明輝國際控股有限公司*

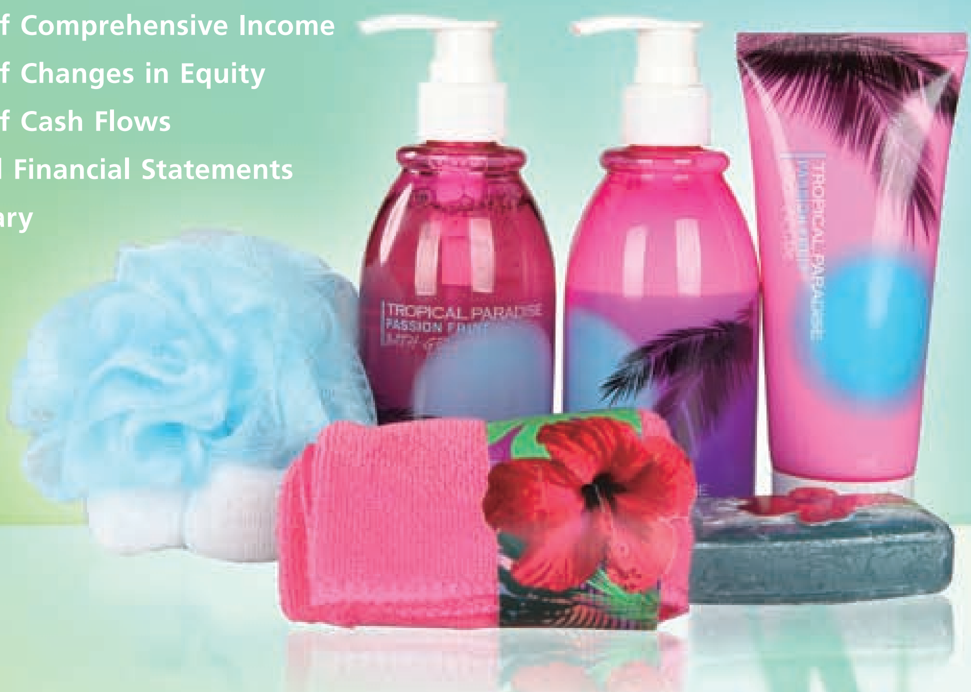
Ming Fai International Holdings Limited

(Incorporated in the Cayman Islands with limited liability)
(Stock Code: 3828)

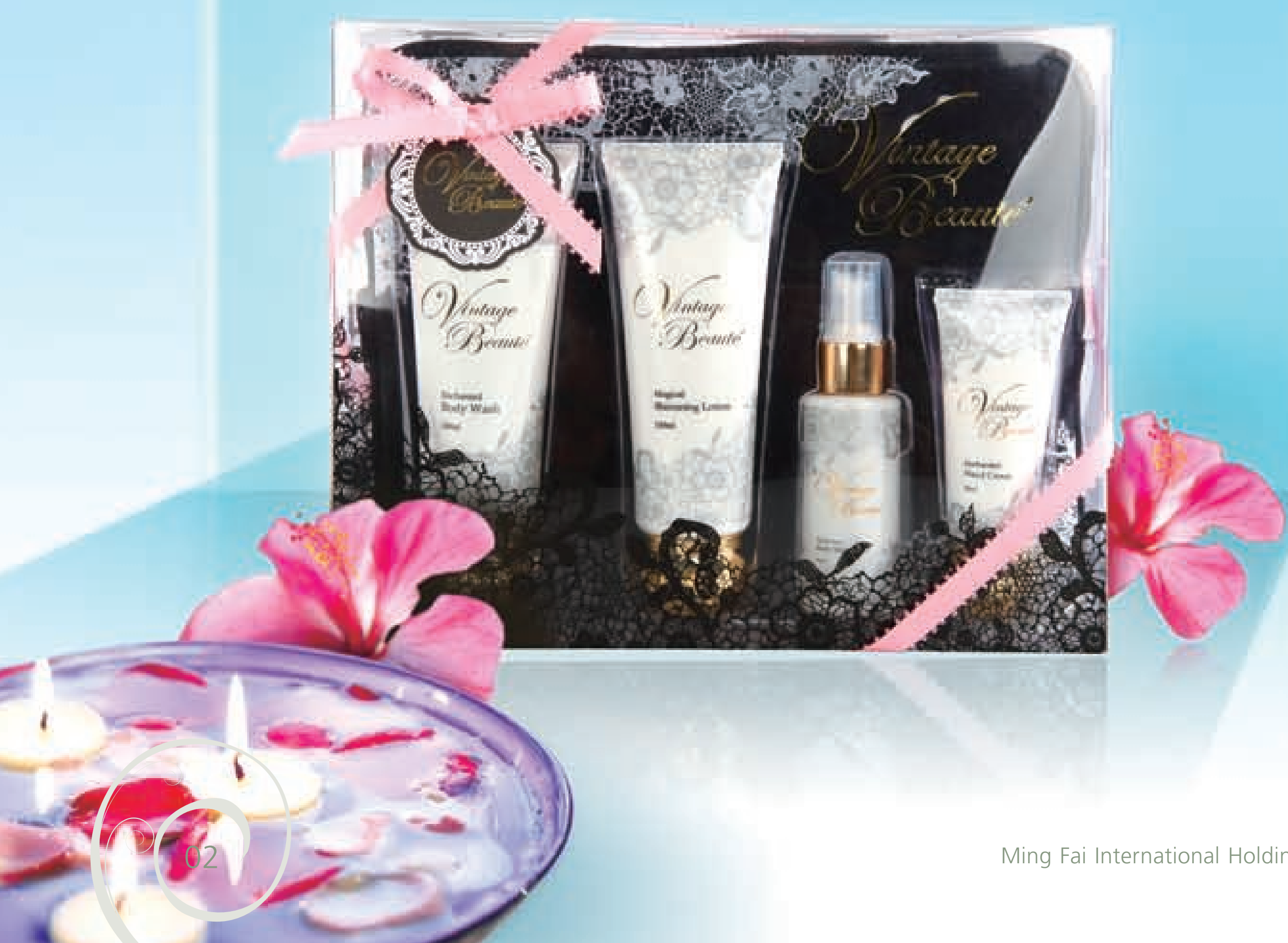
Annual Report 2012

*For identification only

Contents



Corporate Information



BOARD OF DIRECTORS

Executive Directors:

CHING Chi Fai *(Chairman)*
CHING Chi Keung
LIU Zigang
LEE King Hay
CHAN Yim Ching

Non-executive Director:

Lawrence Joseph MORSE

Independent non-executive Directors:

SUN Kai Lit Cliff *BBS, JP*
HUNG Kam Hung Allan
MA Chun Fung Horace

AUDIT COMMITTEE

MA Chun Fung Horace *(Chairman)*
SUN Kai Lit Cliff *BBS, JP*
HUNG Kam Hung Allan

REMUNERATION COMMITTEE

HUNG Kam Hung Allan *(Chairman)*
CHING Chi Fai
MA Chun Fung Horace
SUN Kai Lit Cliff *BBS, JP*

EXECUTIVE COMMITTEE

CHING Chi Fai *(Chairman)*
CHING Chi Keung
LIU Zigang
LEE King Hay
CHAN Yim Ching

NOMINATION COMMITTEE

CHING Chi Fai *(Chairman)*
SUN Kai Lit Cliff *BBS, JP*
MA Chun Fung Horace

INVESTMENT COMMITTEE

CHING Chi Fai *(Chairman)*
MA Chun Fung Horace
KEUNG Kwok Hung

COMPANY SECRETARY

YIM Wing Sze *CPA*

PRINCIPAL BANKERS

Bank of China (Hong Kong) Limited
DBS Bank (Hong Kong) Limited
The Hong Kong and Shanghai Banking Corporation Limited

AUDITOR

PricewaterhouseCoopers

PRINCIPAL SHARE REGISTRAR AND TRANSFER OFFICE

Royal Bank of Canada Trust Company (Cayman) Limited
4th Floor, Royal Bank House
24 Shedden Road, George Town
Grand Cayman KY1-1110
Cayman Islands

HONG KONG BRANCH SHARE REGISTRAR AND TRANSFER OFFICE

Computershare Hong Kong Investor Services Limited
17M Floor
Hopewell Centre
183 Queen's Road East, Wanchai
Hong Kong

REGISTERED OFFICE

P.O. Box 309GT
Ugland House
South Church Street
George Town, Grand Cayman
Cayman Islands

HEAD OFFICE AND PRINCIPAL PLACE OF BUSINESS IN HONG KONG

20th Floor, Laws Commercial Plaza
788 Cheung Sha Wan Road
Kowloon
Hong Kong

PRINCIPAL PLACE OF BUSINESS IN THE PEOPLE'S REPUBLIC OF CHINA (THE "PRC")

Bainikeng, Pinghu, Longgang
Shenzhen, the PRC

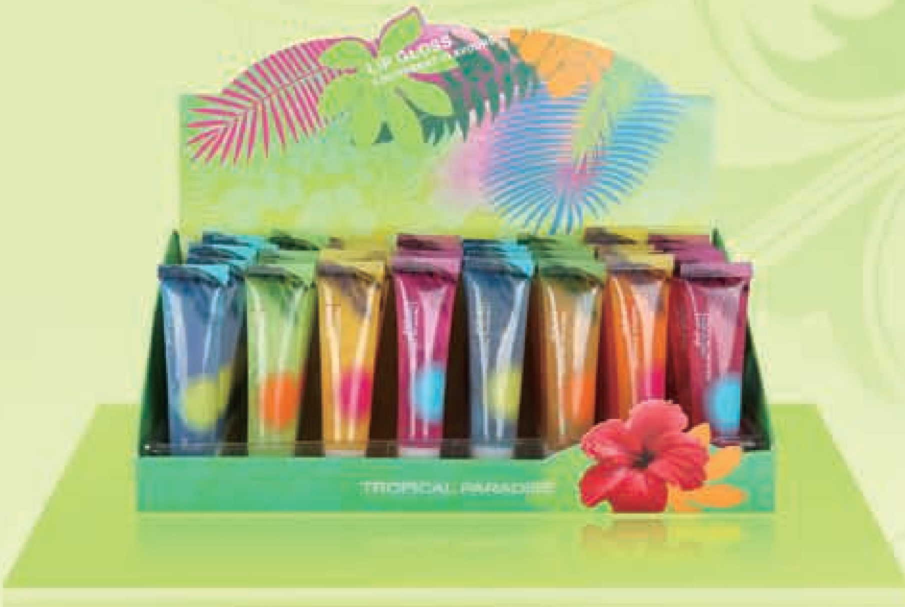
WEBSITE

www.mingfaigroup.com

STOCK CODE

3828

Chairman's Statement



Dear Shareholders,

I am pleased to present the annual report of Ming Fai International Holdings Limited (the "Company") and its subsidiaries (collectively, the "Group") for the year ended 31 December 2012.

Year 2012 was a challenging year for the Company since our listing on the Main Board of The Stock Exchange of Hong Kong Limited (the "Stock Exchange") in 2007. We have turned to a new page by entering into a strategic alliance with American Hotel Register Company ("AHR") in December 2012, which brought a totally new set of supply solutions to hotels in the Asia Pacific region.

AHR is a well known US-based global supplier to the hotel and hospitality industry. We have formed "Ming Fai-American Hotel Asia Pacific" under this alliance. We are very pleased that AHR has became one of our substantial shareholders with approximately 6.54% shareholding in the Company. Having this new solid shareholder who has a strong network within the hotel industry not only provides a stronger shareholder base but also strengthens the Group's leading position within the Asia Pacific region. It also brings new synergy to the Group's core business (the manufacturing and distribution business of hotel amenities). The strategic alliance with AHR has demonstrated the Group's strong capability to capture international investor awareness in this vulnerable global economy and strengthen the Group's leading position in the supply of hotel amenities within the Asia Pacific region.

The Group and AHR will cooperate strategically to develop new markets and explore business opportunities, leveraging on the sales and distribution platform that the Group offers to the potential customers.

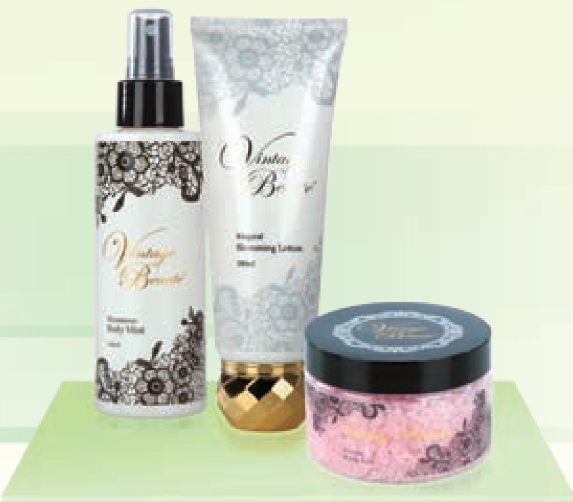
Chairman's Statement

2012 has been a year of slow growth for most economies, as affected by the unfavourable business environment. The debt crisis in Europe and the policy uncertainties in the US have constrained investment which led to decline in demand. Although last year was a challenging year for the Group as we faced uncertainties amid the weak global economic environment, the Group still manage to present a stable financial performance. For the year under review, revenue and profit attributable to equity holders of the Company was HK$1,685.7 million and HK$75.3 million as compared to HK$1,475.4 million and HK$71.7 million, respectively, in 2011. The Group continues to maintain profitability with a sound financial position.

One of our top successes last year was the strategic alliance that we recently entered. In addition, we adopted effective cost control management in our operations last year. Our gross profit margin remained comparable amid operating cost pressure in the PRC from labour and material costs. During the year, the Company's gross profit margin was 21.6% (2011: 21.9%). Leveraging on this successful cost control experience, we believe our profit margin could be maintained or even improved in the upcoming periods.

On the other hand, the Hong Kong retail business has showed stable growth in the reporting year even though there were declines in demand in the retail market. Our self-owned brand "everyBody Labo" has built up its brand image successfully in the Hong Kong retail market. Over the past few years, we put significant efforts in marketing and the Hong Kong retail business started to record a profit in 2012.

The rentals in Hong Kong have been increasing over the past few years. The Company changed the marketing strategy in the last two years to launch our products on the shelves of ubiquitous retailer "Mannings" and sales counters in "Harvey Nichols Hong Kong", "everyBody Labo" has attracted consumer attention and has established its brand alongside other international names.

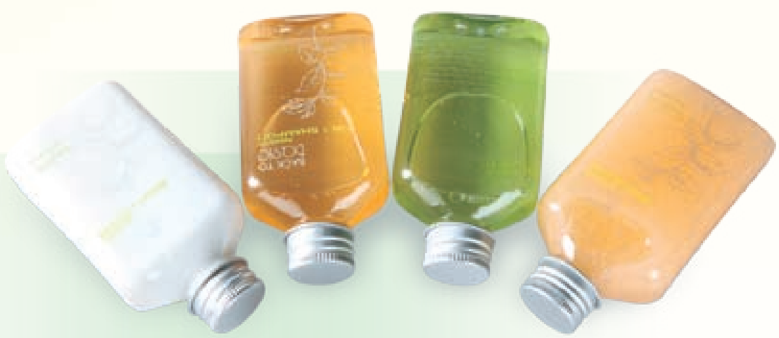


As the overall China retail industry faced slowdown throughout the year 2012, the operating results of the PRC retail business was not satisfactory. However, "7 Magic" has 1,362 franchise stores across the PRC, which was increased from the prior year. We will continue to provide a wider range of choices and better quality for our target customers.

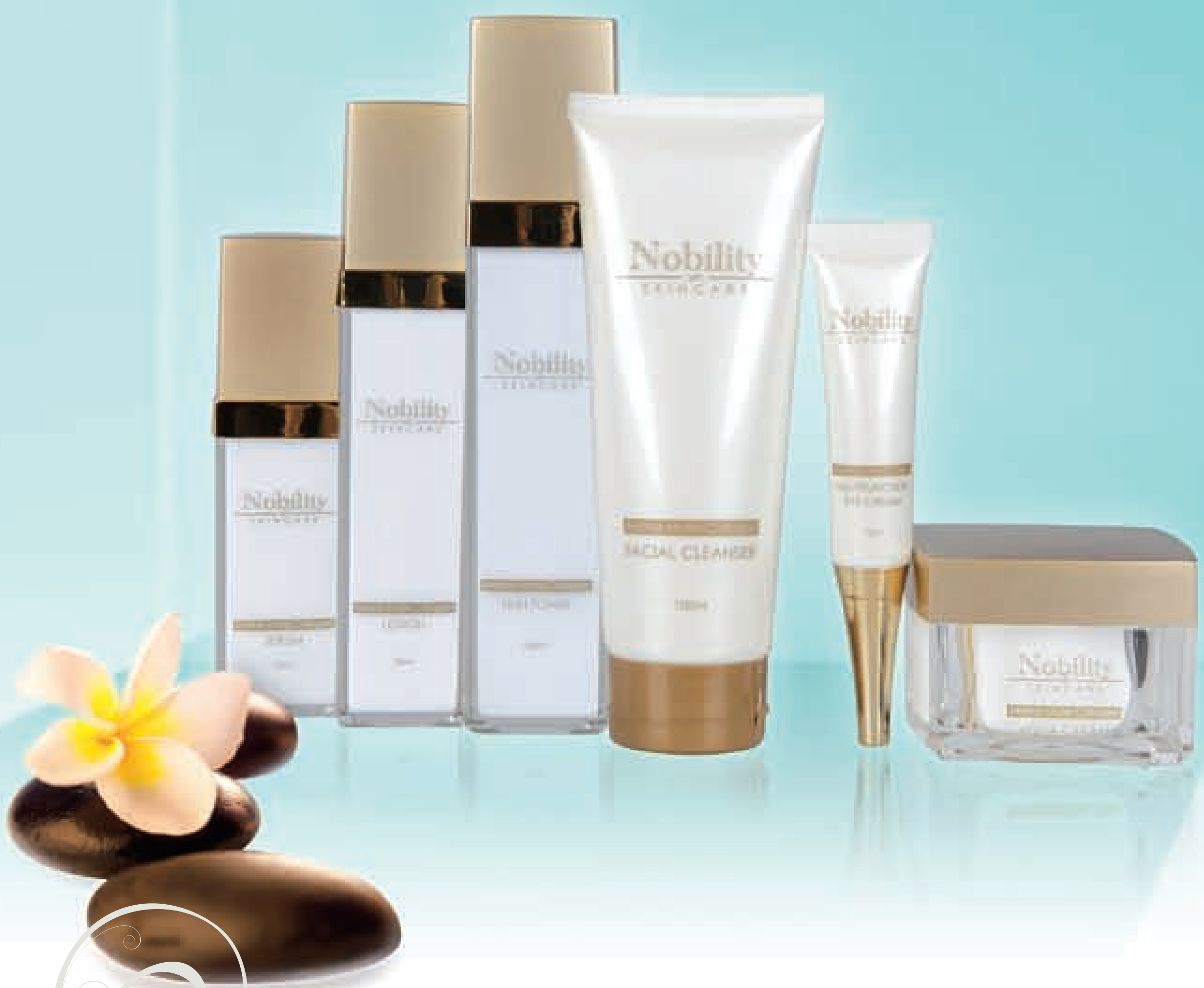
Year 2013 will be another tough year. Nonetheless, international tourism in 2013 is expected to remain strong and this will provide a favourable environment for our core business. The strategic alliance with AHR will enable the Group to explore new business opportunities and we will enhance our brand promotion campaign internationally. On the other hand, we will corporate with AHR to establish a solid network in the Asia Pacific and to achieve a win-win situation for both parties. We have confidence that the alliance will benefit the Group in the long run.

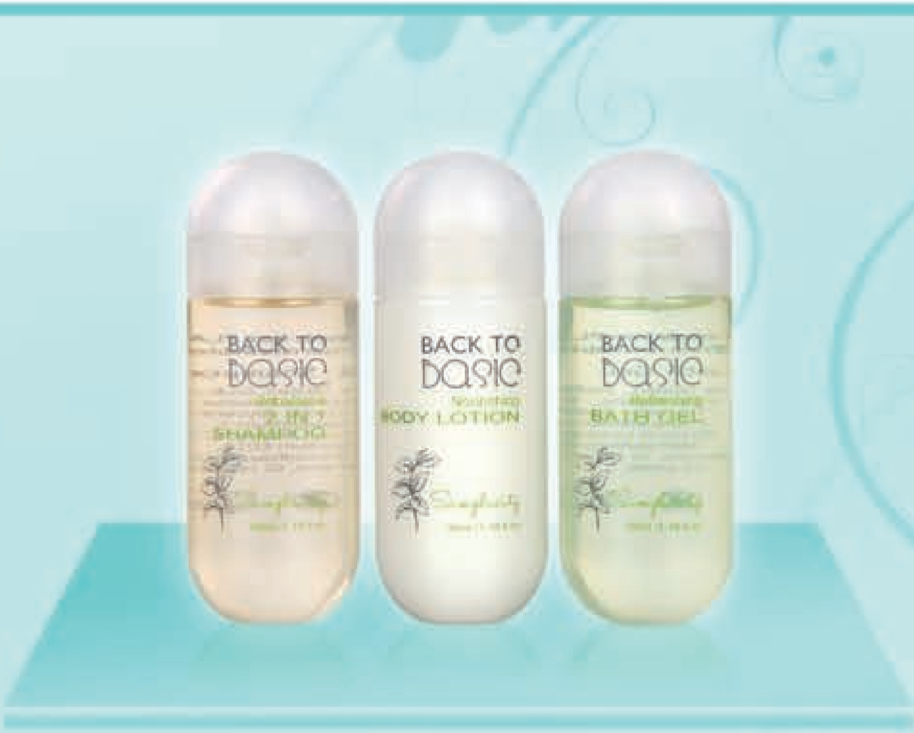
Based on this strong business position, we remain optimistic about the future of the Group. We are well-positioned to follow our strategy of growing our core business while capitalising on any opportunities from the Ming Fai-American Hotel Asia Pacific alliance. We are also confident that growth momentum could be sustained in the coming years. We will continue to strive to maximize benefits for our shareholders going forward.

CHING Chi Fai
Chairman
HONG KONG, 27 March 2013



Management Discussion and Analysis





FINANCIAL REVIEW

The Group's total consolidated revenue for the year ended 31 December 2012 recorded a growth of 14.3% to approximately HK$1,685.7 million from HK$1,475.4 million last year. This was mainly attributable to better sales performance in the Group's core business, the manufacturing and distribution of amenity products, which contributed HK$1,470.1 million or 87.2% of the Group's revenue. The distribution and retail business of cosmetics and fashion accessories also contributed HK$199.6 million or 11.8% of the Group's revenue.

Profit attributable to equity holders of the Company was HK$75.3 million, a marginal increase of 5.0%, compared with HK$71.7 million for the year ended 31 December 2011.

Basic earnings per share attributable to equity holders of the Company for the year ended 31 December 2012 was HK11.4 cents (31 December 2011: HK10.9 cents).

The overall gross profit margin slightly decreased from 21.9% in the prior year to 21.6% for the year under review, which was mainly due to the escalating manufacturing costs.

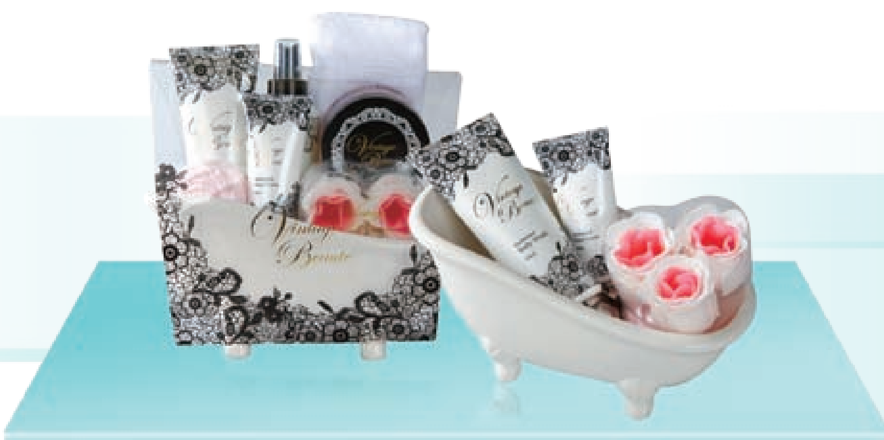
The Board has resolved to propose a final dividend of HK2.5 cents per share for the year ended 31 December 2012, making a total annual dividend of HK3.5 cents per share (2011: HK3.5 cents per share). The proposed dividend is subject to approval at the forthcoming AGM on 23 May 2013.

Set out below are the consolidated financial highlights of the Group for the years ended 31 December:

	2012 HK$ million	2011 HK$ million	Change in %
Revenue	**1,685.7**	1,475.4	14.3%
Gross profit	**364.2**	323.5	12.6%
Profit attributable to equity holders of the Company	**75.3**	71.7	5.0%
Net asset value	**1,243.4**	1,106.3	12.4%
Basic earnings per share attributable to equity holders of the Company *(HK cents)*	**11.4**	10.9	4.6%
Diluted earnings per share attributable to equity holders of the Company *(HK cents)*	**11.4**	10.7	6.5%

BUSINESS REVIEW

Four years after the eruption of the global financial crisis, the world economy is still struggling to recover. During 2012, a growing number of developed countries have fallen into double-dip recession. Growth in major developing countries and economies in transition has also decelerated notably, reflecting both external vulnerabilities and domestic challenges. However, there are encouraging signs when approaching the end of 2012. The US House approved legislation averting 'fiscal cliff', the European Union is committed to put more concrete efforts to fight against debt crisis, the PRC, being the second-largest economy in the world, reported a GDP growth of 7.9% in the



fourth quarter 2012, snapping seven straight quarters of slowdown. The Group's total consolidated revenue for the year ended 31 December 2012 was HK$1,685.7 million, increasing 14.3% when compared with HK$1,475.4 million in 2011.

The Group adopted strict discipline in cost containment in an effort to maintain competitiveness in a turmoil business environment. During the past twelve months the Group's performance was steady as a whole, which was primarily driven by the promising results for the Group's core business, manufacturing and distribution of amenity products. However, its performance was partly offset by the increasing operating costs in the PRC. During the year under review, the Group's financial performance was adversely affected by the results generated from the retail business of "7 magic" brand and the loss from the investment in providing laundry services in Changshu, the PRC. Profit attributable to equity holders of the Company was HK$75.3 million, a marginal increase of 5.0% year-on-year from HK$71.7 million.

Hotel related businesses

Manufacturing and distribution business of hotel amenities

In 2012, the international tourism managed to stay strong despite continued economic volatility around the world. International tourist arrivals grew by 4% in 2012, according to the latest UNWTO World Tourism Barometer published in January 2013. The Group's core business, the manufacturing and distribution of hotel amenities, enjoyed a stable demand from the strong international tourism industry.

