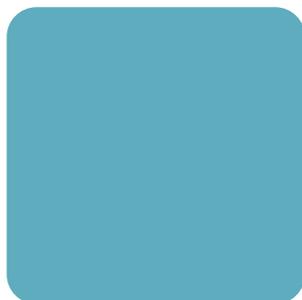


Hing Lee (HK) Holdings Limited 興利(香港)控股有限公司

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

Stock code : 396





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BOARD OF DIRECTORS

Executive Directors

Mr. Sung Kai Hing
(Chairman and Chief Executive Officer)
Mr. Cheung Kong Cheung

Independent non-executive Directors

Mr. Sun Jian
Ms. Shao Hanqing
Mr. Kong Hing Ki

AUDIT COMMITTEE

Mr. Kong Hing Ki *(Chairman)*
Mr. Sun Jian
Ms. Shao Hanqing

REMUNERATION COMMITTEE

Mr. Sun Jian *(Chairman)*
Ms. Shao Hanqing
Mr. Kong Hing Ki

NOMINATION COMMITTEE

Ms. Shao Hanqing *(Chairman)*
Mr. Sung Kai Hing
Mr. Cheung Kong Cheung
Mr. Sun Jian
Mr. Kong Hing Ki

COMPANY SECRETARY

Mr. Wong Kit Wai, FHKICPA, FCIS

AUTHORISED REPRESENTATIVES

Mr. Sung Kai Hing
Mr. Wong Kit Wai

PRINCIPAL BANKERS

Standard Chartered Bank (Hong Kong) Limited
China Construction Bank Corporation

HEAD OFFICE AND PRINCIPAL PLACE OF BUSINESS IN HONG KONG

Unit 1101, 11th Floor, Delta House
3 On Yiu Street, Shatin, New Territories
Hong Kong

REGISTERED OFFICE

The Belvedere Building,
69 Pitts Bay Road,
Pembroke HM08,
Bermuda

LEGAL ADVISERS

Sit, Fung, Kwong & Shum
Beijing Yingke Law Firm Shenzhen Office
Conyers Dill & Pearman

AUDITORS

Baker Tilly Hong Kong Limited
Certified Public Accountants

HONG KONG SHARE REGISTRAR

Union Registrars Limited

PRINCIPAL SHARE REGISTRAR AND TRANSFER OFFICE

MUFG Fund Services (Bermuda) Limited

STOCK CODE

396

COMPANY WEBSITE

www.hingleehk.com.hk



Financial Summary

(Expressed in Hong Kong dollars)

CONSOLIDATED STATEMENT OF PROFIT OR LOSS

	2017 HK\$'000	Year ended 31 December			
		2016 HK\$'000	2015 HK\$'000	2014 HK\$'000	2013 HK\$'000
Turnover	311,191	394,196	485,281	607,081	677,297
Cost of sales	(259,026)	(293,338)	(374,102)	(469,491)	(550,767)
Gross profit	52,165	100,858	111,179	137,590	126,530
Other net income	36,572	2,340	10,412	5,066	4,364
Selling and distribution expenses	(41,057)	(37,305)	(52,437)	(55,331)	(66,995)
Administrative expenses	(34,204)	(50,948)	(49,355)	(49,504)	(52,650)
Profit from operation	13,476	14,945	19,799	37,821	11,249
Finance costs	(3,179)	(2,663)	(3,479)	(4,511)	(4,670)
Profit before taxation	10,297	12,282	16,320	33,310	6,579
Income tax	(1,123)	(1,712)	(129)	(1,895)	(825)
Profit for the year	9,174	10,570	16,191	31,415	5,754
Attributable to:					
Equity shareholders of the Company	9,174	10,570	16,713	28,120	4,547
Non-controlling interests	-	-	(522)	3,295	1,207
Profit for the year	9,174	10,570	16,191	31,415	5,754

ASSETS AND LIABILITIES

	2017 HK\$'000	As at 31 December			
		2016 HK\$'000	2015 HK\$'000	2014 HK\$'000	2013 HK\$'000
Non-current assets	357,245	341,881	379,373	411,104	418,152
Current assets	278,725	301,158	260,939	343,982	351,039
Current liabilities	219,021	246,435	238,971	341,400	347,695
Net current assets	59,704	54,723	21,968	2,582	3,344
Total assets less current liabilities	416,949	396,604	401,341	413,686	421,496
Non-current liabilities	-	-	-	2,315	47,507
Net assets	416,949	396,604	401,341	411,371	373,989
Total equity attributable to equity shareholders of the Company	416,949	396,604	401,341	399,065	364,960



Dear Shareholders,

On behalf of the Board of directors (the "Directors") of Hing Lee (HK) Holdings Limited (the "Company") (the "Board"), I am pleased to present the annual results of Company and its subsidiaries (collectively the "Group") for the year ended 31 December 2017 ("Year 2017").

Overall business environment in mainland China where the Group operates remained challenging and the furniture industry continued to suffer from the imbalance of supply and demand, climbing raw material costs and operational costs. The Group has been continuously assessing the current business strategy, with the aim to streamline its business and enhance overall performance and prospects. The Group also outsourced more productions to other manufacturers and focused on its core production. The Group outsourced all its production of mattress and terminated the operation of its mattress factory namely Dongguan Super Furniture Company Limited.

In addition, the Group implemented prudent approach in inventory management strategy. In view of the continued change in the demand for classical furniture, the Group placed its emphasis on modern furniture division and slow moving inventories, in particular classical furniture, were sold in discount, resulting in significant reduction of the inventory level which allowed the Group to maintain a healthy stock position.

In order to improve operating efficiency, the head office with the showroom in Buji County, Shenzhen has moved to the factory in Kengzi Town, Shenzhen, where the production, showroom and administrative office are located in the same area.

The Group recognizes the power of brand. "Hing Lee", "Aomax", "Orient", etc. are all well recognized brands across China. In order to further strengthen the brand name, the Group will commit resources to revitalize its corporate brand "Hing Lee Myriad Home 興利萬家".

Meanwhile, the Group will continue to seek new collaboration partners and open more channels in order to widen its existing business lines.

Finally, on behalf of the Board, I would like to express my sincere gratitude to all staff members for their dedication and contribution, and to our shareholders and business partners for their support. We will continue with our endeavor to pursue growth of our business and create value for our shareholders.

Yours faithfully,

Chairman and Chief Executive Officer

Sung Kai Hing



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, competition from different distribution channels in 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. Classical furniture and mattress productions are the major areas outsourced. During the year under review, the Group outsourced all its production of mattress and terminated the operation of its mattress factory namely Dongguan Super Furniture Company Limited.

In addition, many newly built home units were smaller in size and the customer's preference had changed, which continued to lead to a drop in demand for classical furniture. In order to further enhance the operational efficiency, the Group combined the sale departments of modern and classical furnitures, the Group placed its focus on modern furniture and slow moving inventories, in particular classical furniture, were sold in discount.

FINANCIAL REVIEW

Turnover

The Group's turnover decreased by approximately 21.1% from about HK\$394.2 million for the year ended 31 December 2016 to HK\$311.2 million for the year ended 31 December 2017. The decrease in turnover during the period was due to the decrease in export sales and domestic sales by approximately 16.8% and 24.1% respectively.

The performance of the Group's core export markets including the Middle East and Australia were affected in various degrees by several factors, including a changes in products mix of our customers and management style, which lowered demand for our products.

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 were not profitable. In addition, the domestic sales were affected by the low sentiment in the PRC.

Gross Profit

During the year under review, while the Group increased prices for certain products in the domestic market, the Group continued to face the challenges of sharp increase in high labour and raw material costs. In addition, as the Group changed its strategy to drop the classical product line, the classical products were sold in discount and the unsold items were written down. As a result, the Group's gross profit margin was decreased to 16.8% (31 December 2016: 25.6%).



Selling and Distribution Expenses

The Group's selling and distribution expenses amounted to about HK\$41.1 million for the year ended 31 December 2017, against about HK\$37.3 million for the year ended 31 December 2016. The moderate increase in selling and distribution expenses was a result of increase in impairment of account receivable.

Administrative Expenses

For the year ended 31 December 2017, the Group's administrative expenses were approximately HK\$34.2 million against about HK\$50.9 million for the year ended 31 December 2016. The decrease in administrative expenses during the year under review was mainly attributable to the reduction in headcount and stringent cost control policies implemented, as well as the improvement in foreign exchange loss arising from conversion of the foreign currencies to Hong Kong dollars, the functional currency of the Group.

Profit for the Year

Profit attributable to equity shareholders of the Company for the year ended 31 December 2017 was approximately HK\$9.2 million (2016: HK\$10.6 million).

EMPLOYMENT AND REMUNERATION POLICY

As at 31 December 2017, the Group employed approximately 920 employees (2016: approximately 1,270).

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.



Management Discussion and Analysis

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\$70.6 million as at 31 December 2017 (31 December 2016: HK\$50.4 million).

As at 31 December 2017, the Group had bank borrowings amounting to HK\$87.0 million (31 December 2016: HK\$69.8 million). As at the same date, the gearing ratio (total debt/total equity) was 0.5 (31 December 2016: 0.6).

As at 31 December 2017, the current ratio (current assets/current liabilities) was 1.3 (31 December 2016: 1.2) and the net current assets amounted to HK\$59.7 million (31 December 2016: HK\$54.7 million).

The ageing analysis of trade creditors and bills payable and the maturity profiles of bank borrowings are set out in the notes 17 and 18 to the consolidated financial statements of this annual report.

SEGMENT INFORMATION

Segment Information is set out in Note 10 to the consolidated financial statements of this annual report.

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 2017 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 2017, 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



Management Discussion and Analysis

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 2017, 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\$22.1 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

At 31 December 2017, the Group has contingent liabilities in respect of a performance guarantee of HK\$2,870,000 issued by a bank in favour of a customer. Such performance guarantee is secured by the Group's pledged bank deposit of HK\$2,870,000.

PROSPECTS

Looking ahead, we see the year 2018 as another year of challenge, climbing raw material costs, increasing governmental taxes and fees and rising manufacturing costs in Mainland China as well as the exchange rate movement in Renminbi 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 will continue to implement its business strategies with a view to enhancing profitability, as well as sharpening its competitive edges. 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.

In addition, the Group will commit resources to revitalize its corporate brand "Hing Lee Myriad Home 興利萬家". Besides, on top of its in-house designers, the Group has engaged a number of design houses in the market to enrich its product ranges to cater for the fast-changing consumer preferences.

While the consumer market is expected to remain challenging in the year 2018, the Group is cautiously optimistic that further market penetration can be achieved, so as to sustain a long-term growth and reward its shareholders, employees and customers for their support.



Corporate Governance Report

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.



BOARD OF DIRECTORS

Composition of the Board

The Board members of the Company currently are:

Executive directors:

Mr. Sung Kai Hing (*Chairman and Chief Executive Officer*)

Mr. Cheung Kong Cheung

Independent non-executive directors:

Mr. Sun Jian

Ms. Shao Hanqing

Mr. Kong Hing Ki

The biographical details of the Directors and other senior management are disclosed in the section headed “Biographical Details of Directors and Senior Management” on pages 23 to 25 in this Annual Report.

The composition of the Board is well balanced. Each of the Directors has relevant expertise and extensive corporate and strategic planning experiences that may contribute to the business of the Group. Upon reviewing (i) the directorships and major commitments of each Director; and (ii) the attendance rate of each Director at the meetings of the Board and its committees, the Board is satisfied that all Directors have spent sufficient time in performing their responsibilities during 2017.

The Company has complied with the requirements under Rule 3.10(1) and (2) of the Listing Rules during the year under review. All independent non-executive Directors also meet the guidelines for assessment of their independence as set out in Rule 3.13 of the Listing Rules.

Functions of the Board

The Board supervises the management of the business and affairs of the Company. The Board’s primary duty is to ensure the viability of the Company and to ensure that it is managed in the best interests of the shareholders as a whole while taking into account the interests of other stakeholders.

The Group has adopted internal guidelines in setting forth matters that require the Board’s approval. Apart from its statutory responsibilities, the Board approves the Group’s strategic plan, key operational initiatives, major investments and funding decisions. It also reviews the Group’s financial performance, identifies principal risks of the Group’s business and ensures implementation of appropriate systems to manage these risks. Daily business operations and administrative functions of the Group are delegated to the management.



Corporate Governance Report

The Board is also responsible for performing the functions set out in code provision D.3.1 of the CG Code. The Board will meet to develop, review and monitor the Company's corporate governance policies and practices, to review and monitor training and continuous professional development of Directors and senior management, to review and monitor the Company's policies and practices in compliance with legal and regulatory requirements, to develop, review and monitor the code of conduct and compliance manual applicable to employees and Directors and to review the Company's compliance with the CG Code and the disclosure in the corporate governance report.

During the year of 2017, in relation to the corporate governance functions, the Board has reviewed the Company's compliance with the CG Code and the regulatory and statutory requirements, and the disclosure in the corporate governance report.

BOARD DIVERSITY POLICY

Pursuant to the CG Code, the Board has adopted a board diversity policy effective on 16 May 2014. The Company seeks to achieve board diversity through the consideration of a number of factors, including but not limited to gender, age, cultural and educational background, ethnicity, professional experience, skills, knowledge and length of service. All Board appointments will be based on meritocracy and candidates will be considered against objective criteria, having due regard for the benefits of diversity on the Board.

Selection of candidates will be based on a range of diversity perspectives, including but not limited to gender, age, cultural background and ethnicity, in addition to educational background, professional experience, skills, knowledge and length of service. The ultimate decision will be based on merit and contribution that the selected candidates will bring to the Board.

As at the date of this report, the Board comprises 5 Directors. Among which, one of them is a woman and three of them are independent non-executive Directors. The Directors are of diverse educational background and possess a wide spectrum of professional qualifications and business experience. The Board is of significant diversity, whether considered in terms of gender, professional and educational background and skills.

BOARD MEETINGS AND PROCEDURES

The Board met four times during the year ended 31 December 2017. The attendance record of each Director at these regular board meetings is set out in the following table:

Directors	Board Meetings	
	Held	Attended
Mr. Sung Kai Hing	4	4
Mr. Cheung Kong Cheung	4	4
Mr. Sun Jian	4	4
Ms. Shao Hanqing	4	4
Mr. Kong Hing Ki	4	4



Board members were provided with complete, adequate and timely information to allow them to fulfill their duties properly. In compliance with code provision A.1.3 of the CG Code, at least 14 days' notice have been given for a regular Board meeting to give all Directors an opportunity to attend. Notice, agenda and board papers of regular Board meetings were sent to all Directors within reasonable time and at least 3 days prior to the meetings. Directors were free to contribute and share their views at meetings and major decisions would only be taken after deliberation at Board meetings. Directors who were considered having conflict of interests or material interests in the proposed transactions or issues to be discussed would not be counted in the quorum of meeting and would abstain from voting on the relevant resolution. Sufficient resources are provided including those for seeking independent professional advice to enable Directors to discharge their duties and responsibilities. Full minutes were prepared after the meetings and the draft minutes were sent to all Directors for their comment, the final version of which were endorsed in the subsequent Board meeting.

ALL independent non-executive Directors have been appointed for a fixed term as disclosed in the sub-section "Directors" in the section headed "Directors' Report" in this annual report. Every Director is subject to re-election on retirement by rotation in accordance with the bye-laws of the Company.

The Company has received from each of its independent non-executive Directors an annual confirmation of his/her independence pursuant to Rule 3.13 of the Listing Rules and it still considers the independent non-executive Directors to be independent.

DIRECTORS' CONTINUOUS TRAINING AND DEVELOPMENT

Directors should participate in continuous professional development to develop and refresh their knowledge and skills. This is to ensure that their contribution to the Board remains informed and relevant. The Directors are committed to complying with code provision A.6.5 of the CG Code on requirements of Directors' training. All Directors have participated in continuous professional development and provided a record of training they received for the financial year ended December 31, 2017 to the Company.

According to the records provided by the Directors, the training received by each of the Directors during the financial year ended 31 December 2017 is summarized as follows:

Directors	Type of continuous professional development training
<i>Executive Directors</i>	
Sung Kai Hing	A,B
Cheung Kong Cheung	A,B
<i>Independent Non-Executive Directors</i>	
Sun Jian	A,B
Shao Hanqing	A,B
Kong Hing Ki	A,B

Notes:

A: Attending seminar(s) or training session(s)

B: Reading newspapers, journals and updates relating to the Company's business or directors' duties and responsibilities, the latest development of the Listing Rules and other applicable regulatory requirements etc.



BOARD COMMITTEES

The Board has established specific committees, namely the Audit Committee, Remuneration Committee and Nomination Committee, with written terms of reference to assist them in the efficient implementation of their functions. Specific responsibilities have been delegated to the above committees.

AUDIT COMMITTEE

The Company has set up an Audit Committee with written terms of reference which are in compliance with the code provisions of the Code. The primary duties of the Audit Committee are to review and supervise the financial reporting process and internal control system of the Group. The Audit Committee currently has three members comprising Mr. Kong Hing Ki (Chairman), Mr. Sun Jian and Ms. Shao Hanqing, all being independent non-executive Directors.

During the year under review, the Audit Committee had held 2 meetings, the attendance of the members is set out below:

Directors	Meetings of the Audit Committee	
	Held	Attended
Mr. Sun Jian	2	2
Ms. Shao Hanqing	2	2
Mr. Kong Hing Ki	2	2

The Audit Committee has reviewed the accounting policies and practices adopted by the Group and the annual and interim results of the Group as well as assessed the effectiveness of the Group's internal control and risk management system. The Audit Committee reported that there was no material uncertainty that casts doubt on the Company's going concern ability.



REMUNERATION COMMITTEE

The Company has set up a Remuneration Committee with written terms of reference which are in compliance with the code provisions of the Code. The Remuneration Committee shall make recommendations to the Board on, among other matters, the Company's policy and structure for the remuneration of all Directors and the senior management of the Group and are delegated by the Board the responsibility to determine on behalf of the Board the remuneration for Directors and 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.

According to the written terms of reference of the Remuneration Committee which can be viewed on the website of the Company and the website of the Stock Exchange, the Remuneration Committee has adopted the model to determine, with delegated responsibility, the remuneration packages of individual executive Director(s) and senior management.

The remuneration of the Directors was determined with reference to their respective experience, responsibilities with the Group and general market conditions. Any discretionary bonus is linked to the performance of the Group and of the individual Director.

One meeting was held during the year ended 31 December 2017 to review the remuneration and incentive package of the senior management. Attendance of the members is set out below:

Directors	Meetings of the Remuneration Committee	
	Held	Attended
Mr. Sun Jian	1	1
Ms. Shao Hanqing	1	1
Mr. Kong Hing Ki	1	1

Details of the remuneration of each Director for 2017 are set out in the Note 8 to the consolidated financial statements in this annual report.

The biographies of members of the senior management team at the date of this annual report are disclosed in the section headed "Biographical Details of Directors and Senior Management" in this annual report.



Remuneration by Bands

The remuneration paid or payable to the Directors and senior management during the year were fell within the following bands:

	2017		2016	
	Number of Directors	Number of senior management	Number of Directors	Number of senior management
HK\$Nil to HK\$1,000,000	3	3	3	3
HK\$1,000,001 – HK\$2,000,000	2	2	2	2
HK\$2,000,001 – HK\$3,000,000	–	–	–	–
HK\$3,000,001 – HK\$4,000,000	–	–	–	–

In addition, the Company has adopted a share option scheme (the “Share Option Scheme”) on 29 May 2009. The purpose of the Share Option Scheme is to enable the Company to grant option to eligible participants as incentives or rewards for their contribution to the growth of the Group and to provide the Group with a more flexible means to reward and remunerate the eligible participants.

NOMINATION COMMITTEE

The Company has set up a Nomination Committee with written terms of reference which are in compliance with the code provisions 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, comprising of 2 executive Directors and 3 independent non-executive Directors.

The main duty of the Committee is (i) to review and monitor the structure, size and composition (including the skills, knowledge and experience) of the Board to complement the Company’s corporate strategy; (ii) to identify and nominate qualified individuals for appointment as additional Directors or to fill Board vacancies as and when they arise; (iii) to make recommendations to the Board on matters relating to the appointment or re-appointment of Directors and succession planning for Directors, in particular the Chairman and the Chief Executive Officer; (iv) to assess the independence of independent non-executive Directors; and (v) to report back to the Board on decisions or recommendations made, unless there are legal or regulatory restrictions to do so.

