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*(Incorporated in the British Virgin Islands and re-domiciled and continued in Bermuda with limited liability)*  
(Stock code: 396)

**ANNUAL RESULTS ANNOUNCEMENT  
FOR THE YEAR ENDED 31 DECEMBER 2018**

The board of directors (the “Board”) of Hing Lee (HK) Holdings Limited (the “Company”) announces the consolidated results of the Company and its subsidiaries (the “Group”) for the year ended 31 December 2018 with comparative figures for the corresponding year ended 31 December 2017.

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

## CONSOLIDATED STATEMENT OF PROFIT OR LOSS

*for the year ended 31 December 2018*

*(Expressed in Hong Kong dollars)*

|                                      | <i>Note</i> | <b>2018</b><br><i>HK\$'000</i> | 2017<br><i>HK\$'000</i> |
|--------------------------------------|-------------|--------------------------------|-------------------------|
| <b>Revenue</b>                       | 4           | <b>262,522</b>                 | 311,191                 |
| Cost of sales                        |             | <u>(219,405)</u>               | <u>(259,026)</u>        |
| <b>Gross profit</b>                  |             | <b>43,117</b>                  | 52,165                  |
| Other net income                     | 5           | <b>10,277</b>                  | 36,572                  |
| Selling and distribution expenses    |             | <b>(28,643)</b>                | (41,057)                |
| Administrative expenses              |             | <u>(95,704)</u>                | <u>(34,204)</u>         |
| <b>(Loss)/profit from operation</b>  |             | <b>(70,953)</b>                | 13,476                  |
| Finance costs                        |             | <u>(2,517)</u>                 | <u>(3,179)</u>          |
| <b>(Loss)/profit before taxation</b> | 6           | <b>(73,470)</b>                | 10,297                  |
| Income tax                           | 7           | <u>(719)</u>                   | <u>(1,123)</u>          |
| <b>(Loss)/profit for the year</b>    |             | <u><b>(74,189)</b></u>         | <u>9,174</u>            |
|                                      |             | <b>HK cents</b>                | HK cents                |
| <b>(Loss)/earnings per share</b>     | 8           |                                |                         |
| – Basic                              |             | <u><b>(9.19)</b></u>           | <u>1.14</u>             |
| – Diluted                            |             | <u><b>(9.19)</b></u>           | <u>1.14</u>             |

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

*for the year ended 31 December 2018*

*(Expressed in Hong Kong dollars)*

|   | <b>2018</b>     | 2017     |
|---|-----------------|----------|
|   | <b>HK\$'000</b> | HK\$'000 |
| <b>(Loss)/profit for the year</b>   | <b>(74,189)</b> | 9,174    |
| <b>Other comprehensive (loss)/income for the year</b>   |                 |          |
| Items that may be reclassified subsequently to profit or loss:  |                 |          |
| – Exchange differences on translation of financial statements of overseas subsidiaries, net of nil tax                          | <b>(6,581)</b>  | 8,065    |
| – 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       |
| Items that will not be reclassified to profit or loss:  |                 |          |
| – Loss on fair value changes of investments measured at fair value through other comprehensive income (“FVOCI”), net of nil tax | <b>(8)</b>      | –        |
| – Loss on disposal of investments measured at FVOCI, net of nil tax   | <b>(5)</b>      | –        |
|   | <b>(6,594)</b>  | 11,028   |
| <b>Total comprehensive (loss)/income for the year</b>   | <b>(80,783)</b> | 20,202   |

