwill	*16*	**52,120**	52,120
Available-for-sale investments	*18*	**65**	44
		402,792	368,952
Current assets			
Prepaid lease payments	*15*	**1,119**	1,119
Inventories	*19*	**118,376**	111,442
Trade and other receivables	*20*	**107,998**	120,728
Restricted bank deposits	*21*	**1,517**	10,757
Cash and cash equivalents	*22*	**93,392**	123,630
		322,402	367,676
Current liabilities			
Trade and other payables	*23*	**241,968**	201,303
Current portion of bank borrowings	*24*	**77,774**	124,904
Current taxation	*25(a)*	**1,191**	2,721
		320,933	328,928
Net current assets		**1,469**	38,748
Total assets less current liabilities		**404,261**	407,700
Non-current liabilities			
Other payables	*23*	**6,647**	–
Non-current portion of bank borrowings	*24*	**35,763**	–
		42,410	–
NET ASSETS		**361,851**	407,700

Consolidated statement of financial position

as at 31 December 2012
(Expressed in Hong Kong dollars)

	Note	**2012** **HK$'000**	2011 HK$'000
CAPITAL AND RESERVES	*28*		
Share capital		**2,424**	2,424
Reserves		**351,944**	396,887
Total equity attributable to equity shareholders of the Company		**354,368**	399,311
Non-controlling interests		**7,483**	8,389
Total equity		**361,851**	407,700

Approved and authorised for issue by the board of directors on 22 March 2013.

Director *Director*

The notes on pages 45 to 116 form part of the consolidated financial statements.

Statement of financial position

as at 31 December 2012
(Expressed in Hong Kong dollars)

	Note	2012 HK$'000	2011 HK$'000
Non-current assets			
Investments in subsidiaries	*17*	**156**	156
Current assets			
Prepayments, deposits and other receivables	*20*	**12**	31
Dividend receivable from a subsidiary	*17*	**61,175**	61,175
Amount due from a subsidiary	*17*	**104,427**	104,742
Cash and cash equivalents	*22*	**325**	6,587
		165,939	172,535
Current liabilities			
Other payables and accrued charges	*23*	**1,080**	2,760
Net current assets		**164,859**	169,775
NET ASSETS		**165,015**	169,931
CAPITAL AND RESERVES	*28*		
Share capital		**2,424**	2,424
Reserves		**162,591**	167,507
Total equity		**165,015**	169,931

Approved and authorised for issue by the board of directors on 22 March 2013.

Director *Director*

The notes on pages 45 to 116 form part of the consolidated financial statements.

Consolidated statement of changes in equity

for the year ended 31 December 2012
(Expressed in Hong Kong dollars)

		Attributable to equity shareholders of the Company											
		Share capital	Share premium	Exchange reserve	Statutory reserve fund	Merger reserve	Share option reserve	Fair value reserve	Capital reserve	Retained profits	Total	Non-controlling interests	Total equity
		(note 28(c))	(note 28(d)(i))	(note 28(d)(ii))	(note 28(d)(iii))	(note 28(d)(iv))	(note 28(d)(v))	(note 28(d)(vi))	(note 28(d)(vii))				
	Note	HK$'000	HK$'000	HK$'000	HK$'000	HK$'000	HK$'000	HK$'000	HK$'000	HK$'000	HK$'000	HK$'000	HK$'000
Balance at 1 January 2011		2,060	83,623	28,345	8,765	25,430	5,875	2,573	(6,486)	150,877	301,062	-	301,062
Changes in equity for 2011:													
Profit for the year		-	-	-	-	-	-	-	-	41,418	41,418	4,305	45,723
Other comprehensive income	11	-	-	12,107	-	-	-	(2,578)	-	-	9,529	-	9,529
Total comprehensive income for the year		-	-	12,107	-	-	-	(2,578)	-	41,418	50,947	4,305	55,252
Dividends approved in respect of the previous year	28(b)	-	-	-	-	-	-	-	-	(7,757)	(7,757)	-	(7,757)
Acquisition of subsidiaries	29	364	57,882	-	-	-	-	-	-	-	58,246	4,084	62,330
Equity-settled share-based transactions		-	-	-	-	-	2,388	-	-	-	2,388	-	2,388
Appropriation of reserve		-	-	-	832	-	-	-	-	(832)	-	-	-
Dividends declared in respect of the current year	28(b)	-	-	-	-	-	-	-	-	(5,575)	(5,575)	-	(5,575)
Balance at 31 December 2011 and 1 January 2012		2,424	141,505	40,452	9,597	25,430	8,263	(5)	(6,486)	178,131	399,311	8,389	407,700
Changes in equity for 2012:													
Loss for the year		-	-	-	-	-	-	-	-	(40,520)	(40,520)	1,814	(38,706)
Other comprehensive loss	11	-	-	(249)	-	-	-	18	-	-	(231)	-	(231)
Total comprehensive loss for the year		-	-	(249)	-	-	-	18	-	(40,520)	(40,751)	1,814	(38,937)
Dividends approved in respect of the previous year	28(b)	-	-	-	-	-	-	-	-	(4,727)	(4,727)	-	(4,727)
Equity-settled share-based transactions		-	-	-	-	-	535	-	-	-	535	-	535
Dividends paid to non-controlling interests		-	-	-	-	-	-	-	-	-	-	(2,720)	(2,720)
Balance at 31 December 2012		2,424	141,505	40,203	9,597	25,430	8,798	13	(6,486)	132,884	354,368	7,483	361,851

The notes on pages 45 to 116 form part of the consolidated financial statements.

Consolidated cash flow statement

for the year ended 31 December 2012
(Expressed in Hong Kong dollars)

	Note	2012 HK$'000	2011 HK$'000
Operating activities			
(Loss)/profit before taxation		**(37,029)**	48,637
Adjustments for:			
Amortisation of prepaid lease payments	*6(c)*	**1,115**	1,119
Depreciation	*6(c)*	**13,045**	11,551
Dividend income from available-for-sale investments	*5*	**(3)**	(89)
Equity-settled share-based payment expenses		**535**	2,388
Write-down of inventories recognised	*6(c)*	**9,152**	9,014
Impairment of trade receivables recognised/(reversed)	*6(c)*	**2,060**	(358)
Interest expense	*6(a)*	**4,513**	2,437
Interest income	*5*	**(249)**	(973)
Loss/(gain) on disposal of property, plant and equipment (net)	*6(c)*	**733**	(20)
Loss on disposal of available-for-sale investments	*5*	**–**	2,187
Reclassification from equity on disposal of available-for-sale investments	*5*	**–**	(2,563)
Operating (loss)/profit before changes in working capital		**(6,128)**	73,330
Increase in inventories		**(16,113)**	(27,119)
Decrease/(increase) in trade and other receivables		**10,487**	(25,285)
Increase in trade and other payables		**52,062**	50,115
Cash generated from operations		**40,308**	71,041
Interest received		**249**	973
Interest paid		**(7,099)**	(4,710)
Hong Kong Profits Tax paid		**(983)**	–
PRC Enterprises Income Tax paid		**(2,219)**	(1,679)
Net cash generated from operating activities		**30,256**	65,625

Consolidated cash flow statement

for the year ended 31 December 2012
(Expressed in Hong Kong dollars)

	Note	**2012** **HK$'000**	2011 HK$'000
Investing activities			
Net cash inflow from acquisition of subsidiaries	*29*	**–**	2,122
Decrease in restricted bank deposits		**9,238**	7,128
Dividends received from available-for-sale investments		**–**	89
Purchase of property, plant and equipment		**(52,384)**	(103,033)
Proceeds from disposal of property, plant and equipment		**1,394**	60
Proceeds from disposal of available-for-sale investments		**–**	5,034
Net cash used in investing activities		**(41,752)**	(88,600)
Financing activities			
Proceeds from new bank borrowings		**53,428**	84,434
Repayment of bank borrowings		**(64,765)**	(46,531)
Dividends paid	*28(b)*	**(4,727)**	(13,332)
Dividends paid to non-controlling interests		**(2,720)**	–
Net cash (used in)/generated from financing activities		**(18,784)**	24,571
Net (decrease)/increase in cash and cash equivalents		**(30,280)**	1,596
Cash and cash equivalents at beginning of the year		**123,630**	131,662
Effect of foreign exchange rate changes		**42**	(9,628)
Cash and cash equivalents at end of the year	*22*	**93,392**	123,630

The notes on pages 45 to 116 form part of the consolidated financial statements.

1 COMPANY INFORMATION

Hing Lee (HK) Holdings Limited (the "Company") was incorporated in the British Virgin Islands ("BVI") on 20 April 2004 and re-domiciled in Bermuda on 30 March 2007. The registered office of the Company is located at Clarendon House, 2 Church Street, Hamilton HM11, Bermuda. The principal place of business of the Company is located at Unit 1101, 11th Floor, Delta House, 3 On Yiu Street, Shatin, New Territories, Hong Kong.

The Company has its primary listing on the Main Board of the Stock Exchange of Hong Kong Limited (the "Stock Exchange"). The principal activity of the Company is investment holding. The principal activities of the Company's subsidiaries are set out in note 17 to the consolidated financial statements.

The consolidated financial statements are presented in Hong Kong dollars ("HK$"), unless otherwise indicated, which is also the functional currency of the Group.

2 SIGNIFICANT ACCOUNTING POLICIES

(a) Statement of compliance

These consolidated financial statements have been prepared in accordance with all applicable Hong Kong Financial Reporting Standards ("HKFRSs"), which collective term includes all applicable individual Hong Kong Financial Reporting Standards, Hong Kong Accounting Standards ("HKASs") and Interpretations issued by the Hong Kong Institute of Certified Public Accountants ("HKICPA"), accounting principles generally accepted in Hong Kong and the disclosure requirements of the Hong Kong Companies Ordinance. These consolidated financial statements also comply with the applicable disclosure provisions of the Rules Governing the Listing of Securities on The Stock Exchange of Hong Kong Limited (the "Listing Rules"). A summary of the significant accounting policies adopted by the Group and the Company is set out below.

The HKICPA has issued certain new and revised HKFRSs that are first effective or available for early adoption for the current accounting period of the Group and the Company. Note 3 provides information on any changes in accounting policies resulting from initial application of these developments to the extent that they are relevant to the Group and the Company for the current and prior accounting periods reflected in these consolidated financial statements.

(b) Basis of preparation of the consolidated financial statements

The consolidated financial statements for the year ended 31 December 2012 comprise the Company and its subsidiaries (together referred to as the "Group").

The measurement basis used in the preparation of the consolidated financial statements is the historical cost basis except that the financial instruments classified as available-for-sale investments are stated at their fair value as explained in the accounting policy set out in note 2(f).

2 SIGNIFICANT ACCOUNTING POLICIES (continued)

(b) Basis of preparation of the consolidated financial statements (continued)

The preparation of the consolidated financial statements in conformity with HKFRSs requires management to make judgements, estimates and assumptions that affect the application of policies and reported amounts of assets, liabilities, income and expenses. The estimates and associated assumptions are based on historical experience and various other factors that are believed to be reasonable under the circumstances, the results of which form the basis of making the judgements about carrying values of assets and liabilities that are not readily apparent from other sources. Actual results may differ from these estimates.

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

Judgements made by management in the application of HKFRSs that have significant effect on the financial statements and major sources of estimation uncertainty are discussed in note 35.

(c) Subsidiaries and non-controlling interests

Subsidiaries are entities 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. In assessing control, potential voting rights that presently are exercisable are taken into account.

An investment in a subsidiary is consolidated into the consolidated financial statements from the date that control commences until the date that control ceases. Intra-group balances and transactions and any unrealised profits arising from intra-group transactions are eliminated in full in preparing the consolidated financial statements. Unrealised losses resulting from intra-group transactions are eliminated in the same way as unrealised gains but only to the extent that there is no evidence of impairment.

Non-controlling interests represent the equity in a subsidiary not attributable directly or indirectly to the Company, and in respect of which the Group has not agreed any additional terms with the holders of those interests which would result in the Group as a whole having a contractual obligation in respect of those interests that meets the definition of a financial liability. For each business combination, the Group can elect to measure any non-controlling interests either at fair value or at their proportionate share of the subsidiary's net identifiable assets.

2 SIGNIFICANT ACCOUNTING POLICIES (continued)

(c) Subsidiaries and non-controlling interests (continued)

Non-controlling interests are presented in the consolidated statement of financial position within equity, separately from equity attributable to the equity shareholders of the Company. Non-controlling interests in the results of the Group are presented on the face of the consolidated income statement and the consolidated statement of comprehensive income as an allocation of the total profit or loss and total comprehensive income for the year between non-controlling interests and the equity shareholders of the Company.

Changes in the Group's interests in a subsidiary that do not result in a loss of control are accounted for as equity transactions, whereby adjustments are made to the amounts of controlling and non-controlling interests within consolidated equity to reflect the change in relative interests, but no adjustments are made to goodwill and no gain or loss is recognised.

When the Group loses control of a subsidiary, it is accounted for as a disposal of the entire interest in that subsidiary, with a resulting gain or loss being recognised in profit or loss. Any interest retained in that former subsidiary at the date when control is lost is recognised at fair value and this amount is regarded as the fair value on initial recognition of a financial asset (see note 2(f)).

In the Company's statement of financial position, an investment in a subsidiary is stated at cost less impairment losses (see note 2(i)), unless the investment is classified as held for sale (or included in a disposal group that is classified as held for sale).

(d) Business combinations

Acquisitions of businesses are accounted for using the acquisition method. The consideration transferred in a business combination is measured at fair value, which is calculated as the sum of the acquisition-date fair values of the assets transferred by the Group, liabilities incurred by the Group to former owners of the acquiree and the equity interests issued by the Group in exchange for control of the acquiree. Acquisition-related costs are recognised in profit or loss as incurred.

At the acquisition date, the acquiree's identifiable assets, liabilities and contingent liabilities that meet the conditions for recognition under HKFRS 3 (Revised 2008), *Business combinations*, are recognised at their fair values, except that:

– deferred tax assets or liabilities and liabilities or assets related to employee benefit arrangements are recognised and measured in accordance with HKAS 12, *Income taxes*, and HKAS 19, Employee benefits, respectively;

– liabilities or equity instruments related to the replacement by the Group of an acquiree's share-based payment awards are measured in accordance with HKFRS 2, *Share-based payment*; and

– assets (or disposal groups) that are classified as held for sale in accordance with HKFRS 5, *Non-current assets held for sale and discontinued operations*, are measured in accordance with that standard.

2 SIGNIFICANT ACCOUNTING POLICIES (continued)

(d) Business combinations (continued)

Goodwill is measured as the excess of the sum of the consideration transferred, the amount of any non-controlling interests in the acquiree, and the fair value of the acquirer's previously held equity interest in the acquiree (if any) over the net of the acquisition-date amounts of the identifiable assets acquired and the liabilities assumed. If, after assessment, the Group's interest in the fair value of the acquiree's identifiable net assets exceeds the sum of the consideration transferred, the amount of any non-controlling interests in the acquiree and the fair value of the acquirer's previously held interest in the acquiree (if any), the excess is recognised immediately in profit or loss as a bargain purchase gain.

