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)

ANNUAL RESULTS ANNOUNCEMENT FOR THE YEAR ENDED 31 DECEMBER 2017

The board of directors (the "Board") of Hing Lee (HK) Holdings Limited (the "Company") is pleased to announce the consolidated results of the Company and its subsidiaries (the "Group") for the year ended 31 December 2017 with comparative figures for the corresponding year ended 31 December 2016.

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

CONSOLIDATED STATEMENT OF PROFIT OR LOSS
for the year ended 31 December 2017
(Expressed in Hong Kong dollars)

	Note	**2017**	2016
		HK$'000	*HK$'000*
Turnover	4	**311,191**	394,196
Cost of sales		**(259,026)**	(293,338)
Gross profit		**52,165**	100,858
Other net income	5	**36,572**	2,340
Selling and distribution expenses		**(41,057)**	(37,305)
Administrative expenses		**(34,204)**	(50,948)
Profit from operation		**13,476**	14,945
Finance costs	6(a)	**(3,179)**	(2,663)
Profit before taxation	6	**10,297**	12,282
Income tax	7	**(1,123)**	(1,712)
Profit for the year		**9,174**	10,570
		HK cents	*HK cents*
Earnings per share	8		
– Basic		**1.14**	1.31
– Diluted		**1.14**	1.31

CONSOLIDATED STATEMENT OF PROFIT OR LOSS AND OTHER COMPREHENSIVE INCOME
for the year ended 31 December 2017
(Expressed in Hong Kong dollars)

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

CONSOLIDATED STATEMENT OF FINANCIAL POSITION
as at 31 December 2017
(Expressed in Hong Kong dollars)

	Note	**2017**	2016
		HK$'000	*HK$'000*
Non-current assets			
Property, plant and equipment		**263,532**	253,309
Prepaid lease payments		**41,778**	40,056
Goodwill		**51,852**	48,455
Available-for-sale investments		**83**	61
		357,245	341,881
Current assets			
Prepaid lease payments		**1,085**	1,014
Inventories		**45,944**	62,434
Trade and other receivables	10	**139,091**	160,775
Current tax recoverable		**–**	188
Pledged bank deposits		**22,055**	26,336
Cash and cash equivalents		**70,550**	50,411
		278,725	301,158
Current liabilities			
Trade and other payables	11	**131,513**	176,393
Bank borrowings		**86,961**	69,812
Current tax payable		**547**	230
		219,021	246,435
Net current assets		**59,704**	54,723
NET ASSETS		**416,949**	396,604
CAPITAL AND RESERVES			
Share capital	12(a)	**8,061**	8,061
Reserves		**408,888**	388,543
TOTAL EQUITY		**416,949**	396,604

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

1. COMPANY INFORMATION

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

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

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

2. BASIS OF PREPARATION

The 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").

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

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

None of these developments have had a material effect on how the Group's results and financial position for the current or prior periods have been prepared or presented.

The Group has not applied any new standard or interpretation that is not yet effective for the current accounting period (see note 3).

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

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

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

[1] Effective for annual periods beginning on or after 1 January 2018.
[2] Effective for annual periods beginning on or after 1 January 2019.

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

HKFRS 9 "Financial instruments"

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

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

HKFRS 15 "Revenue from contracts with customers"

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

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

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

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

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

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

HKFRS 16 "Leases"

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

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

4. TURNOVER

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

Turnover represents the sale value of goods supplied to customers and licensing income. The amount of each significant category of revenue recognised in turnover during the year is as follows:

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

5. OTHER NET INCOME

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

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

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

6. PROFIT BEFORE TAXATION

Profit before taxation is arrived at after charging:

(a) Finance costs

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

(b) Staff costs

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

(c) **Other items**

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

Cost of inventories sold includes HK$61,278,000 (2016: HK$77,361,000) relating to staff costs, depreciation and amortisation expenses and operating lease rentals, which amount is also included in the respective total amounts disclosed separately above or in note 6(b) for each of these types of expenses.

