



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

**HING
LEE**

ANNUAL REPORT 2019



HING LEE

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BOARD OF DIRECTORS**Executive Directors**

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

Independent non-executive Directors

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

AUDIT COMMITTEE

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

REMUNERATION COMMITTEE

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

NOMINATION COMMITTEE

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

COMPANY SECRETARY

Mr. Wong Kit Wai, FHKICPA, FCIS

AUTHORISED REPRESENTATIVES

Mr. Sung Kai Hing
Mr. Wong Kit Wai

PRINCIPAL BANKERS

Bank of China (Hong Kong) Limited
China Construction Bank Corporation

**HEAD OFFICE AND PRINCIPAL PLACE OF
BUSINESS IN HONG KONG**

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

REGISTERED OFFICE

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

LEGAL ADVISERS

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

AUDITORS

Baker Tilly Hong Kong Limited
Certified Public Accountants

HONG KONG SHARE REGISTRAR

Union Registrars Limited

**PRINCIPAL SHARE REGISTRAR AND
TRANSFER OFFICE**

MUFG Fund Services (Bermuda) Limited

STOCK CODE

396

COMPANY WEBSITE

www.hingleehk.com.hk

CONSOLIDATED STATEMENT OF PROFIT OR LOSS

	Year ended 31 December				
	2019 HK\$'000	2018 HK\$'000	2017 HK\$'000	2016 HK\$'000	2015 HK\$'000
Revenue	300,142	262,522	311,191	394,196	485,281
Cost of sales	(268,715)	(219,405)	(259,026)	(293,338)	(374,102)
Gross profit	31,427	43,117	52,165	100,858	111,179
Gain on disposal of subsidiaries	19,369	–	–	–	–
Other net (loss)/income	(6,338)	10,277	36,572	2,340	10,412
Selling and distribution expenses	(23,824)	(28,643)	(41,057)	(37,305)	(52,437)
Administrative expenses	(75,706)	(95,704)	(34,204)	(50,948)	(49,355)
Impairment loss on goodwill	(48,387)	–	–	–	–
(Loss)/profit from operation	(103,459)	(70,953)	13,476	14,945	19,799
Finance costs	(2,333)	(2,517)	(3,179)	(2,663)	(3,479)
(Loss)/profit before taxation	(105,792)	(73,470)	10,297	12,282	16,320
Income tax credit/(expense)	314	(719)	(1,123)	(1,712)	(129)
(Loss)/profit for the year	(105,478)	(74,189)	9,174	10,570	16,191
Attributable to:					
Equity shareholders of the Company	(105,478)	(74,189)	9,174	10,570	16,713
Non-controlling interests	–	–	–	–	(522)
(Loss)/profit for the year	(105,478)	(74,189)	9,174	10,570	16,191

ASSETS AND LIABILITIES

	As at 31 December				
	2019 HK\$'000	2018 HK\$'000	2017 HK\$'000	2016 HK\$'000	2015 HK\$'000
Non-current assets	137,814	285,530	357,245	341,881	379,373
Current assets	190,199	197,370	278,725	301,158	260,939
Current liabilities	115,827	148,342	219,021	246,435	238,971
Net current assets	74,372	49,028	59,704	54,723	21,968
Total assets less current liabilities	212,186	334,558	416,949	396,604	401,341
Non-current liabilities	468	–	–	–	–
Net assets	211,718	334,558	416,949	396,604	401,341
Total equity attributable to equity shareholders of the Company	211,718	334,558	416,949	396,604	401,341

Chairman's Statement

Dear Shareholders,

On behalf of the Board of directors (the "Directors") of Hing Lee (HK) Holdings Limited (the "Company") (the "Board"), I herein present the annual results of the Company and its subsidiaries (collectively the "Group") for the year ended 31 December 2019 ("Year 2019").

Year 2019 was a difficult year for the Group. 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. In addition, the U.S. Government imposed tariffs on the merchandise imported from China, and that posed further challenges to the Group.

In Year 2019, the Group disposed its loss making division under Glory Skill Investments Limited and its subsidiaries. The disposal will streamline and restructure the Group's fixed assets in order to maximize the value of the Group's assets and will strengthen the Group's cash flow and generate additional financial resources for existing operations of the Group.

The Group suffered a loss attributable to equity holders of the Company for the year ended 31 December 2019 of approximately HK\$105.5 million as compared to a loss attributable to equity holders of the Company of approximately HK\$74.2 million for the corresponding period last year. Such loss was mainly due to the recording of a one-off, non-cash impairment of goodwill of approximately HK\$48.4 million related to its upholstered furniture businesses, which was resulted from one of the Group's major customer, Pier 1 Imports, Inc. ("Pier 1"), and its subsidiaries having commenced voluntary chapter 11 proceedings in the U.S. Bankruptcy Court for the Eastern District of Virginia as well as the effect of import tariffs imposed by the U.S. Government to the other existing customers of the Group.

The Group has been continuously assessing the current business strategy, with the aim to streamline its business and enhance overall performance and prospects. Our corporate brand "Hing Lee Myriad Home 興利萬家" is one of our important assets and also one of our keys to success. Riding on our strong design, promotion and brand development capabilities, the Group will consider to adopt a business diversification strategy and develop other business operations in order to maximize the returns for the shareholders of the Company.

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

Yours faithfully,

Chairman and Chief Executive Officer

Sung Kai Hing

27 March 2020

BUSINESS REVIEW

During the year under review, the Group faces a series of challenges, especially the tariff imposed by the U.S. Government on the goods imported from China and challenging economic environment of China.

In the domestic market, the furniture business of the Group continued to suffer from low consumer sentiment, competition from different distribution channels, imbalance of supply and demand, climbing raw material costs and operational costs.

In order to support our business partners in the United States which accounts for a substantial part of our upholstered furniture sale, we re-designed our products and reduced our selling prices leading to a lower gross profit margin.

Despite the fierce competition in the export markets, the Group has successfully developed new sales with customers in Japan. As a result, favorable results were recorded in export sales.

The Group has been continuously assessing the current business strategy, with the aim to streamline its business and enhance overall performance and prospects. Currently, the Group has outsourced all panel furniture to other manufacturers to enhance production efficiency and flexibility of the Group. The Group places its effort in designing, branding, quality control and enhancing its distribution channels.

FINANCIAL REVIEW

Revenue

The Group's revenue increased by approximately 14.3% from about HK\$262.5 million for the year ended 31 December 2018 to HK\$300.1 million for the year ended 31 December 2019. The increase was primarily due to the increase in export sales, especially the sale of mattress to Japan market. However, the domestic sales were still very weak and were adversely affected by the low consumption sentiment in the People's Republic of China (the "PRC") and the competition from the tailor made manufacturers.

Gross Profit

During the year under review, in order to support our business partners in the United States where tariff was imposed on our goods, the prices of our upholstered furniture were reduced. In addition, the Group outsourced a large portion of its production to other manufacturers. While this strategy helped the Group to reduce its administrative and fixed costs, it led to a lower gross profit margin as the purchase cost from outsider suppliers increased. As a result, the Group's gross profit margin for the year ended 31 December 2019 decreased to 10.5% (31 December 2018: 16.4%).

Selling and Distribution Expenses

The Group's selling and distribution expenses amounted to about HK\$23.8 million for the year ended 31 December 2019, compared to about HK\$28.6 million for the year ended 31 December 2018. The decrease in selling and distribution expenses was a result of the continuous cost control at all levels.

Administrative Expenses

During the year under review, the Group had specifically written off the trade receivables of approximately HK\$7,359,000 that related to Pier 1, one of the Group's major customers for upholstered furniture products. Pier 1 and its subsidiaries have commenced voluntary chapter 11 proceedings in the U.S. Bankruptcy Court for the Eastern District of Virginia, as disclosed in the announcement of the Company on 25 February 2020.

For the year ended 31 December 2019, the Group's administrative expenses were approximately HK\$75.7 million compared to about HK\$95.7 million for the year ended 31 December 2018. The decrease in administrative expenses was mainly attributable to the decrease in the costs associated with restructuring the Group's business units, less headcount and hence fixed costs, as well as the decrease in 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 2019 was approximately HK\$105.5 million as compared to loss attributable to equity holders of the Company of approximately HK\$74.2 million for the corresponding period last year.

EMPLOYMENT AND REMUNERATION POLICY

As at 31 December 2019, the Group employed approximately 300 employees (2018: approximately 680).

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\$59.7 million as at 31 December 2019 (31 December 2018: HK\$23.9 million).

As at 31 December 2019, the Group had bank loans amounting to HK\$34.5 million (31 December 2018: HK\$32.5 million). As at the same date, the gearing ratio (total debt/total equity) was 0.5 (31 December 2018: 0.4).

As at 31 December 2019, the current ratio (current assets/current liabilities) was 1.6 (31 December 2018: 1.3) and the net current assets amounted to HK\$74.4 million (31 December 2018: HK\$49.0 million).

The ageing analysis of trade creditors and bills payable and the maturity profiles of bank loans are set out in the notes 18 and 19 to the consolidated financial statements of this annual report.

SEGMENT INFORMATION

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

ENVIRONMENTAL POLICY

The Group's commitment to protect the environment is well reflected by its continuous efforts in promoting green measures and awareness in its daily business operations. The Group encourages environmental protection and promotes 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 puts 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 of Hong Kong Limited (the "Stock Exchange"). The Group's operations accordingly shall comply with relevant laws and regulations in mainland China and Hong Kong.

Management Discussion and Analysis

During the year ended 31 December 2019 and up to the date of this report, to the best of knowledge of the Company, the Group has complied with all the relevant laws and regulations in mainland China and Hong Kong which have a significant impact on the business and operations of the Group, and there was no material breach of or non-compliance with the applicable laws and regulations by the Group that has a significant impact on the business and operations of the Group.

RELATIONSHIPS WITH STAKEHOLDERS

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

The Group also understands that it is important to maintain good relationship with business partners and bank enterprises to achieve its long-term goals. Accordingly, the senior management of the Group kept good communication, promptly exchanged ideas and shared business update with them when appropriate. During the Year 2019, there was no material and significant dispute between the Group and its business partners or bank enterprises.

KEY RISKS AND UNCERTAINTIES

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

Market Risks

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

Foreign Currency Risk

The Group is exposed to foreign currency risk primarily through sales and purchases that are denominated in a currency other than the functional currency of the operations to which they relate. The currencies giving rise to this risk are primarily Hong Kong dollar, Renminbi and United States dollar. 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 bank deposits and bank loans which 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 a 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 2019, the Group had banking facilities which were secured by (i) pledge of buildings; (ii) pledged bank deposits of approximately HK\$1.3 million; and (iii) corporate guarantees from the Company.

SIGNIFICANT INVESTMENTS, ACQUISITIONS AND DISPOSALS

On 23 July 2019, Great Ample Holdings Limited ("Vendor"), an indirect wholly-owned subsidiary of the Company, and Jumbo Holding Development Limited ("Purchaser") entered into a sale and purchase agreement, pursuant to which the Vendor agreed to sell and the Purchaser agreed to acquire the entire issued share capital of the Glory Skill Investments Limited ("Glory Skill") and the aggregate amount of HK\$83,815,000 outstanding and owed by Glory Skill to the Vendor for the total consideration of HK\$84,815,000.

The Company recorded a disposal gain of approximately HK\$4.8 million. However, when taking account of the cumulative exchange gain reclassified from equity to profit or loss of approximately HK\$14.5 million, the Company recorded a disposal gain of approximately HK\$19.4 million. Further information is set out in note 30(b) to the consolidated financial statements of this annual report.

The transaction was completed on 23 August 2019.

Save as disclose above, there were no other significant investment, material acquisitions and disposal of subsidiaries by the Group during the Year.

CONTINGENT LIABILITIES

At 31 December 2019, the Group had no contingent liabilities.

PROSPECTS

As we enter 2020, the outbreak of coronavirus disease (COVID-19) together with the challenges posed by the continued trade dispute between the US and China as well as low consumer sentiment in China, it is expected that the traditional consumer industry will be exposed to more challenges.

The Group will continue to carry out reforms in addition to those which were already taken place in 2019. We will optimize the supply chain management to further reduce our production costs.

Our corporate brand "Hing Lee Myriad Home 興利萬家" is one of our important assets and also one of our keys to success. Riding on our strong design, promotion and brand development capabilities, the Group will consider to adopt a business diversification strategy and develop other business operations in order to maximize the returns for the shareholders of the Company.

CORPORATE GOVERNANCE

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

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

Code provision A.2.1

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

MODEL CODE FOR DIRECTORS’ SECURITIES TRANSACTIONS

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

BOARD OF DIRECTORS**Composition of the Board**

The Board members of the Company currently are:

Executive directors:

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

Mr. Cheung Kong Cheung

Independent non-executive directors:

Mr. Sun Jian

Ms. Shao Hanqing

Mr. Kong Hing Ki

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

The composition of the Board is well balanced. Each of the Directors has relevant expertise and extensive corporate and strategic planning experiences that may contribute to the business of the Group. Upon reviewing (i) the directorships and major commitments of each Director; and (ii) the attendance rate of each Director at the meetings of the Board and its committees, the Board is satisfied that all Directors have spent sufficient time in performing their responsibilities during 2019.

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

Functions of the Board

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

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

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

During the year of 2019, in relation to the corporate governance functions, the Board has reviewed the Company's compliance with the CG Code and the regulatory and statutory requirements, and the disclosure in the corporate governance report.

BOARD DIVERSITY POLICY

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

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

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

BOARD MEETINGS AND PROCEDURES

The Board met four times during the year ended 31 December 2019. The attendance record of each Director at these regular board meetings is set out in the following table:

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

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

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

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

DIRECTORS' CONTINUOUS TRAINING AND DEVELOPMENT

Directors should participate in continuous professional development to develop and refresh their knowledge and skills. This is to ensure that their contribution to the Board remains informed and relevant. The Directors are committed to complying with code provision A.6.5 of the CG Code on requirements of Directors' training. All Directors have participated in continuous professional development and provided a record of training they received for the financial year ended 31 December, 2019 to the Company.

According to the records provided by the Directors, the training received by each of the Directors during the financial year ended 31 December 2019 is summarized as follows:

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

Notes:

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

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

BOARD COMMITTEES

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

AUDIT COMMITTEE

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

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

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

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

REMUNERATION COMMITTEE

The Company has set up a Remuneration Committee with written terms of reference which are in compliance with the code provisions of the Code. The Remuneration Committee shall make recommendations to the Board on, among other matters, the Company's policy and structure for the remuneration of all Directors and the senior management of the Group and are delegated by the Board the responsibility to determine on behalf of the Board the remuneration for Directors and senior management of the Group. The Remuneration Committee consists of three members, namely, Mr. Sun Jian (Chairman), Ms. Shao Hanqing and Mr. Kong Hing Ki, all being independent non-executive Directors.

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

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

One meeting was held during the year ended 31 December 2019 to review the remuneration and incentive package of the senior management. Attendance of the members is set out below:

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

Details of the remuneration of each Director for 2019 are set out in the Note 7 to the consolidated financial statements in this annual report.

