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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)

ANNUAL RESULTS ANNOUNCEMENT FOR THE YEAR ENDED 31 DECEMBER 2019

The board of directors (the "Board") of Hing Lee (HK) Holdings Limited (the "Company") announces the consolidated results of the Company and its subsidiaries (the "Group") for the year ended 31 December 2019 with comparative figures for the corresponding year ended 31 December 2018.

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 2019
(Expressed in Hong Kong dollars)

	Note	2019 HK$'000	2018 HK$'000
Revenue	*4*	**300,142**	262,522
Cost of sales		**(268,715)**	(219,405)
Gross profit		**31,427**	43,117
Gain on disposal of subsidiaries	*14*	**19,369**	–
Other net (loss)/income	*5*	**(6,338)**	10,277
Selling and distribution expenses		**(23,824)**	(28,643)
Administrative expenses		**(75,706)**	(95,704)
Impairment loss on goodwill	*10*	**(48,387)**	–
Loss from operation		**(103,459)**	(70,953)
Finance costs	*6(a)*	**(2,333)**	(2,517)
Loss before taxation	*6*	**(105,792)**	(73,470)
Income tax credit/(expense)	*7*	**314**	(719)
Loss for the year		**(105,478)**	(74,189)
		HK cents	HK cents
Loss per share	*8*		
– Basic		**(13.05)**	(9.19)
– Diluted		**(13.05)**	(9.19)

CONSOLIDATED STATEMENT OF PROFIT OR LOSS AND OTHER COMPREHENSIVE INCOME

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

	Note	**2019** ***HK$'000***	2018 *HK$'000*
Loss for the year		**(105,478)**	(74,189)
Other comprehensive loss for the year			
Items that may be reclassified subsequently to profit or loss:			
– Exchange differences on translation of financial statements of overseas subsidiaries, net of nil tax		**(2,829)**	(6,581)
– Exchange reserve reclassified to profit or loss upon disposal of subsidiaries, net of nil tax	*14*	**(14,533)**	–
Items that will not be reclassified to profit or loss:			
– Loss on fair value changes of investments measured at fair value through other comprehensive income ("FVOCI"), net of nil tax		**–**	(8)
– Loss on disposal of investments measured at FVOCI, net of nil tax		**–**	(5)
		(17,362)	(6,594)
Total comprehensive loss for the year		**(122,840)**	(80,783)

CONSOLIDATED STATEMENT OF FINANCIAL POSITION

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

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

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

1. COMPANY INFORMATION

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

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

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

2. BASIS OF PREPARATION

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

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

3. CHANGES IN ACCOUNTING POLICIES

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

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

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

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

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

(i) New definition of a lease

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

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

(ii) Lessee accounting and transitional impact

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

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

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

– the Group elected not to apply the requirements of HKFRS 16 in respect of the recognition of lease liabilities and right-of-use assets to leases for which the remaining lease term ends within 12 months from the date of initial application of HKFRS 16, i.e. where the lease term ends on or before 31 December 2019;

– when measuring the lease liabilities at the date of initial application of HKFRS 16, the Group applied a single discount rate to a portfolio of leases with reasonably similar characteristics (such as leases with a similar remaining lease term for a similar class of underlying asset in a similar economic environment); and

– when measuring the right-of-use assets at the date of initial application of HKFRS 16, the Group relied on the previous assessment for onerous contract provisions as at 31 December 2018 as an alternative to performing an impairment review.

The following table reconciles the operating lease commitments as at 31 December 2018 to the opening balance for lease liabilities recognised as at 1 January 2019:

	HK$'000
Operating lease commitments at 31 December 2018	6,859
Less: total future interest expenses	(211)
Lease liabilities recognised at 1 January 2019	6,648

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

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

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

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

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

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

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

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

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

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

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

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

4. REVENUE

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

Revenue comprises:

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

5. OTHER NET (LOSS)/INCOME

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

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

6. LOSS BEFORE TAXATION

Loss before taxation is arrived at after charging:

(a) Finance costs

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

(b) Staff costs

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

(c) Other items

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

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

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

	2019	2018
	HK$'000	*HK$'000*
PRC Enterprise Income Tax		
– Current year provision	**81**	593
– Prior years (over)/under-provision	**(395)**	126
Income tax (credit)/expense	**(314)**	719

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

No provision for Hong Kong Profits Tax has been made (2018: HK$Nil) as the Company and subsidiaries incorporated or domiciled in Hong Kong have either no assessable profits or sustained tax losses for taxation purposes during the year.

The subsidiaries incorporated in The People's Republic of China (the "PRC") are subject to the PRC Enterprise Income Tax rate of 25% (2018: 25%) for the year.

