



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
2018

CHARACTERISTICS OF THE GEM OF THE STOCK EXCHANGE OF HONG KONG LIMITED (THE “STOCK EXCHANGE”)

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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 of the Stock Exchange 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 GEM of The Stock Exchange (the “**GEM Listing Rules**”) for the purpose of giving information with regard to the Company. The Directors, having made all reasonable enquires, confirm that, to the best of their knowledge and belief the information contained in this report is accurate and complete in all material aspects and not misleading or deceptive and there are no other matters the omission of which would make any statement herein or this report misleading.*

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REGISTERED OFFICE

Unit 504, 5/F., Tower 2,
Admiralty Centre,
No. 18 Harcourt Road,
Admiralty, Hong Kong

HEAD OFFICE IN HONG KONG

Unit 504, 5/F., Tower 2,
Admiralty Centre,
No. 18 Harcourt Road,
Admiralty, Hong Kong

**PRINCIPAL PLACE OF BUSINESS IN THE
PEOPLE'S REPUBLIC OF CHINA* ("PRC")**

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

COMPANY'S WEBSITE ADDRESS

www.hongweiasia.com

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

INDEPENDENT NON-EXECUTIVE DIRECTORS

Dr. Xu Jianmin
Ms. Qian Xiaoyu
Dr. Chow Ho Wan, Owen

COMPLIANCE OFFICER

Ms. Huang Xiuyan

AUDIT COMMITTEE

Dr. Chow Ho Wan, Owen (*chairman*)
Dr. Xu Jianmin
Ms. Qian Xiaoyu

REMUNERATION COMMITTEE

Dr. Xu Jianmin (*chairman*)
Mr. Wong Cheung Lok
Dr. Chow Ho Wan, Owen

NOMINATION COMMITTEE

Mr. Wong Cheung Lok (*chairman*)
Dr. Xu Jianmin
Dr. Chow Ho Wan, Owen

COMPANY SECRETARY

Miss Tang Yuen Ching Irene *HKICPA FCCA*

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

Graham H. Y. Chan & Co.
Certified Public Accountants (Practising)

LEGAL ADVISERS TO THE COMPANY

as to Hong Kong law:
Reed Smith Richards Butler

GEM STOCK CODE

8191

BIOGRAPHICAL DETAILS OF DIRECTORS AND SENIOR MANAGEMENT

EXECUTIVE DIRECTORS

Mr. Wong Cheung Lok

Mr. Wong Cheung Lok ("**Mr. Wong**") of the Board, aged 57, is the chairman of the Board, chief executive officer of the Group and an executive Director. Mr. Wong is also the chairman of the nomination committee and a member of the remuneration committee of the Board of the Company. Mr. Wong founded our Group with Ms. Cheung Ngar Kwan ("**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 25 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 main 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 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 Ngar Kwan

Ms. Cheung Ngar Kwan, aged 55, 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 18 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 (常委) of the Chinese People's Political Consultative Conference of Fujian Zhangzhou (福建省漳州市政協委員), a committee member of the women's commission of Hong Kong Federation of Fujian Association Limited, a standing director of HK Federation of Fujian Associations. Mrs. Wong is the spouse of Mr. Wong, an executive Director and the chairman of the Board.

BIOGRAPHICAL DETAILS OF DIRECTORS AND SENIOR MANAGEMENT

Ms. Huang Xiuyan

Ms. Huang Xiuyan ("**Ms. Huang**"), aged 48, is an executive Director and the compliance officer of the Company. 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 24 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

Mr. Liu Jiayong ("**Mr. Liu**"), aged 45, 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 over approximately 24 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.

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.

BIOGRAPHICAL DETAILS OF DIRECTORS AND SENIOR MANAGEMENT

INDEPENDENT NON-EXECUTIVE DIRECTORS

Dr. Xu Jianmin

Dr. Xu Jianmin (“**Dr. Xu**”), aged 54, was appointed as an independent non-executive Director on 13 December 2013. Dr. Xu is also the chairman of the remuneration committee and a member of each of the audit committee and the nomination committee of the Board of the Company. Dr. Xu possesses approximately 32 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

Ms. Qian Xiaoyu ("**Ms. Qian**"), aged 65, was appointed as an independent non-executive Director on 13 December 2013. Ms. Qian is also a member of the audit committee of the Board of the Company. Ms. Qian has accumulated over 29 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) from 1989 to 2014. She is currently a vice chairman of China National Forest Product Industry Association (中國林產工業協會).

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 has been awarded as "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). In February 2014, been awarded with the "Award on Outstanding Contribution of China National Forest Product Industry" (中國林業產業突出貢獻獎) by the State Forestry Administration Bureau (國家林業局) and the National Committee of China Agricultural, Forestry and Water Conservancy Committee (中國農林水利工會全國委員會), and "Honorary Achievement Award in China National Forest Product Industry" (中國林產工業終身榮譽獎) in December of the same year by the China Forest Products Industry Association (中國林產工業協會) and awarded as "Person of 30 Years Meritorious Service in China Wood Industry" (中國木業30年功勳人物) in May 2015 by the China Wood and Wood Products Circulation Association (中國木材與木制品流通協會). In November 2016, Ms. Qian has been elected as executive chairman of "China's Domestic Industry Green Supply Chain Alliance" (中國家居產業綠色供應鏈聯盟).

Dr. Chow Ho Wan, Owen

Dr. Chow Ho Wan, Owen ("**Dr. Chow**"), aged 43, was appointed as an independent non-executive Director on 1 August 2016. Dr. Chow is the chairman of the audit committee and a member of each of the nomination committee and the remuneration committee of the Board of the Company respectively.

Dr. Chow is a director and chief executive officer of Sino Fame International Group Limited. Dr. Chow is currently an independent non-executive director of Wan Leader International Limited, a company listed on GEM of the Stock Exchange (stock code: 8482). He was an independent non-executive director of Greater Bay Area Investments Group Holdings Limited ("Formerly known as "CCT Land Holdings Limited"), a company listed on the main board of the Stock Exchange (stock code: 261), until 30 September 2017. Dr. Chow had also been appointed as an independent non-executive director of Amax International Holdings Limited from 12 September 2012 to 6 March 2013, a company listed on the main board of the Stock Exchange (stock code: 959). He is also the founder and chairman of the Association of International Certified Financial Consultants ("**AICFC**"). Dr. Chow is also the Managing Director of Emerald Capital Limited and Director of Nebpay Limited.

BIOGRAPHICAL DETAILS OF DIRECTORS AND SENIOR MANAGEMENT

Dr. Chow obtained the degree of Bachelor of Commerce from the University of Toronto, Canada in 1999 and subsequently obtained the Master of Science in Finance from the Chinese University of Hong Kong in 2003, the Bachelor of Laws from Tsinghua University in 2006 and the Doctor of Business Administration from European University, Switzerland in 2011. In 2014, Dr. Chow took Postdoctoral Global Leadership Research Program in University of Oxford. Dr. Chow also holds various professional qualifications, including Certified Financial Consultants (CFC), Certified Financial Management Planners (CFMP), Certified Banking Risk Management (CBRM), member of The Institute of Financial Accountants (IFA), Fellow member of Hong Kong Institute of Directors (FHKIoD), CPA Australia (ASCPA), Fellow of The Chartered Management Institute (FCMI), Member of Hong Kong Securities and Investment Institute (MHKSI) and Canadian Securities Institute (CSI). He has over 15 years of experience in the finance and accounting field and used to work in various international banks.

SENIOR MANAGEMENT

Mr. Xiang Jianping

Mr. Xiang Jianping ("**Mr. Xiang**"), aged 37, is the vice general manager of Hongwei (Renhua). Mr. Xiang Kin Ping joined our Group in June 2013 and is primarily responsible for the management of the production and operation department, the quality assurance department and the warehouse management department.

Mr. Xiang has been engaged in the engineering industry for approximately 12 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. Xiang worked for several companies in wood-related activities. He served as the manager of the Process Department and assistant to general manager of Hengshui Bamailong Wood Industry Co., Ltd (衡水巴邁隆木業有限公司) for 3 years. Mr. Xiang has also worked for Fujian Dare Wood Based Panel Co., Ltd. (大亞木業(福建)有限公司) for 4 years. Mr. Xiang previously served Dareglobal Group as sales manager for wood-based panels (particleboards and fiberboards) in the Zhejiang sales region for 1 year. Mr. Xiang had been involved in building, implementing and managing of large-scale particleboard production lines imported from overseas.

Mr. Xiang obtained his bachelor's degree of wood science and engineering in Central South University of Forestry and Technology (中南林業科技大學) in the PRC in 2005.

BIOGRAPHICAL DETAILS OF DIRECTORS AND SENIOR MANAGEMENT

Mr. Lin Shenghua

Mr. Lin Shenghua ("**Mr. Lin**"), aged 47, 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 10 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. Tang Yuen Ching Irene ("**Ms. Tang**"), aged 49, was appointed as the company secretary of the Company pursuant to the Rule 11.07(2) of the GEM Listing Rules on 31 October 2016. Ms. Tang is a member of the Hong Kong Institute of Certified Public Accountants and a fellow member of the Association of Chartered Certified Accountants. Ms. Tang currently is also the company secretary of Quali-Smart Holdings Limited, a company listed on the main board of the Stock Exchange (stock code: 1348).

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 2018.

In 2018, the Company continued to be primarily engaged in manufacturing and sales of particleboards. Our 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. Our major revenue drivers include (i) our product competitiveness and the wide range of particleboards products, (ii) the customer relationship and market recognition, and (iii) the advanced production line with scaled production capacity.

2018 was a year filled with more severe challenges as well as uncertainties for global markets as well as the domestic market in China. The Chinese economy continued to face with uncertainties under the pressure of the ongoing trade war with the U.S. and greater fluctuation in the exchange rate of RMB in a weakening direction. The potential negative impact on the export market may further indirectly affect the domestic consumer industry. The domestic demand for consumer products such as household furniture and fixtures, sport equipment as well as construction materials had remained at a weak level whereas our financing costs are expected to increase given the tightening credit policy environment in China. Nevertheless, the Group had gone through another tough year and will further review and modify its business strategies on costs structure and products pricing approach or even assessing the feasibility of diversifying into other relevant market segment in order to improve the businesses performance in the future.

Meanwhile, the Group has intended to continue to devote itself to promoting sustainable development and social responsibility, which are important to the creation of long-term value for the Group's shareholders, employees and other stakeholders.

Finally, I would like to express my gratitude to our shareholders and business partners for their supports throughout the year.

