

*Hong Kong Exchanges and Clearing Limited and The Stock Exchange of Hong Kong Limited take no responsibility for the contents of this announcement, make no representation as to its accuracy or completeness and expressly disclaim any liability whatsoever for any loss howsoever arising from or in reliance upon the whole or any part of the contents of this announcement.*



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

*(Stock code: 396)*

**ANNUAL RESULTS ANNOUNCEMENT  
FOR THE YEAR ENDED 31 DECEMBER 2016**

The board of directors (the “Board”) of Hing Lee (HK) Holdings Limited (the “Company”) is pleased to announce the consolidated results of the Company and its subsidiaries (the “Group”) for the year ended 31 December 2016 with comparative figures for the corresponding year ended 31 December 2015.

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

## CONSOLIDATED STATEMENT OF PROFIT OR LOSS

*for the year ended 31 December 2016*  
*(Expressed in Hong Kong dollars)*

	<i>Note</i>	<b>2016</b> <i>HK\$'000</i>	2015 <i>HK\$'000</i>
<b>Turnover</b>	4	<b>394,196</b>	485,281
Cost of sales		<u>(293,338)</u>	<u>(374,102)</u>
<b>Gross profit</b>		<b>100,858</b>	111,179
Other net income	5	<b>2,340</b>	10,412
Selling and distribution expenses		<b>(37,305)</b>	(52,437)
Administrative expenses		<u>(50,948)</u>	<u>(49,355)</u>
<b>Profit from operation</b>		<b>14,945</b>	19,799
Finance costs	6(a)	<u>(2,663)</u>	<u>(3,479)</u>
<b>Profit before taxation</b>	6	<b>12,282</b>	16,320
Income tax	7	<u>(1,712)</u>	<u>(129)</u>
<b>Profit for the year</b>		<u><b>10,570</b></u>	<u>16,191</u>
<b>Attributable to:</b>			
Equity shareholders of the Company		<b>10,570</b>	16,713
Non-controlling interests		<u>–</u>	<u>(522)</u>
		<u><b>10,570</b></u>	<u>16,191</u>
		<i>HK cents</i>	<i>HK cents</i>
<b>Earnings per share</b>	8		
– Basic		<u><b>1.31</b></u>	<u>2.20</u>
– Diluted		<u><b>1.31</b></u>	<u>2.16</u>

**CONSOLIDATED STATEMENT OF PROFIT OR LOSS AND OTHER  
COMPREHENSIVE INCOME**

*for the year ended 31 December 2016  
(Expressed in Hong Kong dollars)*

	<b>2016</b> <i>HK\$'000</i>	2015 <i>HK\$'000</i>
<b>Profit for the year</b>	<u>10,570</u>	<u>16,191</u>
<b>Other comprehensive (loss)/income for the year</b>		
Items that may be reclassified subsequently to profit or loss:		
– Exchange differences on translation of financial statements of overseas subsidiaries, net of nil tax	(15,308)	(12,228)
– Gain/(loss) on fair value changes of available-for-sale investments, net of nil tax	<u>1</u>	<u>(10)</u>
	<u>(15,307)</u>	<u>(12,238)</u>
<b>Total comprehensive (loss)/income for the year</b>	<u><u>(4,737)</u></u>	<u><u>3,953</u></u>
<b>Attributable to:</b>		
Equity shareholders of the Company	(4,737)	4,477
Non-controlling interests	<u>–</u>	<u>(524)</u>
	<u><u>(4,737)</u></u>	<u><u>3,953</u></u>

