



# 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



Annual Report 2011

興利

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## 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](http://www.hingleehk.com.hk)



## Consolidated Income Statements

	2011 HK\$'000	Year ended 31 December			
		2010 HK\$'000	2009 HK\$'000	2008 HK\$'000	2007 HK\$'000
<b>Turnover</b>	<b>633,008</b>	506,693	439,358	534,346	492,669
Cost of sales	<b>(486,786)</b>	(383,583)	(349,071)	(433,344)	(396,438)
<b>Gross profit</b>	<b>146,222</b>	123,110	90,287	101,002	96,231
Other income	<b>6,733</b>	3,551	3,123	1,989	1,962
Selling and distribution expenses	<b>(62,203)</b>	(45,819)	(41,351)	(35,533)	(27,453)
Administrative expenses	<b>(39,678)</b>	(32,737)	(29,451)	(33,348)	(28,490)
<b>Profit from operating activities</b>	<b>51,074</b>	48,105	22,608	34,110	42,250
Finance costs	<b>(2,437)</b>	(2,635)	(623)	(70)	(18)
<b>Profit before taxation</b>	<b>48,637</b>	45,470	21,985	34,040	42,232
Income tax	<b>(2,914)</b>	(5,170)	(2,360)	(3,251)	(1,803)
<b>Profit for the year</b>	<b>45,723</b>	40,300	19,625	30,789	40,429

## Assets and Liabilities

	2011 HK\$'000	As at 31 December			
		2010 HK\$'000	2009 HK\$'000	2008 HK\$'000	2007 HK\$'000
Non-current assets	<b>368,952</b>	218,997	188,180	127,943	72,921
Current assets	<b>367,676</b>	298,779	225,521	225,216	217,483
Current liabilities	<b>328,928</b>	208,182	107,566	111,433	119,654
Net current assets	<b>38,748</b>	90,597	117,955	113,783	97,829
Total assets less current liabilities	<b>407,700</b>	309,594	306,135	241,726	170,750
Non-current liabilities	<b>-</b>	8,532	42,518	32,372	-
Net assets	<b>407,700</b>	301,062	263,617	209,354	170,750
Equity attributable to equity holders of the Company	<b>399,311</b>	301,062	258,400	205,009	166,684

Dear Shareholders,

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 2011 ("Year 2011").

During the year under review, the Group acquired a 60% equity stake in Astromax Investment Limited and hence its indirect wholly owned subsidiary 深圳歐羅家具有限公司 (Shenzhen Oulo Furniture Company Limited) ("Oulo"). Oulo has started to contribute revenue to the Group, and the Group will further utilize its production capacity to produce sofa products which complement its wooden furniture products.

Year 2011 was highly challenging due to uncertainties surrounding economic conditions in China and around the world. Thanks to the management's effort on the continued expansion on the PRC domestic sales network, the Group was proud to achieve a sales growth of 46.4% in the overseas markets and growth of 14.3% in the PRC domestic market. During the year under review, turnover of HK\$633.0 million was recorded, representing a 24.9% increase over the turnover of HK\$506.7 million reported last year.

The Group employs the PRC domestic market development as its core strategy and has extended its PRC domestic sales network to third and fourth tier cities. In addition, the Group further strengthened its relationship with its overseas customers. As a result, the Group managed to enjoy business growth despite the unfavourable environments. Overall, the Group achieved year-on-year turnover growth and growth in profit attributable to equity holders of 24.9% and 3.5% respectively.

## **DEVELOPMENT OF 2ND PHASE OF NEW SHENZHEN PRODUCTION PLANT**

In order for us to further increase our production capacity for our classical furniture and to capture the sales opportunities arising from the increasing disposable income level of the middle class in the PRC as well as the expansion plan in overseas markets, the second phase of our Shenzhen production plant have been constructed. The construction of the second phase production plant was completed in 2011 and is having its trial run in 2012. We believe the second phase production plant which is embedded with advanced machines and equipment will further enhance the overall operational efficiency and production capacity, hence secure orders in excess of our present production constraints.

Looking forward, the Group will continue to strengthen its position in the medium to high-end home furniture markets with a thorough plan to explore opportunities on distribution network expansion. We are optimistic to the prospect of the furniture industry with anticipation that the increasing proportion of middle to affluent class in China will be the Group's major growth driver in the future. We also acknowledge the fact that we still face same challenges as other players in China – the fluctuation of the price of raw materials, the rise of wages and the uncertainty in economic environment, etc. Despite such challenges, we will endeavor to develop our domestic distribution network and to improve our operational efficiency by further optimizing our production process and to expand our sales network in the PRC, penetrating to the third and fourth tier cities. The Group will strive to adopt stringent cost control and aim at maximizing profits for the shareholders.

## **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 like also 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, 28 March 2012

**BUSINESS REVIEW**

During the year under review, the Chinese Government's macroeconomic austerity measures affected the sales of our classical furniture in some major cities. Thanks to the Group's PRC domestic market development strategy which has extended its PRC domestic sales network to third and fourth tier cities, the Group managed to enjoy sales growth of 14.3% in the PRC domestic market despite the unfavourable environments in China.

In addition to focusing on the PRC domestic market, for our overseas markets, the Group also aimed to deliver value-added services to further enhance customer relationship. As a result, the Group achieved a sales growth of 46.4% in the overseas markets.

**FINANCIAL REVIEW****Turnover**

The Group's turnover increased by approximately 24.9% from about HK\$506.7 million for the year ended 31 December 2010 to HK\$633.0 million for the year ended 31 December 2011. The increase was primarily due to the contribution from City Leading Limited being the intermediate holding company of 深圳歐羅家具有限公司 (Shenzhen Oulo Furniture Company Limited), the sofa manufacturing subsidiary and the increases in domestic sales of approximately HK\$45.6 million or 14.9%. The increase in the domestic sales during the year was due to the increase in demand of middle to high-end wooden furniture products, in particular the modern furniture series, resulting from increasing demand for the Group's trendy design furniture and the sales network extension.

**Gross Profit**

During the period under review, the Group's gross profit margin decreased to 23.1% for the year ended 31 December 2011 (2010: 24.3%). The decrease in gross profit margin was a result of increase in wages and increase in cost of major raw materials (such as MDF board, ironware, paint and sponge) and the costs of transportation when compared with the corresponding year of 2010.

**Selling and Distribution Expenses**

The Group's selling and distribution expenses amounted to about HK\$62.2 million for the year ended 31 December 2011, against about HK\$45.8 million for the year ended 31 December 2010. The increase in selling and distribution expenses was a result of the increase in staff costs, marketing promotional expenses and the general increase of expenses which were in line with the increase in turnover.

**Administrative Expenses**

For the year ended 31 December 2011, the Group's administrative expenses were approximately HK\$39.7 million against about HK\$32.7 million for the year ended 31 December 2010, representing an increase of about 21.2%. Such increase was mainly attributable to the increase in the staff costs.



## **Net Profit**

The Group's net profit attributable to equity holders of the Company increased by approximately 3.5% from approximately HK\$40.0 million for the year ended 31 December 2010 to approximately HK\$41.4 million for the year ended 31 December 2011, and the net profit ratio decreased from 8.0% to 6.5%.

## **EMPLOYMENT AND REMUNERATION POLICY**

As at 31 December 2011, the Group employed approximately 1,500 employees (2010: approximately 1,700). 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.

The Group maintained cash and bank balances of HK\$123.6 million as at 31 December 2011 (31 December 2010: HK\$131.7 million).

As at 31 December 2011, the Group had bank borrowings amounting to HK\$124.9 million (31 December 2010: HK\$84.0 million). As at the same date, the gearing ratio (total debt/total equity) was 0.81 (31 December 2010: 0.72).

As at 31 December 2011, the current ratio (current assets/current liabilities) was 1.1 times (31 December 2010: 1.4) and the net current assets amounted to HK\$38.7 million (31 December 2010: HK\$90.6 million).

The ageing analysis of trade creditors and bills payable and the maturity profile 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 profit 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 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 2011, 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\$10.8 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 acquired a 60% equity stake in Astromax Investment Limited and hence its indirect wholly owned subsidiary 深圳歐羅家具有限公司 (Shenzhen Oulo Furniture Company Limited) ("Oulo"), a sofa manufacturer. 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. The established sales network and customer base of Oulo strengthen the sales network and contribute a new source of income to the Group, and enable the Group to secure the supply and better control the quality of sofa products which complement its wooden furniture products. The consideration was settled by issuing 36,404,000 ordinary shares of HK\$0.01 each of the Company.

In addition, the construction of the second phase of the Group's new production plant in Shenzhen was completed. The new production plant will increase the maximum annual production capacity of the Group to meet the demand in coming years.

**CONTINGENT LIABILITIES**

As at 31 December 2011, the Group and the Company had no significant contingent liabilities.

## PROSPECTS

Looking forward to the financial year 2012, the global economy is expected to be challenging with many uncertainties. There are lots of challenges in China where the Group operates, including the implementation of various macroeconomic austerity measures by the Chinese Central Government to cool down the property market, the increase of material costs and labour costs and Renminbi appreciation, etc. The operating environment will be burdened with these factors.

The Group will continue to strengthen its position in the medium to high-end home furniture markets with its plan to explore opportunities for distribution network expansion. To enhance its competitive strength, the Group will continue to actively participate in various international furniture exhibitions and marketing promotions and strengthen its design capacity.

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.

The Company has complied with most of the code provisions set out in the Appendix 14 – Code on Corporate Governance Practices (the “Code”) to the Rules Governing the Listing of Securities on The Stock Exchange of Hong Kong Limited (the “Listing Rules”), except for the deviation from the code provision A.2.1 of the Code as described below.