Non-controlling interests may be initially measured either at fair value or at the non-controlling interests' proportionate share of the fair value of the acquiree's identifiable net assets. The choice of measurement basis is made on a transaction-by-transaction basis.

Where the consideration the Group transfers in a business combination includes assets or liabilities resulting from a contingent consideration arrangement, the contingent consideration is measured at its acquisition-date fair value and considered as part of the consideration transferred in a business combination. Changes in the fair value of the contingent consideration that qualify as measurement period adjustments are adjusted retrospectively, with the corresponding adjustments being made against goodwill or gain on bargain purchase. Measurement period adjustments are adjustments that arise from additional information obtained during the measurement period about facts and circumstances that existed as of the acquisition date.

Measurement period does not exceed one year from the acquisition date. The subsequent accounting for changes in the fair value of the contingent consideration that do not qualify as measurement period adjustments depends on how the contingent consideration is classified. Contingent consideration that is classified as equity is not remeasured at subsequent reporting dates and its subsequent settlement is accounted for within equity. Contingent consideration that is classified as an asset or a liability is remeasured at subsequent reporting dates in accordance with HKAS 39, or HKAS 37, *Provisions, contingent liabilities and contingent assets*, as appropriate, with the corresponding gain or loss being recognised in profit or loss.

Where a business combination is achieved in stages, the Group's previously held equity interest in the acquiree is remeasured to fair value at the acquisition date (i.e. the date when the Group obtains control) and the resulting gain or loss, if any, is recognised in profit or loss.

Changes in the value of the previously held equity interest recognised in other comprehensive income and accumulated in equity before the acquisition date are reclassified to profit or loss when the Group obtains control over the acquiree.

2 SIGNIFICANT ACCOUNTING POLICIES (continued)

(e) Goodwill

Goodwill is stated at cost less accumulated impairment losses. Goodwill arising on a business combination is allocated to each cash-generating unit, or groups of cash generating units, that is expected to benefit from the synergies of the combination and is tested annually for impairment (see note 2(i)).

On disposal of a cash generating unit during the year, any attributable amount of purchased goodwill is included in the calculation of the profit or loss on disposal.

(f) Other investments in debt and equity securities

The Group's and the Company's policies for investments in debt and equity securities, other than investments in subsidiaries, are as follows:

Investments in debt and equity securities are initially stated at fair value, which is their transaction price unless fair value can be more reliably estimated using valuation techniques whose variables include only data from observable markets. Cost includes attributable transaction costs, except where indicated otherwise below. These investments are subsequently accounted for as follows, depending on their classification:

Investments in securities held for trading are classified as current assets. Any attributable transaction costs are recognised in profit or loss as incurred. At the end of each reporting period the fair value is remeasured, with any resultant gain or loss being recognised in profit or loss. The net gain or loss recognised in profit or loss does not include any dividends or interest earned on these investments as these are recognised in accordance with the policies set out in note 2(s)(iv) and (iii).

Dated debt securities that the Group and/or the Company have the positive ability and intention to hold to maturity are classified as held-to-maturity securities. Held-to-maturity securities are stated at amortised cost less impairment losses (see note 2(i)).

Investments in equity securities that do not have a quoted market price in an active market and whose fair value cannot be reliably measured are recognised in the statement of financial position at cost less impairment losses (see note 2(i)).

Investments in securities which do not fall into any of the above categories are classified as available-for-sale securities. At the end of each reporting period the fair value is remeasured, with any resultant gain or loss being recognised in other comprehensive income and accumulated separately in equity in the fair value reserve, except foreign exchange gains and losses resulting from changes in the amortised cost of monetary items such as debt securities which are recognised directly in profit or loss. Dividend income from these investments is recognised in profit or loss in accordance with the policy set out in note 2(s)(iv) and, where these investments are interest-bearing, interest calculated using the effective interest method is recognised in profit or loss in accordance with the policy set out in note 2(s)(iii). When these investments are derecognised or impaired (see note 2(i)), the cumulative gain or loss is reclassified from equity to profit or loss.

Investments are recognised/derecognised on the date the Group commits to purchase/sell the investments or they expire.

2 SIGNIFICANT ACCOUNTING POLICIES (continued)

(g) Property, plant and equipment

Items of property, plant and equipment, other than construction in progress, are stated at cost less accumulated depreciation and impairment losses (see note 2(i)).

Construction in progress represents property, plant and equipment under construction and equipment pending installation and is stated at cost less impairment losses (see note 2(i)). Cost comprises direct costs of construction. Capitalisation of these costs ceases and the construction in progress is transferred to property, plant and equipment when substantially all of the activities necessary to prepare the assets for their intended use was completed.

Gains or losses arising from the retirement or disposal of an item of property, plant and equipment are determined as the difference between the net disposal proceeds and the carrying amount of the item and are recognised in profit or loss on the date of retirement or disposal.

Depreciation is calculated to write off the cost or valuation of items of property, plant and equipment, less their estimated residual value, if any, using the straight line method over their estimated useful lives. The principal annual rates used for this purpose are as follows:

Buildings	Over the lease terms
Leasehold improvements	20% or over the lease terms, whichever is shorter
Motor vehicles	18% – 20%
Office equipment	10% – 20%
Plant and machinery	10% – 33.33%

Where parts of an item of property, plant and equipment have different useful lives, the cost or valuation of the item is allocated on a reasonable basis between the parts and each part is depreciated separately. Both the useful life of an asset and its residual value, if any, are reviewed annually.

(h) Leased assets

An arrangement, comprising a transaction or a series of transactions, is or contains a lease if the Group determines that the arrangement conveys a right to use a specific asset or assets for an agreed period of time in return for a payment or a series of payments. Such a determination is made based on an evaluation of the substance of the arrangement and is regardless of whether the arrangement takes the legal form of a lease.

2 SIGNIFICANT ACCOUNTING POLICIES (continued)

(h) Leased assets (continued)

(i) Classification of assets leased to the Group

Assets that are held by the Group under leases which transfer to the Group substantially all the risks and rewards of ownership are classified as being held under finance leases. Leases which do not transfer substantially all the risks and rewards of ownership to the Group are classified as operating leases.

(ii) Operating lease charges

Where the Group has the use of assets held under operating leases, payments made under the leases are charged to profit or loss in equal instalments over the accounting periods covered by the lease term, except where an alternative basis is more representative of the pattern of benefits to be derived from the leased asset. Lease incentives received are recognised in profit or loss as an integral part of the aggregate net lease payments made. Contingent rentals are charged to profit or loss in the accounting period in which they are incurred.

The cost of acquiring land held under an operating lease is amortised on a straight-line basis over the period of the lease term except where the property is classified as an investment property or is held for development for sale.

(i) Impairment of assets

(i) Impairment of investments in debt and equity securities and other receivables

Investments in debt and equity securities and other current and non-current receivables that are stated at cost or amortised cost or are classified as available-for-sale securities are reviewed at the end of each reporting period to determine whether there is objective evidence of impairment. Objective evidence of impairment includes observable data that comes to the attention of the Group about one or more of the following loss events:

– significant financial difficulty of the debtor;

– a breach of contract, such as a default or delinquency in interest or principal payments;

– it becoming probable that the debtor will enter bankruptcy or other financial reorganisation;

– significant changes in the technological, market, economic or legal environment that have an adverse effect on the debtor; and

– a significant or prolonged decline in the fair value of an investment in an equity instrument below its cost.

2 SIGNIFICANT ACCOUNTING POLICIES (continued)

(i) Impairment of assets (continued)

(i) Impairment of investments in debt and equity securities and other receivables (continued)

If any such evidence exists, any impairment loss is determined and recognised as follows:

– For investments in subsidiaries, the impairment loss is measured by comparing the recoverable amount of the investment with its carrying amount in accordance with note 2(i)(ii). The impairment loss is reversed if there has been a favourable change in the estimates used to determine the recoverable amount in accordance with note 2(i)(ii).

– For unquoted equity securities carried at cost, the impairment loss is measured as the difference between the carrying amount of the financial asset and the estimated future cash flows, discounted at the current market rate of return for a similar financial asset where the effect of discounting is material. Impairment losses for equity securities carried at cost are not reversed.

– For trade and other current receivables and other financial assets carried at amortised cost, the impairment loss is measured as the difference between the asset's carrying amount and the present value of estimated future cash flows, discounted at the financial asset's original effective interest rate (i.e. the effective interest rate computed at initial recognition of these assets), where the effect of discounting is material. This assessment is made collectively where these financial assets share similar risk characteristics, such as similar past due status, and have not been individually assessed as impaired. Future cash flows for financial assets which are assessed for impairment collectively are based on historical loss experience for assets with credit risk characteristics similar to the collective group.

  If in a subsequent period the amount of an impairment loss decreases and the decrease can be linked objectively to an event occurring after the impairment loss was recognised, the impairment loss is reversed through profit or loss. A reversal of an impairment loss shall not result in the asset's carrying amount exceeding that which would have been determined had no impairment loss been recognised in prior years.

2 SIGNIFICANT ACCOUNTING POLICIES (continued)

(i) Impairment of assets (continued)

(i) Impairment of investments in debt and equity securities and other receivables (continued)

– For available-for-sale securities, the cumulative loss that has been recognised in the fair value reserve is reclassified to profit or loss. The amount of the cumulative loss that is recognised in profit or loss is the difference between the acquisition cost (net of any principal repayment and amortisation) and current fair value, less any impairment loss on that asset previously recognised in profit or loss.

  Impairment losses recognised in profit or loss in respect of available-for-sale equity securities are not reversed through profit or loss. Any subsequent increase in the fair value of such assets is recognised in other comprehensive income.

  Impairment losses in respect of available-for-sale debt securities are reversed if the subsequent increase in fair value can be objectively related to an event occurring after the impairment loss was recognised. Reversals of impairment losses in such circumstances are recognised in profit or loss.

Impairment losses are written off against the corresponding assets directly, except for impairment losses recognised in respect of trade debtors and bills receivable included within trade and other receivables, whose recovery is considered doubtful but not remote. In this case, the impairment losses for doubtful debts are recorded using an allowance account. When the Group is satisfied that recovery is remote, the amount considered irrecoverable is written off against trade debtors and bills receivable directly and any amounts held in the allowance account relating to that debt are reversed. Subsequent recoveries of amounts previously charged to the allowance account are reversed against the allowance account. Other changes in the allowance account and subsequent recoveries of amounts previously written off directly are recognised in profit or loss.

(ii) Impairment of other assets

Internal and external sources of information are reviewed at the end of each reporting period to identify indications that the following assets may be impaired or, except in the case of goodwill, an impairment loss previously recognised no longer exists or may have decreased:

– property, plant and equipment (other than properties carried at revalued amounts);

– pre-paid interests in leasehold land classified as being held under an operating lease; and

– goodwill.

2 SIGNIFICANT ACCOUNTING POLICIES (continued)

(i) Impairment of assets (continued)

(ii) Impairment of other assets (continued)

If any such indication exists, the asset's recoverable amount is estimated. In addition, for goodwill, the recoverable amount is estimated annually whether or not there is any indication of impairment.

– Calculation of recoverable amount

The recoverable amount of an asset is the greater of its fair value less costs to sell and value in use. In assessing value in use, the estimated future cash flows are discounted to their present value using a pre-tax discount rate that reflects current market assessments of the time value of money and the risks specific to the asset. Where an asset does not generate cash inflows largely independent of those from other assets, the recoverable amount is determined for the smallest group of assets that generates cash inflows independently (i.e. a cash-generating unit).

– Recognition of impairment losses

An impairment loss is recognised in profit or loss if the carrying amount of an asset, or the cash-generating unit to which it belongs, exceeds its recoverable amount. Impairment losses recognised in respect of cash-generating units are allocated first to reduce the carrying amount of any goodwill allocated to the cash-generating unit (or group of units) and then, to reduce the carrying amount of the other assets in the unit (or group of units) on a pro rata basis, except that the carrying value of an asset will not be reduced below its individual fair value less costs to sell, or value in use, if determinable.

– Reversals of impairment losses

In respect of assets other than goodwill, an impairment loss is reversed if there has been a favourable change in the estimates used to determine the recoverable amount. An impairment loss in respect of goodwill is not reversed.

A reversal of an impairment loss is limited to the asset's carrying amount that would have been determined had no impairment loss been recognised in prior years. Reversals of impairment losses are credited to profit or loss in the year in which the reversals are recognised.

(j) Trademarks and patents

All costs associated with the development and registration of trademarks and patents are charged to profit or loss in the period when such expenditure is incurred.

2 SIGNIFICANT ACCOUNTING POLICIES (continued)

(k) Inventories

Inventories are carried at the lower of cost and net realisable value.

Cost is calculated using the weighted average cost formula and comprises all costs of purchase, costs of conversion and other costs incurred in bringing the inventories to their present location and condition.

Net realisable value is the estimated selling price in the ordinary course of business less the estimated costs of completion and the estimated costs necessary to make the sale.

When inventories are sold, the carrying amount of those inventories is recognised as an expense in the period in which the related revenue is recognised. The amount of any write-down of inventories to net realisable value and all losses of inventories are recognised as an expense in the period the write-down or loss occurs. The amount of any reversal of any write-down of inventories is recognised as a reduction in the amount of inventories recognised as an expense in the period in which the reversal occurs.

(l) Trade and other receivables

Trade and other receivables are initially recognised at fair value and thereafter stated at amortised cost using the effective interest method, less allowance for impairment of doubtful debts (see note 2(i)), except where the receivables are interest-free loans made to related parties without any fixed repayment terms or the effect of discounting would be immaterial. In such cases, the receivables are stated at cost less allowance for impairment of doubtful debts.

(m) Interest-bearing borrowings

Interest-bearing borrowings are recognised initially at fair value less attributable transaction costs. Subsequent to initial recognition, interest-bearing borrowings are stated at amortised cost with any difference between the amount initially recognised and redemption value being recognised in profit or loss over the period of the borrowings, together with any interest and fees payable, using the effective interest method.

(n) Trade and other payables

Trade and other payables are initially recognised at fair value. Except for financial guarantee liabilities measured in accordance with note 2(r)(i), trade and other payables are subsequently stated at amortised cost unless the effect of discounting would be immaterial, in which case they are stated at cost.

2 SIGNIFICANT ACCOUNTING POLICIES (continued)

(o) Cash and cash equivalents

Cash and cash equivalents comprise cash at bank and on hand, demand deposits with banks and other financial institutions, and short-term, highly liquid investments that are readily convertible into known amounts of cash and which are subject to an insignificant risk of changes in value, having been within three months of maturity at acquisition. Bank overdrafts that are repayable on demand and form an integral part of the Group's cash management are also included as a component of cash and cash equivalents for the purpose of the consolidated cash flow statement.

(p) Employee benefits

(i) Short term employee benefits and contributions to defined contribution retirement plans

Salaries, annual bonuses, paid annual leave, contributions to defined contribution retirement plans and the cost of non-monetary benefits are accrued in the year in which the associated services are rendered by employees. Where payment or settlement is deferred and the effect would be material, these amounts are stated at their present values.

