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

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

**(1) VERY SUBSTANTIAL DISPOSAL AND
CONNECTED TRANSACTION
IN RELATION TO THE DISPOSAL OF 100% EQUITY INTEREST
IN THE TARGET COMPANY**
**(2) PROPOSED SHARE PREMIUM CANCELLATION
AND**
(3) PROPOSED PAYMENT OF SPECIAL DIVIDEND

**Independent Financial Adviser to
the Independent Board Committee and the Independent Shareholders**

 **金融有限公司**
OCTAL Capital Limited

(1) THE SALE AND PURCHASE AGREEMENT

The Board is pleased to announce that, on 13 June 2024 (after trading hours), the Vendor, a wholly-owned subsidiary of the Company, and the Purchasers entered into the Sale and Purchase Agreement, pursuant to which the Vendor conditionally agreed to sell, and the Purchasers conditionally agreed to acquire, the Sale Shares, representing the entire issued share capital of the Target Company, at the Consideration of HK\$62.0 million, subject to the terms and conditions of the Sale and Purchase Agreement. The net proceeds of HK\$60.7 million will be distributed to the Shareholders as the Special Dividend of HK7.51 cents per Share.

As at the date of this announcement, the Target Company was owned as to 100% by the Vendor. Upon Completion, the Company will not hold any interest in the Target Company, and each member of the Target Group will cease to be a subsidiary of the Company. Accordingly, upon Completion, the financial results of the Target Group will no longer be consolidated into the consolidated financial statement of the Group.

The Disposal is not conditional upon the Proposed Share Premium Cancellation or the proposed payment of the Special Dividend.

LISTING RULE IMPLICATIONS

As the highest applicable percentage ratio calculated in accordance with the Listing Rules in respect of the Disposal exceeds 75%, the Disposal constitutes a very substantial disposal for the Company pursuant to Rule 14.06(4) of the Listing Rules and is therefore subject to reporting, announcement, circular, and Shareholders' approval requirements under Chapter 14 of the Listing Rules.

As at the date of this announcement, (i) Mr. Sung is a controlling shareholder of the Company and an executive Director, chairman and chief executive officer of the Company and is acting in concert with Mr. Cheung, Mr. Chan and Mr. Huang; (ii) Mr. Cheung is an executive Director; and (iii) Mr. Chan and Mr. Huang are directors of certain subsidiaries of the Company. As such, the Purchasers are connected persons of the Company. Therefore, the Disposal constitutes a connected transaction of the Company under Chapter 14A of the Listing Rules and is subject to reporting, announcement, circular and Independent Shareholders' approval requirements.

(2) PROPOSED SHARE PREMIUM CANCELLATION

The Board intends to seek approval of the Shareholders at the SGM of the cancellation of the entire amount standing to the credit of the Share Premium Account and transfer of such amount, after elimination of all the Accumulated Losses, to the Contributed Surplus Account, and to authorise the Board to apply such amount in such manner, as permitted by and in accordance with the requirements of applicable laws of Bermuda and the Bye-laws.

The Proposed Share Premium Cancellation is conditional upon, among other things, the passing of a special resolution by the Shareholders to approve the Proposed Share Premium Cancellation at the SGM.

The Proposed Share Premium Cancellation is not conditional upon the Disposal or the proposed payment of the Special Dividend.

(3) PROPOSED PAYMENT OF SPECIAL DIVIDEND

The Board recommends the payment of the Special Dividend to the Shareholders whose names appear on the register of members of the Company on a record date to be determined. Subject to the fulfillment of the conditions set out in the paragraph headed "Conditions of the proposed payment of the Special Dividend" in this announcement (including but not limited to the Proposed Share Premium Cancellation having become effective, the passing of an ordinary resolution by the Shareholders to approve the payment of the Special Dividend, and the completion of the Disposal), the Special Dividend is permitted to be made out of the Contributed Surplus Account.

GENERAL

The Company will convene a SGM to approve the Sale and Purchase Agreement and the transactions contemplated thereunder, the Proposed Share Premium Cancellation and the proposed payment of the Special Dividend. An Independent Board Committee comprising all the independent non-executive Directors has been established by the Company to consider the Sale and Purchase Agreement and the transactions contemplated thereunder and to advise the Independent Shareholders as to whether the Sale and Purchase Agreement and the transactions contemplated thereunder are on normal commercial terms or better, fair and reasonable, and in the interests of the Company and the Shareholders as a whole. The Company has appointed the Independent Financial Adviser to advise the Independent Board Committee and the Independent Shareholders in this regard.

A circular containing, amongst other things, (i) further information regarding the Sale and Purchase Agreement, the Proposed Share Premium Cancellation and the proposed payment of the Special Dividend; (ii) recommendation of the Independent Board Committee in respect of the Disposal; (iii) the advice of the Independent Financial Adviser in respect of the Disposal; (iv) a notice of the SGM; and (v) other information as required under the Listing Rules will be despatched to the Shareholders on or before 28 June 2024.

Completion of the Disposal is subject to the fulfillment or waiver (if applicable) of the conditions precedent as set out in the Sale and Purchase Agreement. Accordingly, the Disposal may or may not proceed.

Shareholders and potential investors of the Company should also note that the Proposed Share Premium Cancellation and the proposed payment of Special Dividend are conditional upon satisfaction of the conditions set out in this announcement. Therefore, the Proposed Share Premium Cancellation and the proposed payment of Special Dividend may or may not proceed.

