



**Hong Wei (Asia) Holdings Company Limited**  
**鴻偉(亞洲)控股有限公司**

(Incorporated in Hong Kong with limited liability)  
Stock code : 8191

**Annual Report**  
**2014**



## CHARACTERISTICS OF THE GROWTH ENTERPRISE MARKET (“GEM”) OF THE STOCK EXCHANGE OF HONG KONG LIMITED (THE “STOCK EXCHANGE”)

GEM has been positioned as a market designed to accommodate companies to which a higher investment risk may be attached than other companies listed on the Stock Exchange. Prospective investors should be aware of the potential risks of investing in such companies and should make the decision to invest only after due and careful consideration. The greater risk profile and other characteristics of GEM mean that it is a market more suited to professional and other sophisticated investors.

Given the emerging nature of companies listed on GEM, there is a risk that securities traded on GEM may be more susceptible to high market volatility than securities traded on the main board and no assurance is given that there will be a liquid market in the securities traded on GEM.

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*This report, for which the directors (the “**Directors**”) of Hong Wei (Asia) Holdings Company Limited (the “**Company**”) collectively and individually accept full responsibility, includes particulars given in compliance with the Rules Governing the Listing of Securities on the Growth Enterprise Market of The Stock Exchange of Hong Kong Limited for the purpose of giving information with regard to the Company. The Directors, having made all reasonable enquiries, confirm that, to the best of their knowledge and belief: the information contained in this document is accurate and complete in all material respects and not misleading or deceptive; there are no other matters the omission of which would make any statement in this document misleading, and all opinions expressed in this document have been arrived at after due and careful consideration and are founded on bases and assumptions that are fair and reasonable.*

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# Definitions

In this annual report, unless the context otherwise requires, the following expressions shall have the following meanings.

“Articles”	articles of association of the Company
“Board”	board of directors of the Company
“Company”, “our”, “we” or “us”	Hong Wei (Asia) Holdings Company Limited (鴻偉 (亞洲) 控股有限公司), formerly known as Hung Wai (Asia) Holdings Limited (鴻偉 (亞洲) 控股有限公司) and Cheung Kin Holdings (Hong Kong) Company Limited (長建控股 (香港) 有限公司), a company incorporated in Hong Kong with limited liability on 28 May 2012
“Companies Ordinance”	the Companies Ordinance (Chapter 622 of the Laws of Hong Kong)
“Controlling Shareholder”	has the meaning ascribed thereto under the GEM Listing Rules and, in the context of this annual report, refers to Mr. Wong Cheung Lok
“Director(s)”	the director(s) of the Company
“Financial Year 2013”	the financial year of the Group ended 31 December 2013
“Financial Year 2014”	the financial year of the Group ended 31 December 2014
“Full Production”	the operation of the new production line on or after 1 December 2013, since then our new production line has commenced 24 hours production
“GEM”	the Growth Enterprise Market of The Stock Exchange of Hong Kong Limited
“GEM Listing Rules” or “Listing Rules”	the Rules Governing the Listing of Securities on the Growth Enterprise Market of The Stock Exchange of Hong Kong Limited
“Group” or “We”	the Company and its subsidiary and, in respect of the period before the Company became the holding company of such subsidiary, the entities which carried on the business of the present Group at the relevant time
“Golden Win”	Golden Win Group Limited (金康集團有限公司), a company incorporated in the British Virgin Islands with limited liability on 3 July 2012
“HK Hung Tat”	Hung Tat Investment (Hong Kong) Company Limited (鴻達投資 (香港) 有限公司), a company incorporated in Hong Kong with limited liability on 16 May 2012 and 100% owned by Mr. Wong Kin Ching (son of Mr. Wong Cheung Lok and Mrs. Cheung Nga Kwan)
“HK Hung Wai Partnership”	Hong Kong Hung Wai Wooden Board Company (香港鴻偉人造板公司), a partnership established in Hong Kong on 1 October 1999 with Mr. Wong and Mrs. Wong as partners; but Mr. Wong and Mrs. Wong ceased to be a partner on 26 February 2013 and 11 November 2013, and Ms. Wong Wan Yu, daughter of Mr. Wong and Mrs. Wong, registered as a partner on 14 February 2013
“Hongwei (Renhua)”	鴻偉木業 (仁化) 有限公司 (Hongwei Wooden Products (Renhua) Co. Ltd.), a wholly foreign-owned enterprise established in the PRC on 12 May 2003 and a 100% owned subsidiary of our Company

# Definitions

“Listing”	listing of the Shares on the GEM
“Listing Date”	the date on which dealing in the Shares first commences on the GEM, i.e. 8 January 2014
“Mr. Wong”	Mr. Wong Cheung Lok, the chairman of the Board, an executive Director, chief executive officer and a Controlling Shareholder of the Company, and also the spouse of Mrs. Wong
“Mrs. Wong”	Ms. Cheung Ngar Kwan, an executive director and the spouse of Mr. Wong
“Particleboard International Standards”	in relation to particleboards means collectively the European Particleboard Standards, the Japanese Particleboard Standards and the Californian Particleboard Standards
“Particleboard PRC GB Standards”	<p>GB/T 4897-2003 of the PRC GB Standards which specifies the requirements for particleboards to be used in dry and humid conditions. It includes, amongst other particleboard requirements, formaldehyde emission requirements;</p> <p>a) Class E2, emission <math>\leq 30\text{mg}/100\text{g}</math>;</p> <p>b) Class E1, emission <math>\leq 9\text{mg}/100\text{g}</math></p> <p>PRC GB Standards are the Chinese national standards planned and drafted by a committee organised by the General Administration of Quality Supervision, Inspection and Quarantine of the PRC (中華人民共和國國家質量監督檢驗檢疫總局) or institutions authorised by the State Council.</p>
“Placing”	the placing of 177,780,000 Shares with professional, institutional and other investors by the Company pursuant to the Prospectus
“PRC” or “China”	the People’s Republic of China which, except where the context otherwise requires and for the purposes of this annual report, does not include Taiwan, Hong Kong and Macau Special Administrative Regions
“Prospectus”	the prospectus of the Company dated 27 December 2013
“Residual Wood”	primarily includes unprocessed undersized log, wood branches, wood off-cuts and residues, forestry residues and wood waste
“Shaoguan Hongwei Forestry”	韶關鴻偉林場有限公司 (Shaoguan Hongwei Forestry Co. Ltd.), a wholly foreign-owned enterprise established in the PRC on 18 October 2010 and 100% owned by HK Hung Tat
“Shaoguan Hongji Forestry”	韶關鴻基林業有限公司 (Shaoguan Hongji Forestry Co. Ltd.), a wholly foreign-owned enterprise established in the PRC on 20 June 2012 and 100% owned by HK Hung Tat
“Share(s)”	ordinary share(s) of nominal value of HK\$0.10 each in the capital of the Company
“Shareholder(s)”	the holder(s) of the Share(s)

## Definitions

“subsidiary(ies)”	has the meaning ascribed to it under the GEM Listing Rules
“Test Operation”	the operation of the new production line on or after 29 September 2013 and prior to Full Production, which we tested the operation of our new production line
“Zhangzhou Hongwei”	漳州鴻偉木業有限公司 (Zhangzhou Hongwei Woods Industry Co., Ltd.), a wholly foreign-owned enterprise established in the PRC on 11 November 1993 and owned by Mr. Wong as to 60% and by Mrs. Wong as to 40% but subsequently disposed to an Independent Third Party by Mr. Wong and Mrs. Wong respectively on 22 November 2012
“%”	per cent

# Corporate Information

## REGISTERED OFFICE

Room 11, Block B,  
2/F, Wah Tat  
Industrial Centre,  
8-10 Wah Sing Street,  
Kwai Chung, Hong Kong

## HEAD OFFICE IN HONG KONG

Room 11, Block B,  
2/F, Wah Tat  
Industrial Centre,  
8-10 Wah Sing Street,  
Kwai Chung, Hong Kong

## PRINCIPAL PLACE OF BUSINESS IN THE PRC

Industrial Park, Renhua County, Shaoguan City  
Guangdong Province, PRC

## COMPANY'S WEBSITE ADDRESS

[www.hongweiasia.com](http://www.hongweiasia.com)

## COMPANY SECRETARY

Ms. Leung Wai Ling Wylie, HKICPA

## AUTHORISED REPRESENTATIVES

Mr. Wong Cheung Lok  
Ms. Huang Xiuyan

## EXECUTIVE DIRECTORS

Mr. Wong Cheung Lok  
Ms. Cheung Ngar Kwan  
Ms. Huang Xiuyan  
Mr. Liu Jiayong

## NON-EXECUTIVE DIRECTOR

Mr. Ong Chor Wei

## INDEPENDENT NON-EXECUTIVE DIRECTORS

Dr. Xu Jianmin  
Ms. Qian Xiaoyu  
Mr. Wong Hei Chiu

## COMPLIANCE OFFICER

Ms. Huang Xiuyan

## AUDIT COMMITTEE

Mr. Wong Hei Chiu (*chairman*)  
Dr. Xu Jianmin  
Ms. Qian Xiaoyu

## REMUNERATION COMMITTEE

Dr. Xu Jianmin (*chairman*)  
Mr. Wong Cheung Lok  
Mr. Wong Hei Chiu

## NOMINATION COMMITTEE

Mr. Wong Cheung Lok (*chairman*)  
Dr. Xu Jianmin  
Mr. Wong Hei Chiu

## COMPLIANCE ADVISER

V Baron Global Financial Services Limited

## SHARE REGISTRAR AND TRANSFER OFFICE

Tricor Investor Services Limited  
Level 22  
Hopewell Centre  
183 Queen's Road East  
Hong Kong

## PRINCIPAL BANKERS

Agricultural Bank of China Limited  
Industrial and Commercial Bank of China Limited

## AUDITOR

Deloitte Touche Tohmatsu  
*Certified Public Accountants*

## LEGAL ADVISERS TO THE COMPANY

as to Hong Kong law:  
Wilson Sonsini Goodrich & Rosati

## GEM STOCK CODE

8191

# Chairman's Statement

Dear Shareholders,

On behalf of the board of directors, I am pleased to present the annual results of the Group for the year ended 31 December 2014 (“**Financial Year 2014**”).

The year 2014 is a significant milestone for the corporate development of the Company. With the joint efforts of various professional parties, the Company was successfully listed on the GEM on 8 January 2014. The good response in the capital market reflected the recognition of the competition edges of the Company by investors and their confidence regarding the Group's business prospects. The Listing will not only help to improve corporate image, strengthen financial strength and enhance corporate governance and transparency, but will also enable the Group to converge with the international capital market, hence expanding the room for future growth. With the benefits of listing, the Company has utilized the listing proceeds to, *inter alia*, expand our product range, strengthen and expand our sales network, enhance our product research and development during 2014. The production enhancement benefiting from the listing proceeds utilization as well as our 2013 Production Line commencing Full Production has contributed to our improved financial performance in 2014, the highlights of which are our year-on-year revenue increase of approximately 106.2%, year-on-year gross profit increase of approximately 101.4% and year-on-year increase of approximately 232.9% in terms of profit attributable to owners of the Company.

In 2014, the Company continued to be primarily engaged in manufacturing and sales of particleboards, and its customers are mainly home or office furniture manufacturers, sport equipment manufacturers and wood-based panel processors and traders from the Pearl River Delta economic region, the Yangtze River Delta economic region and Fujian province. The Company's major revenue drivers include (i) the product competitiveness and the wide product range of particleboards, (ii) the customer relationship and market recognition, and (iii) the advanced production line with scaled production capacity.

During the year of 2014, despite various uncertainties in the domestic economy and a slower growth in the China economy, the Group continued to consolidate its business growth with the benefit of improving its management internal control and the Full Production of the new production line (the “**2013 Production Line**”). In addition to increasing our production capacity, we have also during the year of 2014 offered a wider range of customized particleboards which comply with industry recognized international and PRC particleboard standards. We believe that the implementation of the 2013 Production Line will continue to provide the Group, amongst others, with the following benefits: (i) the Group will be able to produce particleboards with better and more stable quality; (ii) the Group's production will be more efficient in energy and raw material savings, thus lowering our production cost; (iii) the Group's products will be more environmentally friendly and would comply with all the Particleboard PRC GB Standards and Particleboard International Standards; (iv) the Group will be able to produce customised particleboards and particleboards of various dimensions and specifications; and (v) allow the Group to expand its market share and solidify its market position in the particleboard industry due to the wider product offering. In July 2014, we were granted the 3G Material Greening Certification for our formaldehyde-free particleboard by the Green Furniture Environment & Technology Committee of China National Interior Decoration Association.

Looking forward, there continues to be certain risks that the Group will face in further development such as (i) the principal raw materials used in our production process are Residual Wood and that there might be shortage of supplies of Residual Wood caused by, amongst others, bad weather; (ii) the Group will face competition from existing and new players in the particleboard industry in the PRC; and (iii) there might be potential changes in trade policies and legislation which might adversely affect the Group's sales and profitability. However, the Group believes that the particleboard market will grow in a steady and healthy way, and intends to further enhance its presence in the particleboard industry and capture market share in the Premium Quality Particleboard segment. To achieve these goals, the Group has developed and will strive to implement the following business strategies: (i) increasing competitiveness by expanding product range; (ii) strengthening and expanding sales network across the PRC; (iii) expanding supplier base for the supply of the Residual Wood; (iv) enhancing product research and development; and (v) strengthening brand recognition.





## Chairman's Statement

The global economy is still facing many uncertainties and there are also challenges associated with the economic growth in China. The Company will continue to incrementally implement the business strategies as set out in the Prospectus in the coming year.

Finally, I wish to extend, on behalf of the Board, my gratitude to all Shareholders and business partners for their trust and support to us, and express my gratitude to the management and staff for their dedicated efforts and contribution.

**Hong Wei (Asia) Holdings Company Limited**  
**Wong Cheung Lok**  
*Chairman*

Hong Kong, 24 March 2015

# Management Discussions and Analysis

## BUSINESS REVIEW

The Group is primarily engaged in the manufacturing and sales of particleboards, which are used primarily by the customers of the Group in the manufacturing of furniture, flooring panels and, decoration and construction materials. The Group's production base is strategically located in Shaoguan city, Renhua county of Guangdong Province, the People's Republic of China, comprising of production workshops, an office building, warehouses and, various buildings and structures under construction. Renhua county, with a gross area of approximately 2,223km<sup>2</sup>, is located in the northern mountain region of the Guangdong Province with an approximately 1,700 km<sup>2</sup> of forest covering the entire Renhua county, which provides the Group with abundant wood resources.

The Group's production lines are certified to have met the Californian Particleboard Standards of Regulations of the United States of America and the Group's particleboard products are certified for being qualified to use the Adopting International Standard Product mark (PRC GB/T 4897-2003 of the Particleboard International Standards). The production line which commenced production in December 2013 (the **"2013 Production Line"**) is currently able to produce Premium Quality Particleboards that could comply with all the Particleboard PRC GB Standards and Particleboard International Standards.

During the Financial Year 2014, the Group expanded its production capacity by introducing advance technology and equipment into its production process. The 2013 Production Line at our production base in Shaoguan was operating in Full Production during 2014 with an annual production capacity of approximately 268,000m<sup>3</sup>. The sales orders and average selling price of the particleboards increased primarily due to better quality particleboards produced by the 2013 Production Line. For the Financial Year 2014, the approximate sales volume of particleboards increased to approximately 259,000m<sup>3</sup> from approximately 131,800m<sup>3</sup> for the Financial Year 2013; the approximate average selling price of particleboards slightly increased to approximately HK\$1,530 per m<sup>3</sup> in Financial Year 2014 from approximately HK\$1,459 per m<sup>3</sup> for the Financial Year 2013. The performance of the 2013 Production Line proves to provide the Group, amongst others, the following benefits: (i) the Group is able to produce particleboards with better and more consistent quality; (ii) the Group's production lines are more efficient in energy and raw material savings, thus lowering its production cost; (iii) the Group's products are more environmentally friendly and would comply with all the Particleboard PRC GB Standards and Particleboard International Standards; (iv) the Group is able to produce customised particleboards and particleboards of various dimensions and specifications, that most other particleboard manufacturers in the PRC may not be able to produce; and (v) the Group is able to expand its market share and solidify its market position in the particleboard industry due to its capability to offer a wider product offering.

For the year of 2014, we are in the course of or have implemented the implementation plan as stated in the section headed "Future Plans and Prospects" in the Prospectus. Further details of our implementations as set out in the section headed "Management Discussion and Analysis – Comparison of Business objectives with Actual Business Progress" of this annual report.

# Management Discussions and Analysis

## FINANCIAL REVIEW

### Revenue

During the Financial Year 2014, the Group's revenue increased to approximately HK\$396.6 million from approximately HK\$192.3 million, an increase of approximately 106.2% as compared to the Financial Year 2013. The increase was mainly due to (i) increase in the selling price of particleboards; and (ii) increase in sales volume as a result of the 2013 Production Line during the year.

### Cost of Sales

During the Financial Year 2014, the Group's costs of sales increased to approximately HK\$283.8 million from approximately HK\$136.3 million, an increase of approximately 108.2% as compared to the Financial Year 2013. The increase was mainly attributed to increase in the quantity produced and sold.

### Gross profit and margin

During the Financial Year 2014, the Group's gross profit increased to approximately HK\$112.8 million from approximately HK\$56.0 million, an increase of approximately 101.4% as compared to the Financial Year 2013. However, the Group's gross profit margin dropped slightly to approximately 28.4% in 2014 from approximately 29.1% in 2013. The increase in gross profit was mainly due to increase in the quantity of sales made. The slight decrease in gross profit margin was primarily attributable to the initial operation of the 2013 Production Line. There were plans by the Company to carry out a variety of experiments on the production process and technology used in the Group's customised particleboard. These tests might result in periodical marginal decrease in the production efficiency and lead to marginal increase in cost for the Group.

### Distribution expenses

During the Financial Year 2014, the Group's distribution expenses increased to approximately HK\$34.5 million from approximately HK\$16.5 million, representing an increase of approximately 108.4% as compared to the Financial Year 2013. The increase was mainly attributable to increases in transportation cost which is in line with the increase in sales.

### Administrative expenses

During the Financial Year 2014, the Group's administrative expenses increased to approximately HK\$27.7 million from approximately HK\$15.7 million, representing an increase of approximately 76.8% as compared to the Financial Year 2013. The increase was mainly attributable to the increase in staff salaries, depreciation, and related costs to support the increase in sales and the post listing compliance duties.

### Finance costs

During the Financial Year 2014, the Group's finance costs increased to approximately HK\$26.6 million from approximately HK\$7.0 million, an increase of approximately 280.9% as compared to the Financial Year 2013. The increase was mainly attributable to an increase in the level of working capital required to cope with the Full Production of the 2013 Production Line.

### Profit attributable to owners of the Company

During the Financial Year 2014, the Group's profit attributable to owners of the Company increased to approximately HK\$26.2 million from approximately HK\$7.9 million, an increase of approximately 232.9% as compared to the Financial Year 2013. The increase was mainly attributable to an increase in sales as a result of the 2013 Production Line operating in Full Production.

# Management Discussions and Analysis

## **FUTURE PLAN AND PROSPECT**

The year 2014 was the first full year operation of the Group after the Company was listed on the GEM of the Stock Exchange on 8 January 2014. The Group will continue to further strengthen its foundation, optimise its system and innovate on its product to drive the steady growth of its business. Further, the Group will continue to leverage on its business know-how and continue to strengthen its brand recognition and solidify its market position within the PRC; beginning from Renhua County in Guangdong Province, to the other regions of the PRC and ultimately making “Hongwei” the brand with a national reach in the particleboard industry.

In 2015, the Group plans to put more resources into expanding its customised-particleboard market segment. With the conservation of the environment in mind, the Group will continue to devote significant resources in the research and development of its non-formaldehyde and fire-resistant particleboards. It is the goal of the Group to make non-formaldehyde particleboards its flagship product in the future.

Further, in the Group’s endeavor to be established as a high-tech enterprise, it will also be stepping up on its protection of intellectual property; patents will be applied for the Group’s existing production equipment and technology.

## **LIQUIDITY, FINANCIAL RESOURCES AND CAPITAL STRUCTURE**

The Company’s shares were successfully listed on GEM of the Stock Exchange on 8 January 2014. There has been no change in the capital structure of the Company since that date. The capital of the Company only comprises ordinary shares.

During the Financial Year 2014, the Group mainly financed its operations with the Group’s working capital, bank loans and proceeds from the Placing.

As at 31 December 2014 and 2013, the Group had bank loans of approximately HK\$339.4 million and HK\$294.4 million respectively. Other than certain bank loans obtained which bear fixed interest rate ranging from 6.88% to 8.10% per annum, other bank loans bear floating interest rates ranging from 6.16% to 8.64% per annum as at 31 December 2014.

As at 31 December 2014 and 2013, the Group had net current liabilities of approximately HK\$21.4 million and HK\$114.9 million respectively. The current ratio of the Group increased to 0.93x as at 31 December 2014 (2013: 0.54x). Such increase was mainly due to an increase in current assets generated from the 2013 Production Line.