(ii) Share-based payments

The fair value of share options granted to employees is recognised as an employee cost with a corresponding increase in a capital reserve within equity. The fair value is measured at grant date using the binominal lattice model, taking into account the terms and conditions upon which the options were granted. Where the employees have to meet vesting conditions before becoming unconditionally entitled to the options, the total estimated fair value of the options is spread over the vesting period, taking into account the probability that the options will vest.

During the vesting period, the number of share options that is expected to vest is reviewed. Any resulting adjustment to the cumulative fair value recognised in prior years is charged/credited to the profit or loss for the year of the review, unless the original employee expenses qualify for recognition as an asset, with a corresponding adjustment to the capital reserve. On vesting date, the amount recognised as an expense is adjusted to reflect the actual number of options that vest (with a corresponding adjustment to the capital reserve) except where forfeiture is only due to not achieving vesting conditions that relate to the market price of the Company's shares. The equity amount is recognised in the capital reserve until either the option is exercised (when it is transferred to the share premium account) or the option expires (when it is released directly to retained profits).

2 SIGNIFICANT ACCOUNTING POLICIES (continued)

(p) Employee benefits (continued)

(iii) Termination benefits

Termination benefits are recognised when, and only when, the Group demonstrably commits itself to terminate employment or to provide benefits as a result of voluntary redundancy by having a detailed formal plan which is without realistic possibility of withdrawal.

(q) Income tax

Income tax for the year comprises current tax and movements in deferred tax assets and liabilities. Current tax and movements in deferred tax assets and liabilities are recognised in profit or loss except to the extent that they relate to items recognised in other comprehensive income or directly in equity, in which case the relevant amounts of tax are recognised in other comprehensive income or directly in equity, respectively.

Current tax is the expected tax payable on the taxable income for the year, using tax rates enacted or substantively enacted at the end of the reporting period, and any adjustment to tax payable in respect of previous years.

Deferred tax assets and liabilities arise from deductible and taxable temporary differences respectively, being the differences between the carrying amounts of assets and liabilities for financial reporting purposes and their tax bases. Deferred tax assets also arise from unused tax losses and unused tax credits.

Apart from certain limited exceptions, all deferred tax liabilities, and all deferred tax assets to the extent that it is probable that future taxable profits will be available against which the asset can be utilised, are recognised. Future taxable profits that may support the recognition of deferred tax assets arising from deductible temporary differences include those that will arise from the reversal of existing taxable temporary differences, provided those differences relate to the same taxation authority and the same taxable entity, and are expected to reverse either in the same period as the expected reversal of the deductible temporary difference or in periods into which a tax loss arising from the deferred tax asset can be carried back or forward. The same criteria are adopted when determining whether existing taxable temporary differences support the recognition of deferred tax assets arising from unused tax losses and credits, that is, those differences are taken into account if they relate to the same taxation authority and the same taxable entity, and are expected to reverse in a period, or periods, in which the tax loss or credit can be utilised.

2 SIGNIFICANT ACCOUNTING POLICIES (continued)

(q) Income tax (continued)

The limited exceptions to recognition of deferred tax assets and liabilities are those temporary differences arising from goodwill not deductible for tax purposes, the initial recognition of assets or liabilities that affect neither accounting nor taxable profit (provided they are not part of a business combination), and temporary differences relating to investments in subsidiaries to the extent that, in the case of taxable differences, the Group controls the timing of the reversal and it is probable that the differences will not reserve in the foreseeable future, or in the case of deductible differences, unless it is probable that they will reverse in the future.

The amount of deferred tax recognised is measured based on the expected manner of realisation or settlement of the carrying amount of the assets and liabilities, using tax rates enacted or substantively enacted at the end of the reporting period. Deferred tax assets and liabilities are not discounted.

The carrying amount of a deferred tax asset is reviewed at the end of each reporting period and is reduced to the extent that is no longer probable that sufficient taxable profits will be available to allow the related tax benefit to be utilised. Any such reduction is reversed to the extent that it becomes probable that sufficient taxable profits will be available.

Additional income taxes that arise from the distribution of dividends are recognised when the liability to pay the related dividends is recognised.

Current tax balances and deferred tax balances, and movements therein, are presented separately from each other and are not offset. Current tax assets are offset against current tax liabilities, and deferred tax assets against deferred tax liabilities, if the Company or the Group has the legally enforceable right to set off current tax assets against current tax liabilities and the following additional conditions are met:

- in the case of current tax assets and liabilities, the Company or the Group intends either to settle on a net basis, or to realise the asset and settle the liability simultaneously; or

- in the case of deferred tax assets and liabilities, if they relate to income taxes levied by the same taxation authority on either:

  - the same taxable entity; or

  - different taxable entities, which, in each future period in which significant amounts of deferred tax liabilities or assets are expected to be settled or recovered, intend to realise the current tax assets and settle the current tax liabilities on a net basis or realise and settle simultaneously.

2 SIGNIFICANT ACCOUNTING POLICIES (continued)

(r) Financial guarantees issued, provisions and contingent liabilities

(i) Financial guarantees issued

Financial guarantees are contracts that require the issuer (i.e. the guarantor) to make specified payments to reimburse the beneficiary of the guarantee (the "holder") for a loss the holder incurs because a specified debtor fails to make payment when due in accordance with the terms of a debt instrument.

Where the Group issues a financial guarantee, the fair value of the guarantee (being the transaction price, unless the fair value can otherwise be reliably estimated) is initially recognised as deferred income within trade and other payables. Where consideration is received or receivable for the issuance of the guarantee, the consideration is recognised in accordance with the Group's policies applicable to that category of asset. Where no such consideration is received or receivable, an immediate expense is recognised in profit or loss on initial recognition of any deferred income.

The amount of the guarantee initially recognised as deferred income is amortised in profit or loss over the term of the guarantee as income from financial guarantees issued. In addition, provisions are recognised in accordance with note 2(r)(iii) if and when (i) it becomes probable that the holder of the guarantee will call upon the Group under the guarantee, and (ii) the amount of that claim on the Group is expected to exceed the amount currently carried in trade and other payables in respect of that guarantee i.e. the amount initially recognised, less accumulated amortisation.

(ii) Contingent liabilities assumed in business combinations

Contingent liabilities assumed in a business combination which are present obligations at the date of acquisition are initially recognised at fair value, provided the fair value can be reliably measured. After their initial recognition at fair value, such contingent liabilities are recognised at the higher of the amount initially recognised, less accumulated amortisation where appropriate, and the amount that would be determined in accordance with note 2(r)(iii). Contingent liabilities assumed in a business combination that cannot be reliably fair valued or were not present obligations at the date of acquisition are disclosed in accordance with note 2(r)(iii).

2 SIGNIFICANT ACCOUNTING POLICIES (continued)

(r) Financial guarantees issued, provisions and contingent liabilities (continued)

(iii) Other provisions and contingent liabilities

Provisions are recognised for other liabilities of uncertain timing or amount when the Group or the Company has a legal or constructive obligation arising as a result of a past event, it is probable that an outflow of economic benefits will be required to settle the obligation and a reliable estimate can be made. Where the time value of money is material, provisions are stated at the present value of the expenditure expected to settle the obligation.

Where it is not probable that an outflow of economic benefits will be required, or the amount cannot be estimated reliably, the obligation is disclosed as a contingent liability, unless the probability of outflow of economic benefits is remote. Possible obligations, whose existence will only be confirmed by the occurrence or non-occurrence of one or more future events are also disclosed as contingent liabilities unless the probability of outflow of economic benefits is remote.

(s) Revenue recognition

Revenue is measured at the fair value of the consideration received or receivable. Provided it is probable that the economic benefits will flow to the Group and the revenue and costs, if applicable, can be measured reliably, revenue is recognised in profit or loss as follows:

(i) Sale of goods

Revenue is recognised when goods are delivered at the customers' premises which is taken to be the point in time when the customer has accepted the goods and the related risks and rewards of ownership. Revenue excludes value added tax or other sales taxes and is after deduction of any trade discounts.

(ii) Licensing income

Licensing income is recognised when the right to receive payment is established.

(iii) Interest income

Interest income is recognised as it accrues using the effective interest method.

(iv) Dividends

– Dividend income from unlisted investments is recognised when the shareholder's right to receive payment is established.

– Dividend income from listed investments is recognised when the share price of the investment goes ex-dividend.

2 SIGNIFICANT ACCOUNTING POLICIES (continued)

(s) Revenue recognition (continued)

(v) Government grants

Government grants are recognised in the statement of financial position initially when there is reasonable assurance that they will be received and that the Group will comply with the conditions attaching to them. Grants that compensate the Group for expenses incurred are recognised as revenue in profit or loss on a systematic basis in the same periods in which the expenses are incurred. Grants that compensate the Group for the cost of an asset are deducted from the carrying amount of the asset and consequently are effectively recognised in profit or loss over the useful life of the asset by way of reduced depreciation expense.

(t) Translation of foreign currencies

Foreign currency transactions during the year are translated at the foreign exchange rates ruling at the transaction dates. Monetary assets and liabilities denominated in foreign currencies are translated at the foreign exchange rates ruling at the end of each reporting period. Exchange gains and losses are recognised in profit or loss.

Non-monetary assets and liabilities that are measured in terms of historical cost in a foreign currency are translated using the foreign exchange rates ruling at the transaction dates. Non-monetary assets and liabilities denominated in foreign currencies that are stated at fair value are translated using the foreign exchange rates ruling at the dates the fair value was determined.

The results of foreign operations are translated into Hong Kong dollars at the exchange rates approximating the foreign exchange rates ruling at the dates of the transactions. Statement of financial position items are translated into Hong Kong dollars at the closing foreign exchange rates at the end of the reporting period. The resulting exchange differences are recognised in other comprehensive income and accumulated separately in equity in the exchange reserve.

(u) Borrowing costs

Borrowing costs that are directly attributable to the acquisition, construction or production of an asset which necessarily takes a substantial period of time to get ready for its intended use or sale are capitalised as part of the cost of that asset. Other borrowing costs are expensed in the period in which they are incurred.

The capitalisation of borrowing costs as part of the cost of a qualifying asset commences when expenditure for the asset is being incurred, borrowing costs are being incurred and activities that are necessary to prepare the asset for its intended use or sale are in progress. Capitalisation of borrowing costs is suspended or ceases when substantially all the activities necessary to prepare the qualifying asset for its intended use or sale are interrupted or complete.

2 SIGNIFICANT ACCOUNTING POLICIES (continued)

(v) Related parties

(a) A person, or a close member of that person's family, is related to the Group if that person:

(i) has control or joint control over the Group;

(ii) has significant influence over the Group; or

(iii) is a member of the key management personnel of the Group or the Group's parent.

(b) An entity is related to the Group if any of the following conditions applies:

(i) The entity and the Group are members of the same group (which means that each parent, subsidiary and fellow subsidiary is related to the others).

(ii) One entity is an associate or joint venture of the other entity (or an associate or joint venture of a member of a Group of which the other entity is a member).

(iii) Both entities are joint ventures of the same third party.

(iv) One entity is a joint venture of a third entity and the other entity is an associate of the third entity.

(v) The entity is a post-employment benefit plan for the benefit of employees of either the Group or an entity related to the Group.

(vi) The entity is controlled or jointly controlled by a person identified in (a).

(vii) A person identified in (a)(i) has significant influence over the entity or is a member of the key management personnel of the entity (or of a parent of the entity).

Close members of the family of a person are those family members who may be expected to influence, or be influenced by, that person in their dealings with the entity.

2 SIGNIFICANT ACCOUNTING POLICIES (continued)

(w) Segment reporting

Operating segments, and the amounts of each segment item reported in the financial statements, are identified from the financial information provided regularly to the Group's most senior executive management for the purposes of allocating resources to, and assessing the performance of, the Group's various lines of business and geographical locations.

Individually material operating segments are not aggregated for financial reporting purposes unless the segments have similar economic characteristics and are similar in respect of the nature of products and services, the nature of production processes, the type or class of customers, the methods used to distribute the products or provide the services, and the nature of the regulatory environment. Operating segments which are not individually material may be aggregated if they share a majority of these criteria.

3 CHANGES IN ACCOUNTING POLICIES

The HKICPA has issued a number of amendments to HKFRSs that are first effective for the current accounting period of the Group and the Company. Of these, the following developments are relevant to the Group's financial statements:

– Amendments to HKFRS 7, *Financial instruments: Disclosures – Transfers of financial assets*

– Amendments to HKAS 12, *Income taxes – Deferred tax: Recovery of underlying assets*

Amendments to HKFRS 7, Financial instruments: Disclosures

The amendments to HKFRS 7 require certain disclosures to be included in the consolidated financial statements in respect of transferred financial assets that are not derecognised in their entirety and for any continuing involvement in transferred financial assets that are derecognised in their entirety, irrespective of when the related transfer transaction occurred. However, an entity need not provide the disclosures for the comparative period in the first year of adoption. The Group did not have any significant transfers of financial assets in previous periods or the current period which require disclosure in the current accounting period under the amendments.

Amendments to HKAS 12, Income taxes

Under HKAS 12 deferred tax is required to be measured with reference to the tax consequences that would follow from the manner in which the entity expects to recover the carrying amount of the asset(s) in question. In this regard, the amendments to HKAS 12 introduced a rebuttable presumption that the carrying amount of investment property carried at fair value under HKAS 40, Investment property, will be recovered through sale. This presumption is rebutted on a property-by-property basis if the investment property in question is depreciable and is held within a business model whose objective is to consume substantially all of the economic benefits embodied in the investment property over time, rather than through sale. The Group does not have investment property and the adoption of these amendments had no material impact on how the results and financial position for the current and prior periods have been prepared and presented.

4 TURNOVER

The principal activities of the Group are the design, manufacture, sale and marketing of home furniture products including mainly panel furniture, sofa and bed mattresses and licensing of its own brands.

Turnover represents the sale value of goods supplied to customers and licensing income. The amount of each significant category of revenue recognised in turnover during the year is as follows:

	2012	2011
	HK$'000	HK$'000
Turnover		
Sale of goods	**595,659**	600,853
Licensing income	**8,936**	32,155
	604,595	633,008

5 OTHER INCOME

	2012	2011
	HK$'000	HK$'000
Available-for-sale investments		
– loss on disposal	**–**	(2,187)
– reclassified from equity on disposal	**–**	2,563
Bank interest income	**249**	973
Dividend income from available-for-sale investments	**3**	89
Gain on disposal of property, plant and equipment	**–**	20
Government grant (i)	**4,618**	4,545
Sales of scrap materials	**232**	405
Others	**305**	325
	5,407	6,733

(i) In 2012, the Group successfully applied for the funding support from the government of the People's Republic of China ("PRC") mainly for improvement of production and environmental protection facilities.

In 2011, the Group successfully applied for the funding support from the Shenzhen Enterprise Technical Innovation Project (深圳市企業技術改造項目) (the "Project") set up by the Shenzhen Bureau of Trade and Industry of the PRC. The purpose of the Project is to encourage enterprises to develop technical knowhow of different products.