Hong Wei (Asia) Holdings Company
Wong Cheung Lok
Chairman

Hong Kong, 25 March 2019

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 on the Stock Exchange of Hong Kong Limited ("**Stock Exchange**") in 2014 (the "**Listing**"), the Group strives to attain and uphold rigorous standards of corporate governance.

Since the Listing, the Board has adopted the Corporate Governance Code (the "**CG Code**") as set out in Appendix 15 to the GEM Listing Rules. Continuous efforts have 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 that the Company has complied with the code provisions of the CG Code for the year ended 31 December 2018.

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. 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 year ended 31 December 2018.

CORPORATE GOVERNANCE REPORT

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 Chairman of nomination committee, member of remuneration committee
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	Finance and accounting management
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
Dr. Chow Ho Wan, Owen	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 year ended 31 December 2018, the Company has complied with Rules 5.05 (1) and (2), 5.05A and 5.06, of the GEM Listing Rules which prescribed that at least one of the independent non-executive directors must have appropriate professional qualifications or accounting or related financial management expertise and an issuer must appoint at least three independent non-executive directors and the number of independent non-executive directors must represent at least one-third of the board. The number of independent non-executive Directors of the Company remained at three throughout 2018.

During the year ended 31 December 2018, a total of 4 regular Board meetings was held. The attendance record of each Director at the regular Board meetings, board committees meetings and general meeting held during the year ended 31 December 2018 is set out in the table below:

Name of Directors	Board meeting	Meetings attended/held			General meeting
		Audit committee meeting	Nomination committee meeting	Remuneration committee meeting	
Mr. Wong Cheung Lok	4/4	N/A	1/1	1/1	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. Lai Ming Wai (resigned on 11 May 2018)	1/1	N/A	N/A	N/A	N/A
Dr. Xu Jianmin	4/4	4/4	1/1	1/1	1/1
Ms. Qian Xiaoyu	4/4	4/4	N/A	N/A	1/1
Dr. Chow Ho Wan, Owen	4/4	4/4	1/1	1/1	1/1

REMUNERATION AND BENEFITS FOR DIRECTORS AND SENIOR MANAGEMENT

Remuneration of directors and senior management of the Group for the year ended 31 December 2018 is within the band of Nil to HK\$1,000,000.

Details of the remuneration of the Directors for the year ended 31 December 2018 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 role as the chairman and chief executive officer is beneficial to the business prospects of the Company.

CORPORATE GOVERNANCE REPORT

APPOINTMENT AND RE-ELECTION OF DIRECTORS

The term of office of each of the Non-executive Directors (including Independent Non-executive Directors) is set out in the sub-section headed "Directors' Service Contracts" in the Report of the 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 Director 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.

BOARD DIVERSITY POLICY

The Board Diversity Policy was adopted by the Board on 24 March 2014. Under such policy, Board appointments will continue to be made on a merit basis and candidates will be considered against objective criteria, with due regard for the benefits of diversity on the Board. A diversity of perspectives shall be achieved through consideration of a number of factors, including but not limited to gender, age, cultural and educational background and professional experience. In forming its perspective on diversity, the Company will also take into consideration factors based on its own business and specific needs from time to time. The Board believes that such merit-based appointments will enable the Company to serve its customers, employees, Shareholders and other stakeholders well.

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 Company Secretary. During the year ended 31 December 2018, all Board members have received a directors training hosted by the legal advisor to our Company on, among other things, updates on the GEM Listing Rules and enforcement decisions.

CORPORATE GOVERNANCE REPORT

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 (i) 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; (ii) developing, reviewing and monitoring the code of conduct and compliance manual applicable to employees and Directors; and (iii) reviewing the Company's compliance with the CG Code and disclosure in this corporate governance report.

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 Dr. Chow Ho Wan, Owen, Dr. Xu Jianmin and Ms. Qian Xiaoyu, and its primary duties include reviewing and supervising the Company's financial reporting process, internal controls systems as well as risk management of the Group, and the quarterly, interim and annual results, and providing advice to the Board. Dr. Chow Ho Wan, Owen 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 and its roles and functions are available at the Company's website and on the website of the Stock Exchange.

During the year ended 31 December 2018, the Company has complied with 5.28 of the GEM Listing Rules for which prescribed that a listed issuer's audit committee must comprise a minimum of 3 members, at least one of whom is an independent non-executive director with appropriate professional qualifications or accounting or related financial management expertise.

CORPORATE GOVERNANCE REPORT

During the year ended 31 December 2018, a total of four regular Audit Committee meetings were held to, inter alia, review the Group's financial results for the year ended 31 December 2017 and the three months ended 31 March 2018, the six months ended 30 June 2018 and the nine months ended 30 September 2018, respectively, before submission to the Board for approval. Besides, the Audit Committee also approved and recommended the engagement of Graham H. Y. Chan & Co., the auditor of the Company (the "Auditor") to perform interim review services; reviewed the independence of the Auditor; approved the Auditor's remuneration and other terms of engagement for the year ended 31 December 2018; reviewed and adopted the scope of statutory audit for the year ended 31 December 2018; and reviewed the Group's internal control, financial controls and risk management systems.

REMUNERATION COMMITTEE

The remuneration committee of the Company (the "**Remuneration Committee**") consists of 2 Independent Non-executive Directors namely Dr. Xu Jianmin and Dr. Chow Ho Wan, Owen, and an executive Director, 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.

During the year ended 31 December 2018, the Company complied with Rule 5.34 of the GEM Listing Rules which prescribed that a listed issuer's remuneration committee must comprise a majority of independent non-executive directors.

During the year ended 31 December 2018, one Remuneration Committee meeting was held, to, inter alia, review the remuneration policies of the Directors and Senior Management and the general staff; and recommended to the Board on relevant matters relating to the re-election of Directors as well as the terms of renewal of appointment of an independent non-executive Director.

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 year ended 31 December 2018 are set out in note 11 to the consolidated 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 Dr. Chow Ho Wan, Owen, and an executive Director, Mr. Wong Cheung Lok. Its primary function is (inter alia) to review and make recommendations on the appointment or re-appointment of directors. 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.

During the year ended 31 December 2018, the Company complied with paragraph A.5.1 of Appendix 15 of the GEM Listing Rules which prescribed that a listed issuer's nomination committee must comprise a majority of independent non-executive directors.

CORPORATE GOVERNANCE REPORT

During the year ended 31 December 2018, one Nomination Committee meeting was held to, inter alia, assess the independence of the independent non-executive Directors and review the re-election of Directors at the forthcoming annual general meeting and the re-appointment of independent non-executive Directors during the year.

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 of the Board. The Board Diversity Policy will facilitate the Board to 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 Board Diversity Policy will be reviewed by the Nomination Committee, as appropriate, to ensure its effectiveness to cope with needs of the Company’s business development from time to time.

NOMINATION POLICY

The Company adopted a nomination policy concerning the selection criteria and procedures in respect of the appointment and reappointment of Directors. The factors that would be used as reference by the Nomination Committee in assessing the suitability of a proposed candidate include:

- a) mix of Board members that promotes diversity of background and experience on the Board;
- b) competency;
- c) age of potential/existing Director;
- d) independence of potential/existing Board member;
- e) business, technical, or specialised skills and experience of member/potential member;
- f) ability, time, commitment and willingness of a new member to serve and an existing member to continue service;
- g) specific value a member/potential member can add to the Board;

Nomination Procedure and Process

The Nomination Policy includes the following procedure and process in respect of the nomination of Directors:

1. The Nomination Committee shall identify and upon receipt an appointment proposal, evaluate individual(s) suitably qualified to become Board member(s), having due regard to the Nomination Policy and the Board Diversity Policy, and assess the independence of the proposed independent non-executive director(s) as appropriate. The Nomination Committee shall then make recommendations to the Board.
2. The Board may confirm the appointment of the individual(s) as director(s) or recommend the individual(s) to stand for election at a general meeting. Individual(s) appointed by the Board to fill a casual vacancy or as an addition to the Board shall be subject to re-election by the shareholders of the Company at the next general meeting after initial appointment in accordance with the Company’s articles of association.
3. The Nomination Committee shall review the overall contribution and service to the Company of each retiring director, having regard to the Nomination Policy and the Board Diversity Policy, and assess the independence of each retiring independent non-executive director. The Nomination Committee shall then make recommendations to the Board.
4. The Board may recommend the retiring director(s) to stand for re-elections at the annual general meeting in according with the Company’s articles of association.

CORPORATE GOVERNANCE REPORT

ACCOUNTABILITY AND AUDIT

Financial Reporting

The management provides information 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 consolidated financial statements of the Group that give a true and fair view of the financial position 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 consolidated 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.

Risk management and internal control

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. The Board conducted review from time to time during the year to monitor the effectiveness of 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.

The Group has established internal control systems to identify, evaluate and manage significant risks. The board of directors oversees the company's risk management and internal control systems on an ongoing basis and acknowledges that such systems are designed to manage rather than eliminate the risk of failure to achieve business objectives, and can only provide reasonable and not absolute assurance against material misstatement or loss.

The main features of the risk management and internal control systems

Bottom up from the operational level, each functional units of the Group performs risk identification, assessment and mitigation across the business. The management implements, monitors and reviews the risk management and internal control systems of the Group.

The Board has overall responsibility for the risk management and internal control systems and for reviewing their effectiveness by regular discussion with management and the internal auditor and external auditor during the year. Controls of different function will be reviewed on rotational basis in order to ensure regular review and follow up are in place. And the Board conducted ongoing review during the year to monitor the effectiveness of 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 Group's accounting and financial reporting function. Internal auditor met with the management to report on their review of controls of selected function annually.

The Audit Committee, acting on behalf of the Board, oversees the following process: (i) regular reviews of the principal business risks, and control measures to mitigate, reduce or transfer such risks (ii) regular reviews of the business process and operations reported by internal auditor, (iii) regular reports by the external auditor of any control issues identified in the course of their work and discussion with the external auditor of the scope of their respective review and findings.

CORPORATE GOVERNANCE REPORT

The Audit Committee will then report to the Board after due review of the effectiveness of the Group's risk management and internal control systems. The Board then considers the work and findings of the Audit Committee in forming its own view on the effectiveness of the systems.

Internal audit

Internal audit is conducted annually by Henry Tsui & Co. which carries out analysis and independent appraisal of the adequacy and effectiveness of the Group's risk management and internal control system, which can provide an assessment of whether the procedures, systems and controls (including accounting and management systems) of the Group are adequate. Senior management and Audit Committee will review the findings and deficiencies in the internal audit report to improve the Group internal control. Internal auditor will then conduct a follow-up review to assess whether the recommendations in the report have been adopted or whether the Group has adopted any approaches and measures to remedy the deficiencies identified (if any). The internal audit function provides independent assurance as to the effectiveness of the risk management systems and controls.

