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

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

(Stock code: 396)

## **INTERIM RESULTS FOR THE SIX MONTHS ENDED 30 JUNE 2018**

### **INTERIM RESULTS**

The board of directors (each a “Director”, collectively the “Board”) of Hing Lee (HK) Holdings Limited (the “Company”) is pleased to announce the unaudited condensed consolidated interim results of the Company and its subsidiaries (the “Group”) for the six months ended 30 June 2018 with comparative figures for the corresponding period in 2017.

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

**(Unaudited)**

**Six months ended 30 June**

	<i>Notes</i>	<b>2018</b> <i>HK\$'000</i>	2017 <i>HK\$'000</i>
<b>Turnover</b>	3	<b>136,235</b>	139,233
Cost of sales		<u>(104,284)</u>	<u>(108,664)</u>
<b>Gross profit</b>		<b>31,951</b>	30,569
Other net income		<b>1,160</b>	3,258
Selling and distribution expenses		<b>(13,805)</b>	(14,523)
Administrative expenses		<u>(15,266)</u>	<u>(13,350)</u>
<b>Profit from operations</b>		<b>4,040</b>	5,954
Finance costs		<u>(1,517)</u>	<u>(1,608)</u>
<b>Profit before taxation</b>	4	<b>2,523</b>	4,346
Income tax	5	<u>(275)</u>	<u>(164)</u>
<b>Profit for the period</b>		<u><b>2,248</b></u>	<u>4,182</u>
<b>Attributable to:</b>			
Equity shareholders of the Company		<u><b>2,248</b></u>	<u>4,182</u>
		<i>(HK cents)</i>	<i>(HK cents)</i>
<b>Earnings per share attributable to the equity holders of the Company</b>			
– basic	6	<b>0.28</b>	0.52
– diluted	6	<b>0.28</b>	0.52
		<i>HK\$'000</i>	<i>HK\$'000</i>
<b>Dividend</b>	7	<u><b>–</b></u>	<u>–</u>

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

	(Unaudited)	
	Six months ended 30 June	
	2018	2017
	<i>HK\$'000</i>	<i>HK\$'000</i>
<b>Profit for the period</b>	<b>2,248</b>	4,182
<b>Other comprehensive income/(loss)</b>		
Items that may be reclassified subsequently to profit or loss:		
Loss on fair value of available-for-sale investments, net of tax	(7)	(1)
Exchange differences on translation of financial statements of overseas subsidiaries (after tax)	<u>(9,515)</u>	<u>6,458</u>
<b>Total comprehensive income/(loss) for the period</b>	<b><u>(7,274)</u></b>	<b><u>10,639</u></b>
<b>Total comprehensive income/(loss) attributable to – equity shareholders of the Company</b>	<b><u>(7,274)</u></b>	<b><u>10,639</u></b>

## CONDENSED CONSOLIDATED INTERIM FINANCIAL POSITION

		As at <b>30 June 2018</b> <i>HK\$'000</i> <b>(Unaudited)</b>	As at 31 December 2017 <i>HK\$'000</i> <b>(Audited)</b>
	<i>Notes</i>		
<b>Non-current assets</b>			
Property, plant and equipment	8	296,313	263,532
Prepaid lease payments	8	40,884	41,778
Goodwill	9	51,410	51,852
Available-for-sale investments	10	76	83
		<b>388,683</b>	357,245
<b>Current assets</b>			
Prepaid lease payments	8	1,076	1,085
Inventories		38,929	45,944
Trade debtors and bills receivable	11	34,852	28,145
Prepayments, deposits and other receivables	12	101,927	110,946
Derivative financial instruments	13	99	–
Pledged bank deposits		18,810	22,055
Cash and cash equivalents		26,518	70,550
		<b>222,211</b>	278,725
<b>Current liabilities</b>			
Trade creditors and bills payable	14	105,742	93,362
Other payables and accrued charges		45,670	38,151
Bank borrowings	15	49,668	86,961
Current taxation		139	547
		<b>201,219</b>	219,021
<b>Net current assets</b>		<b>20,992</b>	59,704
<b>Net assets</b>		<b>409,675</b>	416,949
<b>Capital and reserves</b>			
Share capital	16	8,061	8,061
Reserves		401,614	408,888
<b>Total equity</b>		<b>409,675</b>	416,949