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

Remuneration by Bands

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

	2019		2018	
	Number of Directors	Number of senior management	Number of Directors	Number of senior management
HK\$Nil to HK\$1,000,000	3	4	3	4
HK\$1,000,001 – HK\$2,000,000	2	–	2	1
HK\$2,000,001 – HK\$3,000,000	–	–	–	–
HK\$3,000,001 – HK\$4,000,000	–	–	–	–

In addition, the Company has adopted a new share option scheme (the “Share Option Scheme”) on 17 May 2019. The purpose of the Share Option Scheme is to enable the Company to grant options to eligible participants as incentives or rewards for their contribution to the growth of the Group and to provide the Group with a more flexible means to reward, remunerate, compensate and/or provide benefits to the eligible participants.

NOMINATION COMMITTEE

The Company has set up a Nomination Committee with written terms of reference which are in compliance with the code provisions of the CG Code. The Nomination Committee shall make recommendations to the Board on appointment of Directors and succession planning for Directors. The Nomination Committee consists of five members, namely, Ms. Shao Hanqing (Chairman), Mr. Sung Kai Hing, Mr. Cheung Kong Cheung, Mr. Sun Jian and Mr. Kong Hing Ki, comprising of 2 executive Directors and 3 independent non-executive Directors.

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

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

In Year 2019, the Committee had reviewed and discussed the following issues at its meeting:

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

In carrying out the responsibility for identifying suitably qualified candidates to become members of the Board, the Nomination Committee will give adequate consideration to the board diversity policy of the Company as summarized at page 13.

The Board has adopted a nomination policy for the Nomination Committee, which sets out the criteria and procedures in identifying and selecting candidates for directorship and making recommendations to the Board on appointment and re-appointment of Director. In the case of identifying candidate(s) to be appointed as Director, the Nomination Committee shall hold a meeting to consider the candidate(s) identified or selected pursuant to the nomination criteria and make recommendations to the Board if appropriate. In the case of re-appointment of existing Director, the Nomination Committee shall review the overall contribution and services of the retiring Director, their participation and performance within the Board in making recommendations to the Board for its consideration and recommendation. The factors considered in assessing the suitability of a proposed candidate for appointment as Director or re-appointment of existing Director are as follows:

- Contribution to the Board with due regard to the Board's diversity policy;
- The perspectives, skills and experience that the candidate can bring to the Board;
- Reputation for integrity;
- Willingness to devote adequate time to discharge duties as a Board member; and
- Satisfaction of independence requirements of the Listing Rules in the case of a candidate for independent non-executive Directors.

One meeting was held during the year ended 31 December 2019 for reviewing the structure, size and composition of the Board. Attendance of the members is set out below:

Directors

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



ACCOUNTABILITY AND AUDIT

Directors' Responsibility for the Accounts

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

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

EXTERNAL AUDITORS' REMUNERATION

The Company engaged Baker Tilly Hong Kong Limited ("Baker Tilly") as its external auditors for year ended 31 December 2019. For the year ended 31 December 2019, remuneration payable to the Company's auditor, Baker Tilly, for the provision of audit services was HK\$850,000. During the year, there was no payable as remuneration to Baker Tilly for the provision of non-audit related services.

INTERNAL CONTROLS AND RISK MANAGEMENT

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

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

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

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

The external auditor, in the course of their audit, obtained an understanding of internal controls relevant to the Group's preparation of consolidated financial statements that give a true and fair view in order to design audit procedures that are appropriate in the circumstances but not for the purpose of expressing an opinion on the effectiveness of the Group's internal control. Any significant deficiencies noted during the course of the audit in such internal controls relevant to audit of the Group's consolidated financial statements will be reported to the Audit Committee at least once a year. After due and careful inquiries, the Audit Committee and the Board considered the policies and procedures of internal control covering all material controls including financial, operational and compliance controls and risk management system are effective and adequate and will conduct ongoing review on the effectiveness of the system. The Audit Committee also considered, after due and careful inquiries, that the Company has complied with the internal control system and the relevant accounting, financial and Listing Rules requirements.

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

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

COMMUNICATIONS WITH SHAREHOLDERS AND INVESTORS

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

The Company held one general meeting, being the annual general meeting, in 2019. The attendance record of the Directors at such meeting is set out below:

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

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

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

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

SHAREHOLDERS' RIGHTS

(a) Right to convene special general meeting

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

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

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

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

(b) Right to put forward proposals at general meetings

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

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

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

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

COMPANY SECRETARY

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

According to Rule 3.29 of the Listing Rules, Mr. Wong has taken no less than 15 hours of relevant professional training during the financial year ended 31 December 2019.

CONSTITUTIONAL DOCUMENTS

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

PUBLICATION OF AUDITED FINANCIAL RESULTS

The Company's financial results announcement for the financial year ended 31 December 2019 and this annual report are published on the website of the Stock Exchange at www.hkex.com.hk and on the Company's website at www.hingleehk.com.hk.

DIRECTORS AND SENIOR MANAGEMENT

Executive Director

Mr. Sung Kai Hing (宋啟慶先生), aged 63, is an Executive Director, the Chairman and the Chief Executive Officer of the Company and one of the founders of the Group and he has over 20 years of experience in the furniture industry. Mr. Sung was appointed as a Director on 20 April 2004. He is primarily responsible for the overall strategic planning and business development of the Group as well as overseeing the daily operations of the Group. Besides, he is also a director of certain subsidiaries of the Company and a member of the Nomination Committee.

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

Mr. Cheung Kong Cheung (張港璋先生), aged 58, is an Executive Director and one of the founders of the Group and he has over 20 years of experience in the furniture industry. Mr. Cheung was appointed as a Director on 20 April 2004. He is responsible for the administration and human resources management, as well as upholstered furniture business of the Group. Besides, he is also a director of certain subsidiaries of the Company and a member of the Nomination Committee. He has been appointed as a part-time instructor with specialisation in international trade and trading of home furniture at 南京林業大學 (Nanjing Forestry University) and 中南林業科技大學 (Central South University of Forestry and Technology) (formerly known as 中南林學院 (Central South Forestry University)) since June 2004 and November 2004 respectively.

Independent Non-executive Director

Mr. Sun Jian (孫堅先生), aged 55, was appointed as an Independent Non-Executive Director on 1 July 2007. He is also the Chairman of the Remuneration Committee and a member of the Audit Committee and the Nomination Committee. He has over 19 years of experience in retail businesses and is a director and the chief executive officer of Home Inns & Hotel Management, Inc., a company which is principally engaged in the hotel industry with its shares listed on the National Association of Securities Dealers Automated Quotation System in the U.S.. Mr. Sun obtained a bachelor's degree in hygiene management from 上海醫科大學 (Shanghai Medical University) (subsequently renamed as 復旦大學上海醫學院 (Shanghai Medical College of Fudan University)) in July 1987. He is the vice president of 中國連鎖經營協會 (China Chain Store & Franchise Association).

Biographical Details of Directors and Senior Management

Ms. Shao Hanqing (邵漢青女士), aged 82, was appointed as an Independent Non-Executive Director on 29 May 2009. She is also the Chairman of the Nomination Committee and a member of the Audit Committee and the Remuneration Committee. She is a part-time professor and a mentor to the doctorate candidates of the economics faculty of 中國人民大學 (Renmin University of China). Ms. Shao was elected as a fellow in the World Academy of Productivity Science by World Confederation of Productivity Science in 2006. Ms. Shao obtained a bachelor's degree of national economic planning from 中國人民大學 (Renmin University of China) in 1964.

Mr. Kong Hing Ki (江興琪先生), aged 49, was appointed as an Independent Non-Executive Director on 29 May 2009. He is also the Chairman of the Audit Committee and a member of the Remuneration Committee and the Nomination Committee. He has over 20 years of experience in accounting, auditing and finance, gained from international accountancy and commercial firms. He is an independent non-executive director of RENHENG Enterprise Holdings Limited (stock code: 3628), a company whose shares are listed on the Main Board of the Stock Exchange. Mr. Kong holds a bachelor's degree of commerce from Australian National University and a master of business administration degree from Deakin University. He is a fellow member of the Hong Kong Institute of Certified Public Accountants and a member of CPA Australia.

SENIOR MANAGEMENT

Mr. Huang Wei Ye (黃偉業先生), aged 65, is one of the founders of the Group. He joined the Group in 1995 and is the head of the Group's design and development department, as well as the production department, and is responsible for overseeing the design, development and manufacture of the Group's furniture products. He is also a director of certain subsidiaries of the Company. Mr. Huang has over 25 years of experience in the furniture industry. Mr. Huang was currently the Chairman of Shenzhen Furniture Trade Association. Mr. Huang has been appointed as a part-time instructor with specialisation in product design, production strategies and industry trend analysis at 南京林業大學 (Nanjing Forestry University) and 中南林業科技大學 (Central South University of Forestry and Technology) (formerly known as 中南林學院 (Central South Forestry University)) since 2003. He obtained a master of business administration degree from 北京大學 (Peking University) in July 2007.

Mr. Chan Kwok Kin (陳國堅先生), aged 62, is one of the founders of the Group. Being the head of the sales and marketing department, as well as the procurement department of the Group, he is responsible for formulating the Group's sales and marketing strategies and procurement policies and overseeing the Group's sales and marketing activities. He is also a director of certain subsidiaries of the Company. Mr. Chan has over 20 years of experience in the furniture industry. He was appointed as a part-time instructor with specialisation in sales and marketing strategies and brand development at 南京林業大學 (Nanjing Forestry University) and 中南林業科技大學 (Central South University of Forestry and Technology) (formerly known as 中南林學院 (Central South Forestry University)) since 2004.

Biographical Details of Directors and Senior Management



HING
LEE

Mr. Pu Cai Jun (蒲采君先生), aged 57, is the financial controller of the PRC operation. He is responsible for all financial and accounting matters in respect of the PRC subsidiaries of the Group. Mr. Pu joined the Group in 2002 and has over 18 years of experience in financial controlling. He obtained a bachelor's degree in accounting from 湖南財經學院 (Hunan Finance and Economics Institute) in July 1991.

CHIEF FINANCIAL OFFICER AND COMPANY SECRETARY

Mr. Wong Kit Wai (黃杰偉先生), aged 50, is the chief financial officer and the company secretary of the Group. He is responsible for supervising the Group's financial management and overseeing the company secretarial and compliance affairs of the Group. Mr. Wong joined the Group in January 2007 and has over 15 years of experience in accounting and finance. He obtained a master of business administration degree from Deakin University, Australia and a bachelor of commerce degree from The University of New South Wales. He is a fellow member of Hong Kong Institute of Certified Public Accountants and a fellow member of CPA Australia. Besides, Mr. Wong is an fellow member of the Hong Kong Institute of Chartered Secretaries and a fellow member of The Chartered Governance Institute (formerly known as The Institute of Chartered Secretaries and Administrators), the United Kingdom.

The Board has pleasure in submitting their annual report and the audited consolidated financial statements of the Company and its subsidiaries (collectively, the "Group") for the year ended 31 December 2019.

GENERAL INFORMATION

The Company was incorporated in the British Virgin Islands ("BVI") on 20 April 2004 and was re-domiciled and continued in Bermuda with limited liability on 30 March 2007. The registered office address is The Belvedere Building, 69 Pitts Bay Road, Pembroke HM08, Bermuda.

PRINCIPAL PLACE OF BUSINESS

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

PRINCIPAL ACTIVITIES AND BUSINESS REVIEW

The principal business activities of the Group are the design, manufacture, sale and marketing of home furniture products including mainly wood-based furniture, sofa, mattresses and licensing of its own brands and product designs. Further discussion and analysis of these activities as required by Schedule 5 to the Hong Kong Companies Ordinance, including a discussion of the principal risks and uncertainties facing the Group and indication of likely future developments in the Group's business, can be found in the Management Discussion and Analysis set out on pages 5 to 10 of this annual report. This discussion forms part of this directors' report.

RESULTS

The results of the Group for the year ended 31 December 2019 are set out in the consolidated statement of profit or loss on page 43 of this annual report.

DIVIDEND AND DIVIDEND POLICY

The Company adopted a dividend policy, according to which the Board shall take into account, inter alia, the following factors when deciding whether to propose a dividend and if so, determining the dividend amount: (i) operating and financial results; (ii) cash flow situation; (iii) business conditions and strategies; (iv) future operations and earnings; (v) taxation consideration; (vi) interim dividend paid, if any; (vii) capital requirement and expenditure plans; (viii) interests of shareholders; (ix) statutory and regulatory restrictions; (x) any restrictions on payment of dividends; and (xi) any other factors that the Board may consider relevant. It is also subject to the approval of the shareholders, the companies ordinance (where applicable), the Bye-laws of the Company as well as any applicable laws and regulations. The Company does not have any pre-determined payout ratio.

DIVIDENDS

The Board does not recommend the payment of a final dividend for the year ended 31 December 2019 (2018: Nil).

PROPERTY, PLANT AND EQUIPMENT

Details of movements in property, plant and equipment of the Group during the year ended 31 December 2019 are set out in Note 11 to the consolidated financial statements in this annual report.

SHARE CAPITAL

Details of the Company's paid up capital for the year ended 31 December 2019 are set out in Note 24 to the consolidated financial statements in this annual report.

SHARE OPTION SCHEME

The Company adopted a share option scheme by the written resolutions of the shareholders on 29 May 2009 (the "Old Scheme"), which expired on 28 May 2019. The Company adopted a new share option scheme (the "New Scheme" or "Share Option Scheme") at its annual general meeting on 17 May 2019. The purpose of the Share Option Scheme is to enable the Company to grant options to full-time or part-time employees, directors, supplier, service provider and business partner of the Company and/or any of its subsidiaries (the "Eligible Participants") as incentives or rewards for their contribution to the growth of the Group and to provide the Group with a more flexible means to reward, remunerate, compensate and/or provide benefits to the Eligible Participants. There is no share option movements nor any outstanding share options under both the Old Scheme and the New Scheme during the period under review.

Details of the principal terms of the Share Option Scheme are set out in the Circular dated 11 April 2019. Certain principal terms of the Share Option Scheme are summarized as follows and in Note 23 to the consolidated financial statement in this annual report:

The Share Option Scheme was adopted for a period of 10 years commencing from 17 May 2019 and will remain in force until 16 May 2029, after which period no further options will be offered or granted but the provisions of the Share Option Scheme shall remain in full force and effect in all other respects with respect to options granted during the life of the Share Option Scheme. The Company may by ordinary resolution in general meeting or the Board may at any time terminate the Share Option Scheme without prejudice to the exercise of options granted prior to such termination.

The subscription price for shares of the Company (each a "Share", and collectively, the "Shares") in respect of any particular option granted under the Share Option Scheme shall be such price as the Board shall determine, provided that such price shall be at least the highest of (i) the closing price per Share on the Main Board as stated in the Stock Exchange's daily quotations sheet on the date of offer of the option (and if such date of offer of the option is not a business day, the business day immediately preceding such date of offer of the option); (ii) the average closing price per Share on the Main Board as stated in the Stock Exchange's daily quotations sheets for the five (5) business days immediately preceding the date of offer of the option; and (iii) the nominal value of a Share. Subject to such terms and conditions as the Board may determine in its absolute discretion, there is no general requirement on the minimum period for which an option must be held before an option can be exercised under the Share Option Scheme.