The Committee discharges its responsibilities by reference to the terms of reference which set out their roles, responsibilities and duties. The terms of reference were duly authorized by the Board.

In Year 2017, the Committee had reviewed and discussed the following issues at its meeting:

1. to review the composition and structure of Board of Directors of the Company.
2. to review the scope of responsibilities of directors of the Company.
3. to review and confirm the independence of all the independent non-executive Directors.



In carrying out the responsibility for identifying suitably qualified candidates to become members of the Board, the Nomination Committee will give adequate consideration to the board diversity policy.

One meeting was held during the year ended 31 December 2017 for reviewing the structure, size and composition of the Board. Attendance of the members is set out below:

Directors	Meetings of the Nomination Committee	
	Held	Attended
Ms. Shao Hanqing	1	1
Mr. Sung Kai Hing	1	1
Mr. Cheung Kong Cheung	1	1
Mr. Sun Jian	1	1
Mr. Kong Hing Ki	1	1

ACCOUNTABILITY AND AUDIT

Directors' Responsibility for the Accounts

The Directors are responsible for the preparation of the financial statements which give a true and fair view of the state of affairs of the Company and its subsidiaries, in accordance with accounting principles generally accepted in Hong Kong.

The statement by the auditors of the Company about their responsibilities for the financial statements is set out in the report of the independent auditor's report contained in this Annual Report. There are no material uncertainties relating to events or conditions that may cast significant doubt on the Company's ability to continue as a going concern.

EXTERNAL AUDITORS' REMUNERATION

The Company engaged Baker Tilly Hong Kong Limited ("Baker Tilly") as its external auditors for year ended 31 December 2017. For the year ended 31 December 2017, remuneration payable to the Company's auditor, Baker Tilly, for the provision of audit services was HK\$900,000. During the year, there was no payable as remuneration to Baker Tilly for the provision of non-audit related services.

INTERNAL CONTROLS AND RISK MANAGEMENT

The compliance and internal audit department, which is independent to the Company's daily operations and accounting functions, is responsible for establishing the Group's internal control framework, covering all material controls including financial, operational and compliance controls.

The compliance and internal audit department also formulates the internal audit plan and procedures, conducts periodic independent reviews on the operations of individual divisions to identify any irregularities and risks, develops action plans and recommendations to address the identified risks, and reports to the management on any key findings and progress of the internal audit process.



Corporate Governance Report

The Audit Committee which comprises all the independent non-executive Directors has the duties to, among other things, review the internal control systems and procedures for compliance with the relevant accounting, financial and Listing Rules requirements.

In addition, the executive Directors have attended external continuous training sessions relating to corporate governance to further enhance their knowledge on various on-going obligations and duties of a listed issuer and its directors under the Listing Rules and the Hong Kong Code on Takeovers and Mergers.

The external auditor, in the course of their audit, obtained an understanding of internal controls relevant to the Group'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 Group's internal control. Any significant deficiencies noted during the course of the audit in such internal controls relevant to audit of the Group's consolidated financial statements will be reported to the Audit Committee at least once a year. After due and careful inquiries, the Audit Committee and the Board considered the policies and procedures of internal control covering all material controls including financial, operational and compliance controls and risk management system are effective and adequate and will conduct ongoing review on the effectiveness of the system. The Audit Committee also considered, after due and careful inquiries, that the Company has complied with the internal control system and the relevant accounting, financial and Listing Rules requirements.

The risk management and internal control systems of the Group are designed to manage rather than eliminate the risk of failure to achieve business objectives, and can only provide reasonable and not absolute assurance against material misstatement or loss.

The Group complies with requirements of Securities and Futures Ordinance ("SFO") and the Listing Rules. The Group discloses inside information to the public as soon as reasonably practicable unless the information falls within any of the safe harbours as provided in the SFO. Before the information is fully disclosed to the public, the Group ensures the information is kept strictly confidential. If the Group believes that the necessary degree of confidentiality cannot be maintained or that confidentiality may have been breached, the Group would immediately disclose the information to the public. The Group is committed to ensure that information contained in announcements or circulars are not false or misleading as to a material fact, or false or misleading through the omission of a material fact in view of presenting information in a clear and balanced way, which requires equal disclosure of both positive and negative facts.



COMMUNICATIONS WITH SHAREHOLDERS AND INVESTORS

The general meetings of the Company provide a forum for communication between the shareholders and the Board. The Chairman of the Board as well as the chairman of the Audit Committee, Nomination Committee and Remuneration Committee, or in their absence, other members of the respective committees, are available to answer questions at the shareholders' meetings.

The Company held one general meeting, being the annual general meeting, in 2017. The attendance record of the Directors at such meeting is set out below:

Directors	Attendance
<i>Executive Directors</i>	
Sung Kai Hing	1
Cheung Kong Cheung	1
<i>Independent Non-Executive Directors</i>	
Sun Jian	1
Shao Hanqing	1
Kong Hing Ki	1

In order to keep shareholders well informed of the business activities and direction of the Group, information about the Group has also been provided to the shareholders through financial reports and announcements. The Company has established its own corporate website www.hingleehk.com.hk to facilitate effective communication with its shareholders and the public. The Company will continue to enhance communications and relationships with its shareholders and investors.

Shareholders, investors and interested parties can make enquiries to the Company through the following means:

By e-mail:	kevinwong@hingleehk.com.hk
Telephone number:	(852) 2151-9600
By post:	Unit 1101, 11/F Delta House 3 On Yiu Street Shatin, N.T. Hong Kong
Attention:	Public Relationship



SHAREHOLDERS' RIGHTS

(a) Right to convene special general meeting

Pursuant to the bye-laws of the Company, members holding at the date of deposit of the requisition not less than one-tenth of the paid up capital of the Company carrying the right of voting at general meetings of the Company shall at all times have the right, by written requisition to the Board or the company secretary of the Company, to require a special general meeting to be called by the Board for the transaction of any business specified in such requisition; and such meeting shall be held within two months after the deposit of such requisition.

The written requisition must state the purposes of the meeting, signed by the requisitionist(s) and deposited at the registered office of the Company and at the Company's head office and principal place of business in Hong Kong at Unit 1101, 11th Floor, Delta House, 3 On Yiu Street, Shatin, New Territories, Hong Kong, and such request may consist of several documents in like form, each signed by one or more of the requisitionist(s).

The request will be verified with the Company's branch share registrar in Hong Kong and upon the confirmation of the branch share registrar that the request is in order, the company secretary of the Company will ask the Board to convene a special general meeting by serving sufficient notice in accordance with all relevant statutory and regulatory requirements to all registered members. On the contrary, if the request is verified as not in order, the requisitionist(s) will be advised of this outcome and accordingly, a special general meeting will not be convened as requested.

If within twenty-one days of such deposit the Board fails to proceed to convene such meeting the requisitionists, or any of them representing more than one half of the total voting rights of all of them, may themselves do so in accordance with the provisions of section 74(3) of the Companies Act 1981 of Bermuda.

(b) Right to put forward proposals at general meetings

Pursuant to the Companies Act 1981 of Bermuda, either any number of the registered shareholders holding not less than one-twentieth (5%) of the paid-up capital of the Company carrying the right of voting at general meetings of the Company ("Requisitionists"), or not less than 100 of such registered shareholders, can request the Company in writing to (a) give to Shareholders entitled to receive notice of the next general meeting notice of any resolution which may properly be moved and is intended to be moved at that meeting; and (b) circulate to shareholders entitled to have notice of any general meeting any statement of not more than 1,000 words with respect to the matter referred to in any proposed resolution or the business to be dealt with at that meeting. The requisition signed by all the Requisitionists must be deposited at the registered office of the Company and the Company's head office and principal place of business in Hong Kong with a sum reasonably sufficient to meet the Company's relevant expenses and not less than six weeks before the meeting in case of a requisition requiring notice of a resolution or not less than one week before the meeting in the case of any other requisition. Provided that if, after a copy of the requisition notice of a resolution has been deposited at the registered office of the Company, an annual general meeting is called for a date six weeks or less after the requisition has been deposited, the requisition though not deposited within the time required shall be deemed to have been properly deposited for the purposes thereof.



As regard the procedures for proposing a person for election as a Director, please refer to the procedures made available on the website of the Company at www.hingleehk.com.hk.

To safeguard shareholders' interests and rights, separate resolutions will be proposed at shareholders' meetings on each substantially separate issue, including the election of individual directors.

All resolutions put forward at a shareholders' meeting will be taken by poll pursuant to the Listing Rules save that the chairman of the shareholders' meeting may in good faith allow a resolution which relates purely to a procedural or administrative matter to be voted on by a show of hands. The chairman of the shareholders' meeting will explain detailed procedures for conducting a poll answer any questions from shareholder regarding voting by way of poll. The poll results will be posted on the websites of the Stock Exchange and the Company after the shareholders' meeting.

COMPANY SECRETARY

Mr. Wong Kit Wai is an employee of the Company and was appointed as the company secretary of the Company in May 2009. The biographical details of Mr. Wong are set out in the section headed "Biographical Details of Directors and Senior Management".

According to Rule 3.29 of the Listing Rules, Mr. Wong has taken no less than 15 hours of relevant professional training during the financial year ended 31 December 2017.

CONSTITUTIONAL DOCUMENTS

There are no changes in the Company's constitutional documents during the year.

PUBLICATION OF AUDITED FINANCIAL RESULTS

The Company's financial results announcement for the financial year ended 31 December 2017 and this Annual Report are published on the website of the Stock Exchange at www.hkex.com.hk and on the Company's website at www.hingleehk.com.hk.



Biographical Details of Directors and Senior Management

DIRECTORS AND SENIOR MANAGEMENT

Executive Director

Mr. Sung Kai Hing (宋啟慶先生), aged 61, is an Executive Director, the Chairman and the Chief Executive Officer of the Company and one of the founders of the Group and he has over 20 years of experience in the furniture industry. Mr. Sung was appointed as a Director on 20 April 2004. He is primarily responsible for the overall strategic planning and business development of the Group as well as overseeing the daily operations of the Group. Besides, he is also a director of certain subsidiaries of the Company and a member of the Nomination Committee.

Mr. Sung has been appointed as a part-time instructor with specialisation in business operation, strategic planning and supply chain management at 南京林業大學 (Nanjing Forestry University) and 中南林業科技大學 (Central South University of Forestry and Technology) (formerly known as (Central South Forestry University)) since June 2004 and November 2004 respectively.

Mr. Cheung Kong Cheung (張港璋先生), aged 56, is an Executive Director and one of the founders of the Group and he has over 20 years of experience in the furniture industry. Mr. Cheung was appointed as a Director on 20 April 2004. He is responsible for the administration and human resources management, as well as upholstered furniture business of the Group. Besides, he is also a director of certain subsidiaries of the Company and a member of the Nomination Committee. He has been appointed as a part-time instructor with specialisation in international trade and trading of home furniture at 南京林業大學 (Nanjing Forestry University) and 中南林業科技大學 (Central South University of Forestry and Technology) (formerly known as 中南林學院 (Central South Forestry University)) since June 2004 and November 2004 respectively.

Independent Non-executive Director

Mr. Sun Jian (孫堅先生), aged 53, was appointed as an Independent Non-Executive Director on 1 July 2007. He is also the Chairman of the Remuneration Committee and a member of the Audit Committee and the Nomination Committee. He has over 18 years of experience in retail businesses and is a director and the chief executive officer of Home Inns & Hotel Management, Inc., a company which is principally engaged in the hotel industry with its shares listed on the National Association of Securities Dealers Automated Quotation System in the U.S.. Mr. Sun obtained a bachelor's degree in hygiene management from 上海醫科大學 (Shanghai Medical University) (subsequently renamed as 復旦大學上海醫學院 (Shanghai Medical College of Fudan University)) in July 1987. He is the vice president of 中國連鎖經營協會 (China Chain Store & Franchise Association).

Biographical Details of Directors and Senior Management



Ms. Shao Hanqing (邵漢青女士), aged 80, was appointed as an Independent Non-Executive Director on 29 May 2009. She is also the Chairman of the Nomination Committee and a member of the Audit Committee and the Remuneration Committee. She is a part-time professor and a mentor to the doctorate candidates of the economics faculty of 中國人民大學 (Renmin University of China). Ms. Shao was elected as a fellow in the World Academy of Productivity Science by World Confederation of Productivity Science in 2006. Ms. Shao obtained a bachelor's degree of national economic planning from 中國人民大學 (Renmin University of China) in 1964.

Mr. Kong Hing Ki (江興琪先生), aged 47, was appointed as an Independent Non-Executive Director on 29 May 2009. He is also the Chairman of the Audit Committee and a member of the Remuneration Committee and the Nomination Committee. He has over 20 years of experience in accounting, auditing and finance, gained from international accountancy and commercial firms. He is an independent non-executive director of KEE Holdings Company Limited (stock code: 2011) from November 2010 to February 2016, and also an independent non-executive director of RENHENG Enterprise Holdings Limited (stock code: 3628), both companies' shares are listed on the Main Board of the Stock Exchange. Mr. Kong holds a bachelor's degree of commerce from Australian National University and a master of business administration degree from Deakin University. He is a fellow member of the Hong Kong Institute of Certified Public Accountants and a member of CPA Australia.

SENIOR MANAGEMENT

Mr. Huang Wei Ye (黃偉業先生), aged 63, is one of the founders of the Group. He joined the Group in 1995 and is the head of the Group's design and development department, as well as the production department, and is responsible for overseeing the design, development and manufacture of the Group's furniture products. He is also a director of certain subsidiaries of the Company. Mr. Huang has over 25 years of experience in the furniture industry. Mr. Huang is currently the Chairman of Shenzhen Furniture Trade Association. Mr. Huang has been appointed as a part-time instructor with specialisation in product design, production strategies and industry trend analysis at 南京林業大學 (Nanjing Forestry University) and 中南林業科技大學 (Central South University of Forestry and Technology) (formerly known as 中南林學院 (Central South Forestry University)) since 2003. He obtained a master of business administration degree from 北京大學 (Peking University) in July 2007.

Mr. Chan Kwok Kin (陳國堅先生), aged 60, is one of the founders of the Group. Being the head of the sales and marketing department, as well as the procurement department of the Group, he is responsible for formulating the Group's sales and marketing strategies and procurement policies and overseeing the Group's sales and marketing activities. He is also a director of certain subsidiaries of the Company. Mr. Chan has over 20 years of experience in the furniture industry. He was appointed as a part-time instructor with specialisation in sales and marketing strategies and brand development at 南京林業大學 (Nanjing Forestry University) and 中南林業科技大學 (Central South University of Forestry and Technology) (formerly known as 中南林學院 (Central South Forestry University)) since 2004.



Biographical Details of Directors and Senior Management

Ms. Xu Cai Xia (徐彩霞), aged 40, is the Vice CEO of the Group. She is primarily responsible for assisting the CEO in the overall strategic planning and business development of the Group as well as overseeing the daily operations of the Group. Besides, she is also a director of Shenzhen Xingli Furniture Company Limited, a subsidiary of the Company.

Ms. Xu joined the Group in 2000 after graduation from the university and has over 15 years of experience in the furniture industry. She obtained a EMBA degree from 中國人民大學 (Renmin University of China) in 2016 and a bachelor's degree in financial statistics from 湖南大學 (Hunan University) in 2000.

Mr. Pu Cai Jun (蒲采君先生), aged 55, is the financial controller of the PRC Operation. He is responsible for all financial and accounting matters in respect of the PRC subsidiaries of the Group. Mr. Pu joined the Group in 2002 and has over 17 years of experience in financial controlling. He was the finance manager of Dahao Furniture during the period from 1985 to 2002. He obtained a bachelor's degree in accounting from 湖南財經學院 (Hunan Finance and Economics Institute) in July 1991.

CHIEF FINANCIAL OFFICER AND COMPANY SECRETARY

Mr. Wong Kit Wai (黃杰偉先生), aged 48, is the chief financial officer and the company secretary of the Group. He is responsible for supervising the Group's financial management and overseeing the company secretarial and compliance affairs of the Group. Mr. Wong joined the Group in January 2007 and has over 15 years of experience in accounting and finance. He obtained a master of business administration degree from Deakin University, Australia and a bachelor of commerce degree from The University of New South Wales. He is a fellow member of Hong Kong Institute of Certified Public Accountants and a fellow member of CPA Australia. Besides, Mr. Wong is an fellow member of the Hong Kong Institute of Chartered Secretaries and a fellow member of The Institute of Chartered Secretaries and Administrators, the United Kingdom.



The Board has pleasure in submitting their annual report and the audited consolidated financial statements of the Company and its subsidiaries (collectively, the “Group”) for the year ended 31 December 2017.

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.

PRINCIPAL PLACE OF BUSINESS

The principal place of business of the Company is located at Unit 1101, 11th Floor, Delta House, 3 On Yiu Street, Shatin, New Territories, Hong Kong.

PRINCIPAL ACTIVITIES AND BUSINESS REVIEW

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. Further discussion and analysis of these activities as required by Schedule 5 to the Hong Kong Companies Ordinance, including a discussion of the principal risks and uncertainties facing the Group and indication of likely future developments in the Group’s business, can be found in the Management Discussion and Analysis set out on pages 5 to 10 of this Annual Report. This discussion forms part of this directors’ report.

RESULTS

The results of the Group for the year ended 31 December 2017 are set out in the consolidated statement of profit or loss on page 42 of this annual report.

DIVIDENDS

The Board does not recommend the payment of a final dividend for the year ended 31 December 2017 (2016: Nil).

PROPERTY, PLANT AND EQUIPMENT

Details of movements in property, plant and equipment of the Group during the year ended 31 December 2017 are set out in Note 11 to the consolidated financial statements in this annual report.

SHARE CAPITAL

Details of the Company’s paid up capital for the year ended 31 December 2017 are set out in Note 22 to the consolidated financial statements in this annual report.



SHARE OPTION SCHEME

The Company adopted a Share Option Scheme (the "Share Option Scheme") by a written resolution of the shareholders on 29 May 2009. The purpose of the Share Option Scheme is to enable the Company to grant options to full-time or part-time employees, directors, consultants, advisers, distributor, contractor, supplier, service provider, agent, customer and business partner of the Company and/or any of its subsidiaries (the "Eligible Participants") as incentives or rewards for their contribution to the growth of the Group and to provide the Group with a more flexible means to reward, remunerate, compensate and/or provide benefits to the Eligible Participants.

Details of the principal terms of the Share Option Scheme are set out in the Prospectus. Certain principal terms of the Share Option Scheme are summarized as follows and in Note 21 to the consolidated financial statement in this annual report:

The Share Option Scheme was adopted for a period of 10 years commencing from 29 May 2009 and will remain in force until 28 May 2019, after which period no further options will be offered or granted but the provisions of the Share Option Scheme shall remain in full force and effect in all other respects with respect to options granted during the life of the Share Option Scheme. The Company may by ordinary resolution in general meeting or the Board may at any time terminate the Share Option Scheme without prejudice to the exercise of options granted prior to such termination.

The subscription price for Shares in respect of any particular option granted under the Share Option Scheme shall be such price as the Board shall determine, provided that such price shall be at least the highest of (i) the closing price per Share on the Main Board as stated in the Stock Exchange's daily quotation sheet on the date of offer of the option, which must be a business day; and (ii) the average closing price per Share on the Main Board as stated in the Stock Exchange's daily quotation sheets for the five (5) business days immediately preceding the date of offer of the option; and (iii) the nominal value of a Share. Subject to such terms and conditions as the Board may determine in its absolute discretion, there is no general requirement on the minimum period for which an option must be held before an option can be exercised under the Share Option Scheme.

The total number of Shares which may be issued upon exercise of all options to be granted under the Share Option Scheme and any other share option schemes of the Company must not, in aggregate, exceed 10% of the issued share capital of the Company as at the Share Option refreshment date on 20 May 2016, such 10% being equivalent to 80,609,602 Shares. As at the date of this report, options for the subscription of 78,609,602 Shares (representing approximately 9.75% of the issued share capital of the Company) are available for issue under the Share Option Scheme. In addition, if any options subsequently lapsed in accordance with the terms of the Share Option Scheme, such options will not be counted for the purpose of calculating the said 10% limit.