## CONDENSED CONSOLIDATED INTERIM STATEMENT OF CHANGES IN EQUITY

(Unaudited)

Attributable to equity shareholders of the Company

	Share capital	Share premium	Exchange reserve	Statutory reserve fund	Merger reserve	Share option reserve	Fair value reserve	Capital reserve	Retained profits	Total
	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000
<b>At 1 January 2017</b>	8,061	175,384	18,086	10,947	25,430	-	(3)	(31,348)	190,047	396,604
Profit for the period	-	-	-	-	-	-	-	-	4,182	4,182
Items that may be reclassified subsequently to profit or loss:										
Fair value change on available for sale investment recognised as Other Comprehensive Income	-	-	-	-	-	-	-	-	-	-
Currency translation difference	-	-	6,458	-	-	-	-	-	-	6,458
<b>Total comprehensive income</b>	-	-	6,458	-	-	-	-	-	4,182	10,640
Appropriation of reserve	-	-	-	328	-	-	-	-	(328)	-
<b>At 30 June 2017</b>	<u>8,061</u>	<u>175,384</u>	<u>24,544</u>	<u>11,275</u>	<u>25,430</u>	<u>-</u>	<u>(3)</u>	<u>(31,348)</u>	<u>193,901</u>	<u>407,244</u>
<b>At 1 January 2018</b>	8,061	175,384	29,096	10,061	25,430	143	15	(24,862)	193,621	416,949
Profit for the period	-	-	-	-	-	-	-	-	2,248	2,248
Fair value change on available for sale investment recognised as Other Comprehensive Income	-	-	-	-	-	-	(7)	-	-	(7)
Other comprehensive income	-	-	(9,515)	-	-	-	-	-	-	(9,515)
<b>Total comprehensive income</b>	-	-	(9,515)	-	-	-	(7)	-	2,248	(7,274)
Appropriation of reserve	-	-	-	280	-	-	-	-	(280)	-
<b>At 30 June 2018</b>	<u>8,061</u>	<u>175,384</u>	<u>19,581</u>	<u>10,341</u>	<u>25,430</u>	<u>143</u>	<u>8</u>	<u>(24,862)</u>	<u>195,589</u>	<u>409,675</u>

**CONDENSED CONSOLIDATED INTERIM CASH FLOWS STATEMENT****(Unaudited)****Six months ended 30 June**

	<b>2018</b>	<b>2017</b>
	<b>HK\$'000</b>	<b>HK\$'000</b>
<b>Net cash generated from (used in) operating activities</b>	<b>32,553</b>	<b>(24,582)</b>
<b>Net cash generated from (used in) investing activities</b>	<b>(39,307)</b>	<b>12,897</b>
<b>Net cash used in financing activities</b>	<b>(37,100)</b>	<b>(10,916)</b>
<b>Net decrease in cash and cash equivalents</b>	<b>(43,854)</b>	<b>(22,601)</b>
<b>Effect of foreign exchange rate changes</b>	<b>(178)</b>	<b>1,007</b>
Cash and cash equivalents at the beginning of the period	<b>70,550</b>	<b>50,411</b>
<b>Cash and cash equivalents at the end of the period</b>	<b>26,518</b>	<b>28,817</b>
<b>Analysis of the balances of cash and cash equivalents</b>		
Cash and bank balances	<b>26,518</b>	<b>28,817</b>

# NOTES TO THE CONDENSED CONSOLIDATED INTERIM FINANCIAL STATEMENTS

## 1 GENERAL INFORMATION

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

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

These condensed consolidated interim financial statements are presented in Hong Kong dollars (“HK\$”), unless otherwise stated. The condensed consolidated interim financial statements were approved by the Board for issue on 13 August 2018.