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

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

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

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

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

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

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

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

8. EARNINGS PER SHARE

The calculation of basic earnings per share is based on the profit attributable to equity shareholders of the Company of HK$9,174,000 (2016: HK$10,570,000) and the weighted average number of 806,096,025 (2016: 806,096,025) ordinary shares in issue during the year.

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

Weighted average number of ordinary shares (diluted)

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

9. SEGMENT REPORTING

(a) Operating segment information

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

(b) Geographic information

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

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

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

(c) Major customer

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

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

10. TRADE AND OTHER RECEIVABLES

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

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

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

(a) Ageing analysis

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

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

Trade debtors and bills receivable are normally due within 30 to 90 days from the date of billing.

(b) Impairment of trade debtors and bills receivable

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

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

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

At 31 December 2017, the Group's trade debtors and bills receivable of HK$15,728,000 (2016: HK$10,659,000) were individually determined to be impaired. The individually impaired receivables related to customers that were in financial difficulties and management assessed that none of the receivables is expected to be recovered. Consequently, specific allowances for doubtful debts of HK$15,728,000 (2016: HK$10,659,000) were recognised.

(c) Trade debtors and bills receivable that are not impaired

The ageing analysis of trade debtors and bills receivable that are neither individually nor collectively considered to be impaired is as follows:

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

Receivables that were neither past due nor impaired relate to a wide range of customers for whom there was no recent history of default.

Receivables that were past due but not impaired relate to a number of independent customers that have a good track record with the Group. Based on past experience, management believes that no impairment allowance is necessary in respect of these balances as there has not been a significant change in credit quality and the balances are still considered fully recoverable.

11. TRADE AND OTHER PAYABLES

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

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

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

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

12. SHARE CAPITAL, DIVIDENDS AND RESERVES

(a) Share capital

(i) Authorised and issued share capital

	2017		2016	
	Number of ordinary shares of HK$0.01 each	**Amount HK$'000**	Number of ordinary shares of HK$0.01 each	Amount *HK$'000*
Authorised:				
At 31 December	**3,000,000,000**	**30,000**	3,000,000,000	30,000
Issued and fully paid:				
At 31 December	**806,096,025**	**8,061**	806,096,025	8,061

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

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

Exercisable period	**Exercise price**	**Number**
7 July 2017 to 6 July 2018	HK$0.56	2,000,000

Each option entitles the holder to subscribe for one ordinary share in the Company.

(b) Dividends

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

(c) Nature and purpose of reserves

(i) Share premium

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

(ii) Exchange reserve

The exchange reserve comprises all foreign exchange differences arising from the translation of the financial statements of operations outside Hong Kong.

(iii) Statutory reserve fund

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

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

(iv) Merger reserve

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

(v) Share option reserve

The share option reserve comprises the fair value of share options granted which are yet to be exercised. The amount will either be transferred to the share premium account where the related options are exercised, or be transferred to retained profits where the related options expired or are forfeited.

(vi) Fair value reserve

The fair value reserve comprises the cumulative net changes in the fair value of available-for-sale securities held at the end of the reporting period.

(vii) Capital reserve

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

(d) Distributability of reserves

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

(e) Capital management

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

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

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

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

MANAGEMENT DISCUSSION AND ANALYSIS

BUSINESS REVIEW

The Group faces the same operating challenges as other manufacturers in the mainland, such as the slow recovery of export markets, competition from different distribution channels in domestic markets, increased raw material costs and manufacturing expenses. The Group has found it very difficult to pass all of the higher costs on to customers.

The Group is strategically coping with this issue by outsourcing more non-core production process and production to other factories nearby. The outsourcing strategy has enhanced production efficiency and the Group's flexibility. Classical furniture and mattress productions are the major areas outsourced. During the year under review, the Group outsourced all its production of mattress and terminated the operation of its mattress factory namely Dongguan Super Furniture Company Limited.

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

FINANCIAL REVIEW

Turnover

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

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

The decrease in the domestic sales during the year was a result of the Group's strategy to continue to drop some product lines that were not profitable. In addition, the domestic sales were affected by the low sentiment in the PRC.