**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 17 to 19 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.

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.

## BOARD MEETINGS AND PROCEDURES

The Board met four times during the year ended 31 December 2011. 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 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.

## 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 specific remuneration packages for all executive Directors and the senior management of the Group and make recommendations to the Board of the remuneration of the non-executive Directors. 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 2011 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 2011 is set out in the Note 8 to the consolidated financial statements in this Annual Report. 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 paragraph A.4.5 of the 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.

During the year under review, the Nomination Committee did not hold any meeting as there was no new appointment and resignation of directors of the Company.

## 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 2011. 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**

In order to keep shareholders well informed of the business activities and direction of the Group, information about the Group has been provided to the shareholders through financial reports and announcements. The Company has established its own corporate website [www.hingleehk.com.hk](http://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@hinglee.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**

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 at the commencement of the meeting and 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.

## **PUBLICATION OF AUDITED FINANCIAL RESULTS**

The Company's financial results announcement for the financial year ended 31 December 2011 and this Annual Report are published on the website of the Stock Exchange at [www.hkex.com.hk](http://www.hkex.com.hk) and on the Company's website at [www.hinglee.hk](http://www.hinglee.hk).

# Biographical Details of Directors and Senior Management

## DIRECTORS AND SENIOR MANAGEMENT

### Executive Director

**Mr. Sung Kai Hing (宋啟慶先生)**, aged 55, 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 16 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 50, is an Executive Director and one of the founders of the Group and he has over 16 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 40, is a Non-Executive Director and was appointed as a Director on 28 July 2006. He has over 10 years of experience in business development. Mr. Fang was 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 47, 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 12 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 74, 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 41, 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 15 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 57, 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 21 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 54, 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 16 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.

## Biographical Details of Directors and Senior Management

**Mr. Wu Guo Long (吳國龍先生)**, aged 37, 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 11 years of experience in the furniture industry. He obtained a bachelor's degree in interior and furniture design in 1996 from 中南林學院 (Central South Forestry University) (subsequently renamed as 中南林業科技大學 (Central South University of Forestry and Technology) in 2005).

**Mr. Li Xin Min (李新民先生)**, aged 41, is the production manager of the Group and the head of the production department of the Group's factories in the PRC. He is responsible for overseeing the production operations at all the Group's factories in the PRC. Mr. Li joined the Group in 1997 and has over 11 years of experience in furniture industry. He obtained a diploma in interior and furniture design in June 1998 from 中南林學院 (Central South University of Forestry and Technology) (subsequently renamed as 中南林業科技大學 (Central South University of Forestry and Technology) in 2005).

**Mr. Pu Cai Jun (蒲采君先生)**, aged 49, is the financial controller of the Group. He is responsible for all financial and accounting matters in respect of the PRC subsidiaries of the Group. Mr. Pu joined the Group in 2002 and has over 11 years of experience in financial controlling. He was the finance manager of Dahao Furniture during the period from 1985 to 2002. He obtained a bachelor's degree in accounting from 湖南財經學院 (Hunan Finance and Economics Institute) in July 1991.

### CHIEF FINANCIAL OFFICER AND COMPANY SECRETARY

**Mr. Wong Kit Wai (黃杰偉先生)**, aged 42, 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 10 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 are pleased to present to the shareholders this annual report and the audited consolidated financial statements of the Company and its subsidiaries (collectively, the "Group") for the year ended 31 December 2011.

## 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 2011 are set out in the consolidated income statement on page 34 of this annual report.

## DIVIDENDS

Interim dividend of HK2.30 cents (30 June 2010: HK1.70 cents) per share of HK\$0.01 each (the "Share") was declared and paid during the year. The Board recommend the payment of a final dividend of HK1.95 cents per Share (2010: HK3.20 cents) to the shareholders whose names appear on the Register of Members of the Company as at the close of business on 18 May 2012. The final dividend will be payable on 24 May 2012 and is subject to the approval of shareholders of the Company in the forthcoming annual general meeting.

## CLOSURE OF THE REGISTER OF MEMBERS

The Register of Members of the Company will be closed from 17 May 2012 to 18 May 2012, both days inclusive, during which period no transfer of shares will be registered. In order to qualify for the final dividend, all transfers of Shares accompanied by the relevant share certificates and transfer forms must be lodged with the Company's branch share registrar in Hong Kong, Computershare Hong Kong Investor Services Limited, at Shops 1712- 1716, 17th Floor, Hopewell Centre, 183 Queen's Road East, Wanchai, Hong Kong before 4:30 p.m. on 16 May 2012.

## PROPERTY, PLANT AND EQUIPMENT

Details of movements in property, plant and equipment of the Group during the year ended 31 December 2011 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 2011 (including shares issued during the year) are set out in Note 28 to the consolidated financial statements in this annual report.

## 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) (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 date of this annual report, certain Directors and employees of the Group were granted share options to subscribe for Share 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 2011 under the Pre-IPO Share Option Scheme are as follows:

Name	Outstanding share options granted under the Pre-IPO Share Option Scheme as at 1 January 2011	Date of grant	Number of share options			Outstanding share options granted under the Pre-IPO Share Option Scheme as at 31 December 2011	Exercise period
			Granted during the year	Exercised during the year	Cancelled/Lapsed during the year		
<b>Directors of the Company</b>							
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
<b>Other employees</b>							
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	<u>8,992,020</u>		<u>-</u>	<u>-</u>	<u>-</u>	<u>8,992,020</u>	

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.



As at 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 2011 under the Share Option Scheme are as follows:

Name	Outstanding share options granted under the Share Option Scheme as at 1 January 2011	Date of grant	Number of share options			Outstanding share options granted under the Share Option scheme as at 31 December 2011	Exercise period
			Granted during the period	Exercised during the period	Cancelled/Lapsed during the period		
<b>Directors of the Company</b>							
Mr. Sung Kai Hing	-	5 May 2011#	750,000	-	-	750,000	5/5/2012 – 4/5/2014
	-	5 May 2011#	750,000	-	-	750,000	1/1/2013 – 4/5/2014
Mr. Cheung Kong Cheung	-	5 May 2011#	750,000	-	-	750,000	5/5/2012 – 4/5/2014
	-	5 May 2011#	750,000	-	-	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
<b>Other employees</b>							
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
	-	5 May 2011#	500,000	-	-	500,000	5/5/2012 – 4/5/2014
	-	5 May 2011#	500,000	-	-	500,000	1/1/2013 – 4/5/2014
<b>Total</b>	<b>12,000,000</b>		<b>4,000,000</b>	<b>-</b>	<b>-</b>	<b>16,000,000</b>	

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 2011, the Company's reserves available for distribution, calculated in accordance with the provisions of the Companies Act 1981 of Bermuda, amounted to HK\$159.2 million of which HK\$4.7 million has been proposed as a final dividend for the year.

**MAJOR CUSTOMERS AND SUPPLIERS**

Sales to the Group's five largest customers accounted for approximately 27.5% of the total sales for the year and sales to the largest customer included therein amounted to 7.5%. Purchases from the Group's five largest suppliers accounted for approximately 31.8% of the total purchase for the year and purchase from the Group's largest supplier included therein amounted to 9.2%.

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. Sung Kai Hing and Mr. Cheung Kong Cheung 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.

Apart from the foregoing, 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 17 to 19 in this annual report.

## **INTERESTS OF DIRECTORS IN CONTRACTS**

During the year ended 31 December 2011, 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 2011, 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 ( <i>note 1</i> )	Interest of a controlled corporation	18,280,155	7.54%
Mr. Cheung Kong Cheung ( <i>note 2</i> )	Interest of a controlled corporation	18,280,155	7.54%

*Notes:*

- 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.
- 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 2011, 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 2011
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 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 2011, 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 2011, 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 2011 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 10 to 16 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, 28 March 2012





**BAKER TILLY**

HONG KONG LIMITED

CERTIFIED PUBLIC ACCOUNTANTS

天職香港會計師事務所有限公司

2nd Floor, 625 King's Road, North Point, Hong Kong

香港北角英皇道625號2樓

## **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 34 to 112, which comprise the consolidated and company statements of financial position as at 31 December 2011, 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 2011 and of the Group's profit 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, 28 March 2012

## **Lo Wing See**

Practising certificate number PO4607

# Consolidated income statement

For the year ended 31 December 2011  
(Expressed in Hong Kong dollars)

	Note	2011 HK\$'000	2010 HK\$'000
<b>Turnover</b>	4	<b>633,008</b>	506,693
Cost of sales		<b>(486,786)</b>	(383,583)
<b>Gross profit</b>		<b>146,222</b>	123,110
Other income	5	<b>6,733</b>	3,551
Selling and distribution expenses		<b>(62,203)</b>	(45,819)
Administrative expenses		<b>(39,678)</b>	(32,737)
<b>Profit from operating activities</b>		<b>51,074</b>	48,105
Finance costs	6(a)	<b>(2,437)</b>	(2,635)
<b>Profit before taxation</b>	6	<b>48,637</b>	45,470
Income tax	7	<b>(2,914)</b>	(5,170)
<b>Profit for the year</b>		<b>45,723</b>	40,300
<b>Attributable to:</b>			
Equity shareholders of the Company	10	<b>41,418</b>	40,003
Non-controlling interests		<b>4,305</b>	297
<b>Profit for the year</b>		<b>45,723</b>	40,300
<b>Earnings per share (HK cents)</b>	12		
– Basic		<b>18.01</b>	19.89
– Diluted		<b>17.81</b>	19.61

The notes on pages 42 to 112 form part of the consolidated financial statements. Details of dividends payable to equity shareholders of the Company attributable to the profit for the year are set out in note 28(b).

