



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

Interim Report

2018

興利



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興利



CORPORATE INFORMATION

BOARD OF DIRECTORS

Executive Directors

Mr. Sung Kai Hing

(Chairman and Chief Executive Officer)

Mr. Cheung Kong Cheung

Independent non-executive Directors

Mr. Sun Jian

Ms. Shao Hanqing

Mr. Kong Hing Ki

AUDIT COMMITTEE

Mr. Kong Hing Ki *(Chairman)*

Mr. Sun Jian

Ms. Shao Hanqing

REMUNERATION COMMITTEE

Mr. Sun Jian *(Chairman)*

Ms. Shao Hanqing

Mr. Kong Hing Ki

NOMINATION COMMITTEE

Ms. Shao Hanqing *(Chairman)*

Mr. Sung Kai Hing

Mr. Cheung Kong Cheung

Mr. Sun Jian

Mr. Kong Hing Ki

COMPANY SECRETARY

Mr. Wong Kit Wai, FHKICPA, FCIS

AUTHORISED REPRESENTATIVES

Mr. Sung Kai Hing

Mr. Wong Kit Wai

PRINCIPAL BANKERS

Standard Chartered Bank (Hong Kong)
Limited

China Construction Bank Corporation

HEAD OFFICE AND PRINCIPAL PLACE OF BUSINESS IN HONG KONG

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

REGISTERED OFFICE

The Belvedere Building
69 Pitts Bay Road
Pembroke HM08
Bermuda

LEGAL ADVISERS

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

AUDITORS

Baker Tilly Hong Kong Limited
Certified Public Accountants

HONG KONG SHARE REGISTRAR

Union Registrars Limited

PRINCIPAL SHARE REGISTRAR AND TRANSFER OFFICE

MUFG Fund Services (Bermuda) Limited

STOCK CODE

396

COMPANY WEBSITE

www.hingleehk.com.hk



INTERIM RESULTS

The board of directors (each a “Director”, collectively the “Board”) of Hing Lee (HK) Holdings Limited (the “Company”) is pleased to announce the unaudited condensed consolidated interim results of the Company and its subsidiaries (the “Group”) for the six months ended 30 June 2018 with comparative figures for the corresponding period in 2017.

CONDENSED CONSOLIDATED INTERIM STATEMENT OF PROFIT OR LOSS

	Notes	(Unaudited)	
		Six months ended 30 June	
		2018	2017
		HK\$'000	HK\$'000
Turnover	4	136,235	139,233
Cost of sales		(104,284)	(108,664)
Gross profit		31,951	30,569
Other net income		1,160	3,258
Selling and distribution expenses		(13,805)	(14,523)
Administrative expenses		(15,266)	(13,350)
Profit from operations		4,040	5,954
Finance costs		(1,517)	(1,608)
Profit before taxation	5	2,523	4,346
Income tax	6	(275)	(164)
Profit for the period		2,248	4,182
Attributable to:			
Equity shareholders of the Company		2,248	4,182
		<i>(HK cents)</i>	<i>(HK cents)</i>
Earnings per share attributable to the equity holders of the Company			
– basic	7	0.28	0.52
– diluted	7	0.28	0.52
		<i>HK\$'000</i>	<i>HK\$'000</i>
Dividend	8	–	–

The notes on pages 8 to 21 form an integral part of this condensed consolidated interim financial statements.

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

	(Unaudited)	
	Six months ended 30 June	
	2018	2017
	<i>HK\$'000</i>	<i>HK\$'000</i>
Profit for the period	2,248	4,182
Other comprehensive income/(loss)		
Items that may be reclassified subsequently to profit or loss:		
Loss on fair value of equity securities, net of tax	(7)	(1)
Exchange differences on translation of financial statements of overseas subsidiaries (after tax)	<u>(9,515)</u>	<u>6,458</u>
Total comprehensive income/(loss) for the period	<u>(7,274)</u>	<u>10,639</u>
Total comprehensive income/(loss) attributable to		
– equity shareholders of the Company	<u>(7,274)</u>	<u>10,639</u>

The notes on pages 8 to 21 form an integral part of this condensed consolidated interim financial statements.



CONDENSED CONSOLIDATED INTERIM FINANCIAL POSITION

		As at 30 June 2018 <i>HK\$'000</i> (Unaudited)	As at 31 December 2017 <i>HK\$'000</i> (Audited)
	Notes		
Non-current assets			
Property, plant and equipment	9	296,313	263,532
Prepaid lease payments	9	40,884	41,778
Goodwill	10	51,410	51,852
Equity securities	11	76	83
		<u>388,683</u>	<u>357,245</u>
Current assets			
Prepaid lease payments	9	1,076	1,085
Inventories		38,929	45,944
Trade debtors and bills receivable	12	34,852	28,145
Prepayments, deposits and other receivables	13	101,927	110,946
Derivative financial instruments	14	99	–
Pledged bank deposits		18,810	22,055
Cash and cash equivalents		26,518	70,550
		<u>222,211</u>	<u>278,725</u>
Current liabilities			
Trade creditors and bills payable	15	105,742	93,362
Other payables and accrued charges		45,670	38,151
Bank borrowings	16	49,668	86,961
Current taxation		139	547
		<u>201,219</u>	<u>219,021</u>
Net current assets		<u>20,992</u>	<u>59,704</u>
Net assets		<u>409,675</u>	<u>416,949</u>
Capital and reserves			
Share capital	17	8,061	8,061
Reserves		401,614	408,888
Total equity		<u>409,675</u>	<u>416,949</u>