The condensed consolidated interim financial statements have not been audited.

## 2 BASIS OF PREPARATION

The unaudited condensed consolidated interim financial statements for the six months ended 30 June 2018 of the Group has been prepared in accordance with the applicable disclosure requirements of Appendix 16 to the Rules Governing the Listing of Securities on The Stock Exchange of Hong Kong Limited (the “Listing Rules”) and Hong Kong Accounting Standard (“HKAS”) 34 “Interim Financial Reporting” issued by the Hong Kong Institute of Certified Public Accountants (the “HKICPA”).

The accounting policies and basis of preparation adopted in these Interim financial statements are consistent with those adopted by the Group in its annual financial statements for the year ended 31 December 2017, except for adoption of new and revised Hong Kong Financial Reporting Standards (“HKFRSs”) issued by the HKICPA which are effective to the Group for accounting periods beginning on or after 1 January 2018. The adoption of the new HKFRSs has no material impact on the Group’s results and financial position for the current or prior periods.

The Group has not applied the new HKFRSs that have been issued but are not yet effective. The Group has already commenced an assessment of the impact of these new HKFRSs. So far it has concluded that the adoption of them will not have a significant impact on the Group’s financial position and performance.

### 3 SEGMENT REPORTING

#### (a) Operating segment information

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

#### (b) Geographic information

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

#### Revenue from external customers

	<b>(Unaudited)</b>	
	<b>Six months ended 30 June</b>	
	<b>2018</b>	<b>2017</b>
	<b>HK\$'000</b>	<b>HK\$'000</b>
Asia (excluding the People's Republic of China ("PRC"))*	<b>33,001</b>	13,969
Europe	<b>6,381</b>	6,339
PRC	<b>51,726</b>	89,686
The United States of America	<b>41,736</b>	27,406
Others	<b>3,391</b>	1,833
	<b>136,235</b>	139,233



### Specified non-current assets

	As at 30 June 2018 <i>HK\$'000</i> (Unaudited)	As at 31 December 2017 <i>HK\$'000</i> (Audited)
Asia (excluding the PRC)	51,473	267
PRC	<u>337,210</u>	<u>356,895</u>
	<u><u>388,683</u></u>	<u><u>357,162</u></u>

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

### 4 PROFIT BEFORE TAXATION

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

	(Unaudited)	
	Six months ended 30 June	
	2018 <i>HK\$'000</i>	2017 <i>HK\$'000</i>
<b>After charging</b>		
<b>(a) Finance cost</b>		
Interest on borrowings	<u>1,517</u>	<u>1,608</u>
<b>(b) Other items</b>		
Auditor's remuneration	400	450
Cost of inventories sold	104,284	108,664
Staff costs (including Directors' emoluments)		
– Directors' emoluments	1,120	1,170
– others	31,633	35,731
Depreciation	7,427	7,234
Amortisation of prepaid land lease payments	557	514
Loss on disposal of properties	<u>–</u>	<u>12</u>
<b>After crediting</b>		
Interest income	263	197
Net exchange gain	<u><u>2,505</u></u>	<u><u>1,764</u></u>

## 5 INCOME TAX

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

	(Unaudited)	
	Six months ended 30 June	
	2018	2017
	<i>HK\$'000</i>	<i>HK\$'000</i>
Current income tax		
– Hong Kong profits tax	–	–
– PRC enterprise income tax	<u>275</u>	<u>164</u>
	<u>275</u>	<u>164</u>

- (i) The provision for Hong Kong profits tax for the six months ended 30 June 2018 is calculated at 16.5% (six months ended 30 June 2017: 16.5%) of the estimated assessable profits for each respective period.
- (ii) The subsidiaries in the PRC are subject to a standard enterprise income tax rate of 25% for the six months ended 30 June 2018 (six months ended 30 June 2017: 25%).
- (iii) Taxes on profits assessable elsewhere have been calculated at the rates of tax prevailing in the jurisdictions in which the Group operates.