The total number of Shares which may be issued upon exercise of all options to be granted under the Share Option Scheme and any other share option schemes of the Group must not, in aggregate, exceed 10% of the issued share capital of the Company as at the New Scheme adoption date on 17 May 2019, such 10% being equivalent to 80,809,602 Shares, representing 10% of the issued share capital of the Company as at the date of this annual report. In addition, if any options subsequently lapsed in accordance with the terms of the Share Option Scheme or any other share option schemes of the Group, such options will not be counted for the purpose of calculating the said 10% limit.

No share options were outstanding as at 31 December 2019. There is no share options movements during the year ended 31 December 2019.

EQUITY-LINKED AGREEMENTS

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

PRE-EMPTIVE RIGHTS

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

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

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

RESERVES

Details of movements in the reserves of the Company and the Group during the year are set out in Note 31(b) to the financial statements and the consolidated statement of change in equity in this annual report respectively.

DISTRIBUTABLE RESERVES

As at 31 December 2019, the Company's reserves available for distribution, calculated in accordance with the provisions of the Companies Act 1981 of Bermuda, amounted to HK\$272 million.

MAJOR CUSTOMERS AND SUPPLIERS

Sales to the Group's five largest customers accounted for approximately 67.0% of the total sales for Year 2019 and sales to the largest customer included therein amounted to 26.1%. Purchases from the Group's five largest suppliers accounted for approximately 43.5% of the total purchase for Year 2019 and purchase from the Group's largest supplier included therein amounted to 28.3%.

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

MANAGEMENT CONTRACTS

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

DIRECTORS

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

Executive directors:

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

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

Independent non-executive directors:

Mr. Sun Jian (appointed on 1 July 2007)

Ms. Shao Hanqing (appointed on 29 May 2009)

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

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

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

Each of the executive Directors has entered into a service contract with the Company for a term of three years commencing from 22 June 2018, which will continue until terminated by not less than three months' prior notice in writing served by either party on the other.

Each of the independent non-executive Directors has entered into a letter of appointment with the Company for a period of two years commencing from 22 June 2019.

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

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

BIOGRAPHIES OF DIRECTORS AND OTHER SENIOR MANAGEMENT

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

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

No transactions, arrangements or contracts of significance in relation to which the Company or any of its subsidiaries, parent companies or fellow subsidiaries was a party, and in which any Director of the Company had a material interest or which the controlling shareholder of the Company or any of its subsidiaries is a party, subsisted at the end of the Year 2019 or at any time during the Year 2019.

DIRECTORS' INTEREST IN COMPETING BUSINESS

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

INDEMNITY PROVISION

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

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

As at 31 December 2019, the interests and short positions of the Directors and chief executive of the Company in shares, underlying shares and debentures of the Company or any of its associated corporations (within the meaning of Part XV of the Securities and Futures Ordinance (Chapter 571 of the Laws of Hong Kong) (the "SFO") which were required to be entered into the register required to be kept under section 352 of the SFO or otherwise were required to be notified to the Company and the Stock Exchange pursuant to Divisions 7 and 8 of Part XV of the SFO (including interests and short positions which they are taken or deemed to have under such provisions of the SFO) and/or the Model Code for Securities Transactions by Directors of Listed Issuers set out in Appendix 10 to the Listing Rules (the "Model Code"), were as follows:

Long positions in the Shares of HK\$0.01 each

Name of Director/ chief executive	Nature of interests	Number of Shares	Approximate percentage of the issued share capital of the Company
Mr. Sung Kai Hing (note 1)	Beneficial owner and interest of a controlled corporation	287,512,777	35.58%
Mr. Cheung Kong Cheung (note 2)	Beneficial owner and interest of a controlled corporation	62,040,465	7.68%
Mr. Kong Hing Ki	Beneficial owner	900,000	0.11%
Mr. Sun Jian	Beneficial owner	2,000,000	0.25%

Notes:

- The 28,606,000 Shares were held by Mr. Sung Kai Hing and 258,906,777 Shares were held by King Right Holdings Limited ("King Right"), a company beneficially wholly-owned by Mr. Sung Kai Hing, who is also the sole director of King Right. By virtue of the SFO, Mr. Sung Kai Hing is deemed to be interested in the same parcel of Shares in which King Right is interested.
- The 7,200,000 Shares were held by Mr. Cheung Kong Cheung, 54,840,465 Shares were held by United Sino Limited ("United Sino"), a company beneficially wholly-owned by Mr. Cheung Kong Cheung, who is also the sole director of United Sino. By virtue of the SFO, Mr. Cheung Kong Cheung is deemed to be interested in the same parcel of Shares in which United Sino is interested.

Save as disclosed above, as at 31 December 2019, none of the Directors or chief executive of the Company had or was deemed to have any interests or short position in the shares, underlying shares and debentures of the Company and its associate corporations (within the meaning of Part XV of the SFO), which were required to be entered into the register required to be kept under section 352 of the SFO or as otherwise notified to the Company and the Stock Exchange pursuant to Divisions 7 and 8 of Part XV of the SFO or the Model Code.

DIRECTORS' RIGHTS TO ACQUIRE SHARES AND DEBENTURES

At no time during the Year 2019 or at the end of the Year 2019 has been/was the Company, its holding company, or any of its subsidiaries or fellow subsidiaries a party to any arrangement whose objects are, or one of whose objects is, to enable the Directors to acquire benefits by means of the acquisition of shares in, or debentures of, the Company or any other body corporate.

SUBSTANTIAL SHAREHOLDERS

As at 31 December 2019, the persons (not being a Director or chief executive of the Company) who have interest or short position in the shares or underlying shares of the Company as recorded in the register required to be kept under section 336 of the SFO were as follows:

Long positions in Shares of HK\$0.01 each

Name	Capacity	Number of Shares	Approximate percentage of shareholding %	<i>Note</i>
King Right	Beneficial owner	258,906,777	32.04	1
Ms. Wong Wai King	Family interests	287,512,777	35.58	1
United Sino	Beneficial owner	54,840,465	6.79	2
Ms. Li Xin	Family interests	62,040,465	7.68	2
Golden Sunday Limited ("Golden Sunday")	Beneficial owner	54,840,465	6.79	3
Mr. Chan Kwok Kin	Beneficial owner and interest of a controlled corporation	62,040,465	7.68	3
Ms. Ho Fung Ying	Family interests	62,040,465	7.68	3
Top Right Trading Limited ("Top Right")	Beneficial owner	51,586,293	6.38	4
Mr. Huang Wei Ye	Beneficial owner and interest of a controlled corporation	58,936,293	7.29	4
Ms. Ye Jian Qun	Family interests	58,936,293	7.29	4

Notes:

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

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

Events after the reporting period

After the outbreak of Coronavirus Disease 2019 ("COVID-19 Outbreak") in early 2020, a series of prevention and control measures have been and will continue to be implemented across the PRC, including the regions where the Group operates. While the Group's production plant has resumed the production since February 2020 after the Chinese new year holiday, there are certain extent of interruptions on the availability of workforce, the supply chain and the delivery of products to the customers. The Company expects that the COVID-19 Outbreak and the prevention and control measures will have an impact on the Group's production and operation, the extent of which depends on the duration and the progress of the epidemic prevention and control, and the implementation of prevention and control policies in the regions where the Group operates.

The Company will continue to pay close attention to the development of the COVID-19 Outbreak, and actively respond to its impact on the Group's financial position, operating results and other aspects. As at the date of this report, the Company is still in the process of assessment.

Corporate Governance

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

Sufficiency of Public Float

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

AUDITORS

The consolidated financial statements of the Group for the years ended 31 December 2017, 2018 and 2019 were audited by Baker Tilly Hong Kong Limited ("Baker Tilly").

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

APPRECIATION

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

By Order of the Board of

Hing Lee (HK) Holdings Limited
Sung Kai Hing

Chairman and Chief Executive Officer
Hong Kong, 27 March 2020



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

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

Opinion

We have audited the consolidated financial statements of Hing Lee (HK) Holdings Limited and its subsidiaries (together the "Group") set out on pages 43 to 112, which comprise the consolidated statement of financial position as at 31 December 2019, and the consolidated statement of profit or loss, the consolidated statement of profit or loss and other comprehensive income, the consolidated statement of changes in equity and the consolidated statement of cash flows for the year then ended, and notes to the consolidated financial statements, including a summary of significant accounting policies.

In our opinion, the consolidated financial statements give a true and fair view of the consolidated financial position of the Group as at 31 December 2019 and of its consolidated financial performance and consolidated cash flows for the year then ended in accordance with Hong Kong Financial Reporting Standards ("HKFRSs") issued by the Hong Kong Institute of Certified Public Accountants ("HKICPA") and have been properly prepared in compliance with the disclosure requirements of the Hong Kong Companies Ordinance.

Basis for opinion

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

Key audit matters

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

The Key Audit Matter**How the matter was addressed in our audit****Key judgements relating to the impairment testing on goodwill**

Refer to Note 2(i)(ii) and 14 to the audited consolidated financial statements

Under HKFRSs, the Group is required to test the amount of goodwill for impairment, both annually and if there is evidence that impairment tests are warranted. Impairment tests are significant to our audit due to the judgements and assumptions involved in those tests and their evaluation which are affected by expected future market or economic conditions, in particular in relation to the Group's upholstered furniture market. During the year ended 31 December 2019, a full impairment of goodwill of approximately HK\$48,387,000 was made by the Group.

We identified assessing impairment of goodwill as a key audit matter because of the significant judgement and estimation required to be exercised particularly in respect of estimating long-term growth rates, future revenue, future cost of sales and other operating expenses, the discount rates applied and also because of the selection of these assumptions could be subject to management bias.

Our audit procedures in this area included:

- evaluating the assumptions and methodologies used by management, in particular those relating to sales growth rates and the Group's pre-tax discount rates.
- assessing and challenging cash flow projections prepared by management, including an assessment of the historical accuracy of management's estimates and comparing historic actual results to those budgeted so as to assess the quality of management's forecasting and judgement.
- assessing the sensitivity of forecasts to changes in assumptions, including sales growth beyond the 2020 forecast, long-term growth rates and discount rates in the model to assess the appropriateness of the carrying value of the goodwill.
- assessing the adequacy of disclosures relating to those assumptions to which the outcome of the impairment tests is most sensitive, that is, those that have the most significant effect on the determination of the recoverable amount of goodwill.

The Key Audit Matter

How the matter was addressed in our audit

Key judgements relating to the impairment testing on property, plant and equipment and right-of-use assets

Refer to Notes 2(i)(iii), 11 and 13 to the audited consolidated financial statements

At 31 December 2019, the Group's property, plant and equipment amounted to HK\$112,879,000 and right-of-use assets amounted to HK\$24,935,000.

Management performed impairment assessments of the Group's property, plant and equipment and right-of-use assets by comparing the carrying values with their value-in-use to determine the amount of impairment loss that should be recognised for the year.

We identified assessing impairments of property, plant and equipment and right-of-use assets as a key audit matter because of the significant judgement and estimation required to be exercised particularly in respect of estimating long-term growth rates, future revenue, future cost of sales and other operating expenses, the discount rates applied and also because of the selection of these assumptions could be subject to management bias.

Our audit procedures in this area included:

- evaluating the assumptions and methodologies used by management, in particular those relating to sales growth rates and the Group's pre-tax discount rates.
- assessing and challenging cash flow projections prepared by management, including an assessment of the historical accuracy of management's estimates and comparing historic actual results to those budgeted so as to assess the quality of management's forecasting and judgement.
- assessing the sensitivity of forecasts to changes in assumptions, including sales growth beyond the 2020 forecast, long-term growth rates and discount rates in the model to assess the appropriateness of the carrying values of the property, plant and equipment and right-of-use assets.
- assessing the adequacy of disclosures relating to those assumptions to which the outcome of the impairment tests is most sensitive, that is, those that have the most significant effect on the determination of the recoverable amounts of property, plant and equipment and right-of-use assets.

The Key Audit Matter**How the matter was addressed in our audit****Valuation of inventories**

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

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

The value of inventories as at 31 December 2019 was HK\$10,739,000 (2018: HK\$32,298,000) which is significant for the consolidated statement of financial position. Further, a net reversal of write-down of inventories of HK\$10,379,000 (2018: HK\$18,773,000) was recognised during the year ended 31 December 2019.

We identified valuation of inventories as a key audit matter because of the magnitude of inventories and the estimation of the net realisable value of inventories involved a high level of management judgement. These estimations are also subject to uncertainty as a result of change of competitor actions and market condition.

Our audit procedures in this area included:

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

The Key Audit Matter

How the matter was addressed in our audit

Impairment of trade receivables

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

At 31 December 2019, the Group had trade receivables of HK\$39,935,000 (2018: HK\$42,210,000) with loss allowance of HK\$2,260,000 (2018: HK\$3,014,000).

Loss allowance for trade receivables is based on management's estimate of the lifetime expected credit losses to be incurred, which is estimated by taking into account the credit loss experience, ageing of overdue trade receivables, customers' repayment history and financial position and an assessment of both the current and forecast general economic conditions, all of which involve a significant degree of management judgement.

We identified assessing the recoverability of trade receivables as a key audit matter because the assessment of recoverability of trade receivables and recognition of loss allowance are inherently subjective and require significant management judgement, which increases the risk of error or potential management bias.

Our audit procedures in this area included:

- evaluating the design, implementation and operating effectiveness for key internal controls which govern credit control, debt collection and estimate of expected credit losses.
- assessing, on a sample basis, whether items in the trade receivables ageing report were classified within the appropriate ageing bracket by comparing individual items in the report with the relevant sales invoices.
- assessing the reasonableness of management's loss allowance estimates by examining the information used by management to form such judgements, including testing the accuracy of the historical default data, evaluating whether the historical loss rates are appropriately adjusted based on current economic conditions and forward-looking information and examining the actual losses recorded during the current financial year and assessing whether there was an indication of management bias when recognising loss allowance.
- reviewing subsequent settlement records and challenging management regarding their reasons for not considering a provision against any unsettled past-due balances.

Other information

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

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

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

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

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

The directors are responsible for the preparation of consolidated financial statements that give a true and fair view in accordance with HKFRSs issued by the HKICPA and the disclosure requirements of the Hong Kong Companies Ordinance, and for such internal control as the directors determine is necessary to enable the preparation of consolidated financial statements that are free from material misstatement, whether due to fraud or error.

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

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



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

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

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

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

- Identify and assess the risks of material misstatement of the consolidated financial statements, whether due to fraud or error, design and perform audit procedures responsive to those risks, and obtain audit evidence that is sufficient and appropriate to provide a basis for our opinion. The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control.
- Obtain an understanding of internal control relevant to the audit in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the Group's internal control.
- Evaluate the appropriateness of accounting policies used and the reasonableness of accounting estimates and related disclosures made by the directors.
- Conclude on the appropriateness of the directors' use of the going concern basis of accounting and, based on the audit evidence obtained, whether a material uncertainty exists related to events or conditions that may cast significant doubt on the Group's ability to continue as a going concern. If we conclude that a material uncertainty exists, we are required to draw attention in our auditor's report to the related disclosures in the consolidated financial statements or, if such disclosures are inadequate, to modify our opinion. Our conclusions are based on the audit evidence obtained up to the date of our auditor's report. However, future events or conditions may cause the Group to cease to continue as a going concern.
- Evaluate the overall presentation, structure and content of the consolidated financial statements, including the disclosures, and whether the consolidated financial statements represent the underlying transactions and events in a manner that achieves fair presentation.