Shareholders and potential investors of the Company are reminded to exercise caution in dealing in the Shares and, if any doubt, are recommended to consult their professional advisers.

(1) VERY SUBSTANTIAL DISPOSAL AND CONNECTED TRANSACTION IN RELATION TO THE DISPOSAL OF 100% EQUITY INTEREST IN THE TARGET COMPANY

The Board is pleased to announce that, on 13 June 2024 (after trading hours), the Vendor, a wholly-owned subsidiary of the Company, and the Purchasers entered into the Sale and Purchase Agreement, pursuant to which the Vendor conditionally agreed to sell, and the Purchasers conditionally agreed to acquire, the Sale Shares, representing the entire issued share capital of the Target Company, at the Consideration of HK\$62.0 million, subject to the terms and conditions of the Sale and Purchase Agreement.

As at the date of this announcement, the Target Company was owned as to 100% by the Vendor. Upon Completion, the Company will not hold any interest in the Target Company, and each member of the Target Group will cease to be a subsidiary of the Company.

THE SALE AND PURCHASE AGREEMENT

Principal terms of the Sale and Purchase Agreement are as follows:

Date

13 June 2024 (after trading hours)

Parties

- (i) Great Ample Holdings Limited, as the Vendor; and
- (ii) Mr. Sung, Mr. Cheung, Mr. Chan and Mr. Huang, as the Purchasers.

Subject Matter

The Vendor conditionally agreed to sell, and the Purchasers conditionally agreed to acquire, the Sale Shares in the Target Company. The Sale Shares represent 100% of the equity interest in the Target Company. Upon Completion, the Company will not hold any interest in the Target Company, and each member of the Target Group will cease to be a subsidiary of the Company.

Consideration and payment

The Consideration for the Disposal is HK\$62.0 million and shall be paid in cash by the Purchasers to the Vendor on the date of the Completion in Hong Kong Dollars, Renminbi or United States Dollars at a fixed exchange rate of HK\$1.00 to RMB0.927 or HK\$7.80 to US\$1.00.

Set out below is the number of Sale Shares which shall be purchased by each Purchaser and their respective consideration:

	Number of Sale Shares	Consideration <i>HK\$'000</i>
Mr. Sung	9,250	44,112
Mr. Cheung	1,451	6,920
Mr. Chan	1,451	6,920
Mr. Huang	849	4,048
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Total	13,001	62,000
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Basis of the Consideration

The Consideration was determined after arm's length negotiations between the Vendor and the Purchasers on normal commercial terms with reference to, among other things, (1) the preliminary appraised valuation of the Target Properties conducted by the Independent Valuer in accordance with International Valuation Standards at RMB61.2 million as at 31 May 2024; (2) the unaudited consolidated net asset value of the Target Group of approximately HK\$59.0 million as at 30 April 2024; and (3) the factors set out in the paragraph headed "Reasons for and the Benefits of the Disposal" below.

Based on the Draft Valuation Report, the building elements of the Target Properties were valued at RMB61.2 million (equivalent to approximately HK\$67.4 million) as at 31 May 2024 by adopting the depreciated replacement cost method. Based on the net carrying value of the building elements of the Target Properties of approximately HK\$69.9 million as at 30 April 2024, the appraised value of the building elements of the Target Properties represents a valuation deficit of approximately HK\$2.5 million. After considering the unaudited consolidated net asset value of the Target Group of approximately HK\$59.0 million as at 30 April 2024 and the valuation deficit of the building elements of the Target Properties, the adjusted unaudited consolidated net asset value of the Target Group as at 30 April 2024 was HK\$56.5 million. Hence, the Consideration of approximately HK\$62.0 million represents a premium of approximately 9.73% to the adjusted unaudited consolidated net asset value of the Target Group, which the Directors consider to be fair and reasonable.

Conditions Precedent

Completion of the Sale and Purchase Agreement is conditional upon:

- (a) all necessary approvals by the Independent Shareholders in the SGM in respect of the Sale and Purchase Agreement and the transactions contemplated thereunder in a manner as required by the Stock Exchange or under the Listing Rules, the Bye-laws and the applicable legislation having been obtained; and
- (b) the Company having been released and discharged of all its obligations and liabilities under the Existing Corporate Guarantee and the Second Facility Agreement by the Bank.

None of the above conditions can be waived. As at the date of this Announcement, none of the above conditions has been fulfilled.

If any of the above conditions shall not have been fulfilled by 31 December 2024 or such other date as shall be agreed between the Vendor and the Purchasers in writing, each party to the Sale and Purchase Agreement shall be entitled to terminate the Sale and Purchase Agreement by notice in writing to the other parties, whereupon the Sale and Purchase Agreement and everything therein contained shall be null and void and of no effect. Upon termination of the Sale and Purchase Agreement, no party to the Sale and Purchase Agreement shall have any rights, obligations or liabilities under the Sale and Purchase Agreement.

The Disposal is not conditional upon the Proposed Share Premium Cancellation or the proposed payment of the Special Dividend.

Completion

Completion shall take place on the 2nd Business Day after the date on which all of the conditions precedents are satisfied, or such other date as shall be agreed between the Vendor and the Purchasers in writing.

Transfer of trademarks

The trademarks relating to furniture brands registered in the name of the PRC Company are intended to be transferred to other subsidiaries of the Company at nil cost after the signing of the Sale and Purchase Agreement and licences may be granted to the Company and/or its other subsidiaries to use such trademarks prior to completion of such transfer at nil cost. The Purchasers have undertaken with the Vendor to procure that the PRC Company will not take any steps to terminate or cancel such transfer or licences after Completion.