## CONSOLIDATED STATEMENT OF FINANCIAL POSITION

*as at 31 December 2018*

*(Expressed in Hong Kong dollars)*

|                                | <i>Note</i> | <b>2018</b><br><i>HK\$'000</i>   | 2017<br><i>HK\$'000</i>   |
|--------------------------------|-------------|----------------------------------|---------------------------|
| <b>Non-current assets</b>      |             |                                  |                           |
| Property, plant and equipment  |             | <b>198,320</b>                   | 263,532                   |
| Prepaid lease payments         |             | <b>37,742</b>                    | 41,778                    |
| Goodwill                       |             | <b>49,468</b>                    | 51,852                    |
| Available-for-sale investments |             | <b>–</b>                         | 83                        |
|                                |             | <hr/> <b>285,530</b> <hr/>       | <hr/> 357,245 <hr/>       |
| <b>Current assets</b>          |             |                                  |                           |
| Prepaid lease payments         |             | <b>1,006</b>                     | 1,085                     |
| Inventories                    |             | <b>32,298</b>                    | 45,944                    |
| Trade and other receivables    | <i>10</i>   | <b>127,013</b>                   | 139,091                   |
| Pledged bank deposits          |             | <b>13,163</b>                    | 22,055                    |
| Cash and cash equivalents      |             | <b>23,890</b>                    | 70,550                    |
|                                |             | <hr/> <b>197,370</b> <hr/>       | <hr/> 278,725 <hr/>       |
| <b>Current liabilities</b>     |             |                                  |                           |
| Contract liabilities           |             | <b>1,124</b>                     | –                         |
| Trade and other payables       | <i>11</i>   | <b>114,414</b>                   | 131,513                   |
| Bank loans                     |             | <b>32,455</b>                    | 86,961                    |
| Current tax payable            |             | <b>349</b>                       | 547                       |
|                                |             | <hr/> <b>148,342</b> <hr/>       | <hr/> 219,021 <hr/>       |
| <b>Net current assets</b>      |             | <hr/> <b>49,028</b> <hr/>        | <hr/> 59,704 <hr/>        |
| <b>NET ASSETS</b>              |             | <hr/> <b>334,558</b> <hr/> <hr/> | <hr/> 416,949 <hr/> <hr/> |
| <b>CAPITAL AND RESERVES</b>    |             |                                  |                           |
| Share capital                  | <i>12</i>   | <b>8,081</b>                     | 8,061                     |
| Reserves                       |             | <b>326,477</b>                   | 408,888                   |
| <b>TOTAL EQUITY</b>            |             | <hr/> <b>334,558</b> <hr/> <hr/> | <hr/> 416,949 <hr/> <hr/> |

## NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

### 1. COMPANY INFORMATION

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

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

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

### 2. BASIS OF PREPARATION

The consolidated financial statements for the year ended 31 December 2018 comprise 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”).

### 3. NEW AND AMENDED STANDARDS ADOPTED BY THE GROUP

The HKICPA has issued a number of new HKFRSs and amendments to HKFRSs that are first effective for the current accounting period of the Group. Of these, the following developments are relevant to the Group’s consolidated financial statements:

|              |   |
|--------------|---|
| HKFRS 9      | Financial Instruments                                   |
| HKFRS 15     | Revenue from Contracts with Customers                   |
| HK(IFRIC) 22 | Foreign Currency Transactions and Advance Consideration |

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

*HKFRS 9, “Financial Instruments”*

HKFRS 9 replaces HKAS 39 “Financial Instruments: Recognition and Measurement”. It sets out the requirements for recognising and measuring financial assets, financial liabilities and some contracts to buy or sell non-financial items.

The Group has applied HKFRS 9 retrospectively to items that existed at 1 January 2018 in accordance with the transition requirements. The Group has recognised the cumulative effect of initial application as an adjustment to the opening equity at 1 January 2018. Therefore, comparative information continues to be reported under HKAS 39.

The table below summarises the impact of transition to HKFRS 9 on retained profits at 1 January 2018.

|   | <i>HK\$’000</i>       |
|---|-----------------------|
| At 31 December 2017   | 193,621               |
| Recognition of additional expected credit losses on trade and other receivables | <u>(2,728)</u>        |
| Adjusted balance at 1 January 2018  | <u><u>190,893</u></u> |

Further details of the nature and effect of the changes to previous accounting policies and the transition approach are set out below:

(i) Classification of financial assets and financial liabilities

HKFRS 9 categorises financial assets into three principal classification categories: measured at amortised cost, at fair value through other comprehensive income (“FVOCI”) and at fair value through profit or loss (“FVPL”). These supersede HKAS 39’s categories of held-to-maturity investments, loans and receivables, available-for-sale financial assets and financial assets measured at FVPL. The classification of financial assets under HKFRS 9 is based on the business model under which the financial asset is managed and its contractual cash flow characteristics.