CONDENSED CONSOLIDATED INTERIM STATEMENT OF CHANGES IN EQUITY

	(Unaudited)									
	Attributable to equity shareholders of the Company									
	Share capital	Share premium	Exchange reserve	Statutory reserve fund	Merger reserve	Share option reserve	Fair value reserve	Capital reserve	Retained profits	Total
	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000
At 1 January 2017	8,061	175,384	18,086	10,947	25,430	-	(3)	(31,348)	190,047	396,604
Profit for the period	-	-	-	-	-	-	-	-	4,182	4,182
Items that may be reclassified subsequently to profit or loss:										
Fair value change on equity securities recognised as Other Comprehensive Income	-	-	-	-	-	-	-	-	-	-
Currency translation difference	-	-	6,458	-	-	-	-	-	-	6,458
Total comprehensive income	-	-	6,458	-	-	-	-	-	4,182	10,640
Appropriation of reserve	-	-	-	328	-	-	-	-	(328)	-
At 30 June 2017	<u>8,061</u>	<u>175,384</u>	<u>24,544</u>	<u>11,275</u>	<u>25,430</u>	<u>-</u>	<u>(3)</u>	<u>(31,348)</u>	<u>193,901</u>	<u>407,244</u>
At 1 January 2018	8,061	175,384	29,096	10,061	25,430	143	15	(24,862)	193,621	416,949
Profit for the period	-	-	-	-	-	-	-	-	2,248	2,248
Fair value change on equity securities recognised as Other Comprehensive Income	-	-	-	-	-	-	(7)	-	-	(7)
Other comprehensive income	-	-	(9,515)	-	-	-	-	-	-	(9,515)
Total comprehensive income	-	-	(9,515)	-	-	-	(7)	-	2,248	(7,274)
Appropriation of reserve	-	-	-	280	-	-	-	-	(280)	-
At 30 June 2018	<u>8,061</u>	<u>175,384</u>	<u>19,581</u>	<u>10,341</u>	<u>25,430</u>	<u>143</u>	<u>8</u>	<u>(24,862)</u>	<u>195,589</u>	<u>409,675</u>

The notes on pages 8 to 21 form an integral part of this condensed consolidated interim financial statements.



CONDENSED CONSOLIDATED INTERIM CASH FLOWS STATEMENT

	(Unaudited)	
	Six months ended 30 June	
	2018	2017
	<i>HK\$'000</i>	<i>HK\$'000</i>
Net cash generated from (used in) operating activities	32,553	(24,582)
Net cash generated from (used in) investing activities	(39,307)	12,897
Net cash used in financing activities	<u>(37,100)</u>	<u>(10,916)</u>
Net decrease in cash and cash equivalents	(43,854)	(22,601)
Effect of foreign exchange rate changes	(178)	1,007
Cash and cash equivalents at the beginning of the period	<u>70,550</u>	<u>50,411</u>
Cash and cash equivalents at the end of the period	<u><u>26,518</u></u>	<u><u>28,817</u></u>
Analysis of the balances of cash and cash equivalents		
Cash and bank balances	<u><u>26,518</u></u>	<u><u>28,817</u></u>

The notes on pages 8 to 21 form an integral part of this condensed consolidated interim financial statements.



NOTES TO THE CONDENSED CONSOLIDATED INTERIM FINANCIAL STATEMENTS

1 General Information

The Company was incorporated in the British Virgin Islands (“BVI”) on 20 April 2004 and was re-domiciled and continued in Bermuda with limited liability on 30 March 2007. The registered office address is The Belvedere Building, 69 Pitts Bay Road, Pembroke HM08, Bermuda. 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 principal business activities of the Group are the design, manufacture, sale and marketing of home furniture products including mainly wood-based furniture, sofa, mattresses and licensing of its own brands and product designs.

These condensed consolidated interim financial statements are presented in Hong Kong dollars (“HK\$”), unless otherwise stated. The condensed consolidated interim financial statements were approved by the Board for issue on 13 August 2018.

The condensed consolidated interim financial statements have not been audited.

2 Basis of preparation

The unaudited condensed consolidated interim financial statements for the six months ended 30 June 2018 of the Group has been prepared in accordance with the applicable disclosure requirements of Appendix 16 to the Rules Governing the Listing of Securities on The Stock Exchange of Hong Kong Limited (the “Listing Rules”) and Hong Kong Accounting Standard (“HKAS”) 34 “Interim Financial Reporting” issued by the Hong Kong Institute of Certified Public Accountants (the “HKICPA”).

