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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 RESULTS ANNOUNCEMENT
FOR THE YEAR ENDED 31 DECEMBER 2012

The board of directors (the “Board”) of Hing Lee (HK) Holdings Limited (the “Company”) announces the consolidated results of the Company and its subsidiaries (the “Group”) for the year ended 31 December 2012 with comparative figures for the corresponding year ended 31 December 2011.

The results of the Company have been reviewed by the Company’s audit committee and the Board.

CONSOLIDATED INCOME STATEMENT

For the year ended 31 December 2012

	Note	2012 HK\$'000	2011 HK\$'000
Turnover	4	604,595	633,008
Cost of sales		<u>(505,790)</u>	<u>(486,786)</u>
Gross profit		98,805	146,222
Other income	5	5,407	6,733
Selling and distribution expenses		(85,741)	(62,203)
Administrative expenses		<u>(50,987)</u>	<u>(39,678)</u>
(Loss)/profit from operating activities		(32,516)	51,074
Finance costs	6(a)	<u>(4,513)</u>	<u>(2,437)</u>
(Loss)/profit before taxation	6	(37,029)	48,637
Income tax	7	<u>(1,677)</u>	<u>(2,914)</u>
(Loss)/profit for the year		<u>(38,706)</u>	<u>45,723</u>
Attributable to:			
Equity shareholders of the Company		(40,520)	41,418
Non-controlling interests		<u>1,814</u>	<u>4,305</u>
(Loss)/profit for the year		<u>(38,706)</u>	<u>45,723</u>
(Loss)/earnings per share (HK cents)	9		
– Basic		<u>(16.72)</u>	<u>18.01</u>
– Diluted		<u>(16.72)</u>	<u>17.81</u>

CONSOLIDATED STATEMENT OF COMPREHENSIVE INCOME

For the year ended 31 December 2012

	<i>Note</i>	2012 HK\$'000	2011 <i>HK\$'000</i>
(Loss)/profit for the year		(38,706)	45,723
Other comprehensive (loss)/income for the year	8		
Exchange differences on translation of financial statements of overseas subsidiaries		(249)	12,107
Available-for-sale investments:			
Gain/(loss) on fair value changes of available-for-sale investments		18	(15)
Reclassification adjustments upon disposal of available-for-sale investments		–	(2,563)
		(231)	9,529
Total comprehensive (loss)/income for the year		(38,937)	55,252
Attributable to:			
Equity shareholders of the Company		(40,751)	50,947
Non-controlling interests		1,814	4,305
Total comprehensive (loss)/income for the year		(38,937)	55,252

CONSOLIDATED STATEMENT OF FINANCIAL POSITION

As at 31 December 2012

	<i>Note</i>	2012 HK\$'000	2011 <i>HK\$'000</i>
Non-current assets			
Property, plant and equipment		301,947	266,997
Prepaid lease payments		48,660	49,791
Goodwill		52,120	52,120
Available-for-sale investments		65	44
		402,792	368,952
Current assets			
Prepaid lease payments		1,119	1,119
Inventories		118,376	111,442
Trade and other receivables	11	107,998	120,728
Restricted bank deposits		1,517	10,757
Cash and cash equivalents		93,392	123,630
		322,402	367,676
Current liabilities			
Trade and other payables	12	241,968	201,303
Current portion of bank borrowings		77,774	124,904
Current taxation		1,191	2,721
		320,933	328,928
Net current assets		1,469	38,748
Total assets less current liabilities		404,261	407,700
Non-current liabilities			
Other payables		6,647	—
Non-current portion of bank borrowings		35,763	—
		42,410	—
NET ASSETS		361,851	407,700

	<i>Note</i>	2012 <i>HK\$'000</i>	2011 <i>HK\$'000</i>
CAPITAL AND RESERVES			
Share capital	13	2,424	2,424
Reserves		351,944	396,887
Total equity attributable to equity shareholders of the Company		354,368	399,311
Non-controlling interests		7,483	8,389
Total equity		361,851	407,700

NOTES TO THE 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 Group are the design, manufacture, sale and marketing of home furniture products including mainly wood-base furniture, sofa, mattresses and licensing of its own brands and product designs.

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

2. BASIS OF PREPARATION

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

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

3. CHANGES IN ACCOUNTING POLICIES

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

- Amendments to HKFRS 7, *Financial instruments: Disclosures – Transfers of financial assets*
- Amendments to HKAS 12, *Income taxes – Deferred tax: Recovery of underlying assets*

Amendments to HKFRS 7, Financial instruments: Disclosures

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

Amendments to HKAS 12, Income taxes

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

4. TURNOVER

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

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

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

5. OTHER INCOME

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

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

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

6. (LOSS)/PROFIT BEFORE TAXATION

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

(a) Finance costs

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

- (i) The analysis shows the finance costs of bank borrowings, including those which contain a repayment on demand clause, in accordance with the agreed scheduled repayment dates set out in the loan agreements. The interest on bank borrowings for the year which contain a repayment on demand clause was HK\$3,125,000 (2011: HK\$4,423,000).
- (ii) Interest has been capitalised to construction in progress at an average annual rate of 8.08% (2011: 7.03%) during the year.