## CONSOLIDATED STATEMENT OF FINANCIAL POSITION

*as at 31 December 2016*

*(Expressed in Hong Kong dollars)*

	<i>Note</i>	<b>2016</b> <i>HK\$'000</i>	2015 <i>HK\$'000</i>
<b>Non-current assets</b>			
Property, plant and equipment		<b>253,309</b>	283,345
Prepaid lease payments		<b>40,056</b>	43,851
Goodwill		<b>48,455</b>	52,120
Available-for-sale investments		<b>61</b>	57
		<hr/> <b>341,881</b> <hr/>	<hr/> 379,373 <hr/>
<b>Current assets</b>			
Prepaid lease payments		<b>1,014</b>	1,083
Inventories		<b>62,434</b>	71,869
Trade and other receivables	10	<b>160,775</b>	107,007
Derivative financial instruments		–	81
Current tax recoverable		<b>188</b>	10
Pledged bank deposits		<b>26,336</b>	12,227
Cash and cash equivalents		<b>50,411</b>	68,662
		<hr/> <b>301,158</b> <hr/>	<hr/> 260,939 <hr/>
<b>Current liabilities</b>			
Trade and other payables	11	<b>176,393</b>	201,654
Bank borrowings		<b>69,812</b>	37,067
Current tax payable		<b>230</b>	250
		<hr/> <b>246,435</b> <hr/>	<hr/> 238,971 <hr/>
<b>Net current assets</b>		<hr/> <b>54,723</b> <hr/>	<hr/> 21,968 <hr/>
<b>NET ASSETS</b>		<hr/> <b>396,604</b> <hr/>	<hr/> 401,341 <hr/>
<b>CAPITAL AND RESERVES</b>			
Share capital	12	<b>8,061</b>	8,061
Reserves		<b>388,543</b>	393,280
		<hr/> <b>396,604</b> <hr/>	<hr/> 401,341 <hr/>
<b>Total equity attributable to equity shareholders of the Company</b>		<hr/> <b>396,604</b> <hr/>	<hr/> 401,341 <hr/>

## NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

### 1. COMPANY INFORMATION

Hing Lee (HK) Holdings Limited (the “Company”) was incorporated in the British Virgin Islands (“BVI”) on 20 April 2004 and re-domiciled in Bermuda on 30 March 2007. The registered office of the Company is located at The Belvedere Building, 69 Pitts Bay Road, Pembroke HM08, Bermuda. The principal place of business of the Company is located at Unit 1101, 11th Floor, Delta House, 3 On Yiu Street, Shatin, New Territories, Hong Kong.

The Company has its primary listing on the Main Board of the Stock Exchange of Hong Kong Limited (the “Stock Exchange”). The principal activity of the Company is investment holding. The principal activities of the Group are the design, manufacture, sale and marketing of home furniture products including mainly wood-based furniture, sofa and mattresses and licensing of its own brands and product designs.

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

### 2. BASIS OF PREPARATION

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

The HKICPA has issued certain new and revised HKFRSs that are first effective for the current accounting period of the Group. None of these developments have had a material effect on how the Group’s results and financial position for the current or prior periods have been prepared or presented.

The Group has not applied any new standard or interpretation that is not yet effective for the current accounting period (see note 3).

### 3 POSSIBLE IMPACT OF AMENDMENTS, NEW STANDARDS AND INTERPRETATIONS ISSUED BUT NOT YET EFFECTIVE FOR THE YEAR ENDED 31 DECEMBER 2016

Up to the date of issue of these consolidated financial statements, the HKICPA has issued a number of amendments and new standards which are not yet effective for the year ended 31 December 2016 and which have not been adopted in these consolidated financial statements. These include the following which may be relevant to the Group:

Amendments to HKAS 7	Statement of cash flows: Disclosure initiative <sup>1</sup>
Amendments to HKAS 12	Income taxes: Recognition of deferred tax assets for unrealised losses <sup>1</sup>
HKFRS 9	Financial instruments <sup>2</sup>
HKFRS 15	Revenue from contracts with customers <sup>2</sup>
Amendments to HKFRS 2	Share-based payment: Classification and measurement of share-based payment transactions <sup>2</sup>
HKFRS 16	Leases <sup>3</sup>

<sup>1</sup> Effective for annual periods beginning on or after 1 January 2017.

<sup>2</sup> Effective for annual periods beginning on or after 1 January 2018.

<sup>3</sup> Effective for annual periods beginning on or after 1 January 2019.

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

### 4 TURNOVER

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

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

	2016 <i>HK\$'000</i>	2015 <i>HK\$'000</i>
Sale of goods	372,578	467,167
Licensing income	21,618	18,114
	<u>394,196</u>	<u>485,281</u>

## 5 OTHER NET INCOME

	2016 <i>HK\$'000</i>	2015 <i>HK\$'000</i>
Bank interest income	663	1,190
Dividend income from available-for-sale investments	4	3
Government grant	2,375	4,362
Other interest income	–	3,541
Sales of scrap materials	152	26
Loss on disposal of property, plant and equipment, net	(1,806)	(39)
Net realised gains/(losses) on derivative financial instruments	271	(53)
Others	681	1,382
	<u>2,340</u>	<u>10,412</u>

During the year ended 31 December 2016, the Group received funding supports from the government of The People's Republic of China (the "PRC") mainly relating to the Group's information technologies.