In 2014, apart from the general bank borrowings, the Company issued to certain independent investors the puttable note of US\$2,000,000 with an interest rate of 12% per annum due in July 2016; and also issued to an independent investor the puttable note of HK\$8,000,000 with an interest rate of 12% per annum due in October 2016. The said puttable notes do not require any security and do not carry any rights to convert into the Company’s shares. The proceeds from issuance of the said puttable notes have been utilised for the Group’s general working capital purpose.

## **Gearing Ratio**

The gearing ratio stood at 1.33x (2013: 1.76x) based on total borrowings over shareholders’ equity. The gearing ratio improved as the shareholders’ equity has increased as a result of Listing.

# Management Discussions and Analysis

## FOREIGN EXCHANGE EXPOSURE

As at 31 December 2014 and 2013, certain of the Group's bank balances were denominated in HK\$ and insignificant amount of the Group's bank balances were denominated in Euro. The Group manages its foreign currency risk by closely monitoring the movement of the foreign currency rate. As at 31 December 2014, there were puttable notes denominated in US\$ and HK\$ with an interest of 12%. Other than as described above, the Group has no significant exposure to foreign currency risk as it carries out its sales and purchases mainly in RMB.

The sensitivity analysis below includes only outstanding foreign currency bank balances and puttable notes, and adjusts for translation at the end of the year, with all other variables held constant.

The carrying amounts of the Group's foreign currency denominated monetary assets and monetary liabilities at the end of each reporting period are as follows:

	31/12/2014 HK\$'000	31/12/2013 HK\$'000
<b>Assets</b>		
Bank balances and cash	1,051	1,051
<b>Liabilities</b>		
Puttable notes	(23,792)	—

The following table illustrates the sensitivity of the Group's profit after tax to reasonably possible changes in RMB against HK\$ and US\$ exchange rates. 5% (2013: 5%) is the sensitivity rate used when reporting foreign currency risk internally to key management personnel and represents management's assessment of the reasonably possible change in foreign exchange rates. The management assess the foreign currency risk arising from US\$ and HK\$ collectively because the exchange rate between US\$ and HK\$ is pegged.

	The Group Increase in rate %	(Decrease)/ increase in profit for the year HK\$'000
<b>2014</b>		
If RMB strengthens against HK\$ and US\$	5	954
If RMB weakens against HK\$ and US\$	5	(954)
<b>2013</b>		
If RMB strengthens against HK\$	5	(39)
If RMB weakens against HK\$	5	39

In the opinion of the management, the sensitivity analysis is unrepresentative of the inherent foreign exchange risk as at year end exposure does not reflect the exposure during the year.

The Company has no material foreign currency risk exposure.

# Management Discussions and Analysis

## TREASURY POLICIES

The Group adopts a conservative approach towards its treasury policies. The Group strives to reduce exposure to credit risk by performing ongoing credit evaluation of the financial conditions of its clients. In order to manage liquidity risk, the Board closely monitors the Group's liquidity position to ensure that the liquidity structure of the Group's assets, liabilities and commitments can meet its funding requirements.

## SIGNIFICANT INVESTMENTS HELD AND FUTURE PLANS FOR MATERIAL INVESTMENTS AND CAPITAL ASSETS

The Group had constructed the 2013 Production Line in the last quarter of 2013 and has commenced Full Production in the Financial Year 2014. Save as disclosed above, there were no significant investments held as at 31 December 2014. There is no plan for material investments on capital assets as at 31 December 2014.

## MATERIAL ACQUISITIONS AND DISPOSALS OF SUBSIDIARIES

There was no material acquisitions and disposals of subsidiaries by our Group during the Financial Year 2014.

During the Financial Year 2014, the Group has incorporated a wholly-owned subsidiary, namely Universal Success Enterprise Limited, and its incorporation was intended for general corporate activity purpose.

## PLEDGE OF ASSETS

As at 31 December 2014, bank deposits in the amount of HK\$3,803,000 (31 December 2013: HK\$5,458,000) were pledged to banks for bank loans.

As at 31 December 2014, the Group's bank loans are secured/guaranteed by:

- (a) the pledge of the Group's buildings, plant and equipment with an aggregate carrying amount of HK\$266,324,000 (31 December 2013: HK\$285,389,000);
- (b) the pledge of the Group's prepaid lease payments with an aggregate carrying amount of HK\$19,331,000 (31 December 2013: HK\$19,804,000); and
- (c) the pledge of the Group's bank deposits with an aggregate carrying amount of HK\$3,803,000 (31 December 2013: HK\$5,458,000).

## COMMITMENTS

The following table sets out the Group's contractual obligations as at the respective reporting date.

	2014 HK\$'000	2013 HK\$'000
Capital commitments	12,121	12,219
Letters of credit commitments	—	7,645

## CONTINGENT LIABILITIES

The Group had no material contingent liabilities as at 31 December 2014 (31 December 2013: nil).

# Management Discussions and Analysis

## EMPLOYEES AND REMUNERATION POLICIES

As at 31 December 2014, the Group employed a total of 175 employees. The remuneration payable to our employees included fees, salaries, retirement benefits scheme contributions and other benefits. For the Financial Year 2014 and Financial Year 2013, the remuneration was approximately HK\$15.8 million and HK\$12.4 million, respectively. The Group determines the employee's remuneration based on factors such as qualifications, duty, contributions and years of experience. The key principles of the remuneration policy are to remunerate employees in a manner that is market competitive, consistent with best practice and supports the interests of the Shareholders. The Group aims to align the interests of the senior executives with those of Shareholders by remunerating senior executives through performance and long-term incentive plans in addition to their fixed remuneration.

## USE OF NET PROCEEDS FROM THE PLACING

The net proceeds from the Placing amounted to approximately HK\$54 million. Such net proceeds are intended to be or have been applied in accordance with the proposed applications as set out in the section headed "Future Plans and Prospects" in the Prospectus.

Up to 31 December 2014, the net proceeds had been applied as follows:

1. Approximately HK\$30.0 million has been applied for partially repaying a RMB32 million bank loan provided from Agricultural Bank of China.
2. Approximately HK\$3.7 million has been applied for the expanding our product range.
3. Approximately HK\$2.2 million has been applied for strengthening and expanding of our sales network across the PRC.
4. Approximately HK\$1.3 million has been applied for expanding our supplier base for the supply of Residual Wood.
5. Approximately HK\$4.5 million has been applied for enhancing of our product research and development.
6. Approximately HK\$1.6 million has been applied for strengthening our brand recognition.
7. Approximately HK\$5.0 million has been applied for general working capital purpose.

## REVIEW OF CONSOLIDATED FINANCIAL STATEMENTS

The audit committee of the Board has discussed and reviewed with the management of the Group the consolidated financial statements of the Group for the Financial Year 2014.

# Management Discussions and Analysis

## COMPARISON OF BUSINESS OBJECTIVES WITH ACTUAL BUSINESS PROGRESS

For the comparison between the business objectives as stated in the Prospectus and the Group's actual business progress for the first six months ended 30 June 2014, please refer to the relevant details set out in the 2014 Interim Report of the Company.

The following sets out an analysis comparing the business objectives as stated in the Prospectus with the Group's actual business progress for the second half of the Financial Year 2014:

<b>Business objectives for the Financial Year 2014</b>	<b>Actual business progress for the Financial Year 2014</b>
<b>For the six months ended 31 December 2014</b>	<b>Actual progress for the Financial Year 2014</b>
<i>Expanding our product range</i>	
<ul style="list-style-type: none"><li>introduce particleboards that meet the Japanese Industrial Standard F★★★★ particleboard requirement to the market</li></ul>	During the first half of the Financial Year 2014, the Group has launched its moisture-resistant particleboard which meets the Japanese Industrial Standard F★★★★.
<i>Strengthening and expanding our sales network across the PRC</i>	
<ul style="list-style-type: none"><li>establish a branch for sales in Hubei province</li></ul>	During the second half of the Financial Year 2014, the Group continues to place emphasis on the market of Pearl River Delta economic region as sales in this region continues to be robust. Further, the Group is of the view that the market in Hubei province is not currently mature enough for a large scale investment. As such, the Group has not established a branch for sales in Hubei province as of 31 December 2014. The Group will place close attention to the Hubei province and abide its entrance at an opportune moment.
<ul style="list-style-type: none"><li>employ 3 personnel to the sales and marketing team focusing on the central China region</li></ul>	During the second half of the Financial Year 2014, the Group has employed 3 personnel to the sales and marketing team focusing on the central China region.



# Management Discussions and Analysis

## Business objectives for the Financial Year 2014

## Actual business progress for the Financial Year 2014

### *Expanding our supplier base for the supply of Residual Wood*

- establish a Residual Wood procurement centre at Hunan province
- employ additional 3 to 4 personnel to our Residual Wood procurement team

During the second half of the Financial Year 2014, the Group has established a Residual Wood procurement centre at Hunan province. The procurement centre expected to commence operation in 2015.

During the second half of the Financial Year 2014, the Group has employed 3 personnel to our Residual Wood procurement team.

### *Enhancing our product research and development*

- conduct research and development for the development of moisture resistance and fire resistance particleboards
- continue research and development on high concentration formaldehyde, adhesive chemical, glueing technique and production technology
- cooperate with a university in Nanjing on particleboard research and development

During the second half of the Financial Year 2014, the Group has completed its research and development for the development of moisture resistance and fire resistance particleboard.

During the second half of the Financial Year 2014, the Group's formaldehyde plant is able to proficiently produce high concentration formaldehyde. The Group continue to use its high concentration formaldehyde (48-52%) in the development of F★★★★ grade moisture-resistant particleboard.

The Group has not at this time found a suitable University to cooperate with on the research and development of particleboard. Through other research institutions and avenues, the Group is continuing its effort in the research and development of particleboards, ensuring the quality and range of product to its customers.

# Management Discussions and Analysis

## Business objectives for the Financial Year 2014

## Actual business progress for the Financial Year 2014

### *Strengthening our brand recognition*

- participate at least 1 PRC national furniture exposition
- continue effort on advertising campaigns

During the second half of the Financial Year 2014, the Group has participated in the 2014 Fourteenth (Guangzhou) International Furniture Auxiliary Materials and Hardware Accessories Fair 「2014第十四屆廣州國際傢俱原輔材料及五金配件展覽會」.

During the second half of the Financial Year 2014, the Group entered into a strategic agreement with China Wood Industry Network 「中國木業網」 to integrate the Group's brand promotion.

The Group has also sought to further promote its brand name in Taiwan, the Republic of China.

# Biographical Details of Directors and Senior Management

## EXECUTIVE DIRECTORS

**Mr. Wong Cheung Lok (黃長樂)**, aged 53, is the chairman of the Board, chief executive officer of the Group and an executive Director. Mr. Wong founded our Group with Mrs. Wong in 2003. Mr. Wong was appointed as a Director on 28 May 2012 and was designated as an executive Director on 13 December 2013. Mr. Wong is primarily responsible for the overall strategic planning and corporate management of our Group. Mr. Wong has approximately 20 years of experience in the wood-based panel industry which dates back to 1993 when he founded Zhangzhou Hongwei. In May 2003, Mr. Wong founded Hongwei (Renhua), the only operating subsidiary of our Group, and was the chairman, general manager and the legal representative of Hongwei (Renhua). In June 2012, Mr. Wong established the Company.

Mr. Wong is currently a member of the standing committee (常委) of the ninth Chinese People's Political Consultative Conference of Fujian Sanming (福建省三明市政協), a vice chairman (副會長) of Fujian Chamber of Commerce in Shaoguan (韶關福建商會) (formerly known as Fujian Economic Promotion Committee of Shaoguan (韶關市閩韶經濟促進會)), a vice chairman (副主任委員) of Wood-Based Panel Professional Committee (人造板專業委員會) of Guangdong Forestry Industry Association (廣東省林業產業協會), a standing director (常務理事) of Fujian Forest Products Industry Association (福建省林產品行業協會), a standing director of Hong Kong Federation of Fujian Association Limited (香港福建社團聯會) and a permanent honorary president of Hong Kong Fukien Sanming Association Limited (香港福建三明聯會). Mr. Wong is the spouse of Mrs. Wong, an executive Director.

**Ms. Cheung Ngai Kwan (張雅鈞)**, aged 51, is an executive Director and was appointed as an executive Director on 13 December 2013. Mrs. Wong established our Group with Mr. Wong in 2003 and she is primarily responsible for the strategic planning, corporate management and business operation of our Group. Mrs. Wong has accumulated over 13 years of experience in the wood-based panel industry since 1999 when she founded HK Hung Wai Partnership together with Mr. Wong. Mrs. Wong is currently a committee member of the women's commission of Hong Kong Federation of Fujian Association Limited and a standing director of and a deputy head of women's commission of Hong Kong Fukien Sanming Association Limited. Mrs. Wong is the spouse of Mr. Wong, an executive Director and the chairman of the Board.

**Ms. Huang Xiuyan (黃秀延)**, aged 44, is an executive Director, the compliance officer of the Company, and the supervisor of Hongwei (Renhua). Ms. Huang joined our Group in June 2009 and was appointed as an executive Director on 13 December 2013. Ms. Huang is primarily responsible for the internal auditing, internal control and the supervision of business operation of our Group. Between June 2009 and August 2012, Ms. Huang was the chief financial officer of Hongwei (Renhua). Ms. Huang has over 19 years of experience in financial management and internal control in the wood-based panel industry. Before joining our Group, Ms. Huang worked as a chief financial officer in Zhangzhou Hongwei from March 1994 to May 2009, and was primarily responsible for financial management, financing decisions, internal control, market development and strategic planning. Ms. Huang had also participated in the establishment of Zhangzhou Hongwei and the strategic planning for the business development of most of the companies Mr. Wong used to own.

**Mr. Liu Jiayong (劉加勇)**, aged 41, is an executive Director and the chief financial officer of the Group. Mr. Liu joined our Group in June 2009 and was appointed as an executive Director on 13 December 2013. Mr. Liu is primarily responsible for the overall finance and accounting management, taxation and compliance and other day-to-day financial administration of our Group. Mr. Liu is also responsible for the execution of strategies and the reform of the management system of our Group. Mr. Liu possesses approximately 19 years experience in the accounting field. Prior to joining our Group, Mr. Liu worked in Fujian Shanghang Secondary Vocational School (福建省上杭職業中專學校) as an accounting teacher from September 1994 to March 2003. Mr. Liu was also an external accounting teacher of both the Chinese Accounting Correspondence School at Shanghang (中華會計函授學校上杭分校) and the Open University of China at Shanghang (中央廣播電視大學上杭分校) from August 1996 to January 2003, the head of finance department of Fujian Shanghang Educational Garment Factory (福建省上杭縣教育服裝廠) from August 1995 to January 2003 and head of finance department of Fujian Toronto Bio-chemical Co., Ltd (福建省多倫多生物化工有限公司) from October 2000 to July 2001.

Subsequently, Mr. Liu held the position of manager of the finance department of Xiamen Yifanda Medical Instrument Co., Ltd (廈門市益帆達醫療設備有限公司) from January 2003 to March 2004. Mr. Liu served as the manager of finance department in Zhangzhou Hongwei during March 2004 to May 2009.

## Biographical Details of Directors and Senior Management

Mr. Liu completed a part-time course and obtained an undergraduate diploma in accounting from the Open University of China in July 2006. In December 2002, Mr. Liu passed the intermediate level of national examination of the department of finance in the PRC and was issued a certificate to certify his qualification level in accountancy. Mr. Liu is a qualified junior middle school teacher by the Education Bureau of Shanghang since October 2003. Mr. Liu was also an executive council member (常務理事) of the Shanghang Accounting Association (上杭縣會計協會) from January 2003 to March 2004.

### NON-EXECUTIVE DIRECTOR

**Mr. Ong Chor Wei (王祖偉)**, aged 45, is a non-executive Director. He was appointed as Director on 5 November 2012 and designated as a non-executive Director on 13 December 2013. Mr. Ong has over 22 years of experience in finance and accounting. Mr. Ong is currently an executive director of Net Pacific Financial Holdings Limited (previously known as K Plas Holdings Limited), a company listed on the Singapore Exchange Limited with stock code of 5QY, and a non-executive director of Joyas International Holdings Limited, a company listed on the Singapore Exchange Limited with stock code of E9L. Mr. Ong is an executive director of Zibao Metals Recycling Holdings Plc, a company trading on AIM, a market operated by the London Stock Exchange. Mr. Ong is also currently an independent non-executive director of two other companies, namely Man Wah Holdings Limited and O-Net Communications (Group) Limited, both of which are listed on the main board of the Stock Exchange with stock codes of 1999 and 877 respectively. Mr. Ong is a former non-executive director of Jets Technics International Holdings Limited, a company listed on the Singapore Exchange Limited with stock code of J19. He ceased to be the non-executive director of Jets Technics International Holdings Limited in February 2013.

Mr. Ong holds a master degree of business administration jointly awarded by the University of Wales and the University of Manchester in the United Kingdom (distance learning). Mr. Ong also holds a bachelor degree of laws from the London School of Economics and Political Science, University of London in the United Kingdom. Mr. Ong is an associate member of the Institute of Chartered Accountants in England and Wales and a member of the Hong Kong Institute of Certified Public Accountants.

### INDEPENDENT NON-EXECUTIVE DIRECTORS

**Dr. Xu Jianmin (徐建民)**, aged 50, was appointed as an independent non-executive Director on 13 December 2013. Dr. Xu possesses approximately 27 years of forestry research experience in the PRC. Dr. Xu is currently a doctoral supervisor of Chinese Academy of Forestry (“CAF”) (中國林業科學研究院) and a chief expert and researcher of the forest tree breeding research office (林木育種研究室) under the Research Institute of Tropical Forestry, CAF (“RITF”) (中國林業科學研究院熱帶林業研究所). Between 1986 and 2006, Dr. Xu held several positions in the RITF, including deputy department head, department head of the forest tree breeding research office. He is also a former graduate supervisor of CAF. Dr. Xu is a committee member (委員) of Forest Genetics and Tree Breeding Branch (林木遺傳育種分會) of Chinese Society of Forestry (“CSF”) (中國林學會), a member of the standing committee (常委) of both Forestry Introduction and Taming Professional Committee (樹木引種馴化專業委員會) of CSF and Eucalypt Professional Committee (桉樹專業委員會) of CSF. Dr. Xu was appointed as a technical support expert (科技支撐專家) for the World Bank loan project of the Comprehensive Development and Protection of Forestry in Guangxi province (世行貸款廣西綜合林業發展和保護項目) between January 2007 and December 2012.

Dr. Xu obtained his doctoral degree of agriculture in Chinese Academy of Forestry (中國林業科學研究院) in July 2003 and a bachelor degree of agriculture in Southwest Forestry College (西南林學院) (now known as Southwest Forestry University (西南林業大學)) in July 1986. Dr. Xu was also approved as a qualified Forest Resource Valuer (森林資源資產評估師) by the Ministry of Human Resources and Social Security of the People’s Republic of China (中華人民共和國人力資源和社會保障部) in 2012. Dr. Xu was awarded with the 2nd Prize Technology Improvement Award (科技進步二等獎) by the Committee of Science and Technology of the PRC (國家科學技術委員會) in December 1996. Dr. Xu was also awarded the 2nd Prize Technology Improvement Award (科學技術進步二等獎) by the ministry of Forestry of the PRC (中華人民共和國林業部) (now known as the State Forestry Administration of the PRC (國家林業局)) in February 1996.

## Biographical Details of Directors and Senior Management

**Ms. Qian Xiaoyu (錢小瑜)**, aged 61, was appointed as an independent non-executive Director on 13 December 2013. Ms. Qian has accumulated over 24 years of experience in the forestry industry in the PRC. Ms. Qian has served in China National Forest Products Industry Corporation (中國林產工業公司) since 1989. She is currently a vice chairman of China National Forest Product Industry Association (中國林產工業協會) and the general manager assistant of China National Forest Products Industry Corporation. Ms. Qian is also currently a director of Fujian Furen Wood Industry Co., Ltd. (福建福人木業有限公司).

Ms. Qian holds a bachelor degree of engineering from Central South University of Forestry (中南林學院) (now known as Central South University of Forestry and Technology (中南林業科技大學)). In March and July 1996, Ms. Qian obtained a diploma in corporate operation and management from the College of Continuing Education under Beijing Normal University (北京師範大學繼續教育學院) and a diploma in law from China Women's University (中華女子學院) respectively. Ms. Qian has been qualified as a professor-level senior engineer (教授級高級工程師) by the Professional Qualification Evaluation Office of the State Forestry Administration of the PRC (國家林業局專業技術資格評定辦公室) since December 2005. In October 2006, she was appointed as a member of the Adjudication Committee of the Qualification of Specialty and Technology in Engineering by the State Forestry Administration of the PRC (國家林業局工程系列專業技術資格評審委員會委員). In February 2011, Ms. Qian was awarded "Person of the Year of China Forestry Industry of 2010" (2010年中國林業產業年度人物) by "China Green Times" (中國綠色時報社).

**Mr. Wong Hei Chiu (黃禧超)**, aged 48, was appointed as an independent non-executive Director on 13 December 2013. Mr. Wong has over 22 years of corporate finance and financial management experience in Hong Kong and the PRC. Mr. Wong is currently an executive director, chief financial officer and company secretary of Kingmaker Footwear Holdings Limited, a listed company on the main board of the Stock Exchange with stock code of 1170. Mr. Wong was the group financial controller and company secretary of Karce International Holdings Company Limited, a company listed on the main board of the Stock Exchange with stock code of 1159. He was also the finance director and company secretary of Wah Lee Resources Holdings Limited (now known as Kai Yuan Holdings Limited), a company listed on the main board of the Stock Exchange with stock code of 1215.

