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**Hing Lee (HK) Holdings Limited**  
**興利（香港）控股有限公司**

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

(Stock code: 396)

## **INTERIM RESULTS FOR THE SIX MONTHS ENDED 30 JUNE 2017**

### **INTERIM RESULTS**

The board of directors (each a “Director”, collectively the “Board”) of Hing Lee (HK) Holdings Limited (the “Company”) is pleased to announce the unaudited condensed consolidated interim results of the Company and its subsidiaries (the “Group”) for the six months ended 30 June 2017 with comparative figures for the corresponding period in 2016.

**CONDENSED CONSOLIDATED INTERIM STATEMENT OF PROFIT OR LOSS**

**(Unaudited)**

**Six months ended 30 June**

	<i>Notes</i>	<b>2017</b>	2016
		<b><i>HK\$'000</i></b>	<i>HK\$'000</i>
<b>Turnover</b>	3	<b>139,233</b>	181,329
Cost of sales		<u>(108,664)</u>	<u>(138,278)</u>
<b>Gross profit</b>		<b>30,569</b>	43,051
Other net income		<b>3,258</b>	1,693
Selling and distribution expenses		<b>(14,523)</b>	(15,788)
Administrative expenses		<u>(13,350)</u>	<u>(21,452)</u>
<b>Profit from operations</b>		<b>5,954</b>	7,504
Finance costs		<u>(1,608)</u>	<u>(1,308)</u>
<b>Profit before taxation</b>	4	<b>4,346</b>	6,196
Income tax	5	<u>(164)</u>	<u>(368)</u>
<b>Profit for the period</b>		<u><b>4,182</b></u>	<u>5,828</u>
<b>Attributable to:</b>			
Equity shareholders of the Company		<u><b>4,182</b></u>	<u>5,828</u>
		<i>(HK cents)</i>	<i>(HK cents)</i>
<b>Earnings per share attributable to the equity holders of the Company</b>			
– basic	6	<b>0.52</b>	0.72
– diluted	6	<b>0.52</b>	0.72
		<i>HK\$'000</i>	<i>HK\$'000</i>
<b>Dividend</b>	7	<u><b>–</b></u>	<u>–</u>

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

	(Unaudited)	
	Six months ended 30 June	
	2017	2016
	<i>HK\$'000</i>	<i>HK\$'000</i>
<b>Profit for the period</b>	<b>4,182</b>	5,828
<b>Other comprehensive income/(loss)</b>		
Items that may be reclassified subsequently to profit or loss:		
Loss on fair value of available-for-sale investments, net of tax	(1)	(13)
Exchange differences on translation of financial statements of overseas subsidiaries (after tax)	<u>6,458</u>	<u>(3,782)</u>
<b>Total comprehensive income for the period</b>	<b><u>10,639</u></b>	<b><u>2,033</u></b>
<b>Total comprehensive income attributable to – equity shareholders of the Company</b>	<b><u>10,639</u></b>	<b><u>2,033</u></b>

## CONDENSED CONSOLIDATED INTERIM FINANCIAL POSITION

		As at <b>30 June 2017</b> <i>HK\$'000</i> <b>(Unaudited)</b>	As at 31 December 2016 <i>HK\$'000</i> <b>(Audited)</b>
	<i>Notes</i>		
<b>Non-current assets</b>			
Property, plant and equipment	8	254,874	253,309
Prepaid lease payments	8	40,760	40,056
Goodwill	9	49,940	48,455
Available-for-sale investments	10	63	61
		<b>345,637</b>	341,881
<b>Current assets</b>			
Prepaid lease payments	8	1,045	1,014
Inventories		60,073	62,434
Trade debtors and bills receivable	11	60,238	65,692
Prepayments, deposits and other receivables		134,293	95,083
Derivative financial instruments	12	103	–
Current tax recoverable		188	188
Pledged bank deposits		12,366	26,336
Cash and cash equivalents		28,817	50,411
		<b>297,123</b>	301,158
<b>Current liabilities</b>			
Trade creditors and bills payable	13	110,011	126,724
Other payables and accrued charges		65,029	49,669
Bank borrowings	14	60,128	69,812
Current taxation		348	230
		<b>235,516</b>	246,435
<b>Net current assets</b>		<b>61,607</b>	54,723
<b>Net assets</b>		<b>407,244</b>	396,604
<b>Capital and reserves</b>			
Share capital	15	8,061	8,061
Reserves		399,183	388,543
<b>Total equity</b>		<b>407,244</b>	396,604