Independent Auditor's Report

- Obtain sufficient appropriate audit evidence regarding the financial information of the entities or business activities within the Group to express an opinion on the consolidated financial statements. We are responsible for the direction, supervision and performance of the group audit. We remain solely responsible for our audit opinion.

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

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

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

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

Baker Tilly Hong Kong Limited

Certified Public Accountants

Hong Kong, 27 March 2020

Chan Kwan Ho, Edmond

Practising certificate number P02092

Consolidated statement of profit or loss

for the year ended 31 December 2019 (Expressed in Hong Kong dollars)

	Note	2019 HK\$'000	2018 HK\$'000
Revenue	3	300,142	262,522
Cost of sales		<u>(268,715)</u>	<u>(219,405)</u>
Gross profit		31,427	43,117
Gain on disposal of subsidiaries	30(b)	19,369	–
Other net (loss)/income	4	(6,338)	10,277
Selling and distribution expenses		(23,824)	(28,643)
Administrative expenses		(75,706)	(95,704)
Impairment loss on goodwill	14	(48,387)	–
Loss from operation		(103,459)	(70,953)
Finance costs	5(a)	<u>(2,333)</u>	<u>(2,517)</u>
Loss before taxation	5	(105,792)	(73,470)
Income tax credit/(expense)	6	<u>314</u>	<u>(719)</u>
Loss for the year		<u>(105,478)</u>	<u>(74,189)</u>
		HK cents	HK cents
Loss per share	9		
– Basic		<u>(13.05)</u>	<u>(9.19)</u>
– Diluted		<u>(13.05)</u>	<u>(9.19)</u>

The notes on pages 49 to 112 form part of the consolidated financial statements.

Consolidated statement of profit or loss and other comprehensive income

for the year ended 31 December 2019 (Expressed in Hong Kong dollars)

	<i>Note</i>	2019 HK\$'000	2018 HK\$'000
Loss for the year		(105,478)	(74,189)
Other comprehensive loss for the year			
Items that may be reclassified subsequently to profit or loss:			
– Exchange differences on translation of financial statements of overseas subsidiaries, net of nil tax		(2,829)	(6,581)
– Exchange reserve reclassified to profit or loss upon disposal of subsidiaries, net of nil tax	30(b)	(14,533)	–
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		–	(8)
– Loss on disposal of investments measured at FVOCI, net of nil tax		–	(5)
		(17,362)	(6,594)
Total comprehensive loss for the year		(122,840)	(80,783)

The notes on pages 49 to 112 form part of the consolidated financial statements.

Consolidated statement of financial position

as at 31 December 2019 (Expressed in Hong Kong dollars)

	Note	2019 HK\$'000	2018 HK\$'000
Non-current assets			
Property, plant and equipment	11	112,879	198,320
Prepaid lease payments	12	-	37,742
Right-of-use assets	13	24,935	-
Goodwill	14	-	49,468
		<u>137,814</u>	<u>285,530</u>
Current assets			
Prepaid lease payments	12	-	1,006
Inventories	15	10,739	32,298
Trade and other receivables	16	118,437	127,013
Pledged bank deposits		1,274	13,163
Cash and cash equivalents		59,749	23,890
		<u>190,199</u>	<u>197,370</u>
Current liabilities			
Contract liabilities	17	303	1,124
Trade and other payables	18	75,887	114,414
Bank loans	19	34,545	32,455
Lease liabilities	20	5,078	-
Current tax payable	21(a)	14	349
		<u>115,827</u>	<u>148,342</u>
Net current assets		<u>74,372</u>	<u>49,028</u>
Total assets less current liabilities		<u>212,186</u>	<u>334,558</u>
Non-current liabilities			
Lease liabilities	20	468	-
NET ASSETS		<u>211,718</u>	<u>334,558</u>
CAPITAL AND RESERVES			
Share capital	24(a)	8,081	8,081
Reserves		203,637	326,477
TOTAL EQUITY		<u>211,718</u>	<u>334,558</u>

Approved and authorised for issue by the board of directors on 27 March 2020.

Sung Kai Hing
Director

Cheung Kong Cheung
Director

The notes on pages 49 to 112 form part of the consolidated financial statements.

Consolidated statement of changes in equity

for the year ended 31 December 2019 (Expressed in Hong Kong dollars)

	Share capital	Share premium	Exchange reserve	Statutory reserve fund	Merger reserve	Share option reserve	Fair value reserve	Capital reserve	Retained profits	Total equity
Note	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000
	(note 24(a))	(note 24(c)(ii))	(note 24(c)(iii))	(note 24(c)(iii))	(note 24(c)(iv))	(note 24(c)(v))		(note 24(c)(vi))		
Balance at 1 January 2018	8,061	175,384	29,096	10,061	25,430	143	15	(24,862)	190,893	414,221
Changes in equity for 2018:										
Loss for the year	-	-	-	-	-	-	-	-	(74,189)	(74,189)
Other comprehensive loss	-	-	(6,581)	-	-	-	(8)	-	(5)	(6,594)
Total comprehensive loss for the year	-	-	(6,581)	-	-	-	(8)	-	(74,194)	(80,783)
Transfer on disposal of investments measured at FVOCI	-	-	-	-	-	-	(7)	-	7	-
Shares issued under share option scheme	24(a)									
- gross proceeds	20	1,100	-	-	-	-	-	-	-	1,120
- transfer from share option scheme	-	143	-	-	-	(143)	-	-	-	-
Appropriation of reserve	-	-	-	323	-	-	-	-	(323)	-
Balance at 31 December 2018	<u>8,081</u>	<u>176,627</u>	<u>22,515</u>	<u>10,384</u>	<u>25,430</u>	<u>-</u>	<u>-</u>	<u>(24,862)</u>	<u>116,383</u>	<u>334,558</u>
Balance at 1 January 2019	8,081	176,627	22,515	10,384	25,430	-	-	(24,862)	116,383	334,558
Changes in equity for 2019:										
Loss for the year	-	-	-	-	-	-	-	-	(105,478)	(105,478)
Other comprehensive loss	-	-	(17,362)	-	-	-	-	-	-	(17,362)
Total comprehensive loss for the year	-	-	(17,362)	-	-	-	-	-	(105,478)	(122,840)
Appropriation of reserve	-	-	-	111	-	-	-	-	(111)	-
Transfer of reserves upon disposal of subsidiaries	-	-	-	(4,954)	(17,985)	-	-	-	22,939	-
Balance at 31 December 2019	<u>8,081</u>	<u>176,627</u>	<u>5,153</u>	<u>5,541</u>	<u>7,445</u>	<u>-</u>	<u>-</u>	<u>(24,862)</u>	<u>33,733</u>	<u>211,718</u>

The notes on pages 49 to 112 form part of the consolidated financial statements.

Consolidated statement of cash flows

for the year ended 31 December 2019 (Expressed in Hong Kong dollars)

	2019	2018
Note	HK\$'000	HK\$'000
Operating activities		
Loss before taxation	(105,792)	(73,470)
Adjustments for:		
Amortisation of prepaid lease payments	5(c) -	1,072
Depreciation of property, plant and equipment	5(c) 14,281	14,442
Depreciation of right-of-use assets	5(c) 7,533	-
Dividend income from investments in equity securities	4 -	(3)
Gain on disposal of subsidiaries	30(b) (19,369)	-
Gain on early termination of leases	4 (18)	-
Write back of other payables	4 (2,630)	(2,321)
Reversal of write-down of inventories, net	(10,379)	(18,773)
Bad debts written off	5(c) 8,819	-
Write-off of other deposits and receivables	5(c) 3,953	237
Impairment loss/(reversal of impairment loss) on:		
- goodwill	14 48,387	-
- property, plant and equipment	5(c) 28,089	34,935
- prepaid lease payments	5(c) -	1,109
- trade receivables	4 (93)	(13,189)
- other deposits and receivables	2,722	(164)
Realised gains on derivative financial instruments, net	4 (886)	(39)
Interest expense	5(a) 2,333	2,517
Interest income	4 (430)	(417)
Loss on disposal of property, plant and equipment, net	4 12,679	7,508
Effect of foreign exchange rate changes, net	1,360	9,518
Operating loss before changes in working capital	(9,441)	(37,038)
Decrease in inventories	31,249	30,307
(Increase)/decrease in trade and other receivables	(36,889)	16,535
Decrease in trade and other payables	(39,700)	(9,131)
(Decrease)/increase in contract liabilities	(606)	1,124
Cash (used in)/generated from operations	(55,387)	1,797
Interest received	430	417
Interest paid	(1,995)	(2,517)
Income tax paid	(19)	(868)
Net cash used in operating activities	(56,971)	(1,171)

Consolidated statement of cash flows

for the year ended 31 December 2019 (Expressed in Hong Kong dollars)

	Note	2019 HK\$'000	2018 HK\$'000
Investing activities			
Purchase of derivative financial instruments		(688)	(99)
Dividend received from investments in equity securities		-	3
Decrease in pledged bank deposits		11,888	8,476
Purchase of property, plant and equipment		(174)	(2,696)
Proceeds from disposal of derivative financial instruments		1,574	137
Proceeds from disposal of investments in equity securities		-	70
Proceeds from disposal of property, plant and equipment		1,048	408
Proceeds from disposal of subsidiaries	30(b)	84,133	-
Net cash generated from investing activities		97,781	6,299
Financing activities			
Proceeds from shares issued under share option scheme		-	1,120
Proceeds from new bank loans	26	60,016	48,125
Repayment of bank loans	26	(57,926)	(100,074)
Capital element of lease rentals paid	26	(6,531)	-
Interest element of lease rentals paid	26	(338)	-
Net cash used in financing activities		(4,779)	(50,829)
Net increase/(decrease) in cash and cash equivalents		36,031	(45,701)
Cash and cash equivalents at beginning of the year		23,890	70,550
Effect of foreign exchange rate changes		(172)	(959)
Cash and cash equivalents at end of the year		59,749	23,890

The notes on pages 49 to 112 form part of 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 Company’s subsidiaries are set out in note 30(a).

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

2 SIGNIFICANT ACCOUNTING POLICIES

(a) Statement of compliance

The consolidated financial statements for the year ended 31 December 2019 comprise the Company and its subsidiaries (together the “Group”).

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

The HKICPA has issued certain new and revised HKFRSs that are first effective or available for early adoption for the current accounting period of the Group. Note 2(c) provides information on any changes in accounting policies resulting from initial application of these developments to the extent that they are relevant to the Group for the current and prior accounting periods reflected in these consolidated financial statements.

The Group has not applied any new standard or interpretation that is not yet effective for the current accounting period (see note 33).

Notes to the consolidated financial statements

(Expressed in Hong Kong dollars)

2 SIGNIFICANT ACCOUNTING POLICIES (continued)

(b) Basis of preparation of the consolidated financial statements

The measurement basis used in the preparation of the consolidated financial statements is the historical cost basis except that derivative financial instruments (see note 2(f)) are stated at their fair values.

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

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

Judgements made by management in the application of HKFRSs that have significant effect on the consolidated financial statements and major sources of estimation uncertainty are discussed in note 32.

(c) Changes in accounting policies

The HKICPA has issued a new HKFRS, HKFRS 16 "Leases", and a number of amendments to HKFRSs that are first effective for the current accounting period of the Group. Except for HKFRS 16 "Leases", none of the developments has had a material effect on the Group's consolidated financial statements for the years presented.

HKFRS 16 replaces HKAS 17 "Leases", and the related interpretations. It introduces a single accounting model for lessees, which requires a lessee to recognise a right-of-use asset and a lease liability for all leases, except for leases that have a lease term of 12 months or less ("short-term leases") and leases of low-value assets. The lessor accounting requirements are brought forward from HKAS 17 and remain substantially unchanged.

HKFRS 16 also introduces additional qualitative and quantitative disclosure requirements which aim to enable users of the consolidated financial statements to assess the effect that leases have on the financial position, financial performance and cash flows of an entity.

2 SIGNIFICANT ACCOUNTING POLICIES (continued)

(c) Changes in accounting policies (continued)

The Group has initially applied HKFRS 16 as from 1 January 2019. The Group has elected to use the modified retrospective approach and has therefore recognised the cumulative effect of initial application as an adjustment to the opening balance of equity at 1 January 2019. Comparative information has not been restated and continues to be reported under HKAS 17.

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

(i) *New definition of a lease*

The change in the definition of a lease mainly relates to the concept of control. HKFRS 16 defines a lease on the basis of whether a customer controls the use of an identified asset for a period of time, which may be determined by a defined amount of use. Control is conveyed where the customer has both the right to direct the use of the identified asset and to obtain substantially all of the economic benefits from that use.

The Group applies the new definition of a lease in HKFRS 16 only to contracts that were entered into or changed on or after 1 January 2019. For contracts entered into before 1 January 2019, the Group has used the transitional practical expedient to grandfather the previous assessment of which existing arrangements are or contain leases. Accordingly, contracts that were previously assessed as leases under HKAS 17 continue to be accounted for as leases under HKFRS 16 and contracts previously assessed as non-lease service arrangements continue to be accounted for as executory contracts.

(ii) *Lessee accounting and transitional impact*

HKFRS 16 eliminates the requirement for a lessee to classify leases as either operating leases or finance leases, as was previously required by HKAS 17. Instead, the Group is required to capitalise all leases when it is the lessee, including leases previously classified as operating leases under HKAS 17, other than those short-term leases and leases of low-value assets which are exempt. As far as the Group is concerned, these newly capitalised leases are primarily in relation to properties as disclosed in note 13. For an explanation of how the Group applies lessee accounting, see note 2(h).

At the date of transition to HKFRS 16 (i.e. 1 January 2019), the Group determined the length of remaining lease terms and measured the lease liabilities for the leases previously classified as operating leases at the present value of the remaining lease payments, discounted using the relevant incremental borrowing rates at 1 January 2019. The weighted average of the incremental borrowing rates used for determination of the present value of the remaining lease payments was 5.58%.

Notes to the consolidated financial statements

(Expressed in Hong Kong dollars)

2 SIGNIFICANT ACCOUNTING POLICIES (continued)

(c) Changes in accounting policies (continued)

(ii) Lessee accounting and transitional impact (continued)

To ease the transition to HKFRS 16, the Group applied the following recognition exemption and practical expedients at the date of initial application of HKFRS 16:

- the Group elected not to apply the requirements of HKFRS 16 in respect of the recognition of lease liabilities and right-of-use assets to leases for which the remaining lease term ends within 12 months from the date of initial application of HKFRS 16, i.e. where the lease term ends on or before 31 December 2019;
- when measuring the lease liabilities at the date of initial application of HKFRS 16, the Group applied a single discount rate to a portfolio of leases with reasonably similar characteristics (such as leases with a similar remaining lease term for a similar class of underlying asset in a similar economic environment); and
- when measuring the right-of-use assets at the date of initial application of HKFRS 16, the Group relied on the previous assessment for onerous contract provisions as at 31 December 2018 as an alternative to performing an impairment review.