The accounting policies and basis of preparation adopted in these Interim financial statements are consistent with those adopted by the Group in its annual financial statements for the year ended 31 December 2017, except for adoption of new and revised Hong Kong Financial Reporting Standards (“HKFRSs”) issued by the HKICPA which are effective to the Group for accounting periods beginning on or after 1 January 2018. Details of these relevant changes in accounting policies are set out in note 3.

The Interim Financial Report contains condensed consolidated financial statements and selected explanatory notes. The notes include an explanation of events and transactions that are significant to an understanding of the changes in financial position and performance of the Group since the 2017 annual financial statements. The condensed consolidated interim financial statements and notes thereon do not include all of the information required for a full set of financial statements prepared in accordance with the Hong Kong Financial Reporting Standards (HKFRSs).

3. Changes in accounting policies

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

- HKFRS 9, Financial instruments
- HKFRS 15, Revenue from contracts with customers
- HK(IFRIC) 22, Foreign currency transactions and advance consideration

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

The Group has not applied any new standard or interpretation that is not yet effective for the current accounting period. The Group has already commenced an assessment of the impact of these new HKFRSs. So far it has concluded that the adoption of them will not have a significant impact on the Group's financial position and performance.

4 Segment Reporting

(a) Operating segment information

The Group is principally engaged in the manufacture and sale of home furniture. All of the Group's products are of a similar nature and subject to similar risk and returns. The Group's operating activities are attributable to a 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 were 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 they are allocated, in the case of goodwill.

**Revenue from external customers**

	(Unaudited)	
	Six months ended 30 June	
	2018	2017
	HK\$'000	HK\$'000
Asia (excluding the People's Republic of China ("PRC"))*	33,001	13,969
Europe	6,381	6,339
PRC	51,726	89,686
The United States of America	41,736	27,406
Others	3,391	1,833
	<u>136,235</u>	<u>139,233</u>

Specified non-current assets

	As at	As at
	30 June	31 December
	2018	2017
	HK\$'000	HK\$'000
	(Unaudited)	(Audited)
Asia (excluding the PRC)	51,473	267
PRC	337,210	356,895
	<u>388,683</u>	<u>357,162</u>

- * Asia mainly covers Australia, Middle East, Indonesia and Hong Kong; Europe mainly covers France and Germany; and others mainly cover Canada, Africa and South America.

5 Profit before taxation

Profit before taxation is arrived at after charging and crediting the following items:

	(Unaudited)	
	Six months ended 30 June	
	2018	2017
	<i>HK\$'000</i>	<i>HK\$'000</i>
After charging		
(a) Finance cost		
Interest on borrowings	1,517	1,608
(b) Other items		
Auditor's remuneration	400	450
Cost of inventories sold	104,284	108,664
Staff costs (including Directors' emoluments)		
– Directors' emoluments	1,120	1,170
– others	31,633	35,731
Depreciation	7,427	7,234
Amortisation of prepaid land lease payments	557	514
Loss on disposal of properties	–	12
	<u>1,517</u>	<u>1,608</u>
After crediting		
Interest income	263	197
Net exchange gain	2,505	1,764
	<u>2,505</u>	<u>1,764</u>

**6 Income Tax****(a) Taxation in the condensed consolidated interim income statements represents:**

	(Unaudited)	
	Six months ended 30 June	
	2018	2017
	HK\$'000	HK\$'000
Current income tax		
– Hong Kong profits tax	–	–
– PRC enterprise income tax	275	164
	<u>275</u>	<u>164</u>
	<u><u>275</u></u>	<u><u>164</u></u>

- (i) The provision for Hong Kong profits tax for the six months ended 30 June 2018 is calculated at 16.5% (six months ended 30 June 2017: 16.5%) of the estimated assessable profits for each respective period.
- (ii) The subsidiaries in the PRC are subject to a standard enterprise income tax rate of 25% for the six months ended 30 June 2018 (six months ended 30 June 2017: 25%).
- (iii) Taxes on profits assessable elsewhere have been calculated at the rates of tax prevailing in the jurisdictions in which the Group operates.

(b) Deferred taxation

As at 30 June 2018, the Group has not recognised deferred tax assets in respect of cumulative tax losses of HK\$95,770,000 (30 June 2017: HK\$85,172,000) as it is not probable that future taxable profits, against which the assets can be utilised, will be available in relevant tax jurisdiction and entity. Of the total tax losses, HK\$74,693,000 (30 June 2017: HK\$70,717,000) will expire within 5 years and the remaining tax losses of HK\$21,077,000 (30 June 2017: HK\$14,455,000) have no expiry date under the current tax legislation.

As at 30 June 2018, the Group has unrecognised deferred tax liabilities of HK\$2,304,000 (30 June 2017: HK\$2,155,000) in relation to withholding tax on undistributed earnings of HK\$38,843,000 (30 June 2017: HK\$43,100,000) due to the retention of undistributed earnings by the Group's subsidiaries in the PRC determined by the Directors.