### (b) Deferred taxation

As at 30 June 2018, the Group has not recognised deferred tax assets in respect of cumulative tax losses of HK\$95,770,000 (30 June 2017: HK\$85,172,000) 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\$74,693,000 (30 June 2017: HK\$70,717,000) will expire within 5 years and the remaining tax losses of HK\$21,077,000 (30 June 2017: HK\$14,455,000) have no expiry date under the current tax legislation.

As at 30 June 2018, the Group has unrecognised deferred tax liabilities of HK\$2,304,000 (30 June 2017: HK\$2,155,000) in relation to withholding tax on undistributed earnings of HK\$38,843,000 (30 June 2017: HK\$43,100,000) due to the retention of undistributed earnings by the Group's subsidiaries in the PRC determined by the Directors.

The Company does not have any material temporary differences between the tax bases of assets and liabilities and their carrying amounts in the financial statements (30 June 2017: Nil), and therefore, no provision for deferred tax has been made.

## 6 EARNINGS PER SHARE

### (a) Basic earnings per share

The calculation of basic earnings per share for the six months ended 30 June 2018 is based on the profit attributable to ordinary equity shareholders of the Company of HK\$2,248,000 (six months ended 30 June 2017: earnings of HK\$4,182,000) and the weighted average number of ordinary shares of the Company in issue during the six months ended 30 June 2018 of 806,096,025 shares (six months ended 30 June 2017: 806,096,025 ordinary shares).

### (b) Diluted earnings per share

The calculation of diluted earning per share is based on the earning attributable to ordinary equity shareholders of the Company of HK\$2,248,000 (six months ended 30 June 2017: earnings of HK\$4,182,000) and the weighted average number of ordinary shares (diluted) of 806,143,569 shares (six months ended 30 June 2017: 806,096,025 ordinary shares), calculated as follows:

	(Unaudited)	
	2018	2017
	<i>No. of shares</i>	<i>No. of shares</i>
Weighted average number of ordinary shares at 30 June	<b>806,096,025</b>	806,096,025
Effect of dilutive potential ordinary shares arising from share options	<b>47,544</b>	–
	<hr/>	<hr/>
Weighted average number of ordinary shares for the purpose of calculating diluted earnings per share	<b><u>806,143,569</u></b>	<b><u>806,096,025</u></b>

## 7 INTERIM DIVIDEND

The Board does not recommend the payment of an interim dividend for the period ended 30 June 2018 (six months ended 30 June 2017: Nil).

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

	<b>Property, plant and equipment HK\$'000 (Unaudited)</b>	<b>Prepaid lease payments HK\$'000 (Unaudited)</b>
<b>Six month ended 30 June 2018</b>		
Net book value as at 1 January 2018	263,532	42,863
Exchange realignment	(2,063)	(346)
Additions	42,461	–
Disposal	(190)	–
Depreciation and amortization	(7,427)	(557)
	<u>296,313</u>	<u>41,960</u>
<b>Net book value as at 30 June 2018</b>		
	<u>296,313</u>	<u>41,960</u>
<b>Six month ended 30 June 2017</b>		
Net book value as at 1 January 2017	253,309	40,056
Exchange realignment	7,639	1,218
Additions	1,172	–
Disposal	(12)	–
Depreciation and amortization	(7,234)	(514)
	<u>254,874</u>	<u>40,760</u>
Net book value as at 30 June 2017	<u>254,874</u>	<u>40,760</u>