Mr. Wong obtained a bachelor degree of business administration from Lingnan College (now known as Lingnan University) in Hong Kong in November 1996. Mr. Wong is a practicing Certified Public Accountant in Hong Kong. He is also a fellow member of the Association of Chartered Certified Accountants in the United Kingdom, an associate member of the Institute of Chartered Accountants in England and Wales and an associate member of Hong Kong Institute of Certified Public Accountants.

### SENIOR MANAGEMENT

**Mr. Zhang Hui (張輝)**, aged 51, is the vice general manager of Hongwei (Renhua). Mr. Zhang joined our Group in April 2013 and is primarily responsible for the management of the production and operation department, the quality assurance department and the warehouse management department.

Mr. Zhang has been engaged in the engineering industry for approximately 28 years and accumulated in-depth experience in production facilities and production management in relation to the manufacturing of wood-based panels, particularly of particleboards. Prior to joining our Group, Mr. Zhang worked for several companies in wood-related activities. He served as the general manager of Hengshui Bamailong Wood Industry Co., Ltd (衡水巴邁隆木業有限公司) for 3 years. Mr. Zhang has also worked for Fujian Furen Wood Industry Co., Ltd (福建福人木業有限公司) for over 18 years, in particular, as a deputy head of the third construction prep office (三期籌建辦) since December 1998; and Shanghai Darglobal Wood Co., Ltd (上海大亞木業有限公司) for 5 years. Mr. Zhang previously served Jiehong Wood as its vice general manager and project manager for over half a year. Mr. Zhang had been involved in building, implementing and managing of large-scale particleboard production lines imported from overseas. Particularly, Mr. Zhang was previously the project manager of a homogeneous particleboard production line with annual production capacity of 450,000 m<sup>3</sup>.

Mr. Zhang obtained a bachelor degree in Industrial Electrical Automation from Fuzhou University (福州大學) in the PRC in 1985. Mr. Zhang qualified as a senior engineer in China in 1998 by the Department of Personnel of Fujian Province (福建省人事廳).

## Biographical Details of Directors and Senior Management

**Ms. Liu Yan (劉艷)**, aged 40, is the vice general manager, resource management department head of Hongwei (Renhua) and Chairman assistant. Ms. Liu joined our Group in May 2003 and is primarily responsible for assisting the Chairman in strategic planning and business management. She is also responsible for formulating the raw materials supplies strategies, including monitoring and tracking of our Group's purchasing plans, and in charge of the supervision of the resource management department including but not limited to ensuring that all our Residual Wood supplies are purchased from legitimate sources and liaison with the Forestry Bureau of Renhua County. Prior to joining our Group, Ms. Liu served as a chairman assistant in Zhangzhou Hongwei between March 2001 to May 2003.

Ms. Liu obtained her masters degree in agricultural extension (農業推廣) in Chinese Academy of Forestry (中國林業科學研究院) in the PRC in July 2008 and a bachelor degree in philosophy from Xiamen University (廈門大學) in the PRC in July 1999. In December 2010, she was nominated "Excellent Manager of Forestry Enterprise" (林業企業優秀職業經理人) by the Talent Exchange and Development Centre of State Forestry Administration of the PRC (國家林業局人才開發交流中心).

**Mr. Lin Shenghua (林勝華)**, aged 43, is the sales and marketing director of Hongwei (Renhua). Mr. Lin joined our Group in January 2012 and is primarily responsible for the formulation and implementation of marketing strategies of our Group. He is also responsible for the business development and customer relationship for the regions of Shanghai, Jiangsu and Zhejiang provinces. Mr. Lin has over 6 years of experience in the forestry business and worked as a marketing manager in Zhangzhou Hongwei from March 2007 to December 2011. Mr. Lin obtained his bachelor degree in chemistry from Fuzhou University (福州大學) in the PRC in July 1996.

### COMPANY SECRETARY

**Ms. Leung Wai Ling, Wylie (梁慧玲)**, aged 47, has been the company secretary of our Group pursuant to the Rule 11.07(2) of the GEM Listing Rules since December 2013. Ms. Leung has been designated by Grandtop International Capital Limited, the then corporate secretary of the Company, to handle corporate secretarial matters of the Company since May 2013, and was formally appointed as the secretary of the Company (the "Company Secretary") on 19 December 2013.

Ms. Leung possesses extensive experience in finance and accounting. She currently serves as an associate director of Grandtop International Capital Limited, which engages in provision of corporate secretarial services (for example: the completion and filing of companies registry forms, drafting of companies' resolutions and meeting minutes). Ms. Leung has been responsible for reviewing company secretarial documents prepared by the staff of Grandtop International Capital Limited in relation to the provision of such corporate secretarial services. Ms. Leung is currently an independent non-executive director of King's Flair International (Holdings) Limited, a listed company on the main board of the Stock Exchange with stock code 6822. Ms. Leung has also worked as the financial controller of subsidiaries of Casablanca Group Limited, a company listed on the main board of the Stock Exchange with stock code of 2223, for over 1 year; the financial controller of Guangzhou TWS Electronics Limited for over 4 years; and an auditor at Ernst & Young for over 3 years. In 1992, Ms Leung obtained a bachelor degree in business administration from the City University of New York in the U.S. Ms. Leung is currently a member of the Hong Kong Institute of Certified Public Accountants.



# Corporate Governance Report

## CORPORATE GOVERNANCE PRACTICES

The Board and the management of the Company are committed to establishing good corporate governance practices and procedures. The maintenance of high standard of business ethics and corporate governance practices has always been one of the Group's goals. Since the Listing, the Group strives to attain and uphold more rigorous standards of corporate governance.

Since the Listing Date, the Board has adopted the Corporate Governance Code (the “CG Code”) as set out in Appendix 15 to the GEM Listing Rules. Continuous efforts has been made to review and enhance the Group's internal controls and procedures in light of changes in regulations and developments in best practices. For the Group, maintaining high standards of corporate governance practices is not just complying with the provisions of the CG Code but also the intent of the regulations to enhance corporate performance and accountability.

Unless otherwise stated in this annual report, the Board is pleased to report compliance with the code provisions of the CG Code for the period from the Listing Date to the date of this annual report.

## SECURITIES DEALING CODE

The Company has adopted the rules set out in Rules 5.48 to 5.67 of the GEM Listing Rules as the code of conduct for dealing in securities of the Company by the Directors (the “Securities Dealing Code”). The Securities Dealing Code also applies to all employees to whom the same is given and those who are informed that they are subject to its provisions. The Company has confirmed, having made specific enquiry of the Directors and all the relevant employees, all the Directors and all the relevant employees have complied with the Securities Dealing Code throughout the period from the Listing Date to 31 December 2014.

## BOARD OF DIRECTORS

The Board comprises:

Name	Position	Main Responsibilities
Mr. Wong Cheung Lok	Chairman, executive Director and chief executive officer	Overall strategic planning and corporate management
Ms. Cheung Ngar Kwan	Executive Director	Strategic planning, corporate management and business operation
Ms. Huang Xiuyan	Executive Director and compliance officer	Internal auditing, internal control and supervision of business operation of the Group
Mr. Liu Jiayong	Executive Director and chief financial officer	Finance and accounting management
Mr. Ong Chor Wei	Non-executive Director	Supervision
Dr. Xu Jianmin	Independent non-executive Director	Chairman of remuneration committee, member of audit committee and nomination committee
Ms. Qian Xiaoyu	Independent non-executive Director	Member of audit committee
Mr. Wong Hei Chiu	Independent non-executive Director	Chairman of audit committee, member of remuneration committee and nomination committee

Ms. Cheung Ngar Kwan is the spouse of Mr. Wong Cheung Lok. Save as disclosed herein, to the best knowledge of the Board, there are no financial, business, family or other material relationships among the Board members.

# Corporate Governance Report

During the Financial Year 2014, a total of 4 Board meetings was held. The attendance record of each Director at the Board meetings, board committees meetings and general meeting held during the Financial Year 2014 is set out in the table below:

Name of Directors	Meetings attended/held				
	Board meeting	Audit committee meeting	Nomination committee meeting	Remuneration committee meeting	General meeting
Mr. Wong Cheung Lok	4/4	N/A	4/4	4/4	1/1
Ms. Cheung Ngar Kwan	4/4	N/A	N/A	N/A	1/1
Ms. Huang Xiuyan	4/4	N/A	N/A	N/A	1/1
Mr. Liu Jiayong	4/4	N/A	N/A	N/A	1/1
Mr. Ong Chor Wei	4/4	N/A	N/A	N/A	1/1
Dr. Xu Jianmin	4/4	4/4	4/4	4/4	1/1
Ms. Qian Xiaoyu	4/4	4/4	N/A	N/A	1/1
Mr. Wong Hei Chiu	4/4	4/4	4/4	4/4	1/1

## REMUNERATION AND BENEFITS FOR DIRECTORS AND SENIOR MANAGEMENT

For the Financial Year 2014 the basic aggregate annual remuneration payable to the Directors is approximately HK\$2,011,000, and the aggregate basic annual remuneration payable to senior management (please refer to the section headed “Biographical Details of Directors and Senior Management”) is approximately HK\$622,000.

Details of the remuneration of the Directors for the Financial Year 2014 are set out in note 11 to the consolidated financial statements in this annual report.

## CHAIRMAN AND CHIEF EXECUTIVE OFFICER

In accordance with the code provision A.2.1 of the CG Code, the roles of chairman and chief executive officer should be separate and should not be performed by the same individual.

The Board is of the view that although Mr. Wong Cheung Lok is the chairman and the chief executive officer of the Company, this structure will not impair the balance of power and authority between the Board and the management of the Company. The balance of power and authority is ensured by the operations of the Board, which comprises experienced and high caliber individuals and meets regularly to discuss issues affecting operations of the Company. The Board believes that this structure is conducive to strong and consistent leadership, enabling the Group to make and implement decisions promptly and efficiently. The Board has full confidence in Mr. Wong Cheung Lok and believes that his appointment to the posts of chairman and chief executive officer is beneficial to the business prospects of the Company.

## APPOINTMENT AND RE-ELECTION OF DIRECTORS

Independent non-executive Directors are appointed for a specific term subject to retirement by rotation and re-election in accordance with the Articles. Each Independent non-executive Directors is required to inform the Company as soon as practicable if there is any change that may affect his independence and must provide an annual confirmation of his independency to the Company.

The Articles provides that, at each annual general meeting one third of the Directors for the time being, or, if their number is not three or a multiple of three, then the number nearest to but not less than one-third, shall retire from office by rotation provided that every Director shall be subject to retirement by rotation at least once every three years. The Directors to retire in every year shall be those who have been longest in office since their last election but as between persons who became Directors on the same day those to retire shall (unless they otherwise agree between themselves) be determined by lot. The retiring Directors shall be eligible for re-election.

In considering the nomination of new Directors, the Board will take into account the qualification, ability, working experience, leadership and professional ethics of the candidates, especially their experience in the valuation and technical advisory services and/or other professional areas.



# Corporate Governance Report

## PROFESSIONAL DEVELOPMENT

To assist Directors' continuing professional development, the Company plans to provide briefings and other training to develop and refresh the Directors' knowledge and skills, recommends Directors to attend relevant seminars to develop and refresh their knowledge and skills. A record of the training received by the respective Directors are kept and updated by the Compliance Adviser and the Company Secretary. During the Financial Year 2014, all Board members have received a directors training hosted by the legal advisor to our company, which was about, inter alia, the GEM Listing Rules, Companies Ordinance and Securities and Futures Ordinance.

## RESPONSIBILITIES OF THE BOARD

The Board is responsible for leadership and control of the Group and is collectively responsible for promoting the success of the Group by directing and supervising the Group's affairs. The Board focuses on formulating the Group's overall strategies, authorising the development plan and budget; monitoring financial and operating performance; reviewing the effectiveness of the internal control system; supervising and managing management's performance of the Group; and setting the Group's values and standards. In addition, the Board has also delegated various responsibilities to the Audit Committee, the Remuneration Committee and the Nomination Committee, which assist the Board in discharging its duties and monitoring particular aspect of the Group's activities. The Board delegates the day-to-day management, administration and operation of the Group to management with clear instructions on the functions reserved to the Board and those delegated to the management. The delegated functions will be reviewed by the Board periodically to ensure that they accommodate the needs of the Group and the respective responsibilities, accountabilities and contributions of the Board and the management will be disclosed in this annual report.

## CORPORATE GOVERNANCE FUNCTIONS

No corporate governance committee has been established and the Board is responsible for performing the corporate governance functions such as developing and reviewing the Company's policies, practices on corporate governance, training and the continuous professional development of the Directors and senior management, the Company's policies and practices on compliance with legal and regulatory requirements, etc.

Every Board member has full access to the advice and services of the Company Secretary with a view to ensure that Board procedures, and all applicable rules and regulations are followed. They are also entitled to have full access to Board papers and related materials such that they are able to make an informed decision and to discharge their duties and responsibilities.

## AUDIT COMMITTEE

The audit committee of the Company ("**Audit Committee**") currently consists of 3 independent non-executive Directors namely Mr. Wong Hei Chiu, Dr. Xu Jianmin and Ms. Qian Xiaoyu, and its primary duties include review and supervising the Company's financial reporting process, quarterly, interim and annual results, and providing advice to the Board. Mr. Wong Hei Chiu is the chairman of the Audit Committee. No member of the Audit Committee is a member of the former or existing auditor of the Company. The terms of reference of the Audit Committee which sets out its roles and functions are available at the Company's website and on the website of the Stock Exchange.

Since the Listing Date to the date of this annual report, a total of 4 Audit Committee meetings were held to, inter alia, review the Group's financial results for the Financial Year 2014 before submission to the Board for approval.

# Corporate Governance Report

The attendance records of each member of the Audit Committee is set out in the table below:

Name of members of Audit Committee	Number of meeting attended
Mr. Wong Hei Chiu	4/4
Dr. Xu Jianmin	4/4
Ms. Qian Xiaoyu	4/4

## REMUNERATION COMMITTEE

The remuneration committee of the Company (the “**Remuneration Committee**”) consists of 2 independent non-executive Directors namely Dr. Xu Jianmin and Mr. Wong Hei Chiu, and Mr. Wong Cheung Lok, and its primary duties include providing recommendations to the Board on the Company’s policy and structure for all remuneration of the Directors and senior management. Dr. Xu Jianmin is the chairman of the Remuneration Committee. The terms of reference of the Remuneration Committee which sets out its roles and functions are available at the Company’s website and on the website of the Stock Exchange.

Since the Listing Date to the date of this annual report, a total of 4 Remuneration Committee meeting was held, and its primary duties include providing recommendations to the Board on relevant matters relating to the appointment or reappointment of Directors.

The attendance record of each member of the Remuneration Committee is set out as follows:

Name of members of Remuneration Committee	Number of meeting attended
Dr. Xu Jianmin	4/4
Mr. Wong Cheung Lok	4/4
Mr. Wong Hei Chiu	4/4

The emolument payable to Directors depends on their respective contractual terms under the service contracts and the appointment letters, and as recommended by the Remuneration Committee in accordance with the emolument policy as set out in the section headed “Report of the Directors – Emolument Policy” in this annual report. Details of the Directors’ emolument for the Financial Year 2014 are set out in note 11 to the financial statements.

## NOMINATION COMMITTEE

The nomination committee of the Company (the “**Nomination Committee**”) consists of the 2 independent non-executive Directors, namely Dr. Xu Jianmin and Mr. Wong Hei Chiu, and Mr. Wong Cheung Lok. Its primary function is to inter alia, review and make recommendations on the existing remuneration packages of all Directors and senior management. Mr. Wong Cheung Lok is currently the chairman of the Nomination Committee. The terms of reference of the Nomination Committee, which sets out its roles and functions, are available at the Company’s website and on the website of the Stock Exchange.

Since the Listing Date to the date of this annual report, a total of 4 Nomination Committee meeting was held to, inter alia, assess the independence of the independent non-executive Directors and review the re-appointment of Directors at the forthcoming annual general meeting.

The attendance record of each member of the Nomination Committee is set out as follows:

Name of members of Nomination Committee	Number of meeting attended
Mr. Wong Cheung Lok	4/4
Dr. Xu Jianmin	4/4
Mr. Wong Hei Chiu	4/4

# Corporate Governance Report

Upon recommendation of the Nomination Committee, the Board adopted the board diversity policy (the “**Board Diversity Policy**”) on 26 March 2014 setting out the approach to diversity on the Board. It is believed that a truly diverse Board will include and make good use of differences in the skills, regional and industrial experience, background, race, gender and other qualities of members of the Board. These differences will be taken into account in determining the optimum composition of the Board. The Nomination Committee is responsible for setting annually measurable objectives for implementing diversity on the Board and recommends them to the Board for adoption. The Board Diversity Policy shall be reviewed by the Nomination Committee, as appropriate, to ensure its effectiveness.

## ACCOUNTABILITY AND AUDIT

### Financial Reporting

The management provides such explanation and information to the Board and reports regularly to the Board on financial position and prospects of the business of the Company so as to enable the Board to make an informed assessment of the financial and other information put before the Board for approval.

The Directors acknowledge their responsibilities (as set out in the Independent Auditor’s Report) for preparing the financial statements of the Group that give a true and fair view of the state of affairs of the Group. The Board was not aware of any material uncertainties relating to events or conditions that might cast significant doubt upon the Group’s ability to continue as a going concern and the Board has prepared the financial statements on a going concern basis. The responsibility of the external auditor is to form an independent opinion, based on their audit, on those consolidated financial statements prepared by the Board and to report their opinion to the Shareholders. A statement by auditor about their reporting responsibility is set out in the Independent Auditor’s Report.

### Internal Control and Risk Management

The Board is responsible for the Company’s internal control system and risk management procedures and for reviewing the effectiveness of the Company’s internal control. Since Listing, the Board has conducted a review of, the effectiveness of the system of internal controls of the Group. In particular, the annual review will cover all material controls, including financial, operational and compliance controls, risk management function, the adequacy of resources, staff qualifications and experience, training programmes and budget of the Company’s accounting and financial reporting function.

Based on information furnished to it and on its own observations, the Board is satisfied with the present internal controls of the Group since Listing and up to 31 December 2014.

## AUDITORS’ REMUNERATION

During the Financial Year 2014, the fees paid to the Company’s auditors is set out as follows:

Services rendered	Fees paid/payable (HK\$’000)
Audit services	1,532

## COMPANY SECRETARY

Ms. Leung Wai Ling Wylie (“**Ms. Leung**”) was appointed as the Company Secretary on 19 December 2013. The biographical details of Ms. Leung are set out under the section headed “Biographical Details of Directors and Senior Management” of this annual report.

# Corporate Governance Report

## **RIGHT TO CONVENE EXTRAORDINARY GENERAL MEETING**

The Articles provides that the Directors may, whenever they think fit, convene an extraordinary general meeting and extraordinary general meetings shall also be convened on requisition, or, in default, may be convened by the requisitionists, all as provided by the Companies Ordinance, which provides that the Directors are required to call a general meeting if the Company has received requests to do so from members of the Company representing at least 5% of the total voting rights of all the members having a right to vote at general meetings.

## **RIGHT TO PUT ENQUIRIES TO THE BOARD**

Shareholders have the right to put enquiries to the Board. All enquiries shall be in writing and sent by post to the principal place of business of the Company in Hong Kong or by e-mail to [hungweiasia@gmail.com](mailto:hungweiasia@gmail.com) for the attention of the Company Secretary.

## **RIGHT TO PUT FORWARD PROPOSALS AT GENERAL MEETINGS**

The Companies Ordinance provides that, a company must give notice of a resolution if it has received requests that it do so from: (a) the members of the company representing at least 2.5% of the total voting rights of all the members who have a right to vote on the resolution at the annual general meeting to which the requests relate; or (b) at least 50 members who have a right to vote on the resolution at the annual general meeting to which the requests relate.

The Companies Ordinance also provides that, the request (a) may be sent to the company in hard copy form or in electronic form; (b) must identify the resolution of which notice is to be given; (c) must be authenticated by the person or persons making it; and (d) must be received by the company not later than (i) 6 weeks before the annual general meeting to which the requests relate; or (ii) if later, the time at which notice is given of that meeting.

All request shall be sent to the principal place of business of the Company in Hong Kong or by e-mail to [hungweiasia@gmail.com](mailto:hungweiasia@gmail.com) for the attention of the Company Secretary.

## **INVESTOR RELATIONS**

The Company has adopted a shareholders' communication policy and has also established a range of communication channels between itself and its Shareholders, investors and other stakeholders. These include the annual general meeting, the annual, interim and quarterly reports, notices, announcements and circulars and the Company's website at [www.hongweiasia.com](http://www.hongweiasia.com).

## **CONSTITUTION**

Since the Listing Date to 31 December 2014, there had been no change in the Company's constitutional documents, except for certain impacts brought by the Companies Ordinance (Cap 622) which came into effect on 3 March 2014.

# Report of the Directors

The Directors hereby present their report and the audited consolidated financial statements for the Financial Year 2014.