During the year ended 31 December 2015, the Group received funding supports from the government of the PRC relating to the Group's improvement of production technologies.

## 6 PROFIT BEFORE TAXATION

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

### (a) Finance costs

	2016 <i>HK\$'000</i>	2015 <i>HK\$'000</i>
Interest on bank borrowings	<u>2,663</u>	<u>3,479</u>

### (b) Staff costs

	2016 <i>HK\$'000</i>	2015 <i>HK\$'000</i>
Directors' remuneration	2,340	2,454
Wages and salaries	84,923	95,775
Retirement scheme contributions	8,245	10,407
Reversal of provision for long service payments	–	(100)
Equity-settled share-based payment expenses	–	9,792
	<u>95,508</u>	<u>118,328</u>

(c) **Other items**

	<b>2016</b>	2015
	<b><i>HK\$'000</i></b>	<i>HK\$'000</i>
Auditor's remuneration	<b>968</b>	980
Amortisation of prepaid lease payments	<b>1,058</b>	1,127
Cost of inventories sold <sup>#</sup>	<b>293,338</b>	374,102
Depreciation of property, plant and equipment	<b>15,593</b>	17,297
Loss on disposal of property, plant and equipment, net	<b>1,806</b>	39
Foreign exchange loss, net	<b>13,429</b>	6,182
Impairment of trade receivables	<b>132</b>	4,217
Fair value losses/(gains) on derivative financial instruments	<b>52</b>	(138)
Operating lease rentals: minimum lease payments		
– land and buildings	<b>7,989</b>	6,154
	<b><u>7,989</u></b>	<b><u>6,154</u></b>

<sup>#</sup> Cost of inventories sold includes HK\$77,361,000 (2015: HK\$88,136,000) relating to staff costs, depreciation and amortisation expenses and operating lease rentals, which amount is also included in the respective total amounts disclosed separately above or in note 6(b) for each of these types of expenses.

**7 INCOME TAX IN THE CONSOLIDATED STATEMENT OF PROFIT OR LOSS**

(a) Taxation in the consolidated statement of profit or loss represents:

	<b>2016</b>	2015
	<b><i>HK\$'000</i></b>	<i>HK\$'000</i>
Current year provision		
– PRC Enterprise Income Tax	<b>1,682</b>	1,075
Prior years under/(over)-provision		
– Hong Kong Profits Tax	–	(28)
– PRC Enterprise Income Tax	<b>30</b>	(918)
	<b><u>1,712</u></b>	<b><u>129</u></b>



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

	<b>2016</b>	2015
	<b>HK\$'000</b>	HK\$'000
Profit before taxation	<b>12,282</b>	16,320
Notional tax on profit before taxation, calculated at		
Hong Kong Profits Tax rate of 16.5% (2015: 16.5%)	<b>2,026</b>	2,693
Tax effect of non-deductible expenses	<b>813</b>	3,711
Tax effect of non-taxable income	<b>(402)</b>	(860)
Tax effect of different tax rates of subsidiaries	<b>(7,932)</b>	(4,622)
Tax effect of unrecognised temporary differences	<b>(738)</b>	973
Tax effect of utilisation of tax losses not recognised previously	<b>(118)</b>	(2,543)
Tax effect of unused tax losses not recognised	<b>8,112</b>	1,760
Prior years under/(over)-provision	<b>30</b>	(946)
Others	<b>(79)</b>	(37)
Actual tax expense	<b>1,712</b>	129

- (i) Pursuant to the income tax rules and regulations, the Group is not subject to income tax in Bermuda and the BVI.
- (ii) No provision for Hong Kong Profits Tax has been made (2015: HK\$Nil) as the Company and certain subsidiaries incorporated or domiciled in Hong Kong have either no assessable profits or sustained tax losses for taxation purposes during the year.
- (iii) The subsidiaries incorporated in the PRC are subject to the PRC Enterprise Income Tax rate of 25% for the year (2015: 25%).
- (iv) Hing Lee Ideas Limited, a subsidiary incorporated in Malaysia, is subject to Company Income Tax in Malaysia. No provision for the year (2015: HK\$Nil) has been made as this subsidiary has been dormant since its incorporation.

## 8 EARNINGS PER SHARE

The calculation of basic earnings per share is based on the profit attributable to equity shareholders of the Company of HK\$10,570,000 (2015: HK\$16,713,000) and the weighted average number of 806,096,025 (2015: 760,601,230) ordinary shares in issue during the year.