## 9 GOODWILL

	<b>30 June 2018 HK\$'000 (Unaudited)</b>	<b>31 December 2017 HK\$'000 (Audited)</b>
<b>Cost</b>		
Balance at beginning	51,852	48,455
Exchange realignment	(442)	3,397
	<u>51,410</u>	<u>51,852</u>
At the end of period	<u>51,410</u>	<u>51,852</u>
<b>Impairment losses</b>		
Balance at beginning and end of period	–	–
	<u>–</u>	<u>–</u>
<b>Carrying amounts</b>		
Balance at beginning and end of period	<u>51,410</u>	<u>48,455</u>
	<u>51,410</u>	<u>48,455</u>

**10 AVAILABLE-FOR-SALE INVESTMENTS**

	<b>30 June 2018 HK\$'000 (Unaudited)</b>	31 December 2017 HK\$'000 (Audited)
Listed equity-investments, at market value		
– Hong Kong	<u>76</u>	<u>83</u>

**11 TRADE DEBTORS AND BILLS RECEIVABLE**

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

	<b>30 June 2018 HK\$'000 (Unaudited)</b>	31 December 2017 HK\$'000 (Audited)
Within 3 months	<b>24,641</b>	23,318
3 to 6 months	<b>3,303</b>	2,028
6 to 9 months	<b>6,318</b>	2,164
9 months to 1 year	<b>588</b>	620
Over 1 year	<u>2</u>	<u>15</u>
	<u><b>34,852</b></u>	<u>28,145</u>

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

## 12 PREPAYMENTS, DEPOSITS AND OTHER RECEIVABLES

	<b>30 June 2018</b>	31 December 2017
	<i>HK\$'000</i>	<i>HK\$'000</i>
	<b>(Unaudited)</b>	<b>(Audited)</b>
Deposits paid for purchase of property, plant and equipment	<b>28,422</b>	42,310
Deposits paid to suppliers	<b>29,897</b>	19,645
Value added tax recoverable	<b>3,288</b>	9,646
Other deposits, prepayments and receivables	<b>40,320</b>	39,345
	<b>101,927</b>	110,946

The amount of the deposits and prepayments expected to be recovered or independent recognised as expense after more than one year is HK\$4,812,000 (2017: HK\$1,293,000). 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\$28,100,000 (2017: HK\$32,527,000), which are unsecured, interest free and repayable on demand.

## 13 DERIVATIVE FINANCIAL INSTRUMENTS

	<b>30 June 2018</b>	31 December 2017
	<i>HK\$'000</i>	<i>HK\$'000</i>
	<b>(Unaudited)</b>	<b>(Audited)</b>
Foreign currency forward contracts	<b>99</b>	–

As at 30 June 2018, the Group had the following foreign currency forward contracts denominated in United States dollar (“USD”). The major terms of these contracts were as follows:

Notional amount	Maturity date	Conversion to Renminbi (“RMB”) with contracted exchange rate (USD: RMB)
<b>2018</b>		
USD200,000	September 2018	6.56220
USD100,000	September 2018	6.56180
USD100,000	September 2018	6.56260

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

#### 14 TRADE CREDITORS AND BILLS PAYABLE

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

	<b>As at 30 June 2018 HK\$'000 (Unaudited)</b>	<b>As at 31 December 2017 HK\$'000 (Audited)</b>
Within 3 months	<b>62,798</b>	61,649
3 months to 1 year	<b>26,821</b>	17,675
Over 1 year	<b>16,123</b>	14,038
	<b>105,742</b>	93,362

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

#### 15 BANK BORROWINGS

Movements in secured bank loans is analysed as follows:

	<b>(Unaudited) HK\$'000</b>
<b>Six months ended 30 June 2018</b>	
Opening amount as at 1 January 2018	<b>86,961</b>
Exchange realignment	<b>(193)</b>
Proceeds from new secured bank loans	<b>32,082</b>
Repayment of secured bank loans	<b>(69,182)</b>
	<b>49,668</b>
<b>Six months ended 30 June 2017</b>	
Opening amount as at 1 January 2017	69,812
Exchange realignment	1,232
Proceeds from new secured bank loans	64,232
Repayment of secured bank loans	(75,148)
	60,128

All of the Group's banking facilities are subject to the fulfillment of covenants, as are commonly found in lending arrangements with financial institutions. If the Group were to breach the covenants, the drawn down facilities would become payable on demand. The Group regularly monitors its compliance with these covenants. As at 30 June 2018, none of the covenants relating to drawn down facilities had been breached (31 December 2017: Nil).