The Group reported sales growth in the major geographical segments, including the Greater China (including the PRC and Hong Kong). North America and Europe reported a revenue of HK$713.9 million. However, the profit margin experienced increasing pressure from the rise in labour cost and raw material cost in the PRC, where its production base is located. In spite of the great efforts by the Group devoted to cost containment, the overall gross margin remain comparable to the prior year.

For the year ended 31 December 2012, the Greater China (including the PRC and Hong Kong), remained the biggest revenue contributor of this operation, which accounted for 36.8% of the revenue generated for the manufacturing and distribution of amenity products segment, followed by North America which accounted for 35.3%. Europe, other Asia Pacific countries (excluding Australia) and Australia contributed 13.3%, 11.4% and 2.7% of the segment revenue, respectively.

In late 2012, the Group entered into a strategic alliance with American Hotel Register Company ("AHR"), which is one of the world's largest hotel amenities suppliers, to better serve both local and international hotels throughout the Asia Pacific region with quality products and services. The new strategic alliance, known as "Ming Fai-American Hotel Asia Pacific" is ready to bring increased value to potential and existing customers throughout the region. Customers will experience incomparable product assortment and services with the Group's strength in amenity manufacturing, along with AHR's long-term hospitality expertise, comprehensive product selection and sourcing and established relationships with many of the world's largest hotel companies.

With all these strategic moves, the Group is confident in maintaining the leading position in the industry and further forwarding the business for the benefits of all stakeholders.

Laundry services

With the laundry plant in Jiangsu Province, the PRC commencing operation in March 2011, the Group improves its total solutions providing to hotel customers and this has further strengthened our long-term relationship with existing hotel customers. In addition, by providing commercial laundry services, the Group possesses a larger presence in hotel related industry which shall contribute to the Group's profitability in the long run. However, the laundry business recorded a loss of HK$23.4 million during the year, including an impairment of property, plant and equipment of approximately HK$5.5 million.

Retail Businesses

PRC retail business

The retail industry in the PRC slumped throughout 2012, despite the rebound of Chinese consumption in the second half of the year. Data from the China Nation Commercial Information Center reveals that the growth rate on the total sales of the top 100 large retail companies in the PRC significantly dropped by 11.8% from a growth in 2011, hitting a seven-year low since 2005. Amid challenging business environment, the Group's retail business in the PRC recorded a revenue of HK$193.3 million, representing 11.5% of the Group's total consolidated revenue. However, its operating results were not satisfactory for the year ended 31 December 2012.

During the year under review, "7 Magic" maintained a stable number of franchise stores, totaling 1,362 as at 31 December 2012 (31 December 2011: 1,258). The target customers of "7 Magic" are younger females whose purchasing power are relatively more vulnerable to inflation. To maintain competitiveness in the market, the increased operating costs could not be fully transferred to our customers. For the year ended 31 December 2012, the Group's retail business in the PRC recorded a gross profit of HK$64.9 million, while the gross profit margin was 33.6%. The segment profit before income tax of the Group's retail business in the PRC significantly dropped to HK$1.3 million.

During the year of 2012, the Group continued to focus on integration and enhancement of product quality, product variety and franchise management of the "7 Magic" retail business on a proactive basis. According to the China General Chamber of Commerce, it is estimated that retail sales would grow by around 15% in 2013. Riding on this growth momentum as well as the government's efforts to boost domestic demand, the "7 Magic" retail business is expected to play a more important role in the Group's future business development.

Retail Brand – everyBody Labo

Aiming to build and develop its own brand, the Group put the main focus on its first-owned brand "everyBody Labo" with great efforts to revise business strategies. "everyBody Labo" successfully established a presence in Hong Kong health and beauty market by presenting its products in "Mannings" and "Harvey Nichols Hong Kong". In the beginning of 2012, the brand had further expanded its presence into "Citysuper" outlets in Hong Kong.

"everyBody Labo" began to generate a profit of HK$0.3 million during the year under review. This is mainly due to the stable sales growth brought by a higher brand awareness in Hong Kong. In addition, the Group is actively looking for opportunities to introduce "everyBody Labo" into the PRC market via a broader distribution network.

PROSPECTS

In the World Economic Outlook Update issued by the International Monetary Fund, global economic growth is projected to increase during 2013, as the factors underlying soft global activity are expected to subside. Policy actions have lowered acute crisis risks in the Euro area and the United States. At the same time, policies have supported a modest growth pickup in some emerging markets such as the PRC. However, downside risks remain significant, including renewed setbacks in the Euro area and risks of excessive near-term fiscal consolidation in the United States. Therefore, the Group remains cautiously optimistic on the coming financial year and will strive to turn challenges into opportunities among all these uncertainties.

UNWTO World Tourism Barometer forecasts international tourist arrivals to increase by 3% to 4% in 2013. This is expected to boost the profitability of the hotel-related industries. The Group, as one of the leading hotel amenities suppliers, will take advantage of the opportunity to further expand our market share. The Group will continue to provide our customers with comprehensive product and service offerings, ranging from personal healthcare items, in-room accessories, to airline amenity kits, linens and laundry services.

The strategic collaboration with AHR is expected to bring synergies to the Group's profitability in the coming financial year. With their complementary expertise and network, both parties are well positioned to make a bigger presence in the hotel industry.

Heading towards a promising 2013, the Group still experiences the increasing cost pressure as a result of structural labor shortage and upstream input price inflation. Based on its solid experience in cost control last year, the Group will conduct strategic approaches of outsourcing labour-intensive products and standardizing product manufacturing in 2013. The Group will continue to produce high-quality and value-added products and services to secure existing customers and attract potential customers. In addition, the Group will continue to look for investment opportunities while maintaining solid investment structure in order to generate more operating margins as well as maximize shareholders' returns.

LIQUIDITY AND FINANCIAL RESOURCES

As at 31 December 2012, the Group's cash and cash equivalents amounted to HK$245.5 million (31 December 2011: HK$191.5 million).

In November 2009, the Group entered into a mortgage deed with a leading bank in Hong Kong to raise HK$64.4 million for the completion of acquisition of office premises in Central district. This facility bore interest at one month Hong Kong Inter-bank Offered Rate ("HIBOR") plus 0.75% per annum or 1.75% below Hong Kong dollars Prime Rate, whichever is the lower. The facility is secured by the office premises with maturity date on 27 November 2019. As at 31 December 2012, the outstanding borrowing of this facility amounted to HK$45.2 million (31 December 2011: HK$51.5 million).

Details of the borrowings are set out in note 21 to the consolidated financial statements.

The gearing ratio at 31 December 2012, calculated on the basis of borrowings over total equity, was 3.6% as compared with 4.7% at 31 December 2011.

The Group is exposed to foreign exchange risk arising from various currency exposures, primarily with respect to Renminbi ("RMB"). The Group currently does not have a foreign currency hedging policy.

The Group primarily sourced its raw materials in the PRC. The related currency exposure with respect to RMB is managed through increasing sales denominated in the same currency.

With the current level of cash and cash equivalents on hand as well as available banking facilities, the Group's liquidity position remains strong and has sufficient financial resources to meet its current working capital requirement and future expansion.

CHARGES ON GROUP ASSETS

As at 31 December 2012, certain subsidiaries of the Company pledged assets with aggregate carrying value of HK$197.0 million (31 December 2011: HK$162.1 million) to secure drawn bank borrowings.

CAPITAL COMMITMENTS AND CONTINGENT LIABILITIES

Details of the capital commitments and contingent liabilities are set out in note 37(a) and note 38 to the consolidated financial statements.

EMPLOYEES

As at 31 December 2012, the total number of employees of the Group was approximately 5,000. The Group offers a comprehensive remuneration package which is reviewed by management on a regular basis. The Group also invests in continuing education and training programs for its management staff and other employees with a view to constantly upgrading their skills and knowledge.

The Group values employees as its most valuable assets and believes effective employee engagement is an integral part of business success. In this context, effective communication with staff at all levels is highly valued with the ultimate goal to enhance the efficiency in providing quality service to the customers. The Group also has Commendation Annual Award Scheme to motivate its employees and recognize their outstanding performance.

Corporate Social Responsibilities

The Group is committed to the principle of sustainable development and fulfill corporate social responsibilities ("CSR") by applying commercial morality, being good to people and protecting our environment.

The Group sets environmental policies and complies with internationally certified environmental management systems and standards, such as ISO 14001:2004, ISO14021-1999, Hong Kong Green Mark Certification Scheme and Global Security Verification. Being one of the world's leading hotel amenities suppliers, the Group continues to concentrate highly on environmental issues and has maintained as one of our core values. In May 2012, the Group successfully obtained FSC (Forest Stewardship Council) certification, becoming one of the few companies authorized with the accreditation in the industry. During the year, the Group has continued our efforts to launch a series of eco-friendly products – Back To Basic, which represents the Group's core values in creating a low carbon environment.

Aside from environmental protection, the Group has devoted into charitable activities as well. The China Retail team ("7 Magic Team") has been participating in charity activities for several years while a considerate focus has been placed on the health and growth of children. The 7 Magic Team has been to distant deprived areas and special education schools in Hubei and Guizhou to help those children who suffered from poverty and children with disabilities throughout the year. In August 2012, the Group, including 7 Magic Team, pledged our enthusiastic support to Red Décor Day which aroused concerns to vulnerable groups of the community. Many employees participated in it and donated funds to the Red Cross. In addition, the Group actively participated in local activities and provided sponsorship to a variety of local communities in Hong Kong.

In July 2012, our manufacturing site in Shenzhen has successfully certified by "ISO 22716:2007(E) Cosmetics–Guidelines On Good Manufacturing Practices". The Group believes that CSR is not just about philanthropy, but also a responsibility towards the community and being able to provide a good platform to contribute in any way that is meaningful, fulfilling and sustainable. CSR will remain a prominent feature in the Group's agenda, and environmental management is always an integral part of the Group's business planning and daily operations.

Biographical Details of Directors and Senior Management

EXECUTIVE DIRECTORS

Mr. CHING Chi Fai, aged 51, is an executive Director and chairman of the Company. He is the chairman of Nomination Committee, Executive Committee and Investment Committee. He is also a member of Remuneration Committee. Mr. CHING has been responsible for sales and marketing, production of our products and the formulation of the overall corporate direction and business strategies of our Group. Mr. CHING has over 20 years of experience in the amenity industry. Mr. CHING Chi Keung is the brother of Mr. CHING Chi Fai.

Mr. CHING Chi Keung, aged 48, is an executive Director. He is a member of Executive Committee. Mr. CHING has been responsible for human resources and administrative matters. Mr. CHING joined our Group with Mr. CHING Chi Fai and has over 20 years of experience in the amenity industry. Mr. CHING Chi Fai is the brother of Mr. CHING Chi Keung.

Mr. LIU Zigang, aged 48, is an executive Director. He is a member of Executive Committee. Mr. LIU has been responsible for sales and marketing since he joined our Group in May 1995. He oversees direct sales in the Greater China Region as well as the Southeast Asia markets. Mr. LIU has over 10 years of experience in the amenity industry. Mr. LIU holds a diploma from Shenzhen University, the PRC. Mr. LIU completed a course on International Business Management of Tsinghua University organised by Yangtze Delta Region Institute of Tsinghua University, the PRC.

Mr. LEE King Hay, aged 58, is an executive Director. He is a member of Executive Committee. Mr. LEE is responsible for overseeing manufacturing and business development. Mr. LEE first joined our Group in 1994 and left in 1996 for personal reasons. Subsequently in October 1999, he rejoined our Group as production director overseeing manufacturing. Mr. LEE has over 10 years of experience in the amenity industry. Prior to joining us, Mr. LEE was an aircraft engineer in the Hong Kong and Canadian airline business from 1977 to 1993. Mr. LEE completed the course for Aeronautic Engineering and obtained a Licence in Categories "A" & "C" from Air Service Training in Perth, Scotland and holds aircraft maintenance engineer licences issued by the United Kingdom Civil Aviation Authority, Civil Aviation Department of Hong Kong and Department of Transport Canada.

Ms. CHAN Yim Ching, aged 45, is an executive Director. She is a member of Executive Committee. Ms. CHAN has been responsible for sales and marketing since she joined our Group in 1995. She oversees export sales to overseas markets. Ms. CHAN has over 20 years of experience in the amenity industry. Prior to joining our Group, she worked in several companies engaged in amenity business.

NON-EXECUTIVE DIRECTOR

Mr. Lawrence Joseph MORSE, aged 63, was appointed as a non-executive Director in December 2012. Mr. MORSE has over 30 years of experience in management. Mr. MORSE is currently a president and chief executive officer of a global company supplying hospitality products and services. Mr. MORSE holds a master degree of business administration in finance and marketing from Boston College.

INDEPENDENT NON-EXECUTIVE DIRECTORS

Mr. SUN Kai Lit Cliff *BBS, JP*, aged 59, is an independent non-executive Director ("INED"). He is a member of Audit Committee, Remuneration Committee and Nomination Committee. Mr. SUN is an Associate of the Institute of Industrial Engineers of Ohio and has over 30 years of experience in the household products manufacturing industry. Mr. SUN joined Kinox Enterprises Limited ("Kinox") in 1978, which is a renowned household products company in cookware, beverage servers, barbeque grills and chafing dishes. Mr. SUN is an executive director of Kinox and has been involved in various aspects of the operations and management of Kinox. Mr. SUN was appointed the Justice of the Peace in 2003 and was awarded the Bronze Bauhinia Star by the Government of the Hong Kong Special Administrative Region of the PRC in 2006. Mr. SUN is also an INED of Ka Shui International Holdings Limited and a non-executive director of China South City Holdings Limited, both companies are listed on the Main Board of the Stock Exchange of Hong Kong Limited (the "Stock Exchange"). Mr. SUN involves himself in many public services in both the PRC and Hong Kong too.

Mr. HUNG Kam Hung Allan, aged 58, is an INED. He is the chairman of the Remuneration Committee and a member of Audit Committee. Mr. HUNG has over 20 years of senior management experience in managing hotel operations and hotel investments. He was a deputy managing director of Top Glory International Holdings Limited ("**Top Glory**"), a former Hong Kong listed company which was privatized in August 2003, in 1992 and acted as its executive director from July 1997 to January 2001. During the period with Top Glory, Mr. HUNG assisted Top Glory to develop and manage hotels/resorts. He resigned from such positions due to the restructuring of Top Glory (by its holding company). In 2005, Mr. HUNG started a hotel development consultancy service to work with various hotel developers and prestigious hotel chains on design and project management.

Mr. MA Chun Fung Horace, aged 42, is an INED. He is the chairman of Audit Committee. He is also a member of Remuneration Committee, Nomination Committee and Investment Committee. Mr. MA is a seasoned accountant with extensive experience in risk and internal control. Mr. MA is a Certified Public Accountant (Practicing) registered with the Hong Kong Institute of Certified Public Accountants ("HKICPA"), a fellow member of the Association of Chartered Certified Accountants ("ACCA"), a Certified Internal Auditor registered with the Institute of Internal Auditors and holder of Certification of Control Self-Assessment of the Institute of Internal Auditors. Mr. MA also holds various degrees including Master of Science and Bachelor of Business Administration conferred by The Chinese University of Hong Kong and Bachelor of Laws conferred by the University of London. Mr. MA is an INED of Universe International Holdings Limited, Dejin Resources Group Company Limited and China Tianrui Group Cement Company Limited, the shares of which are listed on the Main Board of the Stock Exchange.

SENIOR MANAGEMENT

Mr. KEUNG Kwok Hung, aged 40, is our chief financial officer. Mr. KEUNG joined our group in July 2010 and he is responsible for finance and accounting matters. He has over 17 years of experience in accounting and financial management. He holds a bachelor degree in Accountancy from the Hong Kong Polytechnic University and is a fellow member of the HKICPA and the ACCA. Prior to joining our Company, he was an executive director of a company, the shares of which are listed on the Growth Enterprise Market ("GEM") board of the Stock Exchange.

Ms. CHAN Yick Ning, aged 50, is our research and development director. Ms. CHAN is responsible for overseeing various aspects of our chemical production such as chemical production quality control, research and development of product formulations, the operations of the chemical and microbiological laboratory, the performance of the senior chemists and technicians, quality control and research and development. Ms. CHAN joined our Group in 2005 and has over 20 years of experience in cosmetics production and laboratory operation. Ms. CHAN was awarded a Diploma in Management Studies jointly by The Hong Kong Polytechnic University and Hong Kong Management Association in 1992. Ms. CHAN is also a member of Hong Kong Society of Cosmetic Chemists, which is in affiliation to the International Federation of Societies of Cosmetic Chemists in the United States.

Directors' Report

The Directors of Ming Fai International Holdings Limited (the "**Company**") are pleased to present their annual report together with the audited financial statements of the Company and its subsidiaries (the Company and its subsidiaries collectively, the "**Group**") for the year ended 31 December 2012.

PRINCIPAL ACTIVITIES

The Group is principally engaged in the supply and manufacture of quality amenity products and accessories to internationally recognised or branded operators. It has forayed into retail and distribution of the cosmetic products and fashion accessories in the PRC in 2010. The Company acts as an investment holding company. Details of the principal activities of each subsidiary of the Group are set forth in note 17 to the consolidated financial statements.

RESULTS AND DIVIDENDS

The Group's results for the year ended 31 December 2012 and the state of affairs of the Group and the Company at that date are set out in the consolidated financial statements on pages 44 to 117 of this annual report.

An interim dividend of HK1.0 cent per share of the Company (the "**Share**"), amounting to a total of HK$6,508,000 was paid on 10 October 2012.

The Directors recommend the payment of a final dividend of HK2.5 cents per Share for the year ended 31 December 2012. Subject to the approval by the shareholders at the annual general meeting of the Company to be held on 23 May 2013 (the "**AGM**"), the final dividend will be paid on or about 14 June 2013 to the shareholders whose name appear on the register of shareholders of the Company as at the close of business on 28 May 2013. The total amount of such dividend is approximately HK$17,431,000.

CLOSURE OF REGISTER OF MEMBERS

The register of members will be closed from Wednesday, 29 May 2013 to Friday, 31 May 2013 (both dates inclusive), during which period no transfer of shares will be effected. In order to qualify for the proposed final dividend, all transfers of shares accompanied by the relevant share certificates must be lodged with the Hong Kong branch share registrar of the Company, Computershare Hong Kong Investor Services Limited, at 17M Floor, Hopewell Centre, 183 Queen's Road East, Wanchai, Hong Kong for registration no later than 4:30 p.m. on Tuesday, 28 May 2013.

GROUP FINANCIAL SUMMARY

A summary of the results and of the assets and liabilities of the Group for the last five years is set out on page 118.

PROPERTY, PLANT AND EQUIPMENT

Details of the movements in the property, plant and equipment of the Group are set out in note 7 to the consolidated financial statements.

SHARE CAPITAL

Details of the movements in the share capital of the Company are set out in note 20 to the consolidated financial statements.

RESERVES

Details of the movements in the reserves of the Group and the Company during the year ended 31 December 2012 are set out in the consolidated statement of changes in equity on page 48 and note 18 to the consolidated financial statements, respectively.

As at 31 December 2012, distributable reserves of the Company amounted to approximately HK$868,184,000.

SUBSIDIARIES

Particulars of the Group's principal subsidiaries are set out in note 17 to the consolidated financial statements.

PRE-EMPTIVE RIGHTS

There are no provisions for pre-emptive rights under the Company's Articles of Association, or the laws of the Cayman Islands, which would oblige the Company to offer new Shares on a pro-rata basis to existing shareholders.

PURCHASE, REDEMPTION OR SALE OF LISTED SECURITIES OF THE COMPANY

Save as disclosed in note 20 to the consolidated financial statements, neither the Company nor any of its subsidiaries has purchased, redeemed or sold any of the shares of the Company during the year ended 31 December 2012.

BORROWINGS

Details of the borrowings of the Group during the year ended 31 December 2012 are set out in note 21 to the consolidated financial statements.

ARRANGEMENTS TO PURCHASE SHARES OR DEBENTURES

Save and except for the Share Option Scheme (as defined below), at no time during the year was the Company, its subsidiaries, a party to any arrangements to enable the Directors to acquire benefits by means of the acquisition of shares in, or debentures of, the Company or any other body corporate.

DIRECTORS

The Directors during the year were as follows:

Executive Directors

Mr. CHING Chi Fai *(Chairman)*
Mr. CHING Chi Keung
Mr. LIU Zigang
Mr. LEE King Hay
Ms. CHAN Yim Ching
Mr. LEUNG Ping Shing (resigned on 30 March 2012)

Non-executive Directors

Mr. NG Bo Kwong (resigned on 31 December 2012)
Mr. Lawrence Joseph MORSE (appointed on 11 December 2012)

Independent non-executive Directors

Mr. SUN Kai Lit Cliff *BBS, JP*
Mr. HUNG Kam Hung Allan
Mr. MA Chun Fung Horace

In accordance with articles 14 and 130 of the Company's Articles of Association, Mr. SUN Kai Lit Cliff, Mr. HUNG Kam Hung Allan, Mr. MA Chun Fung Horace and Mr. Lawrence Joseph MORSE will retire at the AGM and, being eligible, shall offer themselves for re-election.

BIOGRAPHICAL DETAILS OF THE DIRECTORS AND THE SENIOR MANAGEMENT

The biographical details of the Directors and the senior management are set out on pages 17 to 19.

CONFIRMATION OF INDEPENDENCE OF INDEPENDENT NON-EXECUTIVE DIRECTORS

The Company has received from each of the independent non-executive Directors an annual confirmation of independence pursuant to Rule 3.13 of the Rules Governing the Listing of Securities on the Stock Exchange (the "Listing Rules") and the Company considers that Mr. SUN Kai Lit Cliff, Mr. HUNG Kam Hung Allan and Mr. MA Chun Fung Horace to be independent.

DIRECTORS' SERVICE CONTRACTS

None of the directors who are proposed for re-election at the forthcoming AGM has a service contract with the company which is not determinable within one year without payment of compensation, other than statutory compensation.

DIRECTORS' AND THE FIVE HIGHEST PAID INDIVIDUALS' EMOLUMENTS

Details of the emoluments of the Directors and of the five highest paid individuals of the Group are set out in note 28 to the consolidated financial statements.

CONNECTED TRANSACTIONS

A summary of the related party transactions entered into by the Group during the year ended 31 December 2012 is contained in note 39 to the consolidated financial statements. There are no other connected transactions or continuing connected transaction that require the Company to disclose under chapter 14A of the Listing Rules.

DIRECTORS' INTERESTS IN CONTRACTS

No Director had a material interest, either direct or indirect, in any contract of significance to the business of the Group to which the Company or any of its subsidiaries was a party during the year.

DIRECTORS' INTERESTS IN SHARES AND UNDERLYING SHARES OF THE COMPANY AND ITS ASSOCIATED CORPORATIONS

As at 31 December 2012, the Directors had the following interests in the Shares and underlying shares of the Company and its associated corporations which were recorded in the register required to be kept by the Company pursuant to section 352 of the Securities and Futures Ordinance (the "**SFO**"), or as otherwise notified to the Company and the Stock Exchange pursuant to the Model Code:

Long position in ordinary shares of HK$0.01 each in the Company

Name of Director	Nature of interests	Interest in number of Shares	Approximate percentage of shareholding of the Company
Mr. CHING Chi Fai	Corporate *(Note 1)*	165,166,600	23.70%
	Personal *(Note 2 & 3)*	10,714,000	1.54%
Mr. CHING Chi Keung	Corporate *(Note 3)*	32,499,600	4.66%
	Personal *(Note 4 & 13)*	4,000,000	0.57%
Ms. CHAN Yim Ching	Corporate *(Note 3)*	32,499,600	4.66%
	Personal *(Note 5 & 13)*	4,000,000	0.57%
	Family *(Note 6)*	388,000	0.06%
Mr. LIU Zigang	Corporate *(Note 7)*	20,057,200	2.88%
	Personal *(Note 8)*	4,000,000	0.57%
Mr. LEE King Hay	Personal *(Note 9 & 13)*	7,690,000	1.10%
Mr. SUN Kai Lit Cliff	Personal *(Note 10 & 13)*	600,000	0.09%
Mr. HUNG Kam Hung Allan	Personal *(Note 11 & 13)*	600,000	0.09%
Mr. MA Chun Fung Horace	Personal *(Note 12 & 13)*	600,000	0.09%

Notes:

1. These Shares were owned by Prosper Well International Limited ("Prosper Well"), which was wholly-owned by Mr. CHING Chi Fai.

2. Mr. CHING Chi Fai held 10,114,000 Shares and options to subscribe for 600,000 Shares.

3. These Shares were owned by Targetwise Trading Limited ("Targetwise"), which was owned as to 50% and 50% by Mr. CHING Chi Keung and Ms. CHAN Yim Ching respectively.

4. Mr. CHING Chi Keung held options to subscribe for 4,000,000 Shares.

5. Ms. CHAN Yim Ching held options to subscribe for 4,000,000 Shares.

6. Mr. LEE King Keung held 194,000 Shares and held options to subscribe 194,000 Shares. Ms. CHAN Yim Ching, being Mr. LEE's spouse, was deemed to be interested in the 194,000 Shares and the option held by Mr. LEE by virtue of Part XV of the SFO.

7. These Shares were owned by Favour Power Limited ("Favour Power"), which was wholly-owned by Mr. LIU Zigang.

8. Mr. LIU Zigang held options to subscribe for 4,000,000 Shares.

9. Mr. LEE King Hay held 3,690,000 Shares and options to subscribe for 4,000,000 Shares.

10. Mr. SUN Kai Lit Cliff held 300,000 Shares and an option to subscribe for 300,000 Shares.

11. Mr. HUNG Kam Hung Allan held options to subscribe for 600,000 Shares.

12. Mr. MA Chun Fung Horace held options to subscribe for 600,000 Shares.

13. As at 31 December 2012, options granted to the above Directors under the share option scheme adopted by the Company on 5 October 2007 were set out below:

Name	Date of grant	Exercise period	Exercise price per share HK$	Number of share options
Mr. CHING Chi Fai	04-9-2012	04-9-2012 to 22-6-2019	0.62	300,000
	04-9-2012	23-6-2013 to 22-6-2019	0.62	300,000
Mr. CHING Chi Keung	04-9-2012	04-9-2012 to 22-6-2019	0.62	2,000,000
	04-9-2012	23-6-2013 to 22-6-2019	0.62	2,000,000
Ms. CHAN Yim Ching	04-9-2012	04-9-2012 to 22-6-2019	0.62	2,000,000
	04-9-2012	23-6-2013 to 22-6-2019	0.62	2,000,000
Mr. LIU Zigang	04-9-2012	04-9-2012 to 22-6-2019	0.62	2,000,000
	04-9-2012	23-6-2013 to 22-6-2019	0.62	2,000,000
Mr. LEE King Hay	04-9-2012	04-9-2012 to 22-6-2019	0.62	2,000,000
	04-9-2012	23-6-2013 to 22-6-2019	0.62	2,000,000
Mr. SUN Kai Lit Cliff	04-9-2012	23-6-2013 to 22-6-2019	0.62	300,000
Mr. HUNG Kam Hung Allan	04-9-2012	04-9-2012 to 22-6-2019	0.62	300,000
	04-9-2012	23-6-2013 to 22-6-2019	0.62	300,000
Mr. MA Chun Fung Horace	04-9-2012	04-9-2012 to 22-6-2019	0.62	300,000
	04-9-2012	23-6-2013 to 22-6-2019	0.62	300,000

Save as disclosed above, as at 31 December 2012, none of the Directors and their associates, had any interests or short positions in the shares or underlying shares of the Company or any of its associated corporations that was required to be recorded pursuant to Section 352 of the SFO to be entered in the register referred to therein.