The following table reconciles the operating lease commitments as disclosed in note 27(b) as at 31 December 2018 to the opening balance for lease liabilities recognised as at 1 January 2019:

	HK\$'000
Operating lease commitments at 31 December 2018	6,859
Less: total future interest expenses	<div style="border-top: 1px solid black; display: inline-block; width: 100%;">(211)</div>
Lease liabilities recognised at 1 January 2019	<div style="border-top: 3px double black; display: inline-block; width: 100%;">6,648</div>

The right-of-use assets in relation to leases previously classified as operating leases have been recognised at an amount equal to the amount recognised for the remaining lease liabilities, adjusted by the amount of any prepaid or accrued lease payments relating to that lease recognised in the consolidated statement of financial position at 31 December 2018.

The Group's prepaid lease payments as at 31 December 2018 represented right-of-use assets under HKFRS 16, and were reclassified as right-of-use assets as at 1 January 2019.

2 SIGNIFICANT ACCOUNTING POLICIES (continued)

(c) Changes in accounting policies (continued)

(ii) Lessee accounting and transitional impact (continued)

The following table shows the impact of the adoption of HKFRS 16 on line items of the Group's consolidated statement of financial position as at 1 January 2019. Line items that were not affected by the changes have not been included.

	Carrying amount at 31 December 2018 HK\$'000	Capitalisation of operating lease contracts HK\$'000	Carrying amount at 1 January 2019 HK\$'000
Right-of-use assets	–	45,396	45,396
Prepaid lease payments	37,742	(37,742)	–
Total non-current assets	285,530	7,654	293,184
Prepaid lease payments	1,006	(1,006)	–
Total current assets	197,370	(1,006)	196,364
Lease liabilities	–	5,242	5,242
Total current liabilities	148,342	5,242	153,584
Net current assets	49,028	(6,248)	42,780
Total assets less current liabilities	334,558	1,406	335,964
Lease liabilities	–	1,406	1,406
Total non-current liabilities	–	1,406	1,406
NET ASSETS	334,558	–	334,558

(iii) Impact on the financial performance and cash flows of the Group

After the initial recognition of right-of-use assets and lease liabilities as at 1 January 2019, the Group as a lessee is required to recognise interest expense accrued on the outstanding balance of the lease liabilities, and the depreciation of the right-of-use assets, instead of the previous policy of recognising rental expenses incurred under operating leases on a straight-line basis over the lease term. This results in a negative impact on the reported loss for the year ended 31 December 2019 in the Group's consolidated statement of profit or loss, as compared to the results if HKAS 17 had been applied during the year ended 31 December 2019.

Notes to the consolidated financial statements

(Expressed in Hong Kong dollars)

2 SIGNIFICANT ACCOUNTING POLICIES (continued)

(c) Changes in accounting policies (continued)

(iii) *Impact on the financial performance and cash flows of the Group (continued)*

In the consolidated statement of cash flows, the Group as a lessee is required to split rentals paid under capitalised leases into their capital element and interest element. These elements are classified as financing cash outflows rather than as operating cash outflows, as was the case for operating leases under HKAS 17. Although total cash flows are unaffected, the adoption of HKFRS 16 therefore results in change in presentation of cash flows within the consolidated statement of cash flows.

The following tables give an indication of the estimated impact of the adoption of HKFRS 16 on line items of the Group's consolidated statement of profit or loss and consolidated statement of cash flows for the year ended 31 December 2019. Line items that were not affected by the changes have not been included.

	Amounts reported under HKFRS 16 (A) HK\$'000	Add back: HKFRS 16 depreciation and interest expense (B) HK\$'000	Deduct: Estimated amounts related to operating leases as if under HKAS 17 (note 1) (C) HK\$'000	Hypothetical amounts for 2019 as if under HKAS 17 (D=A+B+C) HK\$'000
Loss from operation	(103,459)	7,533	(6,869)	(102,795)
Finance costs	(2,333)	338	-	(1,995)
Loss before taxation	(105,792)	7,871	(6,869)	(104,790)
Loss for the year	(105,478)	7,871	(6,869)	(104,476)

2 SIGNIFICANT ACCOUNTING POLICIES (continued)

(c) Changes in accounting policies (continued)

(iii) Impact on the financial performance and cash flows of the Group (continued)

	Amounts reported under HKFRS 16 (A)	Deduct: Estimated amounts related to operating leases as if under HKAS 17 (note 1 & 2) (B)	Hypothetical amounts for 2019 as if under HKAS 17 (C=A+B)
	HK\$'000	HK\$'000	HK\$'000
Cash used in operations	(55,387)	(6,869)	(62,256)
Net cash used in operating activities	<u>(56,971)</u>	<u>(6,869)</u>	<u>(63,840)</u>
Capital element of lease rentals paid	(6,531)	6,531	-
Interest element of lease rentals paid	(338)	338	-
Net cash (used in)/generating from financing activities	<u>(4,779)</u>	<u>6,869</u>	<u>2,090</u>

Note 1: The "estimated amounts related to operating leases" is an estimate of the amounts of the cash flows in 2019 that relate to leases which would have been classified as operating leases, if HKAS 17 had still applied in 2019. This estimate assumes that there were no differences between rentals and cash flows and that all of the new leases entered into in 2019 would have been classified as operating leases under HKAS 17, if HKAS 17 had still applied in 2019. Any potential net tax effect is ignored.

Note 2: These cash outflows are reclassified from financing to operating in order to compute hypothetical amounts of net cash used in operating activities and net cash generated from financing activities as if HKAS 17 still applied.

Notes to the consolidated financial statements

(Expressed in Hong Kong dollars)

2 SIGNIFICANT ACCOUNTING POLICIES (continued)

(d) Subsidiaries

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

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

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

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

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

2 SIGNIFICANT ACCOUNTING POLICIES (continued)

(e) Goodwill

Goodwill represents the excess of

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

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

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

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

(f) Derivative financial instruments

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

(g) Property, plant and equipment

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

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

Notes to the consolidated financial statements

(Expressed in Hong Kong dollars)

2 SIGNIFICANT ACCOUNTING POLICIES (continued)

(g) Property, plant and equipment (continued)

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

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

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

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

(h) Leased assets

At inception of a contract, the Group assesses whether the contract is, or contains, a lease. A contract is, or contains, a lease if the contract conveys the right to control the use of an identified asset for a period of time in exchange for consideration. Control is conveyed where the customer has both the right to direct the use of the identified asset and to obtain substantially all of the economic benefits from that use.

Policy applicable from 1 January 2019

At the lease commencement date, the Group recognises a right-of-use asset and a lease liability, except for short-term leases that have a lease term of 12 months or less and leases of low-value assets. When the Group enters into a lease in respect of a low-value asset, the Group decides whether to capitalise the lease on a lease-by-lease basis. The lease payments associated with those leases which are not capitalised are recognised as an expense on a systematic basis over the lease term.

2 SIGNIFICANT ACCOUNTING POLICIES (continued)

(h) Leased assets (continued)

Policy applicable from 1 January 2019 (continued)

Where the lease is capitalised, the lease liability is initially recognised at the present value of the lease payments payable over the lease term, discounted using the interest rate implicit in the lease or, if that rate cannot be readily determined, using a relevant incremental borrowing rate. After initial recognition, the lease liability is measured at amortised cost and interest expense is calculated using the effective interest method. Variable lease payments that do not depend on an index or rate are not included in the measurement of the lease liability and hence are charged to profit or loss in the accounting period in which they are incurred.

The lease liability is remeasured when there is a change in future lease payments arising from a change in an index or rate, or there is a change in the Group's estimate of the amount expected to be payable under a residual value guarantee, or there is a change arising from the reassessment of whether the Group will be reasonably certain to exercise a purchase, extension or termination option. When the lease liability is remeasured in this way, a corresponding adjustment is made to the carrying amount of the right-of-use asset, or is recorded in profit or loss if the carrying amount of the right-of-use asset has been reduced to zero.

The right-of-use asset recognised when a lease is capitalised is initially measured at cost, which comprises the initial amount of the lease liability plus any lease payments made at or before the commencement date, and any initial direct costs incurred. Where applicable, the cost of the right-of-use assets also includes an estimate of costs to dismantle and remove the underlying asset or to restore the underlying asset or the site on which it is located, discounted to their present value, less any lease incentives received. The right-of-use asset is subsequently stated at cost less accumulated depreciation and impairment losses (see note 2(i)(ii)). Depreciation is calculated to write off the cost of right-of-use assets using the straight-line method over the lease term.

Policy applicable prior to 1 January 2019

In the comparative period, as a lessee the Group classified leases as finance leases if the leases transferred substantially all the risks and rewards of ownership to the Group. Leases which did not transfer substantially all the risks and rewards of ownership to the Group were classified as operating leases.

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

Notes to the consolidated financial statements

(Expressed in Hong Kong dollars)

2 SIGNIFICANT ACCOUNTING POLICIES (continued)

(i) Credit losses and impairment of assets

(i) *Credit losses from financial assets*

The Group recognises a loss allowance for expected credit losses (“ECLs”) on financial assets measured at amortised cost (including cash and cash equivalents, pledged bank deposits and trade and other receivables).

ECLs are a probability-weighted estimate of credit losses. Credit losses are measured as the present value of all expected cash shortfalls (i.e. the difference between the cash flows due to the Group in accordance with the contract and the cash flows that the Group expects to receive), discounted at original effective interest rate, where the effect of discounting is material.

The maximum period considered when estimating ECLs is the maximum contractual period over which the Group is exposed to credit risk. In measuring ECLs, the Group takes into account reasonable and supportable information that is available without undue cost or effort. This includes information about past events, current conditions and forecasts of future economic conditions.

Loss allowances for trade receivables are always measured at an amount equal to lifetime ECLs which result from possible default events over the expected lives of these financial assets. ECLs on these financial assets are estimated using a provision matrix based on the Group’s historical credit loss experience, adjusted for factors that are specific to the debtors and an assessment of both the current and forecast general economic conditions at the end of the reporting period.

For other financial assets measured at amortised cost, the Group recognises a loss allowance equal to 12-month ECLs unless there has been a significant increase in credit risk of the financial asset since initial recognition, in which case the loss allowance is measured at an amount equal to lifetime ECLs. The 12-month ECLs are losses that are expected to result from possible default events within 12 months after the end of the reporting period.

In assessing whether the credit risk of a financial asset has increased significantly since initial recognition, the Group compares the risk of default occurring on the financial asset assessed at the end of the reporting period with that assessed at the date of initial recognition. In making this reassessment, the Group considers that a default event occurs when the borrower is unlikely to pay its credit obligations to the Group in full, without recourse by the Group to actions such as realising security (if any is held). The Group considers both quantitative and qualitative information that is reasonable and supportable, including historical experience and forward-looking information that is available without undue cost or effort.

2 SIGNIFICANT ACCOUNTING POLICIES (continued)

(i) Credit losses and impairment of assets (continued)

(i) *Credit losses from financial assets (continued)*

In particular, the following information is taken into account when assessing whether credit risk has increased significantly since initial recognition:

- failure to make payments of principal or interest on their contractually due dates;
- an actual or expected significant deterioration in a financial asset's external or internal rating (if available);
- an actual or expected significant deterioration in the operating results of the debtor; and
- existing or forecast changes in the technological, market, economic or legal environment that have a significant adverse effect on the debtor's ability to meet its obligation to the Group.

Depending on the nature of the financial assets, the assessment of a significant increase in credit risk is performed on either an individual basis or a collective basis. When the assessment is performed on a collective basis, the financial assets are grouped based on shared credit risk characteristics, such as past due status and credit risk ratings.

ECLs are remeasured at the end of each reporting period to reflect changes in the financial asset's credit risk since initial recognition. Any change in the ECL amount is recognised as an impairment gain or loss in profit or loss. The Group recognises an impairment gain or loss for all financial assets with a corresponding adjustment to their carrying amount through a loss allowance account.

The gross carrying amount of a financial asset is written off (either partially or in full) to the extent that there is no realistic prospect of recovery. This is generally the case when the Group determines that the debtor does not have assets or sources of income that could generate sufficient cash flows to repay the amounts subject to the write-off. Subsequent recoveries of an asset that was previously written off are recognised as a reversal of impairment in profit or loss in the period in which the recovery occurs.

Notes to the consolidated financial statements

(Expressed in Hong Kong dollars)

2 SIGNIFICANT ACCOUNTING POLICIES (continued)

(i) Credit losses and impairment of assets (continued)

(ii) Impairment of other non-current assets

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

- property, plant and equipment;
- prepaid interests in leasehold land;
- right-of-use assets;
- goodwill; and
- investments in subsidiaries in the Company's statement of financial position.

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

- Calculation of recoverable amount

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

- Recognition of impairment losses

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

2 SIGNIFICANT ACCOUNTING POLICIES (continued)

(i) Credit losses and impairment of assets (continued)

(ii) *Impairment of other non-current assets (continued)*

- Reversals of impairment losses

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

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

(j) Trademarks and patents

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

(k) Inventories

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

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

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

When inventories are sold, the carrying amount of those inventories is recognised as an expense in the period in which the related revenue is recognised.

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

Notes to the consolidated financial statements

(Expressed in Hong Kong dollars)

2 SIGNIFICANT ACCOUNTING POLICIES (continued)

(l) Trade and other receivables

A receivable is recognised when the Group has an unconditional right to receive consideration. A right to receive consideration is unconditional if only the passage of time is required before payment of that consideration is due. Receivables are stated at amortised cost using the effective interest method less allowance for credit losses (see note 2(i)(i)).

(m) Cash and cash equivalents

Cash and cash equivalents comprise cash at bank and on hand, demand deposits with banks and other financial institutions, and short-term, highly liquid investments that are readily convertible into known amounts of cash and which are subject to an insignificant risk of changes in value, having been within three months of maturity at acquisition. Cash and cash equivalents are assessed for ECL in accordance with the accounting policy set out in note 2(i)(i).

(n) Contract liabilities

A contract liability is recognised when the customer pays non-refundable consideration before the Group recognises the related revenue (see note 2(u)). A contract liability would also be recognised if the Group has unconditional right to receive non-refundable consideration before the Group recognises the related revenue. In such cases, a corresponding receivable would also be recognised (see note 2(l)).

(o) Trade and other payables

Trade and other payables are initially recognised at fair value and are subsequently stated at amortised cost unless the effect of discounting would be immaterial, in which case they are stated at cost.

(p) Interest-bearing borrowings

Interest-bearing borrowings are measured initially at fair value less transaction costs. Subsequent to initial recognition, interest-bearing borrowings are stated at amortised cost, using the effective interest method. Interest expense is recognised in accordance with the accounting policy for borrowing costs set out in note 2(w).

2 SIGNIFICANT ACCOUNTING POLICIES (continued)

(q) Employee benefits

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

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

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

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

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

(iii) *Share-based payments*

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

(iv) *Termination benefits*

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

Notes to the consolidated financial statements

(Expressed in Hong Kong dollars)

2 SIGNIFICANT ACCOUNTING POLICIES (continued)

(r) Equity-settled share-based payment transactions

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

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

(s) Income tax

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

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

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

2 SIGNIFICANT ACCOUNTING POLICIES (continued)

(s) Income tax (continued)

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

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

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

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

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

Notes to the consolidated financial statements

(Expressed in Hong Kong dollars)

2 SIGNIFICANT ACCOUNTING POLICIES (continued)

(s) Income tax (continued)

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

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

(t) Provisions and contingent liabilities

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

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

2 SIGNIFICANT ACCOUNTING POLICIES (continued)

(u) Revenue and other income

Income is classified by the Group as revenue when it arises from the sale of goods and licensing of its own brands and product designs in the ordinary course of the Group's business.