Options for the subscription of 2,000,000 Shares have been granted to Mr. Sun Jian, an independent non-executive Director, under the Share Option Scheme. Details of the share options movements during the year ended 31 December 2017 under the Share Option Scheme are as follows:

Name	Outstanding share options granted under the Share Option Scheme as at 1 January 2017	Date of grant	Number of share options			Outstanding share options granted under the Share Option Scheme as at 31 December 2017	Exercise period
			Granted during the year	Exercised during the year	Cancelled/Lapsed during the year		
Directors of the Company							
Mr. Sun Jian	-	7 July 2017	2,000,000	-	-	2,000,000	7/7/2017 – 6/7/2018

Notes:

The exercise price of the options granted on 7 July 2017 under the Share Option Scheme as set out above is HK\$0.56 per Share. The closing price of the Shares immediately before the date of grant of such options was HK\$0.55 per Share.

EQUITY-LINKED AGREEMENTS

Save for the share option scheme of the Company as disclosed in the section headed "Share Option Scheme" above, no equity-linked agreements were entered into by the Group, or existed during the Year.

PRE-EMPTIVE RIGHTS

There are no provisions for pre-emptive rights under the Company's bye-laws or the laws of Bermuda which would oblige the Company to offer new shares on a pro rata basis to existing shareholders.

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

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

RESERVES

Details of movements in the reserves of the Company and the Group during the year are set out in Note 29(b) to the financial statements and the consolidated statement of change in equity in this annual report respectively.

DISTRIBUTABLE RESERVES

As at 31 December 2017, the Company's reserves available for distribution, calculated in accordance with the provisions of the Companies Act 1981 of Bermuda, amounted to HK\$269 million.

MAJOR CUSTOMERS AND SUPPLIERS

Sales to the Group's five largest customers accounted for approximately 36.9% of the total sales for Year 2017 and sales to the largest customer included therein amounted to 20.2%. Purchases from the Group's five largest suppliers accounted for approximately 25.1% of the total purchase for Year 2017 and purchase from the Group's largest supplier included therein amounted to 13.1%.

None of the Directors or any of their close associates or any shareholders (which, to the best knowledge of the directors, own more than 5% of the Company's issued share capital) had any interest in the Group's five largest customers and suppliers.

MANAGEMENT CONTRACTS

No contracts concerning the management and administration of the whole or any substantial part of the business of the Group were entered into or existed during the Year.

DIRECTORS

The Directors of the Company during the year and up to the date of this report were:

Executive directors:

Mr. Sung Kai Hing (*Chairman and Chief Executive Officer*) (appointed on 20 April 2004)

Mr. Cheung Kong Cheung (appointed on 20 April 2004)

Independent non-executive directors:

Mr. Sun Jian (appointed on 1 July 2007)

Ms. Shao Hanqing (appointed on 29 May 2009)

Mr. Kong Hing Ki (appointed on 29 May 2009)

Pursuant to bye-law 84(1) of the bye-laws of the Company, at each annual general meeting, one-third of the Directors for the time being shall retire from office by rotation provided that every director shall be subject to retirement at least once every three years.

By virtue of bye-law 84(1) of the bye-laws of the Company, the office of certain Directors, namely Mr. Sung Kai Hing and Ms. Shao Hanqing will end at the forthcoming annual general meeting. All of the above Directors, being eligible, will offer themselves for re-election at the Annual General Meeting.

Each of the executive Directors has entered into a service contract with the Company for a term of three years commencing from 22 June 2015, which will continue until terminated by not less than three months' prior notice in writing served by either party on the other.

Each of the independent non-executive Directors has entered into a letter of appointment with the Company for a period of two years commencing from 22 June 2017.



No Director proposed for re-election at the forthcoming annual general meeting has a service contract with the Company which is not determinable by the Company within one year without payment of compensation, other than statutory compensation.

The Company has received from each of the independent non-executive Directors, namely, Mr. Sun Jian, Ms. Shao Hanqing and Mr. Kong Hing Ki, an annual confirmation of independence pursuant to Rule 3.13 of the Listing Rules and the Company considers them to be independent.

BIOGRAPHIES OF DIRECTORS AND OTHER SENIOR MANAGEMENT

The biographical details of Directors and other senior management are disclosed in the section headed "Biographical Details of Directors and Senior Management" on pages 23 to 25 in this annual report.

DIRECTORS' AND CONTROLLING SHAREHOLDER'S INTERESTS IN TRANSACTIONS, ARRANGEMENTS OR CONTRACTS OF SIGNIFICANCE

No transactions, arrangements or contracts of significance in relation to which the Company or any of its subsidiaries, parent companies or fellow subsidiaries was a party, and in which any Director of the Company had a material interest or which the controlling shareholder of the Company or any of its subsidiaries is a party, subsisted at the end of the Year or at any time during the Year.

DIRECTORS' INTEREST IN COMPETING BUSINESS

None of the Directors had any interest in a business which competes or likely to compete, either directly or indirectly, with the business of the Group.

INDEMNITY PROVISION

Bye-law 164(1) of the Company's Bye-laws provides that the Directors or other officers of the Company shall be indemnified and secured harmless out of the assets of the Company against all actions, costs, charges, losses, damages and expenses which they or any of them shall or may incur or sustain by or by reason of any act done, concurred in or omitted in or about the execution of their duty provided that the indemnity shall not be extended to any matter in respect of any fraud or dishonesty which may be attached to the relevant Director or officer of the Company.

DIRECTORS' AND CHIEF EXECUTIVE'S INTERESTS AND SHORT POSITIONS IN SHARES, UNDERLYING SHARES AND DEBENTURES

As at 31 December 2017, the interests and short positions of the Directors and chief executive of the Company in shares, underlying shares and debentures of the Company or any of its associated corporations (within the meaning of Part XV of the Securities and Futures Ordinance (Chapter 571 of the Laws of Hong Kong) (the "SFO") which were required to be entered into the register required to be kept under section 352 of the SFO or otherwise were required to be notified to the Company and the Stock Exchange pursuant to Divisions 7 and 8 of Part XV of the SFO (including interests and short positions which they are taken or deemed to have under such provisions of the SFO) and/or the Model Code for Securities Transactions by Directors of Listed Issuers set out in Appendix 10 to the Listing Rules (the "Model Code"), were as follows:

(i) Long positions in the Shares of HK\$0.01 each

Name of Director/ chief executive	Nature of interests	Number of Shares	Approximate percentage of the issued share capital of the Company
Mr. Sung Kai Hing (note 1)	Beneficial owner and Interest of a controlled corporation	280,474,777	34.79%
Mr. Cheung Kong Cheung (note 2)	Beneficial owner and Interest of a controlled corporation	62,040,465	7.70%
Mr. Kong Hing Ki	Beneficial owner	900,000	0.12%

Notes:

- The 21,568,000 Shares were held by Mr. Sung Kai Hing and 258,906,777 Shares were held by King Right Holdings Limited ("King Right"), a company beneficially wholly-owned by Mr. Sung Kai Hing, who is also the sole director of King Right. By virtue of the SFO, Mr. Sung Kai Hing is deemed to be interested in the same parcel of Shares in which King Right is interested.
- The 7,200,000 Shares were held by Mr. Cheung Kong Cheung, 54,840,465 Shares were held by United Sino Limited ("United Sino"), a company beneficially wholly-owned by Mr. Cheung Kong Cheung, who is also the sole director of United Sino. By virtue of the SFO, Mr. Cheung Kong Cheung is deemed to be interested in the same parcel of Shares in which United Sino is interested.

(ii) Rights to acquire shares or debentures

As at 31 December 2017, details of the share options granted by the Company to the Directors were as follows:

Name of Director	Date of grant	Exercise price (Adjusted)	Exercise period	Outstanding as at 31 December 2017
Mr. Sun Jian	7 July 2017	HK\$0.56	7 July 2017 to 6 July 2018	2,000,000
				<u>2,000,000</u>

Save as disclosed above, as at 31 December 2017, none of the Directors or chief executive of the Company had or was deemed to have any interests or short position in the shares, underlying shares and debentures of the Company and its associate corporations (within the meaning of Part XV of the SFO), which were required to be entered into the register required to be kept under section 352 of the SFO or as otherwise notified to the Company and the Stock Exchange pursuant to Divisions 7 and 8 of Part XV of the SFO or the Model Code.



DIRECTOR' RIGHTS TO ACQUIRE SHARES AND DEBENTURES

At no time during the Year 2017 or at the end of the Year 2017 has been/was the Company, its holding company, or any of its subsidiaries or fellow subsidiaries a party to any arrangement whose objects are, or one of whose objects is, 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.

SUBSTANTIAL SHAREHOLDERS

As at 31 December 2017, the persons (not being a Director or chief executive of the Company) who have interest or short position in the shares or underlying shares of the Company as recorded in the register required to be kept under section 336 of the SFO were as follows:

Long positions in Shares of HK\$0.01 each

Name	Capacity	Number of Shares	Approximate percentage of shareholding %	Note
King Right	Beneficial owner	258,906,777	32.12	1
Ms. Wong Wai King	Family interests	280,474,777	34.79	1
United Sino	Beneficial owner	54,840,465	6.80	2
Ms. Li Xin	Family interests	62,040,465	7.70	2
Golden Sunday Limited ("Golden Sunday")	Beneficial owner	54,840,465	6.80	3
Mr. Chan Kwok Kin	Beneficial owner and Interest of a controlled corporation	62,040,465	7.70	3
Ms. Ho Fung Ying	Family interests	62,040,465	7.70	3
Top Right Trading Limited ("Top Right")	Beneficial owner	51,586,293	6.40	4
Mr. Huang Wei Ye	Beneficial owner and Interest of a controlled corporation	58,936,293	7.31	4
Ms. Ye Jian Qun	Family interests	58,936,293	7.31	4

Notes:

1. King Right is a company beneficially wholly-owned by Mr. Sung Kai Hing, who is also the sole director of King Right. Ms. Wong Wai King is the spouse of Mr. Sung Kai Hing and is deemed to be interested in the same parcel of Shares in which Mr. Sung Kai Hing is interested by virtue of the SFO.
2. United Sino is a company beneficially wholly-owned by Mr. Cheung Kong Cheung, who is also the sole director of United Sino. Ms. Li Xin is the spouse of Mr. Cheung Kong Cheung and is deemed to be interested in the same parcel of Shares in which Mr. Cheung is interested by virtue of the SFO.
3. Golden Sunday is a company beneficially wholly-owned by Mr. Chan Kwok Kin. By virtue of the SFO, Mr. Chan is deemed to be interested in the same parcel of Shares in which Golden Sunday is interested. Ms. Ho Fung Ying is the spouse of Mr. Chan and is deemed to be interested in the same parcel of Shares in which Mr. Chan is interested by virtue of the SFO.
4. Top Right is a company beneficially wholly-owned by Mr. Huang Wei Ye. By virtue of the SFO, Mr. Huang Wei Ye is deemed to be interested in the same parcel of Shares in which Top Right is interested. Ms. Ye Jian Qun is the spouse of Mr. Huang Wei Ye and is deemed to be interested in the same parcel of Shares in which Mr. Huang is interested by virtue of the SFO.

Save as disclosed above, the Company had not been notified by any persons (other than Directors or chief executive of the Company) who had interests or short positions in the shares or underlying shares of the Company which would fall to be disclosed to the Company under the provision of Divisions 2 and 3 of Part XV of the SFO or which were recorded in the register required to be kept by the Company pursuant to Section 336 of the SFO.

Events after the reporting period

There are no significant events subsequent to 31 December 2017 which would materially affect the Group's and the Company's operating and financial performance as of the date of this annual report.

Corporate Governance

The Company is committed to maintaining the highest standard of corporate governance practices. Information on the corporate governance practices adopted by the Company is set out in the Corporate Governance Report on pages 11 to 22 of this annual report.

Sufficiency of Public Float

Based on information that is publicly available to the Company and within the knowledge of the Directors, the Company has maintained sufficient public float as at the date of this annual report as required under the Listing Rules.



AUDITORS

The consolidated financial statements of the Group for the years ended 31 December 2015, 2016 and 2017 were audited by Baker Tilly Hong Kong Limited ("Baker Tilly").

Baker Tilly will hold office until the conclusion of the forthcoming annual general meeting. Baker Tilly, being eligible, will offer themselves for reappointment. A resolution for reappointment of Baker Tilly as auditors of the Company is to be proposed at the forthcoming annual general meeting.

APPRECIATION

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

By Order of the Board of

Hing Lee (HK) Holdings Limited

Sung Kai Hing

Chairman and Chief Executive Officer

Hong Kong, 26 March 2018



Independent Auditor's Report



BAKER TILLY
HONG KONG | 天職香港

Independent auditor's report to the shareholders of Hing Lee (HK) Holdings Limited

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

Opinion

We have audited the consolidated financial statements of Hing Lee (HK) Holdings Limited and its subsidiaries (together the "Group") set out on pages 42 to 104, which comprise the consolidated statement of financial position as at 31 December 2017, and the consolidated statement of profit or loss, the consolidated statement of profit or loss and other comprehensive income, the consolidated statement of changes in equity and the consolidated statement of cash flows for the year then ended, and notes to the consolidated financial statements, including a summary of significant accounting policies.

In our opinion, the consolidated financial statements give a true and fair view of the consolidated financial position of the Group as at 31 December 2017 and of its consolidated financial performance and its consolidated cash flows for the year then ended in accordance with Hong Kong Financial Reporting Standards ("HKFRSs") issued by the Hong Kong Institute of Certified Public Accountants ("HKICPA") and have been properly prepared in compliance with the disclosure requirements of Hong Kong Companies Ordinance.

Basis for opinion

We conducted our audit in accordance with Hong Kong Standards on Auditing ("HKSAs") issued by the HKICPA. Our responsibilities under those standards are further described in the "Auditor's responsibilities for the audit of the consolidated financial statements" section of our report. We are independent of the Group in accordance with the HKICPA's Code of Ethics for Professional Accountants (the "Code"), and we have fulfilled our other ethical responsibilities in accordance with the Code. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our opinion.



Key audit matters

Key audit matters are those matters that, in our professional judgement, were of most significance in our audit of the consolidated financial statements of the current period. These matters were addressed in the context of our audit of the consolidated financial statements as a whole, and in forming our opinion thereon, and we do not provide a separate opinion on these matters.

The Key Audit Matter

How the matter was addressed in our audit

Key judgements relating to the impairment testing on goodwill

Refer to Note 2(i)(ii) and 13 to the audited consolidated financial statements

Under HKFRSs, the Group is required to test the amount of goodwill for impairment, both annually and if there is evidence impairment tests are warranted. Impairment tests are significant to our audit due to the judgements and assumptions involved in those tests and their evaluation which are affected by expected future market or economic conditions, in particular in relation to the Group's upholstered furniture market. Goodwill arose solely from the acquisition of a 60% equity interest in Astromax Investment Limited and its subsidiaries on 5 May 2011.

At 31 December 2017, the goodwill amounted to approximately HK\$51,852,000 (2016: HK\$48,455,000).

Our audit procedures in this area included:

- evaluating the assumptions and methodologies used by management, in particular those relating to sales growth rates and the Group's pre-tax discount rates.
- assessing and challenging cash flow projections prepared by management, including an assessment of the historical accuracy of management's estimates and comparing historic actual results to those budgeted so as to assess the quality of management's forecasting and judgement.
- assessing the sensitivity of forecasts to changes in assumptions, including sales growth beyond the 2018 forecast, long-term growth rates and discount rates in the model to assess the appropriateness of the carrying value of the goodwill.

We also assessed the adequacy of disclosures relating to those assumptions to which the outcome of the impairment tests is most sensitive, that is, those that have the most significant effect on the determination of the recoverable amount of goodwill.



Independent Auditor's Report

The Key Audit Matter

How the matter was addressed in our audit

Valuation of inventories

Refer to Note 2(k) and 15 to the audited consolidated financial statements

The Group operates in an industry in which developments in home furniture products may result in inventories becoming slow moving or obsolete. Its customers may modify their products orders or shift their orders to other manufacturers which would result in changes in product and stock lines. These factors, in turn, may mean that the inventories cannot be sold or sales prices are discounted to less than the inventory carrying value.

The value of inventories as at 31 December 2017 was HK\$45,944,000 (2016: HK\$62,434,000) which is significant for the consolidated statement of financial position. Further, a write-down of inventories and reversal of write-downs of inventories totalling HK\$9,261,000 (2016: HK\$426,000) and HK\$7,916,000 (2016: HK\$2,660,000) respectively were recognised during the year ended 31 December 2017.

Our audit procedures in this area included:

- challenging the appropriateness of the Group's methodology for determining its inventory provision in the light of our understanding of the business and industry knowledge, coupled with our understanding of the ageing and nature of its inventories, past usage and new product launches.
- considering the historical accuracy of provisions made by the Group by examining the reversal of previously recorded provision.
- testing the carrying value of inventories by comparing the carrying value to latest sales invoices for a sample of items to assess whether those items were held at the lower of cost or net realisable value.

We also assessed the adequacy of the Group's disclosures in respect of the judgements used in determining the carrying value of inventories.



The Key Audit Matter

How the matter was addressed in our audit

Impairment of trade debtors and bills receivable

Refer to Note 2(i)(i) and 16 to the audited consolidated financial statements

At 31 December 2017, the Group had significant trade debtors and bills receivable of HK\$43,873,000 (2016: HK\$76,351,000) together with an allowance for doubtful debts of HK\$15,728,000 (2016: HK\$10,659,000).

The management has to make significant judgements in their assessment of the level of provisions required to write down the value of trade debtors and bills receivable to their recoverable amounts. The Group's credit risk policy requires detailed analysis of individual receivable account balances, including evaluation of amounts that are past due for an abnormal period.

The level of judgement involved in determining whether a provision should be recognised and how it should be measured, coupled with the fact that movements in provision affect earnings, one of the key judgemental areas on which our audit concentrated.

Our audit procedures in this area included:

- considering the appropriateness of the provisions recorded against trade debtors and bills receivable balances that are considered doubtful and the appropriateness of the Group's provisioning policy, with reference to the ageing of customer balances, economic conditions, concentration of counterparty risk and the past history of debt recovery.
- reviewing subsequent settlement records and challenging management regarding their reasons for not considering a provision against any unsettled past-due balances.



Independent Auditor's Report

The Key Audit Matter

How the matter was addressed in our audit

Revenue recognition

Refer to Note 2(t) and 3 to the audited consolidated financial statements

There is a risk that transactions completed just before and just after the year end could be incorrectly recorded due to a high volume of transactions close to the year-end date.

The Group also has a number of customers who have a variety of shipping terms which means that the transfer of risks and rewards occurs on different timing bases (such as on dispatch, on receipt at port of destination or on receipt by customer). This means that there is an increased risk that revenue may not be recognised in the correct period for sales occurring near to the year end.

Our audit procedures in this area included:

- selecting samples of transactions recorded before and after the end of reporting period for substantive testing by reference to the trigger event for revenue, when contractually the customer takes on the risks and rewards of ownership, and tracing back to third party carrier documentation and customer invoices and/or agreements;
- inspecting the numeric sequence of goods delivery notes before and after the end of reporting period and investigating any non-conformity; and
- performing substantive analytical review on the pattern of sales before and after the end of reporting period, including a comparison with prior year and corroborative enquiries about any unusual sales fluctuations with management.

Other information

The directors are responsible for the other information. The other information comprises the information included in the annual report, but does not include the consolidated financial statements and our auditor's report thereon.

Our opinion on the consolidated financial statements does not cover the other information and we do not express any form of assurance conclusion thereon.

In connection with our audit of the consolidated financial statements, our responsibility is to read the other information identified above and, in doing so, consider whether the other information is materially inconsistent with the consolidated financial statements or our knowledge obtained in the audit, or otherwise appears to be materially misstated.

If, based on the work we have performed on the other information that we obtained prior to the date of this auditor's report, we conclude that there is a material misstatement of this other information, we are required to report that fact. We have nothing to report in this regard.