## GROUP REORGANISATION

On 28 May 2012, our Company was incorporated in Hong Kong with limited liability under the name of Cheung Kin Holdings (Hong Kong) Company Limited (長建控股(香港)有限公司). Mr. Wong owned 50,000,000 Shares, being all the issued share capital of our Company at the time. The principal activity of our Company is investment holding. On 25 April 2013, we changed our name to Hung Wai (Asia) Holdings Limited (鴻偉(亞洲)控股有限公司). On 10 May 2013, we further changed our name to our current name of Hong Wei (Asia) Holdings Company Limited (鴻偉(亞洲)控股有限公司). The group reorganisation (the “**Reorganisation**”) was fully set out in the Prospectus.

Details of the Company’s subsidiary is set out in note 30 to the consolidated financial statement in this annual report.

## PRINCIPAL ACTIVITIES

The Group is primarily engaged in manufacturing and sales of particleboards. Particleboards are made with raw materials such as undersized log, wood branches and agriculture and forestry residues, and hence they are generally considered to be environmentally-friendly and resources-saving reconstituted wood-based panels. There was no significant change in the nature of the Group’s principal activities during the Financial Year 2014.

## DIVIDEND

The Board does not recommend the payment of any final dividend for the Financial Year 2014.

## FINANCIAL SUMMARY

The summary of the results and of the assets and liabilities of the Group is set out in the section headed “Financial Summary” in this annual report.

## PROPERTY, PLANT AND EQUIPMENT

Details of the movements in the property, plant and equipment of the Group are set out in note 16 to the consolidated financial statements.

## SHARE CAPITAL

Details of the movements in the Company’s share capital during the year are set out in note 28 to the consolidated financial statements. Except for those set out in note 28 and 30 to the consolidated financial statements, there is not any redeemable Shares, convertible securities, options, warrants or similar rights issued or granted by the Company or any of its subsidiary or any exercise of right in respect thereof during the Financial Year 2014.

## PURCHASE, SALE OR REDEMPTION OF LISTED SECURITIES

Neither the Company nor any of its subsidiary purchased, sold or redeemed any listed securities of the Company since Listing and up to the date of 31 December 2014.

## RESERVES

Details of the movements in the reserves of the Company during the Financial Year 2014 are set out in note 29 to the financial statements and the consolidated statement of changes in equity, respectively.

## DISTRIBUTABLE RESERVES

The Company did not have any distributable reserves which are available for distribution to equity holders as at 31 December 2014.

# Report of the Directors

## MAJOR CUSTOMERS AND SUPPLIERS

The percentages of sales and purchases for the Financial Year 2014 attributable to the Group's major customers and suppliers were as follows:

- (1) The aggregate amount of revenue attributable to the Group's five largest customers represented approximately 40.9% of the Group's total revenue. The amount of revenue from the Group's largest customer represented approximately 13.7% of the Group's total revenue.
- (2) The aggregate amount of purchases attributable to the Group's five largest suppliers represented approximately 27.2% of the Group's total purchases. The amount of purchases from the Group's largest supplier represented approximately 7.5% of the Group's total purchases.

None of the Directors nor any of their associates nor any Shareholders (which, to the best knowledge of the Directors, owns more than 5% of the Company's issued share capital) had any beneficial interest in the Group's five largest customers and/or five largest suppliers during the year.

## DIRECTORS

The Directors during the Financial Year 2014 and up to the date of this report were as follows:

### Executive Directors

Mr. Wong Cheung Lok  
Ms. Cheung Ngar Kwan  
Ms. Huang Xiuyan  
Mr. Liu Jiayong

### Non-executive Director

Mr. Ong Chor Wei

### Independent non-executive Directors

Dr. Xu Jianmin  
Ms. Qian Xiaoyu  
Mr. Wong Hei Chiu

Each independent non-executive Director has given an annual confirmation of independence to the Company, and the Company considers them to be independent under Rule 5.09 of the GEM Listing Rules.

## BIOGRAPHIES OF DIRECTORS AND OTHER SENIOR MANAGEMENT

The biographical Details of the Directors and other senior management are disclosed in the section headed "Biographical Details of Directors and Senior Management" in this annual report.

## DIRECTORS' SERVICE CONTRACTS

Each of executive Director has entered into a service agreement with the Company for an initial term of three years commencing from the Listing Date and will continue thereafter until terminated in accordance with the terms of the agreement.

The non-executive Director has signed an appointment letter with the Company for a term of three years commencing from Listing date and are subject to termination in accordance with their respective terms.

Independent non-executive Directors have signed an appointment letter with the Company for a term of three years commencing from Listing date and are subject to termination in accordance with their respective terms.

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

# Report of the Directors

## **DIRECTORS' INTERESTS IN CONTRACTS**

No Director had a material interest in any contract of significance to the business of the Group to which the Company or any of its subsidiary was a party during the Financial Year 2014.

## **MANAGEMENT CONTRACTS**

No contracts concerning the management and administration of the whole or any substantial part of the business of the Group were entered into or existed during the Financial Year 2014.

## **REMUNERATION OF THE DIRECTORS**

Details of the remuneration of the Directors for the Financial Year 2014 are set out in note 11 to the consolidated financial statements in this annual report. During the Financial Year 2014, there was no arrangement under which any directors waived or agreed to waive any remuneration (2013: Nil).

## **EMOLUMENT POLICY**

A remuneration committee is set up for reviewing the Group's emolument policy and structure for all remuneration of the Directors and senior management of the Group, having regard to the Group's operating results, individual performance and comparable market practices. The remunerations of the Directors are determined with reference to the economic situation, the market condition, the responsibilities and duties assumed by each Director as well as their individual performance.

The Company has adopted a share option scheme as incentive to Directors and eligible employees, details of which are set out in the paragraph headed "Share Option Scheme" below.

## **SHARE OPTION SCHEME**

Prior to the Listing, the Company had conditionally adopted a share option scheme (the "**Share Option Scheme**") on 19 December 2013 which became unconditional and effective upon the Listing. The purpose of the Share Option Scheme is to enable the Group to grant options to eligible participants as incentives or awards for their contribution to the Group and/or to enable the Group to recruit and retain high calibre employees and attract human resources that are valuable to the Group and any entity which the Group holds any equity interest. The Share Option Scheme will remain in force for a period of 10 years commencing on the date on which the Share Option Scheme is conditionally adopted.

The Board may, at its discretion, invite any executive, non-executive or independent non-executive Directors or any employees (whether full-time or part-time) of the Company, or any of its subsidiary or associated companies or any other person whom the Board considers, in its sole discretion, has contributed or will contribute to the Group to take up the Options. The basis of eligibility of any of the class of the participants to the grant of any option shall be determined by the Board from time to time on the basis of their contribution to the development and growth of the Group and any entity which the Group holds any equity interest.

The total number of Shares which may be issued upon exercise of all options to be granted under the Share Option Scheme and any other share option scheme of the Company shall not in aggregate exceed 10% of the total number of Shares in issue immediately following completion of the Placing, unless the Company obtains a fresh approval from the Shareholders.

The maximum entitlement for any one eligible participant is that the total number of the Shares issued and to be issued upon exercise of the options granted to each participant (including both exercised and outstanding options) in any 12-month period shall not exceed 1% of the total number of Shares in issue.

As at 31 December 2014, no option has been granted under the Share Option Scheme.



# Report of the Directors

## COMPLIANCE WITH NON-COMPETITION DEED

Mr. Wong Cheung Lok, our Controlling Shareholder (the “**Covenanter**”) entered into a deed of non-competition (the “**Non-competition Deed**”) in favour of our Company, pursuant to which the Covenanter has undertaken to our Company that he would not, and that his associates (except any member of our Group) would not, during the restricted period set out therein, directly or indirectly, either on his own account or in conjunction with or on behalf of any person, firm or company, among other things, carry on, participate or be interested or engaged in or acquire or hold (in each case whether as a shareholder, partner, agent or otherwise) any business which is or may be in competition with our existing core business. Mr. Wong has confirmed to the Company that the Non-competition Deed has been fully complied with as at 31 December 2014.

Details of the undertaking has been set out in the section headed “Relationship with Controlling Shareholders” of the Prospectus.

## THE INTERESTS AND SHORT POSITIONS OF DIRECTORS AND CHIEF EXECUTIVE IN THE SHARES, UNDERLYING SHARES AND DEBENTURES OF THE COMPANY OR ITS ASSOCIATED CORPORATIONS

So far as the Directors are aware, as at 31 December 2014, the interests and short positions of the Directors and chief executive of the Company in the Shares, underlying Shares and debentures of the Company or its associated corporations (within the meaning of Part XV of the Securities and Futures Ordinance (Chapter 571, Laws of Hong Kong) (the “**SFO**”) which will have to be notified to the Company and the Stock Exchange under Divisions 7 and 8 of Part XV of the SFO (including interests or short positions which they are taken or deemed to have under such provisions of the SFO) or which will be required, pursuant to section 352 of the SFO, to be entered in the register as referred to therein, or pursuant to Rules 5.46 to 5.67 of the GEM Listing Rules required to be notified to the Company and the Stock Exchange, are as follows:

### Long position in the Shares

Name	Capacity/Nature of interest	Aggregate number of Shares or underlying Shares (Note 1)	Approximate percentage of interest in our Company
Mr. Wong	Beneficial owner	500,000,100 (L)	70.31%
Mrs. Wong <sup>(2)</sup>	Interest of spouse	500,000,100 (L)	70.31%

Notes:

- (1) The letter “L” denotes the person’s long positions in the Shares.
- (2) Mrs. Wong is the spouse of Mr. Wong. Under the SFO, Mrs. Wong is deemed to be interested in the same number of Shares in which Mr. Wong is interested.
- (3) The Company has been notified that: (1) 80,000,000 shares in the share capital of the Company held by Mr. Wong Cheung Lok (“Mr. Wong”), the chairman, chief executive officer and controlling shareholder (as defined in the Listing Rules) were charged on 7 January 2015 in favour of an independent third party (“Chargee A”), as security for a loan advanced by the Chargee A to Mr. Wong; and (2) another 80,000,000 shares in the share capital of the Company held by Mr. Wong were charged on 7 January 2015 in favour of another independent third party (“Chargee B”), as security for a loan advanced by the Chargee B to Mr. Wong.



# Report of the Directors

## SUBSTANTIAL SHAREHOLDERS

Our Directors confirm that the following persons, as at 31 December 2014, had an interest or short position in the Shares or underlying Shares which would fall to be disclosed to us and the Hong Kong Stock Exchange under the provisions of Divisions 2 and 3 of Part XV of the SFO or who are, directly or indirectly, interested in 5% or more of the nominal value of any class of share capital carrying rights to vote in all circumstances at general meetings of any of our subsidiary:

Name	Capacity/Nature of interest	Aggregate number of Shares or underlying Shares (Note 1)	Approximate percentage of interest in our Company
Mr. Wong	Beneficial owner	500,000,100 (L)	70.31%
Mrs. Wong <sup>(2)</sup>	Interest of spouse	500,000,100 (L)	70.31%

Notes:

- (1) The letter “L” denotes the person’s long positions in the Shares.
- (2) Mrs. Wong is the spouse of Mr. Wong. Under the SFO, Mrs. Wong is deemed to be interested in the same number of Shares in which Mr. Wong is interested.
- (3) The Company has been notified that: (1) 80,000,000 shares in the share capital of the Company held by Mr. Wong Cheung Lok (“Mr. Wong”), the chairman, chief executive officer and controlling shareholder (as defined in the Listing Rules) were charged on 7 January 2015 in favour of an independent third party (“Chargee A”), as security for a loan advanced by the Chargee A to Mr. Wong; and (2) another 80,000,000 shares in the share capital of the Company held by Mr. Wong were charged on 7 January 2015 in favour of another independent third party (“Chargee B”), as security for a loan advanced by the Chargee B to Mr. Wong.

Save as disclosed herein, our Directors are not aware of any other person who, on 31 December 2014, have an interest or short position in the Shares or underlying Shares which would fall to be disclosed to our Company under the provisions of Divisions 2 and 3 of Part XV of the SFO, or be, directly or indirectly, interested in 5% or more of the nominal value of any class of share capital carrying rights to vote in all circumstances at general meetings of any members of our Group.

## DIRECTORS’ INTERESTS IN COMPETING BUSINESSES

Except as disclosed in the Prospectus, during the Financial year 2014 and up to the date of this report, none of the Directors or any of their respective associates, has engaged in any business that competes or may compete with the business of the Group, or has any other conflict of interest with the Group.

## INTERESTS OF THE COMPLIANCE ADVISER

As notified by the compliance adviser of the Company, V Baron Global Financial Services Limited (“**Baron**”), as at 31 December 2014, except for the compliance adviser agreement entered into between the Company and Baron dated 23 December 2013, neither Baron or its directors, employees or associates had any interest in relation to the Group.

# Report of the Directors

## CONNECTED TRANSACTION AND CONTINUING CONNECTED TRANSACTION

Since Listing and up to the date of this annual report, we have not entered into any connected transaction or continuing connected transaction which should be disclosed pursuant to the requirements of Chapter 20 of the GEM Listing Rules.

As disclosed in the Prospectus, we have entered into an arrangement by way of letters of intent signed with each of Shaoguan Hongwei Forestry and Shaoguan Hongji Forestry with respect to the prospective Residual Wood purchase transactions, whereby Shaoguan Hongwei Forestry and Shaoguan Hongji Forestry agreed to give priority to supply Residual Wood to Hongwei (Renhua) in quantities requested by Hongwei (Renhua), subject to their respective available Residual Wood inventories. Shaoguan Hongwei Forestry and Shaoguan Hongji Forestry are ultimately wholly owned by Mr. Wong Kin Ching, son of Mr. Wong and Mrs. Wong, and are thus considered as our connected persons upon Listing under the Listing Rules. No purchase of Residual Wood has been made since Listing to 31 December 2014.

Upon Listing and up to 31 December 2014, there is not any (i) contract of significance in relation to the Group's business to which the Group was a party and in which a Director had a material interest, whether directly or indirectly; or (ii) contract of significance between the Group and the Controlling Shareholder; or (iii) contract of significance for the provision of services to the Group by the Controlling Shareholder.

## RELATED PARTY TRANSACTIONS

Details of related party transactions of the Group during the Financial Year 2014 are set out in note 34 to the financial statements. The related party transactions set out in note 34 to the financial statements represent the interest-free and security-free advances provided by Mr. Wong and his associates to the Group on commercial terms better than the terms on which the Group would otherwise obtain financing under normal circumstances, which constitute fully exempt connected transactions under Rule 20.88 of the GEM Listing Rules. All of the said advances have been fully settled as of 31 December 2014.

## SUFFICIENCY OF PUBLIC FLOAT

Based on the information that is publicly available to the Company and to the best knowledge of the Directors, the Directors confirm that the Company maintained the amount of public float as required under the GEM Listing Rules since Listing and up to 31 December 2014.

## USE OF NET PROCEEDS

The net proceeds from the Company's Placing amounted to approximately HK\$54 million. Such net proceeds have been applied in accordance with the proposed applications as set out in the section headed "Management Discussion and Analysis – Use of Net Proceeds from the Placing" in this annual report.

## EVENTS AFTER THE REPORTING PERIOD

The Directors are not aware of any significant event requiring disclosure that has taken place subsequent to 31 December 2014 and up to the date of this annual report.

## AUDITOR

Deloitte Touche Tohmatsu was appointed by the Directors as the first auditor of the Company. Deloitte Touche Tohmatsu will retire, and being eligible, offer themselves for re-appointment at the forthcoming annual general meeting. A resolution for their re-appointment as auditor of the Company will be proposed at the forthcoming annual general meeting. The consolidated financial statements for the year ended 31 December 2014 have been audited by Deloitte Touche Tohmatsu.

By Order of the Board  
**Wong Cheung Lok**  
*Chairman*

24 March 2015

# Independent Auditor's Report



**TO THE SHAREHOLDERS OF  
HONG WEI (ASIA) HOLDINGS COMPANY LIMITED**  
*(incorporated in Hong Kong with limited liability)*

We have audited the consolidated financial statements of Hong Wei (Asia) Holdings Company Limited (the “Company”) and its subsidiaries (collectively referred to as the “Group”) set out on pages 35 to 81, which comprise the consolidated and company statements of financial position as at 31 December 2014, and the consolidated statement of profit or loss and other comprehensive income, consolidated statement of changes in equity and consolidated statement of cash flows for the year then ended, and a summary of significant accounting policies and other explanatory information.

**DIRECTORS' RESPONSIBILITY FOR THE CONSOLIDATED FINANCIAL STATEMENTS**

The directors of the Company are responsible for the preparation of consolidated financial statements that give a true and fair view in accordance with Hong Kong Financial Reporting Standards issued by the Hong Kong Institute of Certified Public Accountants (the “HKICPA”) and the Hong Kong Companies Ordinance (Cap.622) (the “Hong Kong Companies Ordinance”), and for such internal control as the directors of the Company determine is necessary to enable the preparation of consolidated financial statements that are free from material misstatement, whether due to fraud or error.

**AUDITOR'S RESPONSIBILITY**

Our responsibility is to express an opinion on these consolidated financial statements based on our audit and to report our opinion solely to you, as a body, in accordance with section 80 of Schedule 11 to the Hong Kong Companies Ordinance, and for no other purpose. We do not assume responsibility towards or accept liability to any other person for the contents of this report. We conducted our audit in accordance with Hong Kong Standards on Auditing issued by the HKICPA. Those standards require that we comply with ethical requirements and plan and perform the audit to obtain reasonable assurance about whether the consolidated financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the consolidated financial statements. The procedures selected depend on the auditor's judgment, including the assessment of the risks of material misstatement of the consolidated financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the entity's preparation of consolidated financial statements that give a true and fair view in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of accounting estimates made by the directors of the Company, as well as evaluating the overall presentation of the consolidated financial statements.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion.

**OPINION**

In our opinion, the consolidated financial statements give a true and fair view of the state of affairs of the Company and of the Group as at 31 December 2014, and of the Group's profit and cash flows for the year then ended in accordance with Hong Kong Financial Reporting Standards and have been properly prepared in accordance with the Hong Kong Companies Ordinance.

**Deloitte Touche Tohmatsu**  
*Certified Public Accountants*  
Hong Kong

24 March 2015

# Consolidated Statement of Profit or Loss and Other Comprehensive Income

For the year ended 31 December 2014

	Notes	Year ended 31/12/2014 HK\$'000	Year ended 31/12/2013 HK\$'000
Revenue	6	396,583	192,328
Cost of sales		(283,789)	(136,333)
Gross profit		112,794	55,995
Other income	8	2,818	6,621
Other gains and losses	9	1,603	(321)
Distribution expenses		(34,471)	(16,543)
Administration expenses		(27,675)	(15,657)
Other expenses		(3,856)	(14,786)
Finance costs	10	(26,645)	(6,996)
Profit before tax		24,568	8,313
Income tax credit/(expense)	12	1,625	(446)
Profit for the year attributable to owners of the Company	13	26,193	7,867
Other comprehensive (expense)/income which will not be reclassified subsequently to profit or loss:			
Exchange differences arising on translation to presentation currency		(1,985)	2,970
Other comprehensive (expense)/income for the year		(1,985)	2,970
Total comprehensive income for the year		24,208	10,837
Total comprehensive income attributable to owners of the Company		24,208	10,837
Basic earnings per share, in HK cents	15	3.70	1.52

# Consolidated Statement of Financial Position

At 31 December 2014

	Notes	31/12/2014 HK\$'000	31/12/2013 HK\$'000
<b>NON-CURRENT ASSETS</b>			
Property, plant and equipment	16	394,686	415,515
Prepayments for acquisition of property, plant and equipment	17	21,423	21,837
Prepaid lease payments	18	22,144	22,697
Deferred tax assets	12	7,500	5,887
		<b>445,753</b>	465,936
<b>CURRENT ASSETS</b>			
Inventories	19	80,189	52,808
Trade and bills receivables	20	118,075	31,535
Prepayments and other receivables	21	59,068	37,997
Bank balances and cash	22	8,531	6,900
Pledged deposits	22	3,803	5,458
		<b>269,666</b>	134,698
<b>CURRENT LIABILITIES</b>			
Trade payables	23	37,014	35,754
Other payables	24	48,448	99,283
Tax payable		2,698	2,707
Borrowings	25	178,427	111,799
Deferred income	26	688	44
Puttable notes	27	23,792	—
		<b>291,067</b>	249,587
<b>NET CURRENT LIABILITIES</b>		<b>(21,401)</b>	(114,889)
<b>TOTAL ASSETS LESS CURRENT LIABILITIES</b>		<b>424,352</b>	351,047
<b>CAPITAL AND RESERVES</b>			
Share capital	28	189,015	53,333
Share premium and reserves		65,802	113,852
<b>EQUITY ATTRIBUTABLE TO OWNERS OF THE COMPANY AND TOTAL EQUITY</b>		<b>254,817</b>	167,185
<b>NON-CURRENT LIABILITIES</b>			
Deferred tax liabilities	12	622	624
Borrowings	25	160,945	182,621
Deferred income	26	7,968	617
		<b>169,535</b>	183,862
		<b>424,352</b>	351,047

The consolidated financial statements on pages 35 to 81 were approved and authorised for issue by the Board of Directors on 24 March 2015 and are signed on its behalf by:

**Wong Cheung Lok**  
Director

**Liu Jiayong**  
Director

# Statement of Financial Position of the Company

At 31 December 2014

	Notes	31/12/2014 HK\$'000	31/12/2013 HK\$'000
NON-CURRENT ASSET			
Investment in subsidiaries	30	243,733	244,552
CURRENT ASSETS			
Prepayments and other receivables		4	3,620
Bank balances and cash		956	35
		960	3,655
CURRENT LIABILITIES			
Amount due to the subsidiaries	30	47,936	123,773
Other payables		600	8,096
Puttable notes	27	23,792	—
		72,328	131,869
NET CURRENT LIABILITIES		(71,368)	(128,214)
TOTAL ASSETS LESS CURRENT LIABILITIES		172,365	116,338
CAPITAL AND RESERVES			
Share capital	28	189,015	53,333
Share premium and reserves	29	(16,650)	63,005
TOTAL EQUITY		172,365	116,338
		172,365	116,338

# Consolidated Statement of Changes in Equity

For the year ended 31 December 2014

	Share capital HK\$'000	Share premium HK\$'000	Capital reserve HK\$'000	Statutory reserve HK\$'000 (note (i))	Other reserve HK\$'000	Foreign currency translation reserve HK\$'000	Accumulated profits HK\$'000	Total HK\$'000
Balance at 1 January 2013	51,333	4,875	(17,460)	4,087	(6,208)	12,053	31,585	80,265
Profit for the year	–	–	–	–	–	–	7,867	7,867
Exchange differences arising on translation to presentation currency	–	–	–	–	–	2,970	–	2,970
Total comprehensive income for the year	–	–	–	–	–	2,970	7,867	10,837
Issue of redeemable ordinary shares to Golden Win Group Limited ("Golden Win")	2,000	7,383	–	–	(9,383)	–	–	–
Removal of Redemption Right of ordinary shares issued to Golden Win and payment of interest by a shareholder on behalf of the Company	–	–	492	–	15,591	–	–	16,083
Capitalisation of amount due to Mr. Wong Cheung Lok ("Mr. Wong")	–	60,000	–	–	–	–	–	60,000
Transfer to statutory reserve	–	–	–	2,327	–	–	(2,327)	–
Balance at 31 December 2013	53,333	72,258	(16,968)	6,414	–	15,023	37,125	167,185
Profit for the year	–	–	–	–	–	–	26,193	26,193
Exchange differences arising on translation to presentation currency	–	–	–	–	–	(1,985)	–	(1,985)
Total comprehensive income for the year	–	–	–	–	–	(1,985)	26,193	24,208
Issue of new shares	17,778	51,556	–	–	–	–	–	69,334
Share issue expenses	–	(5,910)	–	–	–	–	–	(5,910)
Transfer from share premium upon abolition of par value	117,904	(117,904)	–	–	–	–	–	–
Transfer to statutory reserve	–	–	–	3,301	–	–	(3,301)	–
Balance at 31 December 2014	189,015	–	(16,968)	9,715	–	13,038	60,017	254,817

# Consolidated Statement of Changes in Equity

*For the year ended 31 December 2014*

## Notes:

- (i) In accordance with relevant laws and regulations in the People's Republic of China (the "PRC"), the PRC subsidiary is required to transfer at least 10% of its profit after tax reported in its statutory financial statements prepared under the relevant accounting principles and financial regulations applicable to enterprises established in the PRC ("PRC GAAP") to the statutory reserve.