VALUATION

The Company engaged LCH (Asia-Pacific) Surveyors Limited, the Independent Valuer, to conduct the valuation of the Target Properties for the purpose of the Disposal. The Independent Valuer is a firm of professional surveyors and international valuation consultants. The Independent Valuer started its operation in Hong Kong in 1994 as a professional asset advisory and valuation consultant to multi-national enterprises and listed companies with principal businesses in the PRC and Asia-Pacific regions. The team of the Independent Valuer have obtained professional qualifications from various international valuation professional organisations, such as The Hong Kong Institute of Surveyors and Royal Institution of Chartered Surveyors. During the past three years, the Independent Valuer has engaged in over 100 valuation projects for the companies listed on Stock Exchange.

According to the Draft Valuation Report, there are three generally accepted approaches in arriving at the market value of the Target Properties on an absolute title basis, namely the sales comparison approach (or known as the market approach), the cost approach and the income approach. The preconditions for the adoption of the market approach are a developed, fair and active open market with sufficient market information and the availability of comparable transactions on the open market. The land use rights in the PRC, where the Target Properties are located, are not allowed to be transferred or leased pursuant to the relevant Realty Title Certificates. As the land use rights of the Target Properties are not transferable and there are no comparable transactions in the open market, the market approach is not appropriate for the valuation of the Target Properties. The income approach is not appropriate as the Target Properties are not allowed to be leased. The Independent Valuer concluded that the Target Properties have no commercial value due to its restriction in transferability.

For information purpose, the depreciated replacement cost of the building elements of the Target Properties was reported by the Independent Valuer by adopting the depreciated replacement cost method under the cost approach. However, the cost approach is not appropriate to determine the value of the land element of the Target Properties, as every piece of land is unique. It would be challenging, if not impossible, to find a replacement site with the same features and characteristics as the land element of the Target Properties, which contribute to the service potential of the building elements (the improvements) within their specific locality. For the depreciated replacement cost method, the gross replacement cost of the buildings elements of the Target Properties should take into consideration everything which is necessary to complete the construction from a new green field site to provide buildings as they are, at the valuation date, fit for and capable of being occupied and used for the current use. Deductions are then made to reflect age, condition, and functional obsolescence.

Taking into account, among others, (i) there is no open market for such comparable transactions due to the restriction in transferability; and (ii) the Target Properties are not allowed to be leased and thus no rental income will be generated from the Target Properties, the Board concurs with the Independent Valuer that depreciated replacement cost method under the cost approach is the most appropriate method for assessing the depreciated replacement cost of the building elements of the Target Properties. As the major asset of the Target Group is the Target Properties, the Board considers that the valuation of the Target Properties as one of the references for determining the Consideration is fair and reasonable.

INFORMATION OF THE PARTIES TO THE SALE AND PURCHASE AGREEMENT

The Group

The principal business activities of the Group are the design, manufacture, sale and marketing of home furniture products including mainly wood-based furniture, sofa and mattresses, provision of promotional services relating to layout design, fitting and display of products and licensing of its own brands and product designs. The Group is operating a leased factory, which is located in Pingshan District, Shenzhen City, Guangdong Province, the PRC, for the production of sofa.

The Vendor

The Vendor is a company incorporated in the BVI with limited liability and a wholly-owned subsidiary of the Company. The Vendor is an investment holding company.

The Purchasers

Mr. Sung

Mr. Sung is the chairman and chief executive officer of the Company and an executive Director. Mr. Sung is also one of the founders of the Group and he has over 20 years of experience in the furniture industry. 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.

As at the date of this announcement, 29,690,000 Shares, representing approximately 3.67% of the total issued share capital of the Company, were held by Mr. Sung and 258,906,777 Shares, representing approximately 32.04% of the total issued share capital of the Company, were held by King Right Holdings Limited, a company beneficially wholly-owned by Mr. Sung, who is also the sole director of King Right Holdings Limited.

Mr. Cheung

Mr. Cheung is an executive Director. Mr. Cheung is also one of the founders of the Group and he has over 20 years of experience in the furniture industry. 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.

As at the date of this announcement, 7,200,000 Shares, representing approximately 0.89% of the total issued share capital of the Company, were held by Mr. Cheung and 54,840,465 Shares, representing approximately 6.79% of the total issued share capital of the Company, were held by United Sino Limited, a company beneficially wholly-owned by Mr. Cheung, who is also the sole director of United Sino Limited.

Mr. Chan

Mr. Chan is one of the founders of the Group and he has over 20 years of experience in the furniture industry. He is 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. Besides, he is also a director of certain subsidiaries of the Company.

As at the date of this announcement, 7,200,000 Shares, representing approximately 0.89% of the total issued share capital of the Company, were held by Mr. Chan and 54,840,465 Shares, representing approximately 6.79% of the total issued share capital of the Company, were held by Golden Sunday Limited, a company beneficially wholly-owned by Mr. Chan.

Mr. Huang

Mr. Huang is one of the founders of the Group and he has over 25 years of experience in the furniture industry. He is the head of the design and development department, as well as the production department of the Group. He is responsible for overseeing the design, development and manufacture of the Group's furniture products. Besides, he is also a director of certain subsidiaries of the Company.