## CONDENSED CONSOLIDATED INTERIM STATEMENT OF CHANGES IN EQUITY

(Unaudited)

Attributable to equity shareholders of the Company

	Share capital	Share premium	Exchange reserve	Statutory reserve fund	Merger reserve	Share option reserve	Fair value reserve	Capital reserve	Retained profits	Total	Non- controlling interest	Total equity
	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000
<b>At 1 January 2016</b>	8,061	175,384	33,394	11,115	25,430	8,463	(4)	(31,348)	170,846	401,341	-	401,341
Profit for the period	-	-	-	-	-	-	-	-	5,828	5,828	-	5,828
Items that may be reclassified subsequently to profit or loss:												
Fair value change on available for sale investment recognised as Other Comprehensive Income	-	-	-	-	-	-	(12)	-	-	(12)	-	(12)
Currency translation difference	-	-	(3,782)	-	-	-	-	-	-	(3,782)	-	(3,782)
<b>Total comprehensive income</b>	-	-	(3,782)	-	-	-	(12)	-	5,828	2,034	-	2,034
Appropriation of reserve	-	-	-	(176)	-	-	-	-	176	-	-	-
<b>At 30 June 2016</b>	<u>8,061</u>	<u>175,384</u>	<u>29,612</u>	<u>10,939</u>	<u>25,430</u>	<u>8,463</u>	<u>(16)</u>	<u>(31,348)</u>	<u>176,850</u>	<u>403,375</u>	<u>-</u>	<u>403,375</u>
<b>At 1 January 2017</b>	8,061	175,384	18,086	10,947	25,430	-	(3)	(31,348)	190,047	396,604	-	396,604
Profit for the period	-	-	-	-	-	-	-	-	4,182	4,182	-	4,182
Items that may be reclassified subsequently to profit or loss:												
Fair value change on available for sale investment recognised as Other Comprehensive Income	-	-	-	-	-	-	-	-	-	-	-	-
Currency translation difference	-	-	6,458	-	-	-	-	-	-	6,458	-	6,458
<b>Total comprehensive income</b>	-	-	6,458	-	-	-	-	-	4,182	10,640	-	10,640
Appropriation of reserve	-	-	-	328	-	-	-	-	(328)	-	-	-
<b>At 30 June 2017</b>	<u>8,061</u>	<u>175,384</u>	<u>24,544</u>	<u>11,275</u>	<u>25,430</u>	<u>-</u>	<u>(3)</u>	<u>(31,348)</u>	<u>193,901</u>	<u>407,244</u>	<u>-</u>	<u>407,244</u>

**CONDENSED CONSOLIDATED INTERIM CASH FLOWS STATEMENT****(Unaudited)****Six months ended 30 June****2017****2016****HK\$'000****HK\$'000**

<b>Net cash (used in) operating activities</b>	<b>(24,582)</b>	<b>(56,027)</b>
<b>Net cash generated from (used in) investing activities</b>	<b>12,897</b>	<b>(3,517)</b>
<b>Net cash generated from (used in) financing activities</b>	<b>(10,916)</b>	<b>26,059</b>
<b>Net decrease in cash and cash equivalents</b>	<b>(22,601)</b>	<b>(33,485)</b>
<b>Effect of foreign exchange rate changes</b>	<b>1,007</b>	<b>(746)</b>
Cash and cash equivalents at the beginning of the period	<b>50,411</b>	<b>68,662</b>
<b>Cash and cash equivalents at the end of the period</b>	<b>28,817</b>	<b>34,431</b>
<b>Analysis of the balances of cash and cash equivalents</b>		
Cash and bank balances	<b>28,817</b>	<b>34,431</b>

# NOTES TO THE CONDENSED CONSOLIDATED INTERIM FINANCIAL STATEMENTS

## 1 GENERAL INFORMATION

The Company was incorporated in the British Virgin Islands (“BVI”) on 20 April 2004 and was re-domiciled and continued in Bermuda with limited liability on 30 March 2007. The registered office address is 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 principal business activities of the Group are the design, manufacture, sale and marketing of home furniture products including mainly wood-based furniture, sofa, mattresses and licensing of its own brands and product designs.