During 2018, ongoing review of the effectiveness of the risk management and internal control systems was conducted by the Board and the Directors considered that the risk management and internal control systems of the Group are effective and adequate.

Code of Conduct and Handling of Inside Information

The Group places strong emphasis on the ethical and professional standards of the directors and employees of the Group.

Internal control manual and employee handbook have been established to prevent fraud and separate duties between employees within the Group. Every employee is required to comply with internal control manual and employee handbook and is expected to achieve the highest standards of behaviour including avoiding conflict of interest, fraud and corruption.

The Group sets out guidelines to the Directors to ensure inside information of the Group is to be disseminated to the public in equal and timely manner. Briefing session is held for officers to facilitate their understanding and compliance with the policy.

Directors and employees who possess unpublished inside information is required that any documents or other written material in his/her possession in relation to that information are properly and securely stored and are not disclosed to any unauthorised persons.

Internal control manual set out a strict prohibition on the unauthorised use of inside information.

The Group has established a platform to encourage reporting of corruption and fraud. The relevant reporting procedures are set out in the employee handbook. The board of directors review the effectiveness of internal control manual annually.

Based on information furnished to it and on its own observations, the Board is satisfied with the present internal controls of the Group for the year ended 31 December 2018 and as of the date of this annual report.

CORPORATE GOVERNANCE REPORT

AUDITORS' REMUNERATION

During the year ended 31 December 2018, the fees paid to the Company's then auditors are set out as follows:

Services rendered	Fees paid/payable (HK\$'000)
Annual audit services	1,380
Non-audit services*	200

* Non-audit services mainly include fees paid for the interim review.

COMPANY SECRETARY

All Directors have access to the advice and services of the Company Secretary. The Company Secretary reports to the Chairman on board governance matters, and is responsible for ensuring that Board and Board committees procedures are followed, and for facilitating communications among Directors, senior management as well as with Shareholders. During the year ended 31 December 2018, the Company Secretary undertook over 15 hours of professional training to update her skills and knowledge.

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 may also be convened on requisition, or, in default, may be convened by the requisitionists, as provided by the Companies Ordinance, which stipulates 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 acs@hongweiasia.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 to 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 acs@hongweiasia.com for the attention of the Company Secretary.

CORPORATE GOVERNANCE REPORT

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.

CONSTITUTION

For the year ended 31 December 2018, there had been no change in the Company's constitutional document.

MANAGEMENT DISCUSSIONS AND ANALYSIS

BUSINESS REVIEW

During the year ended 31 December 2018, the Group continued to be engaged in the manufacturing and selling of particleboards (“Particleboards Segment”) and the plantation, timber logging and sales of wood and agricultural products in the PRC (“Forestry Segment”).

Particleboards Segment

During the year ended 31 December 2018, the Group continued to engage in the manufacturing and selling of particleboards and our products were principally used by our customers in the manufacturing of furniture and fixtures, sport equipment, decoration and construction materials. During the year ended 31 December 2018, the Group’s revenue for Particleboards Segment decreased to approximately HK\$406.4 million from approximately HK\$490.9 million, representing a decrease of approximately 17.2% as compared to the year ended 31 December 2017. In 2018, the Chinese economy continued to face with uncertainties under the pressure of the ongoing trade war with the U.S. and greater fluctuation in the exchange rate of RMB. The negative impacts on the export market have indirectly affected the domestic consumer industry. The domestic demand for consumer products such as household furniture and fixtures, sport equipment as well as construction materials had remained at a weak level whereas our financing costs are rising given the tightening credit policy environment in China. Therefore, there is a sharp decrease in the average unit selling price and sales volume of particleboard of the Group in the last quarter of the year ended 31 December 2018. Looking forward, in order to cope with the business downturns, we aim to improve the business by doing more frequent market research, adjusting our pricing scheme and trying to explore new customers by providing more kinds of specifications in size and thickness to meet the needs of different market segments.

Forestry Segment

During the year ended 31 December 2018, the Group generated revenue of approximately HK\$0.5 million for the Forestry Segment by selling large-sized timber wood to external customers. In or about the end of 2018, the Group noted that the grant by the relevant government department of timber wood harvesting quotas (which is typically granted on an annual basis) had been materially curtailed as part of the PRC government’s strengthening in the drive of environmental protection. Such tightened control is expected to last for a certain period which is unknown to and uncontrolled by the Group at the moment. Hence, the Group is assessing the feasibility of different business strategy that seeks to better utilise its forestry resources.

MANAGEMENT DISCUSSIONS AND ANALYSIS

FINANCIAL REVIEW

Revenue

During the year ended 31 December 2018, the Group's revenue for Particleboards Segment decreased to approximately HK\$406.4 million from approximately HK\$490.9 million, representing a decrease of approximately 17.2% as compared to the year ended 31 December 2017. The decrease was mainly due to decrease in the average unit selling price and sales volume of particleboard by approximately 3.3% and 16.1% respectively during the year.

During the year ended 31 December 2018, the Group generated revenue of approximately HK\$0.5 million for the Forestry Segment. (2017: HK\$0.5 million)

Cost of Sales

During the year ended 31 December 2018, the Group's costs of sales decreased to approximately HK\$321.1 million from approximately HK\$383.7 million, representing a decrease of approximately 16.3% as compared to the year ended 31 December 2017. The decrease was mainly attributed to the decrease in sales and the decrease in average unit costs of raw materials particularly the residual wood purchased from external suppliers as a result of more supply in the market during the year ended 31 December 2018.

Gross profit and margin

During the year ended 31 December 2018, the Group's gross profit decreased to approximately HK\$85.7 million from approximately HK\$107.7 million, representing a decrease of approximately 20.4% as compared to the year ended 31 December 2017. The Group's gross profit margin decreased to approximately 21.1% for the year ended 31 December 2018 from approximately 21.9% for the year ended 31 December 2017. The decrease in gross profit was mainly attributable to the decrease in revenue during the year.

Other income, other losses net

During the year ended 31 December 2018, the Group's other income decreased to approximately HK\$17.7 million from approximately HK\$21.4 million, representing a decrease of approximately 17.4% as compared to the year ended 31 December 2017. The decrease was mainly attributable to the decrease of value added tax refund due to the decrease in revenue and the value added tax rate, which was partly off-set by the increase in subsidy released to the Group from deferred income during the year.

During the year ended 31 December 2018, there was other losses of net amounts incurred for approximately HK\$775,000 (2017: HK\$2,263,000) as detailed in note 9 to the consolidated financial statements. During the year ended 31 December 2017, the Group had disposed forestry rights of the forestlands in Ninhua County of Fujian Province which resulted in loss of approximately HK\$2.0 million. There was no disposal of forestry rights of forestlands in 2018.

MANAGEMENT DISCUSSIONS AND ANALYSIS

Impairment loss on property, plant and equipment

During the year ended 31 December 2018, there was impairment loss on property, plant and equipment amounting to approximately HK\$2.2 million (2017: HK\$ nil). During the year ended 31 December 2018, the Group suffered a decline in sales volume and average unit selling price of particleboards due to the impact of adverse market condition. As a result, this constitutes a sign of impairment regarding plant and machinery. To assess whether an impairment should be made, the Group engaged independent valuers ("Independent Valuers") to determine the value in use and fair value less costs to sell of individual items of the Group's plant and machinery. Please refer to note 16 to the consolidated financial statements for more details.

Impairment loss on prepaid forestlands lease payments

During the year ended 31 December 2018, there was impairment loss on prepaid forestlands lease payments amounting to approximately HK\$5.4 million (2017: HK\$ nil). In or about the end of 2018, the Group noted that the grant by the relevant government department of timber wood harvesting quotas have been materially curtailed as part of the PRC government's strengthening in the drive of environmental protection. Such tightened control is expected to last for a certain period which is unknown to and uncontrolled by the Group as at the date of this report. As a result, this constitutes signs of impairment regarding the prepaid forestlands lease payments. The Group engaged the Independent Valuers to determine the recoverable amounts of prepaid forestlands lease payments, being fair values less costs to sell using sales comparison approach. Please refer to note 17 to the consolidated financial statements for more details.

Net loss arising from changes in fair values less costs to sell of biological assets

During the year ended 31 December 2018, net loss arising from changes in fair value less costs to sell of biological assets amounting to approximately HK\$64.5 million (2017: net gain of HK\$5.5 million) has been recognised, representing a decrease of approximately HK\$70.0 million as compared to a net gain for the year ended 31 December 2017. The Group engaged Independent Valuers to perform the valuation of biological assets, which are measured at fair value less costs to sell as at 31 December 2018. Changes in fair values less costs to sell are recognised in the profit and loss. Owing to the circumstances as mentioned above, i.e. the difficulties in estimating when the harvesting quota is to be granted to the Group by the relevant local government, the Independent Valuers changed the valuation methodology from income approach (which involves projection by the Group of the income stream derived from harvesting and selling of the forestry assets in the future) to sales comparison approach (which considers prices recently paid or listing price for similar assets) to determine the overall fair values less costs to sell of the biological assets. Please refer to note 18 to the consolidated financial statements for more details.

MANAGEMENT DISCUSSIONS AND ANALYSIS

Selling and distribution expenses

During the year ended 31 December 2018, the Group's selling and distribution expenses decreased to approximately HK\$31.7 million from approximately HK\$41.3 million, representing a decrease of approximately 23.2%, which was mainly attributable to the decrease in selling expenses as a result of absence of additional consumption of packaging materials consumed in the year ended 31 December 2017 as a result of the packaging method modification trials carried out in that year as well as decrease in transportation costs due to the decrease in sales volume of particleboards and decrease in advertising and promotion expenses in the year ended 31 December 2018.

Meanwhile, there was approximately HK\$0.5 million incurred mainly for the subcontracting fee for harvesting activities performed by subcontractors under the Forestry Segment during the year ended 31 December 2018 (2017: HK\$0.5 million).

Administration expenses

During the year ended 31 December 2018, the Group's administration expenses decreased to approximately HK\$30.1 million from approximately HK\$36.8 million, representing a decrease of approximately 18.2% as compared to the year ended 31 December 2017. The decrease was mainly attributed to the absence of legal and professional fee in the year ended 31 December 2018 in respect of the proposed major and connected transaction first announced in January 2016 which was terminated in April 2017 but the related costs were recorded in the year ended 31 December 2017 and the decrease in donation of approximately HK\$2.3 million for the year ended 31 December 2018.