The Company does not have any material temporary differences between the tax bases of assets and liabilities and their carrying amounts in the financial statements (30 June 2017: Nil), and therefore, no provision for deferred tax has been made.

7 Earnings per share

(a) Basic earnings per share

The calculation of basic earnings per share for the six months ended 30 June 2018 is based on the profit attributable to ordinary equity shareholders of the Company of HK\$2,248,000 (six months ended 30 June 2017: earnings of HK\$4,182,000) and the weighted average number of ordinary shares of the Company in issue during the six months ended 30 June 2018 of 806,096,025 shares (six months ended 30 June 2017: 806,096,025 ordinary shares).

(b) Diluted earnings per share

The calculation of diluted earning per share is based on the earning attributable to ordinary equity shareholders of the Company of HK\$2,248,000 (six months ended 30 June 2017: earnings of HK\$4,182,000) and the weighted average number of ordinary shares (diluted) of 806,143,569 shares (six months ended 30 June 2017: 806,096,025 ordinary shares), calculated as follows:

	(Unaudited)	
	2018	2017
	<i>No. of shares</i>	<i>No. of shares</i>
Weighted average number of ordinary shares at 30 June	806,096,025	806,096,025
Effect of dilutive potential ordinary shares arising from share options	47,544	—
Weighted average number of ordinary shares for the purpose of calculating diluted earnings per share	<u>806,143,569</u>	<u>806,096,025</u>

8 Interim dividend

The Board does not recommend the payment of an interim dividend for the period ended 30 June 2018 (six months ended 30 June 2017: Nil).

9 **Property, plant and equipment and prepaid lease payments**

	Property, plant and equipment HK\$'000 (Unaudited)	Prepaid lease payments HK\$'000 (Unaudited)
Six month ended 30 June 2018		
Net book value as at 1 January 2018	263,532	42,863
Exchange realignment	(2,063)	(346)
Additions	42,461	–
Disposal	(190)	–
Depreciation and amortization	(7,427)	(557)
	<hr/>	<hr/>
Net book value as at 30 June 2018	296,313	41,960
	<hr/> <hr/>	<hr/> <hr/>
Six month ended 30 June 2017		
Net book value as at 1 January 2017	253,309	40,056
Exchange realignment	7,639	1,218
Additions	1,172	–
Disposal	(12)	–
Depreciation and amortization	(7,234)	(514)
	<hr/>	<hr/>
Net book value as at 30 June 2017	254,874	40,760
	<hr/> <hr/>	<hr/> <hr/>

10 Goodwill

	30 June 2018 HK\$'000 (Unaudited)	31 December 2017 HK\$'000 (Audited)
Cost		
Balance at beginning	51,852	48,455
Exchange realignment	<u>(442)</u>	<u>3,397</u>
At the end of period	<u>51,410</u>	<u>51,852</u>
Impairment losses		
Balance at beginning and end of period	<u>–</u>	<u>–</u>
Carrying amounts		
Balance at beginning and end of period	<u>51,410</u>	<u>48,455</u>

11 Equity securities

	30 June 2018 HK\$'000 (Unaudited)	31 December 2017 HK\$'000 (Audited)
Listed equity-investments, at market value		
– Hong Kong	<u>76</u>	<u>83</u>

**12 Trade debtors and bills receivable**

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

	30 June 2018 HK\$'000 (Unaudited)	31 December 2017 HK\$'000 (Audited)
Within 3 months	24,641	23,318
3 to 6 months	3,303	2,028
6 to 9 months	6,318	2,164
9 months to 1 year	588	620
Over 1 year	2	15
	<u>34,852</u>	<u>28,145</u>

Trade debtors and bills receivable are non-interest bearing and are normally due within 30 to 90 days from the date of billing. The Group performs ongoing credit evaluation of the debtors' financial condition and maintains an account for allowance for doubtful debts based upon the expected collectibles of all trade and other receivables.

13 Prepayments, deposits and other receivables

	30 June 2018 HK\$'000 (Unaudited)	31 December 2017 HK\$'000 (Audited)
Deposits paid for purchase of property, plant and equipment	28,422	42,310
Deposits paid to suppliers	29,897	19,645
Value added tax recoverable	3,288	9,646
Other deposits, prepayments and receivables	40,320	39,345
	<u>101,927</u>	<u>110,946</u>

The amount of the deposits and prepayments expected to be recovered or independent recognised as expense after more than one year is HK\$4,812,000 (2017: HK\$ 1,293,000). All of the other trade and other receivables are expected to be recovered or recognised as expense within one year.

Included in the other deposits, prepayments and receivables were amounts due from independent business partners of HK\$28,100,000 (2017: HK\$32,527,000), which are unsecured, interest free and repayable on demand.