# Consolidated statement of comprehensive income



For the year ended 31 December 2011  
(Expressed in Hong Kong dollars)

	<i>Note</i>	<b>2011</b> <b>HK\$'000</b>	2010 HK\$'000
<b>Profit for the year</b>		<b>45,723</b>	40,300
<b>Other comprehensive income/(loss) for the year</b>	<i>11</i>		
Exchange differences on translation of financial statements of overseas subsidiaries		<b>12,107</b>	7,528
Available-for-sale investments:			
Loss on fair value changes of available-for-sale investments		<b>(15)</b>	(1,031)
Reclassification adjustments upon disposal of available-for-sale investments		<b>(2,563)</b>	–
		<b>9,529</b>	6,497
<b>Total comprehensive income for the year</b>		<b>55,252</b>	46,797
<b>Attributable to:</b>			
Equity shareholders of the Company		<b>50,947</b>	46,500
Non-controlling interests		<b>4,305</b>	297
<b>Total comprehensive income for the year</b>		<b>55,252</b>	46,797

The notes on pages 42 to 112 form part of the consolidated financial statements.

# Consolidated statement of financial position

As at 31 December 2011  
(Expressed in Hong Kong dollars)

	Note	2011 HK\$'000	2010 HK\$'000
<b>Non-current assets</b>			
Property, plant and equipment	14	<b>266,997</b>	163,214
Prepaid lease payments	15	<b>49,791</b>	48,503
Goodwill	16	<b>52,120</b>	–
Available-for-sale investments	18	<b>44</b>	7,280
		<b>368,952</b>	218,997
<b>Current assets</b>			
Prepaid lease payments	15	<b>1,119</b>	1,066
Inventories	19	<b>111,442</b>	80,715
Trade and other receivables	20	<b>120,728</b>	68,296
Restricted bank deposits	21	<b>10,757</b>	17,040
Cash and cash equivalents	22	<b>123,630</b>	131,662
		<b>367,676</b>	298,779
<b>Current liabilities</b>			
Trade and other payables	23	<b>201,303</b>	131,227
Current portion of secured bank loans	24	<b>124,904</b>	75,424
Current taxation	25(a)	<b>2,721</b>	1,531
		<b>328,928</b>	208,182
<b>Net current assets</b>		<b>38,748</b>	90,597
<b>Total assets less current liabilities</b>		<b>407,700</b>	309,594
<b>Non-current liabilities</b>			
Non-current portion of secured bank loans	24	–	8,532
<b>NET ASSETS</b>		<b>407,700</b>	301,062

# Consolidated statement of financial position

As at 31 December 2011  
(Expressed in Hong Kong dollars)



	Note	2011 HK\$'000	2010 HK\$'000
<b>CAPITAL AND RESERVES</b>			
Share capital	28	<b>2,424</b>	2,060
Reserves		<b>396,887</b>	299,002
<b>Total equity attributable to equity shareholders of the Company</b>		<b>399,311</b>	301,062
<b>Non-controlling interests</b>		<b>8,389</b>	–
<b>TOTAL EQUITY</b>		<b>407,700</b>	301,062

Approved and authorised for issue by the board of directors on 28 March 2012.

Director

Director

The notes on pages 42 to 112 form part of the consolidated financial statements.

# Statement of financial position

As at 31 December 2011  
(Expressed in Hong Kong dollars)

	Note	2011 HK\$'000	2010 HK\$'000
<b>Non-current assets</b>			
Investments in subsidiaries	17	<u>156</u>	<u>156</u>
<b>Current assets</b>			
Prepayments, deposits and other receivables	20	31	4
Dividend receivable from a subsidiary	17	61,175	61,175
Amounts due from subsidiaries	17	104,742	53,461
Cash and cash equivalents	22	<u>6,587</u>	<u>12,674</u>
		<b>172,535</b>	127,314
<b>Current liabilities</b>			
Other payables and accrued charges	23	<u>2,760</u>	<u>1,419</u>
<b>Net current assets</b>		<u>169,775</u>	<u>125,895</u>
<b>NET ASSETS</b>		<u><b>169,931</b></u>	<u>126,051</u>
<b>CAPITAL AND RESERVES</b>			
Share capital	28	2,424	2,060
Reserves		<u>167,507</u>	<u>123,991</u>
<b>TOTAL EQUITY</b>		<u><b>169,931</b></u>	<u>126,051</u>

Approved and authorised for issue by the board of directors on 28 March 2012.

Director

Director

The notes on pages 42 to 112 form part of the consolidated financial statements.

# Consolidated statement of changes in equity

For the year ended 31 December 2011  
(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	Non-controlling interests	Total equity		
	(note 28(c))	(note 28(d)(ii))	(note 28(d)(iii))	(note 28(d)(iii))	(note 28(d)(iv))	(note 28(d)(v))	(note 28(d)(vi))	(note 28(d)(vii))	(note 28(d)(viii))	Total	Total		
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	
<b>Balance at 1 January 2010</b>	2,000	75,134	20,817	7,074	25,430	5,576	3,604	-	118,765	258,400	5,217	263,617	
<b>Changes in equity for 2010:</b>													
Profit for the year	-	-	-	-	-	-	-	-	40,003	40,003	297	40,300	
Other comprehensive income	11	-	7,528	-	-	-	(1,031)	-	-	6,497	-	6,497	
Total comprehensive income		-	7,528	-	-	-	(1,031)	-	40,003	46,500	297	46,797	
Dividends approved in respect of the previous years	28(b)	-	-	-	-	-	-	-	(2,800)	(2,800)	-	(2,800)	
Acquisition of non-controlling interests without a change in control	30	-	-	-	-	-	-	(6,486)	-	(6,486)	(5,514)	(12,000)	
Equity-settled share-based transactions		-	-	-	-	2,465	-	-	-	2,465	-	2,465	
Shares issued under share option scheme		60	8,489	-	-	(2,166)	-	-	-	6,383	-	6,383	
Appropriation of reserve		-	-	1,691	-	-	-	-	(1,691)	-	-	-	
Dividend declared in respect of the current year	28(b)	-	-	-	-	-	-	-	(3,400)	(3,400)	-	(3,400)	
<b>Balance at 31 December 2010 and 1 January 2011</b>		2,060	83,623	28,345	8,765	25,430	5,875	2,573	(6,486)	150,877	301,062	-	301,062
<b>Changes in equity for 2011:</b>													
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)	
<b>Balance at 31 December 2011</b>		2,424	141,505	40,452	9,597	25,430	8,263	(5)	(6,486)	178,131	399,311	8,389	407,700

The notes on pages 42 to 112 form part of the consolidated financial statements.



# Consolidated cash flow statement

For the year ended 31 December 2011  
(Expressed in Hong Kong dollars)

	Note	2011 HK\$'000	2010 HK\$'000
<b>Operating activities</b>			
Profit before taxation		<b>48,637</b>	45,470
Adjustments for:			
Amortisation of prepaid lease payments	ó(c)	<b>1,119</b>	1,066
Depreciation	ó(c)	<b>11,551</b>	8,026
Dividend income from available-for-sale investments	5	<b>(89)</b>	(112)
Equity-settled share-based payment expenses		<b>2,388</b>	2,465
Write-down of inventories recognised/(reversed)	ó(c)	<b>9,014</b>	(2,746)
Impairment of trade receivables reversed	ó(c)	<b>(358)</b>	(3,426)
Interest expense	ó(a)	<b>2,437</b>	2,635
Interest income	5	<b>(973)</b>	(305)
(Gain)/loss on disposal of property, plant and equipment (net)	ó(c)	<b>(20)</b>	487
Loss on disposal of available-for-sale investments	5	<b>2,187</b>	–
Reclassification from equity on disposal of available-for-sale investments	5	<b>(2,563)</b>	–
		<b>73,330</b>	53,560
<b>Operating profit before changes in working capital</b>			
Increase in inventories		<b>(27,119)</b>	(6,923)
Increase in trade and other receivables		<b>(25,285)</b>	(8,249)
Increase in trade and other payables		<b>50,115</b>	41,525
		<b>71,041</b>	79,913
<b>Cash generated from operations</b>			
Interest received		<b>973</b>	305
Interest paid		<b>(4,710)</b>	(2,635)
Hong Kong Profits Tax refunded		<b>–</b>	174
PRC Enterprises Income Tax paid		<b>(1,679)</b>	(4,730)
		<b>65,625</b>	73,027
<b>Net cash generated from operating activities</b>			

# Consolidated cash flow statement



For the year ended 31 December 2011  
(Expressed in Hong Kong dollars)

	Note	2011 HK\$'000	2010 HK\$'000
<b>Investing activities</b>			
Net cash inflow from acquisition of subsidiaries	29	<b>2,122</b>	–
Acquisition of non-controlling interests	30	–	(9,100)
Decrease/(increase) in restricted bank deposits		<b>7,128</b>	(2,360)
Dividends received from available-for-sale investments		<b>89</b>	112
Purchase of property, plant and equipment		<b>(103,033)</b>	(35,194)
Purchase of available-for-sale investments		–	(47)
Proceeds from disposal of property, plant and equipment		<b>60</b>	120
Proceeds from disposal of available-for-sale investments		<b>5,034</b>	–
		<hr/>	<hr/>
<b>Net cash used in investing activities</b>		<b>(88,600)</b>	(46,469)
		<hr/>	<hr/>
<b>Financing activities</b>			
Proceeds from shares issued under share option scheme		–	6,383
Proceeds from new secured bank loans		<b>84,434</b>	72,500
Repayment of secured bank loans		<b>(46,531)</b>	(49,973)
Dividends paid	28	<b>(13,332)</b>	(6,200)
		<hr/>	<hr/>
<b>Net cash generated from financing activities</b>		<b>24,571</b>	22,710
		<hr/>	<hr/>
<b>Net increase in cash and cash equivalents</b>		<b>1,596</b>	49,268
<b>Cash and cash equivalents at beginning of the year</b>		<b>131,662</b>	86,773
Effect of foreign exchange rate changes		<b>(9,628)</b>	(4,379)
		<hr/>	<hr/>
<b>Cash and cash equivalents at end of the year</b>	22	<b>123,630</b>	131,662
		<hr/> <hr/>	<hr/> <hr/>

The notes on pages 42 to 112 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. The 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 the consolidated financial statements.