The Group’s investments in equity securities were classified as available-for-sale financial assets under HKAS 39. These investments are classified as investments at FVOCI upon the adoption of HKFRS 9 on 1 January 2018. The Group’s other financial assets measured at amortised cost at 31 December 2017 continue with their classification and measurement upon the adoption of HKFRS 9 at 1 January 2018.

The classification and measurement requirements for financial liabilities under HKFRS 9 are largely unchanged from HKAS 39, except that HKFRS 9 requires the fair value change of a financial liability designated at fair value through profit or loss that is attributable to changes of that financial liability’s credit risk to be recognised in other comprehensive income (without reclassification to profit or loss). The Group does not have any financial liabilities designated at fair value through profit or loss and therefore this new requirement has no impact on the Group’s consolidated financial statements.

(ii) Credit losses

HKFRS 9 replaces the “incurred loss” model in HKAS 39 with the “expected credit loss” (“ECL”) model. The ECL model requires an ongoing measurement of credit risk associated with a financial asset and therefore recognises ECLs earlier than under the “incurred loss” model in HKAS 39. The Group applies the new ECL model to the financial assets measured at amortised cost (including cash and cash equivalents, pledged bank deposits and trade and other receivables).

The table below reconciles the closing loss allowance determined in accordance with HKAS 39 as at 31 December 2017 with the opening loss allowance determined in accordance with HKFRS 9 as at 1 January 2018.

|  | <b>Trade<br/>receivables</b><br><i>HK\$'000</i> | <b>Other<br/>receivables</b><br><i>HK\$'000</i> | <b>Total</b><br><i>HK\$'000</i> |
|--|---|---|---------------------------------|
| Loss allowance at 31 December 2017<br>under HKAS 39    | 15,728  | –   | 15,728                          |
| Additional credit loss recognised<br>at 1 January 2018 | <u>710</u>                                      | <u>2,018</u>                                    | <u>2,728</u>                    |
| Loss allowance at 1 January 2018<br>under HKFRS 9      | <u><u>16,438</u></u>                            | <u><u>2,018</u></u>                             | <u><u>18,456</u></u>            |

*HKFRS 15, “Revenue from Contracts with Customers”*

HKFRS 15 establishes a comprehensive framework for recognising revenue and some costs from contracts with customers. HKFRS 15 replaces HKAS 18 “Revenue”, which covered revenue arising from sale of goods and rendering of services, and HKAS 11 “Construction Contracts” which specified the accounting for construction contracts.

HKFRS 15 also introduces additional qualitative and quantitative disclosure requirements which aim to enable users of the consolidated financial statements to understand the nature, amount, timing and uncertainty of revenue and cash flows arising from contracts with customers.

The Group has elected to use the cumulative effect transition method to recognise the cumulative effect of initial application as an adjustment to the opening balance of equity at 1 January 2018. Therefore, comparative information continues to be reported under HKAS 18. As followed by HKFRS 15, the Group has applied the new requirements only to contracts that were not completed before 1 January 2018. The adoption of HKFRS 15 has no material impact on the opening balance of equity at 1 January 2018.

Further details of the nature and effect of the changes on previous accounting policies are set out below:

(i) Timing of revenue recognition

Previously, revenue arising from sale of goods was generally recognised at a point in time when the risks and rewards of ownership of the goods had passed to the customers, whereas licensing income was recognised when the right to receive payment was established.