14 Derivative financial instruments

	30 June	31 December
	2018	2017
	HK\$'000	HK\$'000
	(Unaudited)	(Audited)
Foreign currency forward contracts	99	–

As at 30 June 2018, the Group had the following foreign currency forward contracts denominated in United States dollar (“USD”). The major terms of these contracts were as follows:

Notional amount	Maturity date	Conversion to Renminbi (“RMB”) with contracted exchange rate (USD: RMB)	
2018			
USD200,000	September 2018		6.56220
USD100,000	September 2018		6.56180
USD100,000	September 2018		6.56260

The fair values of foreign currency forward contracts at the end of the reporting period are provided by the Stock Exchange of Hong Kong Limited (the “Stock Exchange”). All fair value changes were recognised in profit or loss.

15 Trade creditors and bills payable

The ageing analysis of trade creditors and bills payable (including amounts due to related parties of trading in nature) based on invoices date were as follow:

	As at	As at
	30 June	31 December
	2018	2017
	HK\$'000	HK\$'000
	(Unaudited)	(Audited)
Within 3 months	62,798	61,649
3 months to 1 year	26,821	17,675
Over 1 year	16,123	14,038
	105,742	93,362

All trade and other payables, except for those balances classified as non-current liabilities, are expected to be settled within one year.

**16 Bank borrowings**

Movements in secured bank loans is analysed as follows:

	(Unaudited) <i>HK\$'000</i>
Six months ended 30 June 2018	
Opening amount as at 1 January 2018	86,961
Exchange realignment	(193)
Proceeds from new secured bank loans	32,082
Repayment of secured bank loans	(69,182)
	<hr/>
Closing amount as at 30 June 2018	49,668
	<hr/> <hr/>
Six months ended 30 June 2017	
Opening amount as at 1 January 2017	69,812
Exchange realignment	1,232
Proceeds from new secured bank loans	64,232
Repayment of secured bank loans	(75,148)
	<hr/>
Closing amount as at 30 June 2017	60,128
	<hr/> <hr/>

All of the Group's banking facilities are subject to the fulfillment of covenants, as are commonly found in lending arrangements with financial institutions. If the Group were to breach the covenants, the drawn down facilities would become payable on demand. The Group regularly monitors its compliance with these covenants. As at 30 June 2018, none of the covenants relating to drawn down facilities had been breached (31 December 2017: Nil).

17 Share capital

(i) Authorised and issued share capital

	(Unaudited) 30 June 2018		(Audited) 31 December 2017	
	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 1 January	3,000,000,000	30,000	3,000,000,000	30,000
Increase	—	—	—	—
At the end of the period/year	<u>3,000,000,000</u>	<u>30,000</u>	<u>3,000,000,000</u>	<u>30,000</u>
Issued and fully paid:				
At 1 January	806,096,025	8,061	806,096,025	8,061
Shares issued under share option scheme	—	—	—	—
At the end of the period/year	<u>806,096,025</u>	<u>8,061</u>	<u>806,096,025</u>	<u>8,061</u>

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

(ii) Share issued under share option scheme

No option was exercised during the period ended 30 June 2018 (30 June 2017 :Nil).

(iii) Terms of unexpired and unexercised share options at the end of the reporting period

Exercisable period	Exercise price	(Unaudited)	(Audited)
		30 June 2018 Number	31 December 2017 Number
7 July 2017 to 6 July 2018	0.56	<u>2,000,000</u>	<u>2,000,000</u>
		<u>2,000,000</u>	<u>2,000,000</u>

**18 Fair Values of Financial Instruments****Fair value hierarchy**

The following table presents the fair value of the Group's financial instruments measured at the end of the reporting period on a recurring basis, categorised into the three-level fair value hierarchy as defined in HKFRS 13, Fair value measurement. The level into which a fair value measurement is classified is determined with reference to the observability and significance of the inputs used in the valuation technique as follows:

- Level 1 valuations: Fair value measured using only Level 1 inputs i.e. unadjusted quoted prices in active markets for identical assets or liabilities at the measurement date
- Level 2 valuations: Fair value measured using Level 2 inputs i.e. observable inputs which fail to meet Level 1, and not using significant unobservable inputs. Unobservable inputs are inputs for which market data are not available
- Level 3 valuations: Fair value measured using significant unobservable inputs

	(Unaudited)				(Audited)			
	Fair value measurements as at 30 June 2018 categorised into				Fair value measurements as at 31 December 2017 categorised into			
	Level 1	Level 2	Level 3	Total	Level 1	Level 2	Level 3	Total
HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000	
Assets								
Recurring fair value measurements								
Equity securities	76	-	-	76	83	-	-	83
Derivative financial instruments	99	-	-	99	-	-	-	-
	<u>99</u>	<u>-</u>	<u>-</u>	<u>99</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>

There were no transfers between levels of fair value hierarchy during the year ended 31 December 2017 and six months period ended 30 June 2018.