These condensed consolidated interim financial statements are presented in Hong Kong dollars (“HK\$”), unless otherwise stated. The condensed consolidated interim financial statements were approved by the Board for issue on 18 August 2017.

The condensed consolidated interim financial statements have not been audited.

## 2 BASIS OF PREPARATION

The unaudited condensed consolidated interim financial statements for the six months ended 30 June 2017 of the Group has been prepared in accordance with the applicable disclosure requirements of Appendix 16 to the Rules Governing the Listing of Securities on The Stock Exchange of Hong Kong Limited (the “Listing Rules”) and Hong Kong Accounting Standard (“HKAS”) 34 “Interim Financial Reporting” issued by the Hong Kong Institute of Certified Public Accountants (the “HKICPA”).

The accounting policies and basis of preparation adopted in these Interim financial statements are consistent with those adopted by the Group in its annual financial statements for the year ended 31 December 2016, except for adoption of new and revised Hong Kong Financial Reporting Standards (“HKFRSs”) issued by the HKICPA which are effective to the Group for accounting periods beginning on or after 1 January 2017. The adoption of the new HKFRSs has no material impact on the Group’s results and financial position for the current or prior periods.

The Group has not applied the new HKFRSs that have been issued but are not yet effective. The Group has already commenced an assessment of the impact of these new HKFRSs but is not yet in a position to state whether these new HKFRSs would have a material impact on its results of operations and financial position.

### 3 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. The Group's operating activities are attributable to a 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 were 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 they are allocated, in the case of goodwill.

#### Revenue from external customers

	(Unaudited)	
	Six months ended 30 June	
	2017	2016
	<i>HK\$'000</i>	<i>HK\$'000</i>
Asia (excluding the People's Republic of China ("PRC"))*	13,969	44,740
Europe	6,339	7,170
PRC	89,686	97,328
The United States of America	27,406	30,361
Others	1,833	1,730
	<u>139,233</u>	<u>181,329</u>



**Specified non-current assets**

	<b>As at 30 June 2017 HK\$'000 (Unaudited)</b>	<b>As at 31 December 2016 HK\$'000 (Audited)</b>
Asia (excluding the PRC)	306	394
PRC	<u>343,331</u>	<u>345,091</u>
	<u><b>343,637</b></u>	<u><b>345,485</b></u>

\* Asia mainly covers Australia, Middle East, Indonesia and Hong Kong; Europe mainly covers France, Georgia and Germany; and others mainly cover Canada, Africa and South America.

**4 PROFIT BEFORE TAXATION**

Profit before taxation is arrived at after charging and crediting the following items:

	<b>(Unaudited)</b>	
	<b>Six months ended 30 June</b>	
	<b>2017</b>	<b>2016</b>
	<b>HK\$'000</b>	<b>HK\$'000</b>
<b>After charging</b>		
<b>(a) Finance cost</b>		
Interest on borrowings	<u>1,608</u>	<u>1,308</u>
<b>(b) Other items</b>		
Auditor's remuneration	450	450
Cost of inventories sold	108,664	138,275
Staff costs (including Directors' emoluments)		
– Directors' emoluments	1,170	1,170
– others	35,731	42,972
Depreciation	7,234	8,054
Amortisation of prepaid land lease payments	514	539
Net exchange loss (gain)	(1,764)	2,272
Loss on disposal of properties	<u>12</u>	<u>–</u>
<b>After crediting</b>		
Interest income	<u>197</u>	<u>341</u>