Under HKFRS 15, revenue is recognised when the customer obtains control of the promised goods or service in the contract. This may be at a single point in time or over time. HKFRS 15 identifies the following three situations in which control of the promised goods or service is regarded as being transferred over time:

- When the customer simultaneously receives and consumes the benefits provided by the entity’s performance, as the entity performs;
- When the entity’s performance creates or enhances an asset (for example work in progress) that the customer controls as the asset is created or enhanced; or
- When the entity’s performance does not create an asset with an alternative use to the entity and the entity has an enforceable right to payment for performance completed to date.

If the contract terms and the entity’s activities do not fall into any of these 3 situations, then under HKFRS 15 the entity recognises revenue for the sale of that goods or service at a single point in time, being when control has passed. Transfer of risks and rewards of ownership is only one of the indicators that is considered in determining when the transfer of control occurs.

The adoption of HKFRS 15 does not have a significant impact on when the Group recognises revenue from sale of goods and licensing.

(ii) Presentation of contract assets and liabilities

Under HKFRS 15, a receivable is recognised only if the Group has an unconditional right to consideration. If the Group recognises the related revenue before being unconditionally entitled to the consideration for the promised goods and services in the contract, then the entitlement to consideration is classified as a contract asset. Similarly, a contract liability, rather than a payable, is recognised when a customer pays consideration, or is contractually required to pay consideration and the amount is already due, before the Group recognises the related revenue. For a single contract with the customer, either a net contract asset or a net contract liability is presented. For multiple contracts, contract assets and contract liabilities of unrelated contracts are not presented on a net basis.

Previously, the Group has no any contract balances relating to contracts in progress and hence there has been no impact on the Group as a result of this change in policy.



*HK(IFRIC) 22, “Foreign Currency Transactions and Advance Consideration”*

This interpretation provides guidance on determining “the date of the transaction” for the purpose of determining the exchange rate to use on initial recognition of the related asset, expense or income (or part of it) arising from a transaction in which an entity receives or pays advance consideration in a foreign currency.

The interpretation clarifies that “the date of the transaction” is the date on initial recognition of the non-monetary asset or liability arising from the payment or receipt of advance consideration. If there are multiple payments or receipts in advance of recognising the related item, the date of the transaction for each payment or receipt should be determined in this way. The adoption of HK(IFRIC) 22 does not have any material impact on the financial position and the financial results of the Group.

**4. REVENUE**

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.

Revenue comprises:

|                  | <b>2018</b>            | 2017            |
|------------------|------------------------|-----------------|
|                  | <b><i>HK\$'000</i></b> | <i>HK\$'000</i> |
| Sale of goods    | <b>247,705</b>         | 295,179         |
| Licensing income | <b>14,817</b>          | 16,012          |
|                  | <b>262,522</b>         | 311,191         |

## 5. OTHER NET INCOME

|  | 2018<br><i>HK\$'000</i> | 2017<br><i>HK\$'000</i> |
|--|-------------------------|-------------------------|
| Bank interest income   | 417                     | 516                     |
| Dividend income from investments in equity securities            | 3                       | 4                       |
| Foreign exchange gain, net                                       | –                       | 17,243                  |
| Government grants  | 1,610                   | 3,557                   |
| Gain on deregistration of a subsidiary                           | –                       | 13,661                  |
| Loss on disposal of property, plant and equipment, net           | (7,508)                 | (221)                   |
| Net realised gains/(losses) on derivative financial instruments  | 39                      | (472)                   |
| Reversal of impairment loss on trade receivables                 | 13,189                  | –                       |
| Reversal of impairment loss on other deposits and<br>receivables | 164                     | –                       |
| Write back of other payables                                     | 2,321                   | 1,629                   |
| Others   | 42                      | 655                     |
|  | <u>10,277</u>           | <u>36,572</u>           |

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 for the year ended 31 December 2017 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.