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

The consolidated financial statements for the year ended 31 December 2011 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 in the statement of financial position at amortised 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 in the statement of financial position 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 (other than investments in subsidiaries: see note 2(i)(ii)) 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 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 financial assets carried at amortised cost 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.

- 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.

## 2 SIGNIFICANT ACCOUNTING POLICIES (continued)

### (i) Impairment of assets (continued)

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

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, 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 and classified as being held under an operating lease;
- investments in subsidiaries (except for those classified as held for sale (or included in a disposal group that is classified as held for sale)); and
- goodwill.

If any such indication exists, the asset's recoverable amount is estimated.



## 2 SIGNIFICANT ACCOUNTING POLICIES (continued)

### (i) Impairment of assets (continued)

#### (ii) *Impairment of other assets (continued)*

- 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

An impairment loss is reversed if there has been a favourable change in the estimates used to determine the recoverable amount.

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.

## 2 SIGNIFICANT ACCOUNTING POLICIES (continued)

### (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.

### (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 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 in 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 binomial lattice model, taking into account the terms and conditions upon which the options were granted. Where the employees have to meet vesting conditions before becoming unconditionally entitled to the options, the total estimated fair value of the options is spread over the vesting period, taking into account the probability that the options will vest.

During the vesting period, the number of share options that is expected to vest is reviewed. Any 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 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 reverse 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 amortization 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)

#### (iv) 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 each 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 and one new Interpretation 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:

- HKAS 24 (revised 2009), *Related party disclosures*
- Improvements to HKFRSs (2010)
- HK(IFRIC) 19, *Extinguishing financial liabilities with equity instruments*
- Amendments to HK(IFRIC) 14, *HKAS 19 – The limit on a defined benefit asset, minimum funding requirements and their interaction – Prepayments of a minimum funding requirement*

Other than as noted below, the adoption of the new amendments and interpretation had no material impact on how the results and financial position for the current and prior periods have been prepared and presented.

### *HKAS 24 (revised 2009), Related party disclosures*

The revised accounting policy revises the definition of a related party. As a result, the Group has re-assessed the identification of related parties and concluded that the revised definition does not have any material impact on the Group's related party disclosures in the current and previous periods. HKAS 24 (revised 2009) also introduces modified disclosure requirements for government-related entities. This does not impact the Group because the Group is not a government-related entity.

# Notes to the consolidated financial statements

(Expressed in Hong Kong dollars)



## 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:

	<b>2011</b>	2010
	<b>HK\$'000</b>	HK\$'000
Turnover		
Sale of goods	<b>600,853</b>	481,386
Licensing income	<b>32,155</b>	25,307
	<b>633,008</b>	506,693

## 5 OTHER INCOME

	<b>2011</b>	2010
	<b>HK\$'000</b>	HK\$'000
Available-for-sale investments		
– loss on disposal	<b>(2,187)</b>	–
– reclassified from equity on disposal	<b>2,563</b>	–
Bank interest income	<b>973</b>	305
Dividend income from available-for-sale investments	<b>89</b>	112
Gain on disposal of property, plant and equipment	<b>20</b>	–
Government grant (i)	<b>4,545</b>	2,470
Sales of scrap materials	<b>405</b>	459
Others	<b>325</b>	205
	<b>6,733</b>	3,551

- (i) 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 People's Republic of China ("PRC"). The purpose of the Project is to encourage enterprises to develop technical knowhow of different products.

In 2010, the Group successfully applied for the funding support from the Shenzhen Small and Medium Size Enterprise Development Fund (深圳市中小企業發展專項資金) (the "Fund"), set up by the PRC Government. The purpose of the Fund is to encourage small to medium size enterprises to list shares in capital markets.

## 6 PROFIT BEFORE TAXATION

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

### (a) Finance costs

	<b>2011</b>	2010
	<b>HK\$'000</b>	HK\$'000
Interest on secured bank loans repayable within 5 years (i)	<b>4,467</b>	2,612
Interest on short-term borrowing	<b>243</b>	23
	<hr/>	<hr/>
Total borrowing costs	<b>4,710</b>	2,635
Less: interest capitalised (ii)	<b>(2,273)</b>	–
	<hr/>	<hr/>
	<b>2,437</b>	2,635
	<hr/> <hr/>	<hr/> <hr/>

(i) The analysis shows the finance costs of bank loans, 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\$4,423,000 (2010: HK\$1,921,000).

(ii) Interest has been capitalised to construction in progress at an average annual rate of 7.03% (2010: nil%) during the year.

### (b) Staff costs

	<b>2011</b>	2010
	<b>HK\$'000</b>	HK\$'000
Directors' remuneration (note 8)	<b>5,068</b>	3,545
Wages and salaries	<b>84,157</b>	64,597
Equity-settled share-based payment expenses*	<b>1,748</b>	2,148
Retirement scheme contributions*	<b>5,725</b>	4,128
	<hr/>	<hr/>
	<b>96,698</b>	74,418
	<hr/> <hr/>	<hr/> <hr/>

\* excluded amount paid to directors

# Notes to the consolidated financial statements

(Expressed in Hong Kong dollars)



## 6 PROFIT BEFORE TAXATION (continued)

### (c) Other items

	<b>2011</b>	2010
	<b>HK\$'000</b>	HK\$'000
Auditor's remuneration	<b>897</b>	883
Amortisation of prepaid lease payments	<b>1,119</b>	1,066
Bad debts written off	<b>-</b>	183
Cost of inventories sold*(note 19(b))	<b>477,772</b>	386,321
Depreciation	<b>11,551</b>	8,026
Exchange gain, net	<b>(3,245)</b>	(245)
Write-down of inventories recognised/(reversed)	<b>9,014</b>	(2,746)
Impairment of trade receivables reversed	<b>(358)</b>	(3,426)
(Gain)/loss on disposal of property, plant and equipment, net	<b>(20)</b>	487
Operating lease rentals: minimum lease payments		
– land and buildings	<b>13,311</b>	9,362
	<b>13,311</b>	9,362

# Cost of inventories sold includes HK\$78,203,000 (2010: HK\$59,575,000) 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:

	<b>2011</b>	2010
	<b>HK\$'000</b>	HK\$'000
Current year provision		
– Hong Kong Profits Tax	<b>585</b>	52
– PRC Enterprise Income Tax	<b>2,303</b>	3,385
Prior year underprovision/(overprovision)		
– Hong Kong Profits Tax	<b>-</b>	(174)
– PRC Enterprise Income Tax	<b>26</b>	1,907
	<b>2,914</b>	5,170



## 7 INCOME TAX IN THE CONSOLIDATED INCOME STATEMENT (continued)

Reconciliation between tax expense and accounting profit at applicable tax rate:

	<b>2011</b>	2010
	<b>HK\$'000</b>	HK\$'000
Profit before taxation	<b>48,637</b>	45,470
Notional tax on profit before taxation	<b>8,025</b>	7,503
Tax effect of non-deductible expenses (v)	<b>2,528</b>	280
Tax effect of non-taxable income (vi)	<b>(7,752)</b>	(6,953)
Tax effect of different tax rates of subsidiaries operating in the PRC	<b>57</b>	917
Tax effect of unrecognised temporary differences	<b>52</b>	7
Tax effect of utilisation of tax losses not recognised previously	<b>(672)</b>	213
Tax effect of unused tax losses not recognised	<b>568</b>	1,456
Prior year underprovision	<b>26</b>	1,733
Others	<b>82</b>	14
Actual tax expense	<b>2,914</b>	5,170

- (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 2011 is calculated at 16.5% (2010: 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 2011 (2010: 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%.

## 7 INCOME TAX IN THE CONSOLIDATED INCOME STATEMENT (continued)

(iv) 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
- (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 ("Dongguan Super Furniture") was subject to the PRC Enterprise Income Tax ("EIT") rate of 25% in 2011 (2010: 12.5%).

Shenzhen Xingli Furniture Company Limited ("Shenzhen Xingli") was subject to the PRC EIT rate of 24% in 2011 (2010: 22%).

Shenzhen Xingli Zundian Furniture Company Limited was subject to the PRC EIT rate of 24% in 2011 (2010: 22%).

Shenzhen Oulo Furniture Company Limited ("Shenzhen Oulo") was incorporated in September 2005 and did not generate any assessable profit in 2005 to 2006 and therefore, it was not required to pay any PRC EIT for the years 2005 and 2006. Shenzhen Oulo was exempted from the PRC EIT in 2007 and 2008, being its first two profitable years, and a 50% tax reduction of the PRC EIT rate of 25% in 2009 under the New EIT Law till 2011.

- (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:

Name of director	2011						
	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	-	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
	<b>2,404</b>	<b>-</b>	<b>2,000</b>	<b>24</b>	<b>4,428</b>	<b>640</b>	<b>5,068</b>

# Notes to the consolidated financial statements

(Expressed in Hong Kong dollars)



## 8 DIRECTORS' REMUNERATION (continued)

Name of director	2010						
	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	-	400	12	1,414	-	1,414
Cheung Kong Cheung	1,002	-	400	12	1,414	-	1,414
Non-executive director							
Fang Yan Zau, Alexander	100	-	-	-	100	-	100
Independent non-executive directors							
Sun Jian	100	-	-	-	100	217	317
Kong Hing Ki	100	-	-	-	100	50	150
Shao Hanqing	100	-	-	-	100	50	150
	<u>2,404</u>	<u>-</u>	<u>800</u>	<u>24</u>	<u>3,228</u>	<u>317</u>	<u>3,545</u>

- (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).