SUBSTANTIAL SHAREHOLDERS' INTERESTS IN SHARES AND UNDERLYING SHARES OF THE COMPANY

The register of substantial shareholders required to be kept under section 336 of Part XV of the SFO shows that as at 31 December 2012 so far as the Directors are aware of, the following substantial shareholders (other than a Director or chief executive of the Company) had interests in 5% or more of the Company's issued share capital:

Long position in ordinary shares of HK$0.01 each in the Company

Name of substantial Shareholders	Capacity/ nature of interest	Number of Shares	Approximate percentage of shareholding of the Company
Prosper Well International Limited	Beneficial owner	165,166,600 *(Note 1)*	23.70%
Ms. LO Kit Ling	Family interest	175,880,600 *(Note 1)*	25.24%
Ms. PO Fung Kiu	Family interest	36,499,600 *(Note 2)*	5.24%
Mr. LEE King Keung	Personal and Family Interest	36,887,600 *(Note 3)*	5.29%
Atlantis Capital Holdings Limited	Interest of controlled corporation	55,000,000 *(Note 4)*	7.89%
Ms. LIU Yang	Interest of controlled corporation	55,000,000 *(Note 4)*	7.89%
American Hotel Register Company	Beneficial owner	45,585,550 *(Note 5)*	6.54%
Mr. Kevin Christopher LEAHY	Interest of controlled corporation	45,585,550 *(Note 5)*	6.54%
Mr. Sean Fitzpatrick LEAHY	Interest of controlled corporation	45,585,550 *(Note 5)*	6.54%

Notes:

1. 165,166,600 Shares were owned by Prosper Well International Limited, which is wholly-owned by Mr. CHING Chi Fai (the chairman and an executive Director). Mr. CHING Chi Fai also beneficially owned 10,114,000 Shares and held options to subscribe 600,000 Shares. Ms. LO Kit Ling, being Mr. CHING Chi Fai's spouse, was deemed to be interested in the 175,880,600 Shares in which Mr. CHING Chi Fai had interests by virtue of Part XV of the SFO.

2. Ms. PO Fung Kiu, being Mr. CHING Chi Keung's spouse, was deemed to be interested in the 36,499,600 Shares in which Mr. CHING Chi Keung had interests by virtue of Part XV of the SFO.

3. Mr. LEE King Keung held 194,000 Shares and held options to subscribe 194,000 Shares. Mr. LEE, being Ms. CHAN Yim Ching's spouse, was deemed to be interested in the 36,887,600 Shares in which Ms. CHAN Yim Ching had interests by virtue of Part XV of the SFO.

4. Atlantis Capital Holdings Limited was 100% controlled by Ms. LIU Yang.

5. Mr. Kevin Christopher LEAHY and Mr. Sean Fitzpatrick LEAHY held 34% and 34% interest of American Hotel Register Company respectively. They were deemed to be interested in the Shares held by American Hotel Register Company by virtue of Part XV of the SFO.

DIRECTORS' INTERESTS IN COMPETING BUSINESS

None of the Directors has any competing interests in any business or has any interest in any business that may constitute direct or indirect competition with the Group.

DIRECTORS' INTERESTS IN CONTRACTS

No Director had a material interest, either direct or indirect, in any contract of significance to the business of the Group to which the Company or any of its subsidiaries was a party during the year.

REMUNERATION POLICY

Remuneration of our employees (including the Directors) are generally structured by reference to market terms and individual merits. Salaries usually are reviewed annually and discretionary bonuses are paid on an annual basis based on the results of the Group, individual performance and other relevant factors.

SHARE OPTION SCHEME

The Company has adopted a share option scheme on 5 October 2007 (the "**Share Option Scheme**") to provide incentives or rewards to employees for their contribution to the Group.

On 4 September 2012, the Company cancelled certain outstanding share options granted on 23 June 2009 and 9 September 2011 respectively (the "Cancelled Share Options"). In replacement of the Cancelled Share Options and as incentives to certain employees of the Company and its subsidiaries, share options to subscribe for an aggregate of 45,922,000 ordinary shares of HK$0.01 each of the Company were granted to Directors and certain employees of the Group at an exercise price of HK$0.62.

Movements on the share options during the year as follows:

				Number of share options					
Grantee	Date of grant	Exercise period	Exercise price per share HK$	Outstanding as at 1 January 2012	Granted during the year	Exercised during the year	Cancelled during the year	Forfeited/ lapsed during the year	Outstanding as at 31 December 2012
Directors									
Mr. CHING Chi Fai	23-6-2009	23-6-2011 to 22-6-2019	1.12	300,000	–	–	300,000	–	–
	23-6-2009	23-6-2013 to 22-6-2019	1.12	300,000	–	–	300,000	–	–
	04-9-2012	04-9-2012 to 22-6-2019	0.62	–	300,000	–	–	–	300,000
	04-9-2012	23-6-2013 to 22-6-2019	0.62	–	300,000	–	–	–	300,000
Mr. CHING Chi Keung	23-6-2009	23-6-2011 to 22-6-2019	1.12	2,000,000	–	–	2,000,000	–	–
	23-6-2009	23-6-2013 to 22-6-2019	1.12	2,000,000	–	–	2,000,000	–	–
	04-9-2012	04-9-2012 to 22-6-2019	0.62	–	2,000,000	–	–	–	2,000,000
	04-9-2012	23-6-2013 to 22-6-2019	0.62	–	2,000,000	–	–	–	2,000,000
Ms. CHAN Yim Ching	23-6-2009	23-6-2011 to 22-6-2019	1.12	2,000,000	–	–	2,000,000	–	–
	23-6-2009	23-6-2013 to 22-6-2019	1.12	2,000,000	–	–	2,000,000	–	–
	04-9-2012	04-9-2012 to 22-6-2019	0.62	–	2,000,000	–	–	–	2,000,000
	04-9-2012	23-6-2013 to 22-6-2019	0.62	–	2,000,000	–	–	–	2,000,000
Mr. LIU Zigang	23-6-2009	23-6-2011 to 22-6-2019	1.12	2,000,000	–	–	2,000,000	–	–
	23-6-2009	23-6-2013 to 22-6-2019	1.12	2,000,000	–	–	2,000,000	–	–
	04-9-2012	04-9-2012 to 22-6-2019	0.62	–	2,000,000	–	–	–	2,000,000
	04-9-2012	23-6-2013 to 22-6-2019	0.62	–	2,000,000	–	–	–	2,000,000
Mr. LEE King Hay	23-6-2009	23-6-2011 to 22-6-2019	1.12	2,000,000	–	–	2,000,000	–	–
	23-6-2009	23-6-2013 to 22-6-2019	1.12	2,000,000	–	–	2,000,000	–	–
	04-9-2012	04-9-2012 to 22-6-2019	0.62	–	2,000,000	–	–	–	2,000,000
	04-9-2012	23-6-2013 to 22-6-2019	0.62	–	2,000,000	–	–	–	2,000,000

Grantee	Date of grant	Exercise period	Exercise price per share HK$	Number of share options: Outstanding as at 1 January 2012	Granted during the year	Exercised during the year	Cancelled during the year	Forfeited/ lapsed during the year	Outstanding as at 31 December 2012
Mr. LEUNG Ping Shing	09-9-2011	09-9-2012 to 08-9-2021	1.58	300,000	–	–	300,000	–	–
(resigned on	09-9-2011	09-9-2013 to 08-9-2021	1.58	300,000	–	–	300,000	–	–
30 March 2012)	04-9-2012	09-9-2012 to 08-9-2021	0.62	–	300,000	–	–	–	300,000
	04-9-2012	09-9-2013 to 08-9-2021	0.62	–	300,000	–	–	–	300,000
Mr. NG Bo Kwong	23-6-2009	23-6-2013 to 22-6-2019	1.12	300,000	–	–	300,000	–	–
(resigned on	04-9-2012	23-6-2013 to 22-6-2019	0.62	–	300,000	–	–	–	300,000
31 December 2012)									
Mr. SUN Kai Lit Cliff	23-6-2009	23-6-2013 to 22-6-2019	1.12	300,000	–	–	300,000	–	–
	04-9-2012	23-6-2013 to 22-6-2019	0.62	–	300,000	–	–	–	300,000
Mr. HUNG Kam Hung	23-6-2009	23-6-2011 to 22-6-2019	1.12	300,000	–	–	300,000	–	–
Allan	23-6-2009	23-6-2013 to 22-6-2019	1.12	300,000	–	–	300,000	–	–
	04-9-2012	04-9-2012 to 22-6-2019	0.62	–	300,000	–	–	–	300,000
	04-9-2012	23-6-2013 to 22-6-2019	0.62	–	300,000	–	–	–	300,000
Mr. MA Chun Fung	23-6-2009	23-6-2011 to 22-6-2019	1.12	300,000	–	–	300,000	–	–
Horace	23-6-2009	23-6-2013 to 22-6-2019	1.12	300,000	–	–	300,000	–	–
	04-9-2012	04-9-2012 to 22-6-2019	0.62	–	300,000	–	–	–	300,000
	04-9-2012	23-6-2013 to 22-6-2019	0.62	–	300,000	–	–	–	300,000
Employees									
In aggregate	23-6-2009	23-6-2011 to 22-6-2019	1.12	3,964,000	–	–	3,382,500	581,500	–
	23-6-2009	23-6-2013 to 22-6-2019	1.12	5,621,000	–	–	5,039,500	581,500	–
	09-9-2011	09-9-2012 to 08-9-2021	1.58	8,207,500	–	–	7,563,500	644,000	–
	09-9-2011	09-9-2013 to 08-9-2021	1.58	8,207,500	–	–	7,563,500	644,000	–
	04-9-2012	04-9-2012 to 22-6-2019	0.62	–	3,382,500	–	–	–	3,382,500
	04-9-2012	23-6-2013 to 22-6-2019	0.62	–	5,039,500 [1]	–	–	–	5,039,500
	04-9-2012	09-9-2012 to 08-9-2021	0.62	–	7,563,500	400,000	–	294,000	6,869,500
	04-9-2012	09-9-2013 to 08-9-2021	0.62	–	7,563,500	–	–	294,000	7,269,500
	04-9-2012	04-9-2013 to 03-9-2022	0.62	–	1,686,500	–	–	–	1,686,500
	04-9-2012	04-9-2014 to 03-9-2022	0.62	–	1,686,500	–	–	–	1,686,500
Total				45,000,000	45,922,000	400,000	42,549,000	3,039,000	44,934,000

Notes:

1. Included in employees of the Group was 194,000 options granted to Mr. LEE King Keung, being the spouse of Ms. CHAN Yim Ching who is an executive Director of the Company.

2. In assessing the fair value of the share options granted during the year, the binomial model (the "Model") has been used. The Model is one of the generally accepted methodologies used to calculate the fair value of options and is one of the recommended option pricing models set out in Chapter 17 of the Listing Rules. The variables of the Model include risk-free rate, expected volatility and expected dividend rate (if any) of the Company's shares. The variables of the Model used in assessing the fair value of the share options granted during the year and the estimated fair values as at the date of grant are listed as follows:

Grantee	Date of grant	Vesting date	Risk-free rate	Expected volatility	Expected dividend yield	Estimated fair value per option HK$
Directors	04-9-2012	04-9-2012	0.345%	57.371%	4.84%	0.2206
		23-6-2013	0.345%	57.371%	4.84%	0.2256
Employees	04-9-2012	04-9-2012	0.345%	57.371%	4.84%	0.1875
		23-6-2013	0.345%	57.371%	4.84%	0.2040
Directors	04-9-2012	09-9-2012	0.555%	57.371%	4.84%	0.1914
		09-9-2013	0.555%	57.371%	4.84%	0.2116
Employees	04-9-2012	09-9-2012	0.555%	57.371%	4.84%	0.1914
		09-9-2013	0.555%	57.371%	4.84%	0.2116
Employees	04-9-2012	04-9-2013	0.654%	57.371%	4.84%	0.2122
		04-9-2014	0.654%	57.371%	4.84%	0.2270

(a) The risk-free rate applied to the Model represents the yield of the Hong Kong Exchange Fund Notes at the measurement date corresponding to the expected life of the options as at the measurement date.

(b) In the determination of volatility, we considered the historical volatility of the Company prior to the issuance of option. The expected volatility used in the calculation is based on the daily price change.

(c) Based on historic pattern, it is assumed that dividend yields are 4.84% during the expected life of the options granted on 04-9-2012.

(d) It should be noted that the value of options calculated using the Model is based on various assumptions and is only an estimate of the fair value of options granted during the period. It is possible that the financial benefit accruing to the grantee of an option will be considerably different from the value estimated using the Model at the measurement date.

Using the Model in assessing the fair value of share options granted during the period, the options would have an aggregate estimated fair value of approximately HK$9,678,000, calculated as follows:

Grantee	Date of grant	Vesting date	Number of share options granted during the year	Estimated fair value of share options granted during the year HK$'000
Directors	04-9-2012	04-9-2012	8,900,000	1,963
		23-6-2013	9,500,000	2,143
Employees	04-9-2012	04-9-2012	3,382,500	634
		23-6-2013	5,039,500	1,028
Director	04-9-2012	09-9-2012	300,000	57
		09-9-2013	300,000	63
Employees	04-9-2012	09-9-2012	7,563,500	1,448
		09-9-2013	7,563,500	1,601
Employees	04-9-2012	04-9-2013	1,686,500	358
		04-9-2014	1,686,500	383
			45,922,000	9,678

The following is a summary of the principal terms of the rules of the Share Option Scheme:

(1) Purpose of the Share Option Scheme

The purpose of the Share Option Scheme is to enable the board of directors of the Company (the "**Board**") to grant options to selected employees (whether full time or part time including the directors) of any member of the Group (the "**Eligible Persons**") as incentives or rewards for their contribution or potential contribution to the Group.

The terms of the Share Option Scheme provide that in granting options under the Share Option Scheme, the Board is entitled to determine whether there is any minimum holding period, and whether there is any performance target which must be achieved, before an option granted under the Share Option Scheme is exercised. The board is also entitled to determine the option price per Share payable on the exercise of an option (the "**Exercise Price**") according to the terms of the Share Option Scheme. Such terms, together with the incentive that the option will bring about, the Board believes, will serve the purpose of the Share Option Scheme.

(2) Who may join and basis of eligibility

The Board may, at its absolute discretion and on such terms as it may think fit, grant options to any Eligible Person to subscribe at the Exercise Price for such number of Shares as it may determine in accordance with the terms of the Share Option Scheme.

The basis of eligibility of any of the Eligible Persons to the grant of options shall be determined by the Board from time to time on the basis of his contribution or potential contribution to the development and growth of the Group.

(3) Price for subscription of Shares

The Exercise Price is to be determined by the Board provided always that it shall be at least the higher of:

(a) the closing price of the Shares as stated in the daily quotations sheet issued by the Stock Exchange on the date of offer for the grant of the option (which is deemed to be the date of grant if the offer for the grant of the option is accepted by the Eligible Person), which must be a trading day; and

(b) the average closing price of the Shares as stated in the daily quotations sheets issued by the Stock Exchange for the five business days immediately preceding the date of grant,

provided that the Exercise Price shall in no event be less than the nominal amount of one Share.

(4) Acceptance of Offers

The amount payable to the Company as acceptance of the offer for the grant of an option is HK$1.00.

(5) Maximum number of Shares

The maximum 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, for this purpose, options which have lapsed in accordance with the terms of the Share Option Scheme or any other share option schemes of the Company) must not in aggregate exceed 10% of the Shares in issue on 2 November 2007 (the "**Scheme Limit**").

On 12 May 2011, the refreshment of the Scheme Limit was approved by the shareholders of the Company at the AGM. Share options previously granted under the Share Option Scheme (including those outstanding, cancelled, lapsed or exercised) will not be counted for the purpose of calculating the Scheme Limit as refreshed. As at the date of this report, the number of Shares available for issue under the Share Option Scheme is 44,484,000 which represent approximately 6.38% of the issued share capital of the Company.

(6) Maximum entitlement of each Eligible Person

The maximum number of Shares issued and to be issued upon exercise of options granted and to be granted under the Share Option Scheme and any other share option schemes of the Company to any Eligible Person (including cancelled, exercised and outstanding options), in any 12-month period up to the date of grant shall not exceed 1% of the Shares in issue from time to time. Any further grant of options in excess of such limit must be separately approved by Shareholders with such Eligible Person and his associates abstaining from voting. The Company shall send a circular to the Shareholders which contains the information required by the Listing Rules.

(7) Period of the Share Option Scheme

The Share Option Scheme will remain in force for a period of 10 years commencing on the date on which the Share Option Scheme become unconditional (i.e., 2 November 2007) unless terminated earlier by Shareholders in general meeting.

MAJOR SUPPLIERS AND CUSTOMERS

The percentages of sales and purchases for the year ended 31 December 2012 attributable to the Group's major customers and suppliers are as follows:

Sales	
– the largest customer	7.2%
– five largest customers combined	26.3%
Purchases	
– largest supplier	5.7%
– five largest suppliers combined	18.0%

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 beneficial interest in the Group's major customers or suppliers disclosed above.

CORPORATE GOVERNANCE

The Company's corporate governance principles and practices are set out in the Corporate Governance Report on pages 33 to 41 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, at least 25% of the Company's total issued share capital was held by the public at the date of this report.

CHARITABLE DONATIONS

During the year, the Group made charitable donations amounting to approximately HK$144,000.

AUDITOR

The Company's auditor, PricewaterhouseCoopers who retire and, being eligible, offer themselves for reappointment at the AGM of the Company.

On behalf of the Board

CHING Chi Fai
Chairman
Hong Kong, 27 March 2013

Corporate Governance Report

The Company is dedicated to maintaining and ensuring high standards of corporate governance practices. The corporate governance principles of the Company emphasize accountability and transparency and are adopted in the best interest of the Company and its shareholders. The Board reviews its corporate governance practices from time to time in order to meet the rising expectations of shareholders and to fulfill its commitment to excellence in corporate governance.

During the year ended 31 December 2012, the Board has reviewed its policies and practices on corporate governance, and policies and practices on compliance with legal and regulatory requirements.

CORPORATE GOVERNANCE CODE

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

- Code provision A.2.1 of the Code provides that the roles of chairman and chief executive officer should be separate and should not be performed by the same individual. Up to the date of this report, the Board has not appointed an individual to the post of chief executive officer. The roles of the chief executive officer have been performed collectively by all the executive Directors, including the chairman of the Company. The Board considers that this arrangement allows contributions from all executive Directors with different expertise and is beneficial to the continuity of the Company's policies and strategies.

BOARD OF DIRECTORS

The Board currently comprises the following nine Directors:

Executive Directors

Mr. CHING Chi Fai *(Chairman)*
Mr. CHING Chi Keung
Mr. LIU Zigang
Mr. LEE King Hay
Ms. CHAN Yim Ching

Non-executive Director

Mr. Lawrence Joseph MORSE

Independent non-executive Directors

Mr. SUN Kai Lit Cliff *BBS, JP*
Mr. HUNG Kam Hung Allan
Mr. MA Chun Fung Horace

Board Responsibilities and Delegation

The Board collectively determines the overall strategies of the Company, and monitors performance and risks in pursuit of the strategic objectives of the Company. Day-to-day management of the Company is delegated to the executive Directors or the senior management in charge of each division. All Directors (including non-executive Directors and independent non-executive Directors) have been consulted on all major and material matters of the Group.

The Board has delegated some of its function to the board committees, details of which are set out below. Matters specifically reserved for the Board, including convening Shareholders' meetings and reporting their work in the Shareholders' meetings, implementing the Shareholders' resolutions, determining the Group's business plans and strategies, formulating the Group's annual budget and final accounts, formulating proposals for dividend and bonus distributions and for increase or reduction of share capital, determining the Group's corporate structure, formulating investment plans as well as exercising other powers, functions and duties as conferred by the Articles of Association of the Company.

The attendance of the Directors in the regular full Board meetings, the Audit Committee meetings, the Remuneration Committee meetings, the Nomination Committee meetings and the annual general meeting ("AGM") during the year ended 31 December 2012 are as follows:–

	No. of meetings attended/held				
	Regular Full Board Meeting	**Audit Committee Meeting**	**Remuneration Committee Meeting**	**Nomination Committee Meeting**	**AGM**
Executive Directors					
Mr. CHING Chi Fai *(Chairman)*	4/4	–	2/2	2/2	1/1
Mr. CHING Chi Keung	4/4	–	–	–	1/1
Mr. LIU Zigang	4/4	–	–	–	1/1
Mr. LEE King Hay	4/4	–	–	–	1/1
Ms. CHAN Yim Ching	4/4	–	–	–	1/1
Mr. LEUNG Ping Shing (resigned on 30 March 2012)	1/1	–	–	–	–
Non-executive Directors					
Mr. NG Bo Kwong (resigned on 31 December 2012)	4/4	2/2	2/2	–	1/1
Mr. Lawrence Joseph MORSE (appointed on 11 December 2012)	–	–	–	–	–
Independent non-executive Directors					
Mr. SUN Kai Lit Cliff	4/4	2/2	2/2	2/2	1/1
Mr. HUNG Kam Hung Allan	4/4	2/2	2/2	–	1/1
Mr. MA Chun Fung Horace	4/4	2/2	2/2	2/2	1/1

The number of independent non-executive Directors has met the requirements under the Listing Rules and Mr. MA Chun Fung Horace has appropriate accounting professional qualifications. The Company has received from each independent non-executive Director an annual confirmation of his independence pursuant to rule 3.13 of the Listing Rules. The Directors are of the view that all independent non-executive Directors meet the independence guidelines set out in rule 3.13 of the Listing Rules.

Under their respective service contracts, all the current independent non-executive Directors have been appointed for a period of one year from 21 September 2012 unless terminated in accordance with the terms of the service contracts. The current non-executive Director, Mr. Lawrence Joseph MORSE has entered into a letter of appointment for a period of one year from 11 December 2012 unless terminated in accordance with the terms of the appointment letter. All the appointments/contracts of non-executive Directors and independent non-executive Directors may be terminated either by the Company by giving written notice to terminate such appointment/contracts with immediate effect or by the non-executive Directors or independent non-executive Directors by giving 1 month's written notice to the Company. All the current non-executive Directors and independent non-executive Directors are subject to retirement by rotation and re-election at the annual general meeting of the Company in accordance with the Articles of Association of the Company.

Mr. CHING Chi Keung, an executive Director, is the brother of Mr. CHING Chi Fai who is the chairman and an executive Director.

During the year ended 31 December 2012, four full Board meetings were held. Minutes of the Board meetings are being kept by the company secretary of the Company and are available for inspection by the Directors of the Company.

MODEL CODE FOR DIRECTORS' SECURITIES TRANSACTIONS

The Company adopted the Model Code for Securities Transactions by Directors of Listed Issuers (the "**Model Code**") set out in Appendix 10 to the Listing Rules as its own code of conduct regarding Directors' securities transactions on 5 October 2007. Having made specific enquiries to all Directors, all Directors confirmed that they have complied with the requirements set out under the Model Code for the year ended 31 December 2012.

BOARD COMMITTEES

The Board has established the following committees:

- executive committee (the "**Executive Committee**");
- audit committee (the "**Audit Committee**");
- remuneration committee (the "**Remuneration Committee**");
- nomination committee (the "**Nomination Committee**"); and
- investment committee (the "**Investment Committee**").

EXECUTIVE COMMITTEE

The members of the Executive Committee are Mr. CHING Chi Fai, Mr. CHING Chi Keung, Mr. LIU Zigang, Mr. LEE King Hay and Ms. CHAN Yim Ching all being executive Directors. Mr. CHING Chi Fai is the chairman of the Executive Committee.

Other than the matters reserved for the Board and other committees, the Executive Committee has been delegated with the general powers to deal with the daily operations and management of the Company, including but not limited to opening bank accounts, arranging banking facilities, affixing the Common Seal, issue of shares upon exercise of any subscription or conversion rights under any share option scheme, warrants or convertible notes and promoting new companies.

Four meetings were held by the Executive Committee during the year ended 31 December 2012.

AUDIT COMMITTEE

The members of the audit committee are Mr. MA Chun Fung Horace, Mr. SUN Kai Lit Cliff and Mr. HUNG Kam Hung Allan (all are independent non-executive Directors). Mr. MA Chun Fung Horace, who possesses professional accounting qualifications and relevant accounting experience, is the chairman of the Audit Committee.

The principal responsibilities of the Audit Committee include:

- to make recommendations to the Board in relation to the appointment, re-appointment and removal of the external auditors;
- to review and monitor the external auditors' independence and objectivity;
- to develop and implement policy on engaging external auditors to supply non-audit services;
- to monitor integrity of the interim and annual financial statements;
- to review significant financial reporting judgments, in particular, to focus on any changes in accounting policies and practices;
- to ensure that management has performed its duty to have an effective internal control system and to consider any major investigations findings of internal control matters;
- to review the external auditors' management letter, any material queries raised by the external auditors to management about the accounting records, financial accounts or systems of control and management's response; and
- to review arrangements by which employees of the Company may, in confidence, raise concerns about possible improprieties in financial reporting, internal control or other matters.

During the year ended 31 December 2012 and up to the date of this report, the Audit Committee has performed its duties by:

- reviewing the interim and annual results of the Group, and the relevant statements and reports prior to Board approval and reviewing the external auditors' reports and findings on the work performed;
- reviewing the external auditors' audit plan and terms of engagement for the audit;
- considering and approving the audit fee payable to the external auditors;
- reviewing the independency and objectivity of the external auditors, and the non-audit service fee payable to the external auditors; and
- reviewing the effectiveness of the internal control systems of the Group involving financial control, operational control, compliance control and risk management.

REMUNERATION COMMITTEE

The members of the Remuneration Committee are Mr. CHING Chi Fai (an executive Director), Mr. MA Chun Fung Horace (an independent non-executive Director), Mr. SUN Kai Lit Cliff (an independent non-executive Director) and Mr. HUNG Kam Hung Allan (an independent non-executive Director). Mr. HUNG Kam Hung Allan is the chairman of the Remuneration Committee.