The calculation of diluted earnings per share is based on the profit attributable to equity shareholders of the Company of HK\$10,570,000 (2015: HK\$16,713,000) and the weighted average number of 806,798,868 (2015: 773,911,420) ordinary shares, calculated as follows:

### Weighted average number of ordinary shares (diluted)

	2016	2015
Weighted average number of ordinary shares at 31 December	<b>806,096,025</b>	760,601,230
Effect of deemed issue of shares under the Company's share option scheme	<u>702,843</u>	<u>13,310,190</u>
Weighted average number of ordinary shares (diluted) at 31 December	<u><b>806,798,868</b></u>	<u>773,911,420</u>

## 9 SEGMENT REPORTING

### (a) Operating segment information

The Group is principally engaged in the manufacture and sale of home furniture. All of the Group's products are of a similar nature and subject to similar risk and returns. Accordingly, the Group's operating activities are attributable to one single operating segment.

### (b) Geographic information

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

	2016		2015	
	Revenues from external customers <i>HK\$'000</i>	Specified non-current assets <i>HK\$'000</i>	Revenues from external customers <i>HK\$'000</i>	Specified non-current assets <i>HK\$'000</i>
Asia (excluding the PRC)	76,420	394	159,042	580
Europe	13,512	–	11,479	–
PRC	230,238	345,091	267,526	378,736
The United States	65,118	–	38,829	–
Others	8,908	–	8,405	–
	<u>394,196</u>	<u>345,485</u>	<u>485,281</u>	<u>379,316</u>

Asia mainly covers Middle East and Southeast Asia; Europe mainly covers Ukraine, France, Georgia and Germany; and others mainly cover Canada, Africa, South America and Australia.

(c) **Major customers**

Revenue from major customers, each of whom accounted for 10% or more of the total revenue, is set out below:

	2016 <i>HK\$'000</i>	2015 <i>HK\$'000</i>
Customer A	63,837	N/A <sup>#</sup>
Customer B	N/A <sup>#</sup>	72,268
	<u>        </u>	<u>        </u>

<sup>#</sup> The corresponding revenue did not contribute 10% or more of the total revenue.

**10 TRADE AND OTHER RECEIVABLES**

	2016 <i>HK\$'000</i>	2015 <i>HK\$'000</i>
Trade debtors and bills receivable	76,351	64,741
Less: allowance for doubtful debts ( <i>note 10(b)</i> )	<u>(10,659)</u>	<u>(10,852)</u>
	<u>65,692</u>	<u>53,889</u>
Deposits paid for purchase of property, plant and equipment	3,461	2,300
Deposits paid to suppliers	31,656	22,729
Value added tax recoverable	10,354	14,051
Other deposits, prepayments and receivables	<u>49,612</u>	<u>14,038</u>
	<u>95,083</u>	<u>53,118</u>
	<u>160,775</u>	<u>107,007</u>

The amount of the Group's deposits and prepayments expected to be recovered or recognised as expense after more than one year is HK\$2,139,000 (2015: HK\$1,995,000). All of the other trade and other receivables are expected to be recovered or recognised as expense within one year.

**(a) Ageing analysis**

As of the end of the reporting period, the ageing analysis of trade debtors and bills receivable, based on the invoice date (or date of revenue recognition, if earlier) and net of allowance for doubtful debts, is as follows:

	<b>2016</b>	2015
	<i>HK\$'000</i>	<i>HK\$'000</i>
Within 3 months	<b>37,073</b>	37,260
3 to 6 months	<b>6,299</b>	3,222
6 to 9 months	<b>5,772</b>	12,465
9 months to 1 year	<b>5,082</b>	942
Over 1 year	<b>11,466</b>	–
	<u><b>65,692</b></u>	<u>53,889</u>

Trade debtors and bills receivable are normally due within 30 to 90 days from the date of billing.

**(b) Impairment of trade debtors and bills receivable**

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

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

	<b>2016</b>	2015
	<i>HK\$'000</i>	<i>HK\$'000</i>
At 1 January	<b>10,852</b>	6,682
Exchange realignment	<b>(67)</b>	(40)
Impairment loss recognised	<b>132</b>	4,217
Uncollectible amounts written off	<b>(258)</b>	(7)
	<u><b>10,659</b></u>	<u>10,852</u>

At 31 December 2016, the Group's trade debtors and bills receivable of HK\$10,659,000 (2015: HK\$10,852,000) were individually determined to be impaired. The individually impaired receivables related to customers that were in financial difficulties and management assessed that none of the receivables is expected to be recovered. Consequently, specific allowances for doubtful debts of HK\$132,000 (2015: HK\$4,217,000) were recognised.