6 (LOSS)/PROFIT BEFORE TAXATION

(Loss)/profit before taxation is arrived at after charging/(crediting):

(a) Finance costs

	2012 HK$'000	2011 HK$'000
Interest on bank borrowings repayable within 5 years (i)	**7,358**	4,710
Less: interest capitalised (ii)	**(2,845)**	(2,273)
	4,513	2,437

(i) The analysis shows the finance costs of bank borrowings, including those which contain a repayment on demand clause, in accordance with the agreed scheduled repayment dates set out in the loan agreements. The interest on bank borrowings for the year which contain a repayment on demand clause was HK$3,125,000 (2011: HK$4,423,000).

(ii) Interest has been capitalised to construction in progress at an average annual rate of 8.08% (2011: 7.03%) during the year.

(b) Staff costs

	2012 HK$'000	2011 HK$'000
Directors' remuneration (note 8)	**2,832**	5,068
Wages and salaries	**112,210**	87,672
Equity-settled share-based payment expenses*	**135**	1,748
Retirement scheme contributions*	**6,933**	5,725
	122,110	100,213

* excluded amount paid to directors

6 (LOSS)/PROFIT BEFORE TAXATION (continued)

(c) Other items

	2012 HK$'000	2011 HK$'000
Auditor's remuneration	**880**	897
Amortisation of prepaid lease payments	**1,115**	1,119
Bad debts written off	**7**	–
Cost of inventories sold# (note 19(b))	**496,638**	477,772
Depreciation	**13,045**	11,551
Loss/(gain) on disposal of property, plant and equipment, net	**733**	(20)
Net foreign exchange loss/(gain)	**18**	(3,245)
Write-down of inventories recognised	**9,152**	9,014
Impairment of trade receivables recognised/(reversed)	**2,060**	(358)
Operating lease rentals: minimum lease payments		
– land and buildings	**10,853**	13,311

Cost of inventories sold includes HK$89,950,000 (2011: HK$78,203,000) relating to staff costs, depreciation and amortisation expenses and operating lease charges, which amount is also included in the respective total amounts disclosed separately above or in note 6(b) for each of these types of expenses.

7 INCOME TAX IN THE CONSOLIDATED INCOME STATEMENT

Taxation in the consolidated income statement represents:

	2012 HK$'000	2011 HK$'000
Current year provision		
– Hong Kong Profits Tax	**1,400**	585
– PRC Enterprise Income Tax	**56**	2,303
Prior year (over)/underprovision		
– Hong Kong Profits Tax	**(29)**	–
– PRC Enterprise Income Tax	**250**	26
	1,677	2,914

7 INCOME TAX IN THE CONSOLIDATED INCOME STATEMENT (continued)

Reconciliation between tax expense and accounting (loss)/profit at applicable tax rate:

	2012	2011
	HK$'000	HK$'000
(Loss)/profit before taxation	**(37,029)**	48,637
Notional tax on (loss)/profit before taxation	**(6,110)**	8,025
Tax effect of non-deductible expenses (v)	**1,173**	2,528
Tax effect of non-taxable income (vi)	**(2,724)**	(7,752)
Tax effect of different tax rates of subsidiaries operating in the PRC	**(4,504)**	57
Tax effect of unrecognised temporary differences	**57**	52
Tax effect of utilisation of tax losses not recognised previously	**(114)**	(672)
Tax effect of unused tax losses not recognised	**13,589**	568
Prior year underprovision	**221**	26
Others	**89**	82
Actual tax expense	**1,677**	2,914

(i) Pursuant to the income tax rules and regulations, the Group is not subject to income tax in Bermuda and the BVI.

(ii) The provision for Hong Kong Profits Tax for 2012 is calculated at 16.5% (2011: 16.5%) of the estimated assessable profit for the year.

(iii) Hing Lee Ideas Limited is subject to Company Income Tax in Malaysia. No provision for 2012 (2011: Nil) is made as it has been dormant since its incorporation.

(iv) With the New Enterprise Income Tax Law (the "New EIT Law") becoming effective on 1 January 2008, all enterprises in the PRC are subject to a standard enterprise income tax rate of 25%.

However, there is a transitional period for enterprises which are currently entitled to preferential tax treatments granted by relevant tax authorities. In accordance with《國務院關於實施企業所得稅過渡優惠政策的通知》(the Notice of the State Council on the Implementation of the Enterprise Income Tax Transitional Preferential Policy) issued on 26 December 2007:

(a) from 1 January 2008, for enterprises that enjoyed a preferential tax rate of 15%, the tax rate would be transitioned to 25% over five years at rates of 18% in 2008, 20% in 2009, 22% in 2010, 24% in 2011 and 25% in 2012; and

7 INCOME TAX IN THE CONSOLIDATED INCOME STATEMENT (continued)

(iv) (continued)

(b) from 1 January 2008, the enterprises that originally enjoyed the preference of regular tax reduction and exemption, would continue to enjoy the original preference in accordance with the preferential measures and terms stipulated by the original tax law, administrative regulations and relevant documents until the expiration of the preference.

Dongguan Super Furniture Company Limited ("Dongguang Super Funiture") was subject to the PRC Enterprise Income Tax ("EIT") rate of 25% in 2012 (2011: 25%).

Shenzhen Xingli Furniture Company Limited ("Shenzhen Xingli") was subject to the PRC EIT rate of 25% in 2012 (2011: 24%).

Shenzhen Xingli Zundian Furniture Company Limited was subject to the PRC EIT rate of 25% in 2012 (2011: 24%).

Shenzhen Oulo Furniture Company Limited ("Shenzhen Oulo") was subject to the PRC EIT rate of 12.5% for 2012 (2011: 12%).

(v) It mainly represents the tax effect of impairment of trade and other receivables and write-down of inventories of the Group's PRC subsidiaries and certain expenses incurred by Great Ample Holdings Limited and the Company.

(vi) It mainly represents the tax effect of licensing income earned by Sharp Motion Worldwide Limited. The licensing fees payable by the licensees to the Group were subject to 10% withholding tax in the PRC. However, it is a term of the licence agreements that the licensing fees receivable by the Group should be net of any tax and the licensees are responsible to pay any tax imposed on the licensing fees payable by the licensees to the Group. As such, the licensing fees as agreed between the Group and the licensees were on a net-of-tax basis and the licensees were responsible to pay the relevant withholding tax separately to the tax authorities at their own costs.

8 DIRECTORS' REMUNERATION

Directors' remuneration disclosed pursuant to section 161 of the Hong Kong Companies Ordinance and the Listing Rules is as follows:

	2012						
Name of director	Directors' fees HK$'000	Salaries HK$'000	Discretionary bonuses HK$'000	Retirement scheme contributions HK$'000	Sub-total HK$'000	Share-based payments HK$'000	Total HK$'000
Executive directors							
Sung Kai Hing (Chairman)	1,002	-	-	14	1,016	200	1,216
Cheung Kong Cheung	1,002	-	-	14	1,016	200	1,216
Non-executive director							
Fang Yan Zau, Alexander	100	-	-	-	100	-	100
Independent non-executive directors							
Sun Jian	100	-	-	-	100	-	100
Kong Hing Ki	100	-	-	-	100	-	100
Shao Hanqing	100	-	-	-	100	-	100
	2,404	-	-	28	2,432	400	2,832

8 DIRECTORS' REMUNERATION (continued)

Name of director	Directors' fees HK$'000	Salaries HK$'000	Discretionary bonuses HK$'000	Retirement scheme contributions HK$'000	Sub-total HK$'000	Share-based payments HK$'000	Total HK$'000
	2011						
Executive directors							
Sung Kai Hing (Chairman)	1,002	–	1,000	12	2,014	219	2,233
Cheung Kong Cheung	1,002	–	1,000	12	2,014	219	2,233
Non-executive director							
Fang Yan Zau, Alexander	100	–	–	–	100	–	100
Independent non-executive directors							
Sun Jian	100	–	–	–	100	120	220
Kong Hing Ki	100	–	–	–	100	41	141
Shao Hanqing	100	–	–	–	100	41	141
	2,404	–	2,000	24	4,428	640	5,068

(i) Share-based payments represent the estimated value of share options granted to the directors under the Company's share option scheme. The value of these share options is measured according to the Group's accounting policy for share-based payment transactions as set out in note 2(p)(ii).

The details of these benefits in kind, including the principal terms and number of options granted, are disclosed under the paragraph "Share option scheme" in the Directors' Report and note 27.

No emoluments were paid by the Group to the directors as an inducement to join or upon joining the Group as compensation for loss of office during the year.

9 INDIVIDUALS WITH HIGHEST EMOLUMENTS

Of the five individuals with the highest emoluments, two (2011: two) are directors whose emoluments are disclosed in note 8. The aggregate of the emoluments in respect of the other three (2011: three) individuals are as follows:

	2012	2011
	HK$'000	HK$'000
Salaries and other emoluments	**3,130**	2,965
Retirement scheme contributions	**41**	48
Share-based payments	**135**	568
	3,306	3,581

The emoluments of the three (2011: three) individuals with the highest emoluments are within the following bands:

	2012	2011
	Number of individuals	Number of individuals
HK$Nil to HK$1,000,000	**1**	–
HK$1,000,001 to HK$1,500,000	**2**	3

10 (LOSS)/PROFIT ATTRIBUTABLE TO EQUITY SHAREHOLDERS OF THE COMPANY

The consolidated (loss)/profit attributable to equity shareholders of the Company includes a loss of HK$724,000 (2011: a loss of HK$3,422,000), which has been dealt with in the financial statements of the Company.

11 OTHER COMPREHENSIVE (LOSS)/INCOME

Tax effects relating to each component of other comprehensive (loss)/income:

	2012			2011		
	Before tax amount HK$'000	**Tax expense HK$'000**	**Net-of-tax amount HK$'000**	Before tax amount HK$'000	Tax expense HK$'000	Net-of-tax amount HK$'000
Exchange differences on translation of financial statements of overseas subsidiaries	**(249)**	**-**	**(249)**	12,107	–	12,107
Available-for-sale investments:						
Gain/(loss) on fair value changes of available-for-sale investments	**18**	**-**	**18**	(15)	–	(15)
Reclassification adjustments upon disposal of available-for-sale investments	**-**	**-**	**-**	(2,563)	–	(2,563)
Other comprehensive (loss)/income	**(231)**	**-**	**(231)**	9,529	–	9,529

12 (LOSS)/EARNINGS PER SHARE

(a) Basic (loss)/earnings per share

The calculation of basic (loss)/earnings per share is based on the loss attributable to ordinary equity shareholders of the Company of HK$40,520,000 (2011: profit of HK$41,418,000) and the weighted average number of 242,398,675 (2011: 230,031,289) ordinary shares in issue during the year. The weighted average number of ordinary shares is calculated as follows:

	2012 Number of shares	2011 Number of shares
Issued ordinary shares at 1 January	**242,398,675**	205,994,675
Effect of shares issued relating to acquisition of subsidiaries	**–**	24,036,614
Weighted average number of ordinary shares at 31 December	**242,398,675**	230,031,289

(Expressed in Hong Kong dollars)

12 (LOSS)/EARNINGS PER SHARE (continued)

(b) Diluted (loss)/earnings per share

No adjustment has been made to the basic loss per share amount presented for the year ended 31 December 2012 in respect of a dilution as the impact of the share options outstanding had an anti-dilutive effect on the basic loss per share amount presented.

The calculation of diluted earnings per share for the year ended 31 December 2011 was based on the profit attributable to ordinary equity shareholders of the Company of HK$41,418,000 and the weighted average number of ordinary shares (diluted) of 232,527,403 shares calculated as follows:

	2011 Number of shares
Weighted average number of ordinary shares at 31 December	230,031,289
Effect of deemed issue of shares under the Company's share option scheme for nil consideration (note 27)	2,496,114
Weighted average number of ordinary shares (diluted) at 31 December	232,527,403

13 SEGMENT REPORTING

The Group manages its businesses by divisions, which are organised by a mixture of both business lines (products and services) and geography. In a manner consistent with the way in which information is reported internally to the Group's most senior executive management for the purposes of resource allocation and performance assessment, the Group has presented the following two reportable segments. No operating segments have been aggregated to form the following reportable segments.

Panel furniture:	Design, manufacture, sale and marketing of wood panel furniture and licensing of own brand names
Upholstered furniture:	Design, manufacture, sale and marketing of sofa and bed mattresses

However, Group financing (including interest revenue and expenses) and income taxes are managed on a group basis and are not allocated to operating segments.

Transfer prices between operating segments are on an arm's length basis in a manner similar to transactions with third parties.

13 SEGMENT REPORTING (continued)

(a) Segment results, assets and liabilities

Information regarding the Group's reportable segments for the years ended 31 December 2012 and 2011 is set out below:

	2012				2011			
	Panel-furniture HK$'000	**Upholstered furniture HK$'000**	**Unallocated HK$'000**	**Consolidated HK$'000**	Panel-furniture HK$'000	Upholstered furniture HK$'000	Unallocated HK$'000	Consolidated HK$'000
Revenue from external customers	**460,392**	**144,203**	**-**	**604,595**	476,750	156,258	–	633,008
Inter-segment revenue	**-**	**3,352**	**-**	**3,352**	–	5,132	–	5,132
Reportable segment revenue	**460,392**	**147,555**	**-**	**607,947**	476,750	161,390	–	638,140
Interest income	**-**	**-**	**249**	**249**	–	–	973	973
Interest expense	**-**	**-**	**(4,513)**	**(4,513)**	–	–	(2,437)	(2,437)
Depreciation and amortisation	**(12,072)**	**(2,088)**	**-**	**(14,160)**	(10,957)	(1,713)	–	(12,670)
Reportable segment (loss)/profit	**(41,111)**	**4,240**	**-**	**(36,871)**	34,847	12,858	–	47,705
Other material non-cash items:								
Impairment of trade receivables (recognised)/reversed	**(2,060)**	**-**	**-**	**(2,060)**	224	134	–	358
Write-down of inventories (recognised)/reversed	**(8,830)**	**(322)**	**-**	**(9,152)**	(8,994)	(20)	–	(9,014)
Reportable segment assets	**555,789**	**90,805**	**78,600**	**725,194**	484,073	63,492	189,063	736,628
Expenditures for non-current assets	**50,208**	**118**	**-**	**50,326**	102,664	681	–	103,345
Reportable segment liabilities	**216,856**	**31,851**	**114,636**	**363,343**	162,309	12,764	153,855	328,928

13 SEGMENT REPORTING (continued)

(b) Reconciliations of reportable segment revenues, profit or loss, assets and liabilities

	2012 HK$'000	2011 HK$'000
Revenues		
Reportable segment revenue	**607,947**	638,140
Elimination of inter-segment revenue	**(3,352)**	(5,132)
Consolidated revenue (note 4)	**604,595**	633,008
Profit or loss		
Reportable segment (loss)/profit	**(36,871)**	47,705
Other income	**5,407**	6,733
Unallocated amounts:		
Interest expense	**(4,513)**	(2,437)
Other head office and corporate expenses	**(1,052)**	(3,364)
Consolidated (loss)/profit before taxation	**(37,029)**	48,637
Assets		
Total assets for reportable segments	**646,594**	547,565
Available-for-sale investments*	**65**	44
Unallocated head office and corporate assets	**78,535**	189,019
Consolidated total assets	**725,194**	736,628
Liabilities		
Total liabilities for reportable segments	**248,707**	175,073
Current taxation	**1,191**	2,721
Unallocated head office and corporate liabilities	**113,445**	151,134
Consolidated total liabilities	**363,343**	328,928

* Segment assets do not include available-for-sale investments as these assets are managed on a group basis.