As at the date of this announcement, 7,350,000 Shares, representing approximately 0.91% of the total issued share capital of the Company, were held by Mr. Huang and 51,586,293 Shares, representing approximately 6.38% of the total issued share capital of the Company, were held by Top Right Trading Limited, a company beneficially wholly-owned by Mr. Huang.

The Target Group

The Target Group consists of the Target Company, Hanmix Limited and the PRC Company. The Target Company is a company incorporated in the BVI with limited liability and is wholly-owned by the Vendor. Hanmix Limited is a company incorporated in Hong Kong with limited liability and is wholly owned by the Target Company. The PRC Company is a company incorporated in the PRC with limited liability and is wholly owned by Hanmix Limited. The Target Company and Hanmix Limited are investment holding companies.

The major asset of the PRC Company is the Target Properties located at Lot No. G14309-0285, Kengzi Town Industrial Zone, Longgang District, Shenzhen City, Guangdong Province, the PRC which comprises; (i) a parcel of land having a site area of approximately 43,817.36 sq. m.; (ii) a single storey workshop with a gross floor area of approximately 3,050 sq. m.; (iii) a three storey workshop with a gross floor area of approximately 30,173 sq. m.; (iv) a single storey warehouse with a gross floor area of approximately 109 sq. m.; and (v) an eight storey dormitory with a gross floor area of approximately 8,886 sq. m.. Prior to the year ended 31 December 2019, the Target Properties used to be the production base and showroom of the Group's furniture products. However, the production activities of the PRC Company ceased during the year ended 31 December 2019. The majority of the Target Properties is now vacant, except that a small area of the Target Properties is still being occupied by the Group for office purpose and certain products and equipment of a third party (whose products were being promoted in connection with the PRC Company's promotion business) have been seized by the court and are still kept in the Target Properties (the "**Incident**").

Since April 2020, the Target Group carried on the business of promotional services relating to layout design, fitting and display of products at certain part of the Target Properties (the "**Promotion Business**"). The scale of the Promotion Business was small and following the expiry of the business contract in March 2024, the Promotion Business has ceased. The PRC Company has also been engaging in the sale of home furniture products to customers located in South East Asia (the "**SE Asia Furniture Business**"). Before the Completion, the Group will shift the existing customers of the PRC Company to other subsidiaries of the Remaining Group and continue with the SE Asia Furniture Business after the Completion. As such, the Disposal will not have any effect on the SE Asia Furniture Business of the Group.

The following chart sets forth the shareholding structure of the Target Group as at the date of this announcement:



Set out below is a summary of the unaudited consolidated financial information of the Target Group (prepared in accordance with the Hong Kong Financial Reporting Standards issued by the Hong Kong Institute of Certified Public Accountants) for the three years ended 31 December 2021, 2022 and 2023:

	For the year ended 31 December		
	2021	2022	2023
	<i>HK\$000</i>	<i>HK\$000</i>	<i>HK\$000</i>
Revenue from:			
– Promotion Business	12,583	11,612	11,104
– SE Asia Furniture Business	26,082	15,452	16,314
	38,665	27,064	27,418
Loss before taxation	(7,795)	(18,754)	(6,995)
Loss for the year/period	(7,811)	(18,754)	(6,995)

Based on the unaudited consolidated financial information of the Target Group, the total assets and net assets value of the Target Group as of 30 April 2024 were approximately HK\$129.1 million and HK\$59.0 million, respectively.

REASONS FOR AND BENEFITS OF THE DISPOSAL

The Disposal represents a good opportunity for the Group to realize a vacant asset for cash which will be primarily used for the proposed payment of the Special Dividend.

Prior to the year ended 31 December 2019, the Target Properties used to be one of the production bases for the manufacturing of wood-based furniture and showroom of the Group's furniture products. Due to the outbreak of the coronavirus disease, some orders and projects were cancelled which reduced the utilization of the production capacity. As most of the customers have changed to use the online platform such as video conferencing with virtual graphics display for viewing and selecting furniture, the usage of showroom has been substantially reduced. In view of the change in the operating environment and with an aim to reduce the operating and maintenance cost of the Target Properties, the Group suspended its production activities at the Target Properties and outsourced the production of the wood-based furniture to independent furniture manufacturers in the PRC.

Since April 2020, the PRC Company commenced a design and promotional project by entering into a contract with a customer for providing the promotional services (including layout design as well as fitting and display arrangement for the customers' products) and using certain part of the Target Properties for showroom and storage purposes. The scale of the Promotion Business was small and following the expiry of the business contract in March 2024, the Promotion Business has ceased.

As at 31 December 2023, the Group recorded bank loans of approximately HK\$53.8 million which was wholly attributable to the Target Group. The interest expenses was approximately HK\$3.9 million for the year ended 31 December 2023. Upon Completion, the Remaining Group will no longer have bank borrowings and loans, which will improve the gearing level of the Remaining Group and reduce the interest burden of the Remaining Group.

With respect to the SE Asia Furniture Business, the Group will shift the existing customers of the SE Asia Furniture Business to other subsidiaries of the Remaining Group before the Completion and continue with the SE Asia Furniture Business after the Completion. The Group has informed the customers of the SE Asia Furniture Business that all future purchase orders should be placed to other subsidiaries of the Company from 1 June 2024 onwards. The SE Asia Furniture Business of the Target Group generated revenue of HK\$16.3 million for the year ended 31 December 2023, which accounted for approximately 17.30% of the Group's total revenue for the year ended 31 December 2023.