The primary duties of the Remuneration Committee are as follows:

- to make recommendations to the Board on the Group's policy and structure for all remuneration of Directors and senior management; and
- to review and determine the terms of remuneration packages, bonuses and other compensation payable to the Directors and senior management.

The Remuneration Committee has considered and reviewed:

- the existing terms of remuneration packages and the performance of individual Directors and the senior management; and
- the Group's remuneration policy in relation to that of comparable companies, time commitment and responsibilities of the Directors and the senior management and desirability of performance-based remuneration.

The Remuneration Committee considered that the existing terms of remunerations of the Directors and the senior management were fair and reasonable.

The remuneration of senior management by band for the year ended 31 December 2012 is as follows:

	Number of Individuals 2012
Nil to HK$1,000,000	1
HK$1,000,001 to HK$1,500,000	–
HK$1,500,001 to HK$2,000,000	1

NOMINATION COMMITTEE

The members of the Nomination Committee are Mr. CHING Chi Fai (an executive Director), Mr. MA Chun Fung Horace (an independent non-executive Director) and Mr. SUN Kai Lit Cliff (an independent non-executive Director). Mr. CHING Chi Fai is the chairman of the Nomination Committee.

The Nomination Committee is responsible for identification and recommendation to the Board of possible appointees as Directors, making recommendations to the Board on matters relating to appointment or reappointment of Directors, succession planning for Directors and assessing the independence of the independent non-executive Directors.

The work performed by the Nomination Committee during the year ended 31 December 2012 and up to the date of this report included:

- to review the structure, size and composition of the Board and make recommendations to the Board on any proposed changes to complement the Company's corporate strategy;

- to assess the independence of the independent non-executive Directors; and

- to recommend the appointment of the Mr. Lawrence Joseph MORSE as a non-executive Director.

Two meetings were held by the Nomination Committee during the year ended 31 December 2012.

INVESTMENT COMMITTEE

The members of the Investment Committee are Mr. CHING Chi Fai (an executive Director), Mr. MA Chun Fung Horace (an independent non-executive Director) and Mr. KEUNG Kwok Hung (chief financial officer). Mr. CHING Chi Fai is the chairman of the Investment Committee.

The Investment Committee has been delegated by the Board to deal with investments and divestments of the Group which are less than US$20 million or 5% of the total market capitalization of the Company in aggregate, whichever is lower. Each investment shall not exceed 10% of the aforesaid amount.

As no investment opportunity fell within the scope of its authority, no meeting was held by the Investment Committee during the year ended 31 December 2012.

DIRECTORS' TRAINING AND PROFESSIONAL DEVELOPMENT

All Directors are encouraged to participate in continuous professional development to develop and refresh their knowledge and skills. During the period under review, the company has organised seminars with a professional body for the Directors in order to develop and refresh their knowledge and skills. The Directors have been regularly provided with materials regarding latest changes of the Listing Rules and Corporate Governance Practices as well as other regulatory updates.

During the year ended 31 December 2012, the Directors participated in the following trainings:

Name of Directors	Reading materials regarding regulatory updates	Attending external seminars on professional skills
Executive Directors		
Mr. CHING Chi Fai *(Chairman)*	✓	✓
Mr. CHING Chi Keung	✓	✓
Mr. LIU Zigang	✓	✓
Mr. LEE King Hay	✓	–
Ms. CHAN Yim Ching	✓	✓
Mr. LEUNG Ping Shing (resigned on 30 March 2012)	✓	–
Non-executive Directors		
Mr. NG Bo Kwong (resigned on 31 December 2012)	✓	✓
Mr. Lawrence Joseph MORSE (appointed on 11 December 2012)	✓	–
Independent non-executive Directors		
Mr. SUN Kai Lit Cliff	✓	✓
Mr. HUNG Kam Hung Allan	✓	✓
Mr. MA Chun Fung Horace	✓	–

INTERNAL CONTROL

The Board has overall responsibility for maintaining a sound and effective internal control system of the Group. The Group's internal control system includes a well defined management structure with limits of authority which is designed for the achievement of business objectives, safeguarding assets against unauthorized use or disposition, ensuring proper maintenance of books and records for the provision of reliable financial information for internal use or publication, and ensuring compliance with relevant legislations and regulations. In addition, the Group has established risk management procedures to identify and prioritise risks for the business to be addressed by management.

During the year ended 31 December 2012, the Board has conducted a review of the effectiveness of internal control system of the Group and is satisfied with the scope and effectiveness of the system.

COMMUNICATION WITH SHAREHOLDERS

Communication with shareholders is given high priority by the Group. A shareholder communication policy has been adopted for the purpose of ensuring that the shareholders of the Company are provided with equal and timely access to balanced and understandable information about the Company.

Extensive information about the Group's activities has been provided in the annual report and the interim report which are sent to shareholders and are available on the Company's website (www.mingfaigroup.com). All shareholders are encouraged to attend the general meetings of the Company to discuss the businesses of the Group with the Directors and senior management in the general meetings.

SHAREHOLDERS' RIGHTS

Convening an Extraordinary General Meeting by the Shareholders

The procedures of convening an extraordinary general meeting by the shareholders are as follows:

Pursuant to article 79 of the Articles of Association of the Company, general meetings may be convened on the written requisition of any two or more members of the Company deposited at the principal office of the Company in Hong Kong or, in the event the Company ceases to have such a principal office, the registered office specifying the objects of the meeting and signed by the requisitionists, provided that such requisitionists held as at the date of deposit of the requisition not less than one-tenth of the paid up capital of the Company which carries the right of voting at general meetings of the Company. General meetings may also be convened on the written requisition of any one member of the Company which is a recognised clearing house (or its nominee(s)) deposited at the principal office of the Company in Hong Kong or, in the event the Company ceases to have such a principal office, the registered office specifying the objects of the meeting and signed by the requisitionist, provided that such requisitionist held as at the date of deposit of the requisition not less than one-tenth of the paid up capital of the Company which carries the right of voting at general meetings of the Company. If the Board does not within 21 days from the date of deposit of the requisition proceed duly to convene the meeting to be held within a further 21 days, the requisitionist(s) themselves or any of them representing more than one-half of the total voting rights of all of them, may convene the general meeting in the same manner, as nearly as possible, as that in which meetings may be convened by the Board provided that any meeting so convened shall not be held after the expiration of three months from the date of deposit of the requisition, and all reasonable expenses incurred by the requisitionist(s) as a result of the failure of the Board shall be reimbursed to them by the Company.

Putting Forward Proposals at Shareholders' Meetings

There are no provisions allowing shareholders to move new resolution at general meetings under the Articles of Association of the Company. Shareholders who wish to move a resolution may request the Company to convene a general meeting following the procedures set out in the preceding paragraph.

Making Enquires to the Board

Shareholders may make enquires to the Board in writing to the principal place of business of the Company in Hong Kong at 20th Floor, Laws Commercial Plaza, 788 Cheung Sha Wan Road, Kowloon, Hong Kong.

DIRECTORS' AND AUDITORS' RESPONSIBILITY FOR THE FINANCIAL STATEMENTS

The Directors acknowledge that it is their responsibilities for overseeing the preparation of the financial statements for each financial period which give a true and fair view of the state of affairs of the Group, and of results and cash flow for the period. In preparing the financial statements for the year ended 31 December 2012, the Directors have selected suitable accounting policies and applied them consistently; adopted appropriate Hong Kong Financial Reporting Standards and Hong Kong Accounting Standards; made prudent and reasonable judgments and estimates and have prepared the financial statements on a going concern basis. The Directors also warrant that the Group's financial statements will be published in a timely manner.

The statement of the auditors of the Company about their reporting responsibilities on the financial statements of the Group is set out in the section headed "Independent Auditor's Report" on pages 42 to 43 of this annual report.

AUDITOR'S REMUNERATION

The external auditor of the Company is PricewaterhouseCoopers. For the year ended 31 December 2012, the fees payable by the Company to the external auditor are listed as below:

- HK$3,135,000 for the performance of audit services; and
- HK$74,000 for provision of tax services (non-audit service);

The Audit Committee is responsible for making recommendations to the Board as to the appointment, re-appointment and removal of the external auditors, which is subject to the approval by the Board and its shareholders at general meetings of the Company.

The Audit Committee will take into account certain factors including the audit performance, quality and objectivity and independence of the auditors, when assessing the external auditors.

CONSTITUTIONAL DOCUMENTS

There is no change in the Company's constitutional documents during the year.

On behalf of the Board

CHING Chi Fai
Chairman
Hong Kong, 27 March 2013

Independent Auditor's Report

TO THE SHAREHOLDERS OF MING FAI INTERNATIONAL HOLDINGS LIMITED
(incorporated in the Cayman Islands with limited liability)

We have audited the consolidated financial statements of Ming Fai International Holdings Limited (the "Company") and its subsidiaries (together, the "Group") set out on pages 44 to 117, which comprise the consolidated and company balance sheets as at 31 December 2012, and the consolidated statement of comprehensive income, the consolidated statement of changes in equity and the consolidated statement of cash flows for the year then ended, and a summary of significant accounting policies and other explanatory information.

DIRECTORS' RESPONSIBILITY FOR THE CONSOLIDATED FINANCIAL STATEMENTS

The directors of the Company are responsible for the preparation of consolidated financial statements that give a true and fair view in accordance with 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 and to report our opinion solely to you, as a body, and for no other purpose. We do not assume responsibility towards or accept liability to any other person for the contents of this report.

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

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

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

OPINION

In our opinion, the consolidated financial statements give a true and fair view of the state of affairs of the Company and of the Group as at 31 December 2012, and of the Group's 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.

PricewaterhouseCoopers
Certified Public Accountants

Hong Kong, 27 March 2013

Consolidated Balance Sheet

As at 31 December 2012

	Note	2012 HK$'000	2011 HK$'000
ASSETS			
Non-current assets			
Goodwill	*9(a)*	**345,325**	342,666
Land use rights	*6*	**17,793**	26,423
Property, plant and equipment	*7*	**230,467**	333,913
Investment properties	*8*	**206,899**	110,823
Intangible assets	*9(b)*	**16,172**	16,683
Long-term prepayments	*14*	**20,802**	17,245
Investment in an associated company	*10(a)*	**634**	590
Deferred income tax assets	*11*	**4,115**	8,253
Total non-current assets		**842,207**	856,596
Current assets			
Inventories	*12*	**199,499**	203,690
Trade and bills receivables	*13*	**391,605**	336,411
Amount due from an associated company	*10(b)*	**1,328**	673
Prepaid tax		**26**	45
Deposits, prepayments and other receivables	*14*	**83,566**	80,672
Restricted cash	*15*	**37,307**	–
Cash and cash equivalents	*16*	**245,505**	191,480
Total current assets		**958,836**	812,971
Total assets		**1,801,043**	1,669,567
EQUITY			
Equity attributable to the equity holders of the Company			
Share capital	*20*	**6,968**	6,694
Share premium	*20*	**590,413**	560,626
Other reserves	*18(a)*	**636,303**	533,381
Proposed final dividend	*18(a), 33*	**17,431**	13,388
		1,251,115	1,114,089
Non-controlling interests		**(7,710)**	(7,812)
Total equity		**1,243,405**	1,106,277

The notes on pages 50 to 117 are an integral part of these consolidated financial statements.

	Note	2012 HK$'000	2011 HK$'000
LIABILITIES			
Non-current liabilities			
Long-term bank borrowings	*21*	**38,868**	45,190
Deferred income tax liabilities	*11*	**5,849**	10,717
Total non-current liabilities		**44,717**	55,907
Current liabilities			
Current portion of long-term bank borrowings	*21*	**6,339**	6,283
Trade payables	*22*	**231,001**	225,468
Accruals and other payables	*23*	**234,740**	226,537
Current income tax liabilities		**34,894**	41,912
Loans from non-controlling interests	*24*	**5,933**	5,410
Dividends payable		**14**	1,773
Total current liabilities		**512,921**	507,383
Total liabilities		**557,638**	563,290
Total equity and liabilities		**1,801,043**	1,669,567
Net current assets		**445,915**	305,588
Total assets less current liabilities		**1,288,122**	1,162,184

The financial statements on page 44 to 117 were approved by the Board of Directors on 27 March 2013 and were signed on its behalf.

CHING Chi Fai
Director

CHAN Yim Ching
Director

The notes on pages 50 to 117 are an integral part of these consolidated financial statements.

Balance Sheet

As at 31 December 2012

	Note	2012 HK$'000	2011 HK$'000
ASSETS			
Non-current asset			
Investment in a subsidiary	*17(a)*	**231,989**	232,318
Total non-current asset		**231,989**	232,318
Current assets			
Deposits, prepayments and other receivables	*14*	**306**	156
Amounts due from subsidiaries	*17(b)*	**618,904**	545,737
Cash and cash equivalents	*16*	**25,577**	45,368
Total current assets		**644,787**	591,261
Total assets		**876,776**	823,579
EQUITY			
Equity attributable to the equity holders of the Company			
Share capital	*20*	**6,968**	6,694
Share premium	*20*	**590,413**	560,626
Other reserves	*18(b)*	**260,340**	240,377
Proposed final dividend	*18(b), 33*	**17,431**	13,388
Total equity		**875,152**	821,085
LIABILITIES			
Current liabilities			
Accruals and other payables	*23*	**1,610**	721
Dividends payable		**14**	1,773
Total current liabilities		**1,624**	2,494
Total liabilities		**1,624**	2,494
Total equity and liabilities		**876,776**	823,579
Net current assets		**643,163**	588,767
Total assets less current liabilities		**875,152**	821,085

The financial statements on page 44 to 117 were approved by the Board of Directors on 27 March 2013 and were signed on its behalf.

CHING Chi Fai
Director

CHAN Yim Ching
Director

The notes on pages 50 to 117 are an integral part of these consolidated financial statements.

Consolidated Statement of Comprehensive Income

For the year ended 31 December 2012

	Note	2012 HK$'000	2011 HK$'000
Revenue	5	**1,685,723**	1,475,369
Cost of sales	25	**(1,321,475)**	(1,151,855)
Gross profit		**364,248**	323,514
Distribution costs	25	**(167,780)**	(159,194)
Administrative expenses	25	**(120,941)**	(86,171)
Other income	26	**33,445**	6,784
Impairment of property, plant and equipment	7	**(5,504)**	–
Operating profit		**103,468**	84,933
Finance income	29	**512**	1,003
Finance costs	29	**(1,519)**	(1,809)
Share of profit of an associated company	10(a)	**80**	94
Fair value gains on investment properties	8	**–**	6,000
Profit before income tax		**102,541**	90,221
Income tax expense	30	**(27,363)**	(22,760)
Profit for the year		**75,178**	67,461
Other comprehensive income			
Revaluation of land and building prior to transfer to investment properties		**34,116**	–
Currency translation differences		**5,503**	25,525
Total comprehensive income for the year		**114,797**	92,986
Profit/(loss) attributable to:			
Equity holders of the Company		**75,250**	71,666
Non-controlling interests		**(72)**	(4,205)
		75,178	67,461
Total comprehensive income/(loss) attributable to:			
Equity holders of the Company		**114,869**	97,092
Non-controlling interests		**(72)**	(4,106)
		114,797	92,986
Earnings per share attributable to equity holders of the Company (Expressed in HK cents)			
– Basic	32(a)	**11.4**	10.9
– Diluted	32(b)	**11.4**	10.7

The notes on pages 50 to 117 are an integral part of these consolidated financial statements.

Dividends			
Interim dividend paid	33	**6,508**	10,040
Proposed final dividend	33	**17,431**	13,388
		23,939	23,428

Consolidated Statement of Changes in Equity

For the year ended 31 December 2012

	Attributable to equity holders of the Company					
	Share capital HK$'000	Share premium HK$'000	Other reserves HK$'000	Sub-total HK$'000	Non-controlling interests HK$'000	Total equity HK$'000
Balance at 1 January 2011	6,371	495,591	476,577	978,539	(4,182)	974,357
Comprehensive income						
Profit/(loss) for the year	–	–	71,666	71,666	(4,205)	67,461
Other comprehensive income						
Currency translation differences	–	–	25,426	25,426	99	25,525
Total comprehensive income/(loss)	–	–	97,092	97,092	(4,106)	92,986
Final dividend relating to 2010	–	–	(28,671)	(28,671)	–	(28,671)
Interim dividend relating to 2011	–	–	(10,040)	(10,040)	–	(10,040)
Dividends paid to non-controlling interests	–	–	–	–	(18)	(18)
Ordinary share issuance *(Note 20)*	300	62,530	–	62,830	–	62,830
Exercise of share options	23	2,505	–	2,528	–	2,528
Share-based compensation	–	–	11,878	11,878	–	11,878
Acquisition of non-controlling interests	–	–	(67)	(67)	494	427
Balance at 31 December 2011	6,694	560,626	546,769	1,114,089	(7,812)	1,106,277
Balance at 1 January 2012	**6,694**	**560,626**	**546,769**	**1,114,089**	**(7,812)**	**1,106,277**
Comprehensive income						
Profit/(loss) for the year	**–**	**–**	**75,250**	**75,250**	**(72)**	**75,178**
Other comprehensive income						
Revaluation of land and building prior to transfer to investment properties	**–**	**–**	**34,116**	**34,116**	**–**	**34,116**
Currency translation differences	**–**	**–**	**5,503**	**5,503**	**–**	**5,503**
Total comprehensive income/(loss)	**–**	**–**	**114,869**	**114,869**	**(72)**	**114,797**
Final dividend relating to 2011 *(Note 33)*	**–**	**–**	**(13,017)**	**(13,017)**	**–**	**(13,017)**
Interim dividend relating to 2012 *(Note 33)*	**–**	**–**	**(6,508)**	**(6,508)**	**–**	**(6,508)**
Forfeiture of dividends *(Note 20)*	**–**	**–**	**1,764**	**1,764**	**–**	**1,764**
Ordinary share issuance *(Note 20)*	**456**	**44,395**	**–**	**44,851**	**–**	**44,851**
Exercise of share options	**4**	**244**	**–**	**248**	**–**	**248**
Cancellation of ordinary shares *(Note 20)*	**(186)**	**(14,852)**	**–**	**(15,038)**	**–**	**(15,038)**
Share-based compensation	**–**	**–**	**8,957**	**8,957**	**–**	**8,957**
Capital injection from non-controlling interests	**–**	**–**	**–**	**–**	**174**	**174**
Disposal of subsidiaries *(Note 36)*	**–**	**–**	**900**	**900**	**–**	**900**
Balance at 31 December 2012	**6,968**	**590,413**	**653,734**	**1,251,115**	**(7,710)**	**1,243,405**

The notes on pages 50 to 117 are an integral part of these consolidated financial statements.

Consolidated Statement of Cash Flows

For the year ended 31 December 2012

	Note	2012 HK$'000	2011 HK$'000
Cash flows from operating activities			
Cash generated from operations	34(a)	**119,954**	106,909
Finance interest paid	29	**(1,519)**	(1,809)
Income tax paid		**(18,583)**	(8,042)
Net cash generated from operating activities		**99,852**	97,058
Cash flows from investing activities			
Acquisition of non-controlling interests	35	**–**	(238)
Purchase of property, plant and equipment		**(28,294)**	(80,865)
Purchase of land use rights		**(1,354)**	–
Purchase of intangible assets		**(1,797)**	(22)
Proceeds from disposal of property, plant and equipment	34(b)	**1,458**	607
Finance interest received	29	**512**	1,003
Dividends received from an associated company	10(a)	**36**	65
Net cash outflows arising from disposal of subsidiaries	36	**(19)**	–
Net cash used in investing activities		**(29,458)**	(79,450)
Cash flows from financing activities			
(Increase)/decrease in restricted cash	15	**(37,307)**	2,544
Proceeds from borrowings	34(c)	**51,359**	24,898
Repayments of borrowings	34(c)	**(57,625)**	(43,077)
Dividends paid to equity holders		**(19,520)**	(37,597)
Dividends paid to non-controlling interests		**–**	(18)
Capital injection from non-controlling interests		**174**	–
Proceeds from loans from non-controlling interests	34(c)	**523**	1,470
Repayment of loan from non-controlling interest	34(c)	**–**	(41)
Net proceeds from issuance of ordinary shares	20	**44,851**	62,830
Proceeds from exercise of share options	20	**248**	2,528
Net cash (used in)/generated from financing activities		**(17,297)**	13,537
Net increase in cash and cash equivalents		**53,097**	31,145
Cash and cash equivalents at the beginning of the year		**191,480**	158,846
Exchange gains on cash and cash equivalents		**928**	1,489
Cash and cash equivalents at the end of the year	16	**245,505**	191,480

The notes on pages 50 to 117 are an integral part of these consolidated financial statements.

Notes to the Consolidated Financial Statements

1 GENERAL INFORMATION

Ming Fai International Holdings Limited (the "Company") is an investment holding company. Its subsidiaries are principally engaged in the manufacturing and sales of amenity products and accessories and the distribution and retail business of cosmetics and fashion accessories in the People's Republic of China (the "PRC") with the brand "7 Magic" through franchisees.

The Company was incorporated in the Cayman Islands on 29 May 2007 as an exempted company with limited liability under the Companies Law (2007 Revision) of the Cayman Islands. Its registered address is at the office of M&C Corporate Services Limited, P.O. Box 309GT, Ugland House, South Church Street, George Town, Grand Cayman, Cayman Islands.

The Company has its primary listing on The Main Board of The Stock Exchange of Hong Kong Limited (the "Stock Exchange").

These consolidated financial statements are presented in thousands of units of Hong Kong dollars (HK$'000), unless otherwise stated. These consolidated financial statements have been approved for issue by the board of directors (the "Board") on 27 March 2013.

2 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

The principal accounting policies applied in the preparation of these consolidated financial statements are set out below. These policies have been consistently applied to all the years presented, unless otherwise stated.

(a) Basis of preparation

The consolidated financial statements of the Group have been prepared in accordance with Hong Kong Financial Reporting Standards ("HKFRS") issued by the Hong Kong Institute of Certified Public Accountants ("HKICPA"). The consolidated financial statements have been prepared under the historical cost convention, as modified by the revaluation of investment properties.

The preparation of financial statements in conformity with HKFRS requires the use of certain critical accounting estimates. It also requires management to exercise its judgement in the process of applying the Group's accounting policies. The areas involving a higher degree of judgement or complexity or areas where assumptions and estimates are significant to the consolidated financial statements are disclosed in note 4 to consolidated financial statements.

(b) New and amended standards adopted by the Group:

There are no new and amended standards to existing HKFRS that are effective for the Group's accounting year commencing 1 January 2012 that could be expected to have a material impact on the Group.

2 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES *(Continued)*

(c) New standards and interpretations not yet adopted:

A number of new standards and amendments to standards and interpretations are effective for annual periods beginning after 1 January 2012, and have not been applied in preparing these consolidated financial statements. None of these is expected to have a significant effect on the consolidated financial statements of the Group, except the following set out below:

Amendment to HKAS 1, 'Financial statement presentation' regarding other comprehensive income ("OCI"). The main change resulting from these amendments is a requirement for entities to group items presented in OCI on the basis of whether they are potentially reclassifiable to profit or loss subsequently (reclassification adjustments). The amendments do not address which items are presented in OCI.

HKFRS 9, 'Financial instruments', addresses the classification, measurement and recognition of financial assets and financial liabilities. HKFRS 9 was issued in November 2009 and October 2010. It replaces the parts of HKAS 39 that relate to the classification and measurement of financial instruments. HKFRS 9 requires financial assets to be classified into two measurement categories: those measured as at fair value and those measured at amortised cost. The determination is made at initial recognition. The classification depends on the entity's business model for managing its financial instruments and the contractual cash flow characteristics of the instruments. For financial liabilities, the standard retains most of the HKAS 39 requirements. The main change is that, in cases where the fair value option is taken for financial liabilities, the part of a fair value change due to an entity's own credit risk is recorded in OCI rather than the income statement, unless this creates an accounting mismatch. The Group is yet to assess HKFRS 9's full impact and intends to adopt HKFRS 9 no later than the accounting period beginning on or after 1 January 2015. The Group will also consider the impact of the remaining phases of HKFRS 9 when completed by the Board.

HKFRS 10, 'Consolidated financial statements', builds on existing principles by identifying the concept of control as the determining factor in whether an entity should be included within the consolidated financial statements of the parent company. The standard provides additional guidance to assist in the determination of control where this is difficult to assess. The Group is yet to assess HKFRS 10's full impact and intends to adopt HKFRS 10 no later than the accounting period beginning on or after 1 January 2013.

HKFRS 12, 'Disclosures of interests in other entities', includes the disclosure requirements for all forms of interests in other entities, including joint arrangements, associates, special purpose vehicles and other off balance sheet vehicles. The Group is yet to assess HKFRS 12's full impact and intends to adopt HKFRS 12 no later than the accounting period beginning on or after 1 January 2013.

2 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES *(Continued)*

(c) New standards and interpretations not yet adopted: *(Continued)*

HKFRS 13, 'Fair value measurement', aims to improve consistency and reduce complexity by providing a precise definition of fair value and a single source of fair value measurement and disclosure requirements for use across HKFRS. The requirements, which are largely aligned between HKFRS and US GAAP, do not extend the use of fair value accounting but provide guidance on how it should be applied where its use is already required or permitted by other standards within HKFRS or US GAAP. The Group is yet to assess HKFRS 13's full impact and intends to adopt HKFRS 13 no later than the accounting period beginning on or after 1 January 2013.

There are no other HKFRS or HK(IFRIC) interpretations that are not yet effective that would be expected to have a material impact on the Group.

(d) Subsidiaries

Subsidiaries are all entities over which the Group has the power to govern the financial and operating policies generally accompanying a shareholding of more than one half of the voting rights. The existence and effect of potential voting rights that are currently exercisable or convertible are considered when assessing whether the Group controls another entity.

Subsidiaries are fully consolidated from the date on which control is transferred to the Group. They are de-consolidated from the date that control ceases.

The Group uses the acquisition method of accounting to account for business combinations. The consideration transferred for the acquisition of a subsidiary is the fair values of the assets transferred, the liabilities incurred to the former owners of the acquire and the equity interests issued by the Group. The consideration transferred includes the fair value of any asset or liability resulting from a contingent consideration arrangement. Identifiable assets acquired and liabilities and contingent liabilities assumed in a business combination are measured initially at their fair values at the acquisition date. On an acquisition-by-acquisition basis, the Group recognises any non-controlling interest in the acquiree either at fair value or at the non-controlling interest's proportionate share of the acquiree's net identifiable assets. Acquisition-related costs are expensed as incurred.