Revenue is recognised when control over a product is transferred to the customer at the amount of promised consideration to which the Group is expected to be entitled, excluding those amounts collected on behalf of third parties. Revenue excludes value added tax or other sales taxes and is after deduction of any trade discounts.

Further details of the Group's revenue and other income recognition policies are as follows:

(i) *Sale of goods*

Revenue is recognised when the customer takes possession of and accepts the products. If the products are a partial fulfilment of a contract, then the amount of revenue recognised is an appropriate proportion of the total transaction price under the contract.

(ii) *Licensing income*

Licensing income is recognised over time in accordance with the terms of the license agreements.

(iii) *Interest income*

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

(iv) *Government grants*

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

Notes to the consolidated financial statements

(Expressed in Hong Kong dollars)

2 SIGNIFICANT ACCOUNTING POLICIES (continued)

(v) Translation of foreign currencies

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

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

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

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

(w) Borrowing costs

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

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

2 SIGNIFICANT ACCOUNTING POLICIES (continued)

(x) Related parties

- (a) A person, or a close member of that person's family, is related to the Group if that person:
 - (i) has control or joint control of the Group;
 - (ii) has significant influence over the Group; or
 - (iii) is a member of the key management personnel of the Group or the Group's parent.

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

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

Notes to the consolidated financial statements

(Expressed in Hong Kong dollars)

2 SIGNIFICANT ACCOUNTING POLICIES (continued)

(y) Segment reporting

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

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

3 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:

	2019	2018
	HK\$'000	HK\$'000
Sale of goods	295,542	247,705
Licensing income	4,600	14,817
	<u>300,142</u>	<u>262,522</u>

Notes to the
consolidated financial statements

(Expressed in Hong Kong dollars)

4 OTHER NET (LOSS)/INCOME

	2019	2018
	HK\$'000	HK\$'000
Bank interest income	430	417
Dividend income from investments in equity securities	–	3
Government grants	1,784	1,610
Loss on disposal of property, plant and equipment, net	(12,679)	(7,508)
Net realised gains on derivative financial instruments	886	39
Reversal of impairment loss on trade receivables	93	13,189
Reversal of impairment loss on other deposits and receivables	–	164
Write back of other payables	2,630	2,321
Gain on early termination of leases	18	–
Others	500	42
	(6,338)	10,277

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

5 LOSS BEFORE TAXATION

Loss before taxation is arrived at after charging:

(a) Finance costs

	2019	2018
	HK\$'000	HK\$'000
Interest on bank loans	1,995	2,517
Interest on lease liabilities	338	–
	2,333	2,517

Notes to the
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(Expressed in Hong Kong dollars)

5 LOSS BEFORE TAXATION (continued)

(b) Staff costs

	2019 HK\$'000	2018 HK\$'000
Directors' remuneration (note 7)	2,240	2,265
Salaries, wages and other benefits	32,425	61,828
Retirement scheme contributions	2,694	5,904
Termination benefits	4,765	8,544
	42,124	78,541

(c) Other items

	2019 HK\$'000	2018 HK\$'000
Auditor's remuneration	850	900
Amortisation of prepaid lease payments*	-	1,072
Bad debts written off	8,819	-
Cost of inventories sold# (note 15(b))	268,715	219,405
Depreciation of:		
– property, plant and equipment	14,281	14,442
– right-of-use assets*	7,533	-
Loss on disposal of property, plant and equipment, net	12,679	7,508
Foreign exchange loss, net	271	12,454
Impairment losses on:		
– property, plant and equipment	28,089	34,935
– prepaid lease payments	-	1,109
– other deposits and receivables	2,722	-
Write-off of other deposits and receivables	3,953	237
Operating lease rental: minimum lease payments for leases previously classified as operating leases under HKAS 17*	-	7,907

* The Group has initially applied HKFRS 16 using the modified retrospective approach and adjusted the opening balance at 1 January 2019 to recognise right-of-use assets relating to leases which were previously classified as operating leases under HKAS 17. After initial recognition of right-of-use assets at 1 January 2019, the Group as a lessee is required to recognise the depreciation of right-of-use assets, instead of the previous policies of recognising rental expenses incurred under operating leases and amortisation of prepaid lease payments on a straight-line basis over the lease term. Under this approach, the comparative information is not restated (see note 2(c)).

Cost of inventories sold includes HK\$30,611,000 relating to staff costs and depreciation (2018: HK\$62,556,000 relating to staff costs, depreciation and amortisation expenses and operating lease rentals), which amount is also included in the respective total amounts disclosed separately above or in note 5(b) for each of these types of expenses.

6 INCOME TAX IN THE CONSOLIDATED STATEMENT OF PROFIT OR LOSS

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

	2019 HK\$'000	2018 HK\$'000
PRC Enterprise Income Tax		
– Current year provision	81	593
– Prior years (over)/under-provision	(395)	126
	<u>(314)</u>	<u>719</u>
Income tax (credit)/expense	<u>(314)</u>	<u>719</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 (2018: 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 People's Republic of China (the "PRC") are subject to the PRC Enterprise Income Tax rate of 25% (2018: 25%) for the year.

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

	2019 HK\$'000	2018 HK\$'000
Loss before taxation	<u>(105,792)</u>	<u>(73,470)</u>
Notional tax on loss before taxation	(17,455)	(12,122)
Tax effect of non-deductible expenses	10,879	1,709
Tax effect of non-taxable income	(4,044)	(82)
Tax effect of different tax rates of subsidiaries	(6,946)	(9,058)
Tax effect of unrecognised temporary differences	10,212	7,304
Tax effect of utilisation of tax losses not recognised previously	(274)	–
Tax effect of unused tax losses not recognised	7,755	12,887
Prior years (over)/under-provision	(395)	126
Others	(46)	(45)
	<u>(314)</u>	<u>719</u>
Actual tax (credit)/expense	<u>(314)</u>	<u>719</u>

Notes to the consolidated financial statements

(Expressed in Hong Kong dollars)

7 DIRECTORS' REMUNERATION

Directors' remuneration disclosed pursuant to section 383(1) of the Hong Kong Companies Ordinance, Part 2 of the Companies (Disclosure of Information about Benefits of Directors) Regulation and the Listing Rules are as follows:

	Directors' fee		Salaries, allowances, benefits in kind and discretionary bonuses		Retirement scheme contributions		Total	
	2019	2018	2019	2018	2019	2018	2019	2018
	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000
Executive directors								
Sung Kai Hing (Chairman)	1,002	1,002	-	-	18	18	1,020	1,020
Cheung Kong Cheung	1,002	1,002	-	-	18	18	1,020	1,020
Independent non-executive directors								
Sun Jian	100	100	-	-	-	-	100	100
Shao Hanqing	-	25	-	-	-	-	-	25
Kong Hing Ki	100	100	-	-	-	-	100	100
	2,204	2,229	-	-	36	36	2,240	2,265

No emoluments were paid by the Group to the directors or any of the highest paid individuals, as set out in note 8, as an inducement to join or upon joining the Group as compensation for loss of office during the year (2018: HK\$Nil).

8 INDIVIDUALS WITH HIGHEST EMOLUMENTS

Of the five individuals with the highest emoluments, two (2018: two) are directors whose emoluments are disclosed in note 7. The aggregate of the emoluments in respect of the other three (2018: three) individuals are as follows:

	2019 HK\$'000	2018 HK\$'000
Salaries, allowances, benefits in kind and discretionary bonuses	1,674	2,610
Retirement scheme contributions	33	36
	1,707	2,646

8 INDIVIDUALS WITH HIGHEST EMOLUMENTS (continued)

The emoluments of the three (2018: three) individuals with the highest emoluments are within the following bands:

	2019	2018
	Number of individuals	Number of individuals
HK\$Nil to HK\$1,000,000	3	2
HK\$1,000,001 to HK\$1,500,000	-	1

9 LOSS PER SHARE

The calculation of basic loss per share is based on the loss attributable to equity shareholders of the Company of HK\$105,478,000 (2018: HK\$74,189,000) and the weighted average number of 808,096,025 (2018: 807,082,326) ordinary shares in issue during the year.

The calculation of diluted loss per share is based on the loss attributable to equity shareholders of the Company of HK\$105,478,000 (2018: HK\$74,189,000) and the weighted average number of 808,096,025 (2018: 807,107,653) ordinary shares, calculated as follows:

Weighted average number of ordinary shares (diluted)

	2019	2018
Weighted average number of ordinary shares at 31 December	808,096,025	807,082,326
Effect of deemed issue of shares under the Company's share option scheme (note 23)	-	25,327
Weighted average number of ordinary shares (diluted) at 31 December	808,096,025	807,107,653

Notes to the consolidated financial statements

(Expressed in Hong Kong dollars)

10 SEGMENT REPORTING

(a) Operating segment information

The Group is principally engaged in the design, manufacture, and marketing 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, right-of-use assets 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 right-of-use assets, and the location of the operation to which it is allocated, in the case of goodwill.

	2019		2018	
	Revenue from external customers HK\$'000	Specified non-current assets HK\$'000	Revenue from external customers HK\$'000	Specified non-current assets HK\$'000
Asia (excluding the PRC)	128,121	962	44,513	30
Europe	13,490	-	18,254	-
PRC	61,512	136,852	104,450	285,500
The United States	94,848	-	93,395	-
Others	2,171	-	1,910	-
	300,142	137,814	262,522	285,530

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

(c) Major customers

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

	2019 HK\$'000	2018 HK\$'000
Customer A	78,369	N/A [#]
Customer B	61,942	68,946
Customer C	31,257	N/A [#]

[#] The corresponding revenue did not contribute 10% or more of the total revenue.

Notes to the consolidated financial statements

(Expressed in Hong Kong dollars)

11 PROPERTY, PLANT AND EQUIPMENT

	Buildings HK\$'000	Leasehold improvements HK\$'000	Motor vehicles HK\$'000	Office equipment HK\$'000	Plant and machinery HK\$'000	Construction in progress HK\$'000	Total HK\$'000
Cost							
At 1 January 2018	212,749	2,847	5,490	29,242	87,945	25,440	363,713
Exchange realignment	(9,783)	(132)	(135)	(1,335)	(3,581)	(1,171)	(16,137)
Additions	-	-	147	1,995	554	-	2,696
Disposals	-	-	(1,685)	(4,682)	(20,291)	-	(26,658)
Transfer	24,269	-	-	-	-	(24,269)	-
At 31 December 2018	227,235	2,715	3,817	25,220	64,627	-	323,614
At 1 January 2019	227,235	2,715	3,817	25,220	64,627	-	323,614
Exchange realignment	(2,695)	(50)	(33)	(510)	(1,115)	-	(4,403)
Additions	-	27,678	-	76	98	-	27,852
Disposal of subsidiaries	(126,001)	(954)	(2,401)	(2,570)	(9,927)	-	(141,853)
Disposals	-	-	(452)	(10,121)	(27,177)	-	(37,750)
At 31 December 2019	98,539	29,389	931	12,095	26,506	-	167,460
Accumulated depreciation and impairment							
At 1 January 2018	26,997	2,266	4,650	19,731	46,537	-	100,181
Exchange realignment	(2,236)	(107)	(107)	(1,006)	(2,066)	-	(5,522)
Charge for the year	4,109	43	343	3,193	6,754	-	14,442
Impairment loss	30,224	-	-	-	4,711	-	34,935
Written back on disposals	-	-	(1,469)	(4,232)	(13,041)	-	(18,742)
At 31 December 2018	59,094	2,202	3,417	17,686	42,895	-	125,294
At 1 January 2019	59,094	2,202	3,417	17,686	42,895	-	125,294
Exchange realignment	(1,304)	(39)	(25)	(305)	(758)	-	(2,431)
Charge for the year	3,109	5,576	63	2,004	3,529	-	14,281
Disposal of subsidiaries	(70,777)	(954)	(2,401)	(2,570)	(9,927)	-	(86,629)
Impairment loss	28,089	-	-	-	-	-	28,089
Written back on disposals	-	-	(407)	(8,286)	(15,330)	-	(24,023)
At 31 December 2019	18,211	6,785	647	8,529	20,409	-	54,581
Net book value							
At 31 December 2019	<u>80,328</u>	<u>22,604</u>	<u>284</u>	<u>3,566</u>	<u>6,097</u>	<u>-</u>	<u>112,879</u>
At 31 December 2018	<u>168,141</u>	<u>513</u>	<u>400</u>	<u>7,534</u>	<u>21,732</u>	<u>-</u>	<u>198,320</u>

Notes to the consolidated financial statements

(Expressed in Hong Kong dollars)

11 PROPERTY, PLANT AND EQUIPMENT (continued)

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

At 31 December 2019, the Group had pledged its buildings with carrying amount of HK\$17,692,000 (2018: HK\$84,150,000) to secure general banking facilities granted to the Group (see note 19).

During the year ended 31 December 2019, the management assessed the recoverable amount of certain idle buildings with reference to a valuation carried out by an independent professional valuer, LCH (Asia-Pacific) Surveyors Limited. The valuation was arrived at using the depreciated replacement cost approach due to the restriction in transferability of the relevant buildings. An impairment of HK\$28,089,000 was then made to these idle buildings, which were disposed of by the Group through disposal of subsidiaries on 23 August 2019 (see note 30(b)).

During the year ended 31 December 2018, the management reviewed the carrying values of the assets of the Group and assessed that the carrying values of certain buildings, plant and machinery and prepaid lease payments exceeded their recoverable amounts in light of the current market conditions and change of the Group's production plan. Accordingly, provisions for impairment of HK\$30,224,000, HK\$4,711,000 and HK\$1,109,000 were recognised against the buildings, plant and machinery and prepaid lease payments respectively.

12 PREPAID LEASE PAYMENTS

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

	HK\$'000
Cost	
At 1 January 2018	54,250
Exchange realignment	<u>(2,495)</u>
At 31 December 2018	51,755
Impact on initial application of HKFRS 16 <i>(see note 2(c))</i>	<u>(51,755)</u>
At 1 January 2019	<u>–</u>
Accumulated amortisation and impairment	
At 1 January 2018	11,387
Exchange realignment	(561)
Charge for the year	1,072
Impairment <i>(see note 11)</i>	<u>1,109</u>
At 31 December 2018	13,007
Impact on initial application of HKFRS 16 <i>(see note 2(c))</i>	<u>(13,007)</u>
At 1 January 2019	<u>–</u>
Net book value	
At 31 December 2018	<u><u>38,748</u></u>

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12 PREPAID LEASE PAYMENTS (continued)

An analysis for reporting purposes is as follows:

	2018 HK\$'000
Current portion	1,006
Non-current portion	<u>37,742</u>
	<u><u>38,748</u></u>

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

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

At 31 December 2018, the Group had pledged its leasehold land with carrying amount of HK\$18,298,000 to secure general banking facilities granted to the Group (see note 19).