Gross Profit

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

Selling and Distribution Expenses

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

Administrative Expenses

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

Profit for the Year

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

EMPLOYMENT AND REMUNERATION POLICY

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

Salaries are reviewed annually and discretionary bonuses are paid on annual basis with reference to individual performance appraisals, inflation and prevailing market conditions. Other benefits available to eligible employees include retirement benefits and medical insurance schemes. Share options may also be granted to eligible employees of the Group and other eligible participants.

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

LIQUIDITY AND FINANCIAL RESOURCES

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

The Group maintained cash and bank balances of HK$70.6 million as at 31 December 2017 (31 December 2016: HK$50.4 million).

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

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

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

SEGMENT INFORMATION

Segment Information is set out in Note 9 to the consolidated financial statements of this results announcement.

ENVIRONMENTAL POLICY

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

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

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

COMPLIANCE WITH RELEVANT LAWS AND REGULATIONS

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

During the year ended 31 December 2017 and up to the date of this report, to the best of knowledge of the Company, the Group has complied with all the relevant laws and regulations in mainland China and Hong Kong which have a significant impact on the business and operations of the Group, and there was no material breach of or non-compliance with the applicable laws and regulations by the Group that has a significant impact on the business and operations of the Group.

RELATIONSHIPS WITH STAKEHOLDERS

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

The Group also understands that it is important to maintain good relationship with business partners and bank enterprises to achieve its long-term goals. Accordingly, the senior management of the Group kept good communication, promptly exchanged ideas and shared business update with them when appropriate. During the year 2017, there was no material and significant dispute between the Group and its business partners or bank enterprises.

KEY RISKS AND UNCERTAINTIES

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

Market Risks

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

Foreign Currency Risk

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

Interest Rate Risk

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

Liquidity Risk

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

Operational Risk

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

Investment Risk

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

Manpower and Retention Risk

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

Business Risk

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

CHARGE OF ASSETS

As at 31 December 2017, the Group had banking facilities which were secured by (i) a letter of undertaking over the Group's construction in progress and buildings; (ii) legal charges over the Group's medium-term leasehold land outside Hong Kong; (iii) pledged bank deposits of approximately HK$22.1 million.

SIGNIFICANT INVESTMENTS AND ACQUISITIONS

The Group did not have any significant investments, acquisitions or disposal of subsidiaries and associated companies during the year under review.

CONTINGENT LIABILITIES

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

PROSPECTS

Looking ahead, we see the year 2018 as another year of challenge, climbing raw material costs, increasing governmental taxes and fees and rising manufacturing costs in Mainland China as well as the exchange rate movement in Renminbi posted challenges to the Group. In addition, overcapacity and economic fragility will dampen the demand for our high-end furniture products.

While challenging times still lay ahead, the Group will continue to implement its business strategies with a view to enhancing profitability, as well as sharpening its competitive edges. The Group will continue to implement stringent cost control measures to combat rising operating cost pressures, and the Group will continue to improve its product mix with proactive adjustment of market strategies, flexible optimization of products and material mix, reasonable allocation of production capacity and efficiency enhancement.

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

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

CORPORATE GOVERNANCE

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

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

Code provision A.2.1

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

MODEL CODE FOR DIRECTORS' SECURITIES TRANSACTIONS

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

AUDIT COMMITTEE REVIEW

The audit committee of the Company (the "Audit Committee") has three members comprising Mr. Kong Hing Ki (Chairman), Mr. Sun Jian, and Ms. Shao Hanqing, all being independent non-executive Directors. The Audit Committee has reviewed the audited financial results of the Group for the year ended 31 December 2017.

DIVIDENDS

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

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

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

PUBLICATION OF ANNUAL RESULTS AND 2017 ANNUAL REPORT

The annual results announcement is published on the websites of the Stock Exchange and the Company. The annual report of the Company for the year ended 31 December 2017 will be despatched to the Shareholders and published on both websites in due course.

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

Hong Kong, 26 March 2018

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

Website: http://www.hingleehk.com.hk