The excess of the consideration transferred, the amount of any non-controlling interest in the acquiree and the acquisition-date fair value of any previous equity interest in the acquiree over the fair value of the identifiable net assets acquired is recorded as goodwill. If this is less than the fair value of the net assets of the subsidiary acquired in the case of a bargain purchase, the difference is recognised directly in the consolidated statement of comprehensive income.

Inter-company transactions, balances, income and expenses on transactions between group companies are eliminated. Profits and losses resulting from inter-company transactions that are recognised in assets are also eliminated.

Accounting policies of subsidiaries have been changed where necessary to ensure consistency with the policies adopted by the Group.

(d) Subsidiaries *(Continued)*

In the Company's balance sheet, the investment in a subsidiary is stated at cost less provision for impairment loss. The results of subsidiaries are accounted for by the Company on the basis of dividend and receivable. Cost is adjusted to reflect changes in consideration arising from contingent consideration amendments. Cost also includes direct attributable costs of the investment.

(e) Transactions with non-controlling interests

Transactions with non-controlling interests that do not result in loss of control are accounted for as equity transactions – that is, as transactions with the owners in their capacity as owners. The difference between fair value of any consideration paid and the relevant share acquired of the carrying value of net assets of the subsidiary is recorded in equity. Gains or losses on disposals to non-controlling interests are also recorded in equity.

(f) Associated company

Associated companies are all entities over which the Group has significant influence but not control, generally accompanying a shareholding of between 20% and 50% of the voting rights. Investments in associated companies are accounted for using the equity method of accounting. Under the equity method, the investment is initially recognised at cost, and the carrying amount is increased or decreased to recognise the investor's share of the profit or loss of the investee after the date of acquisition. The Group's investment in associated companies includes goodwill identified on acquisition.

The Group's share of post-acquisition profit or loss is recognised in the consolidated statement of comprehensive income, and its share of post-acquisition movements in other comprehensive income is recognised in other comprehensive income with a corresponding adjustment to the carrying amount of the investment. When the Group's share of losses in an associated company equals or exceeds its interest in the associated company, including any other unsecured receivables, the Group does not recognise further losses, unless it has incurred legal or constructive obligations or made payments on behalf of the associated company.

The Group determines at each reporting date whether there is any objective evidence that the investment in the associated company is impaired. If this is the case, the Group calculates the amount of impairment as the difference between the recoverable amount of the associated company and its carrying value and recognises the amount adjacent to 'share of profit/(loss) of an associated company' in the consolidated statement of comprehensive income.

2 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES *(Continued)*

(f) Associated company *(Continued)*

Profits and losses resulting from upstream and downstream transactions between the Group and its associated company are recognised in the Group's consolidated financial statements only to the extent of unrelated investor's interests in the associated companies. Unrealised losses are eliminated unless the transaction provides evidence of an impairment of the asset transferred. Accounting policies of associated companies have been changed where necessary to ensure consistency with the policies adopted by the Group.

(g) Segment reporting

Operating segments are reported in a manner consistent with the internal reporting provided to the chief operating decision-maker. The chief operating decision-maker, who is responsible for allocating resources and assessing performance of the operating segments, has been identified as the Board that makes strategic decisions.

(h) Foreign currency translation

(i) Functional and presentation currency

Items included in the financial statements of each of the Group's entities are measured using the currency of the primary economic environment in which the entity operates (the "functional currency"). The consolidated financial statements are presented in Hong Kong dollars ("HK$"), which is the Company's functional and the Group's presentation currency.

(ii) Transactions and balances

Foreign currency transactions are translated into the functional currency using the exchange rates prevailing at the dates of the transactions or valuation where items are re-measured.

Foreign exchange gains and losses resulting from the settlement of such transactions and from the translation at year-end exchange rates of monetary assets and liabilities denominated in foreign currencies are recognised in the consolidated statement of comprehensive income.

2 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES *(Continued)*

(h) Foreign currency translation *(Continued)*

(iii) Group companies

The results and financial position of all the group entities (none of which has the currency of a hyper-inflationary economy) that have a functional currency different from the presentation currency are translated into the presentation currency as follows:

– assets and liabilities for each balance sheet presented are translated at the closing rate at the date of that balance sheet;

– income and expenses for each consolidated statement of comprehensive income are translated at average exchange rates (unless this average is not a reasonable approximation of the cumulative effect of the rates prevailing on the transaction dates, in which case income and expenses are translated at the dates of the transactions); and

– all resulting exchange differences are recognised in other comprehensive income.

On consolidation, exchange differences arising from the translation of the net investment in foreign operations are taken to other comprehensive income. When a foreign operation is partially disposed of or sold, exchange differences that were recorded in equity are recognised in the consolidated statement of comprehensive income as part of the gain or loss on sale.

Goodwill and fair value adjustments arising on the acquisition of a foreign entity are treated as assets and liabilities of the foreign entity and translated at the closing rate. Exchange differences arising are recognised in equity.

(i) Property, plant and equipment

Property, plant and equipment are stated at historical cost less accumulated depreciation and accumulated impairment losses. Historical cost includes expenditure that is directly attributable to the acquisition of the items.

Subsequent costs are included in the asset's carrying amount or recognised as a separate asset, as appropriate, only when it is probable that future economic benefits associated with the item will flow to the Group and the cost of the item can be measured reliably. All repairs and maintenance are charged to the consolidated statement of comprehensive income during the financial year in which they are incurred.

2 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES *(Continued)*

(i) Property, plant and equipment *(Continued)*

Leasehold land classified as finance lease commences amortisation from the time when the land interest becomes available for its intended use and is amortised on a straight-line basis over the period of the lease.

Depreciation for buildings is calculated using the straight-line method to allocate cost over its estimated useful lives of 20 years.

Depreciation for other property, plant and equipment is calculated using the straight-line method to allocate their cost over their estimated useful lives, at the following rates per annum:

Leasehold improvements	Shorter of 10 years or lease period
Plant and machinery	10% – 33%
Motor vehicles	20%
Furniture and fixtures	33%
Computer equipment	33%

The assets' useful lives are reviewed, and adjusted if appropriate, at each balance sheet date.

An asset's carrying amount is written down immediately to its recoverable amount if the asset's carrying amount is greater than its estimated recoverable amount.

Gains and losses on disposals are determined by comparing proceeds with carrying amount and are recognised in the consolidated statement of comprehensive income.

Construction in progress represents property, plant and equipment under construction or pending installation, and is stated at cost less impairment losses. Cost comprises direct costs of construction including borrowing costs attributable to the construction during the period of construction. No provision for depreciation is made on construction in progress until such time as the relevant assets are completed and ready for intended use.

(j) Land use rights

Land use rights are stated at cost less accumulated amortisation and impairment losses. Cost represents up-front prepayments made for the rights to use the land for periods varying from 20 to 70 years.

Amortisation of land use rights is expensed in the consolidated statement of comprehensive income on a straight-line basis over the period of the lease or when there is impairment, the impairment is expensed in the consolidated statement of comprehensive income.

(k) Investment properties

Property that is held for long-term rental yields or for capital appreciation or both and not occupied by the Group, is classified as investment properties.

Investment property is measured initially at its cost, including related transaction costs. After initial recognition, investment property is carried at fair value, representing open market value determined annually by external valuers. Fair value is based on active market prices, adjusted, if necessary, for any difference in the nature, location or condition of the specific asset. If this information is not available, the Group uses alternative valuation methods such as recent prices from less active markets or discounted cash flow projections. These valuations are reviewed annually by external valuers with changes in fair values are recorded in the consolidated statement of comprehensive income.

If an item of property, plant and equipment becomes an investment property because its use has changed, any difference resulting between the carrying amount and the fair value of this item at the date of transfer is recognised in equity as a revaluation of property, plant and equipment. However, if a fair value gain reverses a previous impairment loss, the gain is recognised in the consolidated statement of comprehensive income.

(l) Goodwill

Goodwill arises on the acquisition of subsidiaries and represents the excess of the consideration transferred over the Company's interest in net fair value of the net identifiable assets, liabilities and contingent liabilities of the acquiree and the fair value of the non-controlling interest in the acquiree.

For the purpose of impairment testing, goodwill acquired in a business combination is allocated to each of the cash-generating units ("CGUs"), or groups of CGUs, that is expected to benefit from the synergies of the combination. Each unit or group of units to which the goodwill is allocated represents the lowest level within the entity at which the goodwill is monitored for internal management purposes. Goodwill is monitored at the operating segment level.

Goodwill impairment reviews are undertaken annually or more frequently if events or changes in circumstances indicate a potential impairment. The carrying value of goodwill is compared to the recoverable amount, which is the higher of value in use and the fair value less costs to sell. Any impairment is recognised immediately as an expense and is not subsequently reversed.

(m) Intangible assets

(i) Trademarks, club debentures and software license

Acquired trademarks, investment in club debentures and software license are shown at historical cost. These assets have a finite useful life and are carried at cost less accumulated amortisation and impairment. Amortisation is calculated using the straight-line method to allocate the cost of trademarks, investment in club debentures and software licence over their estimated useful lives of 5 to 10 years.

2 **SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES** *(Continued)*

(m) Intangible assets *(Continued)*

(ii) Brandname

Brandname acquired in a business combination is recognised at fair value at the acquisition date. The brandname has a finite useful life and is carried at cost less accumulated amortisation and impairment.

Amortisation is calculated using the straight-line method over the expected life of the brandname of 10 years.

(n) Impairment of investment in a subsidiary, an associated company and non-financial assets

Assets that have an indefinite useful life are not subject to amortisation and are tested annually for impairment. Other long-lived assets are reviewed for impairment whenever events or changes in circumstances indicate that the carrying amount may not be recoverable. An impairment loss is recognised for the amount by which the asset's carrying amount exceeds its recoverable amount. The recoverable amount is the higher of an asset's fair value less costs to sell and value in use. For the purposes of assessing impairment, assets are grouped at the lowest level for which there are separately identifiable cash flows (cash-generating units). Non-financial assets other than goodwill that suffered an impairment are reviewed for possible reversal of the impairment at each balance sheet date.

Impairment testing of the investments in subsidiaries or associated companies is required upon receiving dividends from these investments if the dividend exceeds the total comprehensive income of the subsidiary or associated company in the period the dividend is declared or if the carrying amount of the investment in the separate financial statements exceeds the carrying amount in the consolidated financial statements of the investee's net assets including goodwill.

(o) Financial assets – loans and receivables

The Group's financial assets are loans and receivables. Loans and receivables are non-derivative financial assets with fixed or determinable payments that are not quoted in an active market. They are included in current assets, except for maturities greater than twelve months after the balance sheet date. These are classified as non-current assets. The Group's loans and receivables comprise trade and bills receivables, amount due from an associated company, deposits and other receivables, restricted cash and cash and cash equivalents in the consolidated balance sheet.

Loans and receivables are initially recognised at fair value plus transaction costs and are subsequently carried at amortised cost using the effective interest method. The Group assesses at each balance sheet date whether there is objective evidence that a financial asset or a group of financial assets is impaired.

Financial assets are derecognised when the rights to receive cash flows from the assets have expired or have been transferred and the Group has transferred substantially all risks and rewards of ownership.

2 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES *(Continued)*

(p) Inventories

Inventories are stated at the lower of cost and net realisable value. Cost is determined using the weighted average method. The cost of finished goods and work in progress comprises raw material, direct labour, other direct costs and related production overheads based on normal operating capacity.

Net realisable value is the estimated selling price in the ordinary course of business, less applicable variable selling and distribution costs.

(q) Trade, bills and other receivables

Trade receivables are amounts due from customers for merchandise sold or services performed in the ordinary course of business. If collection of trade, bills and other receivables is expected in one year or less (or in the normal operating cycle of the business if longer), they are classified as current assets. If not, they are presented as non-current assets.

Trade, bills and other receivables are recognised initially at fair value and subsequently measured at amortised cost using the effective interest method, less provision for impairment. A provision for impairment of trade, bills and other receivables is established when there is objective evidence that the Group will not be able to collect all amounts due according to the original terms of receivables.

Significant financial difficulties of the debtor, probability that the debtor will enter bankruptcy or financial reorganisation, and defaults are considered indicators that the receivable is impaired. The amount of the provision is the difference between the asset's carrying amount and the present value of estimated future cash flows, discounted at the originally effective interest rate. The carrying amount of the assets is reduced through the use of an allowance account, and the amount of the loss is recognised in the consolidated statement of comprehensive income. When a receivable is uncollectible, it is written off against the allowance accounts for the receivables. Subsequent recoveries of amounts previously written off are credited to the consolidated statement of comprehensive income.

(r) Cash and cash equivalents

Cash and cash equivalents includes cash on hand, deposits held at call with banks with original maturities of three months or less.

(s) Trade payables

Trade payables are obligations to pay for goods or services that have been acquired in the ordinary course of business from suppliers. Accounts payable are classified as current liabilities if payment is due within one year or less (or in the normal operating cycle of the business if longer). If not, they are presented as non-current liabilities.

Trade payables are recognised initially at fair value and subsequently measured at amortised cost using the effective interest method.

2 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES *(Continued)*

(t) Borrowings

Borrowings are recognised initially at fair value, net of transaction costs incurred. Borrowings are subsequently stated at amortised cost; any difference between the proceeds (net of transaction costs) and the redemption value is recognised in the consolidated statement of comprehensive income over the period of the borrowings using the effective interest method.

Borrowings are classified as current liabilities unless the Group has an unconditional right to defer settlement of the liability for at least twelve months after the balance sheet date.

(u) Current and deferred income tax

The tax expenses for the year comprises current and deferred tax. Tax is recognised in the consolidated statement of comprehensive income, except to the extent that it relates to items recognised in other comprehensive income or directly in equity. In this case the tax is also recognised in other comprehensive income or directly in equity, respectively.

The current income tax charge is calculated on the basis of the tax law enacted or substantively enacted at the balance sheet date in the countries where the Company and its subsidiaries and associated company operate and generate taxable income. Management periodically evaluates positions taken in tax returns with respect to situations in which applicable tax regulation is subject to interpretation. It establishes provisions where appropriate on the basis of amounts expected to be paid to the tax authorities.

Deferred income tax is recognised, using the liability method, on temporary differences arising between the tax bases of assets and liabilities and their carrying amounts in the financial statement. However, the deferred income tax is not accounted for if it arises from initial recognition of an asset or liability in a transaction other than a business combination that at the time of the transaction affects neither accounting nor taxable profit or loss. Deferred income tax is determined using tax rates (and laws) that have been enacted or substantially enacted by the balance sheet date and are expected to apply when the related deferred income tax asset is realised or the deferred income tax liability is settled.

Deferred income tax assets are recognised to the extent that it is probable that future taxable profit will be available against which the temporary differences can be utilised.

Deferred income tax is provided on temporary differences arising on investments in subsidiaries and an associated company, except for deferred tax liability where the timing of the reversal of the temporary difference is controlled by the Group and it is probable that the temporary difference will not reverse in the foreseeable future.

Deferred income tax assets and liabilities are offset when there is a legally enforceable right to offset current tax assets against current tax liabilities and when the deferred income taxes assets and liabilities relate to income taxes levied by the same taxation authority on either the taxable entity or different taxable entities where there is an intention to settle the balances on a net basis.

2 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES *(Continued)*

(v) Employee benefits

(i) Employee leave entitlements

Employee entitlements to annual leave and long service leave are recognised when they accrue to employees. A provision is made for the estimated liability for long-service leave as a result of services rendered by employees up to the balance sheet date.

(ii) Bonus entitlements

The expected cost of bonus payments is recognised as a liability when the Group has a present legal or constructive obligation as a result of services rendered by employees and a reliable estimate of the obligation can be made.

Liabilities for bonus are expected to be settled within twelve months and are measured at the amounts expected to be paid when they are settled.

(iii) Pension obligations

The group companies in the PRC participate in defined contribution retirement benefit plans organised by relevant government authorities for its employees in the PRC and contribute to these plans based on certain percentage of the salaries of the employees on a monthly basis, up to a maximum fixed monetary amount, as stipulated by the relevant government authorities.

The government authorities undertake to assume the retirement benefit obligations payable to all existing and future retired employees under these plans.

The group companies in Hong Kong participate in a mandatory provident fund scheme ("MPF Scheme") for its employees in Hong Kong. MPF Scheme is a defined contribution scheme in accordance with the Mandatory Provident Fund Scheme Ordinance. Under the rules of MPF Scheme, the employer and its employees are required to contribute 5% of the employees' salaries, up to a maximum of HK$1,250 per employee per month. The assets of MPF Scheme are held separately from those of the group companies in an independently administered fund.

(iv) Share-based compensation

The Group operates an equity-settled, share-based compensation plan, under which the entity receives services from employees as consideration for equity instruments (options) of the Company. The fair value of the employee services received in exchange for the grant of the options is recognised as an expense. The total amount to be expensed is determined by reference to the fair value of the options granted:

- including any market performance conditions (for example, an entity's share price);
- excluding the impact of any service and non-market performance vesting conditions (for example, profitability, sales growth targets and remaining an employee of the entity over a specified time period); and
- including the impact of any non-vesting conditions (for example, the requirement for employees to save).

2 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES *(Continued)*

(v) Employee benefits *(Continued)*

(iv) Share-based compensation (Continued)

Non-market vesting conditions are included in assumptions about the number of options that are expected to vest. The total expense is recognised over the vesting period, which is the period over which all of the specified vesting conditions are to be satisfied. At the end of each reporting period, the entity revises its estimates of the number of options that are expected to vest based on the non-marketing vesting conditions. It recognises the impact of the revision to original estimates, if any, in the consolidated statement of comprehensive income, with a corresponding adjustment to equity.

When the options are exercised, the Company issues new shares. The proceeds received net of any directly attributable transaction costs are credited to share capital (nominal value) and share premium when the options are exercised.

When the options are cancelled during vesting periods the Group recognise immediately the amount that otherwise would have been recognised for services received over the remainder of the vesting period.

When the options are modified, the Group will include the incremental fair value granted in the measurement of the amount recognised for services received as consideration for the equity instruments granted. The incremental fair value granted is the difference between the fair value of the modified equity instrument and that of the original equity instrument, both estimated as at the date of the modification. If the modification occurs during the vesting period, the incremental fair value granted is included in the measurement of the amount recognised for services received over the period from the modification date until the date when the modified equity instruments vest, in addition to the amount based on the grant date fair value of the original equity instruments, which is recognised over the remainder of the original vesting period. If the modification occurs after vesting date, the incremental fair value granted is recognised immediately.

(v) Termination benefits

Termination benefits are payable when employment is terminated by the Group before the normal retirement date, or whenever an employee accepts voluntary redundancy in exchange for these benefits. The Group recognises termination benefits when it is demonstrably committed to a termination when the entity has a detailed formal plan to terminate the employment of current employee without possibility of withdrawal. In the case of an offer made to encourage voluntary redundancy, the termination benefits are measured based on the number of employees expected to accept the offer. Benefits falling due more than 12 months after balance sheet date are discounted to present value.

(w) Provisions

Provisions are recognised when the Group has a present legal or constructive obligation as a result of past events; it is probable that an outflow of resources will be required to settle the obligation; and the amount has been reliably estimated. Restructuring provisions comprise lease termination penalties and employee termination payments. Provisions are not recognised for future operating losses.

(w) Provisions *(Continued)*

Where there are a number of similar obligations, the likelihood that an outflow will be required in settlement is determined by considering the class of obligations as a whole. A provision is recognised even if the likelihood of an outflow with respect to any one item included in the same class of obligations may be small.

Provisions are measured at the present value of the expenditures expected to be required to settle the obligation using a pre-tax rate that reflects current market assessments of the time value of money and the risks specific to the obligation. The increase in the provision due to passage of time is recognised as interest expense.

(x) Revenue recognition

Revenue comprises the fair value of the consideration received or receivable for the sale of goods and services in the ordinary course of the Group's activities. Revenue is shown net of value-added tax, and discounts and after eliminated sales within the Group.

The Group recognises revenue when the amount of revenue can be reliably measured, it is probable that future economic benefits will flow to the entity and specific criteria have been met for each of the Group's activities as described below. The amount of revenue is not considered to be reliably measurable until all contingencies relating to the sale have been resolved. The Group bases its estimates on historical results, taking into consideration the type of customer, the type of transaction and the specifics of each arrangement.

(i) Sales of goods

Sales of goods are recognised when the title to the goods has been passed to the customer, which is at the date when the customer receives and accepts the goods, and collectibility of the related receivables is reasonably assured.

Revenue is stated net of provision for sales returns. Provision for sales returns is made by the Group upon the delivery of goods to the customers when the significant risks and rewards of ownership of the goods are transferred to the customers.

(ii) Rental income

Rental income from investment properties is on a straight-line basis over the period of the lease term.

(iii) Interest income

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

(y) Operating lease

Leases in which a significant portion of the risks and rewards of ownership are retained by the lessor are classified as operating leases. Payments made under operating leases (net of any incentive received from the lessor) are expensed in the consolidated statement of comprehensive income on a straight-line basis over the period of the lease.

2 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES *(Continued)*

(z) Share capital

Ordinary shares are classified as equity. Incremental costs directly attributable to the issue of new shares are shown in equity as a deduction from the proceeds.

(aa) Dividend distribution

Dividend distribution to the Company's shareholders is recognised as a liability in the Group's and Company's financial statements in the period in which the dividends are approved by the Company's shareholders or directors, where appropriate.

3 FINANCIAL RISK MANAGEMENT

(a) Financial risk factors

The Group's activities expose it to a variety of financial risks: market risk (including foreign exchange risk, interest rate risk and price risk), credit risk and liquidity risk. The Group's overall risk management programme focuses on the unpredictability of financial markets and seeks to minimise potential adverse effects on the Group's financial performance.

(i) Foreign exchange risk

The Group's foreign currency transactions are mainly denominated in Renminbi ("RMB"), HK$ and US dollar ("US$"). The majority of assets and liabilities are denominated in RMB, HK$ and US$, and there are no significant assets and liabilities denominated in other currencies. The Group is subject to foreign exchange rate risk arising from future commercial transactions and recognised assets and liabilities which are denominated in a currency other than HK$ or RMB, which are the functional currencies of the major operating companies within the Group.

As HK$ is pegged to US$, management believes that the exchange rate risk for translations between HK$ and US$ do not have a material impact to the Group. The exchange rate of RMB to HK$ is subject to the rules and regulations of foreign exchange control promulgated by the PRC government.

This currency exposure is managed primarily through sourcing raw materials denominated in the same currency. The Group has not considered it appropriate to substantially hedge against currency risks through forward exchange contracts upon consideration of the currency risk involved and the cost of obtaining such cover.

At 31 December 2012, if HK$ had strengthened/weakened by 5% against the RMB, with all other variables held constant, post-tax profit for the year would have been approximately HK$1,930,000 (31 December 2011: HK$2,362,000), higher or lower, mainly as a result of foreign exchange differences on translation of RMB denominated net payables.

At 31 December 2012, if RMB had strengthened/weakened by 5% against the US$, with all other variables held constant, post-tax profit for the year would have been approximately HK$8,402,000 (31 December 2011: HK$4,948,000), higher or lower, mainly as a result of foreign exchange differences on translation of US$ denominated net payables.

3 FINANCIAL RISK MANAGEMENT *(Continued)*

(a) Financial risk factors *(Continued)*

(ii) Interest rate risk

The Group has cash balances placed with reputable banks and financial institutions, which generate interest income for the Group.

Borrowings at variable rates expose the Group to cash flow interest-rate risk. Borrowings at fixed rates expose the Group to fair value interest-rate risk. Details of the Group's borrowings have been disclosed in note 21 to the consolidated financial statements.

The Group has not used any interest rate swaps to hedge its exposure to interest rate risk.

The Group analyses its interest rate exposure on a dynamic basis. Various scenarios are simulated taking into consideration of refinancing, renewal of existing positions, and alternative financing. Based on these scenarios, the Group calculates the impact on profit of a defined interest rate shift. For each simulation, the same interest rate shift is used. The scenarios are run only for liabilities that represent the major interest-bearing positions.

Based on the simulations performed, the impact on post-tax profit of a 200 basis-point shift would be a maximum increase/decrease of HK$715,000 (for the year ended 31 December 2011: HK$1,009,000) for the year ended 31 December 2012.

(iii) Price risk

The Group is not exposed to equity securities price risk and commodity price risk.

(iv) Credit risk

Credit risk is managed on a group basis. The Group's credit risk arises from cash and cash equivalents, restricted cash as well as credit exposures to trade and bills receivables. Management has policies in place to monitor the exposures to these credit risks on an ongoing basis.

The Group has put in place policies to ensure that sales of products are made to customers with an appropriate credit history and the Group performs periodic credit evaluations of its customers based on their past repayment patterns, latest business developments and other factors. The Group's historical experience in collection of trade and bills receivables falls within the recorded allowances.

3 FINANCIAL RISK MANAGEMENT *(Continued)*

(a) Financial risk factors *(Continued)*

(iv) Credit risk (Continued)

The table below shows the credit limit and balance of the five major debtors at 31 December 2012 and 31 December 2011.

	As at 31 December			
	2012		2011	
	Credit limit	**Utilised**	Credit limit	Utilised
Counterparty	**HK$'000**	**HK$'000**	HK$'000	HK$'000
A	**36,000**	**34,936**	33,000	31,402
B	**27,000**	**25,439**	16,000	9,696
C	**20,000**	**19,093**	18,000	12,293
D	**17,000**	**16,876**	15,000	14,108
E	**15,000**	**13,771**	6,000	4,549
F	**13,000**	**10,615**	13,000	12,050
G	**16,000**	**10,023**	16,000	10,617

The credit quality of financial assets that are neither past due nor impaired can be assessed by reference to the counterparty's default history. The current portion of trade and bills receivables which are not impaired are analysed below:

	As at 31 December	
	2012	2011
	HK$'000	HK$'000
Trade and bills receivables		
Customers accepted within the past 12 months	**25,215**	29,420
Customers accepted beyond the past 12 months	**211,303**	168,419
Total	**236,518**	197,839

3 FINANCIAL RISK MANAGEMENT *(Continued)*

(a) Financial risk factors *(Continued)*

(iv) Credit risk (Continued)

The restricted cash and cash and cash equivalents are analysed below:

	As at 31 December	
	2012	2011
	HK$'000	HK$'000
Cash and cash equivalents		
Cash at banks and bank deposits		
Listed financial institutions	**205,532**	180,431
Unlisted financial institutions	**38,868**	10,015
	244,400	190,446
Cash on hand	**1,105**	1,034
Total	**245,505**	191,480
Restricted cash		
Listed financial institution	**37,307**	–
Total	**37,307**	–

(v) Liquidity risk

Prudent liquidity risk management implies maintaining sufficient cash, the availability of funding through an adequate amount of committed credit facilities. The Group aims to maintain flexibility in fundings by keeping sufficient cash.

As at 31 December 2012, the cash and cash equivalents of the Group approximated to HK$245,505,000 (31 December 2011: HK$191,480,000).