13 SEGMENT REPORTING (continued)

(c) Geographic information

The following table sets out information about the geographical location of (i) the Group's revenue from external customers and (ii) the Group's property, plant and equipment and prepaid lease payments and goodwill ("specified non-current assets"). The geographical location of customers is based on the location at which the services were provided or the goods delivered. The geographical location of the specified non-current assets is based on the physical location of the assets.

	2012		2011	
	Revenues from external customers HK$'000	**Specified non-current assets HK$'000**	Revenues from external customers HK$'000	Specified non-current assets HK$'000
Asia (excluding the PRC)	**170,045**	**1,301**	188,473	1,823
Europe	**34,616**	**–**	27,870	–
PRC	**341,013**	**401,426**	384,810	367,085
The United States	**39,782**	**–**	22,521	–
Others	**19,139**	**–**	9,334	–
	604,595	**402,727**	633,008	368,908

Asia mainly covers Japan, Taiwan, Middle East and Southeast Asia; Europe mainly covers Sweden, Italy, Spain and Germany; and others mainly cover Canada, Africa and South America.

(d) Major customers

The Group's customer base is diversified and there is no customer with whom transactions have exceeded 10% of the Group's revenues in 2012 and 2011.

14 PROPERTY, PLANT AND EQUIPMENT

The Group

	Buildings HK$'000	Leasehold improvements HK$'000	Motor vehicles HK$'000	Office equipment HK$'000	Plant and machinery HK$'000	Construction in progress HK$'000	Total HK$'000
Cost							
At 1 January 2011	99,617	3,262	6,271	17,050	68,423	8,194	202,817
Exchange realignment	4,943	199	141	813	3,109	407	9,612
Acquisition of subsidiaries (note 29)	–	1,799	165	171	1,676	–	3,811
Additions	4,317	–	169	1,852	4,031	92,976	103,345
Disposals	–	–	(395)	–	–	–	(395)
At 31 December 2011	108,877	5,260	6,351	19,886	77,239	101,577	319,190
At 1 January 2012	108,877	5,260	6,351	19,886	77,239	101,577	319,190
Exchange realignment	(26)	(1)	(1)	(5)	(17)	(26)	(76)
Additions	–	20	711	2,866	16,660	30,069	50,326
Disposals	–	(2,422)	(1,259)	(1,326)	(18,787)	–	(23,794)
Transfer	110,462	–	–	–	18,079	(128,541)	–
At 31 December 2012	219,313	2,857	5,802	21,421	93,174	3,079	345,646
Accumulated depreciation							
At 1 January 2011	1,363	2,960	2,978	2,760	29,542	–	39,603
Exchange realignment	67	142	69	100	1,016	–	1,394
Charge for the year	2,149	542	901	1,898	6,061	–	11,551
Written back on disposals	–	–	(355)	–	–	–	(355)
At 31 December 2011	3,579	3,644	3,593	4,758	36,619	–	52,193
At 1 January 2012	3,579	3,644	3,593	4,758	36,619	–	52,193
Exchange realignment	9	2	1	6	14	–	32
Charge for the year	2,803	693	975	2,229	6,345	–	13,045
Written back on disposals	–	(2,422)	(1,259)	(1,112)	(16,778)	–	(21,571)
At 31 December 2012	6,391	1,917	3,310	5,881	26,200	–	43,699
Net book value							
At 31 December 2012	212,922	940	2,492	15,540	66,974	3,079	301,947
At 31 December 2011	105,298	1,616	2,758	15,128	40,620	101,577	266,997

At 31 December 2012, the Group had pledged its buildings and construction in progress with carrying value of HK$216,001,000 (2011: HK$206,875,000) to secure general banking facilities granted to the Group (note 24).

15 PREPAID LEASE PAYMENTS

The Group's prepaid lease payments comprise leasehold land for industrial use in the PRC under medium-term leases, as follows:

	The Group HK$'000
Cost	
At 1 January 2011	53,291
Exchange realignment	2,646
At 31 December 2011	55,937
At 1 January 2012	55,937
Exchange realignment	(14)
At 31 December 2012	55,923
Accumulated amortisation	
At 1 January 2011	3,722
Exchange realignment	186
Charge for the year	1,119
At 31 December 2011	5,027
At 1 January 2012	5,027
Exchange realignment	2
Charge for the year	1,115
At 31 December 2012	6,144
Net book value	
At 31 December 2012	49,779
At 31 December 2011	50,910

15 PREPAID LEASE PAYMENTS (continued)

An analysis for reporting purposes is as follows:

	The Group	
	2012	2011
	HK$'000	HK$'000
Current portion	**1,119**	1,119
Non-current portion	**48,660**	49,791
	49,779	50,910

Prepaid lease payments are amortised over the term of the leases of 50 years, commencing from 29 June 2007 and expiring on 28 June 2057.

At 31 December 2012, the Group had pledged its leasehold land with carrying value of HK$49,779,000 (2011: HK$50,910,000) to secure general banking facilities granted to the Group (note 24).

The land use rights of the above leasehold land are not allowed to be transferred or leased pursuant to the contracts for grant of the land use rights.

16 GOODWILL

	The Group
	HK$'000
Cost	
At 1 January 2011	–
Additions (note 29)	52,120
At 31 December 2011, 1 January 2012 and 31 December 2012	52,120
Carrying amount	
At 31 December 2012	52,120
At 31 December 2011	52,120

16 GOODWILL (continued)

Impairment tests for cash-generating units containing goodwill

Goodwill is allocated to the Group's cash generating units ("CGU") identified according to the business segment as follows:

	2012 HK$'000	2011 HK$'000
Upholstered furniture	**52,120**	52,120

The recoverable amount of the CGU is determined based on value in use calculations. These calculations use cash flow projections based on financial budgets approved by management covering a one-year period. Cash flows beyond the one-year period were then extrapolated using the estimate rates stated below for the following five years.

Key assumptions used for value in use calculations:

	2012	2011
Gross margin	**22%**	29%
Growth rate	**0% – 10%**	10%
Discount rate	**6%**	5%

Management determined the budgeted gross margin and growth rate based on past performance and its expectation for market development. The growth rate does not exceed the long-term average growth rate for the business in which the CGU operates. The discount rate used is pre-tax rate that reflects current market assessments of the time value of money and the risks specific to the CGU.

During the years ended 31 December 2012 and 2011, management of the Group determined that there are no impairments of any of its CGU containing goodwill.

17 INVESTMENTS IN AND ACCOUNTS WITH A SUBSIDIARY

	The Company 2012 HK$'000	2011 HK$'000
Unlisted shares, at cost	**156**	156
Dividend receivable from a subsidiary	**61,175**	61,175
Amount due from a subsidiary	**104,427**	104,742

The dividend receivable from a subsidiary and amount due from a subsidiary are unsecured, interest-free and have no fixed terms of repayment.

Details of the Group's subsidiaries as at 31 December 2012 and 2011 are as follows:

Name of company	Place of incorporation and registration	Particulars of issued and fully paid-up share capital/ registered capital	Proportion of Group's ownership interest 2012	2011	Principal activity
Directly held by the Company					
Great Ample Holdings Limited (i)	BVI	US$20,001	**100%**	100%	Investment holding
Indirectly held through subsidiaries					
Glory Skill Investments Limited (i)	BVI	US$2,961	**100%**	100%	Investment holding
Springrich Investments Limited (i)	BVI	US$1	**100%**	100%	Investment holding
Success Profit International Limited (i)	BVI	US$10,001	**100%**	100%	Investment holding
Hing Lee (China) Company Limited ("Hing Lee (China)")	Hong Kong	HK$18,010,000	**100%**	100%	Investment holding and provision of management services
Hing Lee Furniture Company Limited ("Hing Lee Furniture")	BVI	US$1	**100%**	100%	Trading of furniture

(Expressed in Hong Kong dollars)

17 INVESTMENTS IN AND ACCOUNTS WITH A SUBSIDIARY (continued)

Name of company	Place of incorporation and registration	Particulars of issued and fully paid-up share capital/ registered capital	Proportion of Group's ownership interest 2012	2011	Principal activity
Sharp Motion Worldwide Limited (i)	BVI	US$4	**100%**	100%	Trademark holding/licensing
Hing Lee Ideas Limited (i)	Malaysia	US$1	**100%**	100%	Dormant
Renowned Idea Group Limited (i)	BVI	US$1	**100%**	100%	Dormant
Hing Lee Furniture Group Limited	Hong Kong	HK$3	**100%**	100%	Dormant
Hander International Limited	Hong Kong	HK$100	**100%**	100%	Investment holding
Hanmix Limited	Hong Kong	HK$1	**100%**	100%	Investment holding
Astromax Investment Limited ("Astromax") (i)(ii)	BVI	US$100	**60%**	60%	Investment holding
City Leading Limited ("City Leading") (ii)	Hong Kong	HK$1	**60%**	60%	Trading of sofa
深圳興利尊典家具有限公司 (Shenzhen Xingli Zundian Furniture Company Limited) (i)(iii)	PRC	RMB40,000,000	**100%**	100%	Design, manufacture, sale and marketing of home furniture
深圳興利家具有限公司 (Shenzhen Xingli Furniture Company Limited) (i)(iii)	PRC	RMB73,500,000	**100%**	100%	Design, manufacture, sale and marketing of home furniture
東莞興展家具有限公司 (Dongguan Super Furniture Company Limited) (i)(iii)	PRC	US$1,680,000	**100%**	100%	Manufacture and sale of bed mattresses
深圳歐羅家具有限公司 (Shenzhen Oulo Furniture Company Limited) (i)(ii)(iii)	PRC	RMB8,500,000	**60%**	60%	Manufacture and sale of sofa

17 INVESTMENTS IN AND ACCOUNTS WITH A SUBSIDIARY (continued)

Notes:

(i) Companies not audited by Baker Tilly Hong Kong Limited.

(ii) Acquired in 2011 (note 29).

(iii) Companies registered under the laws of the PRC as foreign investment enterprises. The English translation of the company names is for reference only. The official names of these companies are in Chinese.

18 AVAILABLE-FOR-SALE INVESTMENTS

	The Group	
	2012	2011
	HK$'000	HK$'000
Listed equity investments, at market value		
– Hong Kong	**65**	44

19 INVENTORIES

(a) Inventories in the statement of financial position comprise:

	The Group	
	2012	2011
	HK$'000	HK$'000
Raw materials	**22,024**	17,918
Work in progress	**18,880**	18,542
Finished goods	**64,685**	67,292
Goods in transit	**12,787**	7,690
	118,376	111,442

19 INVENTORIES (continued)

(b) The analysis of the amount of inventories recognised as an expense and included in profit or loss is as follows:

	The Group	
	2012	2011
	HK$'000	HK$'000
Carrying amount of inventories sold	**496,638**	477,772
Write-down of inventories recognised	**9,152**	9,014
	505,790	486,786

20 TRADE AND OTHER RECEIVABLES

	The Group		The Company	
	2012	2011	**2012**	2011
	HK$'000	HK$'000	**HK$'000**	HK$'000
Trade debtors and bills receivable	**34,334**	50,365	**–**	–
Less: allowance for doubtful debts (note 20(b))	**(5,412)**	(3,346)	**–**	–
	28,922	47,019	**–**	–
Deposits paid for purchase of property, plant and equipment	**17,049**	16,897	**–**	–
Deposits paid to suppliers	**35,829**	32,705	**–**	–
Value added tax recoverable	**15,436**	13,562	**–**	–
Other deposits, prepayments and receivables	**10,762**	10,545	**12**	31
	79,076	73,709	**12**	31
	107,998	120,728	**12**	31

The amount of the Group's and the Company's deposits and prepayments expected to be recovered or recognised as expense after more than one year is HK$2,398,000 (2011: HK$2,680,000) and HK$nil (2011: HK$nil) respectively. All of the other trade and other receivables are expected to be recovered or recognised as expense within one year.

20 TRADE AND OTHER RECEIVABLES (continued)

(a) Ageing analysis

Included in trade and other receivables are trade debtors and bills receivable (net of allowance for doubtful debts) with the following ageing analysis as of the end of the reporting period:

	The Group	
	2012	2011
	HK$'000	HK$'000
Current	**23,899**	35,731
Less than 3 months past due	**1,086**	4,428
3 to 6 months past due	**2,616**	3,455
6 to 12 months past due	**358**	1,862
More than 12 months past due	**963**	1,543
	28,922	47,019

Trade debtors and bills receivable are non-interest bearing and are generally due within 30 to 90 days from the date of billing. Further details on the Group's credit policy are set out in note 30(a)(i).

(b) Impairment of trade debtors and bills receivable

Impairment losses in respect of trade debtors and bills receivable are recorded using an allowance account unless the Group is satisfied that recovery of the amount is remote, in which case the impairment loss is written off against trade debtors and bills receivable directly (see note 2(i)(i)).

The movement in the allowance for doubtful debts during the year, including both specific and collective loss components, is as follows:

	The Group	
	2012	2011
	HK$'000	HK$'000
At 1 January	**3,346**	3,528
Exchange realignment	**6**	176
Impairment loss recognised/(reversed)	**2,060**	(358)
At 31 December	**5,412**	3,346

At 31 December 2012, the Group's trade debtors and bills receivable of HK$5,412,000 (2011: HK$3,346,000) were individually determined to be impaired. The individually impaired receivables related to customers that were in financial difficulties and management assessed that only a portion of the receivables is expected to be recovered. The Group does not hold any collateral over these balances.

20 TRADE AND OTHER RECEIVABLES (continued)

(c) Trade debtors and bills receivable that are not impaired

The ageing analysis of trade debtors and bills receivable that are neither individually nor collectively considered to be impaired are set out in note 20(a).

Receivables that were neither past due nor impaired relate to customers for whom there was no default.

Receivables that were past due but not impaired relate to customers that have good creditworthiness. Based on past experience, management believes that no impairment is necessary in respect of these balances as there has not been a significant change in credit quality and the balances are still considered fully recoverable. The Group does not hold any collateral over these balances.

21 RESTRICTED BANK DEPOSITS

Included in the restricted bank deposits was a settlement guarantee of approximately HK$nil (2011: HK$7,062,000) to the main contractor for the new production facilities of the Group in Shenzhen, required by the《深圳市建設工程擔保實施辦法》(Shenzhen Construction Assurance Practice Note) imposed by《深圳市建設局》(Shenzhen Construction Bureau). The settlement guarantee was released in 2012 upon the finalisation of the construction of the production facilities.

The remaining HK$1,517,000 (2011: HK$3,695,000) represents deposits pledged to secure banking facilities granted to the Group (note 24).