Meanwhile, there was approximately HK\$3.3 million incurred mainly for the fertilizer fee, replantation cost and other maintenance expenses of forestlands under the Forestry Segment during the year ended 31 December 2018 (2017: HK\$3.2 million).

Finance costs

During the year ended 31 December 2018, the Group's finance costs increased to approximately HK\$27.8 million from approximately HK\$25.3 million, representing an increase of approximately 9.7% as compared to the year ended 31 December 2017. The increase was mainly attributable to interest expenses incurred for the secured and guaranteed bonds issued by the Company on 15 September 2017, which has been fully settled in the year 2018, and the secured and guaranteed notes payable issued by the Company on 13 August 2018, respectively. Please refer to note 29 to the consolidated financial statements and the announcement of the Company dated 10 August 2018 for more details.

MANAGEMENT DISCUSSIONS AND ANALYSIS

Loss/profit for the year attributable to owners of the Company

During the year ended 31 December 2018, the Group's loss attributable to owners of the Company amounting to approximately HK\$59.6 million, while the Group's profit attributable to owners of the Company during the year ended 31 December 2017 amounting to approximately HK\$30.3 million. The decrease was mainly attributable to the decrease in gross profit of approximately HK\$22.0 million and the increase in net loss arising from changes in fair values less costs to sell of biological assets of approximately HK\$70.0 million, impairment loss on prepaid forestlands lease payments of approximately HK\$5.4 million and property, plant and equipment and finance costs of approximately HK\$2.2 million. The loss was partly set-off by the decrease in selling and distribution expenses, advertising and promotion expenses and administration expenses as discussed above.

Total comprehensive loss/profit attributable to owners of the Company

During the year ended 31 December 2018, the Group's total comprehensive loss attributable to owners of the Company amounting to approximately HK\$82.5 million, while the Group's total comprehensive profit attributable to owners of the Company during the year ended 31 December 2017 amounting to approximately 57.2 million. The decrease was mainly attributable to loss for the year ended 31 December 2018 as compared to profit for the year ended 31 December 2017, and the increase in the exchange loss arising from translation of Renminbi ("RMB") to Hong Kong Dollar ("HKD") which is the presentation currency of the consolidated financial statements due to the depreciation of RMB and the recognition of a loss attributable to owners of the Company during the year ended 31 December 2018.

PRINCIPAL RISKS AND UNCERTAINTIES FACING THE GROUP

Potential fluctuation in the prices of raw materials

The Directors consider that residual wood is one of the major raw materials for particleboard production which accounted for approximately 70.9% of the total procurement for the year ended 31 December 2018 (2017: 71.0%).

Our average purchase cost of residual wood was approximately RMB409.6 per tonne for the year ended 31 December 2018 and approximately RMB431.3 for 2017. Fluctuation in price and supply of residual wood will affect the prices and supplies of particleboards. It is believed that residual wood prices may further increase in the next few years. Since residual wood is a plant product, its supplies are vulnerable to many factors beyond our control, including weather, infestations and other forces of nature that may result in shortage in supplies and an increase in price. An increase in demand may also result in an increase in the price of residual wood. Since the beginning of 2016, we have been seeking ways to broaden our suppliers base for the residual wood by acquiring forestry rights (please refer to notes 17 and 18 to the consolidated financial statements for details).

Collection risks associated with credit sales

Our trading terms with some of our customers are primarily on credit. The credit terms are generally up to 90 days. We are exposed to possible credit risks as a result of the competitive conditions under which we operate and the continuing changes in the global economic and financial environment, which may limit our customers' access to credit in the future. We will monitor our trade receivables closely to minimise the credit risks.

MANAGEMENT DISCUSSIONS AND ANALYSIS

Competitive market

We face competition from existing and new players in the particleboard industry in the PRC. To compete effectively and maintain our sales level, we may be forced to, among other actions, reduce prices, provide more sales incentives to customers and increase capital expenditures, which may in turn negatively affect our profit margins.

Our Directors are of the view that particleboard customers have been careful in selecting their particleboard suppliers and are likely to partner with accepted and reliable suppliers and prefer to work with such suppliers on a long term basis. Our Directors believe that our success depends on our ability to compete effectively against our competitors in terms of product quality, stable supplies, research and development capability, customer service, pricing, timely delivery, scale and capacity, efficiency and technical know-how. The Group will strive to maintain its competitiveness by providing products with reliable quality at a competitive price.

Operating risks related to the biological assets

Since the beginning of 2016, the Group had acquired forestry rights and is exposed to the following operating risks related to its biological assets:

(i) *Regulatory and environmental risks*

The Group is subject to laws and regulations in the PRC in which it operates. The Group has established environmental policies and procedures aimed at compliance with local environment and other laws. Management will perform regular reviews to identify environmental risks and to ensure that the systems in place are adequate to manage those risks. Such risks may also arise from material curtailment or suspension of timber wood harvesting quotas (which are typically granted on an annual basis) to be granted by relevant government department to privately owned enterprises as part of the PRC government strengthening in the drive of environmental protection. The Group is assessing the feasibility of different business strategy that seeks to better utilise its forestry assets.

(ii) *Supply and demand risks*

The Group is exposed to risks arising from fluctuations in the price and sales volume of log. The Group's forestlands are maintained for the purpose of providing stable source of raw materials to the Group to produce particleboards for sale. Where possible the Group will align harvest volume to its production schedule so as to ensure continuous production of particleboards.

(iii) *Climate and other natural risks*

The Group's biological assets are exposed to the risk of damage from climate changes, diseases, forest fires and other natural forces. The Group has adopted different measures aimed at monitoring and mitigating those risks, including regular forest inspections by setting up forest patrol team.

MANAGEMENT DISCUSSIONS AND ANALYSIS

KEY PERFORMANCE INDICATORS

The Directors consider that financial key performance indicators include revenue, gross profit and margin and profit attributable to owners of the Company as set out under the sub-section headed "Financial Review" above as these are commonly used as indicators of the financial performance of a company.

Non-financial key performance indicator includes the total volume of particleboards produced per annum which is an indicator of our production capacity.

Total volume of particleboards produced per annum

The Group produced an aggregate of approximately 292,000 cubic meters particleboards in 2018, comparing to approximately 341,000 cubic meters in 2017. The Group is seeking to improve the utilisation of its production capacity by exploring new customers and providing more kinds of specifications of particleboards in different size and thickness to meet the needs of different market segments.

Data used as the financial and non-financial key performance indicators for the two financial years ended 31 December 2017 and 2018 are sourced from the Group's internal records and consistent methods of calculation are applied.

LIQUIDITY, FINANCIAL RESOURCES AND CAPITAL STRUCTURE

As at 31 December 2018 and 2017, the Group had bank borrowings of approximately HK\$158.6 million and HK\$206.5 million respectively. As at 31 December 2018, all bank borrowings are dominated in RMB. Except for bank borrowings of approximately HK\$12.0 million which is denominated in United State Dollars ("USD"), other bank borrowings are dominated in RMB as at 31 December 2017. Other than certain bank borrowings which bear fixed interest rate ranging from 4.35% to 5.87% per annum, other bank borrowings bear floating interest rates ranging from 4.75% to 6.88% per annum as at 31 December 2018.

As at 31 December 2018, the Group had other borrowings comprising sales and leaseback operating leases arrangement with financial institutions, which provides loans to the Group with tenure of two to three years (2017: three years) from the date of advancement. The carrying amount of such borrowings amounted to approximately HK\$43.2 million as at 31 December 2018 (2017: HK\$54.3 million), taking into account the effect of discounting. Other borrowings of approximately HK\$31.6 million (2017: HK\$54.3 million) carry fixed interest rates 9.68% (2017: 9.68%) per annum while other borrowings of approximately HK\$11.6 million (2017: HK\$nil) carry floating interest with interest rate of 12.21% per annum as at 31 December 2018.

As at 31 December 2018, the outstanding finance leases liability of the Group was in connection with a finance lease arrangement with a bank for the purchase of a motor vehicle. The lease period is for five years. The carrying amount of such finance lease amounted to approximately HK\$1.6 million as at 31 December 2018 (2017: HK\$2.1 million). Maturity profile of the bank and other borrowings is set out in note 27 to the consolidated financial statements.

As at 31 December 2018 and 2017, the Group had net current liabilities of approximately HK\$39.9 million and HK\$101.8 million respectively. The current ratio of the Group, being its current assets over its current liabilities, increase to 0.85x as at 31 December 2018 (2017: 0.72x). Such increase was mainly due to the strengthening of the Group's working capital by converting the short-term secured and guaranteed bonds to long-term secured and guaranteed notes payable during the year ended 31 December 2018.

MANAGEMENT DISCUSSIONS AND ANALYSIS

On 13 August 2018, the Company issued secured and guaranteed redeemable notes in the principal amount of HK\$100,000,000 for a term of two years (extendable for another one year) to Haitong Global Investment SPC III acting on behalf of and for a segregated portfolio. The notes bear interest on the outstanding principal amount of 8% per annum for the first six months and prime rate plus 3% for the remaining initial term and the extended term if applicable. The notes are guaranteed by Mr. Wong and Mrs. Wong ("Guarantors"). The Note Subscription Agreement and the instrument constituting the Notes ("Instrument") contain covenants that require Mr. Wong to remain as the single largest shareholder of the Company, the chairman of the Board and executive director of the Company and restrict the creation by either of the Guarantors of any additional encumbrances over real properties owned by them in Hong Kong as at the date of the Note Subscription Agreement and the Instrument, the breach of which will constitute an event of default. In addition, the bankruptcy or inability to pay debts when due of the Guarantors or any change of control (within the meaning of the Code on Takeovers and Mergers) of the Company will also constitute an event of default. Upon the occurrence of a continuing event of default, the holder(s) of the notes is(are) entitled to request immediate redemption of the notes at a higher interest rate and such amount which would give a 20% internal rate of return (inclusive of all interest and fee payable by the Company) to the Note Subscriber as stipulated in the Instrument.

During the years ended 31 December 2018 and 2017 respectively, no new shares were issued by the Company.

Gearing Ratio

As at 31 December 2018, the gearing ratio stood at 0.95x (2017: 0.89x) based on total borrowings over shareholders' equity. The worsened gearing ratio was due to the decrease in shareholders' equity at the end of 2018.