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

The ageing analysis of trade debtors and bills receivable that are neither individually nor collectively considered to be impaired is as follows:

	2016 <i>HK\$'000</i>	2015 <i>HK\$'000</i>
Neither past due nor impaired	<u>44,607</u>	<u>38,266</u>
Less than 3 months past due	685	9,178
3 to 6 months past due	3,852	5,724
6 months to 1 year past due	5,082	721
More than 1 year past due	<u>11,466</u>	<u>–</u>
	<u>21,085</u>	<u>15,623</u>
	<u><u>65,692</u></u>	<u><u>53,889</u></u>

Receivables that were neither past due nor impaired relate to a wide range of customers for whom there was no recent history of default.

Receivables that were past due but not impaired relate to a number of independent customers that have a good track record with the Group. Based on past experience, management believes that no impairment allowance is necessary in respect of these balances as there has not been a significant change in credit quality and the balances are still considered fully recoverable.

**11 TRADE AND OTHER PAYABLES**

	2016 <i>HK\$'000</i>	2015 <i>HK\$'000</i>
Trade creditors and bills payable	<u>126,724</u>	<u>132,378</u>
Accrued charges	13,087	16,887
Receipts in advance	18,310	33,623
Payables for purchase of property, plant and equipment	736	1,084
Other payables	<u>17,536</u>	<u>17,682</u>
	<u>49,669</u>	<u>69,276</u>
	<u><u>176,393</u></u>	<u><u>201,654</u></u>

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

As of the end of the reporting period, the ageing analysis of trade creditors and bills payable, based on the invoice date, is as follows:

	<b>2016</b>	2015
	<b>HK\$'000</b>	HK\$'000
Within 3 months	<b>78,913</b>	74,932
3 months to 1 year	<b>36,184</b>	41,089
Over 1 year	<b>11,627</b>	16,357
	<u><b>126,724</b></u>	<u>132,378</u>

## 12 SHARE CAPITAL, RESERVES AND DIVIDENDS

### (a) Share capital

#### (i) Authorised and issued share capital

	<b>2016</b>		<b>2015</b>	
	Number of ordinary shares of HK\$0.01 each	Amount HK\$'000	Number of ordinary shares of HK\$0.01 each	Amount HK\$'000
Authorised:				
At 1 January	<b>3,000,000,000</b>	<b>30,000</b>	1,000,000,000	10,000
Increase during the year ( <i>note (ii)</i> )	<u>–</u>	<u>–</u>	<u>2,000,000,000</u>	<u>20,000</u>
At 31 December	<u><b>3,000,000,000</b></u>	<u><b>30,000</b></u>	<u>3,000,000,000</u>	<u>30,000</u>
Issued and fully paid:				
At 1 January	<b>806,096,025</b>	<b>8,061</b>	746,496,025	7,465
Shares issued under share option scheme ( <i>note (iii)</i> )	<u>–</u>	<u>–</u>	<u>59,600,000</u>	<u>596</u>
At 31 December	<u><b>806,096,025</b></u>	<u><b>8,061</b></u>	<u>806,096,025</u>	<u>8,061</u>

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

(ii) *Increase in authorised share capital*

By an ordinary resolution passed at the Annual General Meeting on 15 May 2015, the authorised share capital of the Company was increased from HK\$10,000,000 divided into 1,000,000,000 ordinary shares of HK\$0.01 each to HK\$30,000,000 divided into 3,000,000,000 ordinary shares of HK\$0.01 each by the creation of an additional 2,000,000,000 new ordinary shares of HK\$0.01 each.

(iii) *Shares issued under share option scheme*

During the year ended 31 December 2015, options were exercised to subscribe for 59,600,000 ordinary shares in the Company at a consideration of HK\$20,484,800.

(iv) *Terms of unexpired and unexercised share options as at 31 December 2015*

<b>Exercisable period</b>	<b>Exercise price</b>	<b>Number</b>
3 April 2015 to 31 December 2016	0.4030	19,100,000
11 June 2015 to 31 December 2016	0.4310	60,000,000
20 June 2015 to 31 December 2016	0.4900	12,000,000
		91,100,000
		91,100,000

Each option entitles the holder to subscribe for one ordinary share in the Company.