3 FINANCIAL RISK MANAGEMENT *(Continued)*

(a) Financial risk factors *(Continued)*

(v) Liquidity risk (Continued)

The table below categorised the Group's non-derivative financial liabilities into relevant maturity groupings based on the remaining period from the balance sheet date to the contractual maturity date. The tabulated amounts are the contractual undiscounted cash flows.

	Less than 1 year HK$'000	Between 1 and 2 years HK$'000	Between 2 and 5 years HK$'000	Over 5 years HK$'000	Total HK$'000
At 31 December 2012					
Borrowings	6,774	6,774	20,321	12,983	46,852
Trade payables	231,001	–	–	–	231,001
Accruals and other payables	133,845	–	–	–	133,845
Loans from non-controlling interest	5,933	–	–	–	5,933
Dividends payable	14	–	–	–	14
At 31 December 2011					
Borrowings	6,760	6,760	20,280	19,718	53,518
Trade payables	225,468	–	–	–	225,468
Accruals and other payables	134,390	–	–	–	134,390
Loans from non-controlling interest	5,410	–	–	–	5,410
Dividends payable	1,773	–	–	–	1,773

(b) Capital risk management

The Group's objectives when managing capital are to safeguard the Group's ability to continue as a going concern in order to provide returns for shareholders and benefits for other stakeholders and to maintain an optimal capital structure to reduce the cost of capital.

In order to maintain or adjust the capital structure, the Group may adjust the amount of dividends paid to shareholders, return capital to shareholders, issue new shares or sell assets to reduce debt.

The Group monitors capital on the basis of the gearing ratio. This ratio is calculated as borrowings divided by total equity. Management considers a gearing ratio of not more than 30% as reasonable.

3 FINANCIAL RISK MANAGEMENT *(Continued)*

(b) Capital risk management *(Continued)*

	As at 31 December	
	2012	2011
	HK$'000	HK$'000
Borrowings	**45,207**	51,473
Total equity	**1,243,405**	1,106,277
Gearing ratio	**3.6%**	4.7%

Surplus cash held by the operating entities over and above balance required for working capital management are transferred to interest bearing current accounts and time deposits, with appropriate maturities to manage its overall liquidity position. As at 31 December 2012, the Group maintains cash and cash equivalents of approximately HK$245,505,000 (31 December 2011: approximately HK$191,480,000) that are expected to be readily available to meet the cash outflows of its financial liabilities.

(c) Fair value estimation

The carrying amounts of the Group's financial assets and liabilities including cash and cash equivalents, trade and bills receivables, deposits and other receivables, trade payables, amounts due from/to subsidiaries, amount due from an associated company, borrowings, dividends payable and loans from non-controlling interest, approximate their fair values due to their short maturities.

4 CRITICAL ACCOUNTING ESTIMATES AND JUDGEMENTS

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.

(a) Critical accounting estimates and assumptions

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

(i) Estimated impairment of goodwill and other intangible assets

In accordance with HKFRS, an impairment charge is required for both goodwill and other intangible assets when the carrying amount exceeds the recoverable amount, defined as the higher of fair value less costs to sell and value in use. Our approach in determining the recoverable amount utilises a discounted cash flow methodology, which necessarily involves making numerous estimates and assumptions regarding revenue growth, operating margins, tax rates, appropriate discount rates and working capital requirements.

Details of the assumptions used in the impairment tests for goodwill is disclosed in note 9 to the consolidated financial statements.

4 CRITICAL ACCOUNTING ESTIMATES AND JUDGEMENTS *(Continued)*

(a) Critical accounting estimates and assumptions *(Continued)*

(ii) Income taxes

The Group is subject to income taxes in Hong Kong, the PRC and Singapore. Significant judgement is required in determining the worldwide provision for income taxes. There are many transactions and calculations for which the ultimate tax determination is uncertain during the ordinary course of business. Where the final tax outcome of these matters is different from the amounts that were initially recorded, such differences will impact the income tax and deferred tax provisions in the period in which such determination is made.

(iii) Estimated valuation of investment properties

The best evidence of fair value is current prices in an active market for similar leases and other contracts. In the absence of such information, the Group determines the amount within a range of reasonable fair values estimated. In making its estimates, the Group considers both (i) information from the valuations of investment properties performed by external professional valuers by using the open market value approach, and (ii) other principal assumptions including the receipt of contractual rentals, expected future market rentals and discount rates to determine the fair value of the investment properties. Had the Group used different future market rentals, discount rates and other assumptions, the fair value of the investment properties would be different and thus caused impact to the consolidated statement of comprehensive income.

(iv) Estimated impairment of property, plant and equipment

Property, plant and equipment are reviewed for impairment whenever events or changes in circumstances indicate that its carrying amount may not be recoverable. An impairment loss is recognised for the amount by which the asset's carrying amount exceed its recoverable amount. The recoverable amount is the higher of an asset's fair value less costs to sell and value in use. During the year ended 31 December 2012, an impairment of property, plant and equipment of HK$5,504,000 was made in relation to the laundry business in Changshu, the PRC. Please refer to note 7 to the consolidated financial statements for more details.

(v) Estimated valuation of share-based compensation

The Group operates a share option scheme. The fair value of the options granted during the year (note 19) is determined by using valuation techniques. The Group uses its judgements to select the valuation method and make assumptions for the significant inputs into the valuation model. At each balance sheet date, the Group reviews its estimates of the number of options that are expected to become exercisable. It recognises the impact of the revision of original estimates, if any, in the consolidated statement of comprehensive income, and a corresponding adjustment to equity over the remaining vesting period.

(b) Critical judgements

(i) Constructions on leased premises

Certain constructions or renovations expenditures of the Group are located on leased land and buildings in the PRC. The landlords named in the corresponding lease agreements have informed the Group that they are unable to produce proper land and building ownership certificates or to provide valid lease permits or other necessary permissions. However, based on the Group's past experiences and available information and after consultation with the Group's PRC legal advisor, the directors of the Company are of the view that this is unlikely to cause the interruption or termination of these leases or to have a material effect on the carrying values of the related assets of approximately HK$12,919,000 (31 December 2011: approximately HK$14,072,000) as at 31 December 2012. Accordingly, no impairment for such assets is considered necessary to be made according to the Group's accounting policies.

4 CRITICAL ACCOUNTING ESTIMATES AND JUDGEMENTS *(Continued)*

(b) Critical judgements *(Continued)*

(i) Constructions on leased premises (Continued)

If there were any disputes regarding the legal title of such properties occupied by the Group comes into question, the Group might have to vacate from such properties and relocate elsewhere. This might lead to additional expenses and/or business interruptions as a result of the relocation. Mr. CHING Chi Fai, Mr. CHING Chau Chung, Mr. CHING Chi Keung, Mr. LIU Zigang and Ms. CHAN Yim Ching have undertaken to provide an indemnity in the Group's favour to reimburse any loss or damage that the Group may suffer as a result of such relocation.

(ii) Impairment of trade and bills receivables

The Group makes provision for impairment of trade and bills receivables based on an assessment of the recoverability of trade and bills receivables. Provisions are applied to trade and bills receivables where events or changes in circumstances indicate that the balances may not be collectible. The identification of impairment requires the use of judgement and estimates.

Where the expectation is different from the original estimate, such difference will impact the carrying value of trade receivables and provision for impaired receivables in the year in which such estimate has been changed.

(iii) Impairment of obsolete inventories

The Group makes provision for obsolete inventories based on consideration of obsolescence of raw materials and work in progress and the net realisable value of finished goods. The identification of inventory obsolescence and estimated selling price in the ordinary course of business require the use of judgement and estimates. Where the expectation is different from the original estimate, such difference will impact the carrying value of inventory and impairment provision in the year in which such estimate has been changed.

5 SEGMENT INFORMATION

The chief operating decision-maker has been identified as the Board. The Board reviews the Group's internal reports in order to assess performance and allocate resources. The Board has determined the operating segments based on these reports.

The Group is principally engaged in the manufacturing and distribution of amenity products. From a geographical perspective, the Board assesses the performance based on the Group's revenue by geographical location in which the customer is located. The Group is also engaged in the distribution and retail business of cosmetics products and fashion accessories in the PRC with the brand "7 Magic" through franchisees. Altogether, the Group has two reportable segments: (a) manufacturing and distribution business of amenity products and (b) distribution and retail business of cosmetics and fashion accessories.

The Board assesses the performance of the operating segments based on a measure of profit/(loss) before income tax and share of profit from an associated company, compensation income and fair value gain on contingent consideration in relation to the acquisition of All Team Group Limited and its subsidiaries ("All Team Group").

Information provided to the Board is measured in a manner consistent with that of the consolidated financial statements.

Sales between segments are carried out at normal commercial terms. Depreciation and amortisation charges are apportioned with reference to respective segment revenue. Assets and liabilities of the Group are allocated by reference to the principal markets in which the Group operates.

5 SEGMENT INFORMATION *(Continued)*

Geographical

	Manufacturing and distribution business of amenity products								Distribution and retail business of cosmetics and fashion accessories			Others	
	North America HK$'000	Europe HK$'000	The PRC HK$'000	Hong Kong HK$'000	Australia HK$'000	Other Asia Pacific countries *(Note i)* HK$'000	Others *(Note ii)* HK$'000	Sub-total HK$'000	The PRC HK$'000	Hong Kong HK$'000	Sub-total HK$'000	*(Note iv)* HK$'000	Total HK$'000
Year ended 31 December 2012													
Segment revenue	519,046	194,874	398,866	154,769	39,153	167,470	8,750	1,482,928	193,270	6,310	199,580	16,870	1,699,378
Inter-segment revenue	–	–	(10,822)	(2,004)	–	–	–	(12,826)	–	(15)	(15)	(814)	(13,655)
Revenue from external customers	519,046	194,874	388,044	152,765	39,153	167,470	8,750	1,470,102	193,270	6,295	199,565	16,056	1,685,723
Earnings/(loss) before interest, taxes, depreciation, amortisation, compensation income, fair value gain on contingent consideration in relation to the acquisition of All Team Group and impairment of property, plant and equipment	56,612	16,277	35,815	5,930	2,154	13,877	1,023	131,688	4,504	313	4,817	(10,080)	126,425
Impairment of property, plant and equipment	–	–	–	–	–	–	–	–	–	–	–	(5,504)	(5,504)
Depreciation	(10,071)	(3,781)	(7,825)	(3,086)	(760)	(3,250)	(170)	(28,943)	(1,535)	(26)	(1,561)	(9,694)	(40,198)
Amortisation	(353)	(133)	(275)	(108)	(27)	(114)	(6)	(1,016)	(1,714)	(9)	(1,723)	(314)	(3,053)
Finance income	–	–	366	84	–	–	–	450	56	–	56	6	512
Finance costs	–	–	(108)	(896)	–	–	–	(1,004)	–	–	–	(515)	(1,519)
Segment profit/(loss) before income tax	46,188	12,363	27,973	1,924	1,367	10,513	847	101,175	1,311	278	1,589	(26,101)	76,663
Compensation income *(Note 26)*													10,760
Fair value gain on contingent consideration in relation to the acquisition of All Team Group *(Note 20)*													15,038
Share of profit from an associated company													80
Income tax expense													(27,363)
Profit for the year													75,178

5 SEGMENT INFORMATION *(Continued)*

Geographical *(Continued)*

	Manufacturing and distribution business of amenity products					Distribution and retail business of cosmetics and fashion accessories			Others		
	The PRC	Hong Kong	Australia	Other locations *(Note iii)*	Sub-total	The PRC	Hong Kong	Sub-total		Inter-segment elimination	Total
	HK$'000	HK$'000	HK$'000	HK$'000	HK$'000	HK$'000	HK$'000	HK$'000	HK$'000	HK$'000	HK$'000
As at 31 December 2012											
Total assets	739,419	472,357	965	21,118	1,233,859	516,475	6,352	522,827	292,054	(247,697)	1,801,043
Include:											
Investment in an associated company	-	634	-	-	634	-	-	-	-	-	634
Additions to non-current assets (other than deferred income tax assets)	21,985	2,896	-	1,421	26,302	21,397	28	4,743	897	-	48,624
Total liabilities	300,696	150,291	20	3,377	454,384	139,837	23,437	163,274	187,677	(247,697)	557,638

5 SEGMENT INFORMATION *(Continued)*

Geographical *(Continued)*

	Manufacturing and distribution business of amenity products								Distribution and retail business of cosmetics and fashion accessories			Others	
	North America HK$'000	Europe HK$'000	The PRC HK$'000	Hong Kong HK$'000	Australia HK$'000	Other Asia Pacific countries *(Note i)* HK$'000	Others *(Note ii)* HK$'000	Sub-total HK$'000	The PRC HK$'000	Hong Kong HK$'000	Sub-total HK$'000	*(Note iv)* HK$'000	Total HK$'000
Year ended 31 December 2011													
Segment revenue	388,323	204,280	361,670	101,651	33,420	142,123	14,297	1,245,764	229,529	6,079	235,608	15,034	1,496,406
Inter-segment revenue	–	–	(15,925)	(2,155)	–	–	–	(18,080)	–	–	–	(2,957)	(21,037)
Revenue from external customers	388,323	204,280	345,745	99,496	33,420	142,123	14,297	1,227,684	229,529	6,079	235,608	12,077	1,475,369
Earnings/(loss) before interest, taxes, fair value gains on investment properties, depreciation and amortisation	33,842	13,851	34,544	4,242	743	9,651	1,348	98,221	44,534	(6,466)	38,068	(11,549)	124,740
Fair value gains on investment properties	–	–	–	–	–	–	–	–	–	–	–	6,000	6,000
Depreciation	(8,696)	(4,575)	(7,743)	(2,228)	(748)	(3,183)	(319)	(27,492)	(723)	(861)	(1,584)	(7,909)	(36,985)
Amortisation	(255)	(134)	(227)	(65)	(22)	(93)	(8)	(804)	(1,682)	(9)	(1,691)	(327)	(2,822)
Finance income	–	–	109	182	–	–	–	291	695	–	695	17	1,003
Finance costs	–	–	(9)	(754)	–	–	–	(763)	–	–	–	(1,046)	(1,809)
Segment profit/(loss) before income tax	24,891	9,142	26,674	1,377	(27)	6,375	1,021	69,453	42,824	(7,336)	35,488	(14,814)	90,127
Share of profit from an associated company													94
Income tax expense													(22,760)
Profit for the year													67,461

5 SEGMENT INFORMATION *(Continued)*

Geographical *(Continued)*

	Manufacturing and distribution business of amenity products					Distribution and retail business of cosmetics and fashion accessories			Others		
	The PRC HK$'000	Hong Kong HK$'000	Australia HK$'000	Other locations *(Note iii)* HK$'000	Sub-total HK$'000	The PRC HK$'000	Hong Kong HK$'000	Sub-total HK$'000	HK$'000	Inter-segment elimination HK$'000	Total HK$'000
As at 31 December 2011											
Total assets	621,276	455,396	960	20,223	1,097,855	489,969	4,857	494,826	289,424	(212,538)	1,669,567
Include:											
Investment in an associated company	–	590	–	–	590	–	–	–	–	–	590
Additions to non-current assets (other than deferred income tax assets)	30,049	1,202	–	–	31,251	4,836	144	4,980	44,656	–	80,887
Total liabilities	284,208	118,060	66	2,713	405,047	180,704	22,233	202,937	167,844	(212,538)	563,290

Notes:

(i) Other Asia Pacific countries mainly include Japan, United Arab Emirates, Thailand, the Philippines, Malaysia, Singapore, Fiji and New Zealand.

(ii) Others mainly include South Africa, Egypt, Morocco and Nigeria.

(iii) Other locations mainly include Singapore.

(iv) Others mainly include the results from the laundry business in Changshu, the PRC.

Additions to non-current assets comprise additions to land use rights, property, plant and equipment, investment properties, intangible assets and long-term prepayments.

6 LAND USE RIGHTS

The Group's interests in land use rights represent prepaid operating lease payments.

	2012 HK$'000	2011 HK$'000
At 1 January	**26,423**	25,966
Additions	**1,354**	–
Amortisation *(Note 25)*	**(649)**	(630)
Disposal of subsidiaries *(Note 36)*	**(9,552)**	–
Exchange differences	**217**	1,087
At 31 December	**17,793**	26,423
In the PRC, held on:		
Leases of between 10 to 50 years	**17,793**	26,423

Amortisation of the Group's land use rights has been charged to the consolidated statement of comprehensive income as follows:

	2012 HK$'000	2011 HK$'000
Cost of sales	**372**	384
Distribution costs	**277**	246
	649	630

As at 31 December 2012, certain land use rights of aggregate carrying value approximating to HK$2,175,000 (31 December 2011: HK$2,216,000) were pledged as securities for an undrawn banking facility of the Group (Note 21).

7 PROPERTY, PLANT AND EQUIPMENT

	Land	Buildings	Leasehold improvements	Motor vehicles	Furniture and fixtures	Computer equipment	Plant and machinery	Construction in progress	Total
	HK$'000	HK$'000	HK$'000	HK$'000	HK$'000	HK$'000	HK$'000	HK$'000	HK$'000
At 1 January 2011									
Cost	57,387	113,917	68,275	13,297	7,262	10,584	113,618	45,552	429,892
Accumulated depreciation	(2,000)	(29,066)	(34,915)	(7,578)	(5,265)	(8,491)	(61,301)	–	(148,616)
Net book amount	55,387	84,851	33,360	5,719	1,997	2,093	52,317	45,552	281,276
Year ended 31 December 2011									
Opening net book amount	55,387	84,851	33,360	5,719	1,997	2,093	52,317	45,552	281,276
Additions	–	9,879	6,702	3,255	3,879	4,190	52,416	544	80,865
Transfer upon completion	–	45,378	1,050	–	–	–	–	(46,428)	–
Disposals *(Note 34(b))*	–	–	(475)	(42)	(54)	(47)	(210)	–	(828)
Depreciation *(Note 25)*	(1,517)	(8,639)	(7,043)	(2,474)	(1,262)	(1,772)	(14,278)	–	(36,985)
Exchange differences	–	4,100	1,221	160	125	131	2,943	905	9,585
Closing net book amount	53,870	135,569	34,815	6,618	4,685	4,595	93,188	573	333,913
At 31 December 2011									
Cost	57,387	174,628	77,334	16,218	11,336	15,072	170,266	573	522,814
Accumulated depreciation	(3,517)	(39,059)	(42,519)	(9,600)	(6,651)	(10,477)	(77,078)	–	(188,901)
Net book amount	53,870	135,569	34,815	6,618	4,685	4,595	93,188	573	333,913
Year ended 31 December 2012									
Opening net book amount	**53,870**	**135,569**	**34,815**	**6,618**	**4,685**	**4,595**	**93,188**	**573**	**333,913**
Additions	**–**	**1,382**	**5,240**	**2,343**	**1,306**	**1,883**	**16,530**	**107**	**28,791**
Transfer upon completion	**–**	**–**	**107**	**–**	**–**	**–**	**573**	**(680)**	**–**
Transfer to investment properties *(Note (a))*	**(49,911)**	**(10,033)**	**(1,940)**	**–**	**–**	**–**	**–**	**–**	**(61,884)**
Disposals *(Note 34(b))*	**–**	**–**	**–**	**(140)**	**(182)**	**–**	**(564)**	**–**	**(886)**
Disposal of subsidiaries *(Note 36)*	**–**	**(20,966)**	**(1,776)**	**–**	**(90)**	**(46)**	**(2,765)**	**–**	**(25,643)**
Depreciation *(Note 25)*	**(922)**	**(8,968)**	**(6,931)**	**(2,855)**	**(1,746)**	**(1,991)**	**(16,785)**	**–**	**(40,198)**
Impairment *(Note (b))*	**–**	**–**	**–**	**–**	**–**	**–**	**(5,504)**	**–**	**(5,504)**
Exchange differences	**–**	**882**	**223**	**61**	**27**	**35**	**650**	**–**	**1,878**
Closing net book amount	**3,037**	**97,866**	**29,738**	**6,027**	**4,000**	**4,476**	**85,323**	**–**	**230,467**
At 31 December 2012									
Cost	**3,556**	**140,516**	**78,297**	**17,751**	**12,142**	**16,909**	**177,976**	**–**	**447,147**
Accumulated depreciation	**(519)**	**(42,650)**	**(48,559)**	**(11,724)**	**(8,142)**	**(12,433)**	**(92,653)**	**–**	**(216,680)**
Net book amount	**3,037**	**97,866**	**29,738**	**6,027**	**4,000**	**4,476**	**85,323**	**–**	**230,467**

Note (a): During the year ended 31 December 2012, land of HK$49,911,000, buildings of HK$10,033,000 and leasehold improvements of HK$1,940,000 have been reclassified to investment properties as a result of change in usage.

Note (b): Due to changes in market conditions and losses suffered by the laundry business in Changshu, the PRC, impairment charges were made for plant and machinery of HK$5,504,000 by management based on an external valuation.

7 PROPERTY, PLANT AND EQUIPMENT *(Continued)*

Depreciation of the Group's property, plant and equipment has been charged to the consolidated statement of comprehensive income as follows:

	2012 HK$'000	2011 HK$'000
Cost of sales	**25,684**	23,525
Distribution costs	**3,171**	3,207
Administrative expenses	**11,343**	10,253
	40,198	36,985

As at 31 December 2012, certain property, plant and equipment with aggregate carrying value of approximately HK$22,246,000 (31 December 2011: HK$24,211,000) were pledged as securities for an undrawn banking facility of the Group (Note 21).

As at 31 December 2011, certain property, plant and equipment with aggregate carrying value of approximately HK$61,117,000 were pledged as securities for a mortgage loan of the Group (Note 21).

8 INVESTMENT PROPERTIES

	2012 HK$'000	2011 HK$'000
At 1 January	**110,823**	104,423
Transfer from property, plant and equipment *(Note 7 (note a))*	**96,000**	–
Fair value gains on investment properties	**–**	6,000
Exchange differences	**76**	400
At 31 December	**206,899**	110,823

The following amounts have been recognised in the consolidated statement of comprehensive income:

	2012 HK$'000	2011 HK$'000
Rental income *(Note 26)*	**3,953**	3,240
Direct operating expense arising from investment properties that generate rental income *(Note 25)*	**165**	139

8 INVESTMENT PROPERTIES *(Continued)*

(a) The basis of the valuation of investment properties is at fair value, being the amounts for which the properties could be exchanged between willing parties in an arm's length transaction, based on current prices in an active market for similar properties in the same location and condition and subject to similar leases. The revaluations were based on independent assessments made by Asset Appraisal Limited, an independent professional qualified valuer.

(b) The Group's interests in investment properties at their carrying amounts are analysed as follows:

	2012 **HK$'000**	2011 HK$'000
In Hong Kong, held on:		
Leases of less than 50 years	**197,000**	101,000
In PRC, held on:		
Leases of over 50 years	**9,899**	9,823
	206,899	110,823

(c) At 31 December 2012, certain investment properties with an aggregate carrying amount of HK$197,000,000 (31 December 2011: HK$101,000,000) were pledged as security for the mortgage loan drawn by the Group (Note 21).

(d) At 31 December 2012, the future aggregate minimum lease receipts under non-cancellable operating leases of investment properties not recognised in the consolidated financial statements, which are receivable by the Group as follows:

	2012 **HK$'000**	2011 HK$'000
Within one year	**3,510**	2,962
Later than one year but no later than 5 years	**1,428**	1,751
	4,938	4,713

9 GOODWILL AND INTANGIBLE ASSETS

(a) Goodwill

	2012 HK$'000	2011 HK$'000
At 1 January	**342,666**	328,713
Exchange differences	**2,659**	13,953
At 31 December	**345,325**	342,666

Impairment test of goodwill

Goodwill is allocated to the Group's CGUs identified. As at 31 December 2012, goodwill of HK$345,325,000 is allocated to the distribution and retail business of cosmetics and fashion accessories in the PRC.

The recoverable amount of a CGU is calculated using pre-tax cash flow projections based on financial budgets approved by management covering a five-year period. Cash flows within the five-year period are extrapolated using the estimated growth rates stated below. 3% growth rate is assumed for cash flows beyond the five-year period. The growth rate does not exceed the long-term average growth rate for the country which the CGU operates.

The key assumptions used for the calculation are as follows:

	2012	2011
Average annual growth rate	**27.7%**	35.2%
Average gross margin	**36.0%**	34.0%
Discount rate	**15.4%**	15.7%

Management determined budgeted gross margin based on past performance and its expectations of the market development. The annual growth rate used are consistent with the forecasts of the market. The discount rate used is pre-tax and reflects specific risks relating to the segment.

The recoverable amount calculated exceeded the carrying value. A reduction of average gross margin to 32.5% or an increase in discount rate to 17.3% would remove the remaining headroom.

9 GOODWILL AND INTANGIBLE ASSETS *(Continued)*

(b) Intangible assets

	Trademarks HK$'000	Investment in club debentures HK$'000	Brandname HK$'000	Software licence HK$'000	Total HK$'000
At 1 January 2011					
Cost	448	968	16,494	1,808	19,718
Accumulated amortisation	(87)	(686)	(550)	(181)	(1,504)
Net book amount	361	282	15,944	1,627	18,214
Year ended 31 December 2011					
Opening net book amount	361	282	15,944	1,627	18,214
Additions	22	–	–	–	22
Amortisation *(Note 25)*	(52)	(97)	(1,681)	(362)	(2,192)
Exchange differences	–	–	639	–	639
Closing net book amount	331	185	14,902	1,265	16,683
At 31 December 2011					
Cost	470	968	17,194	1,808	20,440
Accumulated amortisation	(139)	(783)	(2,292)	(543)	(3,757)
Net book amount	331	185	14,902	1,265	16,683
Year ended 31 December 2012					
Opening net book amount	**331**	**185**	**14,902**	**1,265**	**16,683**
Additions	**–**	**–**	**–**	**1,797**	**1,797**
Amortisation *(Note 25)*	**(52)**	**(97)**	**(1,713)**	**(542)**	**(2,404)**
Exchange differences	**–**	**–**	**96**	**–**	**96**
Closing net book amount	**279**	**88**	**13,285**	**2,520**	**16,172**
At 31 December 2012					
Cost	**470**	**968**	**17,328**	**3,605**	**22,371**
Accumulated amortisation	**(191)**	**(880)**	**(4,043)**	**(1,085)**	**(6,199)**
Net book amount	**279**	**88**	**13,285**	**2,520**	**16,172**

9 GOODWILL AND INTANGIBLE ASSETS *(Continued)*

(b) Intangible assets *(Continued)*

Amortisation of the Group's intangible assets have been charged to the consolidated statement of comprehensive income as follows:

	2012 HK$'000	2011 HK$'000
Distribution costs	**1,713**	1,682
Administrative expenses	**691**	510
	2,404	2,192

10 INVESTMENT IN AN ASSOCIATED COMPANY

(a) Investment in an associated company

	2012 HK$'000	2011 HK$'000
At 1 January	**590**	561
Share of profit for the year	**80**	94
Dividends received	**(36)**	(65)
At 31 December	**634**	590

The Group's interest in its unlisted associated company is as follows:

				31 December 2012				31 December 2011			
Name of company	Particulars of issued shares	Country of incorporation	% of interest held	Assets MYR	Liabilities MYR	Revenue MYR	Profit MYR	Assets MYR	Liabilities MYR	Revenue MYR	Profit MYR
Quality Amenities Supply (M) Sdn. Bhd.	50,000	Malaysia	50%	**537,000**	**320,000**	**852,000**	**32,000**	317,000	121,000	762,000	37,000

(b) Amount due from an associated company

The amount due from an associated company is denominated in Malaysian ringgit ("MYR"), unsecured, interest free and repayable on demand. The carrying value of this asset approximates its fair value.