Having considered that (i) the Target Properties are not required for the production activities of the Group as most of its production has been outsourced to independent furniture manufacturers; (ii) the Incident happened in the Target Properties, leading to certain area of the Target Properties being restricted for use; (iii) the Group will no longer have any bank borrowings and loans after the Completion and the gearing level of the Remaining Group is expected to be substantially improved; and (iv) the SE Aisa Furniture Business of the PRC Company will be fully taken up by other subsidiaries of the Remaining Group and there will be no effect on the furniture business of the Group after the Completion, the Board (including the independent non-executive Directors but excluding the executive Directors who have abstained from voting on the Board resolutions) is of the view that the Disposal is fair and reasonable, and in the interests of the Company and the Shareholders as a whole and the Sale and Purchase Agreement was entered into on an arm's length basis between the Company and Purchasers, and is on normal commercial term.

BUSINESS PROSPECTS OF THE REMAINING GROUP

The principal business activities of the Group are the design, manufacture, sale and marketing of home furniture products including mainly wood-based furniture, sofa and mattresses, provision of promotional services relating to layout design, fitting and display of products and licensing of its own brands and product designs. The Group offers one-stop furniture manufacturing services which cover the whole process of manufacturing, sales and marketing of home furniture products including designing the style and structure of furniture, sample-making, procuring and inspecting quality of raw materials, arranging production of furniture, performing quality examination on final products and arranging logistics services to deliver the final products to the customers' destination worldwide. The Group is operating a leased factory which is located in Pingshan District, Shenzhen City, Guangdong Province, the PRC, for the production of sofa while the production of other furniture have been outsourced to five long-cooperated independent furniture manufacturers in Guangdong Province. The Group has employed approximately 110 staff engaging in the furniture business. The Group has a well-established international and domestic customer base with customers being located in Asia, Europe, United States and the PRC, of which a majority of the revenue of the furniture business was derived from overseas customers for the year ended 31 December 2023. The Group has been maintaining a wide range of customer base including furniture brand owners, furniture distributors and furniture retailers.

Following the Completion, the Remaining Group will continue with its furniture business. The management of the Group consider that the PRC real estate sector has been experiencing a significant downturn which has resulted in a decline in demand for the furniture products in the PRC. In view of the foregoing challenges in the PRC market, the Remaining Group is adjusting its business strategy to explore cooperation opportunity with different types of customers in the PRC. On the other hand, the Remaining Group will continue to focus on the business development with overseas customers and the expansion of its customer profile and sales in the overseas market especially in the Middle East and Japan markets. The Remaining Group has successfully increased its sales in Japan during 2024.

The Remaining Group will put more effort in research, development and promoting the new products by participating in trade fairs and will make frequent contact with customers of the Remaining Group to keep them updated on the Remaining Group's latest offerings and share the market trend information with the customers to assist them in making favourable procurement decisions. The management of the Remaining Group will closely monitor the on-going market trend and customers' preference in order to ensure the design and quality of the home furniture products are keeping abreast of the market.

FINANCIAL IMPACT OF THE DISPOSAL

Upon Completion, each member of the Target Group will cease to be a subsidiary of the Company, and the financial information of the Target Group will no longer be consolidated into the Group's consolidated financial statements. The gross proceeds from the Disposal are expected to be HK\$62.0 million and the net proceeds (after deducting transaction costs and professional expenses) are expected to be approximately HK\$60.7 million. The Company estimates to record a gain on Disposal of approximately HK\$4.2 million, after taking into the account the Consideration, the unaudited consolidated net asset value of the Target Group as of 30 April 2024, the valuation deficit of the Target Properties and the estimated relevant fees and expenses in relation to the Disposal.

The above financial impact is shown for illustrative purpose only and the actual gain or loss as a result of the Disposal is subject to, among other things, the audited consolidated net asset value of the Target Group on the day of Completion and the audit to be conducted by the auditors of the Company.

USE OF PROCEEDS

The Board proposes that, subject to the fulfillment of any applicable conditions (including the Independent Shareholders having approved the Disposal, and the Shareholders having approved the Proposed Share Premium Cancellation and the payment of the Special Dividend at the SGM), the net proceeds of HK\$60.7 million will be primarily distributed to the Shareholders as the Special Dividend.

(2) PROPOSED SHARE PREMIUM CANCELLATION

The Board intends to seek Shareholders' approval at the SGM to effect the Proposed Share Premium Cancellation by cancelling the entire amount standing to the credit of the Share Premium Account and applying the credits arising therefrom towards the elimination of all the Accumulated Losses and transferring the remaining balance to the Contributed Surplus Account. As at 31 December 2023, the amount standing to the credit of the Share Premium Account was approximately HK\$176,627,000 and the amount of Accumulated Losses was approximately HK\$108,484,000.

Pursuant to the Proposed Share Premium Cancellation, it is proposed that the entire amount standing to the Share Premium Account as at the Effective Date be cancelled, with part of the credit arising therefrom being applied towards the elimination of the Accumulated Losses and the remaining balance in the amount of approximately HK\$68,143,000 being credited to the Contributed Surplus Account. Upon the Proposed Share Premium Cancellation becoming effective, all the Accumulated Losses will be eliminated. The Company proposes to apply part of the credit balance of the Contributed Surplus Account to pay the Special Dividend.

The Proposed Share Premium Cancellation does not involve any reduction in the authorized or issued share capital of the Company nor does it involve any reduction in the nominal value of the Shares or the trading arrangements in respect of the Shares.