19 Capital commitments

	As at 30 June 2018 <i>HK\$'000</i> (Unaudited)	As at 31 December 2017 <i>HK\$'000</i> (Audited)
Contracted for:		
– Construction of factory building	–	47,359
– Acquisition of property, plant and equipment	<u>11,219</u>	<u>4,335</u>
	<u><u>11,219</u></u>	<u><u>51,694</u></u>
Authorised but not contracted for:		
– Construction of factory building	<u><u>62,599</u></u>	<u><u>62,599</u></u>

20 Contingent liabilities

At 30 June 2018, the Group has contingent liabilities in respect of a performance guarantee of HK\$Nil (31 December 2017: HK\$2,870,000).

At 30 June 2018, the Company has contingent liabilities in respect of guarantees given for banking facilities granted to certain subsidiaries to the extent of HK\$148,793,000 (31 December 2017: HK\$182,385,000). These facilities were utilised to the extent of HK\$72,318,000 (31 December 2017: HK\$54,063,000) as at 30 June 2018.

21 Material Related Party Transactions

Key management personnel compensation:

	(Unaudited)	
	Six months ended 30 June 2018 <i>HK\$'000</i>	2017 <i>HK\$'000</i>
Salaries and other short-term benefits	2,336	2,573
Post-employment benefits	<u>36</u>	<u>36</u>
	<u><u>2,372</u></u>	<u><u>2,609</u></u>

22 Events after the reporting period

There are no significant events subsequent to 30 June 2018 which would materially affect the Group's and the Company's operating and financial performance as of the date of this report.



MANAGEMENT DISCUSSION AND ANALYSIS

BUSINESS REVIEW

The overall business environment in mainland China where the Group operates remained challenging and the furniture industry continued to suffer from the imbalance of supply and demand, climbing raw material costs and operational costs.

The Group has been continuously assessing the current business strategy, with the aim to streamline its business and enhance overall performance and prospects. The Group also outsourced more productions to other manufacturers and focused on its core production. As a result of the outsourcing strategy, the headcount of the Group reduced to approximately 790 employees (30 June 2017: approximately 1,110), which allows the Group to be more flexible and efficient.

The Group is committed to operating its businesses in an environmentally responsible manner improving energy efficiency, minimising its environmental footprint and complying with the more stringent relevant environmental protection laws, safety rules and regulations in China, the Group enhanced its production facilities and has put substantial effort in cleaner production.

In order to improve its operating efficiency, the head office with the showroom in Buji County, Shenzhen has moved to the factory in Kengzi Town, Shenzhen, where the production, showrooms and administrative office are located in the same area. In addition, the showrooms were renovated which further enhanced the Group's corporate and brand image. Our distributors are able to experience the products and designs from a unique perspective.

FINANCIAL REVIEW

Turnover

The Group's turnover decreased by approximately 2.2% from about HK\$139.2 million for the six months ended 30 June 2017 to HK\$136.2 million for the six months ended 30 June 2018.

The decrease in the Group's turnover due mainly to the decrease in the domestic sales during the period was a result of the low sentiment in the PRC.

Gross Profit

During the period under review, the Group continued to face the challenges of high labour and raw material costs, the Group managed to increase prices for certain products. As a result, the Group's gross profit margin was increased to 23.5% (six months ended 30 June 2017: 22.0%).

Selling and Distribution Expenses

The Group's selling and distribution expenses amounted to about HK\$13.8 million for the six months ended 30 June 2018, against about HK\$14.5 million for the six months ended 30 June 2017. The decrease in selling and distribution expenses was a result of the continued cost control at all levels.

Administrative Expenses

The Group's administrative expenses amounted to approximately HK\$15.3 million for the six months ended 30 June 2018, against about HK\$13.3 million for the six months ended 30 June 2017. The increase in administrative expenses was mainly attributable to the reallocation of administrative office in the PRC during the period under review.

Profit for the Period

Profit attributable to equity shareholders of the Company decreased by approximately 46.2% from approximately HK\$4.2 million for the six months ended 30 June 2017 to approximately HK\$2.2 million for the six months ended 30 June 2018, and the net profit ratio decreased from 3.0% to 1.7%.

PROSPECTS

The rising geopolitical tensions place great uncertainty in the second half of 2018. The impact of the tensions on the world's economy is difficult to assess.

Looking ahead, we see the second half of 2018 as another period of challenge, climbing raw material costs, increasing governmental measures and rising manufacturing costs in Mainland China as well as the exchange rate movement in Renminbi poses challenges to the Group.

While challenging times still lay ahead, the Group will continue to implement its business strategies with a view to enhancing profitability, as well as sharpening its competitive edges. The Group will commit resources to revitalize its corporate brand "Hing Lee Myriad Home 興利萬家". Besides, on top of its in-house designers, the Group has engaged a number of design houses in the market to optimize its product mix to cater for the fast-changing consumer preferences.



In addition, the Group has been outsourcing its non-core production for years, and the strategy proved to be an important measure. The Group will further outsource its production to include its core products and place its effort in designing, branding and quality control. Meanwhile, the Group will continue to seek new collaboration partners and open more channels in order to widen its existing business lines, so as to sustain long-term growth and reward its shareholders, employees and customers for their support.