## 6. (LOSS)/PROFIT BEFORE TAXATION

(Loss)/profit before taxation is arrived at after charging:

### (a) Finance costs

|                        | 2018<br><i>HK\$'000</i> | 2017<br><i>HK\$'000</i> |
|------------------------|-------------------------|-------------------------|
| Interest on bank loans | <u>2,517</u>            | <u>3,179</u>            |

(b) **Staff costs**

|                                    | <b>2018</b>          | 2017            |
|------------------------------------|----------------------|-----------------|
|                                    | <i>HK\$'000</i>      | <i>HK\$'000</i> |
| Directors' remuneration            | <b>2,265</b>         | 2,483           |
| Salaries, wages and other benefits | <b>61,828</b>        | 69,261          |
| Retirement scheme contributions    | <b>5,904</b>         | 7,421           |
| Termination benefits               | <b>8,544</b>         | –               |
|                                    | <u><b>78,541</b></u> | <u>79,165</u>   |

(c) **Other items**

|   | <b>2018</b>         | 2017            |
|---|---------------------|-----------------|
|   | <b>HK\$'000</b>     | <b>HK\$'000</b> |
| Auditor's remuneration                                    | <b>900</b>          | 900             |
| Amortisation of prepaid lease payments                    | <b>1,072</b>        | 1,049           |
| Cost of inventories sold <sup>#</sup>                     | <b>219,405</b>      | 259,026         |
| Depreciation of property, plant and equipment             | <b>14,442</b>       | 14,349          |
| Loss on disposal of property,<br>plant and equipment, net | <b>7,508</b>        | 221             |
| Foreign exchange loss, net                                | <b>12,454</b>       | –               |
| Impairment losses on:                                     |                     |                 |
| – property, plant and equipment                           | <b>34,935</b>       | –               |
| – prepaid lease payments                                  | <b>1,109</b>        | –               |
| – trade receivables                                       | –                   | 4,712           |
| Write-off of other deposits and receivables               | <b>237</b>          | 800             |
| Operating lease rentals: minimum lease payments           |                     |                 |
| – land and buildings                                      | <b>7,907</b>        | 8,012           |
|   | <u><b>7,907</b></u> | <u>8,012</u>    |

# Cost of inventories sold includes HK\$62,556,000 (2017: HK\$61,278,000) relating to staff costs, depreciation and amortisation expenses and operating lease rentals, which amount is also included in the respective total amounts disclosed separately above or in note 6(b) for each of these types of expenses.

## 7. INCOME TAX IN THE CONSOLIDATED STATEMENT OF PROFIT OR LOSS

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

|                               | 2018<br><i>HK\$'000</i> | 2017<br><i>HK\$'000</i> |
|-------------------------------|-------------------------|-------------------------|
| PRC Enterprise Income Tax     |                         |                         |
| – Current year provision      | 593                     | 1,047                   |
| – Prior years under-provision | 126                     | 76                      |
|                               | <u>719</u>              | <u>1,123</u>            |

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 (2017: 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% (2017: 25%) for the year.

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

|   | 2018<br><i>HK\$'000</i> | 2017<br><i>HK\$'000</i> |
|---|-------------------------|-------------------------|
| (Loss)/profit before taxation                                     | <u>(73,470)</u>         | <u>10,297</u>           |
| Notional tax on (loss)/profit before taxation                     | (12,122)                | 1,699                   |
| Tax effect of non-deductible expenses                             | 1,709                   | 240                     |
| Tax effect of non-taxable income                                  | (82)                    | (3,022)                 |
| Tax effect of different tax rates of subsidiaries                 | (9,058)                 | (4,492)                 |
| Tax effect of unrecognised temporary differences                  | 7,304                   | 1,371                   |
| Tax effect of utilisation of tax losses not recognised previously | –                       | (13)                    |
| Tax effect of unused tax losses not recognised                    | 12,887                  | 5,338                   |
| Prior years under-provision                                       | 126                     | 76                      |
| Others  | <u>(45)</u>             | <u>(74)</u>             |
| Actual tax expense  | <u>719</u>              | <u>1,123</u>            |

## 8. (LOSS)/EARNINGS PER SHARE

The calculation of basic (loss)/earnings per share is based on the loss attributable to equity shareholders of the Company of HK\$74,000 (2017: profit of HK\$9,174,000) and the weighted average number of 807,082,326 (2017: 806,096,025) ordinary shares in issue during the year.