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 (2010: two) are directors whose emoluments are disclosed in note 8. The aggregate of the emoluments in respect of the other three (2010: three) individuals are as follows:

	<b>2011</b> <b>HK\$'000</b>	2010 HK\$'000
Salaries and other emoluments	<b>2,965</b>	2,736
Retirement scheme contributions	<b>48</b>	45
Share-based payments	<b>568</b>	299
	<b><u>3,581</u></b>	<u>3,080</u>

The emoluments of the three (2010: three) individuals with the highest emoluments are within the following bands:

	<b>2011</b> <b>Number of</b> <b>individuals</b>	2010 Number of individuals
HK\$1,000,001 to HK\$1,500,000	<b><u>3</u></b>	<u>3</u>

## 10 PROFIT ATTRIBUTABLE TO EQUITY SHAREHOLDERS OF THE COMPANY

The consolidated profit attributable to equity shareholders of the Company includes a loss of HK\$3,422,000 (2010: HK\$3,561,000), which has been dealt with in the financial statements of the Company.

## 11 OTHER COMPREHENSIVE INCOME/(LOSS)

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

	2011			2010		
	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	<b>12,107</b>	-	<b>12,107</b>	7,528	-	7,528
Available-for-sale investments:						
Loss on fair value changes of available-for-sale investments	<b>(15)</b>	-	<b>(15)</b>	(1,031)	-	(1,031)
Reclassification adjustments upon disposal of available-for-sale investments	<b>(2,563)</b>	-	<b>(2,563)</b>	-	-	-
Other comprehensive income	<b><u>9,529</u></b>	<u>-</u>	<b><u>9,529</u></b>	<u>6,497</u>	<u>-</u>	<u>6,497</u>

# Notes to the consolidated financial statements

(Expressed in Hong Kong dollars)



## 12 EARNINGS PER SHARE

### (a) Basic earnings per share

The calculation of basic earnings per share is based on the profit attributable to ordinary equity shareholders of the Company of HK\$41,418,000 (2010: HK\$40,003,000) and the weighted average number of ordinary shares of the Company in issue during the year ended 31 December 2011 of 230,031,289 (2010: 201,100,392) ordinary shares. The weighted average of 230,031,289 (2010: 201,100,392) shares in issue during the year is calculated as follows:

	<b>2011</b>	2010
	<b>Number of</b>	Number of
	<b>shares</b>	shares
Issued ordinary shares at 1 January	<b>205,994,675</b>	200,000,000
Effect of shares issued relating to acquisition of subsidiaries	<b>24,036,614</b>	–
Effect of share options exercised	<b>–</b>	1,100,392
	<hr/>	<hr/>
Weighted average number of ordinary shares at 31 December	<b><u>230,031,289</u></b>	<b><u>201,100,392</u></b>

### (b) Diluted earnings per share

The calculation of diluted earnings per share is based on the profit attributable to ordinary equity shareholders of the Company of HK\$41,418,000 (2010: HK\$40,003,000) and the weighted average number of ordinary shares (diluted) of 232,527,403 shares (2010: 204,004,679 shares), calculated as follows:

	<b>2011</b>	2010
	<b>Number of</b>	Number of
	<b>shares</b>	shares
Weighted average number of ordinary shares at 31 December	<b>230,031,289</b>	201,100,392
Effect of deemed issue of shares under the Company's share option scheme for nil consideration (note 27)	<b>2,496,114</b>	2,904,287
	<hr/>	<hr/>
Weighted average number of ordinary shares (diluted) at 31 December	<b><u>232,527,403</u></b>	<b><u>204,004,679</u></b>

## 13 SEGMENT REPORTING

In 2011, the Group's production in the PRC was enhanced to include sofa products after acquisition of Astromax Investment Limited ("Astromax"). Accordingly, the Group's internal financial reporting and monitoring has been reinforced and the Group has identified operating segments based on similar economic characteristics, products and services. The operating segments are identified by a member of the senior management who is designated as the "Chief Operating Decision Maker" to make decisions about resource allocation to the segments and assess their performance. Summary of the operating segments is as follows:

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

For comparison purposes, the 2010 figure in segment reporting have been reclassified to reflect the changes. These reclassifications have no impact on the Group's previously reported consolidated income statement, consolidated statement of financial position, statement of cash flows and statement of shareholders' equity.

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.

# Notes to the consolidated financial statements

(Expressed in Hong Kong dollars)



## 13 SEGMENT REPORTING (continued)

### (a) Segment results, assets and liabilities

Information regarding the Group's reportable segments for the years ended 31 December 2011 and 2010 is set out below:

	2011				2010 (restated)			
	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	<b>476,750</b>	<b>156,258</b>	-	<b>633,008</b>	450,751	55,942	-	506,693
Inter-segment revenue	-	<b>5,132</b>	-	<b>5,132</b>	-	868	-	868
Reportable segment revenue	<b>476,750</b>	<b>161,390</b>	-	<b>638,140</b>	450,751	56,810	-	507,561
Interest income	-	-	<b>973</b>	<b>973</b>	-	-	305	305
Interest expense	-	-	<b>(2,437)</b>	<b>(2,437)</b>	-	-	(2,635)	(2,635)
Depreciation and amortisation	<b>(10,957)</b>	<b>(1,713)</b>	-	<b>(12,670)</b>	(8,980)	(112)	-	(9,092)
Reportable segment profit	<b>34,847</b>	<b>12,858</b>	-	<b>47,705</b>	51,858	5,055	-	56,913
Other material non-cash items:								
Impairment of trade receivables reversed	<b>224</b>	<b>134</b>	-	<b>358</b>	3,426	-	-	3,426
Write-down of inventories (recognised)/reversed	<b>(8,994)</b>	<b>(20)</b>	-	<b>(9,014)</b>	2,753	(7)	-	2,746
Reportable segment assets	<b>484,073</b>	<b>63,492</b>	<b>189,063</b>	<b>736,628</b>	328,565	20,806	168,405	517,776
Expenditures for non-current assets	<b>102,664</b>	<b>681</b>	-	<b>103,345</b>	32,419	398	2,377	35,194
Reportable segment liabilities	<b>162,309</b>	<b>12,764</b>	<b>153,855</b>	<b>328,928</b>	112,451	11,927	92,336	216,714



## 13 SEGMENT REPORTING (continued)

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

	2011	2010
	HK\$'000	(restated) HK\$'000
<b>Revenues</b>		
Reportable segment revenue	<b>638,140</b>	507,561
Elimination of intersegment revenue	<b>(5,132)</b>	(868)
	<hr/>	<hr/>
Consolidated revenue (note 4)	<b>633,008</b>	506,693
	<hr/> <hr/>	<hr/> <hr/>
<b>Profit or loss</b>		
Reportable segment profit	<b>47,705</b>	56,913
Other income	<b>6,733</b>	3,551
Unallocated amounts:		
Interest expense	<b>(2,437)</b>	(2,635)
Other head office and corporate expenses	<b>(3,364)</b>	(12,359)
	<hr/>	<hr/>
Consolidated profit before taxation	<b>48,637</b>	45,470
	<hr/> <hr/>	<hr/> <hr/>
<b>Assets</b>		
Total assets for reportable segments	<b>547,565</b>	349,371
Available-for-sale investments*	<b>44</b>	7,280
Unallocated head office and corporate assets	<b>189,019</b>	161,125
	<hr/>	<hr/>
Consolidated total assets	<b>736,628</b>	517,776
	<hr/> <hr/>	<hr/> <hr/>
<b>Liabilities</b>		
Total liabilities for reportable segments	<b>175,073</b>	124,378
Current taxation	<b>2,721</b>	1,531
Unallocated head office and corporate liabilities	<b>151,134</b>	90,805
	<hr/>	<hr/>
Consolidated total liabilities	<b>328,928</b>	216,714
	<hr/> <hr/>	<hr/> <hr/>

\* 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.

	2011		2010	
	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)	<b>188,473</b>	<b>1,823</b>	152,057	2,385
Europe	<b>27,870</b>	-	10,550	-
PRC	<b>384,810</b>	<b>367,085</b>	336,744	209,332
Others	<b>31,855</b>	-	7,342	-
	<b>633,008</b>	<b>368,908</b>	506,693	211,717

Asia mainly covers Japan, Taiwan, Middle East and Southeast Asia; Europe mainly covers Sweden, Italy, Spain and Germany; and others mainly cover the United States.

### (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 2011 and 2010.

## 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
<b>Cost</b>							
At 1 January 2010	-	3,165	5,099	4,001	53,654	98,128	164,047
Exchange realignment	-	97	84	107	1,613	3,408	5,309
Additions	4,545	-	2,702	1,217	12,794	13,936	35,194
Disposals	-	-	(1,614)	(119)	-	-	(1,733)
Reallocations	95,072	-	-	11,844	362	(107,278)	-
At 31 December 2010	99,617	3,262	6,271	17,050	68,423	8,194	202,817
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
<b>Accumulated depreciation</b>							
At 1 January 2010	-	2,680	3,166	2,260	23,929	-	32,035
Exchange realignment	-	85	36	49	498	-	668
Charge for the year	1,363	195	784	569	5,115	-	8,026
Written back on disposals	-	-	(1,008)	(118)	-	-	(1,126)
At 31 December 2010	1,363	2,960	2,978	2,760	29,542	-	39,603
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
<b>Net book value</b>							
At 31 December 2011	105,298	1,616	2,758	15,128	40,620	101,577	266,997
At 31 December 2010	98,254	302	3,293	14,290	38,881	8,194	163,214

At 31 December 2011, the Group had pledged its buildings and construction in progress with carrying value of HK\$206,875,000 (2010: HK\$106,448,000) to secure general banking facilities granted to the Group (note 24).