FOREIGN EXCHANGE EXPOSURE

As at 31 December 2018 and 2017, functional currency of the Company and its major operating subsidiary is RMB while the presentation currency of the Company is HKD. The Group's bank balances were mainly denominated in RMB and HKD. The Group manages its foreign currency risk by closely monitoring the movement of the foreign currency rate. As at 31 December 2018, there were finance lease denominated in HKD and secured and guaranteed notes payable denominated in HKD with contractual interest rate of 8% per annum for the first six months and prime rate plus 3% for the remaining initial term and the extended term if applicable.

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.

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 OR CAPITAL ASSETS

The Group had no significant investment held as at 31 December 2018. Save as capital commitment contracted for the acquisition of property, plant and equipment for approximately HK\$3,424,000 as detailed under the section "Commitments and Contingent Liabilities" below, the Group has no plan for material investments or capital assets as at the date of this report.

PLEDGE OF ASSETS

As at 31 December 2018, the Group's secured bank and other borrowings are secured by the following assets of the Group:

- (a) the pledge of the Group's property, plant and equipment with an aggregate carrying amount of approximately HK\$286,674,000 (2017: HK\$301,117,000);
- (b) the pledge of the Group's prepaid lease payments with an aggregate carrying amount of approximately HK\$18,652,000 (2017 HK\$20,000,000);
- (c) the pledge of the Group's inventories with an aggregate carrying amount HK\$33,349,000. (2017: HK\$18,526,000; and
- (d) the pledge of the Group's security deposit with carrying amount of HK\$1,712,000 (2017: nil);
- (e) the pledge of the Group's bank deposits with an aggregate carrying amount of approximately HK\$6,277,000 (2017: HK\$9,472,000).

MANAGEMENT DISCUSSIONS AND ANALYSIS

COMMITMENTS AND CONTINGENT LIABILITIES

The Group leases its office premise under an operating lease arrangement for a term of 24 months. As at 31 December 2018, the remaining lease term is 6 months and the total future minimum lease payments under non-cancellable operating lease due within one year and in the second year amounted to approximately HK\$319,000 and nil, respectively (2017: HK\$610,000 and HK\$319,000).

As at 31 December 2018, the Group has capital commitments of approximately HK\$3,424,000 (2017: HK\$4,982,000) for acquisition of property, plant and equipment which are contracted but not yet completed and therefore not included in the consolidated financial statements.

Saved as disclosed above, the Group did not have any significant capital commitment nor contingent liabilities as at 31 December 2018.

EMPLOYEES AND REMUNERATION POLICIES

As at 31 December 2018, the Group employed a total of 183 employees (2017: 188). The remuneration payable to our employees included fees, salaries, retirement benefits scheme contributions and other benefits. For the years ended 31 December 2018 and 2017, the remuneration was approximately HK\$16.6 million and HK\$16.4 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 of the Company (the "Shareholders"). The Group aims to align the interests of the senior executives through performance and long-term incentive plans in addition to their fixed remuneration.

The Company also adopted a share option scheme. As at 31 December 2018 and 2017, no share option was granted or outstanding.

DIVIDEND

Dividend Policy

Dividends may be paid out by ways of cash or by other means we consider appropriate. Payment of any dividends will be made at the discretion of our Board and will be based upon our earnings, cash flow, financial condition, capital requirements, statutory fund reserve requirements and any other conditions that our Directors consider relevant. The declaration, payment and amount of any future dividends will be subject to our constitutional document comprising the Articles of Association, where necessary, the approval of our Shareholders.

The Board does not recommend the payment of any final dividend for the year ended 31 December 2018 (2017: nil).

MANAGEMENT DISCUSSIONS AND ANALYSIS

FUTURE PLANS AND PROSPECT

The macroeconomic conditions in 2019 remain severe and complicated. Not only are major developed economies reporting weak economic growth, they also lack effective means to continue stimulating the economy. In China, the economy is still in its downward cycle, insufficient economic growth momentum, weak financing environment, and unfavorable corporate investment sentiment. The furniture industry and the building decoration industry are the two largest markets for particleboards. It remains uncertain as to whether additional tariffs will be imposed on furniture products exported from the Mainland China to the United States as a result of the ongoing trade war between China and the United States. The Group's particleboard business will be adversely affected if tariffs are imposed. The Group will closely monitor changes in the domestic policies and continue its efforts towards taking proactive production cost saving initiatives, negotiating with customers regarding product pricing and considering the feasibility of developing more kinds of specifications in size and thickness to meet different market segments.

Since the grant of timber wood harvesting quotas have been materially curtailed in or about the end of 2018 as part of the PRC government's strengthening in the drive of environmental protection. Such tightened control is expected to last for a certain period which is unknown to and uncontrolled by the Group at the moment, the Group has commenced the feasibility study on new business strategy that seeks to better utilise its forestry resources. In this regard, the Company has noted that the PRC government is supportive of the development and promotion of a more diversified and ecologically friendly forestry economy, such as undergrowth planting, aquaculture, collection and forest tourism. The aim is to achieve ecological protection and economic development in a manner consistent with the State's strategy of developing a green economy, a low-carbon economy and a circular economy. The Group will closely keep track of changes in the relevant policies and regulations that implement such governmental approach and will taking proactive initiatives to maximize the value of its forestry assets.

REPORT OF THE DIRECTORS

The Directors hereby present their report and the audited consolidated financial statements for the year ended 31 December 2018.

PRINCIPAL ACTIVITIES

The Group is primarily engaged in manufacturing and sales of particleboards ("**Particleboards Segment**") and the timber logging, plantation and sales of wood and agricultural products in the PRC ("**Forestry Segment**"). 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. During the year ended 31 December 2018, there was no significant change in the nature of the Group's principal activities.

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.

DONATIONS

Charitable and other donations made by the Group during the year amounted to approximately HK\$178,000.

SHARES CAPITAL

There was no movement in the Company's share capital during the year.

2017 BONDS

On 15 September 2017, the Company issued a 10% secured and guaranteed bond in the principal amount of HK\$100,000,000 at a term of 364 days to an independent subscriber (the "Subscriber"). The guaranteed bonds are secured by personal guarantees executed by Mr. Wong and Mrs. Wong. Under the subscription agreement and several supplemental agreements, Mr. Wong and Mrs. Wong, among other things, undertakes to the Subscriber that as long as any bonds is outstanding, he or she shall not (i) provide any guarantee in any form to anyone which will result in the aggregate amount of indebtedness (secured or unsecured) guaranteed by them exceeding HK\$530,000,000 and (ii) pledge any of his or her existing specified properties and assets in Hong Kong to anyone.

On 15 September 2017, the Company and the Subscriber entered into a share pledge agreement, pursuant to which, among other things, the Company agreed to pledge its fully paid up capital in Hongwei Renhua to secure the secured and guaranteed bond and both parties agreed that the Company shall complete the share pledge registration in the relevant governmental departments in the PRC within 2 months from the date of issuance of the bond.

The Company and the Subscriber subsequently entered into several supplemental agreements, pursuant to which, among other things, both parties have agreed to extend the share pledge registration date in the PRC to 5 months from the date of issuance of the bond. The share pledge registration has been completed subsequently on 22 January 2018.

REPORT OF THE DIRECTORS

Under the terms of the instrument constituting the Bonds (the “Instrument”), it will constitute an event of default if: (i) any of the Guarantors is (a) unable to pay for the payments due from the Company under their guarantee obligations and the terms and conditions of the Bonds, or (b) is declared bankrupt by a competent court and (ii) the Guarantors provide any other guarantee in any form to anyone which will result in the aggregate amount of indebtedness (secured or unsecured) guaranteed by the Guarantors exceeding HK\$530,000,000. Upon the occurrence of a continuing event of default, the holder(s) of the Bonds are entitled to request immediate redemption of the Bonds at a higher interest rate as stipulated in the Instrument.

Please refer to the announcement of the Company dated 13 September 2017 for more details.

2018 NOTES

On 13 August 2018, pursuant to the subscription agreement dated 10 August 2018 (the “**Note Subscription Agreement**”) between the Company and Haitong Global Investment SPC III acting on behalf of and for a segregated portfolio (“**Note Subscriber**”), the Company issued secured and guaranteed notes in the principal amount of HK\$100,000,000 (the “**Note**”) due on 12 August 2020 or be extended to 12 August 2021 (subject to the approval of the noteholder) to the Note Subscriber. The Note carries an interest rate of 8% per annum for the first six months from the date of issue and prime rate (as per HSBC’s then current Hong Kong dollar best lending rate in effect) plus 3% per annum for the rest of its term, and is secured, among other things, by personal guarantee executed by Mr. Wong and Mrs. Wong (together, “**Guarantors**”).

The Note Subscription Agreement and the instrument constituting the Notes (“**Instrument**”) contain covenants that require Mr. Wong to remain as the single largest shareholder of the Company, the chairman of the Board and executive director of the Company and restrict the creation by either of the Guarantors of any additional encumbrances over real properties owned by them in Hong Kong as at the date of the Note Subscription Agreement and the Instrument, the breach of which will constitute an event of default. In addition, the bankruptcy or inability to pay debts when due of the Guarantors or any change of control (within the meaning of the Code on Takeovers and Mergers) of the Company will also constitute an event of default. Upon the occurrence of a continuing event of default, the holder(s) of the Note is(are) entitled to request immediate redemption of the Note at a higher interest rate and such amount which would give a 20% internal rate of return (inclusive of all interest and fee payable by the Company) to the Note Subscriber as stipulated in the Instrument. Please refer to the announcement of the Company dated 10 August 2018 for more details.

PURCHASE, SALE OR REDEMPTION OF LISTED SECURITIES

During the year ended 31 December 2018, neither the Company nor its subsidiaries have purchased, sold or redeemed any listed securities of the Company.

RESERVES

Details of the movements in the reserves of the Company and the Group during the year ended 31 December 2018 are set out in note 39 to the consolidated 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 2018.

REPORT OF THE DIRECTORS

EQUITY LINKED AGREEMENT

Save as disclosed in the sub-section headed "Share Option Scheme" in this Report of the Directors, no other equity-linked agreements that will or may result in the Company issuing shares or that require the Company to enter into any agreements that will or may result in the Company issuing shares were entered into by the Company during the year or subsisted at the end of the year.

ARRANGEMENTS TO ENABLE DIRECTORS TO ACQUIRE SHARES AND DEBENTURES

Except for the Share Option Scheme as disclosed in more detail below, neither at the end of nor at any time during the year there subsisted any arrangement to which the Company or any of its subsidiaries was a party and the objects of or one of the objects of such arrangement are/is to enable the Directors to acquire benefits by means of the acquisition of shares in, or debentures of, the Company or any other body corporate.