13 RIGHT-OF-USE ASSETS

	Properties HK\$'000	Land use rights HK\$'000	Total HK\$'000
Cost			
At 31 December 2018	–	–	–
Impact on initial application of HKFRS 16 (see note 2(c))	6,648	38,748	45,396
At 1 January 2019	6,648	38,748	45,396
Exchange realignment	(115)	(519)	(634)
Additions	7,528	–	7,528
Disposal of subsidiaries	–	(18,226)	(18,226)
Adjustment as a result of early termination of leases	(5,112)	–	(5,112)
At 31 December 2019	8,949	20,003	28,952
Accumulated depreciation			
At 1 January 2019	–	–	–
Exchange realignment	(55)	(14)	(69)
Charge for the year	6,760	773	7,533
Disposal of subsidiaries	–	(240)	(240)
Adjustment as a result of early termination of leases	(3,207)	–	(3,207)
At 31 December 2019	3,498	519	4,017
Net book value			
At 31 December 2019	<u>5,451</u>	<u>19,484</u>	<u>24,935</u>
At 1 January 2019	<u>6,648</u>	<u>38,748</u>	<u>45,396</u>

The Group has obtained the right to use certain properties as its factory complex and office premises through tenancy agreements. The leases run for a period of 2 to 3 years, at the end of which period all terms are renegotiated. None of the leases includes variable lease payments.

The land use rights relate to leasehold land for industrial use in the PRC and are not allowed to be transferred or leased pursuant to the contracts for grant of the land use rights. They have a lease term of 50 years, commencing from 29 June 2007 and expiring on 28 June 2057.

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14 GOODWILL

	2019	2018
	HK\$'000	HK\$'000
At 1 January	49,468	51,852
Exchange realignment	(1,081)	(2,384)
Impairment	(48,387)	–
	<u> </u>	<u> </u>
At 31 December	<u> </u> –	<u> </u> 49,468

Impairment tests for cash-generating unit containing goodwill

Goodwill is allocated to the Group's cash-generating unit ("CGU") identified as upholstered furniture business in the PRC.

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

Key assumptions used for value in use calculations:

	2019	2018
Gross margin	9%	14%
Growth rate	2%	4%
Discount rate	6%	6%

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

The impairment testing resulted in an impairment of HK\$48,387,000 recognised in consolidated statement of profit or loss for the year ended 31 December 2019. The impairment arose in view of the deterioration in sales level and operating results of the CGU in the current year and loss of a major customer.

15 INVENTORIES

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

	2019	2018
	HK\$'000	HK\$'000
Raw materials	3,238	6,275
Work in progress	4,263	6,241
Finished goods	1,043	14,011
Goods in transit	2,195	5,771
	<u>10,739</u>	<u>32,298</u>

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

	2019	2018
	HK\$'000	HK\$'000
Carrying amount of inventories sold	279,094	238,178
Write-down of inventories	-	66
Reversal of write-down of inventories	(10,379)	(18,839)
	<u>268,715</u>	<u>219,405</u>

During the year, certain aged inventories were sold and, as a result, a reversal of write-down of inventories of HK\$10,379,000 (2018: HK\$18,839,000) has been recognised and included in cost of inventories sold.

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16 TRADE AND OTHER RECEIVABLES

	2019	2018
	HK\$'000	HK\$'000
Trade receivables	39,935	42,210
Less: impairment allowance (note 25(a))	(2,260)	(3,014)
	37,675	39,196
Deposits paid for purchase of property, plant and equipment	2,362	31,168
Deposits paid to suppliers	59,189	13,770
Value added tax recoverable	2,323	8,084
Other deposits, prepayments and receivables	16,888	34,795
	80,762	87,817
	118,437	127,013

The amount of deposits and prepayments expected to be recovered or recognised as expense after more than one year is HK\$359,000 (2018: HK\$398,000). 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\$12,179,000 (2018: HK\$29,722,000), 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:

	2019	2018
	HK\$'000	HK\$'000
Within 3 months	33,243	31,010
3 to 6 months	1,489	3,928
6 to 9 months	2,401	3,298
9 months to 1 year	542	960
	37,675	39,196

Trade receivables are normally due within 30 to 90 days from the date of billing. Further details on the Group's credit policy are set out in note 25(a).

17 CONTRACT LIABILITIES

These represent billings in advance of performance under made-to-order manufacturing arrangements.

When the Group receives a deposit before the manufacturing activity commences, this will give rise to contract liabilities at the start of a contract until the revenue recognised on the contracts exceeds the amount of the deposits. The Group typically receives a certain deposit, which is negotiated on case by case basis with customers, on acceptance of manufacturing orders.

Movements in contract liabilities:

	2019	2018
	HK\$'000	HK\$'000
Balance at 1 January	1,124	–
Decrease in contract liabilities as a result of recognising revenue during the year that was included in the contract liabilities at the beginning of the year	(612)	–
Decrease in contract liabilities as a result of disposal of subsidiaries	(215)	–
Increase in contract liabilities as a result of billing in advance of made-to-order manufacturing activities	–	1,124
Exchange realignment	6	–
	<hr/>	<hr/>
Balance at 31 December	303	1,124
	<hr/> <hr/>	<hr/> <hr/>

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18 TRADE AND OTHER PAYABLES

	2019	2018
	HK\$'000	HK\$'000
Trade creditors and bills payable	55,125	76,871
Accrued charges	6,879	18,561
Trade deposits received	6,096	13,569
Other payables	7,787	5,413
	20,762	37,543
	75,887	114,414

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:

	2019	2018
	HK\$'000	HK\$'000
Within 3 months	35,731	36,434
3 months to 1 year	15,721	22,999
Over 1 year	3,673	17,438
	55,125	76,871

19 BANK LOANS

The bank loans are repayable within 1 year or on demand (including those with repayable on demand clause) and the maturity of bank loans, based on the schedule repayment dates set out in the loan agreements, is as follows:

	2019	2018
	HK\$'000	HK\$'000
Within 1 year	33,152	26,920
After 1 year but within 2 years	1,393	4,098
After 2 years but within 5 years	-	1,437
	<u>34,545</u>	<u>32,455</u>

Details on the interest rate profile of the Group are set out in note 25(c)(i).

At 31 December 2019, bank loans were secured by pledged bank deposits, pledge of buildings (see note 11), and corporate guarantees from the Company.

At 31 December 2018, bank loans were secured by pledged bank deposits, pledge of buildings (see note 11), legal charge over the medium-term leasehold land outside Hong Kong (see note 12) and corporate guarantees from the Company.

20 LEASE LIABILITIES

The following table shows the remaining contractual maturities of the Group's lease liabilities at the end of the current and previous reporting periods and at the date of transition to HKFRS 16 (i.e. 1 January 2019):

	31 December	1 January
	2019	2019
	HK\$'000	HK\$'000
Within 1 year	5,078	5,242
After 1 year but within 5 years	468	1,406
	<u>5,546</u>	<u>6,648</u>

The Group has initially applied HKFRS 16 using the modified retrospective approach and adjusted the opening balance at 1 January 2019 to recognise lease liabilities relating to leases which were previously classified as operating leases under HKAS 17. Further details on the impact of the transition to HKFRS 16 are set out in note 2(c).

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21 INCOME TAX IN THE CONSOLIDATED STATEMENT OF FINANCIAL POSITION

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

Current tax payable represents:

	2019	2018
	HK\$'000	HK\$'000
PRC Enterprise Income Tax payable	14	349

(b) Deferred taxation

At 31 December 2019, the Group has not recognised deferred tax assets in respect of cumulative tax losses of HK\$27,412,000 (2018: HK\$121,979,000) 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\$1,000 (2018: HK\$95,884,000) will expire within 5 years and the remaining tax losses of HK\$27,411,000 (2018: HK\$26,095,000) have no expiry date under the current tax legislation.

At 31 December 2019, the Group has unrecognised deferred tax liabilities of HK\$2,237,000 (2018: HK\$2,141,000) in relation to withholding tax on undistributed profits of HK\$44,734,000 (2018: HK\$42,812,000) of the Group's subsidiaries in the PRC as the Group is in a position to control the dividend policies of the PRC subsidiaries and no distribution of such profits is expected to be declared by the PRC subsidiaries in the foreseeable future.

At 31 December 2019, the Group does not have any other material temporary differences between the tax bases of assets and liabilities and their carrying amounts in the consolidated financial statements, and therefore, no provision for deferred tax has been made (2018: HK\$Nil).

22 RETIREMENT BENEFIT SCHEMES

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

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

23 EQUITY-SETTLED SHARE-BASED TRANSACTIONS

The Company's previous share option scheme, which was adopted on 29 May 2009, was expired on 28 May 2019. No share options under the previous share option scheme were granted during the year ended 31 December 2018 and the period from 1 January 2019 to 28 May 2019. During the year ended 31 December 2018, a total of 2,000,000 share options were exercised and the weighted average share price at date of exercise was HKD0.56. There were no outstanding share options under the previous share option scheme as at 31 December 2019 and 2018.

Pursuant to the written resolution passed by the shareholders of the Company on 17 May 2019, the Company adopted a new share option scheme (the "Share Option Scheme"). The purpose of the Share Option Scheme is to enable the Company to grant share options to eligible participants as incentives or rewards for their contribution to the growth of the Group and to provide the Group with a more flexible means to reward, remunerate, compensate and/or provide benefits to the eligible participants. The Share Option Scheme is valid and effective for a period of 10 years from 17 May 2019.

Under the Share Option Scheme, the Board may at their discretion grant share options to full-time or part-time employees, directors (including executive, non-executive or independent non-executive) and any suppliers, service providers and business partners of the Company and/or any of its subsidiaries.

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(Expressed in Hong Kong dollars)

23 EQUITY-SETTLED SHARE-BASED TRANSACTIONS (continued)

The offer of a grant of share options may be accepted by the grantee within 14 days from the date of the offer, upon payment of HK\$1 by way of consideration for the grant. The maximum number of shares which may be issued upon exercise of all outstanding share options granted and yet to be exercised under the Share Option Scheme and any other share option schemes of the Company must not exceed 30% of the issued share capital of the Company from time to time. In addition, the total number of shares which may be issued upon exercise of all share options to be granted under the Share Option Scheme and any other share option schemes of the Company must not exceed 10% of the issued share capital of the Company as at 17 May 2019, being the scheme mandate limit. The Board may seek approval by the shareholders of the Company in general meeting to renew the scheme mandate limit, provided that the total number of shares which may be issued upon exercise of all share options to be granted under the Share Option Scheme and any other share option schemes of the Company in these circumstances must not exceed 10% of the issued share capital of the Company at the date of approval of the renewed limit.

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

No share options under the Share Option Scheme were granted or exercised during the year ended 31 December 2019 and there were no outstanding share options under the Share Option Scheme as at 31 December 2019.

24 SHARE CAPITAL, DIVIDENDS AND RESERVES

(a) Share capital

	2019		2018	
	Number of ordinary shares of HK\$0.01 each	Amount HK\$'000	Number of ordinary shares of HK\$0.01 each	Amount HK\$'000
Authorised:				
At 31 December	3,000,000,000	30,000	3,000,000,000	30,000
Issued and fully paid:				
At 1 January	808,096,025	8,081	806,096,025	8,061
Share issued under share option scheme	-	-	2,000,000	20
At 31 December	808,096,025	8,081	808,096,025	8,081

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, share options were exercised to subscribe for 2,000,000 ordinary shares in the Company at a consideration of HK\$1,120,000.

(b) Dividends

The directors do not recommend the payment of a dividend in respect of the year ended 31 December 2019 (2018: HK\$Nil).

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24 SHARE CAPITAL, DIVIDENDS AND RESERVES (continued)

(c) Nature and purpose of reserves

(i) *Share premium*

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

(ii) *Exchange reserve*

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

(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, as further explained in the accounting policy as set out in note 2(r). The amount will either be transferred to the share premium account where the related share options are exercised, or be transferred to retained profits where the related share options expired or are forfeited.

(vi) *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.

24 SHARE CAPITAL, DIVIDENDS AND RESERVES (continued)

(d) Distributability of reserves

At 31 December 2019, the aggregate amount of reserves available for distribution to equity shareholders of the Company was HK\$271,651,000 (2018: HK\$273,058,000), 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 (2018: HK\$176,627,000) 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 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.

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25 FINANCIAL RISK MANAGEMENT AND FAIR VALUES OF FINANCIAL INSTRUMENTS

Exposure to credit, liquidity, interest rate and currency risks arises in the normal course of the Group's business. The Group does not have any written risk management policies and guidelines. The directors monitor the financial risk management of the Group and take measures as considered necessary from time to time to minimise such financial risks.

(a) Credit risk

Credit risk refers to the risk that a counterparty will default on its contractual obligations resulting in a financial loss to the Group. The Group's credit risk is primarily attributable to trade and other receivables. The Group's exposure to credit risk arising from cash and cash equivalents and pledged bank deposits is limited because the counterparties are banks for which the Group considers to have low credit risk.

The Group's exposure to credit risk is influenced mainly by the individual characteristics of each customer rather than the industry or country in which the customers operate and therefore significant concentrations of credit risk primarily arise when the Group has significant exposure to individual customers. At the end of the reporting period, the Group had a concentration of credit risk as 33% (2018: 41%) and 66% (2018: 71%) of total trade receivables due from the largest customer and five largest customers respectively.

Individual credit evaluations are performed on all customers requiring credit over a certain amount. These take into account the customer's past payment history, financial position and other factors. Trade receivables are due within 30 days to 90 days (2018: 30 days to 90 days) from the date of billing. Normally, the Group does not obtain collateral from customers.

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**25 FINANCIAL RISK MANAGEMENT AND FAIR VALUES OF FINANCIAL INSTRUMENTS
(continued)****(a) Credit risk (continued)**

Expected loss rates are based on actual loss experience in current year. These rates are adjusted to reflect differences between economic conditions during the period over which the historical data has been collected, current conditions and the Group's view of economic conditions over the expected lives of the receivables.