The appropriation to statutory reserve may cease if the balance of the statutory reserve has reached 50% of the PRC subsidiary's registered capital.

The statutory reserve can be used to make up losses or for conversion into capital. The PRC subsidiary may, upon the approval by a resolution of the owner, convert its statutory reserve into capital in proportion to its then existing capital contribution. However, when converting the PRC subsidiary's statutory reserve into capital, the balance of such reserve remaining unconverted must not be less than 25% of its registered capital.



# Consolidated Statement of Cash Flows

For the year ended 31 December 2014

	Notes	Year ended 31/12/2014 HK\$'000	Year ended 31/12/2013 HK\$'000
Cash flows from operating activities			
Profit before tax		24,568	8,313
Adjustments for:			
Interest income		(32)	(48)
Net foreign exchange (gains)/losses		(1,603)	1,397
Finance costs		26,645	6,996
Depreciation		28,059	7,059
Release of prepaid lease payment		473	470
Gains on fair value changes of derivative financial instruments		–	(1,132)
Net loss on disposal of property, plant and equipment		–	56
Release of government grants		(257)	–
		77,853	23,111
Movements in working capital:			
Increase in trade and bills receivables		(81,060)	(20,488)
Increase in prepayments and other receivables		(23,174)	(17,772)
Increase in inventories		(27,113)	(19,279)
Increase in trade and bills payables		1,136	24,841
(Decrease)/increase in other payable		(18,899)	40,603
Decrease in amounts due from related parties		–	251
		(71,257)	31,267
Cash (used in)/generated from operations		(71,257)	31,267
Income taxes paid		–	–
		(71,257)	31,267
Net cash (used in)/generated from operating activities		(71,257)	31,267
Cash flows from investing activities			
Amounts advanced to related parties		–	(91,737)
Amounts repaid from related parties		–	63,165
Amounts repaid from third parties		–	2,662
Payments for property, plant and equipment		(33,749)	(326,580)
Payments for prepaid lease payments		–	(251)
Placement of pledged deposits		(3,803)	(54,804)
Withdrawal of pledged deposits		5,458	51,903
Interest received		32	48
Government grants received		8,284	652
		(23,778)	(354,942)
Net cash used in investing activities		(23,778)	(354,942)

# Consolidated Statement of Cash Flows

For the year ended 31 December 2014

Notes	Year ended 31/12/2014 HK\$'000	Year ended 31/12/2013 HK\$'000
Cash flows from financing activities		
Issue of ordinary shares upon placing	54,000	—
Issue of redeemable ordinary shares to Golden Win	—	9,383
Amounts repaid to related parties	(37,020)	(103,556)
Amounts advanced from related parties	37,020	210,484
Proceeds from borrowings and puttable notes	297,805	416,726
Repayment of borrowings	(229,396)	(194,961)
Interest paid	(25,325)	(10,147)
Net cash generated from financing activities	97,084	327,929
Net increase in cash and cash equivalents	2,049	4,254
Cash and cash equivalents at the beginning of the year	6,900	2,505
Effect of foreign exchange rate changes	(418)	141
Cash and cash equivalents at the end of the year, represented by bank balances and cash	8,531	6,900

# Notes to the Consolidated Financial Statements

For the year ended 31 December 2014

## 1. GENERAL INFORMATION

Hong Wei (Asia) Holdings Company Limited (the “Company”) was incorporated with limited liability in Hong Kong on 28 May 2012 under the name of Cheung Kin Holdings (Hong Kong) Company Limited. It’s ultimate controlling party is Mr. Wong, who owned 70.31% direct interest of the Company as at 31 December 2014 and is also the chairman of the Company. The address of the Company’s registered office and its principal place of business is Room 11, Block B, 2/F, Wah Tat Industrial Centre, 8-10 Wah Sing Street, Kwai Chung, New Territories, Hong Kong. The principal activity of the Company is investment holding. Its significant subsidiary established in the PRC is principally engaged in manufacturing and selling of particle board.

The functional currency of the Company is Renminbi (“RMB”), while these consolidated financial statements are presented in Hong Kong dollar (“HK\$”), which the management of the Company and its subsidiaries (hereinafter collectively referred to as the “Group”) considered that it is more beneficial for the users of the consolidated financial statements, as the shares of the Company have been listed on the Growth Enterprise Market (“GEM”) of The Stock Exchange of Hong Kong Limited (the “Stock Exchange”) since 8 January 2014.

## 2. BASIS OF PREPARATION OF THE CONSOLIDATED FINANCIAL STATEMENTS

The directors of the Company have given careful consideration to the Group’s financial performance, working capital, liquidity position and available banking facilities from its principal bankers. On the basis that the Group’s business, operations and relationships with its suppliers remained stable and taking into account the banking facilities available to the Group, the directors are of the view that the Group will be able to meet in full its financial obligations as they fall due for the foreseeable future. Accordingly, these consolidated financial statements have been prepared on a going concern basis.

## 3. APPLICATION OF NEW AND REVISED HONG KONG FINANCIAL REPORTING STANDARDS (“HKFRSs”)

The Group has applied the following amendments to HKFRSs and an interpretation issued by the Hong Kong Institute of Certified Public Accountants (“HKICPA”) for the first time in the current year:

Amendments to HKFRS 10, HKFRS 12 and HKAS 27	Investment Entities
Amendments to HKAS 32	Offsetting Financial Assets and Financial Liabilities
Amendments to HKAS 36	Recoverable Amount Disclosures for Non-Financial Assets
Amendments to HKAS 39	Novation of Derivatives and Continuation of Hedge Accounting
HK (IFRIC) – Int 21	Levies

### HK (IFRIC) – Int 21

The Group has applied HK (IFRIC) – Int 21 Levies for the first time in the current year. HK (IFRIC) – Int 21 addresses the issue as to when to recognise a liability to pay a levy imposed by a government. The interpretation defines a levy, and specifies that the obligating event that gives rise to the liability is the activity that triggers the payment of the levy, as identified by legislation. The interpretation provides guidance on how different levy arrangements should be accounted for, in particular, it clarifies that neither economic compulsion nor the going concern basis of financial statements preparation implies that an entity has a present obligation to pay a levy that will be triggered by operating in a future period.

# Notes to the Consolidated Financial Statements

For the year ended 31 December 2014

## 3. APPLICATION OF NEW AND REVISED HONG KONG FINANCIAL REPORTING STANDARDS (“HKFRSs”) (CONTINUED)

### HK (IFRIC) – Int 21 (Continued)

HK (IFRIC) – Int 21 has been applied retrospectively. The application of this interpretation has had no material impact on the disclosures or on the amounts recognised in the Group’s consolidated financial statements.

The application of other amendments to HKFRSs in the current year has had no material effect on the amounts reported in these consolidated financial statements and/or disclosures set out in these consolidated financial statements.

The Group has not early applied the following new and revised HKFRSs that have been issued but are not yet effective:

HKFRS 9	Financial Instruments <sup>1</sup>
HKFRS 15	Revenue from Contracts with Customers <sup>2</sup>
Amendments to HKFRS 11	Accounting for Acquisitions of Interests in Joint Operations <sup>4</sup>
Amendments to HKAS 1	Disclosure Initiative <sup>4</sup>
Amendments to HKAS 16 and HKAS 38	Clarification of Acceptable Methods of Depreciation and Amortisation <sup>4</sup>
Amendments to HKAS 19	Defined Benefit Plans: Employee Contributions <sup>3</sup>
Amendments to HKFRSs	Annual Improvements to HKFRSs 2010-2012 Cycle <sup>5</sup>
Amendments to HKFRSs	Annual Improvements to HKFRSs 2011-2013 Cycle <sup>3</sup>
Amendments to HKFRSs	Annual Improvements to HKFRSs 2012-2014 Cycle <sup>4</sup>
Amendments to HKAS 16 and HKAS 41	Agriculture: Bearer Plants <sup>4</sup>
Amendments to HKAS 27	Equity Method in Separate Financial Statements <sup>4</sup>
Amendments to HKFRS 10 and HKAS 28	Sale or Contribution of Assets between an Investor and its Associate or Joint Venture <sup>4</sup>
Amendments to HKFRS 10, HKFRS 12 and HKAS 28	Investment Entities: Applying the Consolidation Exception <sup>4</sup>

<sup>1</sup> Effective for annual periods beginning on or after 1 January 2018

<sup>2</sup> Effective for annual periods beginning on or after 1 January 2017

<sup>3</sup> Effective for annual periods beginning on or after 1 July 2014

<sup>4</sup> Effective for annual periods beginning on or after 1 January 2016

<sup>5</sup> Effective for annual periods beginning on or after 1 July 2014, with limited exceptions

Except for HKFRS 15 and HKFRS 9, the directors of the Company do not anticipate that the application of the new and revised HKFRSs above will have a material effect on the Group’s consolidated financial statements.

### HKFRS 15 Revenue from Contracts with Customers

In 2014, HKFRS15 was issued which establishes a single comprehensive model for entities to use in accounting for revenue arising from contracts with customers; HKFRS 15 will supersede the current revenue recognition guidance including HKAS 18 Revenue, HKAS 11 Construction Contracts and the related Interpretations when it becomes effective.

# Notes to the Consolidated Financial Statements

For the year ended 31 December 2014

## 3. APPLICATION OF NEW AND REVISED HONG KONG FINANCIAL REPORTING STANDARDS (“HKFRSs”) (CONTINUED)

### HKFRS 15 Revenue from Contracts with Customers (Continued)

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

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

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

The directors of the Company anticipate that the application of HKFRS 15 in the future may have an impact on the amounts reported and disclosures made in the Group’s consolidated financial statements. However, it is not practicable to provide a reasonable estimate of the effect of HKFRS 15 until the Group performs a detailed review.

### HKFRS 9 Financial Instruments

HKFRS 9 issued in 2009 introduced new requirements for classification and measurement of financial assets. HKFRS 9 was subsequently amended in 2010 to include requirements for the classification and measurement of financial liabilities and for derecognition, and further amended in 2013 to include the new requirements for general hedge accounting. Another revised version of HKFRS 9 was issued in 2014 mainly to include a) impairment requirements for financial assets and b) limited amendments to the classification and measurement category for certain simple debt instruments.

Key requirement of HKFRS 9 in relation to the impairment of financial assets is:

- HKFRS 9 requires an expected credits loss model, as opposed to an incurred credit loss model under HKAS 39. The expected credit loss model requires an entity to account for expected credit losses and changes in those expected credit losses at each reporting date to reflect changes in credit risk since initial recognition. In other words, it is no longer necessary for a credit event to have occurred before credit losses are recognized.

Except for the potential early recognition of credit losses based on the expected loss model in relation to the Group’s financial assets measured at amortised costs, the directors of the Company anticipate that the adoption of HKFRS 9 in the future may not have other significant impact on amounts reported in respect of the Group’s financial assets and financial liabilities based on an analysis of the Group’s financial instruments as at 31 December 2014.

# Notes to the Consolidated Financial Statements

For the year ended 31 December 2014

## 4. SIGNIFICANT ACCOUNTING POLICIES

The consolidated financial statement has been prepared in accordance with HKFRSs issued by the HKICPA. In addition, the consolidated financial statements include applicable disclosures required by the Rules Governing the Listing of Securities on the Growth Enterprise Market of the Stock Exchange and by the Hong Kong Companies Ordinance.

The consolidated financial statements have been prepared on the historical cost, as explained in the accounting policies set out below.

Historical cost is generally based on the fair value of the consideration given in exchange for goods and services.

The principal accounting policies are set out below:

### **Basis of consolidation**

These consolidated financial statements incorporate the financial statements of the Company and entity controlled by the Company (its subsidiaries). Control is achieved where the Company:

- has power over the investee;
- is exposed, or has rights, to variable returns from its involvement with the investee; and
- has the ability to use its power to affect its returns.

The Group reassesses whether or not it controls an investee if facts and circumstances indicate that there are changes to one or more of the three elements of control listed above.

When necessary, adjustments are made to the financial statements of subsidiary to bring its accounting policies into line with the Group's accounting policies.

All intra-group assets and liabilities, equity, income, expenses and cash flows relating to transactions between members of the Group are eliminated in full on consolidation.

### **Investment in subsidiaries**

Investment in subsidiaries is included in the Company's statement of financial position at cost less any impairment loss.

### **Revenue recognition**

Revenue is measured at the fair value of the consideration received or receivable and represents amounts receivable for goods sold in the normal course of business net of discounts and sales related taxes.

#### *Sale of goods*

Revenue from the sale of goods is recognised when the goods are delivered and titles have passed, at which time all the following conditions are satisfied:

- the Group has transferred to the buyer the significant risks and rewards of ownership of the goods;
- the Group retains neither continuing managerial involvement to the degree usually associated with ownership nor effective control over the goods sold;
- the amount of revenue can be measured reliably;
- it is probable that the economic benefits associated with the transaction will flow to the Group; and
- the costs incurred or to be incurred in respect of the transaction can be measured reliably.

# Notes to the Consolidated Financial Statements

For the year ended 31 December 2014

## 4. SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

### Revenue recognition (Continued)

#### *Interest income*

Interest income from a financial asset is recognised when it is probable that the economic benefits will flow to the Group and the amount of income can be measured reliably. Interest income is accrued on a time basis, by reference to the principal outstanding and at the effective interest rate applicable, which is the rate that exactly discounts estimated future cash receipts through the expected life of the financial asset to that asset's net carrying amount on initial recognition.

#### **Leasing**

Leases are classified as finance leases whenever the terms of the lease transfer substantially all the risks and rewards of ownership to the lessee. All other leases are classified as operating leases.

#### The Group as lessee

Operating lease payments are recognised as an expense on a straight-line basis over the lease term.

#### Leasehold land and building

When a lease includes both land and building elements, the Group assesses the classification of each element as a finance or an operating lease separately based on the assessment as to whether substantially all the risks and rewards incidental to ownership of each element have been transferred to the Group, unless it is clear that both elements are operating leases in which case the entire lease is classified as an operating lease. Specifically, the minimum lease payments (including any lump-sum upfront payments) are allocated between the land and the building elements in proportion to the relative fair values of the leasehold interests in the land element and building element of the lease at the inception of the lease.

To the extent the allocation of the lease payments can be made reliably, interest in leasehold land that is accounted for as an operating lease is presented as "prepaid lease payments" in the consolidated statement of financial position and is amortised over the lease term on a straight-line basis.

#### **Foreign currencies**

In preparing the financial statements of each individual group entity, transactions in currencies other than the Group's functional currency (foreign currencies) are recognised at the rates of exchange prevailing at the dates of the transactions. At the end of the reporting period, monetary items denominated in foreign currencies are retranslated at the rates prevailing at that date. Non-monetary items that are measured in terms of historical cost in a foreign currency are not retranslated.

Exchange differences arising on the settlement of monetary items, and on the retranslation of monetary items are recognised in profit or loss in the period in which they arise.

For the purposes of presenting the consolidated financial statements, the assets and liabilities of group entities are translated into the presentation currency of the Group (i.e. HK\$) using exchange rates prevailing at the end of each reporting period. Income and expense items are translated at the average exchange rates for the period, unless exchange rates fluctuate significantly during that period, in which case the exchange rates at the dates of the transactions are used. Exchange differences arising, if any, are recognised in other comprehensive income and accumulated in equity under the heading of foreign currency translation reserve.

#### **Borrowing costs**

Borrowing costs directly attributable to the acquisition, construction or production of qualifying assets, which are assets that necessarily take a substantial period of time to get ready for their intended use or sale, are added to the cost of those assets, until such time as the assets are substantially ready for their intended use or sale.

All other borrowing costs are recognised in profit or loss in the period in which they are incurred.

# Notes to the Consolidated Financial Statements

*For the year ended 31 December 2014*

## 4. SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

### **Government grants**

Government grants are not recognised until there is reasonable assurance that the Group will comply with the conditions attaching to them and that the grants will be received.

Government grants are recognised in profit or loss on a systematic basis over the periods in which the Group recognises as expenses the related costs for which the grants are intended to compensate. Specifically, government grants whose primary condition is that the Group should purchase, construct or otherwise acquire non-current assets are recognised as deferred income in the consolidated statement of financial position and transferred to profit or loss on a systematic and rational basis over the useful lives of the related assets.

Government grants that are receivable as compensation for expenses or losses already incurred or for the purpose of giving immediate financial support to the Group with no future related costs are recognised in profit or loss in the period in which they become receivable.

### **Retirement benefit costs**

Payments to defined contribution retirement benefit plans are recognised as an expense when employees have rendered service entitling them to the contributions.

### **Taxation**

Income tax expense represents the sum of the tax currently payable and deferred tax.

The tax currently payable is based on taxable profit for the year. Taxable profit differs from profit before tax as reported in the consolidated statement of profit or loss and other comprehensive income because of items of income or expense that are taxable or deductible in other years and items that are never taxable or deductible. The Group's liability for current tax is calculated using tax rates that have been enacted or substantively enacted by the end of the reporting period.

Deferred tax is recognised on temporary differences between the carrying amounts of assets and liabilities in the consolidated financial statements and the corresponding tax bases used in the computation of taxable profit. Deferred tax liabilities are generally recognised for all taxable temporary differences. Deferred tax assets are generally recognised for all deductible temporary differences to the extent that it is probable that taxable profits will be available against which those deductible temporary differences can be utilised. Such deferred tax assets and liabilities are not recognised if the temporary difference arises from the initial recognition (other than in a business combination) of other assets and liabilities in a transaction that affects neither the taxable profit nor the accounting profit.

Deferred tax liabilities are recognised for taxable temporary differences associated with investment in a subsidiary, except where the Group is able to control the reversal of the temporary difference and it is probable that the temporary difference will not reverse in the foreseeable future. Deferred tax assets arising from deductible temporary differences associated with such investment are only recognised to the extent that it is probable that there will be sufficient taxable profits against which to utilise the benefits of the temporary differences and they are expected to reverse in the foreseeable future.

The carrying amount of deferred tax assets is reviewed at the end of each reporting period and reduced to the extent that it is no longer probable that sufficient taxable profits will be available to allow all or part of the asset to be recovered.

Deferred tax liabilities and assets are measured at the tax rates that are expected to apply in the period in which the liability is settled or the asset realised, based on tax rates (and tax laws) that have been enacted or substantively enacted by the end of the reporting period.