SHARE OPTION SCHEME

Details of Share Option Scheme are set out in note 33(b) to the consolidated financial statements. No share option was granted by the Company during the year.

PERMITTED INDEMNITY PROVISION

The articles of association of the Company provides, among others, that every director of the Company shall be entitled to be indemnified out of the assets of the Company against all losses or liabilities which he or she may sustain or incur in or about the execution of the duties of his or her office, and no director or other officer shall be liable for any loss, damages or misfortune which may happen to or be incurred by the Company in the execution of the duties of his or her office, provided that such Article shall only have effect in so far as its provisions are not avoided by or would (were it not for this provision) not breach the Companies Ordinance. This indemnity shall not extend to any matter in respect of any fraud or dishonesty which may attach to any of the said persons.

MAJOR CUSTOMERS AND SUPPLIERS

The percentages of sales and purchases for the year ended 31 December 2018 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 72% (2017: 67%) of the Group's total revenue. The amount of revenue from the Group's largest customer represented approximately 56% (2017: 54%) of the Group's total revenue.
- (2) The aggregate amount of purchases attributable to the Group's five largest suppliers represented approximately 43% (2017: 36%) of the Group's total purchases. The amount of purchases from the Group's largest supplier represented approximately 10% (2017: 9%) of the Group's total purchases.

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

REPORT OF THE DIRECTORS

DIRECTORS OF THE COMPANY

The Directors of the Company during the year ended 31 December 2018 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. Lai Ming Wai (resigned on 11 May 2018)

Independent non-executive Directors

Dr. Xu Jianmin
Ms. Qian Xiaoyu
Dr. Chow Ho Wan, Owen

In accordance with Article 120 of the Company's Article of association, Mr. Liu Jiayong, Ms. Huang Xiuyan and Dr. Chow Ho Wan, Owen will retire from the board by rotation at the forthcoming Annual General Meeting and, being eligible, offer themselves for re-election.

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.

DIRECTORS AND SUPERVISOR OF THE COMPANY'S SUBSIDIARIES

During the year ended 31 December 2018 and up to the date of the report, Mr. Wong Cheung Lok and Ms. Cheung Ngar Kwan are also directors of the subsidiaries of the Company. Mr. Wong Kin Keung is the supervisor of the Company's subsidiaries established in the PRC during the year and up to the date of the report.

DIRECTORS' SERVICE CONTRACTS

Each of executive Directors 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. Each executive Director signed a renewed service agreement with the Company for a further service term of three years with effect from January 2017.

Each of the Independent Non-executive Directors signed an appointment letter with the Company for a term of three years commencing from Listing date or two years from the date of appointment and are subject to termination in accordance with their respective terms. Two Independent Non-executive Directors signed the renewed appointment letters with the Company for a further service term of three years with effect from January 2017. In August 2018, one Independent Non-executive Director signed a renewed appointment letter with the Company for a further service term of one year with effect from 1 August 2018.

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' MATERIAL INTERESTS IN TRANSACTIONS, ARRANGEMENTS AND CONTRACTS OF SIGNIFICANCE

Saved as disclosed in the section headed "2017 Bonds" and "2018 Notes" above, and save as disclosed in note 38 to the consolidated financial statements, no transactions, arrangements or contracts of significance in relation to the Group's business to which the Company or any of its subsidiaries was a party and in which a Director of the Company or the Director's connected party had a material interest, whether directly or indirectly, subsisted at the end of the year or at any time during the year.

Save as disclosed above, there was no other transaction, arrangement or contract of significance subsisting during or at the end of the financial year in which a Director or an entity connected with a Director is or was materially interested (either directly or indirectly).

CONTRACTS OF SIGNIFICANCE BETWEEN THE GROUP AND THE CONTROLLING SHAREHOLDER

Save as disclosed in the section headed "2017 Bonds" and "2018 Notes" above, and save as disclosed in note 38 to the consolidated financial statements, none of the Company or any of its subsidiaries had entered into any contract of significance with the controlling shareholder of the Company, namely Mr. Wong Cheung Lok, for the provision of services to the Group by the controlling shareholder and/or otherwise during the financial year ended 31 December 2018.

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 year ended 31 December 2018.

REMUNERATION OF THE DIRECTORS

Details of the remuneration of the Directors for the year ended 31 December 2018 are set out in note 11 to the consolidated financial statements in this annual report. During the year ended 31 December 2018, there was no arrangement under which any Directors waived or agreed to waive any remuneration.

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 note 33(b) to the consolidated financial statements.

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 during the year ended 31 December 2018 and up to the date of this report.

Details of the undertaking has been set out in the section headed “Relationship with Controlling Shareholders” of the Prospectus of the Company date 27 December 2013.

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 2018, 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 Cheung Lok (“ Mr. Wong ”)	Beneficial owner	430,000,000 (L)	51.65%
Ms. Cheung Ngar Kwan (“ Mrs. Wong ”) ⁽²⁾	Interest of spouse	430,000,000 (L)	51.65%

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.

REPORT OF THE DIRECTORS

SUBSTANTIAL SHAREHOLDERS' AND OTHER PERSONS' INTERESTS AND/OR SHORT POSITIONS IN THE SHARES AND UNDERLYING SHARES

So far as the Directors are aware, as at 31 December 2018, none of any other persons (other than a Director or chief executive) had any 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 to be recorded in the register kept by the Company pursuant to Section 336 of the SFO:

DIRECTORS' AND CONTROLLING SHAREHOLDER'S INTERESTS IN COMPETING BUSINESSES

During the year ended 31 December 2018, none of the Directors, the controlling shareholder of the Company or any of their respective close associates, has engaged in any business that competes or may compete with the business of the Group, or has or may have any other conflict of interest with the Group.

However, as at the date of this report, Mr. Wong Kin Ching, the son of Mr. Wong Cheung Lok and Ms. Cheung Ngar Kwan, through companies wholly owned by him, is interested in forestry plantation business, including forestry planting and development with respect to forestlands located at Renhua County, Guangdong Province, PRC.

CONNECTED TRANSACTIONS AND RELATED PARTY TRANSACTIONS

Details of connected and related party transactions are set out in note 38 to the consolidated financial statements. Those transactions are fully exempt from announcement, shareholders' approval, annual review and all disclosure requirements under the GEM Listing Rules.

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 for the financial year ended 31 December 2018 and up to the date of this report.

BUSINESS REVIEW

Further discussion and analysis of principal activity of the Group as required by Schedule 5 to the Hong Kong Companies Ordinance, including a fair review of the Group's business, an analysis using financial key performance indicators, a discussion of principal risks and uncertainties facing the Group and an indication of likely future developments of the Group's business, are set out in "Management Discussions and Analysis" set on page 21 of this report.

Environmental policies and performance, key relationships with the Group's employees, suppliers and customers matters, and the Group's compliance with the relevant laws and regulations that have a significant impact on the Group are set out below:

REPORT OF THE DIRECTORS

Environmental policies and performance

The Group has observed relevant PRC laws and regulations for environmental protection, energy conservation and emission reduction. The Group is committed to the long term sustainability of the environment and communities in which it operates. The Group is closely following the rules and regulations of the Environmental Protection Law of the PRC (中華人民共和國環境保護法) and The Forestry Law of the People's Republic of China (中華人民共和國森林法). In 2016, the environmental protection bureau of Shaoguan City, Guangdong Province confirmed that the particleboards production facility of Hongwei Wooden Products (Renhua) Co. Ltd. satisfied the relevant environmental protection requirements. Our formaldehyde-free particleboards have met the Chinese GB/T 4897.1, ~ 4897.7-2003 standard and the European EN 312: 2003 standard. In addition, we have completed the application procedures for the no-added formaldehyde (NAF) certificate to be issued by the California Air Resource Board (CARB) with respect to our formaldehyde-free particleboards. Our fire resistant particleboards have met the Chinese GB/T4897-92A standard in terms of their physical and mechanical properties and the French NF P92501M1 and the Chinese GB8624-1997B1 standards in terms of their flame retardancy.

In or about the end of 2018, the Group noted that the grant by the relevant government department of timber wood harvesting quotas (which is typically granted on an annual basis) had been materially curtailed as part of the PRC government's strengthening in the drive of environmental protection. Such tightened control is expected to last for a certain period which is unknown to and uncontrolled by the Group at the moment. The Group understands that such curtailment or suspension is to be implemented nationwide although it is not aware of there being any specific published laws, regulations, notices or decisions in relation to the curtailment or elimination of timber wood harvesting quotas for privately owned enterprises. Nevertheless, the Group will continue to apply for the harvesting quotas and at the same time, seek to explore other business strategy to better utilise its forestry assets.

Key relationships with the Group's employees, suppliers and customers

The Group understands the importance of maintaining a good relationship with its employees, customers and suppliers to meet its immediate and long-term business goals. The Group encourages employees to strengthen their knowledge of the industries in which the Group operate and attend courses or training sessions to improve their professional knowledge. The Group also maintains ongoing communications with its employees, customers and suppliers through various channels such as regular meetings, calls and emails in order to allow employees to contribute to the development of the Group, deliver better customer services to our clients and obtain better services and cooperations from our suppliers.

The Group's compliance with the relevant laws and regulations

As far as the Board is aware, the Group has complied in material respects with the relevant laws and regulations that have a significant impact on the business and operation of the Group.

AUDITOR

The consolidated financial statements for the year ended 31 December 2018 have been audited by Messrs. Graham H. Y. Chan & Co. which retires, and being eligible, offers itself for re-appointment at 2018 AGM. A resolution to re-appoint Messrs. Graham H. Y. Chan & Co. and to authorize the Directors to fix its remuneration will be proposed at 2018 AGM.

By Order of the Board
Wong Cheung Lok
Executive Director

INDEPENDENT AUDITOR'S REPORT

**GRAHAM H. Y. CHAN & CO.**

CERTIFIED PUBLIC ACCOUNTANTS (PRACTISING)

HONG KONG

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

We have audited the consolidated financial statements of Hong Wei (Asia) Holdings Company Limited (the "**Company**") and its subsidiaries (together, the "**Group**") set out on pages 49 to 139, which comprise the consolidated statement of financial position as at 31 December 2018, and the consolidated statement of profit or loss and other comprehensive income, the consolidated statement of changes in equity and the consolidated statement of cash flows for the year then ended, and notes to the consolidated financial statements, including a summary of significant accounting policies.