Responsibilities of directors and those charged with governance for the consolidated financial statements

The directors are responsible for the preparation of consolidated financial statements that give a true and fair view in accordance with HKFRSs issued by the HKICPA and the disclosure requirements 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.

In preparing the consolidated financial statements, the directors are responsible for assessing the Group's ability to continue as a going concern, disclosing, as applicable, matters related to going concern and using the going concern basis of accounting unless the directors either intend to liquidate the Group or to cease operations, or have no realistic alternative but to do so.

Those charged with governance are responsible for overseeing the Group's financial reporting process.

Auditor's responsibilities for the audit of the consolidated financial statements

Our objectives are to obtain reasonable assurance about whether the consolidated financial statements as a whole are free from material misstatement, whether due to fraud or error, and to issue an auditor's report that includes our opinion. This report is made solely to you, as a body, in accordance with section 90 of the Bermuda Companies Act 1981, and for no other purpose. We do not assume responsibility towards or accept liability to any other person for the contents of this report.

Reasonable assurance is a high level of assurance, but is not a guarantee that an audit conducted in accordance with HKSAs will always detect a material misstatement when it exists. Misstatements can arise from fraud or error and are considered material if, individually or in the aggregate, they could reasonably be expected to influence the economic decisions of users taken on the basis of these consolidated financial statements.

As part of an audit in accordance with HKSAs, we exercise professional judgement and maintain professional skepticism throughout the audit. We also:

- Identify and assess the risks of material misstatement of the consolidated financial statements, whether due to fraud or error, design and perform audit procedures responsive to those risks, and obtain audit evidence that is sufficient and appropriate to provide a basis for our opinion. The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control.
- Obtain an understanding of internal control relevant to the audit 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 Group's internal control.



Independent Auditor's Report

- Evaluate the appropriateness of accounting policies used and the reasonableness of accounting estimates and related disclosures made by the directors.
- Conclude on the appropriateness of the directors' use of the going concern basis of accounting and, based on the audit evidence obtained, whether a material uncertainty exists related to events or conditions that may cast significant doubt on the Group's ability to continue as a going concern. If we conclude that a material uncertainty exists, we are required to draw attention in our auditor's report to the related disclosures in the consolidated financial statements or, if such disclosures are inadequate, to modify our opinion. Our conclusions are based on the audit evidence obtained up to the date of our auditor's report. However, future events or conditions may cause the Group to cease to continue as a going concern.
- Evaluate the overall presentation, structure and content of the consolidated financial statements, including the disclosures, and whether the consolidated financial statements represent the underlying transactions and events in a manner that achieves fair presentation.
- Obtain sufficient appropriate audit evidence regarding the financial information of the entities or business activities within the Group to express an opinion on the consolidated financial statements. We are responsible for the direction, supervision and performance of the group audit. We remain solely responsible for our audit opinion.

We communicate with those charged with governance regarding, among other matters, the planned scope and timing of the audit and significant audit findings, including any significant deficiencies in internal control that we identify during our audit.

We also provide those charged with governance with a statement that we have complied with relevant ethical requirements regarding independence, and to communicate with them all relationships and other matters that may reasonably be thought to bear on our independence, and where applicable, related safeguards.

From the matters communicated with those charged with governance, we determine those matters that were of most significance in the audit of the consolidated financial statements of the current period and are therefore the key audit matters. We describe these matters in our auditor's report unless law or regulation precludes public disclosure about the matter or when, in extremely rare circumstances, we determine that a matter should not be communicated in our report because the adverse consequences of doing so would reasonably be expected to outweigh the public interest benefits of such communication.

The engagement director on the audit resulting in this independent auditor's report is Chan Kwan Ho, Edmond.

Baker Tilly Hong Kong Limited

Certified Public Accountants

Hong Kong, 26 March 2018

Chan Kwan Ho, Edmond

Practising certificate number P02092

Consolidated statement of profit or loss



for the year ended 31 December 2017 (Expressed in Hong Kong dollars)

	Note	2017 HK\$'000	2016 HK\$'000
Turnover	3	311,191	394,196
Cost of sales		<u>(259,026)</u>	<u>(293,338)</u>
Gross profit		52,165	100,858
Other net income	4	36,572	2,340
Selling and distribution expenses		(41,057)	(37,305)
Administrative expenses		(34,204)	(50,948)
Profit from operation		13,476	14,945
Finance costs	5(a)	<u>(3,179)</u>	<u>(2,663)</u>
Profit before taxation	5	10,297	12,282
Income tax	6	<u>(1,123)</u>	<u>(1,712)</u>
Profit for the year		9,174	10,570
		HK cents	HK cents
Earnings per share	9		
— Basic		<u>1.14</u>	<u>1.31</u>
— Diluted		<u>1.14</u>	<u>1.31</u>

The notes on pages 48 to 104 form part of the consolidated financial statements.



Consolidated statement of profit or loss and other comprehensive income

for the year ended 31 December 2017 (Expressed in Hong Kong dollars)

	2017	2016
	HK\$'000	HK\$'000
Profit for the year	9,174	10,570
Other comprehensive income/(loss) for the year		
Items that may be reclassified subsequently to profit or loss:		
– Exchange differences on translation of financial statements of overseas subsidiaries, net of nil tax	8,065	(15,308)
– Exchange reserve reclassified to profit or loss upon deregistration of a subsidiary, net of nil tax	2,945	–
– Gain on fair value changes of available-for-sale investments, net of nil tax	18	1
	11,028	(15,307)
Total comprehensive income/(loss) for the year	20,202	(4,737)

The notes on pages 48 to 104 form part of the consolidated financial statements.

Consolidated statement of financial position



as at 31 December 2017 (Expressed in Hong Kong dollars)

	Note	2017 HK\$'000	2016 HK\$'000
Non-current assets			
Property, plant and equipment	11	263,532	253,309
Prepaid lease payments	12	41,778	40,056
Goodwill	13	51,852	48,455
Available-for-sale investments	14	83	61
		357,245	341,881
Current assets			
Prepaid lease payments	12	1,085	1,014
Inventories	15	45,944	62,434
Trade and other receivables	16	139,091	160,775
Current tax recoverable	19(a)	-	188
Pledged bank deposits		22,055	26,336
Cash and cash equivalents		70,550	50,411
		278,725	301,158
Current liabilities			
Trade and other payables	17	131,513	176,393
Bank borrowings	18	86,961	69,812
Current tax payable	19(a)	547	230
		219,021	246,435
Net current assets		59,704	54,723
NET ASSETS		416,949	396,604
CAPITAL AND RESERVES			
Share capital	22(a)	8,061	8,061
Reserves		408,888	388,543
TOTAL EQUITY		416,949	396,604

Approved and authorised for issue by the board of directors on 26 March 2018.

Sung Kai Hing
Director

Cheung Kong Cheung
Director

The notes on pages 48 to 104 form part of the consolidated financial statements.



Consolidated statement of changes in equity

for the year ended 31 December 2017 (Expressed in Hong Kong dollars)

	Share capital	Share premium	Exchange reserve	Statutory reserve fund	Merger reserve	Share option reserve	Fair value reserve	Capital reserve	Retained profits	Total equity
Note	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000
	(note 22(a))	(note 22(c)(i))	(note 22(c)(iii))	(note 22(c)(iii))	(note 22(c)(iv))	(note 22(c)(v))	(note 22(c)(vii))	(note 22(c)(vii))		
Balance at 1 January 2016	8,061	175,384	33,394	11,115	25,430	8,463	(4)	(31,348)	170,846	401,341
Changes in equity for 2016:										
Profit for the year	-	-	-	-	-	-	-	-	10,570	10,570
Other comprehensive (loss)/income	-	-	(15,308)	-	-	-	1	-	-	(15,307)
Total comprehensive loss for the year	-	-	(15,308)	-	-	-	1	-	10,570	(4,737)
Transfer on lapse of share options	21	-	-	-	-	(8,463)	-	-	8,463	-
Appropriation of reserve		-	-	(168)	-	-	-	-	168	-
Balance at 31 December 2016 and 1 January 2017	8,061	175,384	18,086	10,947	25,430	-	(3)	(31,348)	190,047	396,604
Changes in equity for 2017:										
Profit for the year	-	-	-	-	-	-	-	-	9,174	9,174
Other comprehensive income	-	-	11,010	-	-	-	18	-	-	11,028
Total comprehensive income for the year	-	-	11,010	-	-	-	18	-	9,174	20,202
Equity-settled share-based payment transactions	21	-	-	-	-	143	-	-	-	143
Transfer of reserves upon deregistration of a subsidiary		-	-	(1,499)	-	-	-	6,486	(4,987)	-
Appropriation of reserve		-	-	613	-	-	-	-	(613)	-
Balance at 31 December 2017	8,061	175,384	29,096	10,061	25,430	143	15	(24,862)	193,621	416,949

The notes on pages 48 to 104 form part of the consolidated financial statements.

Consolidated statement of cash flows



for the year ended 31 December 2017 (Expressed in Hong Kong dollars)

	Note	2017 HK\$'000	2016 HK\$'000
Operating activities			
Profit before taxation		10,297	12,282
Adjustments for:			
Amortisation of prepaid lease payments	5(c)	1,049	1,058
Depreciation of property, plant and equipment	5(c)	14,349	15,593
Dividend income from available-for-sale investments	4	(4)	(4)
Gain on deregistration a subsidiary	4	(13,661)	–
Write back of other payables	4	(1,629)	–
Write-down/(reversal of write-down) of inventories, net		1,345	(2,234)
Impairment of trade receivables	5(c)	4,712	132
Impairment of deposits	5(c)	800	–
Fair value losses on derivative financial instruments	5(c)	–	52
Realised losses/(gains) on derivative financial instruments, net	4	472	(271)
Interest expense	5(a)	3,179	2,663
Interest income	4	(516)	(663)
Loss on disposal of property, plant and equipment, net	4	221	1,806
Equity-settled share-based payment transactions		143	–
Effect of foreign exchange rate changes, net		(9,758)	13,581
Operating profit before changes in working capital		10,999	43,995
Decrease in inventories		19,405	7,381
Decrease/(increase) in trade and other receivables		26,187	(59,459)
Decrease in trade and other payables		(47,014)	(16,225)
Cash generated from/(used in) operations		9,577	(24,308)
Interest received		516	663
Interest paid		(3,179)	(2,663)
Hong Kong Profits Tax refunded/(paid)		188	(178)
PRC Enterprise Income Tax paid		(832)	(1,716)
Net cash generated from/(used in) operating activities		6,270	(28,202)



Consolidated statement of cash flows

for the year ended 31 December 2017 (Expressed in Hong Kong dollars)

	Note	2017 HK\$'000	2016 HK\$'000
Investing activities			
Purchase of derivative financial instruments		(243)	(345)
(Settlements on)/proceeds from disposal of derivative financial instruments		(229)	644
Dividend received from available-for-sale investments		1	–
Decrease/(increase) in pledged bank deposits		5,299	(16,164)
Purchase of property, plant and equipment		(10,711)	(4,982)
Proceeds from disposal of property, plant and equipment		3,168	318
		<hr/> (2,715)	<hr/> (20,529)
Financing activities			
Proceeds from new bank borrowings	24	98,619	84,900
Repayment of bank borrowings	24	(84,310)	(52,029)
		<hr/> 14,309	<hr/> 32,871
Net increase/(decrease) in cash and cash equivalents		17,864	(15,860)
Cash and cash equivalents at beginning of the year		50,411	68,662
Effect of foreign exchange rate changes		2,275	(2,391)
Cash and cash equivalents at end of the year		70,550	50,411

The notes on pages 48 to 104 form part of the consolidated financial statements.

Notes to the consolidated financial statements



(Expressed in Hong Kong dollars)

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 Company's subsidiaries are set out in note 28.

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

2 SIGNIFICANT ACCOUNTING POLICIES

(a) Statement of compliance

The consolidated financial statements for the year ended 31 December 2017 comprise the Company and its subsidiaries (together the "Group").

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

The HKICPA has issued certain new and revised HKFRSs that are first effective for the current accounting period of the Group. Of these, the following amendments are relevant to the Group:

Amendments to HKAS 7	Disclosure Initiative
Amendments to HKAS 12	Recognition of Deferred Tax Assets for Unrealised Losses
Amendments to HKFRSs	Annual Improvements to HKFRSs 2012 – 2014 Cycle

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 31).



Notes to the consolidated financial statements

(Expressed in Hong Kong dollars)

2 SIGNIFICANT ACCOUNTING POLICIES (continued)

(b) Basis of preparation of the consolidated financial statements

The measurement basis used in the preparation of the consolidated financial statements is the historical cost basis except that the following assets and liabilities are stated at their fair value as explained in the accounting policies set out below:

- financial instruments classified as available-for-sale investments (see note 2(e)); and
- derivative financial instruments (see note 2(f)).

The preparation of the consolidated financial statements in conformity with HKFRSs requires management to make judgements, estimates and assumptions that affect the application of policies and reported amounts of assets, liabilities, income and expenses. The estimates and associated assumptions are based on historical experience and various other factors that are believed to be reasonable under the circumstances, the results of which form the basis of making the judgements about carrying values of assets and liabilities that are not readily apparent from other sources. Actual results may differ from these estimates.

The estimates and underlying assumptions are reviewed on an ongoing basis. Revisions to accounting estimates are recognised in the period in which the estimate is revised if the revision affects only that period, or in the period of the revision and future periods if the revision affects both current and future periods.

Judgements made by management in the application of HKFRSs that have significant effect on the consolidated financial statements and major sources of estimation uncertainty are discussed in note 30.

(c) Subsidiaries

Subsidiaries are entities controlled by the Group. The Group controls an entity when it is exposed, or has rights, to variable returns from its involvement with the entity and has the ability to affect those returns through its power over the entity. When assessing whether the Group has power, only substantive rights (held by the Group and other parties) are considered.

An investment in a subsidiary is consolidated into the consolidated financial statements from the date that control commences until the date that control ceases. Intra-group balances, transactions and cash flows and any unrealised profits arising from intra-group transactions are eliminated in full in preparing the consolidated financial statements. Unrealised losses resulting from intra-group transactions are eliminated in the same way as unrealised gains but only to the extent that there is no evidence of impairment.



(Expressed in Hong Kong dollars)

2 SIGNIFICANT ACCOUNTING POLICIES (continued)

(c) Subsidiaries (continued)

Changes in the Group's interest in a subsidiary that do not result in a loss of control are accounted for as equity transactions, whereby adjustments are made to the amounts of controlling and non-controlling interests within consolidated equity to reflect the changes in relative interests, but no adjustments are made to goodwill and no gain or loss is recognised.

When the Group loses control of a subsidiary, it is accounted for a disposal of the entire interest in that subsidiary, with a resulting gain or loss being recognised in profit or loss. Any interest retained in that former subsidiary at the date when control is lost is recognised at fair value and this amount is regarded as the fair value on initial recognition of a financial asset or, when appropriate, the cost on initial recognition of an investment in an associate or joint venture.

In the Company's statement of financial position, an investment in a subsidiary is stated at cost less impairment losses (see note 2(i)(ii)).

(d) Goodwill

Goodwill represents the excess of

- (i) the aggregate of the fair value of the consideration transferred, the amount of any non-controlling interest in the acquiree and the fair value of the Group's previously held equity interest in the acquiree; over
- (ii) the net fair value of the acquiree's identifiable assets and liabilities measured as at the acquisition date.

When (ii) is greater than (i), then this excess is recognised immediately in profit or loss as a gain on a bargain purchase.

Goodwill is stated at cost less accumulated impairment losses. Goodwill arising on a business combination is allocated to each cash-generating unit, or groups of cash-generating units, that is expected to benefit from the synergies of the combination and is tested annually for impairment (see note 2(i)(ii)).

On disposal of a cash-generating unit during the year, any attributable amount of purchased goodwill is included in the calculation of the profit or loss on disposal.



Notes to the consolidated financial statements

(Expressed in Hong Kong dollars)

2 SIGNIFICANT ACCOUNTING POLICIES (continued)

(e) Investments in available-for-sale equity securities

Investments in available-for-sale equity securities are initially stated at fair value, which is their transaction price unless it is determined that the fair value at initial recognition differs from the transaction price and that fair value is evidenced by a quoted price in an active market for an identical asset or liability or based on a valuation technique that uses only data from observable markets. Cost includes attributable transaction costs.

At the end of each reporting period the fair value is remeasured, with any resultant gain or loss being recognised in other comprehensive income and accumulated separately in equity in the fair value reserve. Dividend income from available-for-sale equity securities is recognised in profit or loss in accordance with the policy set out in note 2(t)(iii).

When the investments are derecognised or impaired (see note 2(i)(i)), the cumulative gain or loss recognised in equity is reclassified to profit or loss. Investments are recognised/derecognised on the date the Group commits to purchase/sell the investments.

(f) Derivative financial instruments

Derivative financial instruments are recognised initially at fair value. At the end of each reporting period the fair value is remeasured. The gain or loss on remeasurement to fair value is recognised immediately in profit or loss, except where the derivatives qualify for cash flow hedge accounting or hedge the net investment in a foreign operation, in which case recognition of any resultant gain or loss depends on the nature of the item being hedged.

(g) Property, plant and equipment

Items of property, plant and equipment, other than construction in progress, are stated at cost less accumulated depreciation and impairment losses (see note 2(i)(ii)).

Construction in progress represents property, plant and equipment under construction and equipment pending installation and is stated at cost less impairment losses (see note 2(i)(ii)). Cost comprises direct costs of construction. Capitalisation of these costs ceases and the construction in progress is transferred to other appropriate categories of property, plant and equipment when substantially all of the activities necessary to prepare the assets for their intended use was completed.

Gains or losses arising from the retirement or disposal of an item of property, plant and equipment are determined as the difference between the net disposal proceeds and the carrying amount of the item and are recognised in profit or loss on the date of retirement or disposal.



2 SIGNIFICANT ACCOUNTING POLICIES (continued)

(g) Property, plant and equipment (continued)

Depreciation is calculated to write off the cost of items of property, plant and equipment, less their estimated residual value, if any, using the straight line method over their estimated useful lives at the following annual rates:

Buildings	Over the lease terms
Leasehold improvements	20% or over the lease terms, whichever is shorter
Motor vehicles	18% – 20%
Office equipment	10% – 20%
Plant and machinery	10% – 33.33%

Where parts of an item of property, plant and equipment have different useful lives, the cost of the item is allocated on a reasonable basis between the parts and each part is depreciated separately. Both the useful life of an asset and its residual value, if any, are reviewed annually.

(h) Leased assets

An arrangement, comprising a transaction or a series of transactions, is or contains a lease if the Group determines that the arrangement conveys a right to use a specific asset or assets for an agreed period of time in return for a payment or a series of payments. Such a determination is made based on an evaluation of the substance of the arrangement and is regardless of whether the arrangement takes the legal form of a lease.

(i) Classification of assets leased to the Group

Assets that are held by the Group under leases which transfer to the Group substantially all the risks and rewards of ownership are classified as being held under finance leases. Leases which do not transfer substantially all the risks and rewards of ownership to the Group are classified as operating leases.

(ii) Operating lease charges

Where the Group has the use of assets held under operating leases, payments made under the leases are charged to profit or loss in equal instalments over the accounting periods covered by the lease term, except where an alternative basis is more representative of the pattern of benefits to be derived from the leased asset. Lease incentives received are recognised in profit or loss as an integral part of the aggregate net lease payments made. Contingent rentals are charged to profit or loss in the accounting period in which they are incurred.

The cost of acquiring land held under an operating lease is amortised on a straight-line basis over the period of the lease term.



Notes to the consolidated financial statements

(Expressed in Hong Kong dollars)

2 SIGNIFICANT ACCOUNTING POLICIES (continued)

(i) Impairment of assets

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

Investments in equity securities and other current and non-current receivables that are stated at cost or amortised cost are reviewed at the end of each reporting period to determine whether there is objective evidence of impairment. Objective evidence of impairment includes observable data that comes to the attention of the Group about one or more of the following loss events:

- significant financial difficulty of the debtor;
- a breach of contract, such as a default or delinquency in interest or principal payments;
- it becoming probable that the debtor will enter bankruptcy or other financial reorganisation;
- significant changes in the technological, market, economic or legal environment that have an adverse effect on the debtor; and
- a significant or prolonged decline in the fair value of an investment in an equity instrument below its cost.