The calculation of diluted (loss)/earnings per share is based on the loss attributable to equity shareholders of the Company of HK\$74,189,000 (2017: profit of HK\$9,174,000) and the weighted average number of 807,107,653 (2017: 806,187,759) ordinary shares, calculated as follows:

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

|  | 2018                      | 2017                      |
|--|---------------------------|---------------------------|
| Weighted average number of ordinary shares at 31 December                | 807,082,326               | 806,096,025               |
| Effect of deemed issue of shares under the Company's share option scheme | <u>25,327</u>             | <u>91,734</u>             |
| Weighted average number of ordinary shares (diluted) at 31 December      | <u><u>807,107,653</u></u> | <u><u>806,187,759</u></u> |

## 9. 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.

|                          | 2018  |   | 2017  |   |
|--------------------------|---|---|---|---|
|                          | Revenue<br>from<br>external<br>customers<br><i>HK\$'000</i> | Specified<br>non-current<br>assets<br><i>HK\$'000</i> | Revenue<br>from<br>external<br>customers<br><i>HK\$'000</i> | Specified<br>non-current<br>assets<br><i>HK\$'000</i> |
| Asia (excluding the PRC) | 44,513  | 30  | 39,099  | 267   |
| Europe                   | 18,254  | –   | 14,462  | –   |
| PRC                      | 104,450   | 285,500   | 174,794   | 356,895   |
| The United States        | 93,395  | –   | 78,974  | –   |
| Others                   | 1,910   | –   | 3,862   | –   |
|                          | <u>262,522</u>  | <u>285,530</u>  | <u>311,191</u>  | <u>357,162</u>  |

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

(c) **Major customer**

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

|            | 2018<br><i>HK\$'000</i> | 2017<br><i>HK\$'000</i> |
|------------|-------------------------|-------------------------|
| Customer A | <u>68,946</u>           | <u>62,921</u>           |

## 10. TRADE AND OTHER RECEIVABLES

|  | <b>2018</b><br><i>HK\$'000</i> | 2017<br><i>HK\$'000</i> |
|--|--------------------------------|-------------------------|
| Trade receivables  | <b>42,210</b>                  | 43,873                  |
| Less: impairment allowance                                     | <b>(3,014)</b>                 | (15,728)                |
|  | <u><b>39,196</b></u>           | <u>28,145</u>           |
| Deposits paid for purchase of property,<br>plant and equipment | <b>31,168</b>                  | 42,310                  |
| Deposits paid to suppliers                                     | <b>13,770</b>                  | 19,645                  |
| Value added tax recoverable                                    | <b>8,084</b>                   | 9,646                   |
| Other deposits, prepayments and receivables                    | <b>34,795</b>                  | 39,345                  |
|  | <u><b>87,817</b></u>           | <u>110,946</u>          |
|  | <u><b>127,013</b></u>          | <u>139,091</u>          |

The amount of deposits and prepayments expected to be recovered or recognised as expense after more than one year is HK\$398,000 (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\$29,722,000 (2017: HK\$32,527,000), which are unsecured, interest free and repayable on demand.

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

|                    | <b>2018</b><br><i>HK\$'000</i> | 2017<br><i>HK\$'000</i> |
|--------------------|--------------------------------|-------------------------|
| Within 3 months    | <b>31,010</b>                  | 23,318                  |
| 3 to 6 months      | <b>3,928</b>                   | 2,028                   |
| 6 to 9 months      | <b>3,298</b>                   | 2,164                   |
| 9 months to 1 year | <b>960</b>                     | 620                     |
| Over 1 year        | <b>–</b>                       | 15                      |
|                    | <u><b>39,196</b></u>           | <u>28,145</u>           |

Trade receivables are normally due within 30 to 90 days from the date of billing.