In our opinion, the consolidated financial statements give a true and fair view of the consolidated financial position of the Group as at 31 December 2018, and of its consolidated financial performance and its consolidated cash flows for the year then ended in accordance with Hong Kong Financial Reporting Standards ("**HKFRSs**") issued by the Hong Kong Institute of Certified Public Accountants (the "**HKICPA**") and have been properly prepared in compliance with the Hong Kong Companies Ordinance.

BASIS FOR OPINION

We conducted our audit in accordance with Hong Kong Standards on Auditing ("**HKSAs**") issued by the HKICPA. Our responsibilities under those standards are further described in the "**Auditor's Responsibilities for the Audit of the Consolidated Financial Statements**" section of our report. We are independent of the Group in accordance with the HKICPA's Code of Ethics for Professional Accountants (the "**Code**"), and we have fulfilled our other ethical responsibilities in accordance with the Code. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our opinion.

KEY AUDIT MATTERS

Key audit matters are those matters that, in our professional judgment, were of most significance in our audit of the consolidated financial statements of the current period. These matters were addressed in the context of our audit of the consolidated financial statements as a whole, and in forming our opinion thereon, and we do not provide a separate opinion on these matters.

Key audit matters identified in our audit are summarised as follows:

- Ownership of forestry rights and existence of the forestlands
- Impairment of prepaid forestlands lease payments
- Valuations of biological assets
- Impairment of plant and machinery
- Going concern

INDEPENDENT AUDITOR'S REPORT

KEY AUDIT MATTERS (Continued)

1. Ownership of forestry rights and existence of the forestlands

Nature of the key audit matter	How our audit addressed the key audit matter
<p>Refer to notes 17 and 18 to the consolidated financial statements.</p> <p>As at 31 December 2018, the Group owned forestry rights of several pieces of forestlands located in Renhua County of Guangdong Province and Qingliu County of Fujian Province of the People's Republic of China (the "PRC").</p> <p>Due to the enactment of the real estate title registration policy in the year 2016, all real estate titleship must be registered with the Real Estate Registration Center (不動產登記中心) for issuance of registered title certificate. As at the date of this report, registration of the title of forestry rights of the forestlands in Qingliu County has been completed and Forestry Right Certificates have been obtained while the registration of the title of forestry rights of the forestlands in Renhua County are still pending, nevertheless, the Group had obtained ownership confirmations ("Ownership Confirmations") from Forestry Administration of the respective counties.</p> <p>To quantify the financial effect, as at 31 December 2018, the carrying amount of approximately HK\$13,055,000 of prepaid forestlands lease payments and approximately HK\$73,956,000 of biological assets were related to forestry rights of the forestlands that had been successfully registered, while approximately HK\$12,362,000 of prepaid forestlands lease payments and approximately HK\$28,646,000 of biological assets were related to forestry rights of the forestlands that are still pending for completion of the registration.</p> <p>The audit was focused in this area as the balances are material, the forestlands are inherently large in size, and the abovementioned title registration policy imposes uncertainty regarding the successful registration of the transfer of forestry rights to the Group.</p>	<p>We obtained the confirmations (the "Year-end Confirmations") from the Real Estate Registration Center in Qingliu County and relevant Forestry Administration to confirm the existence and ownership of forestry rights for forestlands located in Renhua County and Qingliu County as at year end date.</p> <p>We matched details of the Ownership Confirmations (for forestlands located in Renhua County) and the Forestry Right Certificates in the name of the Group (for forestlands located in Qingliu County) to the details in the Year-end Confirmations.</p> <p>We sample selected several pieces of forestlands for site visit to confirm their existence.</p> <p>We performed interview with officials in the Real Estate Registration Center in Renhua County to confirm the progress of implementation of the registration policy.</p>

INDEPENDENT AUDITOR'S REPORT

KEY AUDIT MATTERS *(Continued)*

2. Impairment loss on prepaid forestlands lease payments

Nature of the key audit matter	How the matter was addressed in our audit
<p>Refer to notes 5(b)(ii) and 17 to the consolidated financial statements.</p> <p>In or about the end of 2018, the Group noted that the grant by the relevant government department of timber wood harvesting quotas had been materially curtailed as part of the PRC government's strengthening in the drive of environmental protection. Such tightened control is expected to last for a certain period which is unknown to and uncontrolled by the Group as of the date of this report. Accordingly, signs of impairment regarding the prepaid forestlands lease payments arise. The Group engaged the independent valuers ("Independent Valuers") to determine the recoverable amounts of prepaid forestlands lease payments, being fair values less costs to sell using sales comparison approach. An impairment loss of approximately HK\$5,366,000 was recognised in profit or loss for the year ended 31 December 2018.</p> <p>We focused in this area as the impairment loss on prepaid forestlands lease payments recognised is material and the determination of fair values less costs to sell involves judgements and estimates in determining the appropriate assumptions and in considering the valuation methodology adopted.</p>	<p>We obtained application and approval documents for harvesting quotas from the relevant government department.</p> <p>We reviewed the valuation report prepared by the Independent Valuers and held discussion with management and the Independent Valuers to understand the valuation basis, methodology used and underlying assumptions applied.</p> <p>We assessed the capabilities, objectivity and competence of the Independent Valuers.</p> <p>We considered the work performed by the Independent Valuers in respect of latest listing prices of "raw lands" situated in Guangdong Province and Fujian Province and the adjustments made for various factors including the remaining land use terms and accessibility of each of the forestlands held by the Group.</p> <p>We recalculated the impairment loss and compared to the amount recognised in profit or loss.</p>

INDEPENDENT AUDITOR'S REPORT

KEY AUDIT MATTERS *(Continued)***3. Valuation of biological assets**

Nature of the key audit matter	How the matter was addressed in our audit
<p>Refer to notes 5(b)(i) and 18 to the consolidated financial statements.</p> <p>The Group's biological assets are measured at fair values less costs to sell at the end of each reporting period and any changes in fair values less costs to sell are recognised in profit or loss. The Group engaged the Independent Valuers to perform the valuation as at 31 December 2018. Owing to the circumstances mentioned in point 2 above and note 17 to the consolidated financial statements, the Independent Valuers changed the valuation methodology from income approach to sales comparison approach to determine the overall fair values less costs to sell of the forestlands. Fair values less costs to sell of "raw lands" are deducted from the overall values to arrive at fair values less costs to sell of biological assets.</p> <p>We focused in this area as determining fair values less costs to sell of biological assets using sales comparison approach involves judgements and estimates in determining the appropriate assumptions and in considering the valuation methodology adopted.</p>	<p>We performed our work regarding fair values less costs to sell of "raw lands" as set out in point 2 above.</p> <p>We held discussion with the Independent Valuers and management regarding the change in valuation methodology from income approach to sales comparison approach.</p> <p>For valuation of overall fair values less costs to sell of the forestlands, we performed the work as same as those work performed for "raw lands" as set out in point 2 above.</p> <p>We recalculated the fair values less costs to sell of forestlands and biological assets and compared to the amount reported in the consolidated financial statements.</p> <p>We have also considered the adequacy of the Group's disclosure in respect of the biological assets, including fair value measurements, in note 18 to the consolidated financial statements.</p>

INDEPENDENT AUDITOR'S REPORT

KEY AUDIT MATTERS *(Continued)*

4. Impairment loss on plant and machinery

Nature of the key audit matter	How the matter was addressed in our audit
<p>Refer to notes 5(b)(iii) and 16 to the consolidated financial statements.</p> <p>During the year ended 31 December 2018, the Group suffered a decline in sales volume and average unit selling price of particleboards due to the impact of adverse market condition. As a result, sign of impairment regarding plant and machinery arises. The Group determined that the recoverable amount of plant and machinery is fair value less costs to sell, with reference to the work performed by the Independent Valuers, who use market approach to determine the fair values less costs to sell of plant and machinery. Accordingly, an impairment loss of approximately HK\$2,203,000 was made for the year ended 31 December 2018.</p> <p>We focused in this area as the balance of plant and machinery is significant and the determination of its fair values less costs to sell involves judgements and estimates in determining the appropriate assumptions and in considering the valuation methodology adopted.</p>	<p>We reviewed the valuation report from the Independent Valuers and held discussion with management and the Independent Valuers to understand the valuation basis, methodology used and underlying assumptions applied.</p> <p>We assessed the capabilities, objectivity and competence of the Independent Valuers.</p> <p>For fair values less costs to sell, we sample selected several items of plant and machinery to consider the work performed by the Independent Valuers.</p> <p>We recalculated the impairment loss and compared to the amount recognised in profit or loss.</p>

INDEPENDENT AUDITOR'S REPORT

KEY AUDIT MATTERS (Continued)

5. Going concern

Nature of the key audit matter	How the matter was addressed in our audit
<p>Refer to note 2 to the consolidated financial statements.</p> <p>As at 31 December 2018, the Group's current liabilities exceeded its current assets by approximately HK\$39,930,000. Its current liabilities, including bank and other borrowings of approximately HK\$202,514,000 that are due within one year, exceeded its cash and cash equivalents of approximately HK\$6,204,000.</p> <p>The directors of the Company prepared a working capital forecast (the "Working Capital Forecast") for a period of 12 months ending on 31 December 2019, which have taken into the consideration of the Group's financial performance, working capital, liquidity position, available facilities from its principal bankers, financial institutions and a director, and the stability of the Group's business, operations and relationships with its suppliers, bankers and financial institutions. In view of this, 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.</p> <p>We focused in this area as the management's assessment on the Group's ability to continue as a going concern involves significant judgment about inherently uncertain future outcomes of events or conditions.</p>	<p>We obtained the Working Capital Forecast and tested its principles and integrity. We challenged the key assumptions used in the Working Capital Forecast, including revenue projection and financing facilities and resources available to the Group during the forecast period by comparing the Group's historical results to its forecasted amounts.</p> <p>We ran through the terms of agreements with bank, financial institutions and other lenders to determine whether any of these agreements were breached.</p> <p>We performed interview with the Group's principal bankers to confirm the existence of the banking facilities.</p> <p>We obtained loan covenants calculation to consider whether all financial covenants attached to the subscription agreement with notes holder and bank loan agreement have been complied with by the Group.</p>

INDEPENDENT AUDITOR'S REPORT

INFORMATION OTHER THAN THE CONSOLIDATED FINANCIAL STATEMENTS AND AUDITOR'S REPORT THEREON

The directors are responsible for the other information. The other information comprises all the information included in the annual report, other than the consolidated financial statements and our auditor's report thereon.

Our opinion on the consolidated financial statements does not cover the other information and we do not express any form of assurance conclusion thereon.