**(b) Dividends**

(i) *Dividends payable to equity shareholders of the Company attributable to the year:*

	<b>2016</b>	2015
	<b>HK\$'000</b>	HK\$'000
Interim dividend declared and paid of nil cents (2015: HK 0.47 cents) per ordinary share	–	3,610
	–	3,610

(ii) *Dividends payable to equity shareholders of the Company attributable to the previous year, approved and paid during the year:*

	<b>2016</b>	2015
	<b>HK\$'000</b>	HK\$'000
Final dividend in respect of the previous year of nil cents (2015: HK 0.56 cents) per ordinary share	–	4,180
	–	4,180

**(c) Nature and purpose of reserves**

(i) *Share premium*

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

## **MANAGEMENT DISCUSSION AND ANALYSIS**

### **BUSINESS REVIEW**

In Year 2016, the global economy lacked momentum with slackening trading activities. The subdued global growth and high volatility in global finance led to deeper setbacks in trade. The performances of the Group's core markets including mainland China, Japan, Australia and the Middle East were affected in varying degrees by several factors, including a decline in oil price, the ongoing devaluation of the Chinese Renminbi against the US Dollar and Hong Kong Dollar and a continued weak the retail sector.

In the second half of Year 2016, the Group faced upward pressure in material costs such as metal parts, packing materials and foam, etc. The Group responded by continuing to re-assess its product ranges and the prices of its existing product mix. In addition, the Group also assessed its production capability and structure, strengthened its design and quality control team, outsourced more non-core production process and production to other factories nearby. Classical furniture and mattress productions are the two major areas outsourced. The outsourcing strategy has enhanced production efficiency and the Group's flexibility.

### **FINANCIAL REVIEW**

#### **Turnover**

The Group's turnover decreased by approximately 18.8% from about HK\$485.3 million for the year ended 31 December 2015 to HK\$394.2 million for the year ended 31 December 2016. The decrease in turnover during the period was due to the decrease in export sales and domestic sales by approximately 24.7% and 13.9% respectively.

The performance of the Group's core export markets including the Middle East, Australia and Japan were affected in various degrees by several factors, including a decline in oil price, low demand for our products, and in particular, the Group dropped the export of mattress business as this segment is not profitable.

The decrease in the domestic sales during the year was a result of the Group's strategy to continue to drop some product lines that are not profitable. In addition, the domestic sales were affected by the low sentiment in the PRC and the depreciation of Renminbi, which led to lower conversion rate to Hong Kong dollars, the functional currency of the Group.

#### **Gross Profit**

Despite the increase in material costs, the Group's gross profit margin increased to 25.6% for year ended 31 December 2016 (31 December 2015: 22.9%) as a result of the effort of the Group to adjust its products, improve the product mix and discontinue some non-profitable product lines.

#### **Selling and Distribution Expenses**

The Group's selling and distribution expenses amounted to about HK\$37.3 million for the year ended 31 December 2016, against about HK\$52.4 million for the year ended 31 December 2015. The decrease in selling and distribution expenses was a result of the stringent and effective control in promotional costs and the decrease in salaries and commission costs as a result of the decrease in sales.



### **Administrative Expenses**

For the year ended 31 December 2016, the Group's administrative expenses were approximately HK\$50.9 million against about HK\$49.4 million for the year ended 31 December 2015. Despite the sharp increase in foreign exchange loss arising from conversion of the foreign currencies to Hong Kong dollars, the functional currency of the Group, our administrative expenses remained relatively stable. This was mainly attributable to the reduction in headcount and stringent cost control policies implemented during the year under review.

### **Profit for the Year**

Profit attributable to equity shareholders of the Company for the year ended 31 December 2016 was approximately HK\$10.6 million (2015: HK\$16.7 million).

### **EMPLOYMENT AND REMUNERATION POLICY**

As at 31 December 2016, the Group employed approximately 1,270 employees (2015: approximately 1,450). Salaries are reviewed annually and discretionary bonuses are paid on annual basis with reference to individual performance appraisals, inflation and prevailing market conditions. Other benefits available to eligible employees include retirement benefits and medical insurance schemes. Share options may also be granted to eligible employees of the Group and other eligible participants.

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

### **LIQUIDITY AND FINANCIAL RESOURCES**

The Group's overall funding and treasury activities are currently managed and controlled by the senior management. There is no significant change in respect of treasury and financing policies from those of last year.

The Group maintained cash and bank balances of HK\$50.4 million as at 31 December 2016 (31 December 2015: HK\$68.7 million).