If any such evidence exists, any impairment loss is determined and recognised as follows:

- For trade and other current receivables carried at amortised cost, the impairment loss is measured as the difference between the asset's carrying amount and the present value of estimated future cash flows, discounted at the financial asset's original effective interest rate (i.e. the effective interest rate computed at initial recognition of these assets), where the effect of discounting is material. This assessment is made collectively where these financial assets share similar risk characteristics, such as similar past due status, and have not been individually assessed as impaired. Future cash flows for financial assets which are assessed for impairment collectively are based on historical loss experience for assets with credit risk characteristics similar to the collective group.

If in a subsequent period the amount of an impairment loss decreases and the decrease can be linked objectively to an event occurring after the impairment loss was recognised, the impairment loss is reversed through profit or loss. A reversal of an impairment loss shall not result in the asset's carrying amount exceeding that which would have been determined had no impairment loss been recognised in prior years.



2 SIGNIFICANT ACCOUNTING POLICIES (continued)

(i) Impairment of assets (continued)

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

- For available-for-sale equity securities, the cumulative loss that has been recognised in the fair value reserve is reclassified to profit or loss. The amount of the cumulative loss that is recognised in profit or loss is the difference between the acquisition cost and current fair value, less any impairment loss on that asset previously recognised in profit or loss.

Impairment losses recognised in profit or loss in respect of available-for-sale equity securities are not reversed through profit or loss. Any subsequent increase in the fair value of such assets is recognised in other comprehensive income.

Impairment losses are written off against the corresponding assets directly, except for impairment losses recognised in respect of trade debtors and bills receivable included within trade and other receivables, whose recovery is considered doubtful but not remote. In this case, the impairment losses for doubtful debts are recorded using an allowance account. When the Group is satisfied that recovery is remote, the amount considered irrecoverable is written off against trade debtors and bills receivable directly and any amounts held in the allowance account relating to that debt are reversed. Subsequent recoveries of amounts previously charged to the allowance account are reversed against the allowance account. Other changes in the allowance account and subsequent recoveries of amounts previously written off directly are recognised in profit or loss.

(ii) *Impairment of other assets*

Internal and external sources of information are reviewed at the end of each reporting period to identify indications that the following assets may be impaired or, except in the case of goodwill, an impairment loss previously recognised no longer exists or may have decreased:

- property, plant and equipment;
- prepaid interests in leasehold land classified as being held under an operating lease;
- goodwill; and
- investments in subsidiaries in the Company's statement of financial position.



2 SIGNIFICANT ACCOUNTING POLICIES (continued)

(i) Impairment of assets (continued)

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

If any such indication exists, the asset's recoverable amount is estimated. In addition, for goodwill, the recoverable amount is estimated annually whether or not there is any indication of impairment.

– Calculation of recoverable amount

The recoverable amount of an asset is the greater of its fair value less costs of disposal and value in use. In assessing value in use, the estimated future cash flows are discounted to their present value using a pre-tax discount rate that reflects current market assessments of the time value of money and the risks specific to the asset. Where an asset does not generate cash inflows largely independent of those from other assets, the recoverable amount is determined for the smallest group of assets that generates cash inflows independently (i.e. a cash-generating unit).

– Recognition of impairment losses

An impairment loss is recognised in profit or loss if the carrying amount of an asset, or the cash-generating unit to which it belongs, exceeds its recoverable amount. Impairment losses recognised in respect of cash-generating units are allocated first to reduce the carrying amount of any goodwill allocated to the cash-generating unit (or group of units) and then, to reduce the carrying amount of the other assets in the unit (or group of units) on a pro rata basis, except that the carrying value of an asset will not be reduced below its individual fair value less costs of disposal (if measurable) or value in use (if determinable).

– Reversals of impairment losses

In respect of assets other than goodwill, an impairment loss is reversed if there has been a favourable change in the estimates used to determine the recoverable amount. An impairment loss in respect of goodwill is not reversed.

A reversal of an impairment loss is limited to the asset's carrying amount that would have been determined had no impairment loss been recognised in prior years. Reversals of impairment losses are credited to profit or loss in the year in which the reversals are recognised.



2 SIGNIFICANT ACCOUNTING POLICIES (continued)

(j) Trademarks and patents

All costs associated with the development and registration of trademarks and patents are charged to profit or loss in the period when such expenditure is incurred.

(k) Inventories

Inventories are carried at the lower of cost and net realisable value.

Cost is calculated using the weighted average cost formula and comprises all costs of purchase, costs of conversion and other costs incurred in bringing the inventories to their present location and condition.

Net realisable value is the estimated selling price in the ordinary course of business less the estimated costs of completion and the estimated costs necessary to make the sale.

When inventories are sold, the carrying amount of those inventories is recognised as an expense in the period in which the related revenue is recognised. The amount of any write-down of inventories to net realisable value and all losses of inventories are recognised as an expense in the period the write-down or loss occurs. The amount of any reversal of any write-down of inventories is recognised as a reduction in the amount of inventories recognised as an expense in the period in which the reversal occurs.

(l) Trade and other receivables

Trade and other receivables are initially recognised at fair value and thereafter stated at amortised cost using the effective interest method, less allowance for impairment of doubtful debts (see note 2(i)(ii)), except where the receivables are interest-free loans made to related parties without any fixed repayment terms or the effect of discounting would be immaterial. In such cases, the receivables are stated at cost less allowance for impairment of doubtful debts.

(m) Interest-bearing borrowings

Interest-bearing borrowings are recognised initially at fair value less attributable transaction costs. Subsequent to initial recognition, interest-bearing borrowings are stated at amortised cost with any difference between the amount initially recognised and redemption value being recognised in profit or loss over the period of the borrowings, together with any interest and fees payable, using the effective interest method.

(n) Trade and other payables

Trade and other payables are initially recognised at fair value. Except for financial guarantee liabilities measured in accordance with note 2(s)(i), trade and other payables are subsequently stated at amortised cost unless the effect of discounting would be immaterial, in which case they are stated at cost.



Notes to the consolidated financial statements

(Expressed in Hong Kong dollars)

2 SIGNIFICANT ACCOUNTING POLICIES (continued)

(o) Cash and cash equivalents

Cash and cash equivalents comprise cash at bank and on hand, demand deposits with banks and other financial institutions, and short-term, highly liquid investments that are readily convertible into known amounts of cash and which are subject to an insignificant risk of changes in value, having been within three months of maturity at acquisition.

(p) Employee benefits

(i) *Short term employee benefits and contributions to defined contribution retirement plans*

Salaries, annual bonuses, paid annual leave, contributions to defined contribution retirement plans and the cost of non-monetary benefits are accrued in the year in which the associated services are rendered by employees. Where payment or settlement is deferred and the effect would be material, these amounts are stated at their present values.

(ii) *Long service payments payable on cessation of employment*

The Group's net obligation in respect of the long service payment payable on cessation of employment in certain circumstances under the Hong Kong Employment Ordinance is the amount of future benefit that employees have earned in return for their service in the current and prior periods. The obligation is calculated using the projected unit credit method, discounted to its present value and reduced by entitlements accrued under the Group's retirement plans that are attributable to contributions made by the Group.

Past service cost is recognised immediately to the extent that the benefits have already been vested.

(iii) *Share-based payments*

The fair value of share options granted to employees is recognised as an employee cost with a corresponding increase in share option reserve within equity (see note 2(q)).

(iv) *Termination benefits*

Termination benefits are recognised at the earlier of when the Group can no longer withdraw the offer of those benefits and when it recognises restructuring costs involving the payment of termination benefits.



2 SIGNIFICANT ACCOUNTING POLICIES (continued)

(q) Equity-settled share-based payment transactions

The Company operates a share option scheme under which the Group receives services or goods from its directors, employees and other eligible persons as consideration for share options of the Company. The fair value of the services or goods received in exchange for the grant of the share options is recognised as an expense. The total amount to be expensed is determined by reference to the fair value of the share options, which is measured at grant date using the binomial lattice model, taking into account the terms and conditions upon which the options were granted. Where the counterparties have to meet vesting conditions before becoming unconditionally entitled to the options, the total estimated fair value of the options is spread over the vesting period, taking into account the probability that the options will vest.

During the vesting period, the number of share options that is expected to vest is reviewed. Any resulting adjustment to the cumulative fair value recognised in prior years is charged/credited to the profit or loss for the year of the review, unless the original expenses qualify for recognition as an asset, with a corresponding adjustment to the share option reserve. On vesting date, the amount recognised as an expense is adjusted to reflect the actual number of options that vest (with a corresponding adjustment to the share option reserve) except where forfeiture is only due to not achieving vesting conditions that relate to the market price of the Company's shares. The equity amount is recognised in the share option reserve until either the option is exercised (when it is transferred to the share premium account) or the option expires (when it is released directly to retained profits).

Service and non-market performance conditions are not taken into account when determining the grant date fair value of share options, but the likelihood of the conditions being met is assessed as part of the Group's best estimate of the number of equity instruments that will ultimately vest. Market performance conditions are reflected within the grant date fair value. Any other conditions attached to a share option, but without an associated service requirement, are considered to be non-vesting conditions. Non-vesting conditions are reflected in the fair value of a share option and lead to an immediate expensing of a share option unless there are also service and/or performance conditions.

For share options that do not ultimately vest because non-market performance and/or service conditions have not been met, the share options are regarded as forfeited and no expense is recognised. Where share options include a market or non-vesting condition, the transactions are treated as vesting irrespective of whether the market or non-vesting condition is satisfied, provided that all other performance and/or service conditions are satisfied.

Where the terms of an equity-settled share-based payment are modified, as a minimum an expense is recognised as if the terms had not been modified, if the original terms of the share option are met. In addition, an expense is recognised for any modification that increases the total fair value of the share-based payments, or is otherwise beneficial to the employees as measured at the date of modification.



Notes to the consolidated financial statements

(Expressed in Hong Kong dollars)

2 SIGNIFICANT ACCOUNTING POLICIES (continued)

(r) Income tax

Income tax for the year comprises current tax and movements in deferred tax assets and liabilities. Current tax and movements in deferred tax assets and liabilities are recognised in profit or loss except to the extent that they relate to items recognised in other comprehensive income or directly in equity, in which case the relevant amounts of tax are recognised in other comprehensive income or directly in equity, respectively.

Current tax is the expected tax payable on the taxable income for the year, using tax rates enacted or substantively enacted at the end of the reporting period, and any adjustment to tax payable in respect of previous years.

Deferred tax assets and liabilities arise from deductible and taxable temporary differences respectively, being the differences between the carrying amounts of assets and liabilities for financial reporting purposes and their tax bases. Deferred tax assets also arise from unused tax losses and unused tax credits.

Apart from certain limited exceptions, all deferred tax liabilities, and all deferred tax assets to the extent that it is probable that future taxable profits will be available against which the asset can be utilised, are recognised. Future taxable profits that may support the recognition of deferred tax assets arising from deductible temporary differences include those that will arise from the reversal of existing taxable temporary differences, provided those differences relate to the same taxation authority and the same taxable entity, and are expected to reverse either in the same period as the expected reversal of the deductible temporary difference or in periods into which a tax loss arising from the deferred tax asset can be carried back or forward. The same criteria are adopted when determining whether existing taxable temporary differences support the recognition of deferred tax assets arising from unused tax losses and credits, that is, those differences are taken into account if they relate to the same taxation authority and the same taxable entity, and are expected to reverse in a period, or periods, in which the tax loss or credit can be utilised.

The limited exceptions to recognition of deferred tax assets and liabilities are those temporary differences arising from goodwill not deductible for tax purposes, the initial recognition of assets or liabilities that affect neither accounting nor taxable profit (provided they are not part of a business combination), and temporary differences relating to investments in subsidiaries to the extent that, in the case of taxable differences, the Group controls the timing of the reversal and it is probable that the differences will not reverse in the foreseeable future, or in the case of deductible differences, unless it is probable that they will reverse in the future.

The amount of deferred tax recognised is measured based on the expected manner of realisation or settlement of the carrying amount of the assets and liabilities, using tax rates enacted or substantively enacted at the end of the reporting period. Deferred tax assets and liabilities are not discounted.



2 SIGNIFICANT ACCOUNTING POLICIES (continued)

(r) Income tax (continued)

The carrying amount of a deferred tax asset is reviewed at the end of each reporting period and is reduced to the extent that is no longer probable that sufficient taxable profits will be available to allow the related tax benefit to be utilised. Any such reduction is reversed to the extent that it becomes probable that sufficient taxable profits will be available.

Additional income taxes that arise from the distribution of dividends are recognised when the liability to pay the related dividends is recognised.

Current tax balances and deferred tax balances, and movements therein, are presented separately from each other and are not offset. Current tax assets are offset against current tax liabilities, and deferred tax assets against deferred tax liabilities, if the Company or the Group has the legally enforceable right to set off current tax assets against current tax liabilities and the following additional conditions are met:

- in the case of current tax assets and liabilities, the Company or the Group intends either to settle on a net basis, or to realise the asset and settle the liability simultaneously; or
- in the case of deferred tax assets and liabilities, if they relate to income taxes levied by the same taxation authority on either:
 - the same taxable entity; or
 - different taxable entities, which, in each future period in which significant amounts of deferred tax liabilities or assets are expected to be settled or recovered, intend to realise the current tax assets and settle the current tax liabilities on a net basis or realise and settle simultaneously.

(s) Financial guarantees issued, provisions and contingent liabilities

(i) Financial guarantees issued

Financial guarantees are contracts that require the issuer (i.e. the guarantor) to make specified payments to reimburse the beneficiary of the guarantee (the “holder”) for a loss the holder incurs because a specified debtor fails to make payment when due in accordance with the terms of a debt instrument.



Notes to the consolidated financial statements

(Expressed in Hong Kong dollars)

2 SIGNIFICANT ACCOUNTING POLICIES (continued)

(s) Financial guarantees issued, provisions and contingent liabilities (continued)

(i) *Financial guarantees issued (continued)*

Where the Group issues a financial guarantee, the fair value of the guarantee is initially recognised as deferred income within trade and other payables. The fair value of financial guarantees issued at the time of issuance is determined by reference to fees charged in an arm's length transaction for similar services, when such information is obtainable, or is otherwise estimated by reference to interest rate differentials, by comparing the actual rates charged by lenders when the guarantee is made available with the estimated rates that lenders would have charged, had the guarantees not been available, where reliable estimates of such information can be made. Where consideration is received or receivable for the issuance of the guarantee, the consideration is recognised in accordance with the Group's policies applicable to that category of asset. Where no such consideration is received or receivable, an immediate expense is recognised in profit or loss on initial recognition of any deferred income.

The amount of the guarantee initially recognised as deferred income is amortised in profit or loss over the term of the guarantee as income from financial guarantees issued. In addition, provisions are recognised in accordance with note 2(s)(ii) if and when (i) it becomes probable that the holder of the guarantee will call upon the Group under the guarantee, and (ii) the amount of that claim on the Group is expected to exceed the amount currently carried in trade and other payables in respect of that guarantee i.e. the amount initially recognised, less accumulated amortisation.

(ii) *Other provisions and contingent liabilities*

Other provisions are recognised for other liabilities of uncertain timing or amount when the Group or the Company has a legal or constructive obligation arising as a result of a past event, it is probable that an outflow of economic benefits will be required to settle the obligation and a reliable estimate can be made. Where the time value of money is material, provisions are stated at the present value of the expenditure expected to settle the obligation.

Where it is not probable that an outflow of economic benefits will be required, or the amount cannot be estimated reliably, the obligation is disclosed as a contingent liability, unless the probability of outflow of economic benefits is remote. Possible obligations, whose existence will only be confirmed by the occurrence or non-occurrence of one or more future events are also disclosed as contingent liabilities unless the probability of outflow of economic benefits is remote.



(Expressed in Hong Kong dollars)

2 SIGNIFICANT ACCOUNTING POLICIES (continued)

(t) Revenue recognition

Revenue is measured at the fair value of the consideration received or receivable. Provided it is probable that the economic benefits will flow to the Group and the revenue and costs, if applicable, can be measured reliably, revenue is recognised in profit or loss as follows:

(i) *Sale of goods*

Revenue is recognised when goods are delivered at the customers' premises which is taken to be the point in time when the customer has accepted the goods and the related risks and rewards of ownership. Revenue excludes value added tax or other sales taxes and is after deduction of any trade discounts.

(ii) *Licensing income*

Licensing income is recognised when the right to receive payment is established.

(iii) *Dividends*

- Dividend income from unlisted investments is recognised when the shareholder's right to receive payment is established.
- Dividend income from listed investments is recognised when the share price of the investment goes ex-dividend.

(iv) *Interest income*

Interest income is recognised as it accrues using the effective interest method.

(v) *Government grants*

Government grants are recognised in the consolidated statement of financial position initially when there is reasonable assurance that they will be received and that the Group will comply with the conditions attaching to them. Grants that compensate the Group for expenses incurred are recognised as income in profit or loss on a systematic basis in the same periods in which the expenses are incurred. Grants that compensate the Group for the cost of an asset are deducted from the carrying amount of the asset and consequently are effectively recognised in profit or loss over the useful life of the asset by way of reduced depreciation expense.



Notes to the consolidated financial statements

(Expressed in Hong Kong dollars)

2 SIGNIFICANT ACCOUNTING POLICIES (continued)

(u) Translation of foreign currencies

Foreign currency transactions during the year are translated at the foreign exchange rates ruling at the transaction dates. Monetary assets and liabilities denominated in foreign currencies are translated at the foreign exchange rates ruling at the end of the reporting period. Exchange gains and losses are recognised in profit or loss.

Non-monetary assets and liabilities that are measured in terms of historical cost in a foreign currency are translated using the foreign exchange rates ruling at the transaction dates. Non-monetary assets and liabilities denominated in foreign currencies that are stated at fair value are translated using the foreign exchange rates ruling at the dates the fair value was measured.

The results of foreign operations are translated into Hong Kong dollars at the exchange rates approximating the foreign exchange rates ruling at the dates of the transactions. Statement of financial position items, including goodwill arising on consolidation of foreign operations acquired on or after 1 January 2005, are translated into Hong Kong dollars at the closing foreign exchange rates at the end of the reporting period. The resulting exchange differences are recognised in other comprehensive income and accumulated separately in equity in the exchange reserve.

On disposal of a foreign operation, the cumulative amount of the exchange differences relating to that foreign operation is reclassified from equity to profit or loss when the profit or loss on disposal is recognised.

(v) Borrowing costs

Borrowing costs that are directly attributable to the acquisition, construction or production of an asset which necessarily takes a substantial period of time to get ready for its intended use or sale are capitalised as part of the cost of that asset. Other borrowing costs are expensed in the period in which they are incurred.

The capitalisation of borrowing costs as part of the cost of a qualifying asset commences when expenditure for the asset is being incurred, borrowing costs are being incurred and activities that are necessary to prepare the asset for its intended use or sale are in progress. Capitalisation of borrowing costs is suspended or ceases when substantially all the activities necessary to prepare the qualifying asset for its intended use or sale are interrupted or complete.



2 SIGNIFICANT ACCOUNTING POLICIES (continued)

(w) Related parties

- (a) A person, or a close member of that person's family, is related to the Group if that person:
- (i) has control or joint control of the Group;
 - (ii) has significant influence over the Group; or
 - (iii) is a member of the key management personnel of the Group or the Group's parent.
- (b) An entity is related to the Group if any of the following conditions applies:
- (i) The entity and the Group are members of the same group (which means that each parent, subsidiary and fellow subsidiary is related to the others).
 - (ii) One entity is an associate or joint venture of the other entity (or an associate or joint venture of a member of a group of which the other entity is a member).
 - (iii) Both entities are joint ventures of the same third party.
 - (iv) One entity is a joint venture of a third entity and the other entity is an associate of the third entity.
 - (v) The entity is a post-employment benefit plan for the benefit of employees of either the Group or an entity related to the Group.
 - (vi) The entity is controlled or jointly controlled by a person identified in (a).
 - (vii) A person identified in (a)(i) has significant influence over the entity or is a member of the key management personnel of the entity (or of a parent of the entity).
 - (viii) The entity, or any members of a group of which it is a part, provides key management personnel services to the Group or to the Group's parent.