Movement in loss allowance in respect of trade receivables during the year is as follows:

	2019	2018
	HK\$'000	HK\$'000
Balance at 1 January	3,014	16,438
Exchange realignment	(32)	1,995
Impairment losses recognised, net	(93)	(13,189)
Disposal of subsidiaries	(453)	–
Uncollectible amounts written off	(176)	(2,230)
	<u>2,260</u>	<u>3,014</u>
Balance at 31 December	2,260	3,014

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

(b) Liquidity risk

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

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

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

	2019					2018				
	Carrying amount HK\$'000	Total contractual undiscounted cash flow HK\$'000	Within 1 year or on demand HK\$'000	More than 1 year but less than 2 years HK\$'000	More than 2 years but less than 5 years HK\$'000	Carrying amount HK\$'000	Total contractual undiscounted cash flow HK\$'000	Within 1 year or on demand HK\$'000	More than 1 year but less than 2 years HK\$'000	More than 2 years but less than 5 years HK\$'000
Trade and other payables	69,791	69,791	69,791	-	-	100,845	100,845	100,845	-	-
Bank loans	34,545	35,567	35,567	-	-	32,455	32,989	32,989	-	-
Lease liabilities	5,546	5,700	5,221	479	-	-	-	-	-	-
	109,882	111,058	110,579	479	-	133,300	133,834	133,834	-	-

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

	2019					2018				
	Carrying amount HK\$'000	Total contractual undiscounted cash flow HK\$'000	Within 1 year or on demand HK\$'000	More than 1 year but less than 2 years HK\$'000	More than 2 years but less than 5 years HK\$'000	Carrying amount HK\$'000	Total contractual undiscounted cash flow HK\$'000	Within 1 year or on demand HK\$'000	More than 1 year but less than 2 years HK\$'000	More than 2 years but less than 5 years HK\$'000
Trade and other payables	69,791	69,791	69,791	-	-	100,845	100,845	100,845	-	-
Bank loans	34,545	35,567	34,137	1,430	-	32,455	32,989	27,352	4,228	1,409
Lease liabilities	5,546	5,700	5,221	479	-	-	-	-	-	-
	109,882	111,058	109,149	1,909	-	133,300	133,834	128,197	4,228	1,409

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**25 FINANCIAL RISK MANAGEMENT AND FAIR VALUES OF FINANCIAL INSTRUMENTS
(continued)****(c) Interest rate risk**

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

Interest-earning financial assets include mainly deposits with banks and cash at banks ("bank deposits"). Interest-bearing financial liabilities include bank loans and lease liabilities. The Group currently does not have any interest rate hedging policy and will consider entering into interest rate hedging should the need arise. The Group ensures that it borrows at competitive interest rates under favourable terms and conditions.

(i) Interest rate profile

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

	2019		2018	
	Effective interest rate	HK\$'000	Effective interest rate	HK\$'000
Fixed rate				
deposits/(borrowings):				
Bank deposits	2.70%	11,931	2.58%	13,163
Lease liabilities	5.58%	(5,546)	N/A	–
Net fixed rate deposits		6,385		13,163
Variable rate				
deposits/(borrowings):				
Bank deposits	0.42%	27,953	0.72%	13,239
Bank loans	5.58%	(34,545)	4.80%	(32,455)
Net variable rate borrowings		(6,592)		(19,216)
Net borrowings		(207)		(6,053)

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

(c) Interest rate risk (continued)

(ii) Sensitivity analysis

At 31 December 2019 and 2018, it is estimated that a general increase/decrease of 100 basis points in interest rates, with all other variables held constant, would have no significant impact on the Group's loss after tax and retained profits for the year.

The sensitivity analysis above has been determined assuming that the change in interest rates had occurred at the end of the reporting period and had been applied to the exposure to interest rate risk for financial instruments in existence at that date. The 100 basis point increase or decrease represents management's assessment of a reasonably possible change in interest rates over the period until the end of the next annual reporting period. The analysis is performed on the same basis for 2018.

(d) Foreign currency risk

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

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

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

(d) Foreign currency risk (continued)

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

	2019			2018		
	Denominated in			Denominated in		
	Hong Kong dollars	Renminbi	United States dollars	Hong Kong dollars	Renminbi	United States dollars
	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000
Trade and other receivables	-	-	20,115	-	-	22,744
Cash and cash equivalents	15,177	12,716	2,520	1,813	5,469	5,423
Trade and other payables	-	-	(2,199)	-	-	(2,289)
Bank loans	-	-	-	(15,000)	-	-
Net exposure arising from recognised assets/(liabilities)	<u>15,177</u>	<u>12,716</u>	<u>20,436</u>	<u>(13,187)</u>	<u>5,469</u>	<u>25,878</u>

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

(e) Fair value measurement

The carrying amounts of the Group's financial assets and liabilities carried at amortised cost were not materially different from their fair values at 31 December 2019 and 2018.

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26 CASH FLOW INFORMATION

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

	Bank loans HK\$'000 <i>(note 19)</i>	Lease liabilities HK\$'000 <i>(note 20)</i>	Total HK\$'000
At 1 January 2018	86,961	–	86,961
Changes from financing cash flows:			
Proceeds from new bank loans	48,125	–	48,125
Repayment of bank loans	(100,074)	–	(100,074)
Interest on bank loans	(2,517)	–	(2,517)
Total changes from financing cash flows	(54,466)	–	(54,466)
Exchange realignment	(2,557)	–	(2,557)
Other change:			
Finance costs	2,517	–	2,517
Total other change	2,517	–	2,517
At 31 December 2018	32,455	–	32,455
Impact on initial application of HKFRS 16 <i>(see note 2(c))</i>	–	6,648	6,648
At 1 January 2019	32,455	6,648	39,103
Changes from financing cash flows:			
Capital element of lease rentals paid	–	(6,531)	(6,531)
Interest element of lease rentals paid	–	(338)	(338)
Proceeds from new bank loans	60,016	–	60,016
Repayment of bank loans	(57,926)	–	(57,926)
Interest on bank loans	(1,995)	–	(1,995)
Total changes from financing cash flows	95	(6,869)	(6,774)
Exchange realignment	–	(176)	(176)
Other changes			
Increase in lease liabilities from entering into new leases	–	7,528	7,528
Adjustment as a result of early termination of leases	–	(1,923)	(1,923)
Finance costs	1,995	338	2,333
Total other changes	1,995	5,943	7,938
At 31 December 2019	34,545	5,546	40,091

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27 COMMITMENTS

- (a) Capital commitments outstanding as at 31 December 2019 not provided for in the consolidated financial statements are as follows:

	2019 HK\$'000	2018 HK\$'000
Contracted for:		
– Construction of factory building	–	45,181
– Purchase of property, plant and equipment	1,774	2,018
	1,774	47,199

- (b) At 31 December 2018, the total future minimum lease payments under non-cancellable operating leases were payable as follows:

	2018 HK\$'000
Within 1 year	5,248
After 1 year but within 5 years	1,611
	6,859

The Group is the lessee in respect of a number of properties held under leases which were previously classified as operating leases under HKAS 17. The Group has initially applied HKFRS 16 using the modified retrospective approach. Under this approach, the Group adjusted the opening balances at 1 January 2019 to recognise lease liabilities relating to these leases (see note 2(c)). From 1 January 2019 onwards, future lease payments are recognised as lease liabilities in the consolidated statement of financial position in accordance with the policies set out in note 2(h), and the details regarding the Group's future lease payments are disclosed in note 20.

28 CONTINGENT LIABILITIES

At 31 December 2019, the Company had contingent liabilities in respect of guarantees given for banking facilities granted to certain subsidiaries to the extent of HK\$89,000,000 (2018: HK\$179,195,000). These facilities were utilised to the extent of HK\$5,520,000 (2018: HK\$32,455,000) as at 31 December 2019.

29 MATERIAL RELATED PARTY TRANSACTIONS

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

	2019	2018
	HK\$'000	HK\$'000
Short-term employee benefits	3,878	4,839
Post-employment benefits	69	72
	<u>3,947</u>	<u>4,911</u>

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

Save as disclosed elsewhere in these consolidated financial statements, the Group did not have any material related party transactions during the years ended 31 December 2019 and 2018.

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30 SUBSIDIARIES**(a) Details of the subsidiaries as at 31 December 2019 and 2018:**

Name of company	Place of incorporation and registration	Particulars of issued and paid-up share capital/ registered capital	Proportion of Group's ownership interest		Principal activities
			2019	2018	
Directly held by the Company					
Great Ample Holdings Limited	BVI	22,001 shares of US\$1 each	100%	100%	Investment holding
Indirectly held by the Company					
Glory Skill Investments Limited [#]	BVI	6,961 shares of US\$1 each	-	100%	Investment holding
Springrich Investments Limited	BVI	1 share of US\$1	100%	100%	Investment holding
Success Profit International Limited	BVI	12,001 shares of US\$1 each	100%	100%	Investment holding
Hing Lee (China) Company Limited [#]	Hong Kong	18,010,000 shares (HK\$18,010,000)	-	100%	Investment holding and provision of management services
Hing Lee Furniture Company Limited	BVI	1 share of US\$1	100%	100%	Trading of furniture
Sharp Motion Worldwide Limited	BVI	4 shares of US\$1 each	100%	100%	Trademark holding/licensing
Hong Kong Hing Lee Furniture Group Limited	BVI	1 share of US\$1	100%	100%	Dormant
Hing Lee Furniture Group Limited	Hong Kong	3 shares (HK\$3)	100%	100%	Trading of furniture
Hander International Limited	Hong Kong	100 shares (HK\$100)	100%	100%	Investment holding

30 SUBSIDIARIES (continued)

(a) Details of the subsidiaries as at 31 December 2019 and 2018: (continued)

Name of company	Place of incorporation and registration	Particulars of issued and paid-up share capital/ registered capital	Proportion of Group's ownership interest		Principal activities
			2019	2018	
Hanmix Limited	Hong Kong	1 share (HK\$1)	100%	100%	Investment holding
Astromax Investment Limited	BVI	100 shares of US\$1 each	100%	100%	Investment holding
City Leading Limited	Hong Kong	1 share (HK\$1)	100%	100%	Trading of sofa
深圳興利尊典家具有限公司 (Shenzhen Xingli Zundian Furniture Company Limited)*#	PRC	RMB40,000,000	-	100%	Design, manufacture, sale and marketing of home furniture
深圳興利家具有限公司 (Shenzhen Xingli Furniture Company Limited)*	PRC	RMB73,500,000	100%	100%	Design, manufacture, sale and marketing of home furniture
深圳歐羅家具有限公司 (Shenzhen Ouluo Furniture Company Limited)*	PRC	RMB8,500,000	100%	100%	Manufacture and sale of sofa
深圳興利尊典高家具有限公司 (Shenzhen Xingli Zundian Mogao Furniture Company Limited)*#	PRC	Registered: RMB1,000,000 Paid up: RMB150,000	-	100%	Not yet commenced business
深圳興利澳瑪家具有限公司 (Shenzhen Xingli Aoma Furniture Company Limited)*	PRC	Registered: RMB1,000,000 Paid up: RMB150,000	100%	100%	Not yet commenced business

* These companies are limited liability wholly-owned foreign enterprises established in the PRC and their official names are in Chinese. The English company names are for reference only.

Disposed of during the year ended 31 December 2019 (see note 30(b)).

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(Expressed in Hong Kong dollars)

30 SUBSIDIARIES (continued)

(b) Disposal of subsidiaries

On 23 August 2019, the Group disposed of the entire equity interest in Glory Skill Investments Limited and its subsidiaries (together "GS Group") to an independent third party and the outstanding balance of HK\$83,815,000 owned by GS Group to the Group for a total consideration of HK\$84,815,000.

The assets and liabilities of GS Group at date of disposal:

	HK\$'000
Property, plant and equipment	55,224
Right-of-use assets	17,986
Trade and other receivables	6,302
Cash and cash equivalents	338
Contract liabilities	(215)
Amount due to the Group	<u>(83,815)</u>
Net liabilities	<u><u>(4,180)</u></u>

Gain on disposal of subsidiaries:

	HK\$'000
Cash consideration	84,815
Less: settlement of amount due to the Group	(83,815)
disposal related costs	<u>(344)</u>
	656
Net liabilities disposed of	<u>4,180</u>
	4,836
Exchange reserve in respect of GS Group reclassified from equity to profit or loss upon disposal	<u>14,533</u>
Gain on disposal	<u><u>19,369</u></u>

Net cash flow on disposal of subsidiaries:

	HK\$'000
Consideration settled in cash	84,815
Disposal related costs	(344)
Cash and cash equivalents disposed of	<u>(338)</u>
Net cash inflow	<u><u>84,133</u></u>

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(Expressed in Hong Kong dollars)

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31 FINANCIAL INFORMATION OF THE COMPANY

(a) Statement of financial position

	2019	2018
	HK\$'000	HK\$'000
Non-current assets		
Investment in a subsidiary	276,254	276,254
Right-of-use assets	934	–
	277,188	276,254
Current assets		
Amounts due from subsidiaries	3,978	7,849
Other receivables	171	–
Cash and cash equivalents	348	339
	4,497	8,188
Current liabilities		
Other payables and accrued charges	997	728
Amounts due to subsidiaries	–	2,575
Lease liabilities	488	–
	1,485	3,303
Net current assets	3,012	4,885
Total assets less current liabilities	280,200	281,139
Non-current liabilities		
Lease liabilities	468	–
NET ASSETS	279,732	281,139
CAPITAL AND RESERVES		
Share capital	8,081	8,081
Reserves	271,651	273,058
TOTAL EQUITY	279,732	281,139

Notes to the
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(Expressed in Hong Kong dollars)

31 FINANCIAL INFORMATION OF THE COMPANY (continued)**(b) Details of changes in the Company's reserves during the year:**

	Share premium HK\$'000 <i>(note 24(c)(i))</i>	Share option reserve HK\$'000 <i>(note 24(c)(v))</i>	Retained profits HK\$'000	Total HK\$'000
Balance at 1 January 2018	175,384	143	93,043	268,570
Changes in equity for 2018:				
Profit and total comprehensive income for the year	–	–	3,388	3,388
Shares issued under share option scheme	1,100	–	–	1,100
Transfer from share option scheme	143	(143)	–	–
Balance at 31 December 2018 and at 1 January 2019	176,627	–	96,431	273,058
Changes in equity for 2019:				
Loss and total comprehensive loss for the year	–	–	(1,407)	(1,407)
Balance at 31 December 2019	<u>176,627</u>	<u>–</u>	<u>95,024</u>	<u>271,651</u>

32 CRITICAL ACCOUNTING JUDGEMENTS AND ESTIMATES

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

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

32 CRITICAL ACCOUNTING JUDGEMENTS AND ESTIMATES (continued)

(i) Impairment of goodwill

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

(ii) Impairment of property, plant and equipment and right-of-use assets

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

(iii) Useful lives of property, plant and equipment

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

(iv) Net realisable value of inventories

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

Notes to the consolidated financial statements

(Expressed in Hong Kong dollars)

32 CRITICAL ACCOUNTING JUDGEMENTS AND ESTIMATES (continued)

(v) Loss allowances for trade and other receivables

The Group estimates the loss allowances for trade and other receivables by assessing the ECLs. This requires the use of estimates and judgements. ECLs are based on the Group's historical credit loss experience, adjusted for factors that are specific to the debtors, and an assessment of both the current and forecast general economic conditions at the end of the reporting period. Where the estimation is different from the previous estimate, such difference will affect the carrying amounts of trade and other receivables and thus the impairment loss in the period in which such estimate is changed.

(vi) Income tax provision

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

33 POSSIBLE IMPACT OF AMENDMENTS, NEW STANDARDS AND INTERPRETATIONS ISSUED BUT NOT YET EFFECTIVE FOR THE YEAR ENDED 31 DECEMBER 2019

Up to the date of issue of these consolidated financial statements, the HKICPA has issued a number of amendments and a new standard, HKFRS 17 "Insurance Contracts", which are not yet effective for the year ended 31 December 2019 and which have not been adopted in these consolidated financial statements. These include the following which may be relevant to the Group and will be effective for accounting periods beginning on or after 1 January 2020:

Amendments to HKFRS 3	Definition of a business
Amendments to HKFRS 1 and HKAS 8	Definition of material

The Group is in the process of making an assessment of what the impact of these developments is expected to be in the period of initial application. So far it has concluded that the adoption of them will not have a significant impact on the Group's consolidated financial statements.