## 16 SHARE CAPITAL

### (i) Authorised and issued share capital

	<b>(Unaudited)</b>		<b>(Audited)</b>	
	<b>30 June 2018</b>		<b>31 December 2017</b>	
	<b>Number of</b>	<b>Amount</b>	<b>Number of</b>	<b>Amount</b>
	<b>ordinary</b>		<b>ordinary</b>	
	<b>shares of</b>	<b>HK\$'000</b>	<b>shares of</b>	<b>HK\$'000</b>
	<b>HK\$0.01 each</b>		<b>HK\$0.01 each</b>	
<b>Authorised:</b>				
At 1 January	<b>3,000,000,000</b>	<b>30,000</b>	3,000,000,000	30,000
Increase	<u>—</u>	<u>—</u>	<u>—</u>	<u>—</u>
At the end of the period/year	<b><u>3,000,000,000</u></b>	<b><u>30,000</u></b>	<b><u>3,000,000,000</u></b>	<b><u>30,000</u></b>
<b>Issued and fully paid:</b>				
At 1 January	<b>806,096,025</b>	<b>8,061</b>	806,096,025	8,061
Shares issued under share option scheme	<u>—</u>	<u>—</u>	<u>—</u>	<u>—</u>
At the end of the period/year	<b><u>806,096,025</u></b>	<b><u>8,061</u></b>	<b><u>806,096,025</u></b>	<b><u>8,061</u></b>

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

### (ii) Share issued under share option scheme

No option was exercised during the period ended 30 June 2018 (30 June 2017 :Nil).

### (iii) Terms of unexpired and unexercised share options at the end of the reporting period

		<b>(Unaudited)</b>	<b>(Audited)</b>
		<b>30 June 2018</b>	<b>31 December 2017</b>
<b>Exercisable period</b>	<b>Exercise price</b>	<b>Number</b>	<b>Number</b>
7 July 2017 to 6 July 2018	0.56	<u>2,000,000</u>	<u>2,000,000</u>
		<b><u>2,000,000</u></b>	<b><u>2,000,000</u></b>



## 17 FAIR VALUES OF FINANCIAL INSTRUMENTS

### Fair value hierarchy

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

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

	(Unaudited)				(Audited)			
	Fair value measurements as at 30 June 2018 categorised into				Fair value measurements as at 31 December 2017 categorised into			
	Level 1	Level 2	Level 3	Total	Level 1	Level 2	Level 3	Total
	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000
Assets								
Recurring fair value measurements								
Available-for-sale investments	76	-	-	76	83	-	-	83
Derivative financial instruments	99	-	-	99	-	-	-	-
	<u>76</u>	<u>-</u>	<u>-</u>	<u>76</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>

There were no transfers between levels of fair value hierarchy during the year ended 31 December 2017 and six months period ended 30 June 2018.

## 18 CAPITAL COMMITMENTS

	As at 30 June 2018 <i>HK\$'000</i> (Unaudited)	As at 31 December 2017 <i>HK\$'000</i> (Audited)
Contracted for:		
– Construction of factory building	–	47,359
– Acquisition of property, plant and equipment	<u>11,219</u>	<u>4,335</u>
	<u>11,219</u>	<u>51,694</u>
Authorised but not contracted for:		
– Construction of factory building	<u>62,599</u>	<u>62,599</u>

## 19 CONTINGENT LIABILITIES

At 30 June 2018, the Group has contingent liabilities in respect of a performance guarantee of HK\$Nil (31 December 2017: HK\$2,870,000).