Close members of the family of a person are those family members who may be expected to influence, or be influenced by, that person in their dealings with the entity.

(x) Segment reporting

Operating segments, and the amounts of each segment item reported in the consolidated financial statements, are identified from the financial information provided regularly to the Group's most senior executive management for the purposes of allocating resources to, and assessing the performance of, the Group's various lines of business and geographical locations.



Notes to the consolidated financial statements

(Expressed in Hong Kong dollars)

2 SIGNIFICANT ACCOUNTING POLICIES (continued)

(x) Segment reporting (continued)

Individually material operating segments are not aggregated for financial reporting purposes unless the segments have similar economic characteristics and are similar in respect of the nature of products and services, the nature of production processes, the type or class of customers, the methods used to distribute the products or provide the services, and the nature of the regulatory environment. Operating segments which are not individually material may be aggregated if they share a majority of these criteria.

3 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:

	2017	2016
	HK\$'000	HK\$'000
Sale of goods	295,179	372,578
Licensing income	16,012	21,618
	<u>311,191</u>	<u>394,196</u>

4 OTHER NET INCOME

	2017	2016
	HK\$'000	HK\$'000
Bank interest income	516	663
Dividend income from available-for-sale investments	4	4
Foreign exchange gain, net	17,243	–
Government grants	3,557	2,375
Gain on deregistration of a subsidiary	13,661	–
Sales of scrap materials	–	152
Loss on disposal of property, plant and equipment, net	(221)	(1,806)
Net realised (losses)/gains on derivative financial instruments	(472)	271
Write back of other payables	1,629	–
Others	655	681
	<u>36,572</u>	<u>2,340</u>

Notes to the consolidated financial statements



(Expressed in Hong Kong dollars)

4 OTHER NET INCOME (continued)

Government grants include mainly funds and subsidies from local government authorities for the Group's development and business activities.

Gain on deregistration of a subsidiary comprised cumulative exchange gain of HK\$2,945,000 reclassified from exchange reserve to profit or loss upon deregistration of a subsidiary, and compensation income of HK\$10,716,000 for the landlord's early termination of an operating lease in respect of the factory building occupied by the subsidiary, and resulting cessation of business and de-registration of that subsidiary.

5 PROFIT BEFORE TAXATION

Profit before taxation is arrived at after charging:

(a) Finance costs

	2017	2016
	HK\$'000	HK\$'000
Interest on bank borrowings	3,179	2,663

(b) Staff costs

	2017	2016
	HK\$'000	HK\$'000
Directors' remuneration (note 7)	2,483	2,340
Salaries, wages and other benefits	69,261	84,923
Retirement scheme contributions	7,421	8,245
	79,165	95,508



Notes to the consolidated financial statements

(Expressed in Hong Kong dollars)

5 PROFIT BEFORE TAXATION (continued)

(c) Other items

	2017	2016
	HK\$'000	HK\$'000
Auditor's remuneration	900	968
Amortisation of prepaid lease payments	1,049	1,058
Cost of inventories sold [#] (note 15(b))	259,026	293,338
Depreciation of property, plant and equipment	14,349	15,593
Loss on disposal of property, plant and equipment, net	221	1,806
Foreign exchange loss, net	-	13,429
Impairment of trade receivables	4,712	132
Impairment of deposits paid	800	-
Fair value losses on derivative financial instruments	-	52
Operating lease rentals: minimum lease payments		
– land and buildings	8,012	7,989

Cost of inventories sold includes HK\$61,278,000 (2016: HK\$77,361,000) 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 5(b) for each of these types of expenses.

6 INCOME TAX IN THE CONSOLIDATED STATEMENT OF PROFIT OR LOSS

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

	2017	2016
	HK\$'000	HK\$'000
PRC Enterprise Income Tax		
– Current year provision	1,047	1,682
– Prior years under-provision	76	30
	1,123	1,712

Notes to the consolidated financial statements



(Expressed in Hong Kong dollars)

6 INCOME TAX IN THE CONSOLIDATED STATEMENT OF PROFIT OR LOSS (continued)

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

	2017	2016
	HK\$'000	HK\$'000
Profit before taxation	10,297	12,282
Notional tax on profit before taxation, calculated at Hong Kong Profits Tax rate of 16.5% (2016: 16.5%)	1,699	2,026
Tax effect of non-deductible expenses	240	813
Tax effect of non-taxable income	(3,022)	(402)
Tax effect of different tax rates of subsidiaries	(4,492)	(7,932)
Tax effect of unrecognised temporary differences	1,371	(738)
Tax effect of utilisation of tax losses not recognised previously	(13)	(118)
Tax effect of unused tax losses not recognised	5,338	8,112
Prior years under-provision	76	30
Others	(74)	(79)
Actual tax expense	1,123	1,712

Pursuant to the income tax rules and regulations, the Group is not subject to income tax in Bermuda and the BVI.

No provision for Hong Kong Profits Tax has been made (2016: HK\$Nil) as the Company and subsidiaries incorporated or domiciled in Hong Kong have either no assessable profits or sustained tax losses for taxation purposes during the year.

The subsidiaries incorporated in the PRC are subject to the PRC Enterprise Income Tax rate of 25% for the year (2016: 25%).



Notes to the consolidated financial statements

(Expressed in Hong Kong dollars)

7 DIRECTORS' REMUNERATION

Directors' remuneration disclosed pursuant to section 383 of the Hong Kong Companies Ordinance, Part 2 of the Companies (Disclosure of Information about Benefits of Directors) Regulation and the Listing Rules is as follows:

	Directors' fee		Salaries, allowances and benefits in kind		Retirement scheme contributions		Share-based payments (note 21)		Total	
	2017	2016	2017	2016	2017	2016	2017	2016	2017	2016
	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000
Executive directors										
Sung Kai Hing (Chairman)	1,002	1,002	-	-	18	18	-	-	1,020	1,020
Cheung Kong Cheung	1,002	1,002	-	-	18	18	-	-	1,020	1,020
Independent non-executive directors										
Sun Jian	100	100	-	-	-	-	143	-	243	100
Shao Hanqing	100	100	-	-	-	-	-	-	100	100
Kong Hing Ki	100	100	-	-	-	-	-	-	100	100
	2,304	2,304	-	-	36	36	143	-	2,483	2,340

Note: These represented the estimated value of share options granted to directors under the Company's share option scheme. The value of these share options is measured according to the Group's accounting policies for equity-settled share-based payment transactions as set out in note 2(p)(iii).

The details of these benefits in kind, including the principal terms and number of options granted, are disclosed in note 21.

No emoluments were paid by the Group to the directors as an inducement to join or upon joining the Group as compensation for loss of office during the year (2016: HK\$Nil).

Notes to the consolidated financial statements



(Expressed in Hong Kong dollars)

8 INDIVIDUALS WITH HIGHEST EMOLUMENTS

Of the five individuals with the highest emoluments, two (2016: two) are directors whose emoluments are disclosed in note 7. The aggregate of the emoluments in respect of the other three (2016: three) individuals are as follows:

	2017	2016
	HK\$'000	HK\$'000
Salaries, allowances and benefits in kind	3,092	3,038
Retirement scheme contributions	36	36
	3,128	3,074

The emoluments of the three (2016: three) individuals with the highest emoluments are within the following bands:

	2017	2016
	Number of individuals	Number of individuals
HK\$Nil to HK\$1,000,000	1	1
HK\$1,000,001 to HK\$1,500,000	2	2

9 EARNINGS PER SHARE

The calculation of basic earnings per share is based on the profit attributable to equity shareholders of the Company of HK\$9,174,000 (2016: HK\$10,570,000) and the weighted average number of 806,096,025 (2016: 806,096,025) 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\$9,174,000 (2016: HK\$10,570,000) and the weighted average number of 806,187,759 (2016: 806,798,868) ordinary shares, calculated as follows:

Weighted average number of ordinary shares (diluted)

	2017	2016
Weighted average number of ordinary shares at 31 December	806,096,025	806,096,025
Effect of deemed issue of shares under the Company's share option scheme (note 21)	91,734	702,843
Weighted average number of ordinary shares (diluted) at 31 December	806,187,759	806,798,868



Notes to the consolidated financial statements

(Expressed in Hong Kong dollars)

10 SEGMENT REPORTING

(a) Operating segment information

The Group is principally engaged in the design, manufacture and sale of home furniture products. 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.

	2017		2016	
	Revenues from external customers HK\$'000	Specified non-current assets HK\$'000	Revenues from external customers HK\$'000	Specified non-current assets HK\$'000
Asia (excluding the PRC)	39,099	267	76,420	394
Europe	14,462	-	13,512	-
PRC	174,794	356,895	230,238	345,091
The United States	78,974	-	65,118	-
Others	3,862	-	8,908	-
	311,191	357,162	394,196	345,485

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 customer

Revenue from the major customer that accounted for 10% or more of the Group's total revenue is set out below:

	2017 HK\$'000	2016 HK\$'000
Customer A	62,921	63,837

Notes to the consolidated financial statements



(Expressed in Hong Kong dollars)

11 PROPERTY, PLANT AND EQUIPMENT

	Buildings HK\$'000	Leasehold improvements HK\$'000	Motor vehicles HK\$'000	Office equipment HK\$'000	Plant and machinery HK\$'000	Construction in progress HK\$'000	Total HK\$'000
Cost							
At 1 January 2016	212,275	2,757	6,307	27,590	97,782	24,351	371,062
Exchange realignment	(13,463)	(176)	(201)	(1,742)	(6,264)	(1,544)	(23,390)
Additions	-	78	293	1,446	2,199	966	4,982
Disposals	-	-	(431)	(745)	(10,492)	-	(11,668)
At 31 December 2016	198,812	2,659	5,968	26,549	83,225	23,773	340,986
At 1 January 2017	198,812	2,659	5,968	26,549	83,225	23,773	340,986
Exchange realignment	13,937	188	198	1,850	5,904	1,667	23,744
Additions	-	-	50	848	9,813	-	10,711
Disposals	-	-	(726)	(5)	(10,997)	-	(11,728)
At 31 December 2017	212,749	2,847	5,490	29,242	87,945	25,440	363,713
Accumulated depreciation							
At 1 January 2016	18,636	2,181	4,883	14,274	47,743	-	87,717
Exchange realignment	(1,351)	(141)	(147)	(1,029)	(3,421)	-	(6,089)
Charge for the year	4,057	35	455	3,161	7,885	-	15,593
Written back on disposals	-	-	(343)	(740)	(8,461)	-	(9,544)
At 31 December 2016	21,342	2,075	4,848	15,666	43,746	-	87,677
At 1 January 2017	21,342	2,075	4,848	15,666	43,746	-	87,677
Exchange realignment	1,635	149	141	1,187	3,382	-	6,494
Charge for the year	4,020	42	379	2,883	7,025	-	14,349
Written back on disposals	-	-	(718)	(5)	(7,616)	-	(8,339)
At 31 December 2017	26,997	2,266	4,650	19,731	46,537	-	100,181
Net book value							
At 31 December 2017	<u>185,752</u>	<u>581</u>	<u>840</u>	<u>9,511</u>	<u>41,408</u>	<u>25,440</u>	<u>263,532</u>
At 31 December 2016	<u>177,470</u>	<u>584</u>	<u>1,120</u>	<u>10,883</u>	<u>39,479</u>	<u>23,773</u>	<u>253,309</u>

At 31 December 2017, the Group had pledged its buildings and construction in progress with aggregate carrying amount of HK\$211,192,000 (2016: HK\$201,243,000) to secure general banking facilities granted to the Group (note 18).

The Group's buildings are held for industrial use in the PRC under medium-term leases.



Notes to the consolidated financial statements

(Expressed in Hong Kong dollars)

12 PREPAID LEASE PAYMENTS

The Group's prepaid lease payments comprise leasehold land for industrial use in the PRC under medium-term leases, as follows:

	HK\$'000
Cost	
At 1 January 2016	54,129
Exchange realignment	<u>(3,433)</u>
At 31 December 2016	<u>50,696</u>
At 1 January 2017	50,696
Exchange realignment	<u>3,554</u>
At 31 December 2017	<u>54,250</u>
Accumulated amortisation	
At 1 January 2016	9,195
Exchange realignment	(627)
Charge for the year	<u>1,058</u>
At 31 December 2016	<u>9,626</u>
At 1 January 2017	9,626
Exchange realignment	712
Charge for the year	<u>1,049</u>
At 31 December 2017	<u>11,387</u>
Net book value	
At 31 December 2017	<u><u>42,863</u></u>
At 31 December 2016	<u><u>41,070</u></u>

Notes to the consolidated financial statements



(Expressed in Hong Kong dollars)

12 PREPAID LEASE PAYMENTS (continued)

An analysis for reporting purposes is as follows:

	2017	2016
	HK\$'000	HK\$'000
Current portion	1,085	1,014
Non-current portion	41,778	40,056
	42,863	41,070

Prepaid lease payments are amortised over the term of the leases of 50 years, commencing from 29 June 2007 and expiring on 28 June 2057.

At 31 December 2017, the Group had pledged its leasehold land with carrying amount of HK\$42,863,000 (2016: HK\$41,070,000) to secure general banking facilities granted to the Group (note 18).

The land use rights of the above leasehold land are not allowed to be transferred or leased pursuant to the contracts for grant of the land use rights.

13 GOODWILL

	2017	2016
	HK\$'000	HK\$'000
At 1 January	48,455	52,120
Exchange realignment	3,397	(3,665)
At 31 December	51,852	48,455

Impairment tests for cash-generating units containing goodwill

Goodwill is allocated to the Group's cash-generating unit ("CGU") identified according to the operating segment as follows:

	2017	2016
	HK\$'000	HK\$'000
Upholstered furniture – the PRC	51,852	48,455



Notes to the consolidated financial statements

(Expressed in Hong Kong dollars)

13 GOODWILL (continued)

The recoverable amount of the CGU is determined based on value in use calculations. These calculations use cash flow projections based on financial budgets approved by management covering a five-year period. Cash flows beyond the five-year period were then extrapolated using the estimate rates stated below.

Key assumptions used for value in use calculations:

	2017	2016
Gross margin	15%	18%
Growth rate	3%	3%
Discount rate	6%	5%

Management determined the budgeted gross margin and growth rate based on past performance and its expectation for market development. The growth rate does not exceed the long-term average growth rate for the business in which the CGU operates. The discount rate used is pre-tax rate that reflects current market assessments of the time value of money and the risks specific to the CGU.

During the years ended 31 December 2017 and 2016, management of the Group determined that there are no impairments of the CGU containing goodwill.

14 AVAILABLE-FOR-SALE INVESTMENTS

	2017	2016
	HK\$'000	HK\$'000
Listed equity securities in Hong Kong, at market value	83	61

15 INVENTORIES

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

	2017	2016
	HK\$'000	HK\$'000
Raw materials	7,006	9,091
Work in progress	8,410	10,014
Finished goods	25,917	29,509
Goods in transit	4,611	13,820
	45,944	62,434

Notes to the consolidated financial statements



(Expressed in Hong Kong dollars)

15 INVENTORIES (continued)

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

	2017	2016
	HK\$'000	HK\$'000
Carrying amount of inventories sold	257,681	295,572
Write-down of inventories	9,261	426
Reversal of write-down of inventories	(7,916)	(2,660)
	<u>259,026</u>	<u>293,338</u>

During the year, certain aged inventories were sold and, as a result, a reversal of write-down of inventories of HK\$7,916,000 (2016: HK\$2,660,000) has been recognised and included in cost of inventories sold for the year.

16 TRADE AND OTHER RECEIVABLES

	2017	2016
	HK\$'000	HK\$'000
Trade debtors and bills receivable	43,873	76,351
Less: allowance for doubtful debts (<i>note 16(b)</i>)	(15,728)	(10,659)
	<u>28,145</u>	<u>65,692</u>
Deposits paid for purchase of property, plant and equipment	42,310	3,461
Deposits paid to suppliers	19,645	31,656
Value added tax recoverable	9,646	10,354
Other deposits, prepayments and receivables	39,345	49,612
	<u>110,946</u>	<u>95,083</u>
	<u>139,091</u>	<u>160,775</u>

The amount of the deposits and prepayments expected to be recovered or independent recognised as expense after more than one year is HK\$1,293,000 (2016: HK\$2,139,000). All of the other trade and other receivables are expected to be recovered or recognised as expense within one year.

Included in the other deposits, prepayments and receivables were amounts due from independent business partners of HK\$32,527,000 (2016: HK\$42,328,000), which are unsecured, interest free and repayable on demand.



Notes to the consolidated financial statements

(Expressed in Hong Kong dollars)

16 TRADE AND OTHER RECEIVABLES (continued)

(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:

	2017	2016
	HK\$'000	HK\$'000
Within 3 months	23,318	37,073
3 to 6 months	2,028	6,299
6 to 9 months	2,164	5,772
9 months to 1 year	620	5,082
Over 1 year	15	11,466
	28,145	65,692

Trade debtors and bills receivable are normally due within 30 to 90 days from the date of billing. Further details on the Group's credit policy are set out in note 23(a).

(b) Impairment of trade debtors and bills receivable

Impairment losses in respect of trade debtors and bills receivable are recorded using an allowance account unless the Group is satisfied that recovery of the amount is remote, in which case the impairment loss is written off against trade debtors and bills receivable directly (see note 2(i)(i)).

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

	2017	2016
	HK\$'000	HK\$'000
At 1 January	10,659	10,852
Exchange realignment	1,848	(67)
Impairment loss recognised	4,712	132
Uncollectible amounts written off	(1,491)	(258)
At 31 December	15,728	10,659

Notes to the consolidated financial statements



(Expressed in Hong Kong dollars)

16 TRADE AND OTHER RECEIVABLES (continued)

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

At 31 December 2017, the Group's trade debtors and bills receivable of HK\$15,728,000 (2016: HK\$10,659,000) 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\$15,728,000 (2016: HK\$10,659,000) 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:

	2017	2016
	HK\$'000	HK\$'000
Neither past due nor impaired	25,655	44,607
Less than 3 months past due	2,089	685
3 to 6 months past due	362	3,852
6 months to 1 year past due	24	5,082
More than 1 year past due	15	11,466
	2,490	21,085
	28,145	65,692

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.



Notes to the consolidated financial statements

(Expressed in Hong Kong dollars)

17 TRADE AND OTHER PAYABLES

	2017	2016
	HK\$'000	HK\$'000
Trade creditors and bills payable	93,362	126,724
Accrued charges	13,182	13,087
Receipts in advance	18,762	18,310
Payables for purchase of property, plant and equipment	874	736
Other payables	5,333	17,536
	38,151	49,669
	131,513	176,393

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:

	2017	2016
	HK\$'000	HK\$'000
Within 3 months	61,649	78,913
3 months to 1 year	17,675	36,184
Over 1 year	14,038	11,627
	93,362	126,724

Notes to the consolidated financial statements



(Expressed in Hong Kong dollars)

18 BANK BORROWINGS

The carrying amounts of bank borrowings are analysed as follows:

	2017	2016
	HK\$'000	HK\$'000
Bank loans – secured	86,961	66,912
Trust receipt loans – secured	-	2,900
	86,961	69,812

Represented by:

Current portion		
Due within 1 year	86,961	66,479
Due after 1 year which contain a repayable on demand clause	-	3,333
	86,961	69,812

At 31 December 2017, bank borrowings are repayable as follows:

	2017	2016
	HK\$'000	HK\$'000
Within 1 year	86,961	66,479
After 1 year but within 2 years	-	3,333
	86,961	69,812

The above amounts due are based on the scheduled repayment dates set out in the loan agreements.

Details on the interest rate profile of the Group are set out in note 23(c)(i).

The bank borrowings as at 31 December 2017 are secured by pledge of the Group's buildings and construction in progress (see note 11), legal charge over the Group's medium-term leasehold land outside Hong Kong (see note 12), pledged bank deposits of the Group, and corporate guarantees from the Company.

At 31 December 2017, the Group's banking facilities amounted to approximately HK\$185,274,000 (2016: HK\$192,736,000). The facilities were utilised to the extent of approximately HK\$86,961,000 (2016: HK\$69,812,000).