22 CASH AND CASH EQUIVALENTS

	The Group		The Company	
	2012	2011	**2012**	2011
	HK$'000	HK$'000	**HK$'000**	HK$'000
Deposits with banks	**7,776**	18,119	**–**	–
Cash at bank and on hand	**87,133**	116,268	**325**	6,587
	94,909	134,387	**325**	6,587
Less: restricted bank deposits (note 21)	**(1,517)**	(10,757)	**–**	–
Cash and cash equivalents	**93,392**	123,630	**325**	6,587

23 TRADE AND OTHER PAYABLES

	The Group		The Company	
	2012	2011	**2012**	2011
	HK$'000	HK$'000	**HK$'000**	HK$'000
Trade creditors and bills payable	**167,415**	131,914	**–**	–
Accrued charges	**34,026**	29,930	**1,080**	2,760
Accrued interest	**259**	–	**–**	–
Receipts in advance	**29,500**	18,293	**–**	–
Payables for purchase of property, plant and equipment	**9,253**	14,308	**–**	–
Other payables	**8,162**	6,858	**–**	–
	81,200	69,389	**1,080**	2,760
	248,615	201,303	**1,080**	2,760
Less: non-current portion of payables for purchase of property, plant and equipment classified as non-current liabilities	**(6,647)**	–	**–**	–
	241,968	201,303	**1,080**	2,760

The ageing analysis of trade creditors and bills payable as of the end of the reporting period is as follows:

	The Group	
	2012	2011
	HK$'000	HK$'000
Within 3 months	**124,777**	113,860
3 months to 1 year	**41,169**	16,070
Over 1 year	**1,469**	1,984
	167,415	131,914

All trade and other payables, except for those balances classified as non-current liabilities, are expected to be settled within one year.

24 BANK BORROWINGS

The carrying amounts of bank borrowings are analysed as follows:

	The Group	
	2012	2011
	HK$'000	HK$'000
Bank loans – secured	**102,660**	124,904
Trust receipt loans – secured	**10,877**	–
	113,537	124,904

	The Group	
	2012	2011
	HK$'000	HK$'000
Current portion		
Due within 1 year	**64,374**	60,822
Due after 1 year which contain a repayment on demand clause	**13,400**	64,082
	77,774	124,904
Non-current portion	**35,763**	–
	113,537	124,904

At 31 December 2012, bank borrowings are repayable as follows:

	The Group	
	2012	2011
	HK$'000	HK$'000
Within 1 year	**64,374**	60,822
After 1 year but within 2 years	**22,738**	22,742
After 2 years but within 5 years	**26,425**	41,340
	49,163	64,082
	113,537	124,904

24 BANK BORROWINGS (continued)

The above amounts due are based on the scheduled repayment dates set out in the loan agreements and ignore the effect of any repayment on demand clause.

Details on the interest rate profile of the Group are set out in note 30(a)(iii).

None of the portion of term loans due for repayment after one year which contain a repayable on demand clause is expected to be settled within one year.

The Group's banking facilities are secured by:

(i) a letter of undertaking over the Group's construction in progress and buildings (note 14);

(ii) legal charges over the Group's medium-term leasehold land outside Hong Kong (note 15);

(iii) restricted bank deposits of the Group (note 21); and

(iv) guarantees from the Government of the HKSAR under the Special Loan Guarantee Scheme and the SME Loan Guarantee Scheme.

At 31 December 2012, the Group's banking facilities amounted to HK$146,456,000 (2011: HK$168,815,000). The facilities were utilised to the extent of HK$118,593,000 (2011: HK$137,222,000).

All of the Group's banking facilities are subject to the fulfilment of covenants, as are commonly found in lending arrangements with financial institutions. If the Group was to breach the covenants the drawn down facilities would become payable on demand. The Group regularly monitors its compliance with these covenants. Further details of the Group's management of liquidity risk are set out in note 30(a)(ii). At 31 December 2012, none of the covenants relating to drawn down facilities had been breached (2011: Nil).

25 INCOME TAX IN THE STATEMENT OF FINANCIAL POSITION

(a) Current taxation in the statement of financial position represents:

	The Group	
	2012	2011
	HK$'000	HK$'000
Hong Kong Profits Tax payable	**1,026**	638
PRC Enterprise Income Tax payable	**165**	2,083
	1,191	2,721

25 INCOME TAX IN THE STATEMENT OF FINANCIAL POSITION (continued)

(b) Deferred taxation

At 31 December 2012, the Group has not recognised deferred tax liabilities relating to temporary differences of HK$104,000 (2011: HK$161,000).

At 31 December 2012, the Group has not recognised deferred tax assets in respect of cumulative tax losses of HK$70,864,000 (2011: HK$14,327,000) as it is not probable that future taxable profits, against which the assets can be utilised, will be available in relevant tax jurisdiction and entity. Of the total tax losses, HK$56,838,000 (2011: HK$988,000) will expire within 5 years and the remaining tax losses of HK$14,026,000 (2011: HK$13,339,000) have no expiry date under the current tax legislation.

At 31 December 2012, the Group has unrecognised deferred tax liabilities of HK$1,880,000 (2011: HK$4,710,000) in relation to withholding tax on undistributed earnings of HK$37,603,000 (2011: HK$94,191,000) due to the retention of undistributed earnings by the Group's subsidiaries in the PRC determined by the directors of the Company.

The Company does not have any material temporary differences between the tax bases of assets and liabilities and their carrying amounts in the financial statements (2011: Nil), and therefore, no provision for deferred tax has been made.

26 RETIREMENT BENEFIT PLANS

The Group operates a mandatory provident fund scheme (the "MPF Scheme") under the Mandatory Provident Fund Schemes Ordinance (Chapter 485 of the Laws of Hong Kong) for employees employed under the jurisdiction of the Hong Kong Employment Ordinance. The MPF Scheme is a defined contribution retirement scheme administered by independent trustees. Under the MPF Scheme, the employer and its employees are each required to make contributions to the scheme at 5% of the employees' relevant income, subject to a cap of monthly relevant income of HK$25,000 (HK$20,000 prior to 1 June 2012). Contributions to the scheme vest immediately.

The employees of the Group's subsidiaries which operate in the PRC are required to participate in a defined contribution retirement benefit scheme which is the central pension scheme operated by local municipal government. These PRC subsidiaries are required to contribute a percentage of their payroll costs to the central pension scheme as specified by the local municipal government.

27 EQUITY-SETTLED SHARE-BASED TRANSACTIONS

(a) Pre-IPO share option scheme adopted by the Company on 29 May 2009

On 22 December 2006, the Company adopted a share option scheme (the "2006 Scheme") under which options to subscribe for shares of the Company had been granted to certain directors and employees of the Group. Pursuant to a written resolution of the shareholders on 29 May 2009, the 2006 Scheme was terminated and all of the share options granted thereunder were cancelled and replaced by options granted under the pre-IPO share option scheme adopted by the Company on 29 May 2009 ("Pre-IPO Share Option Scheme"). The purpose of the Pre-IPO Share Option Scheme is to grant new options to replace the options granted under the 2006 Scheme and to continue to give the participants of the Pre-IPO Share Option Scheme an opportunity to share in the success of the Group and to motivate the participants to optimize their performance and efficiency and also to retain participants whose contributions are important to the long-term growth and profitability of the Group. The Pre-IPO Share Option Scheme was valid and effective for the period from 29 May 2009 to 21 June 2009, being the day immediately prior to the Company's date of listing, after which period no further options will be offered and granted but the provisions of the Pre-IPO Share Option Scheme shall remain in force and effect in all other respects with respect to options granted during the life of the Pre-IPO Share Option Scheme.

Under the Pre-IPO Share Option Scheme, the board of directors (the "Board") may at their discretion grant options to directors, full-time employees, executives and officers of the Company and/or any of its subsidiaries.

27 EQUITY-SETTLED SHARE-BASED TRANSACTIONS (continued)

(a) Pre-IPO share option scheme adopted by the Company on 29 May 2009 (continued)

The offer of a grant of options may be accepted by the grantee within 14 days from the date of the offer, upon payment of HK$1 by way of consideration for the grant. The maximum number of shares in respect of which options may be granted under the Pre-IPO Share Option Scheme shall not exceed 20,000,000 shares (representing 10% of the total issued shares of the Company but excluding the issue and allotment of shares upon the exercise of the options which have been or may be granted under the Pre-IPO Share Option Scheme and any other share option schemes of the Company).

The exercise period of the options granted is determined by the Board and shall not exceed 10 years from the date of the grant. The exercise price of the options is determined by the Board and shall not be less than the nominal value of the shares.

(b) Share option scheme adopted by the Company on 29 May 2009

Pursuant to the written resolution passed by the shareholders of the Company on 29 May 2009, the Company adopted a share option scheme (the "2009 Share Option Scheme"). The purpose of the 2009 Share Option Scheme is to enable the Company to grant options to participants as incentives or rewards for their contribution to the growth of the Group and to provide the Group with a more flexible means to reward, remunerate, compensate and/or provide benefits to the participants. The 2009 Share Option Scheme is valid and effective for a period of 10 years from 29 May 2009.

Under the 2009 Share Option Scheme, the Board may at their discretion grant options to full-time or part-time employees, directors (including executive, non-executive or independent non-executive) and any consultants or advisers (whether professional or otherwise and whether on an employment or contractual or honorary basis or otherwise and whether paid or unpaid), distributors, contractors, suppliers, service providers, agents, customers and business partners of the Company and/or any of its subsidiaries.

27 EQUITY-SETTLED SHARE-BASED TRANSACTIONS (continued)

(b) Share option scheme adopted by the Company on 29 May 2009 (continued)

The offer of a grant of share options may be accepted by the grantee within 14 days from the date of the offer, upon payment of HK$1 by way of consideration for the grant. The maximum number of shares which may be issued upon exercise of all outstanding options granted and yet to be exercised under the 2009 Share Option Scheme and any other share option schemes of the Company must not exceed 30% of the issued share capital of the Company from time to time. In addition, the total number of shares which may be issued upon exercise of all options to be granted under the 2009 Share Option Scheme and any other share option schemes of the Company (excluding the Pre-IPO Share Option Scheme) must not exceed 10% of the issued share capital of the Company as at 22 June 2009, being the scheme mandate limit. The Board may seek approval by the shareholders of the Company in general meeting to renew the scheme mandate limit, provided that the total number of shares which may be issued upon exercise of all options to be granted under the 2009 Share Option Scheme and any other share option schemes of the Company in these circumstances must not exceed 10% of the issued share capital of the Company at the date of approval of the renewed limit. Options previously granted under the 2009 Share Option Scheme and any other share option schemes of the Company (including those outstanding, cancelled, lapsed in accordance with the 2009 Share Option Scheme or any other share option schemes of the Company and exercised options) will not be counted for the purpose of calculating the renewed limit. The Board may seek separate shareholders' approval in general meeting to grant options beyond the scheme mandate limit or the renewed limit provided that the options in excess of the scheme mandate limit or the renewed limit are granted only to the participants specifically identified by the Company before such approval is sought. The total number of shares issued and to be issued upon exercise of the options granted to each participant (including both exercised and outstanding options under the 2009 Share Option Scheme) in any 12-month period must not exceed 1% of the issued share capital of the Company unless approved by the shareholders of the Company in general meetings.

The exercise period of the options granted is determined by the Board and shall not exceed 10 years from the date of the grant. The exercise price of the options is determined by the Board and shall be at least the highest of (i) the closing price per share as stated in the daily quotation sheet of the Stock Exchange on the offer date; (ii) the average closing price per share as stated in the daily quotation sheet of the Stock Exchange for the 5 business days immediately preceding the offer date; and (iii) the nominal value of a share.

(Expressed in Hong Kong dollars)

27 EQUITY-SETTLED SHARE-BASED TRANSACTIONS (continued)

(c) Details of the movements in share options granted under the Pre-IPO Share Option Scheme and the 2009 Share Option Scheme are as follows:

					Number of share options			
Name of participants	Option scheme	Date of grant	Exercise price HK$	Vesting and exercise period	Outstanding as at 1 January 2012	Granted during the year	Exercised during the year	Outstanding as at 31 December 2012
Directors								
Sung Kai Hing	Pre-IPO Share Option Scheme	29 May 2009	1.0647	23 Dec 2009 to 30 Dec 2016	1,498,670	–	–	1,498,670
	2009 Share Option Scheme	5 May 2011	1.80	5 May 2012 to 4 May 2014 (50%) 1 Jan 2013 to 4 May 2014 (50%)	1,500,000	–	–	1,500,000
Cheung Kong Cheung	Pre-IPO Share Option Scheme	29 May 2009	1.0647	23 Dec 2009 to 30 Dec 2016	1,498,670	–	–	1,498,670
	2009 Share Option Scheme	5 May 2011	1.80	5 May 2012 to 4 May 2014 (50%) 1 Jan 2013 to 4 May 2014 (50%)	1,500,000	–	–	1,500,000
Sun Jian	Pre-IPO Share Option Scheme	29 May 2009	1.0647	23 Dec 2009 to 19 Jun 2017 (50%) 20 Jun 2010 to 19 Jun 2017 (25%) 20 Jun 2011 to 19 Jun 2017 (25%)	749,335	–	–	749,335
	2009 Share Option Scheme	23 Apr 2010	1.422	23 Apr 2011 to 22 Apr 2013 (50%) 1 Jan 2012 to 22 Apr 2013 (50%)	300,000	–	–	300,000
Kong Hing Ki	2009 Share Option Scheme	23 Apr 2010	1.422	23 Apr 2011 to 22 Apr 2013 (50%) 1 Jan 2012 to 22 Apr 2013 (50%)	300,000	–	–	300,000
Shao Hanqing	2009 Share Option Scheme	23 Apr 2010	1.422	23 Apr 2011 to 22 Apr 2013 (50%) 1 Jan 2012 to 22 Apr 2013 (50%)	300,000	–	–	300,000

(Expressed in Hong Kong dollars)

27 EQUITY-SETTLED SHARE-BASED TRANSACTIONS (continued)

(c) Details of the movements in share options granted under the Pre-IPO Share Option Scheme and the 2009 Share Option Scheme are as follows: (continued)

					Number of share options			
Name of participants	Option scheme	Date of grant	Exercise price HK$	Vesting and exercise period	Outstanding as at 1 January 2012	Granted during the year	Exercised during the year	Outstanding as at 31 December 2012
Employees	Pre-IPO Share Option Scheme	29 May 2009	1.0647	23 Dec 2009 to 30 Dec 2016 (50%) 31 Dec 2009 to 30 Dec 2016 (25%) 31 Dec 2010 to 30 Dec 2016 (25%)	1,498,670	–	–	1,498,670
	Pre-IPO Share Option Scheme	29 May 2009	1.0647	23 Dec 2009 to 19 Jun 2017 (50%) 20 Jun 2010 to 19 Jun 2017 (25%) 20 Jun 2011 to 19 Jun 2017 (25%)	749,335	–	–	749,335
	Pre-IPO Share Option Scheme	29 May 2009	1.0647	23 Dec 2009 to 30 Dec 2016	2,997,340	–	–	2,997,340
	2009 Share Option Scheme	23 Apr 2010	1.422	23 Apr 2011 to 22 Apr 2013 (50%) 1 Jan 2012 to 22 Apr 2013 (50%)	11,100,000	–	–	11,100,000
	2009 Share Option Scheme	5 May 2011	1.80	5 May 2012 to 4 May 2014 (50%) 1 Jan 2013 to 4 May 2014 (50%)	1,000,000	–	–	1,000,000
					24,992,020	–	–	24,992,020