## 5 INCOME TAX

### (a) Taxation in the condensed consolidated interim income statements represents:

	(Unaudited)	
	Six months ended 30 June	
	2017	2016
	<i>HK\$'000</i>	<i>HK\$'000</i>
Current income tax		
– Hong Kong profits tax	–	–
– PRC enterprise income tax	<u>164</u>	<u>368</u>
	<u>164</u>	<u>368</u>

- (i) The provision for Hong Kong profits tax for the six months ended 30 June 2017 is calculated at 16.5% (six months ended 30 June 2016: 16.5%) of the estimated assessable profits for each respective period.
- (ii) The subsidiaries in the PRC are subject to a standard enterprise income tax rate of 25% for the six months ended 30 June 2017 (six months ended 30 June 2016: 25%).
- (iii) Taxes on profits assessable elsewhere have been calculated at the rates of tax prevailing in the jurisdictions in which the Group operates.

### (b) Deferred taxation

As at 30 June 2017, the Group has not recognised deferred tax assets in respect of cumulative tax losses of HK\$85,172,000 (30 June 2016: HK\$84,329,000) as it is not probable that future taxable profits, against which the assets can be utilised, will be available in relevant tax jurisdiction and entity. Of the total tax losses, HK\$70,717,000 (30 June 2016: HK\$74,950,000) will expire within 5 years and the remaining tax losses of HK\$14,455,000 (30 June 2016: HK\$9,380,000) have no expiry date under the current tax legislation.

As at 30 June 2017, the Group has unrecognised deferred tax liabilities of HK\$2,155,000 (30 June 2016: HK\$2,355,000) in relation to withholding tax on undistributed earnings of HK\$43,100,000 (30 June 2016: HK\$47,103,000) due to the retention of undistributed earnings by the Group's subsidiaries in the PRC determined by the Directors.

The Company does not have any material temporary differences between the tax bases of assets and liabilities and their carrying amounts in the financial statements (30 June 2016: Nil), and therefore, no provision for deferred tax has been made.

## 6 EARNINGS PER SHARE

### (a) Basic earnings per share

The calculation of basic earnings per share for the six months ended 30 June 2017 is based on the profit attributable to ordinary equity shareholders of the Company of HK\$4,182,000 (six months ended 30 June 2016: earnings of HK\$5,828,000) and the weighted average number of ordinary shares of the Company in issue during the six months ended 30 June 2017 of 806,096,025 shares (six months ended 30 June 2016: 806,096,025 ordinary shares).

### (b) Diluted earnings per share

The calculation of diluted earning per share is based on the earning attributable to ordinary equity shareholders of the Company of HK\$4,182,000 (six months ended 30 June 2016: earnings of HK\$5,828,000) and the weighted average number of ordinary shares (diluted) of 806,096,025 shares (six months ended 30 June 2016: 806,096,025 ordinary shares), calculated as follows:

	(Unaudited)	
	2017	2016
	<i>No. of shares</i>	<i>No. of shares</i>
Weighted average number of ordinary shares at 30 June	<b>806,096,025</b>	806,096,025
Effect of dilutive potential ordinary shares arising from share options	—	—
	<hr/>	<hr/>
Weighted average number of ordinary shares for the purpose of calculating diluted earnings per share	<b><u>806,096,025</u></b>	<b><u>806,096,025</u></b>

## 7 INTERIM DIVIDEND

The Board does not recommend the payment of an interim dividend for the period ended 30 June 2017 (six months ended 30 June 2016: Nil).

**8 PROPERTY, PLANT AND EQUIPMENT AND PREPAID LEASE PAYMENTS**

	<b>Property, plant and equipment HK\$'000 (Unaudited)</b>	<b>Prepaid lease payments HK\$'000 (Unaudited)</b>
<b>Six month ended 30 June 2017</b>		
Net book value as at 1 January 2017	253,309	40,056
Exchange realignment	7,639	1,218
Additions	1,172	–
Disposal	(12)	–
Depreciation and amortization	(7,234)	(514)
	<u>254,874</u>	<u>40,760</u>
<b>Six month ended 30 June 2016</b>		
Net book value as at 1 January 2016	283,345	44,934
Exchange realignment	(5,499)	(881)
Additions	1,975	–
Disposal	(338)	–
Depreciation and amortization	(8,054)	(539)
	<u>271,429</u>	<u>43,514</u>