Notes to the consolidated financial statements

(Expressed in Hong Kong dollars)

18 BANK BORROWINGS (continued)

All of the Group's banking facilities are subject to the fulfilment of covenants, as are commonly found in lending arrangements with financial institutions. If the Group was to breach the covenants the drawn down facilities would become payable on demand. The Group regularly monitors its compliance with these covenants. Further details of the Group's management of liquidity risk are set out in note 23(b). At 31 December 2017 and 2016, none of the covenants relating to drawn down facilities had been breached.

19 INCOME TAX IN THE CONSOLIDATED STATEMENT OF FINANCIAL POSITION

(a) Current taxation in the consolidated statement of financial position

(i) Current tax recoverable represents:

	2017	2016
	HK\$'000	HK\$'000
Hong Kong Profits Tax recoverable	<u>—</u>	<u>188</u>

(ii) Current tax payable represents:

	2017	2016
	HK\$'000	HK\$'000
PRC Enterprise Income Tax payable	<u>547</u>	<u>230</u>

(b) Deferred taxation

At 31 December 2017, the Group has not recognised deferred tax assets in respect of cumulative tax losses of HK\$89,174,000 (2016: HK\$108,007,000) 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\$70,482,000 (2016: HK\$94,532,000) will expire within 5 years and the remaining tax losses of HK\$18,692,000 (2016: HK\$13,475,000) have no expiry date under the current tax legislation.

At 31 December 2017, the Group has unrecognised deferred tax liabilities of HK\$2,415,000 (2016: HK\$2,107,000) in relation to withholding tax on undistributed profits of HK\$48,299,000 (2016: HK\$42,149,000) of the Group's subsidiaries in the PRC as the Group is in a position to control the dividend policies of the PRC subsidiaries and no distribution of such profits is expected to be declared by the PRC subsidiaries in the foreseeable future.

At 31 December 2017, the Group does not have any other material temporary differences between the tax bases of assets and liabilities and their carrying amounts in the consolidated financial statements, and therefore, no provision for deferred tax has been made (2016: HK\$Nil).



20 RETIREMENT BENEFIT SCHEMES

The Group participates a mandatory provident fund scheme (the "MPF Scheme") under the Mandatory Provident Fund Schemes Ordinance for its employees in Hong Kong. The MPF Scheme is a defined contribution retirement scheme administered by independent trustees. Under the MPF Scheme, the Group and its employees are each required to make contributions to the scheme at rates specified in the rules.

The employees of the Group's subsidiaries which operate in the PRC are required to participate in state-managed retirement benefits schemes operated by the PRC government. The relevant PRC subsidiaries are required to contribute a specified percentage of their payroll costs to the relevant schemes to fund the benefits. The only obligation of the Group with respect to the retirement schemes is to pay the ongoing contributions required by the schemes.

21 EQUITY-SETTLED SHARE-BASED TRANSACTIONS

(a) Share option scheme adopted by the Company on 29 May 2009

Pursuant to the written resolution passed by the shareholders of the Company on 29 May 2009, the Company adopted a share option scheme (the "2009 Share Option Scheme"). The purpose of the 2009 Share Option Scheme is to enable the Company to grant options to participants as incentives or rewards for their contribution to the growth of the Group and to provide the Group with a more flexible means to reward, remunerate, compensate and/or provide benefits to the participants. The 2009 Share Option Scheme is valid and effective for a period of 10 years from 29 May 2009.

Under the 2009 Share Option Scheme, the Board may at their discretion grant options to full-time or part-time employees, directors (including executive, non-executive or independent non-executive) and any consultants or advisers (whether professional or otherwise and whether on an employment or contractual or honorary basis or otherwise and whether paid or unpaid), distributors, contractors, suppliers, service providers, agents, customers and business partners of the Company and/or any of its subsidiaries.

The offer of a grant of share options may be accepted by the grantee within 14 days from the date of the offer, upon payment of HK\$1 by way of consideration for the grant. The maximum number of shares which may be issued upon exercise of all outstanding options granted and yet to be exercised under the 2009 Share Option Scheme and any other share option schemes of the Company must not exceed 30% of the issued share capital of the Company from time to time. In addition, the total number of shares which may be issued upon exercise of all options to be granted under the 2009 Share Option Scheme and any other share option schemes of the Company must not exceed 10% of the issued share capital of the Company as at 22 June 2009, being the scheme mandate limit. The Board may seek approval by the shareholders of the Company in general meeting to renew the scheme mandate limit, provided that the total number of shares which may be issued upon exercise of all options to be granted under the 2009 Share Option Scheme and any other share option schemes of the Company in these circumstances must not exceed 10% of the issued share capital of the Company at the date of approval of the renewed limit.



Notes to the consolidated financial statements

(Expressed in Hong Kong dollars)

21 EQUITY-SETTLED SHARE-BASED TRANSACTIONS (continued)

(a) Share option scheme adopted by the Company on 29 May 2009 (continued)

Options previously granted under the 2009 Share Option Scheme and any other share option schemes of the Company (including those outstanding, cancelled, lapsed in accordance with the 2009 Share Option Scheme or any other share option schemes of the Company and exercised options) will not be counted for the purpose of calculating the renewed limit. The Board may seek separate shareholders' approval in general meeting to grant options beyond the scheme mandate limit or the renewed limit provided that the options in excess of the scheme mandate limit or the renewed limit are granted only to the participants specifically identified by the Company before such approval is sought. The total number of shares issued and to be issued upon exercise of the options granted to each participant (including both exercised and outstanding options under the 2009 Share Option Scheme) in any 12-month period must not exceed 1% of the issued share capital of the Company unless approved by the shareholders of the Company in general meetings.

The exercise period of the options granted is determined by the Board and shall not exceed 10 years from the date of the grant. The exercise price of the options is determined by the Board and shall be at least the highest of (i) the closing price per share as stated in the daily quotation sheet of the Stock Exchange on the offer date; (ii) the average closing price per share as stated in the daily quotation sheet of the Stock Exchange for the 5 business days immediately preceding the offer date; and (iii) the nominal value of a share.

Notes to the consolidated financial statements



(Expressed in Hong Kong dollars)

21 EQUITY-SETTLED SHARE-BASED TRANSACTIONS (continued)

(b) The terms and conditions of the grants are as follows, whereby all options are settled by physical delivery of shares:

Date of grant	Number of options	Period during which options are exercisable	Contractual life of options	Tranche	Note
Options to directors:					
2 April 2014	4,800,000	3 April 2014 to 31 December 2016	2.8 years	1	
2 April 2014	7,200,000	3 April 2014 to 31 December 2016	2.8 years	2	
2 April 2014	7,200,000	3 April 2014 to 31 December 2016	2.8 years	3	
7 July 2017	2,000,000	7 July 2017 to 6 July 2018	1 year	12	
Options to employees:					
2 April 2014	19,200,000	3 April 2014 to 31 December 2016	2.8 years	1	
2 April 2014	10,800,000	3 April 2014 to 31 December 2016	2.8 years	2	
2 April 2014	10,800,000	3 April 2014 to 31 December 2016	2.8 years	3	
10 June 2014	27,000,000	11 June 2014 to 31 December 2016	2.6 years	4	
10 June 2014	27,000,000	11 June 2014 to 31 December 2016	2.6 years	5	
19 June 2014	6,000,000	20 June 2014 to 31 December 2016	2.5 years	6	
19 June 2014	6,000,000	20 June 2014 to 31 December 2016	2.5 years	7	
28 May 2015	10,000,000	4 September 2015 to 31 December 2017	2.3 years	8	(i)
28 May 2015	10,000,000	4 September 2015 to 31 December 2017	2.3 years	9	(i)
9 June 2015	3,730,000	4 September 2015 to 31 December 2017	2.3 years	10	(i)
9 June 2015	3,730,000	4 September 2015 to 31 December 2017	2.3 years	11	(i)
Options to suppliers and consultants:					
10 June 2014	3,000,000	11 June 2014 to 31 December 2016	2.6 years	4	
10 June 2014	3,000,000	11 June 2014 to 31 December 2016	2.6 years	5	
9 June 2015	5,270,000	4 September 2015 to 31 December 2017	2.3 years	10	(i)
9 June 2015	12,500,000	31 December 2015 to 31 December 2017	2.0 years	10	(i)*
9 June 2015	5,270,000	4 September 2015 to 31 December 2017	2.3 years	11	(i)
9 June 2015	12,500,000	31 December 2015 to 31 December 2017	2.0 years	11	(i)*
Total	<u>197,000,000</u>				



Notes to the consolidated financial statements

(Expressed in Hong Kong dollars)

21 EQUITY-SETTLED SHARE-BASED TRANSACTIONS (continued)

(b) The terms and conditions of the grants are as follows, whereby all options are settled by physical delivery of shares: (continued)

Note (i): A total of 20,000,000 and 43,000,000 share options were granted on 28 May 2015 and 9 June 2015 respectively. Of these, 25,000,000 share options (as indicated (i)* above) granted on 9 June 2015 to suppliers were subsequently forfeited on 21 August 2015. No expense was recognised for these share options as they do not ultimately vest because the suppliers were unable to perform the agreed services.

For the remaining 38,000,000 share options, the Company has subsequently modified the terms on 4 September 2015 by reducing the exercise price from HK\$0.58 to HK\$0.31 and changing the exercisable period from "31 December 2015 to 31 December 2017" to "4 September 2015 to 31 December 2017". As such, the Group recognised a total expense of HK\$6,695,000 in relation of the original share options granted; and a further expense of HK\$1,047,000, being the incremental fair value granted as a result of the modifications.

(c) The number and weighted average exercise prices of the share options are as follows:

	2017		2016	
	Weighted average exercise price HK\$	Number of share options	Weighted average exercise price HK\$	Number of share options
Outstanding at beginning of the year	-	-	0.4329	91,100,000
Granted during the year	0.56	2,000,000	N/A	-
Lapsed during the year	N/A	N/A	0.4329	(91,100,000)
Outstanding at end of the year	0.56	2,000,000	-	-
Exercisable at end of the year	0.56	2,000,000	-	-

The weighted average share price at the date of exercise for share options exercised during the year ended 31 December 2017 was HK\$0.56.

The options outstanding at 31 December 2017 had an exercise price of HK\$0.56 and a weighted average remaining contractual life of 0.5 year.

There were neither share options exercised during the year ended 31 December 2016 nor outstanding as at 31 December 2016.



(Expressed in Hong Kong dollars)

21 EQUITY-SETTLED SHARE-BASED TRANSACTIONS (continued)

(d) Fair value of share options and assumptions

The fair value of services received in return for share options granted is measured by reference to the fair value of share options granted. The estimate of the fair value of the share options granted is measured based on the binomial lattice model. The contractual life of the share option is used as an input into this model. Expectations of early exercise are incorporated into the model.

Date of grant	7 July 2017
Fair value of measurement date	HK\$0.072
Share price	HK\$0.550
Exercise price	HK\$0.560
Expected volatility (expressed as weighted average volatility used in the modelling under binominal lattice model)	37%
Option life (expressed as weighted average volatility used in the modelling of binomial lattice model)	1 year
Expected dividends	0%
Risk free interest rate (based on Hong Kong Exchange Fund Notes)	0.56%

22 SHARE CAPITAL, DIVIDENDS AND RESERVES

(a) Share capital

(i) Authorised and issued share capital

	2017		2016	
	Number of ordinary shares of HK\$0.01 each	Amount HK\$'000	Number of ordinary shares of HK\$0.01 each	Amount HK\$'000
Authorised:				
At 31 December	<u>3,000,000,000</u>	<u>30,000</u>	<u>3,000,000,000</u>	<u>30,000</u>
Issued and fully paid:				
At 31 December	<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.



Notes to the consolidated financial statements

(Expressed in Hong Kong dollars)

22 SHARE CAPITAL, DIVIDENDS AND RESERVES (continued)

(a) Share capital (continued)

(ii) *Terms of unexpired and unexercised share options as at 31 December 2017*

Exercisable period	Exercise price	Number
7 July 2017 to 6 July 2018	<u>HK\$0.56</u>	<u>2,000,000</u>

Each option entitles the holder to subscribe for one ordinary share in the Company. Further details of these options are set out in note 21.

(b) Dividends

The directors do not recommend the payment of a dividend in respect of the year ended 31 December 2017 (2016: HK\$Nil).

(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.

(ii) *Exchange reserve*

The exchange reserve comprises all foreign exchange differences arising from the translation of the financial statements of operations outside Hong Kong which are dealt with in accordance with the accounting policies as set out in note 2(u).

(iii) *Statutory reserve fund*

Subsidiaries in the PRC are required to transfer 10% of the net profits, as determined in accordance with the PRC accounting rules and regulations, to statutory reserve fund until the reserve balance reaches 50% of the registered capital. The transfer of this fund must be made before distribution of dividends to equity holders.

The statutory reserve fund can be used to make good of previous years' losses, if any, and may be converted into capital provided that the balance of the general reserve fund after such conversion is not less than 25% of their registered capital.

(iv) *Merger reserve*

The Group's merger reserve represents the difference between the aggregate net assets of the subsidiaries acquired by the Group and the nominal amount of the Company's shares issued under the 2004 Reorganisation.



22 SHARE CAPITAL, DIVIDENDS AND RESERVES (continued)

(c) Nature and purpose of reserves (continued)

(v) *Share option reserve*

The share option reserve comprises the fair value of share options granted which are yet to be exercised, as further explained in the accounting policy as set out in note 2(q). The amount will either be transferred to the share premium account where the related options are exercised, or be transferred to retained profits where the related options expired or are forfeited.

(vi) *Fair value reserve*

The fair value reserve comprises the cumulative net changes in the fair value of available-for-sale securities held at the end of the reporting period and is dealt with in accordance with the accounting policies in notes 2(e) and 2(i)(i).

(vii) *Capital reserve*

The capital reserve represents the excess of the fair value of consideration paid for acquisition of additional interest in a non-wholly owned subsidiary over the decrease in the carrying amount of the non-controlling interest.

(d) Distributability of reserves

At 31 December 2017, the aggregate amount of reserves available for distribution to equity shareholders of the Company was HK\$268,427,000 (2016: HK\$270,102,000), being the aggregate of the share premium and retained profits of the Company. The Company's share premium account in the amount of HK\$175,384,000 (2016: HK\$175,384,000) may be distributed in the form of fully paid bonus shares only.

(e) Capital management

The Group manages its capital to ensure that entities in the Group will be able to continue as a going concern while maximising the return to stakeholders through maintaining healthy capital ratio.

The capital structure of the Group consists of available-for-sale investments, derivative financial instruments, cash and cash equivalents, secured bank loans and equity attributable to equity shareholders of the Company, comprising issued share capital, reserves and retained profits as disclosed in the consolidated statement of changes in equity.

The directors review the capital structure on an annual basis. As a part of this review, management considers the cost of capital, the changes in economic conditions and the risk characteristics of each class of capital. The directors will balance the Group's overall capital structure through the payment of dividends and new share issues.

The Group's overall strategy remained unchanged during the year.



Notes to the consolidated financial statements

(Expressed in Hong Kong dollars)

23 FINANCIAL RISK MANAGEMENT AND FAIR VALUES OF FINANCIAL INSTRUMENTS

Exposure to credit, liquidity, interest rate and currency risks arises in the normal course of the Group's business. The Group is also exposed to equity price risk arising from its equity investments.

The Group does not have any written risk management policies and guidelines. The directors monitor the financial risk management of the Group and take measures as considered necessary from time to time to minimise such financial risks.

(a) Credit risk

Credit risk arises from the possibility that customers may not be able to settle obligations within the normal terms of transactions. The Group performs ongoing credit evaluation of the debtors' financial condition and maintains an account for allowance for doubtful debts based upon the expected collectibles of all trade and other receivables. At 31 December 2017, the Group had a certain concentration of credit risk as 29% (2016: 15%) and 82% (2016: 41%) of the total trade receivables was from the largest customer and five largest customers respectively.

The maximum exposure to credit risk is therefore represented by the carrying amount of each financial asset as stated in the consolidated statement of financial position.

(b) Liquidity risk

The Group's policy is to regularly monitor current and expected liquidity requirements and its compliance with lending covenants, to ensure that it maintains sufficient reserves of cash and adequate committed lines of funding from major financial institutions to meet its liquidity requirements in the short and longer term.

The following table details the remaining contractual maturities at the end of the reporting period of the Group's financial liabilities, which are based on contractual undiscounted cash flows (including interest payments computed using contractual rates or, if floating, based on rates current at the end of the reporting period) and the earliest date the Group can be required to pay.

Specifically, for term loans which contain a repayment on demand clause which can be exercised at the bank's sole discretion, the analysis shows the cash outflow based on the earliest period in which the entity can be required to pay, that is if the lenders were to invoke their unconditional rights to call the loans with immediate effect. The maturity analysis for other bank loans is prepared based on the scheduled repayment dates.

Notes to the consolidated financial statements



(Expressed in Hong Kong dollars)

23 FINANCIAL RISK MANAGEMENT AND FAIR VALUES OF FINANCIAL INSTRUMENTS (continued)

(b) Liquidity risk (continued)

	2017				2016			
	Total contractual carrying amount	Within 1 year or on cash flow	More than 1 year but less than 2 years	HK\$'000	Total contractual carrying amount	Within 1 year or on cash flow	More than 1 year but less than 2 years	HK\$'000
Trade and other payables	112,751	112,751	112,751	-	158,083	158,083	158,083	-
Bank borrowings	86,961	88,097	88,097	-	69,812	70,517	70,517	-
	199,712	200,848	200,848	-	227,895	228,600	228,600	-

The following table summarises the maturity analysis of bank loans with a repayment on demand clause based on agreed scheduled repayments set out in the loan agreements. Taking into account the financial position of the Group, the directors do not consider that it is probable that the bank will exercise its discretion to demand immediate repayment. The directors believe that such term loans will be repaid in accordance with the scheduled repayment dates set out in the loan agreements.

	2017				2016			
	Total contractual carrying amount	Within 1 year or on cash flow	More than 1 year but less than 2 years	HK\$'000	Total contractual carrying amount	Within 1 year or on cash flow	More than 1 year but less than 2 years	HK\$'000
Trade and other payables	112,751	112,751	112,751	-	158,083	158,083	158,083	-
Bank borrowings	86,961	88,097	88,097	-	69,812	70,517	67,139	3,378
	199,712	200,848	200,848	-	227,895	228,600	225,222	3,378



Notes to the consolidated financial statements

(Expressed in Hong Kong dollars)

23 FINANCIAL RISK MANAGEMENT AND FAIR VALUES OF FINANCIAL INSTRUMENTS (continued)

(c) Interest rate risk

Cash flow interest rate risk is the risk that future cash flows of a financial instrument will fluctuate because of changes in market interest rates. Fair value interest rate risk is the risk where the value of a financial instrument will fluctuate due to changes in market interest rates.

Interest-earning financial assets include mainly deposits with banks and cash at banks ("bank deposits"). Interest-bearing financial liabilities include mainly bank borrowings. The Group currently does not have any interest rate hedging policy and will consider enter into interest rate hedging should the need arise. The Group ensures that it borrows at competitive interest rates under favourable terms and conditions. The financial instruments of the Group that are exposed to interest rate risk are disclosed in note 18.

(i) Interest rate profile

The following table details the interest rate profile of the Group's interest-earning financial assets and interest-bearing financial liabilities at the end of the reporting period.

	2017		2016	
	Effective interest rate	HK\$'000	Effective interest rate	HK\$'000
Fixed rate deposits:				
Bank deposits	2.90%	13,005	3.25%–3.30%	11,808
Variable rate deposits:				
Bank deposits	0.36%	44,092	0.34%	27,424
Variable rate borrowings:				
Bank borrowings	4.92%	(86,961)	4.56%	(69,812)
Net variable rate borrowings		(42,869)		(42,388)
Net borrowings		(29,864)		(30,580)

(ii) Sensitivity analysis

At 31 December 2017, it is estimated that a general increase/decrease of 100 basis points in interest rates, with all other variables held constant, would have decreased/increased the Group's profit after tax and retained profits by approximately HK\$358,000 (2016: HK\$354,000).