(Expressed in Hong Kong dollars)

27 EQUITY-SETTLED SHARE-BASED TRANSACTIONS (continued)

(c) Details of the movements in share options granted under the Pre-IPO Share Option Scheme and the 2009 Share Option Scheme are as follows: (continued)

(i) The terms and conditions of the grants are as follows, whereby all options are settled by physical delivery of shares:

	Number of options	Vesting conditions	Contractual life of options
Options to directors:			
– replaced on 29 May 2009	3,746,675	Vesting from 23 December 2009 to 20 June 2011	29 May 2009 to 19 June 2017
– granted on 23 April 2010	900,000	Vesting from 23 April 2011 to 1 Jan 2012	23 April 2010 to 22 April 2013
– granted on 5 May 2011	3,000,000	Vesting from 5 May 2012 to 1 Jan 2013	5 May 2011 to 4 May 2014
Options to employees:			
– replaced on 29 May 2009	11,240,020	Vesting from 23 December 2009 to 20 June 2011	29 May 2009 to 19 June 2017
– granted on 23 April 2010	11,100,000	Vesting from 23 April 2011 to 1 Jan 2012	23 April 2010 to 22 April 2013
– granted on 5 May 2011	1,000,000	Vesting from 5 May 2012 to 1 Jan 2013	5 May 2011 to 4 May 2014
– exercised on 26 October 2010	(5,994,675)		
Total share options granted and outstanding	24,992,020		

(Expressed in Hong Kong dollars)

27 EQUITY-SETTLED SHARE-BASED TRANSACTIONS (continued)

(c) Details of the movements in share options granted under the Pre-IPO Share Option Scheme and the 2009 Share Option Scheme are as follows: (continued)

(ii) The number and weighted average exercise prices of the share options are as follows:

	2012		2011	
	Weighted average exercise price HK$	**Number of share options**	Weighted average exercise price HK$	Number of share options
Outstanding at the beginning of the year	**1.3539**	**24,992,020**	1.2689	20,992,020
Granted during the year	**-**	**-**	1.80	4,000,000
Outstanding at the end of the year	**1.3539**	**24,992,020**	1.3539	24,992,020
Exercisable at the end of the year	**1.3151**	**22,992,020**	1.2077	14,992,020

The options outstanding at 31 December 2012 had an exercise price of HK$1.0647 to HK$1.8 (2011: HK$1.0647 to HK$1.8) and a weighted average remaining contractual life of 1.8 years (2011: 2.8 years).

(iii) Fair value of share options and assumptions

The fair value of services received in return for share options granted is measured by reference to the fair value of share options granted. The estimate of the fair value of the share options granted is measured based on the binomial lattice model. The contractual life of the share option is used as an input into this model. Expectations of early exercise are incorporated into the model.

(Expressed in Hong Kong dollars)

27 EQUITY-SETTLED SHARE-BASED TRANSACTIONS (continued)

(c) Details of the movements in share options granted under the Pre-IPO Share Option Scheme and the 2009 Share Option Scheme are as follows: (continued)

(iii) Fair value of share options and assumptions (continued)

The fair value of share options and assumptions used by the binomial lattice model in the valuation of options granted in 2011 are as follows:

	Options granted on 5 May 2011
Weighted average fair value at measurement date	HK$0.28
Share price	HK$1.60
Exercise price	HK$1.80
Expected volatility	40%
Option life	3 years
Expected dividend yield	2.47%
Risk-free interest rate	0.93%

The expected volatility is based on the historic volatility (calculated based on the weighted average remaining life of the share options), adjusted for any expected changes to future volatility based on publicly available information. Expected dividends are based on historical dividends. Changes in the subjective input assumptions could materially affect the fair value estimate.

Share options were granted under a service condition. This condition has not been taken into account in the grant date fair value measurement of the services received. There were no market conditions associated with the share option grants.

28 SHARE CAPITAL, RESERVES AND DIVIDENDS

(a) Movement in components of equity

The reconciliation between the opening and closing balances of each component of the Group's consolidated equity is set out in the consolidated statement of changes in equity. Details of the changes in the Company's individual components of equity between the beginning and the end of the year are set out below:

The Company

	Share capital HK$'000	Share premium HK$'000	Share option reserve HK$'000	Retained profits HK$'000	Total HK$'000
Balance at 1 January 2011	2,060	83,623	5,875	34,493	126,051
Loss and total comprehensive loss for the year	–	–	–	(3,422)	(3,422)
Dividends approved in respect of the previous year	–	–	–	(7,757)	(7,757)
Shares issued relating to acquisition of subsidiaries	364	57,882	–	–	58,246
Equity-settled share-based transactions	–	–	2,388	–	2,388
Dividends declared in respect of the current year	–	–	–	(5,575)	(5,575)
Balance at 31 December 2011 and at 1 January 2012	2,424	141,505	8,263	17,739	169,931
Loss and total comprehensive loss for the year	–	–	–	(724)	(724)
Dividends approved in respect of the previous year	–	–	–	(4,727)	(4,727)
Equity-settled share-based transactions	–	–	535	–	535
Balance at 31 December 2012	2,424	141,505	8,798	12,288	165,015

28 SHARE CAPITAL, RESERVES AND DIVIDENDS (continued)

(b) Dividends

Dividends payable to equity shareholders of the Company attributable to the year are as follows:

	2012	2011
	HK$'000	HK$'000
Interim dividend declared and paid of HKnil cents per ordinary share (2011: HK2.30 cents per ordinary share)	**-**	5,575
Final dividend in respect of previous financial year, approved and paid during the year of HK1.95 cents per ordinary share (2011: HK3.20 cents per ordinary share)	**4,727**	7,757
	4,727	13,332
Final dividend proposed after the reporting period of HKnil cents per ordinary share (2011: HK1.95 cents per ordinary share)	**-**	4,727
	4,727	18,059

The final dividend proposed after the end of the reporting period had not been recognised as a liability at the end of the reporting period.

(c) Share capital

	2012		2011	
	Number of ordinary shares of HK$0.01 each	**Amount HK$'000**	Number of ordinary shares of HK$0.01 each	Amount HK$'000
Authorised:				
At 31 December	**1,000,000,000**	**10,000**	1,000,000,000	10,000
Issued and fully paid:				
At 1 January	**242,398,675**	**2,424**	205,994,675	2,060
Issued upon acquisition of subsidiaries (note 29)	**-**	**-**	36,404,000	364
At 31 December	**242,398,675**	**2,424**	242,398,675	2,424

28 SHARE CAPITAL, RESERVES AND DIVIDENDS (continued)

(c) Share capital (continued)

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 the meetings of the Company. All shares rank equally with regard to the Company's residual assets.

(d) Nature and purpose of reserves

(i) Share premium

The application of the share premium account is governed by section 40 of the Bermuda Companies Act 1981.

(ii) Exchange reserve

The exchange reserve comprises all foreign exchange differences arising from the translation of the financial statements of operations outside Hong Kong which are dealt with in accordance with the accounting policies as set out in note 2(t).

(iii) Statutory reserve fund

Subsidiaries in the PRC are required to transfer 10% of the net profits, as determined in accordance with the PRC accounting rules and regulations, to statutory reserve fund until the reserve balance reaches 50% of the registered capital. The transfer of this fund must be made before distribution of dividends to equity holders.

The statutory reserve fund can be used to make good of previous years' losses, if any, and may be converted into capital provided that the balance of the general reserve fund after such conversion is not less than 25% of their registered capital.

(iv) Merger reserve

The Group's merger reserve represents the difference between the aggregate net assets of the subsidiaries acquired by the Group and the nominal amount of the Company's shares issued under the 2004 Reorganisation.

(v) Share option reserve

The share option reserve comprises the fair value of share options granted which are yet to be exercised, as further explained in the accounting policy as set out in note 2(p)(ii). The amount will either be transferred to the share premium account where the related options are exercised, or be transferred to retained profits where the related options expired or be forfeited.

28 SHARE CAPITAL, RESERVES AND DIVIDENDS (continued)

(d) Nature and purpose of reserves (continued)

(vi) Fair value reserve

The fair value reserve comprises the cumulative net changes in the fair value of available-for-sale securities held at the end of the reporting period and is dealt with in accordance with the accounting policies in notes 2(f) and 2(i)(i).

(vii) Capital reserve

The capital reserve represents the excess of the fair value of consideration paid for acquisition of additional interest in a non-wholly owned subsidiary over the decrease in the carrying amount of the non-controlling interest.

(e) Distributability of reserves

At 31 December 2012, the aggregate amount of reserves available for distribution to equity shareholders of the Company was HK$153,793,000 (2011: HK$159,244,000), being the aggregate of the share premium and retained profits of the Company. The Company's share premium account in the amount of HK$141,505,000 (2011: HK$141,505,000) may be distributed in the form of fully paid bonus shares only.

(f) Capital management

The Group manages its capital to ensure that entities in the Group will be able to continue as a going concern while maximising the return to stakeholders through maintaining healthy capital ratio.

The capital structure of the Group consists of available-for-sale investments disclosed in note 18, cash and cash equivalents disclosed in note 22, secured bank loans disclosed in note 24 and equity attributable to equity shareholders of the Company, comprising issued share capital, reserves and retained profits as disclosed in the consolidated statement of changes in equity.

The directors review the capital structure on an annual basis. As a part of this review, management considers the cost of capital, the changes in economic conditions and the risk characteristics of each class of capital. The directors will balance the Group's overall capital structure through the payment of dividends.

The Group's overall strategy remained unchanged during the year.

In order to maintain or adjust the adjusted net debt-to-capital ratio, the Group may adjust the amount of dividends paid to shareholders, issue new shares, return capital to shareholders, raise new debt financing or sell assets to reduce debt.

28 SHARE CAPITAL, RESERVES AND DIVIDENDS (continued)

(f) Capital management (continued)

The adjusted net debt-to-capital ratio at 31 December 2012 and 2011 was as follows:

	The Group	
	2012	2011
	HK$'000	HK$'000
Bank borrowings (note 24)	**113,537**	124,904
Less: Cash and cash equivalents (note 22)	**(93,392)**	(123,630)
Deposits pledged for securing banking facilities (note 21)	**(1,517)**	(3,695)
Adjusted net debt/(cash)	**18,628**	(2,421)
Total equity	**361,851**	407,700
Adjusted capital	**361,851**	407,700
Adjusted net debt-to-capital ratio	**5%**	N/A

29 BUSINESS COMBINATION

On 5 May 2011, the Group acquired 60% of the equity interest of Astromax. The principal business of Astromax is investment holding and its principal asset as at the date hereof is its 100% shareholding in City Leading, which is an investment holding company holding 100% equity interest in Shenzhen Oulo. Shenzhen Oulo is principally engaged in the manufacture and sale of sofa to overseas and in the PRC.

The Group elected to measure the non-controlling interest in Astromax, City Leading and Shenzhen Oulo (the "Astromax Group") at the non-controlling interest's proportionate share of the Astromax Group's identifiable net assets.

29 BUSINESS COMBINATION (continued)

The fair values of the identifiable assets and liabilities of the Astromax Group as at the date of acquisition were as follows:

	Fair value recognised on acquisition HK$'000
Property, plant and equipment (note 14)	3,811
Inventories	8,616
Trade and other receivables	13,880
Cash and cash equivalents	2,122
Tax refundable	135
Trade and other payables	(18,354)
Total identifiable net assets at fair value	10,210
Non-controlling interests	(4,084)
Goodwill	52,120
Satisfied by issuance of shares (note 28(a))	58,246

The goodwill of HK$52,120,000 arises from a number of factors such as its sales network and industry know how, other important elements including expected synergies through combining a highly skilled workforce, product complementary and obtaining economies of scale.

None of the goodwill recognised was expected to be deductible for income tax purposes.

The fair value of trade and other receivables in the Astromax Group was HK$13,880,000 and includes trade receivable with a fair value of HK$10,974,000. The gross contractual amount for trade receivables due was HK$11,166,000, of which HK$192,000 was expected to be uncollectible.

The consideration for the acquisition was satisfied by the issue and allotment of 36,404,000 ordinary shares of HK$0.01 each of the Company at the date of acquisition on 5 May 2011. The fair value of the consideration was HK$58,246,400, being the fair value of the shares measured at the closing market price of HK$1.60 on 5 May 2011.

No acquisition-related costs were charged to the consolidated income statement for the year ended 31 December 2011 as all acquisition related costs were borne by the vendor.

29 BUSINESS COMBINATION (continued)

An analysis of the cash flows in respect of the acquisition of the Astromax Group is as follows:

	2011 HK$'000
Cash and cash equivalents acquired	2,122
Net inflow of cash and cash equivalents included in cash flows from investing activities	2,122

30 FINANCIAL RISK MANAGEMENT AND FAIR VALUES

(a) Financial risk management

The Group is exposed to a variety of risks including credit risk, liquidity risk, cash flow and interest rate risk and foreign currency risk arising in the normal course of the Group's business activities.

The Group does not have any written risk management policies and guidelines. The directors monitor the financial risk management of the Group and take measures as considered necessary from time to time to minimise such financial risks.

(i) Credit risk

Credit risk arises from the possibility that customers may not be able to settle obligations within the normal terms of transactions. The Group performs ongoing credit evaluation of the debtors' financial condition and maintains an account for allowance for doubtful debts based upon the expected collectibles of all trade and other receivables. At the end of the reporting period, there were no major concentrations of credit risk.

The maximum exposure to credit risk is therefore represented by the carrying amount of each financial asset as stated in the statement of financial position.

(ii) Liquidity risk

The Group's policy is to regularly monitor current and expected liquidity requirements and its compliance with lending covenants, to ensure that it maintains sufficient reserves of cash and adequate committed lines of funding from major financial institutions to meet its liquidity requirements in the short and longer term.

The following table details the remaining contractual maturities at the end of the reporting period of the Group's and the Company's financial liabilities, which are based on contractual undiscounted cash flows (including interest payments computed using contractual rates or, if floating, based on rates current at the end of the reporting period) and the earliest date the Group and the Company can be required to pay.

30 FINANCIAL RISK MANAGEMENT AND FAIR VALUES (continued)

(a) Financial risk management (continued)

(ii) Liquidity risk (continued)

Specifically, for term loans which contain a repayment on demand clause which can be exercised at the bank's sole discretion, the analysis shows the cash outflow based on the earliest period in which the entity can be required to pay, that is if the lenders were to invoke their unconditional rights to call the loans with immediate effect. The maturity analysis for other bank loans is prepared based on the scheduled repayment dates.