LIQUIDITY AND FINANCIAL RESOURCES

The Group's funding and treasury activities are managed and controlled by the senior management. The Group maintained cash and bank balances of HK\$26.5 million as at 30 June 2018 (31 December 2017: HK\$70.6 million).

As at 30 June 2018, the Group's bank borrowings amounted to HK\$49.7 million (31 December 2017: HK\$87.0 million). As at the same date, the gearing ratio (total debt/total equity) was 0.5 (31 December 2017: 0.5).

As at 30 June 2018, the current ratio (current assets/current liabilities) was 1.1 (31 December 2017: 1.3) and the net current assets amounted to HK\$21.0 million (31 December 2017: HK\$59.7 million).

The ageing analysis of trade creditors and bills payable and the movement of bank borrowings are set out in Notes 15 and 16 to the financial statements of this interim report.

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 Group does not hold or issue any 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.

CHARGE OF ASSETS

As at 30 June 2018, the Group's banking facilities 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; and (iii) pledged bank deposits of approximately HK\$18.8 million.

EMPLOYEES

As at 30 June 2018, the Group employed approximately 790 employees (30 June 2017: approximately 1,110). Total staff cost, including Directors' emoluments, amounted to HK\$32.8 million (30 June 2017: HK\$35.7 million). 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 employee share option, retirement benefits and medical insurance schemes.

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

INTERIM DIVIDEND

The Board does not recommend the payment of an interim dividend for the period ended 30 June 2018 (six months ended 30 June 2017: Nil).

CORPORATE GOVERNANCE AND OTHER INFORMATION PURCHASE, SALE OR REDEMPTION OF THE COMPANY'S LISTED SECURITIES

During the 6-month period ended 30 June 2018, neither the Company nor any of its subsidiaries has purchased, sold or redeemed any of the Company's listed securities.

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

As at 30 June 2018, the interests and short positions of the Directors and chief executive of the Company in shares, underlying shares and debentures of the Company or any of its associated corporations (within the meaning of Part XV of the Securities and Futures Ordinance (Chapter 571 of the Laws of Hong Kong) (the "SFO")) which were required to be entered into the register required to be kept under section 352 of the SFO or otherwise were required to be notified to the Company and the Stock Exchange pursuant to Divisions 7 and 8 of Part XV of the SFO (including interests and short positions which they are taken or deemed to have under such provisions of the SFO) and/or the Model Code for Securities Transactions by Directors of Listed Issuers set out in Appendix 10 to the Listing Rules (the "Model Code"), were as follows:

**Long positions in shares and the underlying shares of HK\$0.01 each of the Company (“Shares”)**

Name of Director/ chief executive	Nature of interests	Number of Shares	Approximate percentage of the issued share capital of the Company
Mr. Sung Kai Hing (<i>note 1</i>)	Beneficial owner and Interest of a controlled corporation	280,474,777	34.79%
Mr. Cheung Kong Cheung (<i>note 2</i>)	Beneficial owner and Interest of a controlled corporation	62,040,465	7.70%
Mr. Sun Jian (<i>note 3</i>)	Beneficial owner	2,000,000	0.25%
Mr. Kong Hing Ki	Beneficial owner	900,000	0.11%

Notes:

1. The 21,568,000 Shares were held by Mr. Sung Kai Hing and 258,906,777 Shares were held by King Right Holdings Limited (“King Right”), a company beneficially wholly-owned by Mr. Sung Kai Hing, who is also the sole director of King Right. By virtue of the SFO, Mr. Sung Kai Hing is deemed to be interested in the same parcel of Shares in which King Right is interested.
2. The 7,200,000 Shares were held by Mr. Cheung Kong Cheung and 54,840,465 Shares were held by United Sino Limited (“United Sino”), a company beneficially wholly-owned by Mr. Cheung Kong Cheung, who is also the sole director of United Sino. By virtue of the SFO, Mr. Cheung Kong Cheung is deemed to be interested in the same parcel of Shares in which United Sino is interested.
3. The 2,000,000 Shares are the maximum number of Shares that Mr. Sun Jian may subscribe upon exercise of the options granted to him under the Share Option Scheme (as defined below). For details of the Share Option Scheme please refer to the section headed “Share Option Scheme” in this interim report.