Effects of the Proposed Share Premium Cancellation

Implementation of the Proposed Share Premium Cancellation will not of itself alter the underlying assets, business, operations, management, financial position (other than as regards the payment of the relevant expenses) or the paid up share capital of the Company.

Conditions of the Proposed Share Premium Cancellation

The Proposed Share Premium Cancellation is conditional upon:

- (i) the passing of a special resolution by the Shareholders at the SGM to approve the Proposed Share Premium Cancellation; and
- (ii) compliance by the Company with the requirements of section 46(2) of the Companies Act to effect the Proposed Share Premium Cancellation and the Directors being satisfied that on the Effective Date, there are no reasonable grounds for believing that the Company is, or after the Effective Date would be, unable to pay its liabilities as they become due.

The conditions above cannot be waived. Subject to the fulfillment of the above conditions, the Effective Date is expected to be the date of passing the special resolution by the Shareholders at the SGM to approve the Proposed Share Premium Cancellation or upon the day on which the above conditions are fulfilled (whichever is later).

The Proposed Share Premium Cancellation is not conditional upon the Disposal or the proposed payment of the Special Dividend.

(3) PROPOSED PAYMENT OF THE SPECIAL DIVIDEND

The Board recommends the payment of the Special Dividend of HK7.51 cents per Share to the Shareholders whose names appear on the register of members of the Company on a record date to be determined, subject to the conditions as stated below.

The Special Dividend is permitted to be made out of the Contributed Surplus Account in accordance with the provisions of the applicable laws of Bermuda and the Bye-laws. An ordinary resolution will be proposed at the SGM to approve the payment of the Special Dividend.

Conditions of the proposed payment of the Special Dividend

The proposed payment of the Special Dividend is conditional upon the satisfaction of the following conditions:

- (a) the passing of a special resolution by the Shareholders at the SGM approving the Proposed Share Premium Cancellation and the Proposed Share Premium Cancellation having become effective;
- (b) the passing of an ordinary resolution by the Shareholders at the SGM approving the payment of the Special Dividend;
- (c) the completion of the Disposal;
- (d) the Directors being satisfied that there are no reasonable grounds for believing that the Company is, or would after the date on which the Special Dividend is paid be, unable to pay its liabilities as they become due, or the realisable value of the Company's assets would thereby be less than its liabilities; and
- (e) the Company having complied with all requirements under the laws of the Bermuda, the Bye-laws and the Listing Rules regarding the proposed payment of Special Dividend.

The conditions above cannot be waived. If the conditions are not satisfied, the Special Dividend will not be paid. Subject to the fulfilment of the above conditions, the record date has not yet been determined. Further announcement(s) will be made by the Company when appropriate.

Reasons for the Proposed Share Premium Cancellation and proposed payment of the Special Dividend

The Board considers that it is unnecessary to maintain the Share Premium Account at the current level. In addition, the Company is subject to restrictions under the Companies Act on the use of the funds standing to the credit of the Share Premium Account in limited circumstances, such as for paying up Shares to be issued to Shareholders as fully paid bonus Shares or writing off the expenses of any issue of Shares.

The Proposed Share Premium Cancellation, after becoming effective, with part of the credit arising therefrom being applied towards the elimination of the Accumulated Losses and the remaining balance being credited to the Contributed Surplus Account, which is a distributable reserve, will give the Company greater flexibility to use such reserve for payment of dividends to the Shareholders in the future as the Board may think fit. On the other hand, the Board considers the Accumulated Losses to be historical and proposes the reduction of the Share Premium Account to eliminate the Accumulated Losses and to better reflect the financial position of the Company which it considers to be in the best interests of the Company and the Shareholders as a whole.

The Special Dividend provides the opportunity for a substantial and immediate cash realization to the Shareholders from the proceeds of the Disposal. After taking into account a number of factors including (i) the Group having recorded net cash inflow from operating activities of approximately HK\$15.9 million for the year ended 31 December 2023; (ii) the cash and cash equivalents of the Group being approximately HK\$33.5 million as at 31 December 2023; (iii) the Remaining Group having no bank borrowings and loans after the Completion; and (iv) the Remaining Group having no concrete plan for capital investment, the Board considers that the Remaining Group has sufficient working capital upon the Completion to maintain its operation and accordingly it is appropriate to propose the payment of Special Dividend to recognize the Shareholders' support. The Board considers such arrangement to be in the interests of the Company and its Shareholders as a whole. The Special Dividend will allow Shareholders to immediately realize substantial value from their shareholdings in the Company. If the Disposal is not approved by the Independent Shareholders, or does not complete, then the Special Dividend will not be paid.

The Board believes that the payment of the Special Dividend will not have any material adverse effect on the underlying assets, business, operations or financial position of the Group and does not involve any reduction in the authorized or issued share capital of the Company or reduction in the nominal value of the Shares or result in any change in the trading arrangements in respect of the Shares.

Further announcement in respect of the details of the Special Dividend, including but not limited to the closure date of the register of members of the Company, the record date for determining entitlements to receive the Special Dividend and the pay-out date for the Special Dividend, will be made by the Company when appropriate.

LISTING RULES IMPLICATIONS

As the highest applicable percentage ratio calculated in accordance with the Listing Rules in respect of the Disposal exceeds 75%, the Disposal constitutes a very substantial disposal for the Company pursuant to Rule 14.06(4) of the Listing Rules and is therefore subject to reporting, announcement, circular, and Shareholders' approval requirements under Chapter 14 of the Listing Rules.