The amount due from an associated company is neither past due nor impaired.

11 DEFERRED INCOME TAX

Deferred income tax assets and liabilities are offset when there is a legally enforceable right to set off current tax assets against current tax liabilities and when the deferred income taxes related to the same fiscal authority. The offset amounts are as follows:

	2012 HK$'000	2011 HK$'000
Deferred income tax assets		
– Deferred income tax assets to be realised after more than twelve months	**4,115**	8,253
Deferred income tax liabilities		
– Deferred income tax liabilities to be settled after more than twelve months	**(5,849)**	(10,717)
Deferred tax liabilities, net	**(1,734)**	(2,464)

The net movement on the deferred income tax account is as follows:

	2012 HK$'000	2011 HK$'000
At 1 January	**(2,464)**	(8,072)
Recognised in the consolidated statement of comprehensive income *(Note 30)*	**(3,799)**	5,808
Disposal of subsidiaries *(Note 36)*	**4,589**	–
Exchange differences	**(60)**	(200)
At 31 December	**(1,734)**	(2,464)

11 DEFERRED INCOME TAX *(Continued)*

The movements in deferred income tax assets and liabilities during the year, without taking into consideration the offsetting of balances within the same tax jurisdiction, are as follows:

Deferred income tax liabilities

	Accelerated tax depreciation HK$'000	Revaluation of investment properties HK$'000	Acquisition of subsidiaries HK$'000	Total HK$'000
At 1 January 2011	(401)	(1,812)	(8,840)	(11,053)
Recognised in the consolidated statement of comprehensive income	94	–	679	773
Exchange differences	–	(77)	(360)	(437)
At 31 December 2011	**(307)**	**(1,889)**	**(8,521)**	**(10,717)**
Recognised in the consolidated statement of comprehensive income	**(318)**	**–**	**670**	**352**
Disposal of subsidiaries	**–**	**–**	**4,589**	**4,589**
Exchange differences	**–**	**(13)**	**(60)**	**(73)**
At 31 December 2012	**(625)**	**(1,902)**	**(3,322)**	**(5,849)**

Deferred income tax assets

	Deferred income tax assets HK$'000
At 1 January 2011	2,981
Recognised in the consolidated statement of comprehensive income	5,035
Exchange differences	237
At 31 December 2011	**8,253**
Recognised in the consolidated statement of comprehensive income	**(4,151)**
Exchange differences	**13**
At 31 December 2012	**4,115**

Deferred income tax liabilities of HK$6,410,000 as at 31 December 2012 (31 December 2011: HK$10,252,000) have not been recognised for the withholding tax and other taxes that would be payable on the unremitted earnings of subsidiaries. Unremitted earnings totaled HK$142,946,000 at 31 December 2012 (31 December 2011: HK$149,003,000), and the Group does not intend to remit these unremitted earnings from the relevant subsidiary to the Company in the foreseeable future.

12 INVENTORIES

	2012 HK$'000	2011 HK$'000
Raw materials	**86,630**	72,383
Work in progress	**10,137**	11,527
Finished goods	**107,667**	124,894
	204,434	208,804
Less: Provision for obsolete inventories	**(4,935)**	(5,114)
Inventories, net	**199,499**	203,690

The cost of inventories included in cost of sales during the year amounted to approximately HK$983,031,000 (for the year ended 31 December 2011: HK$868,301,000).

The gross amount of inventories carried at net realisable value amounted to approximately HK$4,935,000 (31 December 2011: HK$5,114,000) as at 31 December 2012. Full provision has been made with regard to these balances.

13 TRADE AND BILLS RECEIVABLES

	2012 HK$'000	2011 HK$'000
Trade receivables	**399,537**	336,884
Bills receivables	**3,630**	4,526
Receivable from a non-controlling interest	**8**	583
	403,175	341,993
Less: provision for impairment of receivables	**(11,570)**	(5,582)
Trade and bills receivables, net	**391,605**	336,411

13 TRADE AND BILLS RECEIVABLES *(Continued)*

Ageing analysis of trade and bills receivables as at 31 December 2012 is as follows:

	2012 HK$'000	2011 HK$'000
Current	**236,518**	197,839
1 – 30 days	**70,947**	63,927
31 – 60 days	**36,383**	33,518
61 – 90 days	**20,151**	15,432
91 – 180 days	**15,582**	17,640
Over 180 days	**23,594**	13,637
	403,175	341,993

The credit period granted by the Group ranges from 15 days to 120 days.

	2012 HK$'000	2011 HK$'000
Denominated in:		
– US$	**181,911**	141,164
– RMB	**177,238**	156,136
– HK$	**31,389**	32,730
– Other currencies	**12,637**	11,963
	403,175	341,993

The fair value of trade and bills receivables are as follows:

	2012 HK$'000	2011 HK$'000
Trade and bills receivables	**391,605**	336,411

As at 31 December 2012, trade and bills receivables of approximately HK$11,570,000 (31 December 2011: HK$5,582,000) were impaired and have been provided for. The individually impaired receivables mainly represent sales made to the PRC customers which have remained long overdue.

13 TRADE AND BILLS RECEIVABLES *(Continued)*

As at 31 December 2012, trade and bills receivables of approximately HK$155,087,000 (31 December 2011: HK$138,572,000) were past due but not impaired. These relate to a number of independent customers for whom there is no recent history of default. The ageing analysis of these trade receivables is as follows:

	2012 HK$'000	2011 HK$'000
Up to 90 days	**127,481**	112,871
91 to 180 days	**15,582**	17,608
Over 180 days	**12,024**	8,093
	155,087	138,572

Movements on the provision for impairment of trade and bills receivables are as follows:

	2012 HK$'000	2011 HK$'000
At 1 January	**5,582**	6,889
Add: Provision/(Write back of provision) for impairment of trade and bills receivables	**9,074**	(1,307)
Less: Write-off of provision for impairment of trade and bills receivables	**(3,086)**	–
At 31 December	**11,570**	5,582

The creation and release of provision for impaired receivables have been included in administrative expenses in the consolidated statement of comprehensive income. Amounts charged to the allowance account are generally written off when there is no expectation of recovering additional cash.

The maximum exposure to credit risk at the balance sheet date is the fair values of trade and bills receivables disclosed above.

14 DEPOSITS, PREPAYMENTS AND OTHER RECEIVABLES

	Group		Company	
	2012 HK$'000	2011 HK$'000	**2012 HK$'000**	2011 HK$'000
Current:				
Deposits	**3,726**	4,260	**–**	–
Prepayments	**41,371**	25,308	**293**	145
Other receivables	**38,469**	51,104	**13**	11
	83,566	80,672	**306**	156
Non-current:				
Long-term prepayments	**20,802**	17,245	**–**	–
	104,368	97,917	**306**	156

The fair values of deposits and other receivables are as follows:

	Group		Company	
	2012 HK$'000	2011 HK$'000	**2012 HK$'000**	2011 HK$'000
Current:				
Deposits	**3,726**	4,260	**–**	–
Other receivables	**38,469**	51,104	**13**	11
	42,195	55,364	**13**	11
Denominated in:				
– HK$	**199**	10,381	**13**	11
– RMB	**41,900**	44,439	**–**	–
– Other currencies	**96**	544	**–**	–
	42,195	55,364	**13**	11

As at 31 December 2012, prepayments of HK$33,113,000 (31 December 2011: HK$24,000,000) represents incentives to franchisees of "7 Magic".

The amount is capitalised as prepayments and is amortised over the contractual franchise period, which is generally 36 months. In the event that the franchisee early terminates or breaches the terms of contract and the Group fails to recover the amount from the franchisees, any unamortised costs will be written off in the consolidated statement of comprehensive income in the period as incurred.

15 RESTRICTED CASH

	2012 HK$'000	2011 HK$'000
Restricted cash	**37,307**	–
Denominated in:		
– RMB	**37,307**	–

As at 31 December 2012, the restricted cash of RMB30,000,000 (approximately HK$37,307,000) served as collateral for an irrevocable letter of guarantee that provides financial assurance that the Group will fulfil its obligation with respect to a litigation as disclosed in note 38.

16 CASH AND CASH EQUIVALENTS

	Group		Company	
	2012 HK$'000	2011 HK$'000	2012 HK$'000	2011 HK$'000
Cash at banks and on hand	**160,720**	151,396	**5,458**	5,284
Short term bank deposits	**84,785**	40,084	**20,119**	40,084
	245,505	191,480	**25,577**	45,368
Denominated in:				
– HK$	**52,342**	67,436	**25,568**	45,366
– RMB	**129,165**	68,318	**–**	–
– US$	**43,873**	32,832	**9**	2
– Other currencies	**20,125**	22,894	**–**	–
	245,505	191,480	**25,577**	45,368

The Group's cash and bank balances of approximately HK$157,607,000 (31 December 2011: approximately HK$79,279,000) are deposited with banks in the PRC, where the remittance of funds is subject to foreign exchange control.

The effective interest rate on short-term bank deposit was 0.11% (31 December 2011: 0.19%) per annum as at 31 December 2012, the deposit has an average maturity of 4 days (2011: 6 days).

17 INVESTMENT IN A SUBSIDIARY AND AMOUNTS DUE FROM/TO SUBSIDIARIES

(a) Investment in a subsidiary

	Company	
	2012	2011
	HK$'000	HK$'000
Investment, at cost	**231,989**	232,318

As at 31 December 2012, the Company had direct and indirect interests in the following principal subsidiaries:

Name of company	Place of incorporation and kind of legal entity	Principal activities and place of operation	Issued/ paid–capital	Attributable equity Direct	Attributable equity Indirect
Ming Fai Holdings Limited (明輝控股有限公司)	British Virgin Islands, limited liability company	Investment holding; Hong Kong	US$100	100%	–
Quality Amenities Supply Limited	Hong Kong, limited liability company	Trading of amenity products and accessories; Hong Kong	HK$1,000,000	–	100%
Ming Fai Asia Pacific Company Limited (明輝亞太有限公司)	Hong Kong, limited liability company	Trading of amenity products and accessories; Hong Kong	HK$10,000,000	–	100%
Ming Fai Enterprise International Company Limited (明輝實業國際有限公司)	Hong Kong, limited liability company	Trading of amenity products and accessories; Hong Kong	HK$3	–	100%
Ming Fai Industrial (Shenzhen) Company Limited (明輝實業(深圳)有限公司)	The PRC, limited liability company	Manufacturing and sales of amenity products and accessories; the PRC	HK$50,000,000	–	100%
Quality Amenities Supply Pte. Limited	Singapore, limited liability company	Trading of amenity products and accessories; Singapore	SG$100,000	–	100%
Luoding Quality Amenities Company Limited (羅定市品質旅遊用品有限公司)	The PRC, limited liability company	Manufacturing and sales of amenity products and accessories; the PRC	US$2,000,000	–	100%
MF Roommaster Australia Pty Limited *(Note 35)*	Australia, limited liability company	Trading of amenity products and accessories; Australia	AUD10,000	–	100%

17 INVESTMENT IN A SUBSIDIARY AND AMOUNTS DUE FROM/TO SUBSIDIARIES *(Continued)*

(a) Investment in a subsidiary *(Continued)*

Name of company	Place of incorporation and kind of legal entity	Principal activities and place of operation	Issued/ paid-capital	Attributable equity Direct	Attributable equity Indirect
Cinese Textile Limited (梧州市金富盈酒店紡織用品有限公司)	The PRC, limited liability company	Manufacturing and sales of amenity products and accessories; the PRC	RMB5,000,000	–	51%
Changshu Mingfai Travel Products Company Limited (常熟明輝旅遊用品有限公司)	The PRC, limited liability company	Laundry services; the PRC	US$12,000,000	–	100%
Everybody Labo Limited (體研究所有限公司)	Hong Kong, limited liability company	Retail of amenity products and accessories; Hong Kong	HK$2,000,000	–	51%
Chartered Properties Limited (特許置業有限公司)	Hong Kong, limited liability company	Property holding and investment; Hong Kong	HK$100,000	–	100%
Ming Fai Innovative Skin Care Lab Limited (明輝創新護膚研究所有限公司)	Hong Kong, limited liability company	Manufacturing and sales of cosmetics products; Hong Kong	HK$100,000	–	100%
Guangzhou 7 Magic Investment Consultancy Company Limited (廣州七色花投資顧問有限公司)	The PRC, limited liability company	Distribution and retail business of cosmetics and fashion accessories; the PRC	RMB3,000,000	–	100%
Guangzhou All Team China Cosmetics Company (廣州奧天聯華化妝品有限公司)	The PRC, limited liability company	Manufacturing and sales of cosmetic and skincare products; the PRC	US$500,000	–	100%
Jiangsu 7 Magic Trading Limited (江蘇七色花貿易有限公司)	The PRC, limited liability company	Distribution and retail business of cosmetic and fashion accessories; the PRC	US$225,000	–	100%

(b) Amounts due from subsidiaries

At 31 December 2012, except for an amount of approximately HK$78,000,000 (2011: HK$78,000,000) due from a subsidiary, which currently bears interest at 4.25% per annum, and unsecured and repayable on demand, the remaining balances were unsecured, interest free and repayable on demand. The carrying values of these balances denominated in HK$ approximate their fair values.

18 RESERVES

(a) Other reserves – Group

	Merger reserve *(Note (i))* HK$'000	Statutory reserve fund *(Note (ii))* HK$'000	Share-based compensation reserve HK$'000	Other reserves HK$'000	Exchange reserves HK$'000	Retained earnings HK$'000	Total HK$'000
Balance at 1 January 2011	61,510	11,887	11,493	5,300	31,605	354,782	476,577
Comprehensive income							
Profit for the year	–	–	–	–	–	71,666	71,666
Other comprehensive income							
Currency translation differences	–	–	–	–	25,426	–	25,426
Total comprehensive income	–	–	–	–	25,426	71,666	97,092
Final dividends relating in 2010	–	–	–	–	–	(28,671)	(28,671)
Interim dividends relating in 2011	–	–	–	–	–	(10,040)	(10,040)
Exercise of share options *(Note 19)*	–	–	(965)	–	–	965	–
Profit appropriation to statutory reserves	–	4,638	–	–	–	(4,638)	–
Share-based compensation *(Note 19)*	–	–	11,878	–	–	–	11,878
Acquisition of non-controlling interests *(Note 35)*	–	–	–	(67)	–	–	(67)
Balance at 31 December 2011	61,510	16,525	22,406	5,233	57,031	384,064	546,769

18 RESERVES *(Continued)*

(a) Other reserves – Group *(Continued)*

	Merger reserve *(Note (i))* HK$'000	Statutory reserve fund *(Note (ii))* HK$'000	Share-based compensation reserve HK$'000	Other reserves HK$'000	Exchange reserves HK$'000	Retained earnings HK$'000	Total HK$'000
Balance at 1 January 2012	61,510	16,525	22,406	5,233	57,031	384,064	546,769
Comprehensive income							
Profit for the year	–	–	–	–	–	75,250	75,250
Other comprehensive income							
Revaluation of land and building prior to transfer to investment properties *(Note 7(a))*	–	–	–	34,116	–	–	34,116
Currency translation differences	–	–	–	–	5,503	–	5,503
Total comprehensive income	–	–	–	34,116	5,503	75,250	114,869
Final dividends relating in 2011	–	–	–	–	–	(13,017)	(13,017)
Interim dividends relating in 2012	–	–	–	–	–	(6,508)	(6,508)
Exercise of share options *(Note 19)*	–	–	(141)	–	–	141	–
Profit appropriation to statutory reserves *(Note (ii))*	–	2,473	–	–	–	(2,473)	–
Share-based compensation *(Note 19)*	–	–	8,957	–	–	–	8,957
Disposal of subsidiaries *(Note 36)*	–	–	–	–	900	–	900
Forfeiture of dividends *(Note 20)*	–	–	–	–	–	1,764	1,764
Balance at 31 December 2012	61,510	18,998	31,222	39,349	63,434	439,221	653,734
Representing:							
Reserves							636,303
Proposed final dividend *(Note 33)*							17,431
							653,734

Note (i)

Merger reserve of the Group represents the difference between the cost of investment in subsidiaries and nominal value of the share capital and share premium of the subsidiaries in 2007 arising from the application of merger accounting in consolidating the financial information of the affected entities.

Note (ii)

Under the relevant PRC laws and regulations, PRC companies are required to allocate 10% of the companies' net profit to the fund until such fund reaches 50% of the companies' registered capital. The statutory reserve fund can be utilised, upon approval by the relevant authorities, to offset against accumulated losses or to increase registered capital of the companies, provided that such fund is maintained at a minimum of 25% of the companies' registered capital.

18 RESERVES *(Continued)*

(b) Other reserves – Company

	Merger reserve *(Note (i))* HK$'000	Share-based compensation reserves HK$'000	Retained earnings HK$'000	Total HK$'000
Balance at 1 January 2011	224,147	11,493	7,895	243,535
Comprehensive income				
Profit for the year	–	–	37,063	37,063
Total comprehensive income	–	–	37,063	37,063
Final dividends relating to 2010	–	–	(28,671)	(28,671)
Interim dividends relating to 2011	–	–	(10,040)	(10,040)
Exercise of share options *(Note 19)*	–	(965)	965	–
Share-based compensation *(Note 19)*	–	11,878	–	11,878
Balance at 31 December 2011	**224,147**	**22,406**	**7,212**	**253,765**
Balance at 1 January 2012	224,147	22,406	7,212	253,765
Comprehensive income				
Profit for the year	–	–	32,810	32,810
Total comprehensive income	–	–	32,810	32,810
Final dividends relating to 2011	–	–	(13,017)	(13,017)
Interim dividends relating to 2012	–	–	(6,508)	(6,508)
Exercise of share options *(Note 19)*	–	(141)	141	–
Share-based compensation *(Note 19)*	–	8,957	–	8,957
Forfeiture of dividends *(Note 20)*	–	–	1,764	1,764
Balance at 31 December 2012	**224,147**	**31,222**	**22,402**	**277,771**
Representing:				
Reserves				260,340
Proposed final dividend *(Note 33)*				17,431
Balance at 31 December 2012				277,771

19 SHARE-BASED PAYMENT COMPENSATION

Pursuant to a written resolution of the shareholders dated 5 October 2007, a share option scheme (the "Scheme") was adopted by the Company. Pursuant to the Scheme, the Board may, at its discretion, grant any full time or part time employees, including the directors of any member of the Group, options to subscribe for ordinary shares of the Company. Details of the Scheme are disclosed in the prospectus of the Company dated 22 October 2007.

During the year ended 31 December 2009, a total of 32,000,000 share options were granted to certain directors and employees. 50% of the options are vested after two years from date of grant and the remaining of 50% of the options are only vested after four years from the date of grant. The options have an exercise price of HK$1.12 and will lapse on 23 June 2019. On 4 September 2012, the Company cancelled the remaining 26,822,000 share options and granted the same number of share options at a exercise price of HK$0.62 to replace them. During the year ended 31 December 2012, 1,163,000 share options were forfeited (2011: Nil).

On 7 May 2010, a total of 3,700,000 share options were granted to certain employees of the Group. 50% of the options are vested after one year from date of grant and the remaining of 50% of the options are only vested after two years from date of grant. The options have an exercise price of HK$3.72 and will lapse on 7 May 2020. 100,000 share options were forfeited during the year end 31 December 2011. All remaining share options were cancelled during the year ended 31 December 2011.

On 14 September 2010, a total of 1,758,000 share options were granted to a director and an employee of the Group. 50% of the options are vested after one year from date of grant and the remaining of 50% of the options are only vested after two years from date of grant. The options have an exercise price of HK$2.80 and will lapse on 14 September 2020. All share options were cancelled during the year ended 31 December 2011.

On 10 February 2011, a total of 1,100,000 share options were granted to certain employees of the Group. 50% of the options are vested after one year from date of grant and the remaining of 50% of the options are only vested after two years from date of grant. The options have an exercise price of HK$2.83 and will lapse on 10 February 2021. All share options were cancelled during the year ended 31 December 2011.

On 9 September 2011, a total of 17,790,000 share options were granted to a director and certain employees of the Group. 50% of the options are vested after one year from date of grant and the remaining of 50% of the options are only vested after two years from date of grant. On 4 September 2012, the Group cancelled the remaining 15,727,000 share options and granted the same number of share options at a exercise price of HK$0.62 to replace them. During the year ended 31 December 2012, 1,288,000 share options were forfeited (2011: 775,000).

On 4 September 2012, a total of 3,373,000 shares options were granted to certain employees of the Group. 50% of the options were vested after one year from date of grant and the remaining of 50% of the options are only vested after two years from date of grant. The options have an exercise price of HK$0.62 and will lapse on 4 September 2022. During the year ended 31 December 2012, 588,000 share options were forfeited.

19 SHARE-BASED PAYMENT COMPENSATION *(Continued)*

Movements in the number of share options outstanding and their related exercise prices are as follows:

	2012		2011	
	Average exercise price in HK$ per share	Number of share options (thousands)	Average exercise price in HK$ per share	Number of share options (thousands)
At 1 January	**1.29**	**45,000**	1.47	35,700
Granted	**0.62**	**45,922**	1.65	18,890
Forfeited	**1.22**	**(3,039)**	1.82	(875)
Exercised	**0.62**	**(400)**	1.12	(2,257)
Expired	**–**	**–**	–	–
Cancelled	**1.29**	**(42,549)**	3.32	(6,458)
At 31 December	**0.62**	**44,934**	1.29	45,000

Share options outstanding at the end of the year have the following expiry date and exercise price:

Expiry date	Exercise price in HK$ per share	Number of share options (thousands) 2012	2011
23 June 2019	1.12	**–**	27,985
9 September 2021	1.58	**–**	17,015
4 September 2022	0.62	**44,934**	–
		44,934	45,000

Out of the 44,934,000 outstanding options (2011: 45,000,000 options), 22,467,000 options (2011: 12,864,000 options) were exercisable. Options exercised in 2012 resulted in 400,000 shares (2011: 2,257,000 shares) being issued at a weighted average price of HK$0.62 each (2011: HK$1.12 each). The related weighted average share price at the time of exercise was HK$0.76 (2011: HK$2.08) per share.

19 SHARE-BASED PAYMENT COMPENSATION *(Continued)*

The fair values of the share options granted are determined using the binominal model (the "Model"), with significant inputs as follows:

	Options granted on 4 September 2012
Exercise price	HK$0.62 per share
Fair value of the options	HK$0.2122 to HK$0.2270 per option
Closing price of the share at the date of grant	HK$0.62 per share
Risk free rate	0.654%
Volatility	57%
Expected dividend yield rate	4.84%

The volatility measured is based on the historical volatility of the Company prior to the issuance of options. The expected volatility used in the calculation is based on the daily price change.

20 SHARE CAPITAL AND SHARE PREMIUM

	2012		2011	
	Number of shares	**HK$'000**	Number of shares	HK$'000
Ordinary shares of HK$0.01 each				
Authorised:				
At 1 January and 31 December	**10,000,000,000**	**100,000**	10,000,000,000	100,000
Issued and fully paid:				
At 1 January	**669,387,293**	**6,694**	637,130,293	6,371
Ordinary share issuance *(Note (b))*	**45,585,550**	**456**	30,000,000	300
Exercise of share options *(Note 19)*	**400,000**	**4**	2,257,000	23
Cancellation of ordinary shares *(Note (c))*	**(18,565,146)**	**(186)**	–	–
At 31 December	**696,807,697**	**6,968**	669,387,293	6,694

20 SHARE CAPITAL AND SHARE PREMIUM *(Continued)*

	Share capital HK$'000	Share premium HK$'000	Total HK$'000
Balance at 1 January 2011	6,371	495,591	501,962
Ordinary share issuance *(Note (a))*	300	62,530	62,830
Exercise of share options	23	2,505	2,528
Balance at 31 December 2011	6,694	560,626	567,320
Ordinary share issuance *(Note (b))*	456	44,395	44,851
Cancellation of ordinary shares *(Note (c))*	(186)	(14,852)	(15,038)
Exercise of share options	4	244	248
Balance at 31 December 2012	**6,968**	**590,413**	**597,381**

Notes:

(a) *On 9 June 2011, the Company allotted 30,000,000 ordinary shares, at a price HK$2.124 per share. Net proceeds for the ordinary share issuance approximated HK$62,830,000 after deduction of transaction cost.*

(b) *On 7 December 2012, the Company placed 45,585,550 ordinary shares, at a price HK$1.00 per share. Net proceeds for the ordinary share issuance approximated HK$44,851,000 after deduction of transaction cost.*

(c) *Pursuant to the sale and purchase agreement in relation to the acquisition of All Team Group dated 18 May 2010, the Group has a right to recover ordinary shares of the Company previously issued to the original vendors of All Team Group, should the net profits after taxation of All Team Group for the year ended 31 December 2011 fall below RMB50,000,000 (equivalent to approximately HK$57,400,000).*

Since the results of All Team Group for the year ended 31 December 2011 did not meet the threshold above, the Group recovered and cancelled 18,565,146 ordinary shares previously issued to the vendors. A fair value gain on this contingent consideration of approximately HK$15,038,000 was recognised during the year ended 31 December 2012. The fair value gain was calculated with reference to the closing market price of the Company's shares as at 30 April 2012, the date of shares cancellation. For the same reason, dividends payable to these ordinary shares relating to the years ended 31 December 2010 and 2011 of approximately HK$1,764,000 were also forfeited during the year.