SUBSTANTIAL SHAREHOLDERS

As at 30 June 2018, the persons (not being a Director or chief executive of the Company) who have interest or short position in the shares or underlying shares of the Company as recorded in the register required to be kept under section 336 of the SFO were as follows:



Long positions in Shares of HK\$0.01 each

Name	Capacity	Number of Shares	Approximate	Note
			percentage of shareholding %	
King Right	Beneficial owner	258,906,777	32.12	1
Ms. Wong Wai King	Family interests	280,474,777	34.79	1
United Sino	Beneficial owner	54,840,465	6.80	2
Ms. Li Xin	Family interests	62,040,465	7.70	2
Golden Sunday Limited ("Golden Sunday")	Beneficial owner	54,840,465	6.80	3
Mr. Chan Kwok Kin	Beneficial owner and Interest of a controlled corporation	62,040,465	7.70	3
Ms. Ho Fung Ying	Family interests	62,040,465	7.70	3
Top Right Trading Limited ("Top Right")	Beneficial owner	51,586,293	6.40	4
Mr. Huang Wei Ye	Beneficial owner and Interest of a controlled corporation	58,936,293	7.31	4
Ms. Ye Jian Qun	Family interests	58,936,293	7.31	4

Notes:

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



4. Top Right is a company beneficially wholly-owned by Mr. Huang Wei Ye. By virtue of the SFO, Mr. Huang Wei Ye is deemed to be interested in the same parcel of Shares in which Top Right is interested. Ms. Ye Jian Qun is the spouse of Mr. Huang Wei Ye and is deemed to be interested in the same parcel of Shares in which Mr. Huang Wei Ye is interested by virtue of the SFO.

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

SHARE OPTION SCHEME

The Company adopted the Share Option Scheme by the written resolutions of the shareholders on 29 May 2009 (the "Share Option Scheme"). The purpose of the Share Option Scheme is to enable the Company to grant options to full-time or part-time employees, directors, consultants, advisers, distributor, contractor, supplier, service provider, agent, customer and business partner of the Company and/or any of its subsidiaries (the "Eligible Participants") as incentives or rewards for their contribution to the growth of the Group and to provide the Group with a more flexible means to reward, remunerate, compensate and/or provide benefits to the Eligible Participants. Details of the share option movements during the six months ended 30 June 2018 under the share option scheme were as follows.

Name	Outstanding share options granted under the Share Option Scheme as at 1 January 2018	Date of grant	Number of share options			Outstanding share options granted under the Share Option Scheme as at 30 June 2018	Exercise period
			Granted during the period	Exercised during the period	Cancelled/Lapsed during the period		
Directors of the Company							
Mr. Sun Jian	2,000,000	7 July 2017	-	-	-	2,000,000 7 July 2017 – 6 July 2018	
Total	<u>2,000,000</u>		<u>-</u>	<u>-</u>	<u>-</u>	<u>2,000,000</u>	

Note:

The exercise price of the options granted on 7 July 2017 under the Share Option Scheme as set out above is HK\$0.56 per Share. The closing price of the Shares immediately before the date of grant of such options was HK\$0.55 per Share.

CORPORATE GOVERNANCE

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

During the six months ended 30 June 2018, the Company has complied with Corporate Governance Code and Corporate Governance Report (the “CG Code”) contained in Appendix 14 of the Listing Rules on the Stock Exchange except for the following deviation:

Code provision A.2.1

Code provision A.2.1 of the CG Code 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 longterm business strategies.

MODEL CODE FOR DIRECTORS’ SECURITIES TRANSACTIONS

The Company has adopted the 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 period under review.

AUDIT COMMITTEE

The Company established an audit committee (the “Audit Committee”) on 29 May 2009 with written terms of reference which are in compliance with the code provisions of the CG Code. The primary duties of the audit committee are to review and supervise the financial reporting process and internal control system of the Group. The audit committee currently has three members comprising Mr. Kong Hing Ki (Chairman), Mr. Sun Jian, and Ms. Shao Hanqing, all being independent non-executive Directors. The Audit Committee has reviewed the unaudited interim financial statements and the interim report for the six months ended 30 June 2018.



REMUNERATION COMMITTEE

The Company established a remuneration committee on 29 May 2009 with written terms of reference which are in compliance with the code provisions of the CG Code. The remuneration committee makes recommendations to the Board on, among other matters, the Company's policy and structure for the remuneration of all Directors and the senior management of the Group and are delegated by the Board the responsibility to determine on behalf of the Board the specific remuneration packages for all Directors and the senior management of the Group. The remuneration committee consists of three members namely, Mr. Sun Jian (Chairman), Ms. Shao Hanqing and Mr. Kong Hing Ki, all being independent non-executive Directors.

NOMINATION COMMITTEE

The Company established a nomination committee on 29 May 2009 with written terms of reference which are in compliance with paragraph A.5.2 of the CG Code. The nomination committee shall make recommendations to the Board on appointment of Directors and succession planning for Directors. The nomination committee consists of five members namely Ms. Shao Hanqing (Chairman), Mr. Sung Kai Hing, Mr. Cheung Kong Cheung, Mr. Sun Jian and Mr. Kong Hing Ki.

AUDIT COMMITTEE REVIEW

The accounting information given in this interim report has not been audited but has been reviewed by the Audit Committee of the Company.

PUBLICATION OF UNAUDITED INTERIM REPORT

The Company's 2018 interim report is published on the website of the Stock Exchange at www.hkex.com.hk and on the Company's website at www.hingleehk.com.hk.

APPRECIATION

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

By Order of the Board of

Hing Lee (HK) Holdings Limited

Sung Kai Hing

Chairman and Chief Executive Officer

Hong Kong, 13 August 2018