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

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

8. LOSS PER SHARE

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

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

Weighted average number of ordinary shares (diluted)

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

9. SEGMENT REPORTING

(a) Operating segment information

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

(b) Geographic information

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

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

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

(c) Major customers

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

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

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

10. GOODWILL

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

Impairment tests for cash-generating unit containing goodwill

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

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

Key assumptions used for value in use calculations:

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

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

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

11. TRADE AND OTHER RECEIVABLES

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

The amount of deposits and prepayments expected to be recovered or recognised as expense after more than one year is HK$359,000 (2018: HK$398,000). All of the other trade and other receivables are expected to be recovered or recognised as expense within one year.

Included in the other deposits, prepayments and receivables were amounts due from independent business partners of HK$12,179,000 (2018: HK$29,722,000), which are unsecured, interest free and repayable on demand.

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

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

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

12. TRADE AND OTHER PAYABLES

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

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

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

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

13. SHARE CAPITAL, DIVIDENDS AND RESERVES

(a) Share capital

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

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

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

(b) Dividends

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

(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 share options are exercised, or be transferred to retained profits where the related share options expired or are forfeited.

(vi) Capital reserve

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

(d) Distributability of reserves

At 31 December 2019, the aggregate amount of reserves available for distribution to equity shareholders of the Company was HK$271,651,000 (2018: HK$273,058,000), being the aggregate of the share premium and retained profits of the Company. The Company's share premium account in the amount of HK$176,627,000 (2018: HK$176,627,000) may be distributed in the form of fully paid bonus shares only.

(e) Capital management

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

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

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

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

14. DISPOSAL OF SUBSIDIARIES

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

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

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

Gain on disposal of subsidiaries:

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

Net cash flow on disposal of subsidiaries:

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

MANAGEMENT DISCUSSION AND ANALYSIS

BUSINESS REVIEW

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

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

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

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

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

FINANCIAL REVIEW

Revenue

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

Gross Profit

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

Selling and Distribution Expenses

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

Administrative Expenses

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

For the year ended 31 December 2019, the Group's administrative expenses were approximately HK$75.7 million compared to about HK$95.7 million for the year ended 31 December 2018. The decrease in administrative expenses was mainly attributable to the decrease in the costs associated with restructuring the Group's business units, less headcount and hence fixed costs, as well as the decrease in the foreign exchange loss arising from conversion of the foreign currencies to Hong Kong dollars, the functional currency of the Group.

Results for the Year

Loss attributable to equity holders of the Company for the year ended 31 December 2019 was approximately HK$105.5 million as compared to loss attributable to equity holders of the Company of approximately HK$74.2 million for the corresponding period last year.

EMPLOYMENT AND REMUNERATION POLICY

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

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

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

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

RELATIONSHIPS WITH STAKEHOLDERS

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

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

KEY RISKS AND UNCERTAINTIES

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

Market Risks

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

Foreign Currency Risk

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

Interest Rate Risk

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

Liquidity Risk

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

Operational Risk

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

Investment Risk

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

Manpower and Retention Risk

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

Business Risk

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

CHARGE OF ASSETS

As at 31 December 2019, the Group had banking facilities which were secured by (i) a letter of undertaking over the Group's buildings; (ii) pledged bank deposits of approximately HK$1.3 million, and corporate guarantees from the Company.

SIGNIFICANT INVESTMENTS, ACQUISITIONS AND DISPOSALS

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

The Company recorded a disposal gain of approximately HK$4.9 million. However, when taking account of the cumulative exchange gain reclassified from equity to profit or loss of approximately HK$14.5 million, the Company recorded a disposal gain of approximately HK$19.4 million. Further information is set out in note 14 to this annual results announcement.

The transaction was completed on 23 August 2019.

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

CONTINGENT LIABILITIES

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

PROSPECTS

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

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

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

LIQUIDITY AND FINANCIAL RESOURCES

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

The Group maintained cash and bank balances of HK$59.7 million as at 31 December 2019 (31 December 2018: HK$23.9 million).

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

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

The ageing analysis of trade creditors and bills payable and the maturity profiles of bank loans are set out in the notes 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 this annual 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 promotes awareness towards environmental protection to the employees. The Group adheres to the principle of Recycling and Reducing. It implements green office practices such as double-sided printing and copying, setting up recycling bins, promoting the use of recycled paper and reducing energy consumption by switching off idle lightings and electrical appliance.

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

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

COMPLIANCE WITH RELEVANT LAWS AND REGULATIONS

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

CORPORATE GOVERNANCE

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

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

Code provision A.2.1

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

MODEL CODE FOR DIRECTORS' SECURITIES TRANSACTIONS

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

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 2019.

DIVIDENDS

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

EVENTS AFTER THE REPORTING PERIOD

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

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

PUBLICATION OF ANNUAL RESULTS AND 2019 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 2019 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, 27 March 2020

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