23 FINANCIAL RISK MANAGEMENT AND FAIR VALUES OF FINANCIAL INSTRUMENTS (continued)

(c) Interest rate risk (continued)

(ii) Sensitivity analysis (continued)

The sensitivity analysis above has been determined assuming that the change in interest rates had occurred at the end of the reporting period and had been applied to the exposure to interest rate risk for financial instruments in existence at that date. The 100 basis point increase or decrease represents management's assessment of a reasonably possible change in interest rates over the period until the end of the next annual reporting period. The analysis is performed on the same basis for 2016.

(d) Foreign currency risk

Foreign currency risk is the risk that the value or future cash flows of a financial instrument will fluctuate due to changes in foreign exchange rates.

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

The following table details the Group's exposure at the end of the reporting period to foreign currency risk arising from recognised assets or liabilities denominated in a currency other than the functional currency of the operations to which they relate. For presentation purposes, the amounts of the exposure are shown in Hong Kong dollars, translated using the spot rate at the end of the reporting period.



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(Expressed in Hong Kong dollars)

23 FINANCIAL RISK MANAGEMENT AND FAIR VALUES OF FINANCIAL INSTRUMENTS (continued)

(d) Foreign currency risk (continued)

	2017			2016		
	Denominated in			Denominated in		
	Hong Kong dollars	Renminbi	United States dollars	Hong Kong dollars	Renminbi	United States dollars
	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000
Trade and other receivables	-	-	12,984	-	-	14,213
Cash and cash equivalents	23,708	18,778	12,055	5,981	17,493	5,312
Trade and other payables	-	-	(2,315)	-	-	(1,247)
Bank borrowings	(28,333)	-	-	(26,667)	-	-
Net exposure arising from recognised assets/(liabilities)	<u>(4,625)</u>	<u>18,778</u>	<u>22,724</u>	<u>(20,686)</u>	<u>17,493</u>	<u>18,278</u>

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

(e) Equity price risk

The Group is not exposed to significant equity price changes arising from available-for-sale equity investments (see note 14) as the amount involved is not material to the Group.

(f) Fair value measurement

(i) *Financial assets and liabilities measured at fair value:*

Fair value hierarchy

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



23 FINANCIAL RISK MANAGEMENT AND FAIR VALUES OF FINANCIAL INSTRUMENTS (continued)

(f) Fair value measurement (continued)

(i) *Financial assets and liabilities measured at fair value: (continued)*

Fair value hierarchy (continued)

- 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

The fair value measurement for the Group's available-for-sale investments is categorised under Level 3 of the fair value hierarchy.

There were no transfers between levels of fair value hierarchy during the years ended 31 December 2017 and 2016.

(ii) *Financial assets and liabilities carried at other than fair value*

The carrying amounts of financial assets and liabilities (including trade debtors and bills receivable, deposits and other receivables, pledged bank deposits, cash and cash equivalents, trade creditors and bills payable, and other payables and accrued charges) are assumed to approximate their fair values.

The fair value of non-trade balances due from/to subsidiaries has not been determined as the timing of the expected cash flows of these balances cannot be reasonably determined because of the relationship.



Notes to the consolidated financial statements

(Expressed in Hong Kong dollars)

24 RECONCILIATION OF LIABILITIES ARISING FROM FINANCING ACTIVITIES

The table below details changes in the Group's liabilities arising from financing activities, including cash and non-cash changes. Liabilities arising from financing activities are those for which cash flows were, or future cash flows will be, classified in the Group's consolidated statement of cash flows from financing activities.

	2017 Bank borrowings HK\$'000 (note 18)	2016 Bank borrowings HK\$'000 (note 18)
At 1 January	69,812	37,067
Changes from financing cash flows:		
Proceeds from new bank borrowings	98,619	84,900
Repayment of bank borrowings	(84,310)	(52,029)
Interest on bank borrowings	(3,179)	(2,663)
Total changes from financing cash flows	11,130	30,208
Exchange realignment	2,840	(126)
Other change:		
Interest on bank borrowings (note 5(a))	3,179	2,663
Total other change	3,179	2,663
At 31 December	86,961	69,812

25 COMMITMENTS

(a) Capital commitments outstanding as at 31 December 2017 not provided for in the consolidated financial statements are as follows:

	2017 HK\$'000	2016 HK\$'000
Contracted for:		
– Construction of factory building	47,359	44,257
– Purchase of property, plant and equipment	4,335	1,613
	51,694	45,870
Authorised but not contracted for:		
– Construction of factory building	62,599	58,499

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(Expressed in Hong Kong dollars)

25 COMMITMENTS (continued)

- (b) At 31 December 2017, the total future minimum lease payments under non-cancellable operating leases are payable as follows:

	2017 HK\$'000	2016 HK\$'000
Within 1 year	4,590	3,898
After 1 year but within 5 years	8,012	10,842
	12,602	14,740

The Group is the lessee in respect of a number of properties held under operating leases. The leases typically run for an initial period of 1 to 10 years, with an option to renew the lease when all terms are renegotiated. Lease payments are usually increased every 1 to 5 years to reflect market rentals. None of the leases includes contingent rentals.

26 CONTINGENT LIABILITIES

At 31 December 2017, the Group has contingent liabilities in respect of a performance guarantee of HK\$2,870,000 (2016: HK\$Nil) issued by a bank in favour of a customer. Such performance guarantee is secured by the Group's pledged bank deposit of HK\$2,870,000 (2016: HK\$Nil).

At 31 December 2017, the Company has contingent liabilities in respect of guarantees given for banking facilities granted to certain subsidiaries to the extent of HK\$182,385,000 (2016: HK\$141,840,000). These facilities were utilised to the extent of HK\$54,063,000 (2016: HK\$40,746,000) as at 31 December 2017.

27 MATERIAL RELATED PARTY TRANSACTIONS

Remuneration for key management personnel of the Group, including amounts paid to the Company's directors as disclosed in note 7 and certain of the highest paid employees as disclosed in note 8, is as follows:

	2017 HK\$'000	2016 HK\$'000
Short-term employee benefits	5,396	5,342
Post-employment benefits	72	72
Share-based payments	143	–
	5,611	5,414

Total remuneration is included in "staff costs" (see note 5(b)).

Save as disclosed elsewhere in these consolidated financial statements, the Group did not have any material related party transactions during the years ended 31 December 2017 and 2016.



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(Expressed in Hong Kong dollars)

28 SUBSIDIARIES

Details of the subsidiaries as at 31 December 2017 and 2016 are as follows:

Name of company	Place of incorporation and registration	Particulars of issued and paid-up share capital/ registered capital	Proportion of Group's ownership interest		Principal activities
			2017	2016	
Directly held by the Company					
Great Ample Holdings Limited	BVI	22,001 shares of US\$1 each	100%	100%	Investment holding
Indirectly held by the Company					
Glory Skill Investments Limited	BVI	4,961 shares of US\$1 each	100%	100%	Investment holding
Springrich Investments Limited	BVI	1 share of US\$1	100%	100%	Investment holding
Success Profit International Limited	BVI	12,001 shares of US\$1 each	100%	100%	Investment holding
Hing Lee (China) Company Limited	Hong Kong	18,010,000 shares (HK\$18,010,000)	100%	100%	Investment holding and provision of management services
Hing Lee Furniture Company Limited	BVI	1 share of US\$1	100%	100%	Trading of furniture
Sharp Motion Worldwide Limited	BVI	4 shares of US\$1 each	100%	100%	Trademark holding/licensing
Hing Lee Ideas Limited	Malaysia	1 share of US\$1	100%	100%	Dormant
Hong Kong Hing Lee Furniture Group Limited	BVI	1 share of US\$1	100%	100%	Dormant
Hing Lee Furniture Group Limited	Hong Kong	3 shares (HK\$3)	100%	100%	Trading of furniture
Hander International Limited	Hong Kong	100 shares (HK\$100)	100%	100%	Investment holding

Notes to the consolidated financial statements

(Expressed in Hong Kong dollars)



28 SUBSIDIARIES (continued)

Name of company	Place of incorporation and registration	Particulars of issued and paid-up share capital/ registered capital	Proportion of Group's ownership interest		Principal activities
			2017	2016	
Hanmix Limited	Hong Kong	1 share (HK\$1)	100%	100%	Investment holding
Astromax Investment Limited	BVI	100 shares of US\$1 each	100%	100%	Investment holding
City Leading Limited	Hong Kong	1 share (HK\$1)	100%	100%	Trading of sofa
深圳興利尊典家具有限公司 (Shenzhen Xingli Zundian Furniture Company Limited) (note (i))	PRC	RMB40,000,000	100%	100%	Design, manufacture, sale and marketing of home furniture
深圳興利家具有限公司 (Shenzhen Xingli Furniture Company Limited) (note (i))	PRC	RMB73,500,000	100%	100%	Design, manufacture, sale and marketing of home furniture
東莞興展家具有限公司 (Dongguan Super Furniture Company Limited) (note (i) and (iii))	PRC	US\$1,680,000	-	100%	Manufacture and sale of bed mattresses
深圳歐羅家具有限公司 (Shenzhen Ouluo Furniture Company Limited) (note (i))	PRC	RMB8,500,000	100%	100%	Manufacture and sale of sofa
深圳興利尊典摩高家具有限公司 (Shenzhen Xingli Zundian Mogao Furniture Company Limited) (note (i))	PRC	Registered: RMB1,000,000 Paid up: RMB150,000	100%	100%	Not yet commenced business
深圳興利澳瑪家具有限公司 (Shenzhen Xingli Aoma Furniture Company Limited) (note (i))	PRC	Registered: RMB1,000,000 Paid up: RMB150,000	100%	100%	Not yet commenced business



Notes to the consolidated financial statements

(Expressed in Hong Kong dollars)

28 SUBSIDIARIES (continued)

Notes:

- (i) These companies are limited liability company established in the PRC and their official names are in Chinese. The English company names are for reference only.
- (ii) Deregistered during the year ended 31 December 2017.

29 FINANCIAL INFORMATION OF THE COMPANY

(a) Statement of financial position

	2017	2016
	HK\$'000	HK\$'000
Non-current assets		
Investment in a subsidiary	276,254	156
Current assets		
Dividend receivable from a subsidiary	-	161,175
Amounts due from subsidiaries	932	125,932
Current tax recoverable	-	188
Cash and cash equivalents	2,888	339
	3,820	287,634
Current liabilities		
Other payables and accrued charges	1,068	826
Amounts due to subsidiaries	2,375	8,801
	3,443	9,627
Net current assets	377	278,007
NET ASSETS	276,631	278,163
CAPITAL AND RESERVES		
Share capital	8,061	8,061
Reserves	268,570	270,102
TOTAL EQUITY	276,631	278,163

Notes to the consolidated financial statements



(Expressed in Hong Kong dollars)

29 FINANCIAL INFORMATION OF THE COMPANY (continued)

(b) Details of changes in the Company's individual components of reserve during the year:

	Share capital	Share premium	Share option reserve	Retained profits	Total
	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000
	<i>(note 22(a))</i>	<i>(note 22(c)(i))</i>	<i>(note 22(c)(v))</i>		
Balance at 1 January 2016	8,061	175,384	8,463	87,692	279,600
Changes in equity for 2016:					
Loss and total comprehensive loss for the year	–	–	–	(1,437)	(1,437)
Transfer on lapse of share options	–	–	(8,463)	8,463	–
Balance at 31 December 2016 and at 1 January 2017	8,061	175,384	–	94,718	278,163
Changes in equity for 2017:					
Loss and total comprehensive loss for the year	–	–	–	(1,675)	(1,675)
Equity-settled share-based payment transactions	–	–	143	–	143
Balance at 31 December 2017	<u>8,061</u>	<u>175,384</u>	<u>143</u>	<u>93,043</u>	<u>276,631</u>

30 CRITICAL ACCOUNTING JUDGEMENTS AND ESTIMATES

Estimates and judgements are continually evaluated and are based on historical experience and other factors, including expectations of future events that are believed to be reasonable under the circumstances.

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



30 CRITICAL ACCOUNTING JUDGEMENTS AND ESTIMATES (continued)

(i) Impairment of goodwill

Determining whether goodwill is impaired requires an estimation of the value in use of the cash-generating unit to which goodwill has been allocated. The value in use calculation requires the directors to estimate the future cash flows expected to arise from the cash-generating unit and a suitable discount rate in order to calculate present value.

(ii) Impairment of property, plant and equipment

If the circumstances indicate that the carrying values of these assets may not be recoverable, the assets may be considered "impaired", and an impairment loss may be recognised in accordance with HKAS 36 Impairment of assets. Under HKAS 36, these assets are tested for impairment whenever events or changes in circumstances indicate that their recorded carrying amounts may not be recoverable. When such a decline has occurred, the carrying amount is reduced to recoverable amount. The recoverable amount is the greater of its fair value less costs of disposal and the value in use. In determining the value in use, expected cash flows generated by the asset are discounted to their present value, which requires significant judgement relating to level of sales volume, selling prices and amount of operating costs. The Group uses all readily available information in determining an amount that is a reasonable approximation of recoverable amount, including estimates based on reasonable and supportable assumptions and projections of sales volume, selling prices and amount of operating costs. However, actual sales volumes, selling prices and operating costs may be different from assumptions which may require a material adjustment to the carrying amount of the assets affected.

(iii) Useful lives of property, plant and equipment

The Group's management determines the estimated useful lives and related depreciation charges for its property, plant and equipment. Management will revise the depreciation charge where useful lives are different to previously estimated, or will write-off or write-down technically obsolete or non-strategic assets that have been abandoned or sold.

(iv) Net realisable value of inventories

Inventories are carried at the lower of cost and net realisable value. The cost of inventories is written down to net realisable value when there is an objective evidence that the cost of inventories may not be recoverable. The cost of inventories may not be recovered if those inventories are damaged, if they have become wholly or partially obsolete, or if their selling prices have declined. The cost of inventories may not also be recoverable if the estimated costs to be incurred to make the sales have increased. The amount written off to profit or loss is the difference between the carrying value and net realisable value of the inventories. In determining whether the cost of inventories can be recoverable, significant judgement is required. In making this judgement, the Group evaluates, among other factors, the duration and extent by all means to which the amount will be recovered.



30 CRITICAL ACCOUNTING JUDGEMENTS AND ESTIMATES (continued)

(v) Estimated allowance for receivables

Management regularly reviews the recoverability of trade and other receivables. Allowance for these receivables is made based on the evaluation of collectability and on management's judgement by reference to the estimation of the future cash flows discounted at the effective interest rate to calculate the present value.

A considerable amount of judgement is required in assessing the ultimate realisation of these debtors, including their current creditworthiness. If the actual future cash flows were less than expected, additional allowance may be required.

(vi) Income tax provision

Determining income tax provisions involves judgement on the future tax treatment of certain transactions. The Group carefully evaluates tax implications of transactions, and tax provisions are made accordingly. The tax treatment of transactions is assessed periodically to include the effect of all changes in tax legislation and practices.

31 POSSIBLE IMPACT OF AMENDMENTS, NEW STANDARDS AND INTERPRETATIONS ISSUED BUT NOT YET EFFECTIVE FOR THE YEAR ENDED 31 DECEMBER 2017

Up to the date of issue of these consolidated financial statements, the HKICPA has issued a number of amendments, new standards and interpretations which are not yet effective for the year ended 31 December 2017 and which have not been adopted in these consolidated financial statements. These include the following which may be relevant to the Group:

HKFRS 9	Financial instruments ¹
HKFRS 15	Revenue from contracts with customers ¹
HKFRS 16	Leases ²
Amendments to HKFRS 2	Share-based payment: Classification and measurement of share-based payment transactions ¹
HK(IFRIC) 22	Foreign currency transactions and advance consideration ¹
HK(IFRIC) 23	Uncertainty over income tax treatments ²

¹ Effective for annual periods beginning on or after 1 January 2018.

² 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, new standards and interpretations is expected to be in the period of initial application. So far it has concluded that the adoption of them will not have a significant impact on the Group's financial position and performance. Further details of adoption of HKFRS 9, HKFRS 15 and HKFRS 16 are discussed below.



Notes to the consolidated financial statements

(Expressed in Hong Kong dollars)

31 POSSIBLE IMPACT OF AMENDMENTS, NEW STANDARDS AND INTERPRETATIONS ISSUED BUT NOT YET EFFECTIVE FOR THE YEAR ENDED 31 DECEMBER 2017 (continued)

HKFRS 9 “Financial instruments”

HKFRS 9 will replace the current standard on accounting for financial instruments, HKAS 39 “Financial instruments: Recognition and measurement”. HKFRS 9 introduces revised guidance on the classification and measurement of financial instruments, a new expected credit loss model for calculating impairment of financial assets and new general hedge accounting requirements. HKFRS 9 also incorporates without substantive changes the requirements of HKAS 39 for recognition and derecognition of financial instruments and the classification of financial liabilities.

Based on the assessment so far, the Group considers that the initial adoption of HKFRS 9 will not have a significant impact on the Group’s financial position and performance.

HKFRS 15 “Revenue from contracts with customers”

HKFRS 15 establishes a single comprehensive model for recognising revenue from contracts with customers. HKFRS 15 will replace the current revenue standards, HKAS 18 “Revenue” and HKAS 11 “Construction Contracts” and the related interpretations when it becomes effective.

The core principle of HKFRS 15 is that an entity should recognise revenue to depict the transfer of promised goods or services to customers in an amount that reflects the consideration to which the entity expects to be entitled in exchange for those goods or services. Specifically, the standard introduces a 5-step approach to revenue recognition:

- Step 1: Identify the contract(s) with a customer
- Step 2: Identify the performance obligations in the contract
- Step 3: Determine the transaction price
- Step 4: Allocate the transaction price to the performance obligations in the contract
- Step 5: Recognise revenue when (or as) the entity satisfies a performance obligation

Under HKFRS 15, an entity recognises revenue when (or as) a performance obligation is satisfied, i.e. when “control” of goods or services underlying the particular performance obligation is transferred to the customer. Far more prescriptive guidance has been added in HKFRS 15 to deal with specific scenarios. Furthermore, extensive disclosures are required by HKFRS 15.

In 2016, the HKICPA issued Clarifications to HKFRS 15 in relation to the identification of performance obligations, principal versus agent considerations, as well as licensing application guidance.



(Expressed in Hong Kong dollars)

31 POSSIBLE IMPACT OF AMENDMENTS, NEW STANDARDS AND INTERPRETATIONS ISSUED BUT NOT YET EFFECTIVE FOR THE YEAR ENDED 31 DECEMBER 2017 (continued)

HKFRS 15 “Revenue from contracts with customers” (continued)

Based on preliminary analysis, the Group anticipates that the adoption of HKFRS 15 in the future will have no significant impact on recognition of revenue from sale of goods and licencing.

HKFRS 16 “Leases”

HKFRS 16 is not expected to impact significantly on the way that lessors account for their right and obligations under a lease. However, once HKFRS 16 is adopted, lessees will no longer distinguish between finance leases and operating leases. Instead, subject to practical expedients, lessees will account for all leases in a similar way to current finance lease accounting, i.e. at the commencement date of the lease the lessee will recognise and measure a lease liability at the present value of the minimum future lease payments and will recognise a corresponding “right-of-use” asset. After initial recognition of this asset and liability, the lessee will recognise interest expense accrued on the outstanding balance of the lease liability, and the depreciation of the right-of-use asset, instead of the current policy of recognising rental expenses incurred under operating leases on a systematic basis over the lease term. As a practical expedient, the lessee can elect not to apply this accounting model to short-term leases (i.e. where the lease term is 12 months or less) and to leases of low-value assets, in which case the rental expenses would continue to be recognised on a systematic basis over the lease term.

HKFRS 16 will primarily affect the Group’s accounting as a lessee of leases for properties which are currently classified as operating leases. The application of the new accounting model is expected to lead to an increase in both assets and liabilities and to impact on the timing of the expense recognition in the consolidated statement of profit or loss over the period of the lease. As disclosed in note 25(b), the Group’s future minimum lease payments under non-cancellable operating leases for properties amounted to HK\$12,602,000 for properties as at 31 December 2017. Some of these amounts may therefore need to be recognised as lease liabilities, with corresponding right-of-use assets, once HKFRS 16 is adopted. The Group will need to perform a more detailed analysis to determine the amounts of new assets and liabilities arising from operating lease commitments on adoption of HKFRS 16, after taking into account the applicability of the practical expedient and adjusting for any leases entered into or terminated between now and the adoption of HKFRS 16 and the effects of discounting.