**9 GOODWILL**

	<b>30 June 2017 HK\$'000 (Unaudited)</b>	<b>31 December 2016 HK\$'000 (Audited)</b>
<b>Cost</b>		
Balance at beginning	48,455	52,120
Exchange realignment	1,485	(3,665)
	<u>49,940</u>	<u>48,455</u>
<b>At the end of period</b>		
	<u>49,940</u>	<u>48,455</u>
<b>Impairment losses</b>		
Balance at beginning and end of period	–	–
	<u>–</u>	<u>–</u>
<b>Carrying amounts</b>		
Balance at beginning and end of period	49,940	52,120
	<u>49,940</u>	<u>52,120</u>

**10 AVAILABLE-FOR-SALE INVESTMENTS**

	<b>30 June</b>	31 December
	<b>2017</b>	2016
	<b>HK\$'000</b>	HK\$'000
	<b>(Unaudited)</b>	(Audited)
Listed equity-investments, at market value		
– Hong Kong	<u><u>63</u></u>	<u><u>61</u></u>

**11 TRADE DEBTORS AND BILLS RECEIVABLE**

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

	<b>30 June</b>	31 December
	<b>2017</b>	2016
	<b>HK\$'000</b>	HK\$'000
	<b>(Unaudited)</b>	(Audited)
Within 3 months	<b>34,382</b>	37,073
3 to 6 months	<b>11,910</b>	6,299
6 to 9 months	<b>6,785</b>	5,772
9 months to 1 year	<b>2,977</b>	5,082
Over 1 year	<u><u>4,184</u></u>	<u>11,466</u>
	<u><u>60,238</u></u>	<u><u>65,692</u></u>

Trade debtors and bills receivable are non-interest bearing and are normally due within 30 to 90 days from the date of billing. The Group performs ongoing credit evaluation of the debtors' financial condition and maintains an account for allowance for doubtful debts based upon the expected collectibles of all trade and other receivables.

## 12 DERIVATIVE FINANCIAL INSTRUMENTS

	<b>30 June 2017 HK\$'000 (Unaudited)</b>	31 December 2016 HK\$'000 (Audited)
Foreign currency forward contracts	<b>103</b>	–

As at 30 June 2017, the Group had the following foreign currency forward contracts denominated in United States dollar (“USD”). The major terms of these contracts were as follows:

<b>Notional amount</b>	<b>Maturity date</b>	<b>Conversion to Renminbi (“RMB”) with contracted exchange rate (USD: RMB)</b>
<b>2017</b>		
USD500,000	December 2017	7.1650

The fair values of foreign currency forward contracts at the end of the reporting period are provided by the Stock Exchange of Hong Kong Limited (the “Stock Exchange”). All fair value changes were recognised in profit or loss.

## 13 TRADE CREDITORS AND BILLS PAYABLE

The ageing analysis of trade creditors and bills payable (including amounts due to related parties of trading in nature) based on invoices date were as follow:

	<b>As at 30 June 2017 HK\$'000 (Unaudited)</b>	As at 31 December 2016 HK\$'000 (Audited)
Within 3 months	<b>60,681</b>	78,913
3 months to 1 year	<b>33,476</b>	36,184
Over 1 year	<b>15,854</b>	11,627
	<b>110,011</b>	126,724

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

## 14 BANK BORROWINGS

Movements in secured bank loans is analysed as follows:

	<b>(Unaudited)</b> <b>HK\$'000</b>
<b>Six months ended 30 June 2017</b>	
Opening amount as at 1 January 2017	69,812
Exchange realignment	1,232
Proceeds from new secured bank loans	64,232
Repayment of secured bank loans	<u>(75,148)</u>
Closing amount as at 30 June 2017	<u><u>60,128</u></u>
<b>Six months ended 30 June 2016</b>	
Opening amount as at 1 January 2016	37,067
Exchange realignment	75
Proceeds from new secured bank loans	57,618
Repayment of secured bank loans	<u>(31,560)</u>
Closing amount as at 30 June 2016	<u><u>63,200</u></u>

All of the Group's banking facilities are subject to the fulfillment of covenants, as are commonly found in lending arrangements with financial institutions. If the Group were to breach the covenants, the drawn down facilities would become payable on demand. The Group regularly monitors its compliance with these covenants. As at 30 June 2017, none of the covenants relating to drawn down facilities had been breached (31 December 2016: Nil).