As at the date of this announcement, (i) Mr. Sung is a controlling shareholder of the Company and an executive Director, chairman and chief executive officer of the Company and is acting in concert with Mr. Cheung, Mr. Chan and Mr. Huang; (ii) Mr. Cheung is an executive Director; and (iii) Mr. Chan and Mr. Huang are directors of certain subsidiaries of the Company. As such, the Purchasers are connected persons of the Company. Therefore, the Disposal constitutes a connected transaction of the Company under Chapter 14A of the Listing Rules and is subject to reporting, announcement, circular and Independent Shareholders' approval requirements.

Mr. Sung and Mr. Cheung are considered to have material interests in the Disposal. Mr. Sung and Mr. Cheung have abstained from voting on the board resolutions approving the Sale and Purchase Agreement and the transactions contemplated thereunder.

Pursuant to Rule 14A.36 of the Listing Rules, any Shareholder who has a material interest in the Sale and Purchase Agreement shall abstain from voting to approve the Sale and Purchase Agreement and the transactions contemplated thereunder at the SGM. As at the date of this announcement, (i) King Right Holdings Limited held 258,906,777 Shares and Mr. Sung held 29,690,000 Shares; (ii) United Sino Limited held 54,840,465 Shares and Mr. Cheung held 7,200,000 Shares; (iii) Golden Sunday Limited held 54,840,465 Shares and Mr. Chan held 7,200,000 Shares; and (iv) Top Right Trading Limited held 51,586,293 Shares and Mr. Huang held 7,350,000 Shares. Accordingly, the Purchasers and their associates will be required to abstain from voting in the resolutions approving the Sale and Purchase Agreement and the transactions contemplated thereunder at the SGM. Save as disclosed above, to the best knowledge of the Directors, no other Shareholders would be required to abstain from voting on the relevant resolutions at the SGM.

GENERAL

The Company will convene the SGM to approve the Sale and Purchase Agreement and the transactions contemplated thereunder, the Proposed Share Premium Cancellation and the proposed payment of Special Dividend. An Independent Board Committee comprising all the independent non-executive Directors has been established by the Company to consider the Sale and Purchase Agreement and the transactions contemplated thereunder and to advise the Independent Shareholders as to whether the Sale and Purchase Agreement and the transactions contemplated thereunder are on normal commercial terms or better, fair and reasonable, and in the interests of the Company and the Shareholders as a whole. The Company has appointed Octal Capital Limited as the Independent Financial Adviser to advise the Independent Board Committee and the Independent Shareholders in this regard.

A circular containing, amongst other things, (i) further information regarding the Sale and Purchase Agreement, the Proposed Share Premium Cancellation and the proposed payment of Special Dividend; (ii) recommendation of the Independent Board Committee in respect of the Disposal; (iii) the advice of the Independent Financial Adviser in respect of the Disposal; (iv) a notice of the SGM; and (v) other information as required under the Listing Rules will be despatched to the Shareholders on or before 28 June 2024.

Completion of the Disposal is subject to the fulfillment of the conditions precedent as set out in the Sale and Purchase Agreement. Accordingly, the Disposal may or may not proceed.

Shareholders and potential investors of the Company should also note that the Proposed Share Premium Cancellation and the proposed payment of Special Dividend are conditional upon satisfaction of the conditions set out in this announcement. Therefore, the Proposed Share Premium Cancellation and the proposed payment of Special Dividend may or may not proceed.

Shareholders and potential investors are reminded to exercise caution in dealing in the Shares and, if any doubt, are recommended to consult their professional advisers.

DEFINITIONS

In this announcement, the following expressions shall have the meanings set out below unless the context requires otherwise:

“Accumulated Losses”	the accumulated losses of the Company as shown in the audited financial statements of the Company for the year ended 31 December 2023
“Bank”	Shenzhen Rural Commercial Bank Pingshan Branch (深圳農村商業銀行股份有限公司坪山支行)
“Board”	the board of Directors
“Business Day(s)”	a day on which banks in Hong Kong are generally open for business (other than a Saturday, Sunday, public holiday or a day on which typhoon signal No. 8 or above or the black rainstorm signal is hoisted in Hong Kong at any time between 9:30 a.m. to 5:00 p.m.)
“BVI”	the British Virgin Islands
“Bye-laws”	the bye-laws of the Company (as amended from time to time)
“Company”	Hing Lee (HK) Holdings Limited, a company incorporated in the BVI with limited liability and was subsequently re-domiciled and continued in Bermuda with limited liability, whose shares are listed on the main board of the Stock Exchange
“Companies Act”	the Companies Act 1981 of Bermuda (as amended from time to time)
“Completion”	completion of the Disposal pursuant to the terms and conditions under the Sale and Purchase Agreement
“Consideration”	the aggregate consideration for the Sale Shares of HK\$62.0 million