As at 31 December 2016, the Group had bank borrowings amounting to HK\$69.8 million (31 December 2015: HK\$37.1 million). As at the same date, the gearing ratio (total debt/total equity) was 0.6 (31 December 2015: 0.6).

As at 31 December 2016, the current ratio (current assets/current liabilities) was 1.2 (31 December 2015: 1.1) and the net current assets amounted to HK\$54.7 million (31 December 2015: HK\$22.0 million).

The ageing analysis of trade creditors and bills payable and the maturity profiles of bank borrowings are set out in the notes to the consolidated financial statements of the annual report to be published by the Company.

## **SEGMENT INFORMATION**

Segment information is set out in Note 9 to the consolidated financial statements of this annual results announcement.

## **ENVIRONMENTAL POLICY**

The Group's commitment to protect the environment is well reflected by its continuous efforts in promoting green measures and awareness in its daily business operations. The Group encourages environmental protection and promote awareness towards environmental protection to the employees. The Group adheres to the principle of Recycling and Reducing. It implements green office practices such as double-sided printing and copying, setting up recycling bins, promoting the use of recycled paper and reducing energy consumption by switching off idle lightings and electrical appliance.

More importantly, the Group put substantial effort in cleaner production. It has fulfilled the requirement and demonstrated a high commitment to cleaner production. As a result, it is certified by the Environment Bureau of The Government of the Hong Kong Special Administrative Region and The Economic & Information Commission of Guangdong Province as "Hong Kong – Guangdong Cleaner Production Partner (Manufacturing)".

The Group will review its environmental practices from time to time and will consider implementing further eco-friendly measures and practices in the operation of the Group's businesses to move towards adhering the 3Rs – Reduce, Recycle and Reuse and enhance environmental sustainability.

## **COMPLIANCE WITH RELEVANT LAWS AND REGULATIONS**

The Group's operations are mainly carried out by the Company's subsidiaries in mainland China while the Company is listed on the Stock Exchange. The Group's operations accordingly shall comply with relevant laws and regulations in mainland China and Hong Kong.

During the year ended 31 December 2016 and up to the date of this report, to the best of knowledge of the Company, the Group has complied with all the relevant laws and regulations in mainland China and Hong Kong which have a significant impact on the business and operations of the Group, and there was no material breach of or non-compliance with the applicable laws and regulations by the Group that has a significant impact on the business and operations of the Group.

## **RELATIONSHIPS WITH STAKEHOLDERS**

The Company recognizes that employees are its valuable assets. Thus the Group provides competitive remuneration package to attract and motivate the employees. Apart from salary payments, there are other staff benefits including mandatory provident fund, medical insurance and performance related bonus. Share options may also be granted to eligible employees of the Group. The Group regularly reviews the remuneration package of employees and makes necessary adjustments to conform to the market standard.

The Group also understands that it is important to maintain good relationship with business partners and bank enterprises to achieve its long-term goals. Accordingly, the senior management of the Group kept good communication, promptly exchanged ideas and shared business update with them when appropriate. During the year 2016, there was no material and significant dispute between the Group and its business partners or bank enterprises.

## **KEY RISKS AND UNCERTAINTIES**

The Group's financial condition, results of operations, and business prospects may be affected by a number of risks and uncertainties directly or indirectly pertaining to the Group's businesses. The followings are the key risks and uncertainties identified by the Group. The list below is not exhaustive and there may be other risks and uncertainties in addition to those shown below which are not known to the Group or which may not be material now but could turn out to be material in the future. Besides, this annual report does not constitute a recommendation or an advice for anyone to invest in the securities of the Company and investors are advised to make their own judgment or consult their own investment advisors before making any investment in the securities of the Company.

### **Market Risks**

Market risk is the risk that deteriorates the Group's profitability or affects the Group's ability to meet business objectives and it arises from the movement in market prices, like foreign exchange rates, interest rates and equity prices. The management of the Group manages and monitors these exposures to ensure appropriate measures are implemented on a timely and effective manner.

### **Foreign Currency Risk**

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

### **Interest Rate Risk**

The Group's interest-rate risk arises from borrowings. All borrowings of the Group are at variable rates, which expose the Group to cash flow interest-rate risk, and the Group analyses its interest rate exposure on a dynamic basis and considers managing this risk in a cost-effective manner when appropriate, through variety of means.