At 30 June 2018, the Company has contingent liabilities in respect of guarantees given for banking facilities granted to certain subsidiaries to the extent of HK\$148,793,000 (31 December 2017: HK\$182,385,000). These facilities were utilised to the extent of HK\$72,318,000 (31 December 2017: HK\$54,063,000) as at 30 June 2018.

## 20 MATERIAL RELATED PARTY TRANSACTIONS

Key management personnel compensation:

	(Unaudited)	
	Six months ended 30 June	
	2018	2017
	<i>HK\$'000</i>	<i>HK\$'000</i>
Salaries and other short-term benefits	2,336	2,573
Post-employment benefits	<u>36</u>	<u>36</u>
	<u>2,372</u>	<u>2,609</u>

## 21 EVENTS AFTER THE REPORTING PERIOD

There are no significant events subsequent to 30 June 2018 which would materially affect the Group's and the Company's operating and financial performance as of the date of this report.

## **MANAGEMENT DISCUSSION AND ANALYSIS**

### **BUSINESS REVIEW**

The 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. As a result of the outsourcing strategy, the headcount of the Group reduced to approximately 790 employees (30 June 2017: approximately 1,110), which allows the Group to be more flexible and efficient.

The Group is committed to operating its businesses in an environmentally responsible manner improving energy efficiency, minimising its environmental footprint and complying with the more stringent relevant environmental protection laws, safety rules and regulations in China, the Group enhanced its production facilities and has put substantial effort in cleaner production.

In order to improve its operating efficiency, the head office with the showroom in Buji County, Shenzhen has moved to the factory in Kengzi Town, Shenzhen, where the production, showrooms and administrative office are located in the same area. In addition, the showrooms were renovated which further enhanced the Group's corporate and brand image. Our distributors are able to experience the products and designs from a unique perspective.

### **FINANCIAL REVIEW**

#### *Turnover*

The Group's turnover decreased by approximately 2.2% from about HK\$139.2 million for the six months ended 30 June 2017 to HK\$136.2 million for the six months ended 30 June 2018.

The decrease in the Group's turnover due mainly to the decrease in the domestic sales during the period was a result of the low sentiment in the PRC.

#### *Gross Profit*

During the period under review, the Group continued to face the challenges of high labour and raw material costs, the Group managed to increase prices for certain products. As a result, the Group's gross profit margin was increased to 23.5% (six months ended 30 June 2017: 22.0%).

### *Selling and Distribution Expenses*

The Group's selling and distribution expenses amounted to about HK\$13.8 million for the six months ended 30 June 2018, against about HK\$14.5 million for the six months ended 30 June 2017. The decrease in selling and distribution expenses was a result of the continue cost control at all levels.

### *Administrative Expenses*

The Group's administrative expenses amounted to approximately HK\$15.3 million for the six months ended 30 June 2018, HK\$13.3 million for the six months ended 30 June 2017. The increase in administrative expenses was mainly attributable to the reallocation of administrative office in the PRC during the period under review.

### *Profit for the Period*

Profit attributable to equity shareholders of the Company decreased by approximately 28.2% from approximately HK\$4.2 million for the six months ended 30 June 2017 to approximately HK\$2.2 million for the six months ended 30 June 2018, and the net profit ratio decreased from 3.0% to 1.7%.

## **PROSPECTS**

The rising geopolitical tensions places great uncertainty in the second half of 2018. The impact of the tensions on the world's economy is difficult to assess.

Looking ahead, we see the second half of 2018 as another period of challenge, climbing raw material costs, increasing governmental measures and rising manufacturing costs in Mainland China as well as the exchange rate movement in Renminbi poses challenges to the Group.

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 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 optimize its product mix to cater for the fast-changing consumer preferences.