“Contributed Surplus Account”	the contributed surplus account of the Company
“Director(s)”	the director(s) of the Company
“Disposal”	the disposal of Sale Shares by the Vendor to the Purchasers pursuant to the terms and conditions of the Sale and Purchase Agreement
“Draft Valuation Report”	the draft valuation report of the Target Properties prepared by the Independent Valuer
“Effective Date”	the date on which the Proposed Share Premium Cancellation shall become effective
“Existing Corporate Guarantee”	the guarantee of maximum amount dated 2 April 2021 executed by the Company in favour of the Bank in respect of the indebtedness of the PRC Company under the First Facility Agreement
“First Facility Agreement”	the facility agreement dated 25 September 2020 between, among others, the Bank as lender and the PRC Company as borrower and mortgagor as supplemented by a supplemental facility agreement dated 17 January 2024 between the Bank and the PRC Company
“Group”	the Company and its subsidiaries
“Hong Kong”	the Hong Kong Special Administrative Region of the PRC
“HK\$”	Hong Kong dollars, the lawful currency of Hong Kong
“Independent Board Committee”	the independent board committee, comprising all the independent non-executive Directors, namely Mr. Kong Hing Ki, Mr. Feng Jianzhong and Ms. Leung Yuen Man, which has been established to make recommendations to the Shareholders regarding the Disposal
“Independent Financial Adviser”	Octal Capital Limited, a corporation licensed by the Securities and Futures Commission to carry on Type 1 (dealing in securities) and Type 6 (advising on corporate finance) regulated activities under the Securities and Futures Ordinance (Chapter 571 of the Laws of Hong Kong), being the independent financial adviser to the Independent Board Committee and the Independent Shareholders in respect of the Disposal

“Independent Shareholders”	Shareholders other than the Purchasers and their respective associates
“Independent Valuer”	LCH (Asia-Pacific) Surveyors Limited, an independent qualified valuer incorporated in Hong Kong with limited liability
“Listing Rules”	The Rules Governing the Listing of Securities on the Stock Exchange
“Mr. Chan”	Mr. Chan Kwok Kin, one of the founders of the Group and the head of the sales and marketing department, as well as the procurement department of the Group. As at the date of this announcement, 62,040,465 Shares were held by Mr. Chan and his associates
“Mr. Cheung”	Mr. Cheung Kong Cheung, one of the founders of the Group and an executive Director. As at the date of this announcement, 62,040,465 Shares were held by Mr. Cheung and his associates
“Mr. Huang”	Mr. Huang Wei Ye, one of the founders of the Group and the head of the design and development department, as well as the production department of the Group. As at the date of this announcement, 58,936,293 Shares were held by Mr. Huang and his associates
“Mr. Sung”	Mr. Sung Kai Hing, one of the founders of the Group and the chairman and chief executive officer of the Company and an executive Director. As at the date of this announcement, 288,596,777 Shares were held by Mr. Sung and his associates
“PRC”	the People’s Republic of China, for the purpose of this announcement, excluding Hong Kong, Macau Special Administration Region of the People’s Republic of China and Taiwan
“PRC Company”	Shenzhen Xingli Furniture Company Limited*, a company incorporated in the PRC with limited liability
“Proposed Share Premium Cancellation”	the proposed cancellation of the entire amount standing to the credit of the Share Premium Account as at the Effective Date and applying the credits arising therefrom towards the elimination of all the Accumulated Losses and transferring the remaining balance (if any) to the Contributed Surplus Account
“Purchasers”	Mr. Sung, Mr. Cheung, Mr. Chan and Mr. Huang

“Remaining Group”	the Group immediately after Completion
“RMB”	Renminbi, the lawful currency of the PRC
“Sale and Purchase Agreement”	the sale and purchase agreement dated 13 June 2024 entered into among the Vendor and the Purchasers in relation to the Disposal
“Sale Shares”	13,001 issued shares of US\$1 each in the capital of the Target Company, representing 100% equity interest of the Target Company
“Second Facility Agreement”	means the facility agreement dated 12 October 2023 between, among others, the Bank as lender, the PRC Company as borrower and mortgagor and the Company as guarantor
“Share(s)”	ordinary share(s) of par value of HK\$0.01 each in the share capital of the Company
“Share Premium Account”	the share premium account of the Company, the amount standing to the credit of which was approximately HK\$176,627,000 as at 31 December 2023 based on the audited consolidated financial statement of the Company as at that date
“SGM”	the special general meeting of the Company to be held for the Shareholders to consider, and if thought fit, approve the Disposal, the Proposed Share Premium Cancellation and the proposed payment of the Special Dividend
“Shareholder(s)”	registered holder(s) of the Share(s)
“Special Dividend”	the proposed payment of special dividend of HK7.51 cents per Share as recommended by the Board
“sq. m.”	square meter
“Stock Exchange”	The Stock Exchange of Hong Kong Limited
“Target Company”	Success Profit International Limited, a company incorporated in the BVI with limited liability and is wholly-owned by the Vendor

“Target Group”	the Target Company and its subsidiaries, which includes Hanmix Limited and PRC Company as of the date of this announcement
“Target Properties”	the factory complex located at Lot No. G14309-0285, Kengzi Town Industrial Zone, Longgang District, Shenzhen City, Guangdong Province, the PRC (including the land use rights in relation thereto)
“US\$”	United States dollars, the lawful currency for the time being of the United States of America
“Vendor”	Great Ample Holdings Limited, a company incorporated in the BVI with limited liability and a wholly-owned subsidiary of the Company
“%”	per cent

English translations of company names in Chinese which are marked with “” are for identification purposes only.*

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

Hong Kong, 13 June 2024

As at the date of this announcement, the Board comprises Mr. Sung Kai Hing (Chairman and Chief Executive Officer) and Mr. Cheung Kong Cheung as executive Directors; and Mr. Kong Hing Ki, Mr. Feng Jianzhong and Ms. Leung Yuen Man as independent non-executive Directors.