**11. TRADE AND OTHER PAYABLES**

|                                   | <b>2018</b><br><i>HK\$'000</i> | 2017<br><i>HK\$'000</i> |
|-----------------------------------|--------------------------------|-------------------------|
| Trade creditors and bills payable | <u>76,871</u>                  | <u>93,362</u>           |
| Accrued charges                   | 18,561                         | 13,182                  |
| Receipts in advance               | 13,569                         | 18,762                  |
| Other payables                    | <u>5,413</u>                   | <u>6,207</u>            |
|                                   | <u>37,543</u>                  | <u>38,151</u>           |
|                                   | <u><b>114,414</b></u>          | <u><b>131,513</b></u>   |

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

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

|                    | <b>2018</b><br><i>HK\$'000</i> | 2017<br><i>HK\$'000</i> |
|--------------------|--------------------------------|-------------------------|
| Within 3 months    | 36,434                         | 61,649                  |
| 3 months to 1 year | 22,999                         | 17,675                  |
| Over 1 year        | <u>17,438</u>                  | <u>14,038</u>           |
|                    | <u><b>76,871</b></u>           | <u><b>93,362</b></u>    |



## 12. SHARE CAPITAL, DIVIDENDS AND RESERVES

### (a) Share capital

|   | 2018   |                           | 2017   |                           |
|---|--|---------------------------|--|---------------------------|
|   | Number of<br>ordinary<br>shares of<br><i>HK\$0.01 each</i> | Amount<br><i>HK\$'000</i> | Number of<br>ordinary<br>shares of<br><i>HK\$0.01 each</i> | Amount<br><i>HK\$'000</i> |
| 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 1 January                              | 806,096,025  | 8,061                     | 806,096,025  | 8,061                     |
| Share issued under share<br>option scheme | <u>2,000,000</u>   | <u>20</u>                 | <u>–</u>   | <u>–</u>                  |
| At 31 December                            | <u>808,096,025</u>   | <u>8,081</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.

During the year ended 31 December 2018, options were exercised to subscribe for 2,000,000 ordinary shares in the Company at a consideration of HK\$1,120,000 (2017: HK\$Nil).

### (b) Dividends

The directors do not recommend the payment of a dividend in respect of the year ended 31 December 2018 (2017: 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.

#### (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.

(v) Share option reserve

The share option reserve comprises the fair value of share options granted which are yet to be exercised. 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 investments in equity securities held at the end of the reporting period.

(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 2018, the aggregate amount of reserves available for distribution to equity shareholders of the Company was HK\$273,058,000 (2017: HK\$268,427,000), being the aggregate of the share premium and retained profits of the Company. The Company's share premium account in the amount of HK\$176,627,000 (2017: 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 investments in equity securities, 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.

## **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 low consumer sentiment, competition from different distribution channels in domestic markets, 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 has been reduced to approximately 680 employees (2017: approximately 920), which allowed the Group to be more flexible and efficient.

The Group is committed to operating its businesses in an environmentally responsible manner, through improving energy efficiency, minimising its environmental footprint and complying with the more stringent and relevant environmental protection laws, safety rules and regulations in China. Moreover, 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**

#### **Revenue**

The Group's revenue decreased by approximately 15.6% from about HK\$311.2 million for the year ended 31 December 2017 to HK\$262.6 million for the year ended 31 December 2018. The decrease was primarily due to the decrease in panel wood furniture sales in both export and domestic markets. The Group was adversely affected by the low consumption sentiment in the PRC and the competition from the tailor made manufacturers.

#### **Gross Profit**

During the year 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, leading to an improvement of the gross profit margin in the first half of the year. However, in order to clear obsoleted stock, in particular the classical furniture products, the Group offered discount to our strategic distributors. As a result, the Group's gross profit margin decreased to 16.4% (31 December 2017: 16.8%).