### **Liquidity Risk**

Liquidity risk is the potential that the Group will be unable to meet its obligations when they fall due because of an inability to obtain adequate funding or liquidate assets. In managing liquidity risk, the Group monitors cash flows and maintains an adequate level of cash and cash equivalent to ensure the ability to finance the Group's operations and reduce the effects of fluctuation in cash flows.

### **Operational Risk**

Operational risk is the risk of loss resulting from inadequate or failed internal processes, people and systems or from external events. Responsibility for managing operational risks basically rests with every function at divisional and departmental levels. Key functions in the Group are guided by their standard operating procedures, limits of authority and reporting framework. The senior management of the Group identifies and assesses key operational exposures regularly so that appropriate risk response can be taken. However, accidents may happen despite systems and procedures were set up for their prevention, which may lead to financial loss, litigation or damage in reputation.

### **Investment Risk**

Investment risk can be defined as the likelihood of occurrence of losses relative to the expected return on any particular investment. Key concern of investment framework will be balancing risk and return across different investments, and thus risk assessment is a core aspect of the investment decision process.

### **Manpower and Retention Risk**

The Group may face the risk of not being able to attract and retain key personnel and talents with appropriate and required skills, experience and competence which would meet the business objectives of the Group. The Group will provide attractive remuneration package to suitable candidates and personnel based on factors such as market rates, responsibility, job complexity as well as the Group's performance. The Group has also adopted share option scheme to recognize and reward the contribution of the employees for the growth and development of the Group.

### **Business Risk**

Performance of our Group's core business will be affected by various factors, including but not limited to economic conditions, performance of property markets in regions where its customers locate, which would not be mitigated even with careful and prudent investment strategy and strict procedure.

### **CHARGE OF ASSETS**

As at 31 December 2016, the Group had banking facilities which were secured by (i) a letter of undertaking over the Group's construction in progress and buildings; (ii) legal charges over the Group's medium-term leasehold land outside Hong Kong; (iii) pledged bank deposits of approximately HK\$26.3 million.

## **SIGNIFICANT INVESTMENTS AND ACQUISITIONS**

The Group did not have any significant investments, acquisitions or disposal of subsidiaries and associated companies during the year under review.

## **CONTINGENT LIABILITIES**

As at 31 December 2016, the Group had no significant contingent liabilities.

## **PROSPECTS**

Looking ahead, we see the year 2017 as a year of uncertainty in the broader environment, featured by changes in the global political landscape, a strengthening US dollar and significant swings in the environment. As the Chinese economy has entered a “New Normal”, we anticipate the operating environment of our home furniture market in 2017 will face various adverse factors as in 2016. The overall business outlook therefore remains challenging.

Despite the current unfavorable operating environment, the furniture industry in China has a bright future in the longer run. Increasing household disposable income resulted from urbanisation and consumers’ quest for quality furniture products form an ideal backdrop for furniture business. The Group will continue to improve its product mix and strive to achieve a higher gross profit margin with proactive adjustment of market strategies, flexible optimization of products and material mix, reasonable allocation of production capacity, reduction of cost and efficiency enhancement, so as to sustain a long-term growth and reward its shareholders, employees and customers for their support.

## **CORPORATE GOVERNANCE**

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

Save as disclosed below, the Company complied with the code provisions of the Corporate Governance Code (the “CG Code”) and Corporate Governance Report set out in Appendix 14 to the Rules Governing the Listing of Securities (the “Listing Rules”) on The Stock Exchange of Hong Kong Limited (the “Stock Exchange”) during the financial year. The Company periodically reviews its corporate governance practices to ensure its continuous compliance.

### **Code provision A.2.1**

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

### **MODEL CODE FOR DIRECTORS' SECURITIES TRANSACTIONS**

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

### **AUDIT COMMITTEE REVIEW**

The audit committee of the Company (the "Audit Committee") has three members comprising Mr. Kong Hing Ki (Chairman), Mr. Sun Jian, and Ms. Shao Hanqing, all being independent non-executive Directors. The Audit Committee has reviewed the audited financial results of the Group for the year ended 31 December 2016.

### **DIVIDENDS**

The Board does not recommend the payment of a final dividend for the year ended 31 December 2016 (31 December 2015: Nil).

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

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

## **PUBLICATION OF ANNUAL RESULTS AND 2016 ANNUAL REPORT**

The annual results announcement is published on the websites of the Stock Exchange and the Company. The annual report of the Company for the year ended 31 December 2016 will be despatched to the Shareholders and published on both websites in due course.

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

Hong Kong, 29 March 2017

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

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