# Notes to the Consolidated Financial Statements

For the year ended 31 December 2014

## 4. SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

### Taxation (Continued)

The measurement of deferred tax liabilities and assets reflects the tax consequences that would follow from the manner in which the Group expects, at the end of the reporting period, to recover or settle the carrying amount of its assets and liabilities.

Current and deferred tax are recognised in profit or loss.

### Property, plant and equipment

Property, plant and equipment held for use in the production or supply of goods or services, or for administrative purposes (other than construction in progress), are stated in the consolidated statements of financial position at cost less subsequent accumulated depreciation and subsequent accumulated impairment losses, if any.

Depreciation is recognised so as to write off the cost of items of property, plant and equipment (other than construction in progress) less their residual values over their useful lives, using the straight-line method. The estimated useful lives, residual values and depreciation method are reviewed at the end of each reporting period, with the effect of any changes in estimate accounted for on a prospective basis.

Construction in progress are carried at cost, less any recognised impairment loss. Cost includes professional fees and, for qualifying assets, borrowing costs capitalised in accordance with the Group's accounting policy. Such assets are classified to the appropriate categories of property, plant and equipment when completed and ready for intended use. Depreciation of these assets, on the same basis as other assets, commences when the assets are ready for their intended use.

An item of property, plant and equipment is derecognised upon disposal or when no future economic benefits are expected to arise from the continued use of the asset. Any gain or loss arising on the disposal or retirement of an item of property, plant and equipment is determined as the difference between the sales proceeds and the carrying amount of the asset and is recognised in profit or loss.

### Impairment of tangible assets

At the end of each reporting period, the Group reviews the carrying amounts of its tangible assets to determine whether there is any indication that those assets have suffered an impairment loss. If any such indication exists, the recoverable amount of the asset is estimated in order to determine the extent of the impairment loss (if any). When it is not possible to estimate the recoverable amount of an individual asset, the Group estimates the recoverable amount of the cash-generating unit to which the asset belongs. When a reasonable and consistent basis of allocation can be identified, corporate assets are also allocated to individual cash-generating units, or otherwise they are allocated to the smallest group of cash-generating units for which a reasonable and consistent allocation basis can be identified.

Recoverable amount is the higher of fair value less costs of disposal and value in use. In assessing value in use, the estimated future cash flows are discounted to their present value using a pre-tax discount rate that reflects current market assessments of the time value of money and the risks specific to the asset for which the estimates of future cash flows have not been adjusted.

If the recoverable amount of an asset (or cash-generating unit) is estimated to be less than its carrying amount, the carrying amount of the asset (or cash-generating unit) is reduced to its recoverable amount. An impairment loss is recognised immediately in profit or loss.

# Notes to the Consolidated Financial Statements

For the year ended 31 December 2014

## 4. SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

### **Impairment of tangible assets (Continued)**

When an impairment loss subsequently reverses, the carrying amount of the asset (or a cash-generating unit) is increased to the revised estimate of its recoverable amount, but so that the increased carrying amount does not exceed the carrying amount that would have been determined had no impairment loss been recognised for the asset (or cash-generating unit) in prior years. A reversal of an impairment loss is recognised immediately in profit or loss.

### **Inventories**

Inventories are stated at the lower of cost and net realisable value. Costs of inventories are determined on a weighted average cost basis. Net realisable value represents the estimated selling price for inventories less all estimated costs of completion and costs necessary to make the sale.

### **Financial instruments**

Financial assets and financial liabilities are recognised when the Group becomes a party to the contractual provisions of the instrument.

Financial assets and financial liabilities are initially measured at fair value. Transaction costs that are directly attributable to the acquisition or issue of financial assets and financial liabilities (other than financial assets and financial liabilities at fair value through profit or loss) are added to or deducted from the fair value of the financial assets or financial liabilities, as appropriate, on initial recognition. Transaction costs directly attributable to the acquisition of financial assets or financial liabilities at fair value through profit or loss are recognised immediately in profit or loss.

### **Financial assets**

The Group's financial assets are classified into financial assets at fair value through profit or loss ("FVTPL") or loans and receivables. The classification depends on the nature and purpose of the financial assets and is determined at the time of initial recognition.

#### *Effective interest method*

The effective interest method is a method of calculating the amortised cost of a debt instrument and of allocating interest income over the relevant period. The effective interest rate is the rate that exactly discounts estimated future cash receipts (including all fees and points paid or received that form an integral part of the effective interest rate, transaction costs and other premiums or discounts) through the expected life of the debt instrument, or, where appropriate, a shorter period, to the net carrying amount on initial recognition.

Income is recognised on an effective interest basis for debt instruments other than these financial assets classified as at FVTPL, of which interest income is included in net gain or losses.

#### *Financial assets at fair value through profit or loss*

The Group's financial assets at FVTPL represent derivative financial instruments, that is not designated and effective as a hedging instrument and classified as financial assets held for trading.

Financial assets at FVTPL are measured at fair value, with changes in fair value arising on remeasurement recognised directly in profit or loss in the period in which they arise. The net gain or loss recognised in profit or loss includes any interest earned on the financial assets and is included in the other gains and losses line item in the consolidated statements of profit or loss and other comprehensive income.

# Notes to the Consolidated Financial Statements

For the year ended 31 December 2014

## 4. SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

### Financial assets (Continued)

#### *Loans and receivables*

Loans and receivables are non-derivative financial assets with fixed or determinable payments that are not quoted in an active market. Loans and receivables (including trade and bills receivable, other receivables, bank balances and cash and pledged deposits) are measured at amortised cost using the effective interest method, less any impairment.

#### *Impairment of loans and receivables*

Loans and receivables of the Group are assessed for indicators of impairment at the end of each reporting period. Loans and receivables are considered to be impaired when there is objective evidence that, as a result of one or more events that occurred after the initial recognition of the loans and receivables, the estimated future cash flows of the investment have been affected.

Objective evidence of impairment could include:

- significant financial difficulty of the issuer or counterparty; or
- breach of contract, such as a default or delinquency in interest or principal payments; or
- it becoming probable that the borrower will enter bankruptcy or financial re-organisation.

Trade receivables without objective evidence of impairments individually are assessed for impairment on collective basis.

For loans and receivables carried at amortised cost, the amount of the impairment loss recognised is the difference between the asset's carrying amount and the present value of estimated future cash flows, discounted at the loans and receivables' original effective interest rate.

The carrying amount of loans and receivables is reduced by impairment loss directly for all loans and receivables.

For loans and receivables measured at amortised cost, if, in a subsequent period, the amount of the impairment loss decreases and the decrease can be related objectively to an event occurring after the impairment was recognised, the previously recognised impairment loss is reversed through profit or loss to the extent that the carrying amount of the asset at the date the impairment is reversed does not exceed what the amortised cost would have been had the impairment not been recognised.

#### *Derecognition of financial assets*

The Group derecognises a financial asset only when the contractual rights to the cash flows from the asset expire, or when it transfers the financial asset and substantially all the risks and rewards of ownership of the asset to another entity. If the Group retains substantially all the risks and rewards of ownership of a transferred financial asset, the Group continues to recognise the financial asset and also recognises a collateralised borrowing for the proceeds received.

On derecognition of a financial asset, the difference between the asset's carrying amount and the sum of the consideration received and receivable is recognised in profit or loss.

# Notes to the Consolidated Financial Statements

For the year ended 31 December 2014

## 4. SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

### Financial liabilities and equity instruments

Debt and equity instruments issued by the Group are classified as either financial liabilities or as equity instrument in accordance with the substance of the contractual arrangements and the definitions of a financial liability and an equity instrument.

If a puttable instrument contains a contractual obligation for the issuer to deliver cash or another financial asset to the holder, such instruments are generally classified as financial liabilities.

#### *Equity instruments*

An equity instrument is any contract that evidences a residual interest in the assets of the Group after deducting all of its liabilities. Equity instruments issued by the Company are recognised at the proceeds received, net of direct issue costs.

#### *Financial liabilities*

Financial liabilities (including borrowings, trade payables, puttable notes and other payables) are subsequently measured at amortised cost using the effective interest method.

The effective interest method is a method of calculating the amortised cost of a financial liability and of allocating interest expense over the relevant period. The effective interest rate is the rate that exactly discounts estimated future cash payments (including all fees and points paid or received that form an integral part of the effective interest rate, transaction costs and other premiums or discounts) through the expected life of the financial liability, or, where appropriate, a shorter period, to the net carrying amount on initial recognition.

Interest expense is recognised on an effective interest basis.

#### *Derecognition of financial liabilities*

The Group derecognises financial liabilities when, and only when, the Group's obligations are discharged, cancelled or expired. The difference between the carrying amount of the financial liability derecognised and the consideration paid and payable is recognised in profit or loss.

## 5. KEY SOURCES OF ESTIMATION UNCERTAINTY

In the application of the Group's accounting policies, which are described in note 4, the management of the Group are required to make judgments, estimates and assumptions about the carrying amounts of assets and liabilities that are not readily apparent from other sources. The estimates and associated assumptions are based on historical experience and other factors that are considered to be relevant. Actual results may differ from these estimates.

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

# Notes to the Consolidated Financial Statements

For the year ended 31 December 2014

## 5. KEY SOURCES OF ESTIMATION UNCERTAINTY (CONTINUED)

The following are the key assumptions concerning the future, and other key sources of estimation uncertainty at the end of the reporting period, that have a significant risk of causing a material adjustment to the carrying amounts of assets and liabilities within the next financial year.

### Useful lives and estimated impairment of property, plant and equipment

The Group has estimated the useful lives of the property, plant and equipment to be 5 to 20 years, after taking into account of their estimated residual values, as set out in the principal accounting policies above. Depreciation of items of property, plant and equipment is calculated on the straight-line basis over their expected useful lives. The Group continues to review the useful lives and residual values and will revise the depreciation charges should there be a change in these estimations.

At the end of each reporting period, the Group reviews the carrying amounts of its property, plant and equipment to determine whether there is any indication that those assets have suffered an impairment loss. If any such indication exists, the recoverable amount of the asset is estimated in order to determine the extent of the impairment loss.

Recoverable amount is the higher of fair value less costs of disposal and value in use. In assessing value in use, the estimated future cash flows are discounted to their present value using a pre-tax discount rate that reflects current market assessments of the time value of money and the risks specific to the asset for which the estimates of future cash flows have not been adjusted.

If the recoverable amount of its property, plant and equipment is estimated to be less than its carrying amount, the respective carrying amount is reduced to its recoverable amount. An impairment loss is recognised immediately in profit or loss.

As at 31 December 2014, the carrying amount of property, plant and equipment amounting to HK\$394,686,000 (31 December 2013: HK\$415,515,000).

Further details about the estimated useful lives and the carrying amounts of the property, plant and equipment are set out in note 16 to these consolidated financial statements.

### Estimated impairment of receivables

When there is objective evidence of impairment loss, the Group takes into consideration the estimation of future cash flows. The amount of the impairment loss is measured as the difference between the asset's carrying amount and the present value of estimated future cash flows (excluding future credit losses that have not been incurred) discounted at the financial asset's original effective interest rate (i.e. the effective interest rate computed at initial recognition). Where the actual future cash flows are less than expected, a material impairment loss may arise. Where the actual outcome is different from the original estimate, such differences will impact the carrying amounts of the receivables and the expenses/write-back of the doubtful debts in the period in which such estimate has been changed. As at 31 December 2014, the carrying amount of trade receivables and other receivables amounting to HK\$86,607,000 (31 December 2013: HK\$27,033,000) and HK\$42,124,000 (31 December 2013: HK\$976,000), respectively. Further details are set out in notes 20 and 21 to these consolidated financial statements, respectively.

# Notes to the Consolidated Financial Statements

For the year ended 31 December 2014

## 5. KEY SOURCES OF ESTIMATION UNCERTAINTY (CONTINUED)

### Allowance for obsolete inventories

The management reviews the condition of inventories of the Group and makes allowance for obsolete and slow-moving inventory items. The Group carries out an inventory review on a category-by-category basis at the end of each reporting period and makes allowance for obsolete items.

Net realisable value of inventories is the estimated selling price in the ordinary course of business, less any estimated costs to be incurred to completion and to make the sale. These estimates are based on the current market condition and the historical experience of manufacturing and selling products of similar nature. Management reassesses the estimation at the end of each reporting period. Where the net realisable value is less than expected, a material write down may arise. As at 31 December 2014, the carrying amount of inventories amounting to HK\$80,189,000 (31 December 2013: HK\$52,808,000). Further details are set out in note 19 to these consolidated financial statements.

## 6. REVENUE

Revenue represents revenue arising on sales of particle boards as follows:

	Year ended 31/12/2014 HK\$'000	Year ended 31/12/2013 HK\$'000
Sales of particle boards	396,583	192,328

## 7. SEGMENT INFORMATION

HKFRS 8 Operating Segments requires operating segments to be identified on the basis of internal reports about components of the Group that are regularly reviewed by the executive directors, being the chief operating decision makers ("CODM"), in order to allocate resources to segments and to assess their performance. The CODM reviews the Group's revenue and profit before tax as a whole, which is generated solely from the manufacture and sale of particle board and is determined in accordance with the Group's accounting policies as detailed in note 4, for resources allocation and performance assessment. Therefore no segment information other than entity-wide disclosure is presented.

The Group's operation is located in the PRC and most of the revenue is generated from the PRC and other Asia countries as follows:

	Year ended 31/12/2014 HK\$'000	Year ended 31/12/2013 HK\$'000
Revenue from PRC	375,308	192,328
Revenue from other Asia countries	21,275	—
	396,583	192,328

The Group's non-current assets are located in the PRC by location of assets.

# Notes to the Consolidated Financial Statements

For the year ended 31 December 2014

## 7. SEGMENT INFORMATION (CONTINUED)

Revenue from a customer arising from sales of particle board for the year individually contributing over 10% of the total sales of the Group is as follows:

	Year ended 31/12/2014 HK\$'000	Year ended 31/12/2013 HK\$'000
Customer A	54,492	N/A*

\* The corresponding revenue did not contribute over 10% of the total sales of the Group.

## 8. OTHER INCOME

	Year ended 31/12/2014 HK\$'000	Year ended 31/12/2013 HK\$'000
Value added tax ("VAT") refund	1,940	437
Government grants*	846	6,136
Bank interest income	32	48
	2,818	6,621

\* The amount of HK\$257,000 (2013: HK\$2,877,000) represented financial subsidy for interest expenses incurred by the Group for its bank borrowings. The amount of HK\$589,000 (2013: HK\$3,259,000) have been received to provide immediate financial support to the Group with no unfulfilled conditions related to the subsidy.

## 9. OTHER GAINS AND LOSSES

	Year ended 31/12/2014 HK\$'000	Year ended 31/12/2013 HK\$'000
Gains on fair value changes of derivative financial instruments	—	1,132
Net loss on disposal of property, plant and equipment	—	(56)
Net foreign exchange gains/(losses)	1,603	(1,397)
	1,603	(321)

# Notes to the Consolidated Financial Statements

For the year ended 31 December 2014

## 10. FINANCE COSTS

	Year ended 31/12/2014 HK\$'000	Year ended 31/12/2013 HK\$'000
Interest on bank loans		
– wholly repayable within five years	25,325	9,299
– not wholly repayable within five years	–	848
Interests on puttable notes (note 27)	1,320	–
Interests on redeemable ordinary shares issued to Golden Win	–	492
Less: amounts capitalised in construction in progress	–	(3,643)
	<b>26,645</b>	<b>6,996</b>

The borrowing cost was capitalised based on the terms of the specific bank borrowings.

## 11. DIRECTORS', CHIEF EXECUTIVE'S AND EMPLOYEES' EMOLUMENTS

### Directors

Details of the emoluments paid by the Group to the directors of the Company are as follows:

	For the year ended 31 December 2014			
	Fees	Salaries and	Contribution to	Total
	HK\$'000	other benefits	retirement	HK\$'000
	HK\$'000	HK\$'000	benefit schemes	HK\$'000
Executive director:				
Mr. Wong	–	483	18	501
Ms. Cheung Ngar Kwan	–	240	12	252
Ms. Huang Xiuyan	–	307	6	313
Mr. Liu Jiayong	–	459	6	465
Non-executive director:				
Ong Chor Wei	–	120	–	120
Independent non-executive Directors				
Dr. Xu Jianmin	–	120	–	120
Ms. Qian Xiaoyu	–	120	–	120
Mr. Wong Hei Chiu	–	120	–	120
	–	1,969	42	2,011



# Notes to the Consolidated Financial Statements

For the year ended 31 December 2014

## 11. DIRECTORS', CHIEF EXECUTIVE'S AND EMPLOYEES' EMOLUMENTS (CONTINUED) Directors (Continued)

	For the year ended 31 December 2013			
	Fees	Salaries and	Contribution	Total
	HK\$'000	other benefits	to retirement	HK\$'000
		HK\$'000	benefit	
			schemes	
			HK\$'000	
Executive director:				
Mr. Wong	–	121	–	121
Ms. Cheung Ngar Kwan (appointed on 13 December 2013)	–	–	–	–
Ms. Huang Xiuyan (appointed on 13 December 2013)	–	121	10	131
Mr. Liu Jiayong (appointed on 13 December 2013)	–	207	10	217
Non-executive director:				
Ong Chor Wei	–	–	–	–
Independent non-executive Directors				
Dr. Xu Jianmin (appointed on 13 December 2013)	–	–	–	–
Ms. Qian Xiaoyu (appointed on 13 December 2013)	–	–	–	–
Mr. Wong Hei Chiu (appointed on 13 December 2013)	–	–	–	–
	–	449	20	469

Mr. Wong is also the Chief Executive of the Company and his emoluments disclosed above include those for services rendered by him as the Chief Executive.

### Employees

Of the five individuals with the highest emoluments in the Group, three (2013: one) were directors of the Company for the year ended 31 December 2014, whose emoluments are set out above. The emoluments of the remaining two (2013: four) individuals during the year were as follows:

	Year ended 31/12/2014 HK\$'000	Year ended 31/12/2013 HK\$'000
Salaries and other benefits	610	939
Contribution to retirement benefits schemes	12	20
	622	959

# Notes to the Consolidated Financial Statements

For the year ended 31 December 2014

## 11. DIRECTORS', CHIEF EXECUTIVE'S AND EMPLOYEES' EMOLUMENTS (CONTINUED) Employees (Continued)

Their emoluments were within the band from nil to HK\$1,000,000.

During the years ended 31 December 2013 and 2014, no emoluments were paid by the Group to any of the directors or the five highest paid individuals as an inducement to join or upon joining the Group or as compensation for loss of office.

## 12. INCOME TAX (CREDIT)/EXPENSE

### 12.1 Income tax recognised in profit or loss

	Year ended 31/12/2014 HK\$'000	Year ended 31/12/2013 HK\$'000
Current tax:		
PRC Enterprise Income Tax	–	2,667
Deferred tax:		
Current year	(1,625)	(2,221)
	(1,625)	446

No provision for Hong Kong Profits Tax has been made as the Group's income neither arises in, nor is derived from Hong Kong.

Under the Law of the People's Republic of China on Enterprise Income Tax (the "EIT Law") and Implementation Regulation of the EIT Law, the tax rate of Hongwei Wooden Products (Renhua) Company Limited ("Hongwei (Renhua)") is 25% during the years ended 31 December 2013 and 2014.

Pursuant to the EIT Law and its implementation regulations, where an enterprise utilises the resources as listed in the Catalogue of Resources for Comprehensive Utilisation Entitling Enterprises to Income Tax Preferences (資源綜合利用企業所得稅優惠目錄) as its major raw materials to make products which are not restricted or prohibited by the state and are consistent with the relevant state or industrial standards, only 90% of the income derived therefrom shall be accounted for as taxable income of the enterprise in that year (the "Tax concessions"). During the years ended 31 December 2014 and 2013, Hongwei (Renhua) is entitled to such preferential policy and only 90% of the income of Hongwei (Renhua) from the sale of particle board was regarded as taxable income.