## 15 SHARE CAPITAL

### (i) Authorised and issued share capital

	(Unaudited) 30 June 2017		(Audited) 31 December 2016	
	Number of ordinary shares of	Amount	Number of ordinary shares of	Amount
Note	HK\$0.01 each	HK\$'000	HK\$0.01 each	HK\$'000
<b>Authorised:</b>				
At 1 January	3,000,000,000	30,000	3,000,000,000	30,000
Increase	—	—	—	—
At the end of the period/year	<u>3,000,000,000</u>	<u>30,000</u>	<u>3,000,000,000</u>	<u>30,000</u>
<b>Issued and fully paid:</b>				
At 1 January	806,096,025	8,061	806,096,025	8,061
Shares issued under share option scheme	—	—	—	—
At the end of the period/year	<u>806,096,025</u>	<u>8,061</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) There is no outstanding share option at the end of the reporting period.



## 16 FAIR VALUES OF FINANCIAL INSTRUMENTS

### Fair value hierarchy

The following table presents the fair value of the Group's financial instruments measured at the end of the reporting period on a recurring basis, categorised into the three-level fair value hierarchy as defined in HKFRS 13, Fair value measurement. The level into which a fair value measurement is classified is determined with reference to the observability and significance of the inputs used in the valuation technique as follows:

- Level 1 valuations: Fair value measured using only Level 1 inputs i.e. unadjusted quoted prices in active markets for identical assets or liabilities at the measurement date
- Level 2 valuations: Fair value measured using Level 2 inputs i.e. observable inputs which fail to meet Level 1, and not using significant unobservable inputs. Unobservable inputs are inputs for which market data are not available
- Level 3 valuations: Fair value measured using significant unobservable inputs

	(Unaudited)				(Audited)			
	Fair value measurements as at				Fair value measurements as at			
	30 June 2017 categorised into				31 December 2016 categorised into			
Level 1	Level 2	Level 3	Total	Level 1	Level 2	Level 3	Total	
HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000	
Assets								
Recurring fair value measurements								
Available-for-sale investments	63	-	-	63	61	-	-	61
	<u>63</u>	<u>-</u>	<u>-</u>	<u>63</u>	<u>61</u>	<u>-</u>	<u>-</u>	<u>61</u>

## 17 CAPITAL COMMITMENTS

	As at 30 June 2017 HK\$'000 (Unaudited)	As at 31 December 2016 HK\$'000 (Audited)
Contracted for:		
– Construction of factory building	44,256	44,257
– Acquisition of property, plant and equipment	111	1,613
	<u>44,367</u>	<u>45,870</u>
Authorised but not contracted for:		
– Construction of factory building	58,499	58,499
	<u>58,499</u>	<u>58,499</u>

## 18 CONTINGENT LIABILITIES

As at 30 June 2017, the Company continued to provide corporate guarantees on banking facilities granted to the Group's subsidiaries. The amount of corporate guarantee given and utilised by the subsidiaries as of 30 June 2017 amounted to HK\$26,369,000 (31 December 2016: HK\$40,746,000).

## 19 MATERIAL RELATED PARTY TRANSACTIONS

Key management personnel compensation:

	<b>(Unaudited)</b>	
	<b>Six months ended 30 June</b>	
	<b>2017</b>	<b>2016</b>
	<b>HK\$'000</b>	<b>HK\$'000</b>
Salaries and other short-term benefits	<b>2,573</b>	2,615
Post-employment benefits	<b>36</b>	36
	<b>2,609</b>	2,651

## 20 EVENTS AFTER THE REPORTING PERIOD

There are no significant events subsequent to 30 June 2017 which would materially affect the Group's and the Company's operating and financial performance as of the date of this report.