# Notes to the consolidated financial statements

(Expressed in Hong Kong dollars)



## 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:

	<b>The Group</b> HK\$'000
<b>Cost</b>	
At 1 January 2010	51,503
Exchange realignment	1,788
	<hr/>
At 31 December 2010	53,291
	<hr/>
At 1 January 2011	53,291
Exchange realignment	2,646
	<hr/>
At 31 December 2011	55,937
	<hr/>
<b>Accumulated amortisation</b>	
At 1 January 2010	2,567
Exchange realignment	89
Charge for the year	1,066
	<hr/>
At 31 December 2010	3,722
	<hr/>
At 1 January 2011	3,722
Exchange realignment	186
Charge for the year	1,119
	<hr/>
At 31 December 2011	5,027
	<hr/>
<b>Net book value</b>	
At 31 December 2011	50,910
	<hr/> <hr/>
At 31 December 2010	49,569
	<hr/> <hr/>

## 15 PREPAID LEASE PAYMENTS (continued)

An analysis for reporting purposes is as follows:

	<b>The Group</b>	
	<b>2011</b>	2010
	<b>HK\$'000</b>	HK\$'000
Current portion	<b>1,119</b>	1,066
Non-current portion	<b>49,791</b>	48,503
	<u><b>50,910</b></u>	<u>49,569</u>

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 2011, the Group had pledged its leasehold land with carrying value of HK\$50,910,000 (2010: HK\$49,569,000) 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

	<b>The Group</b>
	HK\$'000
<b>Cost</b>	
At 1 January 2010, 31 December 2010 and 1 January 2011	–
Additions (note 29)	52,120
	<u>52,120</u>
At 31 December 2011	52,120
<b>Carrying amount</b>	
At 31 December 2011	<u>52,120</u>
At 31 December 2010	<u>–</u>

## 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:

	<b>2011</b> <b>HK\$'000</b>
Upholstered furniture	<b>52,120</b>

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 were then extrapolated using the estimate rates stated below for the following five years. The growth rate does not exceed the long-term average growth rate for the business in which the CGU operates.

Key assumptions used for value in use calculations:

	<b>2011</b> <b>HK\$'000</b>
Gross margin	<b>29%</b>
Growth rate	<b>10%</b>
Discount rate	<b>5%</b>

Management determined the budgeted gross margin and growth rate based on past performance and its expectation for market development. The discount rate used is pre-tax and reflected specific risks relating to the relevant segment.

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

## 17 INVESTMENTS IN AND ACCOUNTS WITH SUBSIDIARIES

	<b>The Company</b>	
	<b>2011</b>	2010
	<b>HK\$'000</b>	HK\$'000
Unlisted shares, at cost	<b>156</b>	156
Dividend receivable from a subsidiary	<b>61,175</b>	61,175
Amounts due from subsidiaries	<b>104,742</b>	53,461

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

Details of the Group's subsidiaries as at 31 December 2011 and 2010 are as below:

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		Principal activity
			2011	2010	
<b>Directly held by the Company</b>					
Great Ample Holdings Limited (i)	BVI	US\$20,001	<b>100%</b>	100%	Investment holding
<b>Indirectly held through subsidiaries</b>					
Glory Skill Investments Limited (i)	BVI	US\$2,961	<b>100%</b>	100%	Investment holding
Springrich Investments Limited (i)	BVI	US\$1	<b>100%</b>	100%	Investment holding
Success Profit International Limited (i)	BVI	US\$10,001	<b>100%</b>	100%	Investment holding
Hing Lee (China) Company Limited ("Hing Lee (China)")	Hong Kong	HK\$18,010,000	<b>100%</b>	100%	Investment holding and provision of management services
Hing Lee Furniture Company Limited ("Hing Lee Furniture")	BVI	US\$1	<b>100%</b>	100%	Trading of furniture
Sharp Motion Worldwide Limited (i)	BVI	US\$4	<b>100%</b>	100%	Trademark holding/licensing

# Notes to the consolidated financial statements

(Expressed in Hong Kong dollars)



## 17 INVESTMENTS IN AND ACCOUNTS WITH SUBSIDIARIES (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		Principal activity
			2011	2010	
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 ("Hander International")	Hong Kong	HK\$100	100%	100%	Investment holding
Hanmix Limited	Hong Kong	HK\$1	100%	100%	Investment holding
Astromax Investment Limited (i) (ii)	BVI	US\$100	60%	-	Investment holding
City Leading Limited ("City Leading") (ii)	Hong Kong	HK\$1	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%	-	Manufacture and sale of sofa



## 17 INVESTMENTS IN AND ACCOUNTS WITH SUBSIDIARIES (continued)

Notes:

- (i) Companies not audited by Baker Tilly Hong Kong Limited.
- (ii) Acquired during the year (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

	<b>The Group</b>	
	<b>2011</b>	2010
	<b>HK\$'000</b>	HK\$'000
Listed equity investments, at market value		
– Hong Kong	<b>44</b>	7,280
	<u><u>44</u></u>	<u><u>7,280</u></u>

## 19 INVENTORIES

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

	<b>The Group</b>	
	<b>2011</b>	2010
	<b>HK\$'000</b>	HK\$'000
Raw materials	<b>17,918</b>	10,152
Work in progress	<b>18,542</b>	7,258
Finished goods	<b>67,292</b>	61,025
Goods in transit	<b>7,690</b>	2,280
	<u><u>111,442</u></u>	<u><u>80,715</u></u>

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

	<b>The Group</b>	
	<b>2011</b>	2010
	<b>HK\$'000</b>	HK\$'000
Carrying amount of inventories sold	<b>477,772</b>	386,321
Write-down of inventories recognised/(reversed)	<b>9,014</b>	(2,746)
Write-off of inventories	<b>-</b>	8
	<u><u>486,786</u></u>	<u><u>383,583</u></u>

# Notes to the consolidated financial statements

(Expressed in Hong Kong dollars)



## 20 TRADE AND OTHER RECEIVABLES

	The Group		The Company	
	2011 HK\$'000	2010 HK\$'000	2011 HK\$'000	2010 HK\$'000
Trade debtors and bills receivable	<b>50,365</b>	34,572	-	-
Less: allowance for doubtful debts (note 20(b))	<b>(3,346)</b>	(3,528)	-	-
	<b>47,019</b>	31,044	-	-
Deposits paid for purchase of property, plant and equipment	<b>16,897</b>	7,127	-	-
Deposits paid to suppliers	<b>32,705</b>	11,742	-	-
Value added tax recoverable	<b>13,562</b>	6,168	-	-
Other deposits, prepayments and receivables	<b>10,545</b>	12,215	<b>31</b>	4
	<b>73,709</b>	37,252	<b>31</b>	4
	<b>120,728</b>	68,296	<b>31</b>	4

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\$2,680,000 (2010: HK\$2,851,000) and HK\$nil (2010: HK\$nil) respectively. All of the other trade and other receivables are expected to be recovered or recognised as expense within one year.

### (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	
	2011 HK\$'000	2010 HK\$'000
Current	<b>35,731</b>	23,490
Less than 3 months past due	<b>4,428</b>	5,735
3 to 6 months past due	<b>3,455</b>	818
6 to 12 months past due	<b>1,862</b>	806
More than 12 months past due	<b>1,543</b>	195
	<b>47,019</b>	31,044

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 31(a)(i).

## 20 TRADE AND OTHER RECEIVABLES (continued)

### (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:

	<b>The Group</b>	
	<b>2011</b>	2010
	<b>HK\$'000</b>	HK\$'000
At 1 January	<b>3,528</b>	6,954
Exchange realignment	<b>176</b>	–
Impairment loss reversed	<b>(358)</b>	(3,426)
	<hr/>	<hr/>
At 31 December	<b>3,346</b>	3,528
	<hr/> <hr/>	<hr/> <hr/>

At 31 December 2011, the Group's trade debtors and bills receivable of HK\$3,346,000 (2010: HK\$3,528,000) 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.

### (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 related to customers for whom there was no default.

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

## 21 RESTRICTED BANK DEPOSITS

Included in the restricted bank deposits was a settlement guarantee of approximately HK\$7,062,000 (2010: HK\$12,339,000) 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 will be released upon the finalisation of the construction of the production facilities.

The remaining HK\$3,695,000 (2010: HK\$4,701,000) represents deposits pledged to secure banking facilities granted to the Group (note 24).

## 22 CASH AND CASH EQUIVALENTS

	The Group		The Company	
	2011 HK\$'000	2010 HK\$'000	2011 HK\$'000	2010 HK\$'000
Deposits with banks	<b>18,119</b>	118,608	-	-
Cash at bank and in hand	<b>116,268</b>	30,094	<b>6,587</b>	12,674
	<b>134,387</b>	148,702	<b>6,587</b>	12,674
Less: restricted bank deposits (note 21)	<b>(10,757)</b>	(17,040)	-	-
Cash and cash equivalents	<b>123,630</b>	131,662	<b>6,587</b>	12,674

## 23 TRADE AND OTHER PAYABLES

	The Group		The Company	
	2011 HK\$'000	2010 HK\$'000	2011 HK\$'000	2010 HK\$'000
Trade creditors and bills payable	<b>131,914</b>	77,800	-	-
Accrued charges	<b>29,930</b>	24,397	<b>2,760</b>	1,419
Receipts in advance	<b>18,293</b>	15,418	-	-
Payables for purchase of property, plant and equipment	<b>14,308</b>	6,499	-	-
Other payables	<b>6,858</b>	7,113	-	-
	<b>69,389</b>	53,427	<b>2,760</b>	1,419
	<b>201,303</b>	131,227	<b>2,760</b>	1,419

## 23 TRADE AND OTHER PAYABLES (continued)

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

	<b>The Group</b>	
	<b>2011</b>	2010
	<b>HK\$'000</b>	HK\$'000
Within 3 months	<b>113,860</b>	59,862
3 months to 1 year	<b>16,070</b>	14,891
Over 1 year	<b>1,984</b>	3,047
	<b>131,914</b>	77,800

All trade and other payables are expected to be settled within one year.