# Notes to the Consolidated Financial Statements

For the year ended 31 December 2014

## 12. INCOME TAX (CREDIT)/EXPENSE (CONTINUED)

### 12.1 Income tax recognised in profit or loss (Continued)

The income tax for the reporting periods can be reconciled to the profit before tax per the consolidated statement of profit or loss and other comprehensive income as follows:

	2014 HK\$'000	2013 HK\$'000
Profit before tax	24,568	8,313
Tax at the statutory tax rate of 25%	6,142	2,078
Lower tax rates for specific districts	464	1,008
Tax effect of expenses not deductible for tax purpose	1,684	2,168
Effect of Tax concessions	(9,915)	(4,808)
Income tax	(1,625)	446
The Group's effective income tax rate	(6.61)%	5.37%

### 12.2 Deferred taxation

For the purpose of consolidated statement of financial position presentation, certain deferred tax assets and liabilities have been offset. The following is the analysis of the deferred tax balances for financial reporting purposes:

	31/12/2014 HK\$'000	31/12/2013 HK\$'000
Deferred tax assets	7,500	5,887
Deferred tax liabilities	(622)	(624)
	6,878	5,263

# Notes to the Consolidated Financial Statements

For the year ended 31 December 2014

## 12. INCOME TAX (CREDIT)/EXPENSE (CONTINUED)

### 12.2 Deferred taxation (Continued)

The following are the major deferred tax balances recognised and movements thereon during the year:

	Payroll payable and accrued expenses HK\$'000	Tax losses HK\$'000	Withholding tax on undistributed profit of PRC subsidiary HK\$'000	Depreciation of property, plant and equipment HK\$'000	Total HK\$'000
At 1 January 2013	1,767	1,756	(605)	–	2,918
Credit (charge) to profit or loss	3,549	(1,784)	–	456	2,221
Effect of foreign currency exchange differences	109	28	(19)	6	124
At 31 December 2013	5,425	–	(624)	462	5,263
Charge to profit or loss	(777)	2,402	–	–	1,625
Effect of foreign currency exchange differences	(22)	11	2	(1)	(10)
At 31 December 2014	4,626	2,413	(622)	461	6,878

Under the EIT Law, starting from 1 January 2008, 10% withholding income tax is imposed on dividends declared in respect of profits earned in year 2008 onwards and distributed to foreign investors from companies established in the PRC. For investors incorporated in Hong Kong, a preferential rate of 5% will be applied where appropriate. Other than the PRC withholding income tax provided as above, no deferred taxation has been provided for the retained profits of HK\$64,059,000 (31 December 2013: HK\$32,407,000) as at 31 December 2014 which were derived from the PRC subsidiary since 1 January 2008, as the Group has set aside such sum for non-distributable purpose and is able to control the timing of the reversal of the temporary differences, and it is probable that the temporary differences will not reverse in the foreseeable future.

# Notes to the Consolidated Financial Statements

For the year ended 31 December 2014

## 13. PROFIT FOR THE YEAR

Profit for the year has been arrived at after charging:

	Year ended 31/12/2014 HK\$'000	Year ended 31/12/2013 HK\$'000
Depreciation of property, plant and equipment	28,059	7,059
<b>Employee benefits expenses (include directors' emoluments)</b>		
Salaries and other benefits	13,797	10,611
Contribution to retirement benefit schemes	2,047	1,749
<b>Total employee benefit expenses</b>	<b>15,844</b>	<b>12,360</b>
Release of prepaid lease payments	473	470
Cost of inventories recognised as an expense	283,789	136,333
Operating lease expenses	164	38
Auditor's remuneration	1,532	853
Listing expenses (included in other expenses)	—	14,059
Donation	1,508	524

## 14. RETIREMENT BENEFITS

In accordance with the rules and regulations of the PRC, the employees of the PRC subsidiary participated in various defined contribution retirement benefit plans operated by the relevant municipal and provincial social insurance management bodies in the mainland of the PRC under which the PRC subsidiary and its employees are required to make monthly contributions to these plans calculated as 18% to 19% of the employees' salaries during the year or in accordance with the requirements of the plans. The contributions payable are charged as an expense as incurred.

The Group has no obligation for the payment of benefits beyond the annual contributions for the government administered programs. The cost of employee benefits charged to the consolidated statement of profit or loss and other comprehensive income during the year ended 31 December 2014 amounted to HK\$2,047,000 (2013: HK\$1,749,000).

# Notes to the Consolidated Financial Statements

For the year ended 31 December 2014

## 15. EARNINGS PER SHARE

The calculation of earnings per share attributable to the owners of the Company is based on the following data:

### Earnings

	Year ended 31/12/2014 HK\$'000	Year ended 31/12/2013 HK\$'000
Profit for the year attributable to owners of the Company for the purpose of basic earnings per share	26,193	7,867

### Number of shares

	Year ended 31/12/2014 '000	Year ended 31/12/2013 '000
Weighted average number of ordinary shares for the purpose of basic earnings per share	707,219	517,718

Note: There was no diluted earnings per share for both years as there has been no potential ordinary shares outstanding during the years presented.

# Notes to the Consolidated Financial Statements

For the year ended 31 December 2014

## 16. PROPERTY, PLANT AND EQUIPMENT

	Buildings HK\$'000	Plant and machinery HK\$'000	Motor vehicles HK\$'000	Furniture and equipment HK\$'000	Construction in progress HK\$'000	Total HK\$'000
<b>Cost</b>						
Balance at 1 January 2013	8,845	45,978	3,267	1,037	18,848	77,975
Additions	63	911	–	251	358,011	359,236
Interest capitalised	–	–	–	–	3,643	3,643
Transfer from construction in progress	92,039	276,849	–	–	(368,888)	–
Disposals/written off	(41)	(104)	–	(186)	–	(331)
Exchange differences	1,642	5,562	102	32	483	7,821
Balance at 31 December 2013	102,548	329,196	3,369	1,134	12,097	448,344
Additions	236	1,176	–	459	6,836	8,707
Transfer from construction in progress	8,059	8,839	–	1,496	(18,394)	–
Exchange differences	(307)	(1,057)	(11)	7	(95)	(1,463)
Balance at 31 December 2014	110,536	338,154	3,358	3,096	444	455,588
<b>Accumulated depreciation and impairment</b>						
Balance at 1 January 2013	(2,225)	(20,079)	(2,503)	(372)	–	(25,179)
Depreciation charge for the year	(906)	(5,924)	(135)	(94)	–	(7,059)
Eliminated on disposals/written off	16	95	–	186	–	297
Exchange differences	(83)	(715)	(80)	(10)	–	(888)
Balance at 31 December 2013	(3,198)	(26,623)	(2,718)	(290)	–	(32,829)
Depreciation charge for the year	(4,933)	(22,361)	(135)	(630)	–	(28,059)
Exchange differences	(11)	(10)	9	(2)	–	(14)
Balance at 31 December 2014	(8,142)	(48,994)	(2,844)	(922)	–	(60,902)
<b>Carrying amount</b>						
Balance at 31 December 2014	102,394	289,160	514	2,174	444	394,686
Balance at 31 December 2013	99,350	302,573	651	844	12,097	415,515

# Notes to the Consolidated Financial Statements

For the year ended 31 December 2014

## 16. PROPERTY, PLANT AND EQUIPMENT (CONTINUED)

Depreciation is calculated on the straight-line basis to write off the cost of each item of property, plant and equipment (other than construction in progress) to its residual value over its estimated useful life, after taking into account the estimated residual value, as follows:

	Useful lives
Buildings	20 years
Plant and machinery	10-15 years
Motor vehicles	5 years
Furniture and equipment	5 years

Buildings with a carrying amount of approximately HK\$61,091,000 (31 December 2013: HK\$64,477,000) have been pledged to secure the bank loans granted to the Group at 31 December 2014. Plant and equipment with a carrying amount of approximately HK\$205,233,000 (31 December 2013: HK\$220,912,000) have been pledged to secure the bank loans granted to the Group at 31 December 2014.

Plant and machinery with a carrying amount of approximately HK\$13,921,000 have been temporarily suspended from production from November 2014. The relevant depreciation charges for the production suspension period amounting to approximately HK\$479,000 (2013: nil) is charged to "Other expenses".

## 17. PREPAYMENTS FOR ACQUISITION OF PROPERTY, PLANT AND EQUIPMENT

The balance represented prepayments for construction related works which are not yet performed by the relevant contractors.

## 18. PREPAID LEASE PAYMENTS

	Year ended 31/12/2014 HK\$'000	Year ended 31/12/2013 HK\$'000
Carrying amount at 1 January	23,173	22,685
Additions during the year	–	251
Released during the year	(473)	(470)
Effect of foreign currency exchange differences	(80)	707
Carrying amount at 31 December	22,620	23,173
Analysed for reporting purpose as:		
Current asset (included in other receivables)	476	476
Non-current assets	22,144	22,697
	22,620	23,173

The Group's leasehold interests in land is situated in the PRC and is held under medium term leases.

Prepaid lease payments with a carrying amount of approximately HK\$19,331,000 (31 December 2013: HK \$19,804,000) have been pledged to secure the bank loans granted to the Group at 31 December 2014.



# Notes to the Consolidated Financial Statements

For the year ended 31 December 2014

## 19. INVENTORIES

	31/12/2014 HK\$'000	31/12/2013 HK\$'000
Raw materials	46,514	29,756
Work in progress	3,513	3,598
Finished goods	30,162	19,454
Total	80,189	52,808

## 20. TRADE AND BILLS RECEIVABLES

	31/12/2014 HK\$'000	31/12/2013 HK\$'000
Trade receivables	86,607	27,033
Bills receivables	31,468	4,502
Allowance for doubtful debts	118,075 —	31,535 —
	118,075	31,535

Trade receivables are non-interest bearing and are generally on 30-90 days' credit terms. The following is an aged analysis of trade receivables presented based on the invoice date.

	31/12/2014 HK\$'000	31/12/2013 HK\$'000
Within three months	36,299	27,033
Over three months but within six months	21,279	—
Over six months but within one year	29,029	—
Total	86,607	27,033

The maturity period of bills receivable are within 6 months from the date the Group received the notes as an extended period to the original credit term. The following is an aged analysis of bills receivables presented based on the maturity date.

	31/12/2014 HK\$'000	31/12/2013 HK\$'000
Within three months	19,429	2,862
Over three months but within six months	12,039	1,640
Total	31,468	4,502

# Notes to the Consolidated Financial Statements

For the year ended 31 December 2014

## 20. TRADE AND BILLS RECEIVABLES (CONTINUED)

Other than the following balances, there are no other customers with balances representing more than 10% of the total balance of trade receivables.

	31/12/2014 HK\$'000	31/12/2013 HK\$'000
A	15,778	10,077
B	14,380	N/A*
C	12,801	N/A*
D	8,666	N/A*
E	N/A*	3,589
F	N/A*	5,614
G	N/A*	3,283
Total	51,625	22,563

\* The corresponding balance did not contribute over 10% of the total trade receivables of the Group.

Before accepting any new customers, the Group uses an internal credit scoring system to assess the potential customer's credit quality and defines credit limits by customer. All the trade receivables that are neither past due nor impaired have the best credit scoring attributable under the internal credit scoring system used by the Group.

Trade receivables include amounts (see below for ageing analysis) that are past due at the end of each reporting period for which the Group has not recognised an allowance for doubtful debts because there has not been a significant change in credit quality and the amounts are still considered recoverable. The Group does not hold any collateral or other credit enhancements over these balances nor does it have a legal right of offset against any amounts owed by the Group to the counterparty.

### Ageing of trade receivables which are past due but not impaired

	31/12/2014 HK\$'000	31/12/2013 HK\$'000
Within 3 months	7,855	1,828
3 months to 1 year	43,555	—
Total	51,410	1,828

# Notes to the Consolidated Financial Statements

For the year ended 31 December 2014

## 20a. TRANSFERS OF FINANCIAL ASSETS

	Bills receivable discounted to banks with full recourse HK\$'000 (note (i))	Bills receivable endorsed to suppliers with full recourse HK\$'000 (note (ii))	Total HK\$'000
<b>As at 31 December 2013</b>			
Carrying amount of transferred assets			
Included in			
– Trade and bills receivable	–	4,502	4,502
Carrying amount of associated liabilities	–	(4,502)	(4,502)
Net position	–	–	–
<b>As at 31 December 2014</b>			
Carrying amount of transferred assets			
Included in			
– Trade and bills receivable	3,169	26,683	29,852
Carrying amount of associated liabilities	(3,169)	(26,683)	(29,852)
Net position	–	–	–

Notes:

- (i) Amounts represented the Group's financial assets that were transferred to banks by discounting those bills receivable on a full recourse basis. As the Group has not transferred the significant risks and rewards relating to these bills receivable, it continues to recognise the full carrying amount of the bills receivable and has recognised the cash received on the transfer as secured bank loans (note 25). These financial assets are carried at amortised cost in the Group's consolidated statement of financial position.
- (ii) Amounts represented the bills receivable that the Group transferred to its suppliers to settle its payables through endorsing the bills receivable to its suppliers. The Group continues to recognise the full carrying amount of these bills receivable and the payables to suppliers, as the Group has not transferred the significant risks and rewards relating to these bills receivable to the suppliers. The Group has exposure in respect of the settlement obligation of these bills receivable under relevant PRC rules and regulations should the issuing financial institutions failed to settle the bills upon maturity. These financial assets are carried at amortised cost in the Group's consolidated statement of financial position.

# Notes to the Consolidated Financial Statements

For the year ended 31 December 2014

## 21. PREPAYMENTS AND OTHER RECEIVABLES

	31/12/2014 HK\$'000	31/12/2013 HK\$'000
VAT recoverable	1,728	27,616
VAT refund	336	444
Payments in advance to suppliers (i)	14,404	3,631
Prepaid lease payments (note 18)	476	476
Tendering deposits (ii)	39,646	—
Others	2,478	5,830
	<b>59,068</b>	<b>37,997</b>

(i) The Group did not hold any collaterals or other credit enhancements over the advance to third parties.

(ii) Being deposits paid for tendering for sales contracts.

## 22. CASH AND BANK BALANCES AND PLEDGED DEPOSITS

Bank balances and pledged deposits carry interest at market rates ranging from 0.35% to 0.50% (31 December 2013: 0.35% to 0.50%) per annum as at 31 December 2014.

As at 31 December 2014, bank deposits in the amount of HK\$3,803,000 (31 December 2013 HK\$5,458,000) were pledged to banks for short-term borrowings.

## 23. TRADE PAYABLES

	Notes	31/12/2014 HK\$'000	31/12/2013 HK\$'000
Trade payables	(i)	37,014	35,754
		<b>37,014</b>	<b>35,754</b>

Notes:

(i) An aged analysis of the trade payables of the Group as at the end of the reporting period, based on the invoice date, is as follows:

	31/12/2014 HK\$'000	31/12/2013 HK\$'000
Within 3 months	29,118	29,382
4 to 6 months	2,171	4,131
7 to 12 months	263	1,154
Over 1 year	5,462	1,087
	<b>37,014</b>	<b>35,754</b>

Trade payables are non-interest bearing and are normally settled on 30-90 days' term.

# Notes to the Consolidated Financial Statements

For the year ended 31 December 2014

## 24. OTHER PAYABLES

	31/12/2014 HK\$'000	31/12/2013 HK\$'000
Payables for acquisition of property, plant and equipment	19,532	44,990
Payroll payable	4,872	4,538
Accrued expenses	14,448	14,660
Listing expense payable	–	11,108
Receipts in advance from customers	5,560	430
Deposit received in advance	–	21,000
Other tax payables	1,182	623
Others	2,854	1,934
	<b>48,448</b>	<b>99,283</b>

## 25. BORROWINGS

	Notes	31/12/2014 HK\$'000	31/12/2013 HK\$'000
Bank loans	(i)(ii)	336,203	294,420
Bank loans obtained in relation to discounted bills receivable	(note 20a (i))	3,169	–
		<b>339,372</b>	<b>294,420</b>
Secured		187,040	192,796
Unsecured		152,332	101,624
		<b>339,372</b>	<b>294,420</b>
Carrying amount repayable			
Repayable within one year		178,427	111,799
More than one year, but not exceeding two years		40,357	36,320
More than two years, but not exceeding five years		120,588	126,500
More than five years		–	19,801
		<b>339,372</b>	<b>294,420</b>
Less: amount included in current liabilities		(178,427)	(111,799)
Non-current portion		<b>160,945</b>	<b>182,621</b>

# Notes to the Consolidated Financial Statements

For the year ended 31 December 2014

## 25. BORROWINGS (CONTINUED)

Notes:

- (i) Other than bank loans with an aggregate carrying amount of HK\$64,505,000 (2013: HK\$87,997,000) which bear fixed interest rate of 6.88% to 8.10% (2013: 6.00% to 6.90%) per annum as at 31 December 2014, other bank loans with an aggregate carrying amount of HK\$271,698,000 (2013: HK\$206,423,000) bear floating interest rates ranging from 6.16% to 8.64% (2013: 6.16% to 6.88%) per annum as at 31 December 2014.
- (ii) As at 31 December 2014, the Group's bank loans are secured/guaranteed by:
  - (a) the pledge of the Group's buildings, plant and equipment with an aggregate carrying amount of HK\$266,324,000 (31 December 2013: HK\$285,389,000) (note 16);
  - (b) the pledge of the Group's prepaid lease payments with an aggregate carrying amount of HK\$19,331,000 (31 December 2013: HK\$19,804,000) (note 18).
  - (c) the pledge of the Group's bank deposits with an aggregate carrying amount of HK\$3,803,000 (31 December 2013: HK\$5,458,000) (note 22).

All borrowings are denominated in RMB.

## 26. DEFERRED INCOME

	31/12/2014 HK\$'000	31/12/2013 HK\$'000
Balance at beginning of the year	661	—
Additions	8,284	652
Credited profit or loss during the year	(257)	—
Exchange differences	(32)	9
Balance at end of the year	8,656	661
Analysed for reporting purpose as:		
Current liabilities	688	44
Non-current liabilities	7,968	617
Balance at end of the year	8,656	661

Deferred income arises as a result of the benefit received from government related to the new production line. The government grants are transferred to profit or loss on a straight line basis over the useful lives of the related assets.

# Notes to the Consolidated Financial Statements

For the year ended 31 December 2014

## 27. PUTTABLE NOTES

	31/12/2014 HK\$'000	31/12/2013 HK\$'000
Puttable notes	23,792	—

On 7 July 2014, the Company issued puttable note of US\$2,000,000 (approximately HK\$15,487,000) due on 7 July 2016 which bear interest at the rate of 12% per annum.

On 6 October 2014, the Company issued puttable note of HK\$8,000,000 due on 6 October 2016 which bear interest at the rate of 12% per annum.

The puttable notes do not require any security and does not carry any rights to convert into the Company's shares, the subscribers are entitled to request the Company to redeem the puttable notes at face value plus accrued interest at any time during the loan period with no conditions.

## 28. SHARE CAPITAL

	Numbers of shares		Share capital	
	31/12/2014 '000	31/12/2013 '000	31/12/2014 HK\$'000	31/12/2013 HK\$'000
<i>Ordinary shares of HK\$1.00 each subdivided to HK\$0.10 each on 24 July 2013</i>				
Authorised				
At beginning of year	2,000,000	53,333	200,000	53,333
Share subdivision (note (i))	—	480,002	—	—
Increase of authorised share capital (note (ii))	—	1,466,665	—	146,667
At end of year (note (iv))	N/A	2,000,000	N/A	200,000
Issued and fully paid				
At beginning of year	533,335	51,333	53,333	51,333
Issue of redeemable ordinary shares to Golden Win	—	2,000	—	2,000
Share subdivision (note (i))	—	480,002	—	—
Issue of new shares (note (iii))	177,780	—	17,778	—
Effect of the new Hong Kong Companies Ordinance (note (iv))	—	—	117,904	—
At end of year	711,115	533,335	189,015	53,333

# Notes to the Consolidated Financial Statements

For the year ended 31 December 2014

## 28. SHARE CAPITAL (CONTINUED)

Notes:

- (i) On 24 July 2013, each share of HK\$1.00 each in the Company's authorised share capital was sub-divided into 10 share of HK\$0.10 each, thereby resulting in the increase in the number of the authorised ordinary shares from 53,333,500 shares of HK\$1.00 each to 533,335,000 shares of HK\$0.10 each and increase of the number of the total issued shares from 53,333,500 shares of HK\$1.00 each to 533,335,000 shares of HK\$0.10 each.
- (ii) On 24 July 2013, the authorised share capital of the Company was increased from HK\$53,333,500 divided into 533,335,000 shares of HK\$0.10 each to HK\$200,000,000 divided into 2,000,000,000 shares of HK\$0.10 each.
- (iii) Upon completion of the placing of shares with professional, institutional and other investors by the Company ("Placing"), a total of 177,780,000 shares were issued and allotted to certain professional, institutional and other investors pursuant to the prospectus of the Company dated 27 December 2013 ("Prospectus").
- (iv) Under the Hong Kong Companies Ordinance (Cap.622), with effect from 3 March 2014, the concept of authorised share capital no longer exists and the Company's shares no longer have a par value. There is no impact on the number of shares in issue or the relative entitlement of any of the shareholders as a result of this transition.

All the shares issued rank pari passu in all respects with other shares in issue.

## 29. SHARE PREMIUM AND RESERVES

### The Company

Information about movements in reserves of the Company includes:

	Share premium HK\$'000	Capital reserve HK\$'000	Other reserve HK\$'000	Foreign currency translation reserve HK\$'000	Accumulated losses HK\$'000	Total HK\$'000
Balance at 31 December 2012	4,875	–	(6,208)	311	(88)	(1,110)
Loss and total comprehensive income for the year	–	–	–	1,886	(11,854)	(9,968)
Issue of redeemable ordinary shares to Golden Win	7,383	–	(9,383)	–	–	(2,000)
Capitalisation of amount due to Mr. Wong	60,000	–	–	–	–	60,000
Removal of Redemption Right of ordinary shares issued to Golden Win and payment of interest by a shareholder on behalf of the Company	–	492	15,591	–	–	16,083
Balance at 31 December 2013	72,258	492	–	2,197	(11,942)	63,005
Loss and total comprehensive income for the year	–	–	–	(1,945)	(5,452)	(7,397)
Issue of new shares	51,556	–	–	–	–	51,556
Professional expenses incurred in connection with the Company's listing	(5,910)	–	–	–	–	(5,910)
Transfer from share premium upon abolition of par value	(117,904)	–	–	–	–	(117,904)
Balance at 31 December 2014	–	492	–	252	(17,394)	(16,650)



# Notes to the Consolidated Financial Statements

For the year ended 31 December 2014

## 30. INVESTMENT IN SUBSIDIARIES AND AMOUNT DUE TO THE SUBSIDIARIES The Company

	31/12/2014 HK\$'000	31/12/2013 HK\$'000
Cost of investment in subsidiaries	243,733	244,552
Amount due to the subsidiaries	(47,936)	(123,773)

The amount due to the subsidiaries are unsecured, interest-free and payable on demand.