## **MANAGEMENT DISCUSSION AND ANALYSIS**

### **BUSINESS REVIEW**

The Group faces the same operating challenges as other manufacturers in the mainland, such as the slow recovery of export markets, declining growth of domestic markets, increased raw material costs and manufacturing expenses. The Group has found it very difficult to pass all of the higher costs on to customers.

The Group is strategically coping with this issue, by outsourcing more non-core production process and production to other factories nearby. The outsourcing strategy has enhanced production efficiency and the Group's flexibility. During the period under review, the Group outsourced all its production of mattress and terminated the operation of its mattress factory namely Dongguan Super Furniture Company Limited.

The global economy lacked momentum in the first half of 2017 with slackening trading activities. The subdued global economic growth and high volatility in global finance led to deeper setbacks in our operations. In China, overcapacity in the manufacturing industry continued to discourage investments from the private sector, further slowing the economy.

### **FINANCIAL REVIEW**

#### *Turnover*

The Group's turnover decreased by approximately 23.2% from about HK\$181.3 million for the six months ended 30 June 2016 to HK\$139.2 million for the six months ended 30 June 2017.

The decrease in the domestic sales during the period was a result of the low sentiment in the PRC.

The performance of the Group's core export markets including the Middle East, Australia and Indonesia were affected in various degrees by several factors, including weakened currencies and the falling oil prices have adversely affected our customers and hence the demand for the products of the Group.

#### *Gross Profit*

During the period under review, while the Group increased prices for certain products in the domestic market, the Group continued to face the challenges of high labour and raw material costs. As a result, the Group's gross profit margin was decreased to 22.0% (six months ended 30 June 2016: 23.7%).

### *Selling and Distribution Expenses*

The Group's selling and distribution expenses amounted to about HK\$14.5 million for the six months ended 30 June 2017, against about HK\$15.8 million for the six months ended 30 June 2016. The decrease in selling and distribution expenses was a result of the stringent and effective cost control at all levels.

### *Administrative Expenses*

The Group's administrative expenses amounted to approximately HK\$13.3 million for the six months ended 30 June 2017, HK\$21.5 million for the six months ended 30 June 2016. The decrease in administrative expenses was mainly attributable to the reduction in headcount, gain in foreign exchange rate and stringent cost control policies implemented during the period under review.

### *Profit for the Period*

Profit attributable to equity shareholders of the Company decreased by approximately 28.2% from approximately HK\$5.8 million for the six months ended 30 June 2016 to approximately HK\$4.2 million for the six months ended 30 June 2017, and the net profit ratio decreased from 3.2% to 3.0%.

## **PROSPECTS**

The global economic outlook remains uncertain in the second half of 2017. The impact of Brexit on the European, rising geopolitical tensions continue to plague the global economic development. At the same time, the relatively low visibility of sales orders to be received makes resources planning difficult.

Climbing raw material costs, increasing governmental taxes and fees and rising manufacturing costs in Mainland China posted challenges to the Group. In addition, overcapacity and economic fragility will dampen the demand for our high-end furniture products.

While challenging times still lay ahead, the Group is undergoing some adjustments on business strategies. The Group will continue to implement stringent cost control measures to combat rising operating cost pressures, and the Group will continue to improve its product mix with proactive adjustment of market strategies, flexible optimization of products and material mix, reasonable allocation of production capacity and efficiency enhancement, so as to sustain a long-term growth and reward its shareholders, employees and customers for their support.

## **LIQUIDITY AND FINANCIAL RESOURCES**

The Group's funding and treasury activities are managed and controlled by the senior management. The Group maintained cash and bank balances of HK\$28.8 million as at 30 June 2017 (31 December 2016: HK\$50.4 million).

As at 30 June 2017, the Group's bank borrowings amounted to HK\$60.1 million (31 December 2016: HK\$69.8 million). As at the same date, the gearing ratio (total debt/total equity) was 0.6 (31 December 2016: 0.6).

As at 30 June 2017, the current ratio (current assets/current liabilities) was 1.3 (31 December 2016: 1.2) and the net current assets amounted to HK\$61.6 million (31 December 2016: HK\$54.7 million).