## 24 SECURED BANK LOANS

The carrying amount of secured bank loans are analysed as follows:

	<b>The Group</b>	
	<b>2011</b>	2010
	<b>HK\$'000</b>	HK\$'000
Current portion		
Due within one year	<b>60,822</b>	57,624
Due after one year which contain a repayment on demand clause	<b>64,082</b>	17,800
	<b>124,904</b>	75,424
Non-current portion	<b>-</b>	8,532

# Notes to the consolidated financial statements

(Expressed in Hong Kong dollars)



## 24 SECURED BANK LOANS (continued)

At 31 December 2011, secured bank loans are repayable as follows:

	The Group	
	2011 HK\$'000	2010 HK\$'000
Within one year	<b>60,822</b>	57,624
After 1 year but within 2 years	<b>22,742</b>	13,332
After 2 years but within 5 years	<b>41,340</b>	13,000
	<b>64,082</b>	26,332
	<b>124,904</b>	83,956

The 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.

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 2011, the Group's banking facilities amounted to HK\$168,815,000 (2010: HK\$175,374,000). The facilities were utilised to the extent of HK\$137,222,000 (2010: HK\$83,956,000).

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 31(a)(ii). At 31 December 2011, none of the covenants relating to drawn down facilities had been breached (2010: Nil).

## 25 INCOME TAX IN THE STATEMENT OF FINANCIAL POSITION

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

	<b>The Group</b>	
	<b>2011</b>	2010
	<b>HK\$'000</b>	HK\$'000
Hong Kong Profits Tax payable	<b>638</b>	52
PRC Enterprise Income Tax payable	<b>2,083</b>	1,479
	<b>2,721</b>	1,531

### (b) Deferred taxation

Details of the Group's unrecognised deferred tax (assets)/liabilities at the end of the reporting period are as follows:

	<b>The Group</b>	
	<b>2011</b>	2010
	<b>HK\$'000</b>	HK\$'000
Excess of tax allowances over depreciation	<b>161</b>	224
Tax losses	<b>(3,016)</b>	(2,487)
	<b>(2,855)</b>	(2,263)

The deferred tax assets in respect of the tax losses have not been recognised in the consolidated financial statements due to the unpredictability of future profit streams. The tax losses do not expire under current tax legislation.

At 31 December 2011, the Group has unrecognised deferred tax liabilities of HK\$4,710,000 (2010: HK\$3,788,000) in relation to withholding tax on undistributed earnings of HK\$94,191,000 (2010: HK\$75,763,000) 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 (2010: 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\$20,000. 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 state 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.

## 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:

Name of participants	Option scheme	Date of grant	Exercise price HK\$	Vesting and exercise period	Number of share options			Outstanding as at 31 December 2011
					Outstanding as at 1 January 2011	Granted during the year	Exercised during the year	
<b>Directors</b>								
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 Hongqing	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

## 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)

Name of participants	Option scheme	Date of grant	Exercise price HK\$	Vesting and exercise period	Number of share options			Outstanding as at 31 December 2011
					Outstanding as at 1 January 2011	Granted during the year	Exercised during the year	
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
					<u>20,992,020</u>	<u>4,000,000</u>	<u>-</u>	<u>24,992,020</u>

## 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	<u>24,992,020</u>		

## 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:

	2011		2010	
	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	1.2689	20,992,020	1.0647	14,986,695
Granted during the year	1.80	4,000,000	1.4220	12,000,000
Exercised during the year	-	-	1.0647	(5,994,675)
Outstanding at the end of the year	<b>1.3539</b>	<b>24,992,020</b>	1.2689	20,992,020
Exercisable at the end of the year	<b>1.2077</b>	<b>14,992,020</b>	1.0647	8,617,353

The options outstanding at 31 December 2011 had an exercise price of HK\$1.0647 to HK\$1.80 (2010: HK\$1.0647 or HK\$1.4220) and a weighted average remaining contractual life of 2.8 years (2010: 3.9 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.

## 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 during the year are as follows:

	Options granted on 5 May 2011	Options granted on 23 April 2010
Weighted average fair value at measurement date	HK\$0.28	HK\$0.30385
Share price	HK\$1.60	HK\$1.4100
Exercise price	HK\$1.80	HK\$1.4220
Expected volatility	40%	40%
Option life	3 years	3 years
Expected dividend yield	2.47%	1.80%
Risk-free interest rate	0.93%	1.23%

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
<b>Balance at 1 January 2010</b>	2,000	75,134	5,576	44,254	126,964
Loss and total comprehensive loss for the year	-	-	-	(3,561)	(3,561)
Dividends approved in respect of the previous year	-	-	-	(2,800)	(2,800)
Equity-settled share-based transactions	-	-	2,465	-	2,465
Shares issued under share option scheme	60	8,489	(2,166)	-	6,383
Dividends declared in respect of the current year	-	-	-	(3,400)	(3,400)
<b>Balance at 31 December 2010 and at 1 January 2011</b>	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 years	-	-	-	(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)
<b>Balance at 31 December 2011</b>	<u>2,424</u>	<u>141,505</u>	<u>8,263</u>	<u>17,739</u>	<u>169,931</u>



## 28 SHARE CAPITAL, RESERVES AND DIVIDENDS (continued)

### (b) Dividends

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

	<b>2011</b>	2010
	<b>HK\$'000</b>	HK\$'000
Interim dividend declared and paid of HK2.30 cents per ordinary share (2010: HK1.70 cents per ordinary share)	<b>5,575</b>	3,400
Final dividend in respect of previous financial year, approved and paid during the year of HK3.20 cents per ordinary share (2010: HK1.40 cents per ordinary share)	<b>7,757</b>	2,800
	<b>13,332</b>	6,200
Final dividend proposed after the reporting period of HK1.95 cents per ordinary share (2010: HK3.20 cents per ordinary share)	<b>4,727</b>	6,592
	<b>18,059</b>	12,792

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

### (c) Share capital

	2011		2010	
	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	<b>1,000,000,000</b>	<b>10,000</b>	1,000,000,000	10,000
Issued and fully paid:				
At 1 January	<b>205,994,675</b>	<b>2,060</b>	200,000,000	2,000
Issued upon acquisition of subsidiaries (note 29)	<b>36,404,000</b>	<b>364</b>	-	-
Issued under share option scheme	-	-	5,994,675	60
At 31 December	<b>242,398,675</b>	<b>2,424</b>	205,994,675	2,060



## 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(f).

#### (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 2011, the aggregate amount of reserves available for distribution to equity shareholders of the Company was HK\$159,244,000 (2010: HK\$118,116,000), 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 (2010: HK\$83,623,000) 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.

# Notes to the consolidated financial statements

(Expressed in Hong Kong dollars)



## 28 SHARE CAPITAL, RESERVES AND DIVIDENDS (continued)

### (f) Capital management (continued)

The adjusted net debt-to-capital ratio at 31 December 2011 and 2010 was as follows:

	The Group	
	2011 HK\$'000	2010 HK\$'000
Secured bank loans (note 24)	<b>124,904</b>	83,956
Less: Cash and cash equivalents (note 22)	<b>(123,630)</b>	(131,662)
Adjusted net debt/(cash)	<b>1,274</b>	(47,706)
Total equity	<b>407,700</b>	301,062
Adjusted capital	<b>407,700</b>	301,062
Adjusted net debt-to-capital ratio	<b>1%</b>	n/a

In 2010, the Group did not have net indebtedness to banks.

## 29 BUSINESS COMBINATIONS

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 has 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 COMBINATIONS (continued)

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

	<b>Fair value recognised on acquisition</b>
	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)
	<hr/>
Total identifiable net assets at fair value	10,210
Non-controlling interests	(4,084)
Goodwill	52,120
	<hr/>
Satisfied by issuance of shares (note 28(a))	58,246
	<hr/> <hr/>

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 is expected to be deductible for income tax purposes.

The fair value of trade and other receivables in the Astromax Group is 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 is HK\$11,166,000, of which HK\$192,000 is 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.

## 29 BUSINESS COMBINATIONS (continued)

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

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

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

## 30 TRANSACTIONS WITH NON-CONTROLLING INTERESTS

### Acquisition of additional interest in subsidiaries

On 15 September 2010, the Company's wholly owned subsidiary, Springrich Investments Limited acquired an additional 22% of the issued shares of 78% owned subsidiaries, Hander International and Dongguan Super Furniture, for a purchase consideration of HK\$9,100,000. The carrying amount of the non-controlling interests in Hander International and Dongguan Super Furniture on the date of acquisition was HK\$2,614,000. The Group recognised a decrease in non-controlling interests of HK\$2,614,000 and a decrease in equity attributable to shareholders of the Company of HK\$6,486,000. The effect of changes in the ownership interest of Hander International and Dongguan Super Furniture on the equity attributable to shareholders of the Company during the year is summarised as follows:

	<b>2010</b> <b>HK\$'000</b>
Carrying amount of non-controlling interests acquired	<b>2,614</b>
Consideration paid to non-controlling interests	<b>(9,100)</b>
Excess of consideration paid recognised in capital reserve within equity	<b>(6,486)</b>

## 31 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:

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.