21 BORROWINGS

	2012 HK$'000	2011 HK$'000
Non-current:		
Long-term bank borrowings	**38,868**	45,190
Current:		
Current portion of long-term bank borrowings	**6,339**	6,283
	45,207	51,473
Representing:		
Secured	**45,207**	51,473

The Group's borrowings are denominated in HK$ and repayable as follows:

	2012 HK$'000	2011 HK$'000
Non-current:		
– HK$ *(Note (a))*	**38,868**	45,190
Representing:		
Later than one year and no later than five years	**26,017**	25,759
Over five years	**12,851**	19,431
	38,868	45,190

	2012 HK$'000	2011 HK$'000
Current:		
– HK$ *(Note (a))*	**6,339**	6,283

21 BORROWINGS *(Continued)*

The weighted average effective interest rate per annum of the Group's borrowings at 31 December 2012 and 2011 are set out as follows:

	2012	2011
Current:		
– HK$ *(Note (a))*	**1.05%**	0.97%

Note (a): In November 2009, the Group has obtained a HK$ denominated mortgage loan, which bore interest at the lower of one month Hong Kong Inter-bank Offered Rate ("HIBOR") plus 0.75% and HK$ Prime rate less 1.75%, for acquiring certain properties in Hong Kong. These properties were pledged against the mortgage loan and included in investment properties (2011: property, plant and equipment and investment properties) in the consolidated financial statements of the Group, with net carrying values of HK$197,000,000 as at 31 December 2012 (31 December 2011: HK$61,117,000 and HK$101,000,000, respectively).

Another subsidiary of the Company had entered into the banking facilities which were secured by land use rights and property, plant and equipment with net carrying values of approximately HK$2,175,000 (31 December 2011: HK$2,216,000) and HK$22,246,000 (31 December 2011: HK$24,211,000), respectively.

Interest expense on borrowings for the year ended 31 December 2012 was approximately HK$1,519,000 (for the year ended 31 December 2011: HK$1,809,000).

The carrying amounts of long-term bank borrowings approximate their fair values as the impact of discounting is not significant.

At the balance sheet date, the Group had the following undrawn borrowing facilities:

	2012 **HK$'000**	2011 HK$'000
Floating rate		
– Expiring within one year	**200,286**	143,990

22 TRADE PAYABLES

The ageing analysis of trade payables is as follows:

	2012 HK$'000	2011 HK$'000
Current	**156,845**	149,771
1 – 30 days	**54,207**	57,405
31 – 60 days	**9,632**	11,150
61 – 90 days	**4,866**	2,707
Over 90 days	**5,451**	4,435
	231,001	225,468
Denominated in:		
– HK$	**16,367**	19,633
– RMB	**194,605**	184,348
– US$	**18,597**	19,440
– Other currencies	**1,432**	2,047
	231,001	225,468

23 ACCRUALS AND OTHER PAYABLES

	Group		Company	
	2012 HK$'000	2011 HK$'000	2012 HK$'000	2011 HK$'000
Advance from customers	**33,948**	29,505	**–**	–
Other payables *(Note (a))*	**111,993**	98,931	**–**	–
Accruals	**88,799**	98,101	**1,610**	721
	234,740	226,537	**1,610**	721

The carrying values of these balances approximate their fair values.

Note (a): According to the sale and purchase agreement in relation to the acquisition of All Team Group RMB10,000,000 (equivalent to approximately HK$11,628,000) shall be withheld by the Group until December 2012 to satisfy any claims against the vendors in respect of any breaches of warranties provided in the sales and purchase agreement. As at 31 December 2010, the amount withheld was recognised as a long-term payable in the consolidated balance sheet, as a financial liability carried at amortised cost. The balance was reclassified as a current liability as at 31 December 2011.

24 LOAN FROM NON-CONTROLLING INTEREST

Loan from non-controlling interest is unsecured, interest free and repayable on demand. The carrying value of this liability approximate its fair value.

The balances are denominated as follows:

	2012 HK$'000	2011 HK$'000
HK$	**5,410**	5,410
US$	**523**	–
	5,933	5,410

25 EXPENSES BY NATURE

The following expenses/(gains) are included in cost of sales, distribution costs and administrative expenses:

	2012 HK$'000	2011 HK$'000
Changes in inventories *(Note 12)*	**983,031**	868,301
Auditor's remuneration	**3,135**	3,300
Amortisation of land use rights *(Note 6)*	**649**	630
Depreciation of property, plant and equipment *(Note 7)*	**40,198**	36,985
Amortisation of intangible assets *(Note 9)*	**2,404**	2,192
Operating lease rental in respect of buildings	**13,344**	15,151
(Write-back of provision)/provision for obsolete inventories	**(179)**	1,052
Provision/(write-back of provision) for impairment of trade and bills receivables *(Note 13)*	**9,074**	(1,307)
Employee benefit expenses *(Note 27)*	**323,057**	263,251
Transportation expenses	**52,123**	50,368
Exchange loss/(gain), net	**1,592**	(3,020)
Advertising costs	**15,545**	14,222
(Gain)/loss on disposal of property, plant and equipment *(Note 34(b))*	**(572)**	221
Direct operating expenses arising from investment properties that generate rental income *(Note 8)*	**165**	139
Utilities expenses	**27,011**	22,889
Impairment of property, plant and equipment *(Note 7(b))*	**5,504**	–

26 OTHER INCOME

	2012 HK$'000	2011 HK$'000
Fair value gain on contingent consideration in relation to the acquisition of All Team Group *(Note 20)*	**15,038**	–
Compensation income *(Note (a))*	**10,760**	–
Income from sales of scrap materials	**2,081**	1,809
Rental income *(Note 8)*	**3,953**	3,240
Others	**1,613**	1,735
	33,445	6,784

Note (a): During the year, compensation income of HK$10,760,000 was received from Shuangdong Town Government upon mutual agreement for the termination of the purchase of a piece of land in Luoding, the PRC.

27 EMPLOYEE BENEFIT EXPENSES (INCLUDING DIRECTORS' EMOLUMENTS)

	2012 HK$'000	2011 HK$'000
Salaries, wages and bonuses	**271,281**	228,904
Pension costs – defined contribution plans	**1,030**	1,047
Welfare and other expenses	**41,789**	21,422
Share-based compensation	**8,957**	11,878
	323,057	263,251

On 15 August 2011, the Group entered into sale and purchase agreements with certain directors and senior management of All Team Group ("Receiving Parties"), pursuant to which the Group agreed to sell a total of 14% of the issued share capital of All Team Group at a total consideration of RMB35,000,000 (equivalent to HK$43,000,000) to the receiving parties. There is a buyback mechanism associated with the sale, whereby the Receiving Parties are obligated to sell the shares back to the Group at pre-determined transfer price upon the occurrence of certain events. These events include the cessation of the Receiving Parties as a shareholder or an employee of All Team Group. This transaction is accounted as an employment benefit using the net profit attributable to the Receiving Parties, adjusted at each year end to reflect the attributed profit to date. A related staff cost of HK$532,000 was recognised in the consolidated statement of comprehensive income during the year ended 31 December 2012 (2011: HK$265,000). All Receiving Parties had either resigned and sold their shares back to the Group or disposed of their shares to the purchaser of All Team Group (Note 36) before 31 December 2012.

28 DIRECTORS' AND SENIOR MANAGEMENT'S EMOLUMENTS

(a) Directors' emoluments

The aggregate amounts of emoluments paid/payable to directors of the Company by the Group are as follows:

	2012 HK$'000	2011 HK$'000
Fees	**1,207**	1,290
Basic salaries, housing allowances, other allowances and benefits-in-kind	**6,243**	5,866
Share-based compensation	**1,706**	2,909
Contributions to pension plans	**92**	103
	9,248	10,168

The emoluments of every director for the year ended 31 December 2012 are as follows:

Name of Directors	Fees HK$'000	Salary HK$'000	Discretionary bonuses HK$'000	Share-based compensation HK$'000	Employer's contribution to pension scheme HK$'000	Total HK$'000
Executive Directors *(Note (i))*						
Mr. CHING Chi Fai	120	1,100	956	52	14	2,242
Mr. CHING Chi Keung	120	398	466	349	14	1,347
Mr. LIU Zigang	120	430	564	349	36	1,499
Mr. LEE King Hay	120	653	468	349	14	1,604
Ms. CHAN Yim Ching	120	502	578	349	14	1,563
Mr. LEUNG Ping Shing *(Note (ii))*	30	125	–	66	3	224
Independent non-executive Directors						
Mr. HUNG Kam Hung Allan	150	–	–	52	–	202
Mr. MA Chun Fung Horace	150	–	–	52	–	202
Mr. SUN Kai Lit Cliff	150	–	–	44	–	194
Non-executive Directors						
Mr. Lawrence Joseph MORSE *(Note (iii))*	7	–	–	–	–	7
Mr. NG Bo Kwong *(Note (iv))*	120	–	–	44	–	164
Total	1,207	3,208	3,032	1,706	95	9,248

28 DIRECTORS' AND SENIOR MANAGEMENT'S EMOLUMENTS *(Continued)*

(a) Directors' emoluments *(Continued)*

The emoluments of every director for the year ended 31 December 2011 are as follows:

Name of Directors	Fees HK$'000	Salary HK$'000	Discretionary bonuses HK$'000	Share-based compensation HK$'000	Employer's contribution to pension scheme HK$'000	Total HK$'000
Executive Directors *(Note (i))*						
Mr. CHING Chi Fai	120	1,080	500	69	12	1,781
Mr. CHING Chi Keung	120	390	243	462	12	1,227
Mr. LIU Zigang	120	415	445	462	24	1,466
Mr. LEE King Hay	120	709	244	462	31	1,566
Ms. CHAN Yim Ching	120	631	463	462	12	1,688
Mr. LEUNG Ping Shing	120	494	252	716	12	1,594
Independent non-executive Directors						
Mr. HUNG Kam Hung Allan	150	–	–	69	–	219
Mr. MA Chun Fung Horace	150	–	–	69	–	219
Mr. SUN Kai Lit Cliff	150	–	–	69	–	219
Non-executive Director						
Mr. NG Bo Kwong	120	–	–	69	–	189
Total	1,290	3,719	2,147	2,909	103	10,168

Note:

(i) The roles of chief executive officer have been performed collectively by all the executive Directors, including the chairman of the Company.

(ii) Mr. LEUNG Ping Shing resigned as an executive Director of the Company on 30 March 2012.

(iii) Mr. Lawrence Joseph MORSE was appointed as a non-executive Director on 11 December 2012.

(iv) Mr. NG Bo Kwong resigned as a non-executive Director on 31 December 2012.

The emoluments of the directors fall within the following bands:

	Number of Individuals 2012	2011
Nil to HK$1,000,000	**6**	4
HK$1,000,001 to HK$1,500,000	**2**	2
HK$1,500,001 to HK$2,000,000	**2**	4
HK$2,000,001 to HK$2,500,000	**1**	–

28 DIRECTORS' AND SENIOR MANAGEMENT'S EMOLUMENTS *(Continued)*

(b) Five highest paid individuals

The five individuals whose emoluments were the highest in the Group during the year ended 31 December 2012 include four directors (2011: four) whose emoluments are reflected in the analysis presented above. The emoluments payable to the remaining individual for the year ended 31 December 2012 were as follows:

	2012 HK$'000	2011 HK$'000
Basic salaries, housing allowances, other allowances and benefit-in-kind	**1,405**	1,256
Share-based compensation	**407**	1,324
Contribution to pension plans	**13**	12
	1,825	2,592

(c) No emoluments have been paid to the individual or the directors as an inducement to join or upon joining the Group or as compensation for loss of office during the year ended 31 December 2012 (2011: Nil).

29 FINANCE INCOME AND FINANCE COSTS

	2012 HK$'000	2011 HK$'000
Finance costs on bank borrowings – wholly repayable within five years	**(1,519)**	(1,809)
Finance costs	**(1,519)**	(1,809)
Finance income	**512**	1,003
Finance (cost)/income – net	**(1,007)**	(806)

30 INCOME TAX EXPENSE

The amount of income tax charged/(credit) to the consolidated statement of comprehensive income represents:

	2012 HK$'000	2011 HK$'000
Current income tax:		
– Hong Kong profits tax	**14,784**	7,642
– PRC enterprise income tax	**8,139**	20,114
– Singapore income tax	**641**	812
	23,564	28,568
Deferred income tax	**3,799**	(5,808)
	27,363	22,760

Taxation has been provided at the appropriate rates prevailing in the countries in which the Group operates.

Hong Kong profits tax is calculated at 16.5% (2011: 16.5%) on the estimated assessable profits for the year ended 31 December 2012.

The new Corporate Income Tax Law in the PRC became effective since 1 January 2008 with standard income tax rate of 25%.

Luoding Quality Amenities Company Limited is eligible for corporate tax exemption for two years in 2008 and 2009, followed by a 50% reduction in corporate income tax rate in the next three years from 2010 to 2012.

Corporate tax in Singapore has been provided at the rate of 17% (2011: 17%) on the estimated assessable profit for the year ended 31 December 2012.

30 INCOME TAX EXPENSE *(Continued)*

The difference between the actual income tax charged to the consolidated statement of comprehensive income and the amounts which would result from applying the enacted tax rates to profit before income tax can be reconciled as follows:

	2012 HK$'000	2011 HK$'000
Profit before income tax	**102,541**	90,221
Tax calculated at domestic tax rates applicable to profits in the respective countries	**18,860**	28,493
Income not subject to tax	**(11,331)**	(17,521)
Expenses not deductible for tax purposes	**12,992**	5,702
Tax losses for which no deferred income tax asset was recognised	**6,842**	6,086
Tax charge	**27,363**	22,760

The weighted average applicable tax rate was 27% (2011: 25%) per annum for the year ended 31 December 2012.

Deferred income tax assets are recognised for tax losses carried forward to the extent that realisation of the related tax benefit through the future taxation profits is probable. The Group has unrecognised tax losses of approximately HK$76,923,000 (2011: HK$47,669,000) as at 31 December 2012 to offset against future taxable income. These tax losses expire in the following years:

	2012 HK$'000	2011 HK$'000
In the first to fifth years inclusive	**52,683**	24,162
No expiry date	**24,240**	23,507
	76,923	47,669

31 PROFIT ATTRIBUTABLE TO EQUITY HOLDERS OF THE COMPANY

The profit attributable to equity holders of the Company is dealt with in the financial statements of the Company to the extent of HK$32,810,000 (2011: HK$37,063,000).

32 EARNINGS PER SHARE

(a) Basic

Basic earnings per share attributable to equity holders of the Company is calculated by dividing the profit attributable to equity holders of the Company by the weighted average number of ordinary shares in issue during the year.

	2012	2011
Profit attributable to equity holders of the Company (HK$'000)	**75,250**	71,666
Weighted average number of ordinary shares in issue (thousands)	**660,472**	655,143
Basic earnings per share attributable to equity holders of the Company (HK cents)	**11.4**	10.9

(b) Diluted

Diluted earnings per share attributable to equity holders of the Company is calculated by adjusting the weighted average number of ordinary shares outstanding to assume conversion of all dilutive potential ordinary shares. The Company has share options as dilutive potential shares. A calculation was done to determine the number of shares that could have been acquired at fair value (determined as the average annual market price of the shares) based on the monetary value of the subscription rights attached to the outstanding share options. The number of shares calculated as above was compared with the number of shares that would have been issued assuming the exercise of the share options.

32 EARNINGS PER SHARE *(Continued)*

(b) Diluted *(Continued)*

	2012	2011
Earnings		
Profit attributable to equity holders of the Company (HK$'000)	**75,250**	71,666
Weighted average number of ordinary shares in issue (thousands)	**660,472**	655,143
Adjustments for:		
– Share options (thousands)	**874**	12,238
Weighted average number of ordinary shares for diluted earnings per share (thousands)	**661,346**	667,381
Diluted earnings per share attributable to equity holders of the Company (HK cents)	**11.4**	10.7

33 DIVIDENDS

On 24 May 2012, a final dividend of HK2.0 cents per share for the year ended 31 December 2011, amounting to a total dividend of approximately HK$13,017,000 was approved by the Company's shareholders.

On 30 August 2012, the Board resolved to pay an interim dividend of HK1.0 cent per share for the six months ended 30 June 2012, amounting to a total dividend of approximately HK$6,508,000 (six months ended 30 June 2011: HK1.5 cents per share).

The final dividend in respect of the year ended 31 December 2012 of HK2.5 cents per share, amounting to a total dividend of approximately HK$17,431,000 is proposed on 27 March 2013, which is subject to approval at the annual general meeting (the "AGM") to be held on 23 May 2013. This proposed dividend is not reflected as a dividend payable in the financial statements, but will be reflected as an appropriation of retained earnings for the year ended 31 December 2012.

34 NOTE TO CONSOLIDATED STATEMENT OF CASH FLOWS

(a) Reconciliation of profit before income tax for the year to cash generated from operations

	2012 HK$'000	2011 HK$'000
Profit before income tax	**102,541**	90,221
Adjustments for:		
– Amortisation of land use rights *(Note 6)*	**649**	630
– Depreciation of property, plant and equipment *(Note 7)*	**40,198**	36,985
– Amortisation of intangible assets *(Note 9)*	**2,404**	2,192
– (Gain)/loss on disposal of property, plant and equipment *(Note 25)*	**(572)**	221
– Impairment of property, plant and equipment *(Note 25)*	**5,504**	–
– Finance income *(Note 29)*	**(512)**	(1,003)
– Finance expense *(Note 29)*	**1,519**	1,809
– Provision for/(write-back of provision) for obsolete inventories *(Note 25)*	**(179)**	1,052
– Provision for impairment/(write-back of provision) of trade and bills receivables *(Note 25)*	**9,074**	(1,307)
– Direct write off of provision of trade and bill receivables	**349**	–
– Share of profit of an associated company *(Note 10(a))*	**(80)**	(94)
– Fair value gain on investment properties *(Note 8)*	**–**	(6,000)
– Share-based compensation *(Note 19)*	**8,957**	11,878
– Cancellation of ordinary shares *(Note 20)*	**(15,038)**	–
Changes in working capital:		
– Inventories	**4,370**	(56,550)
– Trade and bills receivables	**(64,617)**	(87,220)
– Deposits, prepayments and other receivables	**(4,981)**	117
– Trade payables	**5,533**	75,828
– Accruals and other payables	**25,490**	38,059
– Amount due from an associated company	**(655)**	91
Cash generated from operations	**119,954**	106,909

34 NOTE TO CONSOLIDATED STATEMENT OF CASH FLOWS *(Continued)*

(b) Proceeds from disposal of property, plant and equipment

In the consolidated statement of cash flows, proceeds from disposal of property, plant and equipment comprise:

	2012 HK$'000	2011 HK$'000
Net book amount:		
– Property, plant and equipment *(Note 7)*	**886**	828
Gain/(Loss) on disposal of property, plant and equipment *(Note 25)*	**572**	(221)
Proceeds from disposal of property, plant and equipment	**1,458**	607

(c) Analysis of changes in financing during the year

Bank borrowings

	2012 HK$'000	2011 HK$'000
Beginning of the year	**51,473**	69,423
Proceeds from borrowings	**51,359**	24,898
Repayments of borrowings	**(57,625)**	(43,077)
Exchange difference	**–**	229
End of the year	**45,207**	51,473

Loans from non-controlling interests

	2012 HK$'000	2011 HK$'000
Beginning of the year	**5,410**	4,682
Proceeds from loans	**523**	1,470
Repayments of loans	**–**	(41)
Assignment of loans to the Group *(Note 35)*	**–**	(665)
Exchange difference	**–**	(36)
End of the year	**5,933**	5,410

35 TRANSACTION WITH NON-CONTROLLING INTERESTS

On 16 August 2011, the Group acquired the remaining 20% equity interest in Maytex International Limited ("Maytex") at a consideration of HK$200,000. After the transaction, Maytex becomes a wholly owned subsidiary of the Group. This represents a transaction with non-controlling interests. The difference between the consideration paid and the share of net asset value acquired from the non-controlling interests of HK$2,000 is credited in equity in the Group's consolidated balance sheet.

On 30 September 2011, the Group acquired the remaining 49% equity interest in MF Roommaster Australia Pty Limited ("MF Roommaster") at a consideration of HK$38,000. MF Roommaster becomes a wholly owned subsidiary of the Group after the transaction. This represents a transaction with non-controlling interests. The difference between the consideration paid and the share of net asset value acquired from the non-controlling interests of HK$69,000 is debited in equity in the Group's consolidated balance sheet. As part of the transaction, a loan payable by the non-controlling interest of HK$665,000 was assigned to the Group.

36 DISPOSAL OF SUBSIDIARIES

In December 2012, Ming Fai Holdings Limited ("Ming Fai Holdings"), a subsidiary of the Company entered into a sales and purchase agreement (the "Agreement") with an independent third party (the "Purchaser") to dispose of its entire equity interests in All Team Group ("All Team") (the "Disposal") at a consideration of RMB11,202,000 (equivalent to approximately HK$13,934,000). The Disposal was completed on 28 December 2012.

In accordance with the Agreement, the consideration should be settled by 27 March 2013. It was subsequently agreed between Ming Fai Holdings and the Purchaser that the settlement date of the consideration to be deferred to 26 September 2013. The Purchaser had pledged the land and building of Parel (Guangzhou) Cosmetics Limited as collateral to secure the settlement of the consideration.

(a) Loss on disposal of the disposal group of the subsidiaries

	HK$'000
Consideration receivable	13,934
Analysis of assets and liabilities over which control was lost:	
Land use right *(Note 6)*	9,552
Property, plant and equipment *(Note 7)*	25,643
Other receivables	12,464
Cash and cash equivalents	19
Accruals and other payables	(17,784)
Tax payable	(12,271)
Deferred tax liabilities *(Note 11)*	(4,589)
Net assets disposed of	13,034
Release of reserve upon disposal of subsidiaries *(Note 18(a))*	900
Sub-total	13,934

37 COMMITMENTS

(a) Capital commitments

As at 31 December 2012, the capital commitments of the Group were HK$4,454,000 (31 December 2011: HK$2,658,000).

	2012 HK$'000	2011 HK$'000
Contracted but not provided for in the consolidated financial statements	**4,454**	2,658

(b) Operating lease commitments

The future aggregate minimum lease payments under non-cancellable operating leases of the Group are as follows:

	2012 HK$'000	2011 HK$'000
No later than one year	**13,737**	8,029
Later than one year and no later than five years	**17,293**	4,676
Later than five years	**5,648**	–
	36,678	12,705

(c) Other commitments

As at 31 December 2012, the Group has the following other commitments:

	2012 HK$'000	2011 HK$'000
No later than one year	**704**	1,451
Later than one year and no later than five years	**36**	–
	740	1,451

38 CONTINGENT LIABILITIES

In 2012, 明輝實業(深圳)有限公司, 廣州七色花投資顧問有限公司 and 深圳輝華倉儲服務有限公司, subsidiaries of the Company, (collectively, the" Defendants") are involved in a litigation with a competitor, who is alleging that the Defendants have infringed trademarks and is seeking damages of RMB100,000,000, (approximately HK$124,400,000). The Directors have taken legal advice and are of the opinion that the claim can be successfully defended by the Group. No provision is considered necessary as at 31 December 2012.

39 RELATED PARTY TRANSACTIONS

Related parties are those parties that have the ability to control the other party or exercise significant influence in making financial and operating decisions. Parties are also considered to be related if they are subject to common control.

The ultimate controlling parties of the Group are Mr. CHING Chi Fai, Mr. CHING Chi Keung, Mr. LIU Zigang and Ms. CHAN Yim Ching.

(a) Significant related party transactions

The Group has carried out significant transactions with the following related parties:

Name of related party	Principal business activities	Relationship with the Group
Mr. LIU Zigang	Not applicable	A shareholder and a director of the Company
Ming Fai Plastic Industrial Company	Manufacturing of plastic products (Ceased manufacturing of plastic products since April 2003)	Partnership owned by Mr. CHING Chi Fai, Mr. YEUNG Tin Loi and Mr. CHING Chi Keung
Quality Amenities Supply (M) Sdn. Bhd.	Trading of hotel amenities and accessories	Associated company of the Company
Advance Management Consultants Limited	Provision of consultancy services	Company owned by Mr. NG Bo Kwong who is a former non-executive Director of the Company. He resigned as non-executive Director on 31 December 2012.

39 RELATED PARTY TRANSACTIONS *(Continued)*

(a) Significant related party transactions *(Continued)*

The Group had the following significant transactions with related parties:

		2012 HK$'000	2011 HK$'000
(i)	Sales of goods		
	– to Quality Amenities Supply (M) Sdn. Bhd.	**2,415**	2,195
(ii)	Rental charged		
	– by Ming Fai Plastic Industrial Company	**898**	959
	– by Mr. LIU Zigang	**162**	159
(iii)	Purchase of services rendered from		
	– Consultancy service from Advance Management Consultants Limited	**68**	135
	– Freight and administrative charges from Quality Amenities Supply (M) Sdn. Bhd.	**529**	839

Sales of goods are transacted at normal commercial terms that are consistently applied to all customers.

Purchases of services are transacted at normal commercial terms that are consistently applied to all customers of the related companies.

The Group leased certain properties from Ming Fai Plastic Industrial Company as one of its production bases in the PRC. The transaction is carried out at prices agreed between the parties.

The Group leased one office premise in the PRC from Mr. LIU Zigang. The transaction is carried out at prices as agreed between the parties.

39 RELATED PARTY TRANSACTIONS *(Continued)*

(b) Key management compensation

	2012 HK$'000	2011 HK$'000
Basic salaries, housing allowances, other allowances and benefits-in-kind	**6,873**	6,586
Share-based compensation	**1,514**	2,633
Contributions to pension plans	**92**	103
	8,479	9,322

(c) Year end balances arising from sales/purchase of goods/services

	2012 HK$'000	2011 HK$'000
Amounts due from		
– Quality Amenities Supply (M) Sdn. Bhd.	**1,328**	673

Five Year Financial Summary

CONSOLIDATED RESULTS

	Year ended 31 December				
	2008	2009	2010	2011	**2012**
	HK$'000	HK$'000	HK$'000	HK$'000	**HK$'000**
Revenue	876,044	811,336	1,085,933	1,475,369	**1,685,723**
Profit before income tax	121,517	119,713	135,922	90,221	**102,541**
Income tax expense	(20,673)	(23,444)	(26,178)	(22,760)	**(27,363)**
Profit for the year	100,844	96,269	109,744	67,461	**75,178**

CONSOLIDATED ASSETS, EQUITY AND LIABILITIES

	As at 31 December				
	2008	2009	2010	2011	**2012**
	HK$'000	HK$'000	HK$'000	HK$'000	**HK$'000**
ASSETS					
Non-current assets	157,110	308,482	789,694	856,596	**842,207**
Current assets	854,052	753,475	634,568	812,971	**958,836**
Total assets	1,011,162	1,061,957	1,424,262	1,669,567	**1,801,043**
EQUITY AND LIABILITIES					
Total equity	760,934	795,735	974,357	1,106,277	**1,243,405**
Non-current liabilities	343	57,919	73,021	55,907	**44,717**
Current liabilities	249,885	208,303	376,884	507,383	**512,921**
Total liabilities	250,228	266,222	449,905	563,290	**557,638**
Total equity and liabilities	1,011,162	1,061,957	1,424,262	1,669,567	**1,801,043**