(b) Staff costs

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

* excluded amount paid to directors

(c) Other items

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

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

7. INCOME TAX IN THE CONSOLIDATED INCOME STATEMENT

Taxation in the consolidated income statement represents:

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

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

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

- (i) Pursuant to the income tax rules and regulations, the Group is not subject to income tax in Bermuda and the BVI.
- (ii) The provision for Hong Kong Profits Tax for 2012 is calculated at 16.5% (2011: 16.5%) of the estimated assessable profit for the year.
- (iii) Hing Lee Ideas Limited is subject to Company Income Tax in Malaysia. No provision for 2012 (2011: Nil) is made as it has been dormant since its incorporation.

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

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

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

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

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

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

- (v) It mainly represents the tax effect of impairment of trade and other receivables and write-down of inventories of the Group’s PRC subsidiaries and certain expenses incurred by Great Ample Holdings Limited and the Company.
- (vi) It mainly represents the tax effect of licensing income earned by Sharp Motion Worldwide Limited. The licensing fees payable by the licensees to the Group were subject to 10% withholding tax in the PRC. However, it is a term of the licence agreements that the licensing fees receivable by the Group should be net of any tax and the licensees are responsible to pay any tax imposed on the licensing fees payable by the licensees to the Group. As such, the licensing fees as agreed between the Group and the licensees were on a net-of-tax basis and the licensees were responsible to pay the relevant withholding tax separately to the tax authorities at their own costs.

8. OTHER COMPREHENSIVE (LOSS)/INCOME

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

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

9. (LOSS)/EARNINGS PER SHARE

(a) Basic (loss)/earnings per share

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

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

(b) Diluted (loss)/earnings per share

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

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

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

10. SEGMENT REPORTING

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

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

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

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

(a) Segment results, assets and liabilities

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

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

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

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

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

(c) Geographic information

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

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

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

(d) Major customers

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

11. TRADE AND OTHER RECEIVABLES

	2012 HK\$'000	2011 HK\$'000
Trade debtors and bills receivable	34,334	50,365
Less: allowance for doubtful debts (note 11(b))	(5,412)	(3,346)
	<u>28,922</u>	<u>47,019</u>
Deposits paid for purchase of property, plant and equipment	17,049	16,897
Deposits paid to suppliers	35,829	32,705
Value added tax recoverable	15,436	13,562
Other deposits, prepayments and receivables	10,762	10,545
	<u>79,076</u>	<u>73,709</u>
	<u>107,998</u>	<u>120,728</u>

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

(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:

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

Trade debtors and bills receivable are non-interest bearing and are generally due within 30 to 90 days from the date of billing.

(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.

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

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

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

(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 11(a).

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

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

12. TRADE AND OTHER PAYABLES

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

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

	2012 <i>HK\$'000</i>	2011 <i>HK\$'000</i>
Within 3 months	124,777	113,860
3 months to 1 year	41,169	16,070
Over 1 year	1,469	1,984
	167,415	131,914

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

13. SHARE CAPITAL

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

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.

14. DIVIDENDS

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

MANAGEMENT DISCUSSION AND ANALYSIS

BUSINESS REVIEW

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

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

FINANCIAL REVIEW

Turnover

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

Gross Profit

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

Selling and Distribution Expenses

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

Administrative Expenses

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

Loss for the Year

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

EMPLOYMENT AND REMUNERATION POLICY

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

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

LIQUIDITY AND FINANCIAL RESOURCES

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

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

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

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

The ageing analysis of trade creditors and bills payable is set out in the notes to the financial statements in the annual report to be published by the Company.

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 10 to the financial statements in this annual results announcement.

FOREIGN CURRENCY RISK

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

CHARGE OF ASSETS

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

SIGNIFICANT INVESTMENTS AND ACQUISITIONS

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

CONTINGENT LIABILITIES

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

PROFIT GUARANTEE

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

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

PROSPECTS

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

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

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

CORPORATE GOVERNANCE

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

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

Code provision A.2.1

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

MODEL CODE FOR DIRECTORS’ SECURITIES TRANSACTIONS

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

AUDIT COMMITTEE REVIEW

The audit committee of the Company (the “Audit Committee”) has three members comprising Mr. Kong Hing Ki (Chairman), Mr. Sun Jian, and Ms. Shao Hanqing, all being independent non-executive Directors. The Audit Committee has reviewed the audited financial results of the Group for the year ended 31 December 2012.

DIVIDENDS

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

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.

PUBLICATION OF ANNUAL RESULTS AND 2012 ANNUAL REPORT

The annual results announcement is published on the websites of the Stock Exchange and the Company. The annual report of the Company for the year ended 31 December 2012 will be despatched to the Shareholders and published on both websites in due course.

By Order of the Board of
Hing Lee (HK) Holdings Limited
Sung Kai Hing
Chairman and Chief Executive Officer

Hong Kong, 22 March 2013

As at the date of this announcement, the Board comprises two executive Directors, namely Mr. Sung Kai Hing and Mr. Cheung Kong Cheung, one non-executive Director, namely Mr. Fang Yan Zau, Alexander, and three independent non-executive Directors, namely Mr. Sun Jian, Ms. Shao Hanqing and Mr. Kong Hing Ki.

Website: <http://www.hingleehk.com.hk>