	2012					2011				
	Carrying amount HK$'000	Total contractual undiscounted cash flow HK$'000	Within 1 year or on demand HK$'000	More than 1 year but less than 2 years HK$'000	More than 2 years but less than 5 years HK$'000	Carrying amount HK$'000	Total contractual undiscounted cash flow HK$'000	Within 1 year or on demand HK$'000	More than 1 year but less than 2 years HK$'000	More than 2 years but less than 5 years HK$'000
The Group										
Trade creditors and bills payable	167,415	167,415	167,415	-	-	131,914	131,914	131,914	-	-
Other payables and accrued charges	51,700	51,700	45,053	6,647	-	51,096	51,096	51,096	-	-
Bank borrowings	113,537	120,290	84,402	17,488	18,400	124,904	135,198	127,712	1,125	6,361
	332,652	339,405	296,870	24,135	18,400	307,914	318,208	310,722	1,125	6,361
The Company										
Other payables and accrued charges	1,080	1,080	1,080	-	-	2,760	2,760	2,760	-	-

The table that follows summarises the maturity analysis of bank loans with a repayment on demand clause based on agreed scheduled repayments set out in the loan agreements. Taking into account the financial position of the Group, the directors do not consider that it is probable that the bank will exercise its discretion to demand immediate repayment. The directors believe that such term loans will be repaid in accordance with the scheduled repayment dates set out in the loan agreements.

30 FINANCIAL RISK MANAGEMENT AND FAIR VALUES (continued)

(a) Financial risk management (continued)

(ii) Liquidity risk (continued)

	2012					2011				
	Carrying amount HK$'000	Total contractual undiscounted cash flow HK$'000	Within 1 year or on demand HK$'000	More than 1 year but less than 2 years HK$'000	More than 2 years but less than 5 years HK$'000	Carrying amount HK$'000	Total contractual undiscounted cash flow HK$'000	Within 1 year or on demand HK$'000	More than 1 year but less than 2 years HK$'000	More than 2 years but less than 5 years HK$'000
The Group										
Trade creditors and bills payable	167,415	167,415	167,415	-	-	131,914	131,914	131,914	-	-
Other payables and accrued charges	51,700	51,700	45,053	6,647	-	51,096	51,096	51,096	-	-
Bank borrowings	113,537	120,290	71,002	24,688	24,600	124,904	135,198	63,630	23,867	47,701
	332,652	339,405	283,470	31,335	24,600	307,914	318,208	246,640	23,867	47,701
The Company										
Other payables and accrued charges	1,080	1,080	1,080	-	-	2,760	2,760	2,760	-	-

(iii) Interest rate risk

Cash flow interest rate risk is the risk that future cash flows of a financial instrument will fluctuate because of changes in market interest rates. Fair value interest rate risk is the risk where the value of a financial instrument will fluctuate due to changes in market interest rates.

Interest-bearing financial assets are mainly bank balances and bank deposits. Interest-bearing financial liabilities are mainly bank borrowings. The Group currently does not have any interest rate hedging policy and will consider enter into interest rate hedging should the need arise. The Group ensures that it borrows at competitive interest rates under favourable terms and conditions. The financial instruments of the Group that are exposed to interest rate risk are disclosed in notes 22 and 24.

30 FINANCIAL RISK MANAGEMENT AND FAIR VALUES (continued)

(a) Financial risk management (continued)

(iii) Interest rate risk (continued)

Interest rate profile

The following table details the interest rate profile of the Group's bank deposits and interest-bearing financial liabilities at the end of the reporting period.

	2012		2011	
	Effective Interest rate	**HK$'000**	Effective Interest rate	HK$'000
Variable rate bank deposits:				
Deposits with bank	**0.97%**	**7,776**	3.00%	18,119
Cash at bank	**0.12%**	**86,403**	0.38%	116,198
		94,179		134,317
Variable rate borrowings:				
Bank borrowings	**6.17%**	**(113,537)**	4.45%	(124,904)

The Company has no material exposure to interest rate risk as it has no significant interest-bearing financial instruments.

(iv) Foreign currency risk

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

The Group is exposed to foreign currency risk primarily through sales and purchases that are denominated in a currency other than the functional currency of the operations to which they relate. The currency giving rise to this risk is primarily Hong Kong dollars, Renminbi and United States dollars. Hence, the Group's foreign currency risk is considered to be minimal by the directors of the Company. The Group does not hold or issue any derivative financial instruments for trading purposes or to hedge against fluctuations in foreign exchange rates, but the management continuously monitors foreign exchange exposure and will consider hedging significant foreign currency exposure should the need arise.

30 FINANCIAL RISK MANAGEMENT AND FAIR VALUES (continued)

(a) Financial risk management (continued)

(iv) Foreign currency risk (continued)

The following table details the Group's and the Company's exposure at the end of the reporting period to foreign currency risk arising from recognised assets or liabilities denominated in a currency other than the functional currency of the operations to which they relate. For presentation purposes, the amounts of the exposure are shown in Hong Kong dollars, translated using the spot rate at the end of the reporting period.

The Group

	2012 Denominated in			2011 Denominated in		
	Hong Kong dollars HK$'000	**Renminbi HK$'000**	**United States dollars HK$'000**	Hong Kong dollars HK$'000	Renminbi HK$'000	United States dollars HK$'000
Trade and other receivables	**-**	**-**	**20,067**	–	–	14,446
Cash and cash equivalents	**3,174**	**9,455**	**22,680**	23,168	9,321	9,062
Trade and other payables	**-**	**-**	**(2,340)**	–	–	(488)
Bank borrowings	**(26,001)**	**-**	**-**	(33,780)	–	–
Current taxation	**-**	**-**	**-**	(52)	–	–
Net exposure arising from recognised assets and liabilities	**(22,827)**	**9,455**	**40,407**	(10,664)	9,321	23,020

The Company

	2012 Denominated in Renminbi HK$'000	2011 Denominated in Renminbi HK$'000
Cash and cash equivalents	**139**	6,298
Net exposure arising from recognised assets	**139**	6,298

Renminbi is not a freely convertible currency and the remittance of funds out of the PRC is subject to exchange restrictions imposed by the PRC government.

30 FINANCIAL RISK MANAGEMENT AND FAIR VALUES (continued)

(a) Financial risk management (continued)

(v) Fair values

Financial instruments carried at fair value:

The following table presents the carrying value of financial instruments measured at fair value at the end of the reporting period across the three levels of the fair value hierarchy defined in HKFRS 7, Financial Instruments: Disclosures, with the fair value of each financial instrument catergorised in its entirety based on the lowest level of input that is significant to that fair value measurement. The levels are defined as follows:

– Level 1 (highest level): fair values measured using quoted prices (unadjusted) in active markets for identical financial instruments.

– Level 2: fair values measured using quoted prices in active markets for similar financial instruments, or using valuation techniques in which all significant inputs are directly or indirectly based on observable market data.

– Level 3 (lowest level): fair values measured using valuation techniques in which any significant input is not based on observable market data.

	The Group							
	2012				2011			
	Level 1	**Level 2**	**Level 3**	**Total**	Level 1	Level 2	Level 3	Total
	HK$'000	**HK$'000**	**HK$'000**	**HK$'000**	HK$'000	HK$'000	HK$'000	HK$'000
Assets								
Available-for-sale investments	**65**	**-**	**-**	**65**	44	–	–	44

30 FINANCIAL RISK MANAGEMENT AND FAIR VALUES (continued)

(b) Estimation of fair values

The notional amounts of financial assets and liabilities (including trade debtors and bills receivable, deposits and other receivables, restricted bank deposits, cash and cash equivalents, trade creditors and bills payable, and other payables and accrued charges) are assumed to approximate their fair values.

The fair value of non-trade balances due from/to subsidiaries has not been determined as the timing of the expected cash flows of these balances cannot be reasonably determined because of the relationship.

31 COMMITMENTS

(a) Capital commitments outstanding at 31 December 2012 not provided for in the consolidated financial statements are as follows:

	The Group	
	2012	2011
	HK$'000	HK$'000
Contracted for:		
– Construction of factory building	**74,994**	95,132
– Purchase of property, plant and equipment	**1,297**	4,754
	76,291	99,886
Authorised but not contracted for:		
– Construction of factory building	**117,945**	117,974
– Purchase of property, plant and equipment	**7,482**	7,484
	125,427	125,458

31 COMMITMENTS (continued)

(b) At 31 December 2012, the total future minimum lease payments under non-cancellable operating leases are payable as follows:

	The Group	
	2012	2011
	HK$'000	HK$'000
Within 1 year	**5,629**	5,222
After 1 year but within 5 years	**8,864**	14,053
	14,493	19,275

32 CONTINGENT LIABILITIES

	The Company	
	2012	2011
	HK$'000	HK$'000
Corporate guarantees given and utilised	**69,882**	80,778

At 31 December 2012, the Company provided corporate guarantees to the following subsidiaries:

(a) Shenzhen Xingli in relation to banking facilities to the extent of HK$77,000,000 (2011: HK$77,000,000) of which HK$25,404,000 (2011: HK$36,988,000) was utilised;

(b) Hing Lee Furniture in relation to banking facilities to the extent of HK$54,000,000 (2011: HK$54,000,000) of which HK$36,878,000 (2011: HK$33,800,000) was utilised; and

(c) Hing Lee (China) in relation to banking facilities to the extent of HK$12,000,000 (2011: HK$12,000,000) of which HK$7,600,000 (2011: HK$10,000,000) was utilised.

In the opinion of the directors of the Company, no material liabilities will arise from the above guarantees in the ordinary course of business and the fair value of the corporate guarantees granted by the Company is immaterial.

33 MATERIAL RELATED PARTY TRANSACTIONS

(a) Key management personnel remuneration

Remuneration for key management personnel of the Group, including amounts paid to the Company's directors as disclosed in note 8 and certain of the highest paid employees as disclosed in note 9, is as follows:

	2012	2011
	HK$'000	HK$'000
Short-term employee benefits	**5,534**	7,369
Post-employment benefits	**69**	72
Share-based payments	**535**	1,208
	6,138	8,649

Total remuneration is included in "staff costs" (see note 6(b)).

(b) Balances with related parties

Balances with related parties of the Company are disclosed in the statement of financial position and in note 17.

34 COMPARATIVE FIGURES

Certain comparative figures in respect of foreign currency risk have been re-presented to conform with current year's presentation.

35 CRITICAL ACCOUNTING JUDGEMENTS AND ESTIMATES

Estimates and judgements are continually evaluated and are based on historical experience 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 amount of assets and liabilities within the next financial year are discussed below.

(i) Impairment of goodwill

Determining whether goodwill is impaired requires an estimation of the value in use of the cash-generating units to which goodwill has been allocated. The value in use calculation requires the directors to estimate the future cash flows expected to arise from the cash-generating unit and a suitable discount rate in order to calculate present value.

(ii) Impairment of property, plant and equipment and intangible assets

If the circumstances indicate that the carrying values of these assets may not be recoverable, the assets may be considered "impaired", and an impairment loss may be recognised in accordance with HKAS 36 Impairment of assets. Under HKAS 36, these assets are tested for impairment whenever events or changes in circumstances indicate that their recorded carrying amounts may not be recoverable. When such a decline has occurred, the carrying amount is reduced to recoverable amount. The recoverable amount is the greater of its fair value less costs to sell and the value in use. In determining the value in use, expected cash flows generated by the asset are discounted to their present value, which requires significant judgement relating to level of sales volume, selling prices and amount of operating costs. The Group uses all readily available information in determining an amount that is a reasonable approximation of recoverable amount, including estimates based on reasonable and supportable assumptions and projections of sales volume, selling prices and amount of operating costs. However, actual sales volumes, selling prices and operating costs may be different from assumptions which may require a material adjustment to the carrying amount of the assets affected.

(iii) Useful lives of property, plant and equipment

The Group's management determines the estimated useful lives and related depreciation charges for its property, plant and equipment. Management will revise the depreciation charge where useful lives are different to previously estimated, or will write-off or write-down technically obsolete or non-strategic assets that have been abandoned or sold.

35 CRITICAL ACCOUNTING JUDGEMENTS AND ESTIMATES (continued)

(iv) Net realisable value of inventories

Inventories are carried at the lower of cost and net realisable value. The cost of inventories is written down to net realisable value when there is an objective evidence that the cost of inventories may not be recoverable. The cost of inventories may not be recovered if those inventories are damaged, if they have become wholly or partially obsolete, or if their selling prices have declined. The cost of inventories may not also be recoverable if the estimated costs to be incurred to make the sales have increased. The amount written off to the income statement is the difference between the carrying value and net realisable value of the inventories. In determining whether the cost of inventories can be recoverable, significant judgement is required. In making this judgement, the Group evaluates, among other factors, the duration and extent by all means to which the amount will be recovered.

(v) Estimated allowance for receivables

Management regularly reviews the recoverability of trade and other receivables and amounts due from related parties. Allowance for these receivables is made based on the evaluation of collectability and on management's judgement by reference to the estimation of the future cash flows discounted at the effective interest rate to calculate the present value.

A considerable amount of judgement is required in assessing the ultimate realisation of these debtors, including their current creditworthiness. If the actual future cash flows were less than expected, additional allowance may be required.

(vi) Income tax provision

Determining income tax provisions involves judgement on the future tax treatment of certain transactions. The Group carefully evaluates tax implications of transactions, and tax provisions are made accordingly. The tax treatment of transactions is assessed periodically to include the effect of all changes in tax legislation and practices.

(Expressed in Hong Kong dollars)

36 POSSIBLE IMPACT OF AMENDMENTS, NEW STANDARDS AND INTERPRETATIONS ISSUED BUT NOT YET EFFECTIVE FOR THE YEAR ENDED 31 DECEMBER 2012

Up to the date of issue of these consolidated financial statements, the HKICPA has issued a number of amendments and new standards which are not yet effective for the year ended 31 December 2012 and which have not been adopted in these consolidated financial statements. These include the following which may be relevant to the Group.

	Effective for accounting periods beginning on or after
Amendments to HKFRS 10, HKFRS 11 and HKFRS 12, *Consolidated financial statements, joint arrangements and disclosure of interests in other entities: transition guidance*	1 January 2013
Amendments to HKFRS 10, HKFRS 12 and HKAS 27, *Investment Entities*	1 January 2014
Amendments to HKFRS 7, *Financial instruments: Disclosures – Offsetting financial assets and financial liabilities*	1 January 2013
Amendments to HKFRS 9 and HKFRS 7 – *Mandatory effective date of HKFRS 9 and transaction disclosures*	1 January 2015
Amendments to HKAS 1, *Presentation of financial statements – Presentation of items of other comprehensive income*	1 July 2012
Amendments to HKAS 32, *Financial instruments: Presentation – Offsetting financial assets and financial liabilities*	1 January 2014
Amendments to HKFRSs, *Annual Improvements to HKFRSs 2009 -2011 Cycle except for the amendments to HKAS 1*	1 January 2013
HKFRS 9, *Financial instruments*	1 January 2015
HKFRS 10, *Consolidated financial statements*	1 January 2013
HKFRS 11, *Joint arrangements*	1 January 2013
HKFRS 12, *Disclosure of interests in other entities*	1 January 2013
HKFRS 13, *Fair value measurement*	1 January 2013
HKAS 27 (revised), *Separate financial statements (2011)*	1 January 2013
HKAS 28 (revised), *Investments in associates and joint ventures (2011)*	1 January 2013
Amendments to HKAS 19, *Employee benefits (2011)*	1 January 2013

The Group is in the process of making an assessment of what the impact of these amendments is expected to be in the period of initial application. So far it has concluded that the adoption of them is unlikely to have a significant impact on the Group's results of operations and financial position.