## 31 FINANCIAL RISK MANAGEMENT AND FAIR VALUES (continued)

### (a) Financial risk management (continued)

#### (ii) Liquidity risk (continued)

	2011					2010				
	Total contractual carrying amount		Within 1 year or on demand	More than 1 year but less than 2 years	More than 2 years but less than 5 years	Total contractual carrying amount		Within 1 year or on demand	More than 1 year but less than 2 years	More than 2 years but less than 5 years
	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000
<b>The Group</b>										
Trade creditors and bills payable	131,914	131,914	131,914	-	-	77,800	77,800	77,800	-	-
Other payables and accrued charges	51,096	51,096	51,096	-	-	38,009	38,009	38,009	-	-
Secured bank loans	124,904	135,198	127,712	1,125	6,361	83,956	85,963	76,644	9,009	310
	<b>307,914</b>	<b>318,208</b>	<b>310,722</b>	<b>1,125</b>	<b>6,361</b>	<b>199,765</b>	<b>201,772</b>	<b>192,453</b>	<b>9,009</b>	<b>310</b>
<b>The Company</b>										
Other payables and accrued charges	2,760	2,760	2,760	-	-	1,419	1,419	1,419	-	-

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. The amounts included interest payments computed using contractual rates. As a result, these amounts were greater than the amounts disclosed in the "on demand" time band in the maturity analysis above. 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.



## 31 FINANCIAL RISK MANAGEMENT AND FAIR VALUES (continued)

### (a) Financial risk management (continued)

#### (ii) Liquidity risk (continued)

	2011					2010				
	Total contractual		Within 1 year or on demand	More than 1 year but less than 2 years	More than 2 years but less than 5 years	Total contractual		Within 1 year or on demand	More than 1 year but less than 2 years	More than 2 years but less than 5 years
	Carrying amount	undiscounted cash flow	HK\$'000	HK\$'000	HK\$'000	Carrying amount	undiscounted cash flow	HK\$'000	HK\$'000	HK\$'000
<b>The Group</b>										
Trade creditors and bills payable	131,914	131,914	131,914	-	-	77,800	77,800	77,800	-	-
Other payables and accrued charges	51,096	51,096	51,096	-	-	38,009	38,009	38,009	-	-
Secured bank loans	124,904	135,198	63,630	23,867	47,701	83,956	85,963	58,844	13,809	13,310
	<b>307,914</b>	<b>318,208</b>	<b>246,640</b>	<b>23,867</b>	<b>47,701</b>	<b>199,765</b>	<b>201,772</b>	<b>174,653</b>	<b>13,809</b>	<b>13,310</b>
<b>The Company</b>										
Other payables and accrued charges	2,760	2,760	2,760	-	-	1,419	1,419	1,419	-	-

#### (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 secured bank loans. 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.

## 31 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 net cash (being bank deposits less interest-bearing financial liabilities) at the end of the reporting period.

	2011		2010	
	Effective Interest rate	HK\$'000	Effective Interest rate	HK\$'000
Variable rate bank deposits:				
Deposits with bank	3.00%	18,119	2.01%	118,608
Cash at bank	0.38%	116,198	0.28%	30,094
		<u>134,317</u>		<u>148,702</u>
Variable rate borrowings:				
Bank loans	4.45%	(124,904)	3.68%	(83,956)
Total net cash		<u>9,413</u>		<u>64,746</u>

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 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.

The following table details the Group'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 Hong Kong dollars. 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.

## 31 FINANCIAL RISK MANAGEMENT AND FAIR VALUES (continued)

### (a) Financial risk management (continued)

#### (iv) Foreign currency risk (continued)

	The Group			
	2011 Denominated in		2010 Denominated in	
	Renminbi HK\$'000	United States dollars HK\$'000	Renminbi HK\$'000	United States dollars HK\$'000
Trade and other receivables	69,181	20,957	46,721	9,424
Restricted bank deposits	10,757	-	17,040	-
Cash and cash equivalents	53,646	17,546	100,215	6,749
Trade and other payables	(195,257)	(3,263)	(116,918)	(7,498)
Secured bank loans	(81,104)	-	(61,356)	-
Current taxation	(2,083)	-	(1,479)	-
Net exposure arising from recognised assets and liabilities	<u>(144,860)</u>	<u>35,240</u>	<u>(15,777)</u>	<u>8,675</u>

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

The Company was not exposed to foreign currency risk as at the end of the reporting period as all the recognised assets and liabilities were denominated in Hong Kong dollars.

#### (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 categorised 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.

## 31 FINANCIAL RISK MANAGEMENT AND FAIR VALUES (continued)

### (a) Financial risk management (continued)

(v) Fair values (continued)

	The Group							
	2011			Total	2010			Total
	Level 1	Level 2	Level 3		Level 1	Level 2	Level 3	
HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000	
Assets								
Available-for-sale investments	44	-	-	44	7,280	-	-	7,280

Fair values of financial instruments carried at other than fair value:

The carrying amounts of the Group's and the Company's financial instruments carried at cost or amortised cost are not materially different from their fair values as at 31 December 2011 and 2010.

### (b) Estimation of fair values

The notional amounts of financial assets and liabilities with maturity of less than one year (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.

## 32 COMMITMENTS

**(a) Capital commitments outstanding at 31 December 2011 not provided for in the consolidated financial statements are as follows:**

	<b>The Group</b>	
	<b>2011</b>	2010
	<b>HK\$'000</b>	HK\$'000
Contracted for:		
– Construction of factory building	<b>95,132</b>	72,718
– Purchase of property, plant and equipment	<b>4,754</b>	1,451
	<b>99,886</b>	74,169
Authorised but not contracted for:		
– Construction of factory building	<b>117,974</b>	8,906
– Purchase of property, plant and equipment	<b>7,484</b>	23,151
	<b>125,458</b>	32,057

**(b) At 31 December 2011, the total future minimum lease payments under non-cancellable operating leases are payable as follows:**

	<b>The Group</b>	
	<b>2011</b>	2010
	<b>HK\$'000</b>	HK\$'000
Within 1 year	<b>5,222</b>	1,422
After 1 year but within 5 years	<b>14,053</b>	1,848
After 5 years	<b>–</b>	363
	<b>19,275</b>	3,633

## 33 CONTINGENT LIABILITIES

	<b>The Company</b>	
	<b>2011</b>	2010
	<b>HK\$'000</b>	HK\$'000
Corporate guarantees given and utilised	<b>80,788</b>	52,297

At 31 December 2011, 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 (2010: HK\$77,000,000) of which HK\$36,988,000 (2010: HK\$29,697,000) was utilised;
- (b) Hing Lee Furniture in relation to banking facilities to the extent of HK\$54,000,000 (2010: HK\$24,000,000) of which HK\$33,800,000 (2010: HK\$22,600,000) was utilised; and
- (c) Hing Lee (China) in relation to banking facilities to the extent of HK\$12,000,000 (2010: HK\$nil) of which HK\$10,000,000 (2010: HK\$nil) 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.

## 34 MATERIAL RELATED PARTY TRANSACTIONS

### 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:

	<b>2011</b>	2010
	<b>HK\$'000</b>	HK\$'000
Short-term employee benefits	<b>7,369</b>	5,940
Post-employment benefits	<b>72</b>	69
Share-based payments	<b>1,208</b>	616
	<b>8,649</b>	6,625

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

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

## 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 property, plant and equipment and goodwill

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.

### (ii) 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)

### (iii) 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.

### (iv) 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.

### (v) 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.



## 36 POSSIBLE IMPACT OF AMENDMENTS, NEW STANDARDS AND INTERPRETATIONS ISSUED BUT NOT YET EFFECTIVE FOR THE YEAR ENDED 31 DECEMBER 2011

Up to the date of issue of these financial statements, the HKICPA has issued a number of amendments and five new standards which are not yet effective for the year ended 31 December 2011 and which have not been adopted in these financial statements. These include the following which may be relevant to the Group.

	<b>Effective for accounting periods beginning on or after</b>
Amendments to HKFRS 7, <i>Financial instruments:</i> <i>Disclosures – Transfers of financial assets</i>	1 July 2011
<i>Disclosures – Offsetting financial assets and financial liabilities</i>	1 January 2013
<i>Mandatory effective date of HKFRS 9 and transaction disclosures</i>	1 January 2015
Amendments to HKAS 12, <i>Income taxes – Deferred tax:</i> <i>Recovery of underlying assets</i>	1 January 2012
Amendments to HKAS 1, <i>Presentation of financial statements – Presentation of items of other comprehensive income</i>	1 July 2012
Amendments to HKAS 32, <i>Financial instruments:</i> <i>Presentation – offsetting financial assets and financial liabilities</i>	1 January 2014
HKFRS 9, <i>Financial instruments</i>	1 January 2015
HKFRS 10, <i>Consolidated financial statements</i>	1 January 2013
HKFRS 11, <i>Joint arrangements</i>	1 January 2013
HKFRS 12, <i>Disclosure of interests in other entities</i>	1 January 2013
HKFRS 13, <i>Fair value measurement</i>	1 January 2013
HKAS 27, <i>Separate financial statements</i> (2011)	1 January 2013
HKAS 28, <i>Investments in associates and joint ventures</i>	1 January 2013
Revised HKAS 19, <i>Employee benefits</i>	1 January 2013
HK(IFRIC) – Int 20, <i>Stripping costs in the production phase of a surface mine</i>	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.