The ageing analysis of trade creditors and bills payable and the movement of bank borrowings are set out in Notes 13 and 14 to the financial statements of this interim results announcement.

### **FOREIGN CURRENCY RISK**

The Group is exposed to foreign currency risk primarily through sales and purchases that are denominated in a currency other than the functional currency of the operations to which they relate. The Group does not hold or issue any derivative financial instruments for trading purposes or for hedging against fluctuations in foreign exchange rates, but the management continuously monitors foreign exchange exposure and will consider hedging significant foreign currency exposure should the need arise.

### **CHARGE OF ASSETS**

As at 30 June 2017, the Group's banking facilities 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; and (iii) pledged bank deposits of approximately HK\$12.3 million.

### **EMPLOYEES**

As at 30 June 2017, the Group employed approximately 1,110 employees (30 June 2016: approximately 1,350). Total staff cost, including Directors' emoluments, amounted to HK\$35.7 million (30 June 2016: HK\$44.1 million). 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 employee share option, retirement benefits and medical insurance schemes.

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

## **INTERIM DIVIDEND**

The Board does not recommend the payment of an interim dividend for the period ended 30 June 2017 (six months ended 30 June 2016: Nil).

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

During the 6-month period ended 30 June 2017, neither the Company nor any of its subsidiaries has purchased, sold or redeemed any of the Company's listed securities.

## **CORPORATE GOVERNANCE**

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

During the six months ended 30 June 2017, the Company has complied with Corporate Governance Code and Corporate Governance Report (the "CG Code") contained in Appendix 14 of the Listing Rules on the Stock Exchange except for the following deviation:

### *Code provision A.2.1*

Code provision A.2.1 of the CG Code 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 longterm business strategies.

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

The Company has adopted the 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 period under review.

## **AUDIT COMMITTEE**

The Company established an audit committee (the “Audit Committee”) on 29 May 2009 with written terms of reference which are in compliance with the code provisions of the CG Code. The primary duties of the audit committee are to review and supervise the financial reporting process and internal control system of the Group. The audit committee currently has three members comprising Mr. Kong Hing Ki (Chairman), Mr. Sun Jian, and Ms. Shao Hanqing, all being independent non-executive Directors. The Audit Committee has reviewed the unaudited interim financial statements and the interim report for the six months ended 30 June 2017.

## **REMUNERATION COMMITTEE**

The Company established a remuneration committee on 29 May 2009 with written terms of reference which are in compliance with the code provisions of the CG Code. The remuneration committee makes recommendations to the Board on, among other matters, the Company’s policy and structure for the remuneration of all Directors and the senior management of the Group and are delegated by the Board the responsibility to determine on behalf of the Board the specific remuneration packages for all Directors and the senior management of the Group. The remuneration committee consists of three members namely, Mr. Sun Jian (Chairman), Ms. Shao Hanqing and Mr. Kong Hing Ki, all being independent non-executive Directors.

## **NOMINATION COMMITTEE**

The Company established a nomination committee on 29 May 2009 with written terms of reference which are in compliance with paragraph A.5.2 of the CG Code. The nomination committee shall make recommendations to the Board on appointment of Directors and succession planning for Directors. The nomination committee consists of five members namely Ms. Shao Hanqing (Chairman), Mr. Sung Kai Hing, Mr. Cheung Kong Cheung, Mr. Sun Jian and Mr. Kong Hing Ki.

## **AUDIT COMMITTEE REVIEW**

The accounting information given in this interim results announcement has not been audited but has been reviewed by the Audit Committee of the Company.

## **PUBLICATION OF UNAUDITED INTERIM REPORT**

The Company’s 2017 interim report will be published on the website of the Stock Exchange at [www.hkex.com.hk](http://www.hkex.com.hk) and on the Company’s website at [www.hingleehk.com.hk](http://www.hingleehk.com.hk).

## **APPRECIATION**

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

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

Hong Kong, 18 August 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 nonexecutive Directors, namely Mr. Sun Jian, Ms. Shao Hanqing and Mr. Kong Hing Ki.*