Particulars of the subsidiaries are as follows:

Name of subsidiary	Place and date of establishment and operation	Registered capital/Paid in Capital	Percentage of ownership interests directly held by the Company	Principal activities
Hongwei (Renhua)*	PRC	HK\$250,000,000/ HK\$220,500,000	100%	Manufacturing and selling of particle board
Universal Success Enterprise Limited	Hong Kong	HK\$1.00/HK\$1.00	100%	General corporate activity

\* Registered as a wholly-foreign owned enterprise with limited liability under the PRC law.

None of the subsidiaries had issued any debt securities at the end of the year.

## 31. OPERATING LEASE ARRANGEMENTS The Group as lessee

The Group has entered into operating leases on certain plant and equipment.

	Year ended 31/12/2014 HK\$'000	Year ended 31/12/2013 HK\$'000
Minimum lease payments paid under operating leases during the year:		
Property, plant and equipment	164	38

Future minimum lease payments under non-cancellable operating leases are as follows:

	31/12/2014 HK\$'000	31/12/2013 HK\$'000
Within 1 year	82	—
	82	—

Operating lease payments represent rentals payable by the Group for certain of its property, plant and machinery. Leases are negotiated for an average term of 1 year and rentals are fixed over the lease term.

# Notes to the Consolidated Financial Statements

For the year ended 31 December 2014

## 32. COMMITMENTS

### (i) Capital commitments

	31/12/2014 HK\$'000	31/12/2013 HK\$'000
Commitments for the acquisition of property, plant and equipment		
– Contracted for but not provided in these consolidated financial statements	12,121	12,219

### (ii) Letters of credit commitments

Commitment for letters of credit which the Group has issued but is not recognised as liability at the end of each reporting period are as follows:

	31/12/2014 HK\$'000	31/12/2013 HK\$'000
Due within 3 months	–	7,645
	–	7,645

## 33. FINANCIAL INSTRUMENTS

### (i) Capital management

The Group manages its capital to ensure that entity will be able to continue as a going concern while maximizing the return to shareholders through the optimisation of the debt and equity balance. The Group's overall strategy remains unchanged from prior year.

The capital structure of the Group consists of net debt including borrowings, net of cash and cash equivalents, and equity attributable to owners of the Group comprising share capital, accumulated profits and other reserves.

The management of the Group reviews the capital structure on an annual basis. The Group considers the cost of capital and the risks associated with each class of capital, and will balance its overall capital structure through issuance of new shares, the payment of dividends, as well as raising and redemption of bank loans.

# Notes to the Consolidated Financial Statements

For the year ended 31 December 2014

## 33. FINANCIAL INSTRUMENTS (CONTINUED)

### (ii) Categories of financial instruments

	The Group		The Company	
	31/12/2014 HK\$'000	31/12/2013 HK\$'000	31/12/2014 HK\$'000	31/12/2013 HK\$'000
<b>Financial assets</b>				
Loans and receivables				
Trade and bills receivable	118,075	31,535	–	–
Other receivables	42,124	976	4	–
Bank balances and cash	8,531	6,900	956	35
Pledged deposits	3,803	5,458	–	–
	172,533	44,869	960	35
<b>Financial liabilities</b>				
Amortised cost				
Trade payables	37,014	35,754	–	–
Other payables	41,706	62,570	600	8,096
Amounts due to a subsidiary	–	–	47,936	123,773
Borrowings	339,372	294,420	–	–
Puttable notes	23,792	–	23,792	–
	441,884	392,744	72,328	131,869

### (iii) Financial risk management objectives and policies

The Group's financial instruments include trade and bills receivable, other receivables, bank balances and cash, pledged deposits, trade payables, other payables, borrowings and puttable notes. The Company's financial instruments include bank balances and cash, other receivables, other payables and amount due to a subsidiary. Details of these financial instruments are disclosed in respective notes.

The risks associated with these financial instruments include foreign currency risk, interest rate risk, credit risk and liquidity risk. The policies on how to mitigate these risks are set out below. The management manages and monitors these exposures to ensure appropriate measures are implemented on a timely and effective manner.

# Notes to the Consolidated Financial Statements

For the year ended 31 December 2014

## 33. FINANCIAL INSTRUMENTS (CONTINUED)

### (iii) Financial risk management objectives and policies (Continued)

#### Foreign currency risk management

As at 31 December 2014 and 2013, certain of the Group's bank balances were denominated in HK\$ and insignificant amount of the Group's bank balances were denominated in Euro. The Group manages its foreign currency risk by closely monitoring the movement of the foreign currency rate. As at 31 December 2014, there were puttable notes denominated in US\$ and HK\$ with an interest of 12%. Other than as described above, the Group has no significant exposure to foreign currency risk as it carries out its sales and purchases mainly in RMB.

The sensitivity analysis below includes only outstanding foreign currency bank balances and puttable notes and adjusts for translation at the end of the year, with all other variables held constant.

The carrying amounts of the Group's foreign currency denominated monetary assets and monetary liabilities at the end of each reporting period are as follows:

	31/12/2014 HK\$'000	31/12/2013 HK\$'000
Assets		
Bank balances and cash	1,051	1,051
Liabilities		
Puttable notes	(23,792)	—

The following table illustrates the sensitivity of the Group's profit after tax to reasonably possible changes in RMB against HK\$ and US\$ exchange rates. 5% (2013: 5%) is the sensitivity rate used when reporting foreign currency risk internally to key management personnel and represents management's assessment of the reasonably possible change in foreign exchange rates. The management assess the foreign currency risk arising from US\$ and HK\$ collectively because the exchange rate between US\$ and HK\$ is pegged.

	The Group Increase/ (decrease) in rate %	(Decrease)/ increase in profit for the year HK\$'000
2014		
If RMB strengthens against HK\$ and US\$	5	954
If RMB weakens against HK\$ and US\$	5	(954)
2013		
If RMB strengthens against HK\$	5	(39)
If RMB weakens against HK\$	5	39

In the opinion of the management, the sensitivity analysis is unrepresentative of the inherent foreign exchange risk as at year end exposure does not reflect the exposure during the year.

The Company has no material foreign currency risk exposure.

# Notes to the Consolidated Financial Statements

For the year ended 31 December 2014

## 33. FINANCIAL INSTRUMENTS (CONTINUED)

### (iii) Financial risk management objectives and policies (Continued)

#### Interest rate risk management

The Group's fair value interest risk relates primarily to bank loans at fixed rates and bank loans obtained in relation to discounted bills receivable and puttable notes carried fixed interest rates. Other than that, the Group's cash flow interest rate risk is mainly concentrated on the fluctuation of interest rate published by the People's Bank of China ("PBOC") arising from the Group's bank balances, pledged deposits and RMB denominated bank loans carried floating interest rates. It is the Group's policy to keep majority of its borrowings at floating interest rate.

The Group's exposures to interest rates on financial liabilities are detailed in the liquidity risk management section of this note.

The management of the Group considers the fluctuation in interest rates of bank balances and pledged deposits is insignificant. Therefore, no sensitivity analysis on interest rates for bank balances and pledged deposits is presented.

The sensitivity analysis below has been determined based on the exposure to bank loans carried at floating interest rates at the end of each reporting period. 0.5% increase or decrease in interest rate is used when reporting interest rate risk internally to key management personnel and represents management's assessment of the reasonably possible change in interest rates.

If interest rates had been 0.5% higher/lower and all other variables were held constant, the Group's post-tax profit for the year would decrease/increase by approximately HK\$1,019,000 (2013: HK\$72,000), after considering the effect of capitalisation of borrowing costs for 2013.

The Company has no material interest rate risk.

#### Credit risk management

The Group's and the Company's maximum exposure to credit risk which will cause a financial loss to the Group due to failure to discharge an obligation by the counterparties is arising from the carrying amounts of the respective recognised financial assets as stated in the consolidated statement of financial position and the Company's statement of financial position.

In order to minimise the credit risk, the management of the Group has designated a team responsible for determination of credit limits, credit approvals and other monitoring procedures to ensure that follow-up action is taken to recover overdue debts. In addition, the Group reviews the recoverable amount of each individual trade receivables, other receivables and amounts due from related parties at the end of each reporting period to ensure that adequate impairment losses are made for irrecoverable amounts. In this regard, the management of the Group considers that the Group's credit risk is significantly reduced.

The Group monitors the exposure to credit risk on an ongoing basis and credit evaluations are performed on customers requiring credit over a certain amount. Therefore, the Group's exposure to bad debts is considered not significant. Other than concentration of credit risk on trade receivables due from the Group's major customers (note 20), the Group does not have any other significant concentration of credit risk. The credit risk on bank balances and pledged deposits is low as these balances are placed with reputable state-owned banks in the PRC. The Group has concentration of credit risk in respect of bank balances and pledged deposits. Approximately 95% of the bank balances and pledged deposits as at 31 December 2014 (2013: 95%) were deposited at two major banks.

# Notes to the Consolidated Financial Statements

For the year ended 31 December 2014

## 33. FINANCIAL INSTRUMENTS (CONTINUED)

### (iii) Financial risk management objectives and policies (Continued)

#### Liquidity risk management

Ultimate responsibility for liquidity risk management rests with the board of directors, which has established an appropriate liquidity risk management framework for the management of the short-term and long-term funding and liquidity management requirements. The Group and the Company manages liquidity risk by maintaining adequate reserves and banking facilities, by continuously monitoring forecast and actual cash flows. As at 31 December 2014, unutilised banking facilities of RMB20,580,000 (equivalent to approximately HK\$26,088,000) in aggregate are available. Subsequent to the end of the reporting period, banking facility of HK\$11,789,000 from a bank expired in January 2015, and a new short-term borrowing amounting to RMB8,500,000 (equivalent to approximately HK\$10,775,000) was raised from the bank in March 2015.

In order to mitigate the liquidity risk, the management regularly monitors the cash flows of the Group through monitoring the operating cash flows and utilisation of bank loans in order to meet its liquidity requirement in the short and long term.

The Company relies on financing provided by its subsidiary for liquidity management purpose.

The following tables set out the Group's and the Company's remaining contractual maturity for its non-derivative financial liabilities with agreed repayment periods. The tables have been drawn up based on the undiscounted cash flows of financial liabilities based on the earliest date on which the Group or the Company is required to pay. The tables include both interest and principal cash flows. To the extent that interest flows are floating rate, the undiscounted amount is derived from interest rate at the end of the year.

#### The Group

	Weighted average interest rate %	On demand or less than 6 months HK\$'000	Over 6 months but not more than 1 year HK\$'000	Over 1 year but not more than 5 years HK\$'000	Over 5 years HK\$'000	Total undiscounted cash flows HK\$'000	Carrying amounts HK\$'000
<b>31 December 2014</b>							
Non-derivative financial liabilities							
Trade payables		37,014	–	–	–	37,014	37,014
Other payables		41,706	–	–	–	41,706	41,706
Borrowings							
– at floating rate	6.16-8.64	45,278	78,231	173,774	–	297,283	271,698
– at fixed rate	6.88-9.36	52,805	13,554	3,371	–	69,730	67,674
Puttable notes	12.00	23,792	–	–	–	23,792	23,792
		200,595	91,785	177,145	–	469,525	441,884
<b>31 December 2013</b>							
Non-derivative financial liabilities							
Trade payables		35,754	–	–	–	35,754	35,754
Other payables		62,570	–	–	–	62,570	62,570
Borrowings							
– at floating rate	6.16-6.88	45,564	24,250	159,959	12,001	241,774	206,423
– at fixed rate	6-6.90	42,689	14,112	32,298	8,053	97,152	87,997
		186,577	38,362	192,257	20,054	437,250	392,744

# Notes to the Consolidated Financial Statements

For the year ended 31 December 2014

## 33. FINANCIAL INSTRUMENTS (CONTINUED)

### (iii) Financial risk management objectives and policies (Continued)

#### Liquidity risk management (Continued)

##### The Company

	Weighted average interest rate %	On demand or less than 6 months HK\$'000	Over 6 months but not more than 1 year HK\$'000	Over 1 year but not more than 2 years HK\$'000	Total undiscounted cash flows HK\$'000	Carrying amounts HK\$'000
<b>31 December 2014</b>						
Non-derivative financial liabilities						
Amount due to a subsidiary		47,936	–	–	47,936	47,936
Other payables		600	–	–	600	600
Puttable notes	12.00	23,792	–	–	23,792	23,792
		72,328	–	–	72,328	72,328
<b>31 December 2013</b>						
Non-derivative financial liabilities						
Amount due to a subsidiary	–	123,773	–	–	123,773	123,773
Other payables	–	8,096	–	–	8,096	8,096
		131,869	–	–	131,869	131,869

#### (iv) Fair value of financial instruments

As at 31 December 2013 and 2014, there is no financial instruments of the Group and the Company that is measured at fair value on a recurring basis. The directors of the Company consider that the carrying amounts of financial assets and financial liabilities carried at amortised cost in these consolidated financial statements approximate their fair values.

## 34. RELATED PARTY TRANSACTIONS

Details of transactions between the Group and its related parties are disclosed below.

#### Transactions

During the year, the Group entered into the following transactions with related parties:

		<b>Purchases of machinery</b>	
		<b>Year ended 31/12/2014 HK\$'000</b>	<b>Year ended 31/12/2013 HK\$'000</b>
Hongwei Wood (Hubei) Company Limited	(iii)	–	338

Purchases of machinery from Hongwei Wood (Hubei) Company Limited were made at price agreed by both parties.

# Notes to the Consolidated Financial Statements

For the year ended 31 December 2014

## 34. RELATED PARTY TRANSACTIONS (CONTINUED)

### Advance/repayment to related parties

	Notes	Year ended 31/12/2014 HK\$'000	Year ended 31/12/2013 HK\$'000
Hong Kong Hung Wai Partnership ("HK Hung Wai Partnership")	(iii)	25,686	28,234
Mr. Wong		8,823	4,764
Shaoguan Hongwei Forestry Company Limited	(i)	2,511	98,792
清流天賜營林有限公司	(ii)	—	63,165
Hongwei Wood (Hubei) Company Limited	(iii)	—	338
		<b>37,020</b>	<b>195,293</b>

### Advance/repayment from related parties

	Notes	Year ended 31/12/2014 HK\$'000	Year ended 31/12/2013 HK\$'000
Hong Kong Hung Wai Partnership	(iii)	25,686	28,234
Mr. Wong		8,823	65,304
Shaoguan Hongwei Forestry Company Limited	(i)	2,511	145,180
清流天賜營林有限公司	(ii)	—	63,165
		<b>37,020</b>	<b>273,649</b>



# Notes to the Consolidated Financial Statements

For the year ended 31 December 2014

## 34. RELATED PARTY TRANSACTIONS (CONTINUED)

Notes:

- (i) The related company is controlled by Mr. Wong Kin Ching, son of Mr. Wong and Ms. Cheung Ngar Kwan ("Mrs. Wong"). Mrs. Wong is the spouse of Mr. Wong, under the Securities of Futures Ordinance of Hong Kong ("SFO"), Mrs. Wong is deemed to be interested in the same number of shares which Mr. Wong is interested.
- (ii) The related company is controlled by Ms. Liu Yan, a key management personnel of the Group, until it was disposed of to an independent third party on 20 April 2013.
- (iii) The related company was controlled by Mr. Wong and Mrs. Wong. With effect from 26 February 2013, these related companies became controlled by Mrs. Wong and Ms. Wong Wan Yu, daughter of Mr. Wong and Mrs. Wong. From 11 November 2013 onwards, these related companies are controlled by Ms. Wong Wan Yu only, when Mrs. Wong ceased to be a shareholder of these related companies on 11 November 2013.
- (iv) Advance/repayment to/from related parties are interest-free, unsecured and repayable on demand.

### Other transactions

- (i) On 10 September 2013, Mr. Wong consented to capitalise the amount due to him amounting to HK\$60 million, in consideration for the Company to issue and allot to Mr. Wong a total of 100 shares of HK\$0.10 each.
- (ii) On 6 December 2013, the Company received deposits from customers on behalf of Hongwei (Renhua) amounted to HK\$21 million.
- (iii) During the year ended 31 December 2013, the Group has entered into several debt transfer agreements with certain related parties. Please refer to note 35(i) to (vii) for detail disclosures. No such agreements were entered into during the year ended 31 December 2014.

### Compensation of key management personnel

The remuneration of directors and other members of key management personnel during the year was as follows:

	Year ended 31/12/2014 HK\$'000	Year ended 31/12/2013 HK\$'000
Short-term benefits	1,700	1,478
Retirement benefits	44	31
	1,744	1,509

# Notes to the Consolidated Financial Statements

*For the year ended 31 December 2014*

## 35. MAJOR NON-CASH TRANSACTIONS

- (i) Pursuant to a debt transfer agreement entered into among Hongwei (Renhua), Shaoguan Hongwei Forestry Company Limited and Hongwei Wood (Hubei) Company Limited dated 30 June 2013, Hongwei (Renhua) transferred an amount due from Hongwei Wood (Hubei) Company Limited of HK\$322,000 to Shaoguan Hongwei Forestry Company Limited, which resulted in an amount due from Shaoguan Hongwei Forestry Company Limited by Hongwei (Renhua) amounted to HK\$322,000 as at 30 June 2013.
- (ii) Pursuant to a debt transfer agreement entered into among Hongwei (Renhua), Shaoguan Hongwei Forestry Company Limited and Mr. Wong dated 30 June 2013, Hongwei (Renhua) transferred an amount due to Shaoguan Hongwei Forestry Company Limited of HK\$54,494,000 to Mr. Wong, which resulted in an amount due to Mr. Wong by Hongwei (Renhua) amounted to HK\$54,494,000 as at 30 June 2013.
- (iii) Pursuant to a debt transfer agreement entered into among Hongwei (Renhua), HK Hung Wai Partnership and Mr. Wong dated 30 June 2013, Hongwei (Renhua) transferred an amount due from HK Hung Wai Partnership of HK\$28,119,000 to Mr. Wong, which resulted in an amount due from Mr. Wong by Hongwei (Renhua) amounted to HK\$28,119,000 as at 30 June 2013.
- (iv) Pursuant to a debt transfer agreement entered into among the Company, Hongwei (Renhua) and Mr. Wong dated 30 June 2013, Hongwei (Renhua) transferred an amount due to Mr. Wong of HK\$26,374,000 to the Company, which resulted in an amount due to the Company by Hongwei (Renhua) amounted to HK\$26,374,000 as at 30 June 2013.
- (v) Pursuant to a debt transfer agreement entered into among Hongwei (Renhua), Shaoguan Hongwei Forestry Company Limited and Hongwei Wood (Hubei) Company Limited dated 30 November 2013, Hongwei Wood (Hubei) Company Limited transferred an amount due from Hongwei (Renhua) of HK\$326,000 to Shaoguan Hongwei Forestry Company Limited, which resulted in an amount due to Shaoguan Hongwei Forestry Company Limited by Hongwei (Renhua) amounted to HK\$326,000 as at 30 November 2013.
- (vi) Pursuant to a debt transfer agreement entered into among Hongwei (Renhua), Mr. Wong and Shaoguan Hongwei Forestry Company Limited dated 30 November 2013, Hongwei (Renhua) transferred an amount due from Shaoguan Hongwei Forestry Company Limited of HK\$8,132,000 to Mr. Wong, which resulted in an amount due from Mr. Wong by Hongwei (Renhua) amounted to HK\$8,132,000 as at 30 November 2013.
- (vii) Pursuant to a debt transfer agreement entered into among the Company, Mr. Wong and Hongwei (Renhua) dated 30 November 2013, Hongwei (Renhua) transferred an amount due from Mr. Wong of HK\$8,132,000 to the Company, which resulted in an amount due to Hongwei (Renhua) by the Company amounted to HK\$8,132,000 as at 30 November 2013.

# Financial Summary

## RESULTS

	Year ended 31 December		
	2014 HK\$'000	2013 HK\$'000	2012 HK\$'000
Turnover	396,583	192,238	162,983
Profit before tax	24,568	8,313	19,665
Income tax credit/(expense)	1,625	(446)	(1,681)
Profit for the year	26,193	7,867	17,984

	As at 31 December		
	2014 HK\$'000	2013 HK\$'000	2012 HK\$'000
<b>ASSETS AND LIABILITIES</b>			
Current assets	269,666	134,698	89,702
Non-current assets	445,753	465,936	106,877
Total assets	715,419	600,634	196,579
Current liabilities	291,067	249,587	83,602
Non-current liabilities	169,535	183,862	32,712
Net assets	254,817	167,185	80,265
<b>EQUITY</b>			
Equity attributable to owners of the Company	254,817	167,185	80,265

The results and summary of assets and liabilities for the years ended 31 December 2012 which were extracted from the Prospectus have been prepared on a combined basis to indicate the results of the Group as if the group structure, at the time when the Company's shares were listed on the GEM of the Stock Exchange, had been in existence throughout those years.