### **Selling and Distribution Expenses**

The Group's selling and distribution expenses amounted to about HK\$28.6 million for the year ended 31 December 2018, compared to about HK\$41.1 million for the year ended 31 December 2017. The decrease in selling and distribution expenses was a result of the continuous cost control at all levels, and the absent of impairment of account receivable.

### **Administrative Expenses**

For the year ended 31 December 2018, the Group's administrative expenses were approximately HK\$95.7 million compared to about HK\$34.2 million for the year ended 31 December 2017. The increase in administrative expenses during the year under review was mainly attributable to the expenses of impairment of the Group's non-current assets, the costs associated with restructuring the Group's business units, as well as the foreign exchange loss arising from conversion of the foreign currencies to Hong Kong dollars, the functional currency of the Group.

### **Results for the Year**

Loss attributable to equity holders of the Company for the year ended 31 December 2018 was approximately HK\$74.2 million as compared to profit attributable to equity holders of the Company of approximately HK\$9.2 million for the corresponding period last year.

### **EMPLOYMENT AND REMUNERATION POLICY**

As at 31 December 2018, the Group employed approximately 680 employees (2017: approximately 920).

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 that they can obtain updated job related knowledge and enhance their quality of work.

## **LIQUIDITY AND FINANCIAL RESOURCES**

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

The Group maintained cash and bank balances of HK\$23.9 million as at 31 December 2018 (31 December 2017: HK\$70.6 million).

As at 31 December 2018, the Group had bank borrowings amounting to HK\$32.5 million (31 December 2017: HK\$87.0 million). As at the same date, the gearing ratio (total debt/total equity) was 0.4 (31 December 2017: 0.5).

As at 31 December 2018, the current ratio (current assets/current liabilities) was 1.3 (31 December 2017: 1.3) and the net current assets amounted to HK\$49.0 million (31 December 2017: HK\$59.7 million).

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

## **SEGMENT INFORMATION**

Segment information is set out in Note 9 of this results announcement.

## **ENVIRONMENTAL POLICY**

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

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

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

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

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

During the year ended 31 December 2018 and up to the date of this results announcement, 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 2018, 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 results announcement does not constitute a recommendation or an advice for anyone to invest in the securities of the Company and investors are advised to make their own judgment or consult their own investment advisors before making any investment in the securities of the Company.

## **Market Risks**

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

## **Foreign Currency Risk**

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

## **Interest Rate Risk**

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

## **Liquidity Risk**

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

## **Operational Risk**

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

## **Investment Risk**

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

## **Manpower and Retention Risk**

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

## **Business Risk**

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

## **CHARGE OF ASSETS**

As at 31 December 2018, 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\$13.2 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 2018, the Group has no contingent liabilities.

## **PROSPECTS**

The Group considers that the global business environment will become more challenging. The economic atmosphere and confidence could definitely be adversely affected by the rising geopolitical tensions. The impact of the tensions on the world's economy is difficult to assess.



Looking ahead, we see the year 2019 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 will continue to pose 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 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 outsourced production of all classical furniture and 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, as well as seek new business opportunities, so as to sustain long-term growth and reward its shareholders, employees and customers for their support.

## **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.

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 during the financial year. The Company periodically reviews its corporate governance practices to ensure its continuous compliance.

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

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

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

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

### **AUDIT COMMITTEE REVIEW**

The audit committee of the Company (the "Audit Committee") has three members comprising Mr. Kong Hing Ki (Chairman), Mr. Sun Jian, and Ms. Shao Hanqing, all being independent non-executive Directors. The Audit Committee has reviewed the audited financial results of the Group for the year ended 31 December 2018.

### **DIVIDENDS**

The Board does not recommend the payment of a final dividend for the year ended 31 December 2018 (31 December 2017: Nil).

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

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

## **PUBLICATION OF ANNUAL RESULTS AND 2018 ANNUAL REPORT**

The annual results announcement is published on the websites of the Stock Exchange and the Company. The annual report of the Company for the year ended 31 December 2018 will be despatched to the Shareholders and published on both websites in due course.

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

Hong Kong, 22 March 2019

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

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