In addition, the Group has been outsourcing its non-core production for years, and the strategy proved to be an important measure. The Group will further outsource its production to include its core products and place its effort in designing, branding and quality control, Meanwhile, the Group will continue to seek new collaboration partners and open more channels in order to widen its existing business lines, so as to sustain long-term growth and reward its shareholders, employees and customers for their support.

## **LIQUIDITY AND FINANCIAL RESOURCES**

The Group's funding and treasury activities are managed and controlled by the senior management. The Group maintained cash and bank balances of HK\$26.5 million as at 30 June 2018 (31 December 2017: HK\$70.6 million).

As at 30 June 2018, the Group's bank borrowings amounted to HK\$49.7 million (31 December 2017: HK\$87.0 million). As at the same date, the gearing ratio (total debt/total equity) was 0.5 (31 December 2017: 0.5).

As at 30 June 2018, the current ratio (current assets/current liabilities) was 1.1 (31 December 2017: 1.3) and the net current assets amounted to HK\$21.0 million (31 December 2017: HK\$59.7 million).

The ageing analysis of trade creditors and bills payable and the movement of bank borrowings are set out in Notes 14 and 15 to the financial statements of this interim results announcement.

## **FOREIGN CURRENCY RISK**

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

## **CHARGE OF ASSETS**

As at 30 June 2018, the Group's banking facilities were secured by (i) a letter of undertaking over the Group's construction in progress and buildings; (ii) legal charges over the Group's medium-term leasehold land outside Hong Kong; and (iii) pledged bank deposits of approximately HK\$18.8 million.

## **EMPLOYEES**

As at 30 June 2018, the Group employed approximately 790 employees (30 June 2017: approximately 1,110). Total staff cost, including Directors' emoluments, amounted to HK\$32.8 million (30 June 2017: HK\$35.7 million). Salaries are reviewed annually and discretionary bonuses are paid on annual basis with reference to individual performance appraisals, inflation and prevailing market conditions. Other benefits available to eligible employees include employee share option, retirement benefits and medical insurance schemes.

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

## **INTERIM DIVIDEND**

The Board does not recommend the payment of an interim dividend for the period ended 30 June 2018 (six months ended 30 June 2017: Nil).

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

During the 6-month period ended 30 June 2018, neither the Company nor any of its subsidiaries has purchased, sold or redeemed any of the Company's listed securities.

## **CORPORATE GOVERNANCE**

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

During the six months ended 30 June 2018, the Company has complied with Corporate Governance Code and Corporate Governance Report (the "CG Code") contained in Appendix 14 of the Listing Rules on the Stock Exchange except for the following deviation:

### *Code provision A.2.1*

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

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

The Company has adopted the Model Code as the required standard for securities transactions by Directors.

The Company has made specific enquiries of all Directors and all Directors have confirmed that they have complied with the required standards set out in the Model Code and its code of conduct regarding Directors' securities transactions during the period under review.

## **AUDIT COMMITTEE**

The Company established an audit committee (the “Audit Committee”) on 29 May 2009 with written terms of reference which are in compliance with the code provisions of the CG Code. The primary duties of the audit committee are to review and supervise the financial reporting process and internal control system of the Group. The audit committee currently has three members comprising Mr. Kong Hing Ki (Chairman), Mr. Sun Jian, and Ms. Shao Hanqing, all being independent non-executive Directors. The Audit Committee has reviewed the unaudited interim financial statements and the interim report for the six months ended 30 June 2018.

## **REMUNERATION COMMITTEE**

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

## **NOMINATION COMMITTEE**

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

## **AUDIT COMMITTEE REVIEW**

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

## **PUBLICATION OF UNAUDITED INTERIM REPORT**

The Company’s 2018 interim report will be published on the website of the Stock Exchange at [www.hkex.com.hk](http://www.hkex.com.hk) and on the Company’s website at [www.hingleehk.com.hk](http://www.hingleehk.com.hk).

## **APPRECIATION**

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

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

Hong Kong, 13 August 2018

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