In connection with our audit of the consolidated financial statements, our responsibility is to read the other information and, in doing so, consider whether the other information is materially inconsistent with the consolidated financial statements or our knowledge obtained in the audit, or otherwise appears to be materially misstated.

If, based on the work we have performed, we conclude that there is a material misstatement of this other information, we are required to report that fact. We have nothing to report in this regard.

RESPONSIBILITIES OF DIRECTORS AND THOSE CHARGED WITH GOVERNANCE FOR THE CONSOLIDATED FINANCIAL STATEMENTS

The directors are responsible for the preparation of consolidated financial statements that give a true and fair view in accordance with HKFRSs issued by the HKICPA and the Hong Kong Companies Ordinance, and for such internal control as the directors determine is necessary to enable the preparation of consolidated financial statements that are free from material misstatement, whether due to fraud or error.

In preparing the consolidated financial statements, the directors are responsible for assessing the Group's ability to continue as a going concern, disclosing, as applicable, matters related to going concern and using the going concern basis of accounting unless the directors either intend to liquidate the Group or to cease operations, or have no realistic alternative but to do so.

The directors are assisted by the Audit Committee in discharging their responsibilities for overseeing the Group's financial reporting process.

AUDITOR'S RESPONSIBILITY FOR THE AUDIT OF THE CONSOLIDATED FINANCIAL STATEMENTS

Our objectives are to obtain reasonable assurance about whether the consolidated financial statements as a whole are free from material misstatement, whether due to fraud or error, and to issue an auditor's report that includes our opinion. This report is made solely to you, as a body, in accordance with section 405 of 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.

Reasonable assurance is a high level of assurance, but is not a guarantee that an audit conducted in accordance with HKSAAs will always detect a material misstatement when it exists. Misstatements can arise from fraud or error and are considered material if, individually or in the aggregate, they could reasonably be expected to influence the economic decisions of users taken on the basis of these consolidated financial statements.

INDEPENDENT AUDITOR'S REPORT

AUDITOR'S RESPONSIBILITY FOR THE AUDIT OF THE CONSOLIDATED FINANCIAL STATEMENTS

(Continued)

As part of an audit in accordance with HKSAAs, we exercise professional judgement and maintain professional skepticism throughout the audit. We also:

- Identify and assess the risks of material misstatement of the consolidated financial statements, whether due to fraud or error, design and perform audit procedures responsive to those risks, and obtain audit evidence that is sufficient and appropriate to provide a basis for our opinion. The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control.
- Obtain an understanding of internal control relevant to the audit 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 Group's internal control.
- Evaluate the appropriateness of accounting policies used and the reasonableness of accounting estimates and related disclosures made by the directors.
- Conclude on the appropriateness of the directors' use of the going concern basis of accounting and, based on the audit evidence obtained, whether a material uncertainty exists related to events or conditions that may cast significant doubt on the Group's ability to continue as a going concern. If we conclude that a material uncertainty exists, we are required to draw attention in our auditor's report to the related disclosures in the consolidated financial statements or, if such disclosures are inadequate, to modify our opinion. Our conclusions are based on the audit evidence obtained up to the date of our auditor's report. However, future events or conditions may cause the Group to cease to continue as a going concern.
- Evaluate the overall presentation, structure and content of the consolidated financial statements, including the disclosures, and whether the consolidated financial statements represent the underlying transactions and events in a manner that achieves fair presentation.
- Obtain sufficient appropriate audit evidence regarding the financial information of the entities or business activities within the Group to express an opinion on the consolidated financial statements. We are responsible for the direction, supervision and performance of the group audit. We remain solely responsible for our audit opinion.

We communicate with the Audit Committee regarding, among other things, the planned scope and timing of the audit and significant audit findings, including any significant deficiencies in internal control that we identify during our audit.

We also provide the Audit Committee with a statement that we have complied with relevant ethical requirements regarding independence and to communicate with them all relationships and other matters that may reasonably be thought to bear on our independence and, where applicable, related safeguards.

INDEPENDENT AUDITOR'S REPORT

AUDITOR'S RESPONSIBILITY FOR THE AUDIT OF THE CONSOLIDATED FINANCIAL STATEMENTS*(Continued)*

From the matters communicated with the Audit Committee, we determine those matters that were of most significance in the audit of the consolidated financial statements of the current period and are therefore the key audit matters. We describe these matters in our auditor's report unless law or regulation precludes public disclosure about the matter or when, in extremely rare circumstances, we determine that a matter should not be communicated in our report because the adverse consequences of doing so would reasonably be expected to outweigh the public interest benefits of such communication.

The engagement partner on the audit resulting in this independent auditor's report is CHAN Ho Yin, Graham.

Graham H.Y. Chan & Co.*Certified Public Accountants (Practising)*

Hong Kong, 25 March 2019

CONSOLIDATED STATEMENT OF PROFIT OR LOSS AND OTHER COMPREHENSIVE INCOME

For the year ended 31 December 2018

	Notes	2018 HK\$'000	2017 HK\$'000
Revenue	6	406,879	491,428
Cost of sales		(321,136)	(383,710)
Gross profit		85,743	107,718
Other income	8	17,661	21,380
Other losses, net	9	(775)	(2,263)
Impairment loss on property, plant and equipment	16	(2,203)	–
Impairment loss on prepaid forestlands lease payments	17	(5,366)	–
Gain arising from agricultural produce at fair values less costs to sell at the point of harvest	18	1,583	1,421
Net (loss)/gain arising from changes in fair values less costs to sell of biological assets	18	(64,516)	5,477
Selling and distribution expenses		(31,737)	(41,342)
Administration expenses		(30,079)	(36,771)
Finance costs	10	(27,787)	(25,325)
(Loss)/profit before tax		(57,476)	30,295
Income tax expense	12	(2,138)	–
(Loss)/profit for the year attributable to owners of the Company	13	(59,614)	30,295
Other comprehensive (loss)/income which will not be reclassified subsequently to profit or loss:			
Exchange differences arising on translation to presentation currency		(22,879)	26,879
Other comprehensive (loss)/income for the year		(22,879)	26,879
Total comprehensive (loss)/income for the year		(82,493)	57,174
Total comprehensive (loss)/income attributable to owners of the Company		(82,493)	57,174
Basic and diluted (loss)/earnings per share, in HK cents	14	(7.16)	3.64

CONSOLIDATED STATEMENT OF FINANCIAL POSITION

As at 31 December 2018

	Notes	2018 HK\$'000	2017 HK\$'000
NON-CURRENT ASSETS			
Property, plant and equipment	16	339,042	364,375
Prepaid lease payments	17	42,567	48,558
Biological assets	18	102,602	127,855
Intangible assets	19	2,559	3,150
Deferred tax assets	12	350	2,532
Prepayments for acquisition of property, plant and equipment	22	3,455	8,168
Prepayments for acquisition of forestry rights of the forestlands	22	–	28,233
Security deposit	22	1,712	–
Pledged bank deposit	23	–	9,472
		492,287	592,343
CURRENT ASSETS			
Inventories	20	126,626	105,121
Trade and bills receivables	21	49,139	62,633
Deposits, prepayments and other receivables	22	42,357	42,783
Biological assets	18	–	22,402
Bank balances and cash	23	6,204	27,494
Pledged bank deposit	23	6,277	–
		230,603	260,433
CURRENT LIABILITIES			
Trade payables	24	34,058	28,523
Other payables and accrued expenses	25	25,721	27,966
Contract liabilities	26	4,502	–
Bank and other borrowings, due within one year	27	202,514	208,971
Deferred income	28	3,738	4,382
Bonds, secured and guaranteed	29	–	92,385
		270,533	362,227
NET CURRENT LIABILITIES		(39,930)	(101,794)
TOTAL ASSETS LESS CURRENT LIABILITIES		452,357	490,549

CONSOLIDATED STATEMENT OF FINANCIAL POSITION

As at 31 December 2018

	Notes	2018 HK\$'000	2017 HK\$'000
NON-CURRENT LIABILITIES			
Deferred tax liabilities	12	560	587
Bank and other borrowings, due after one year	27	3,184	53,909
Deferred income	28	34,113	35,791
Notes payable, secured and guaranteed	29	96,731	–
		134,588	90,287
NET ASSETS			
		317,769	400,262
CAPITAL AND RESERVES			
Share capital	30	253,928	253,928
Reserves		63,841	146,334
EQUITY ATTRIBUTABLE TO OWNERS OF THE COMPANY AND TOTAL EQUITY			
		317,769	400,262

The consolidated financial statements on pages 49 to 139 were approved and authorised for issue by the Board of Directors on 25 March 2019 and are signed on its behalf by:

Wong Cheung Lok
Director

Liu Jiayong
Director

CONSOLIDATED STATEMENT OF CHANGES IN EQUITY

For the year ended 31 December 2018

	Share capital HK\$'000	Capital reserve HK\$'000 (note (i))	Statutory reserve HK\$'000 (note (ii))	Foreign currency translation reserve HK\$'000	Retained profits HK\$'000	Total HK\$'000
Balance at 1 January 2017	253,928	(16,968)	18,011	(28,712)	116,829	343,088
Profit for the year	-	-	-	-	30,295	30,295
Other comprehensive income:						
Exchange differences arising on translation to presentation currency	-	-	-	26,879	-	26,879
Total comprehensive income for the year	-	-	-	26,879	30,295	57,174
Transfer to statutory reserve	-	-	4,830	-	(4,830)	-
Balance at 31 December 2017 and 1 January 2018	253,928	(16,968)	22,841	(1,833)	142,294	400,262
Loss for the year	-	-	-	-	(59,614)	(59,614)
Other comprehensive loss:						
Exchange differences arising on translation to presentation currency	-	-	-	(22,879)	-	(22,879)
Total comprehensive loss for the year	-	-	-	(22,879)	(59,614)	(82,493)
Transfer to statutory reserve	-	-	2,994	-	(2,994)	-
Balance at 31 December 2018	253,928	(16,968)	25,835	(24,712)	79,686	317,769

- (i) Capital reserve represents the excess of consideration paid by the Company for acquiring the entire shares capital of Hongwei Wooden Products (Renhua) Company Limited ("Hongwei Renhua") over its capital at the time of the group reorganisation in the year 2012.
- (ii) 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 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 2018

	Notes	2018 HK\$'000	2017 HK\$'000
Cash flows from operating activities			
(Loss)/profit before tax		(57,476)	30,295
Adjustments for:			
Interest income	8	(101)	(129)
Net foreign exchange losses	9	66	258
Loss on disposal of forestry rights of the forestlands	9	–	2,005
Impairment loss on property, plant and equipment	16	2,203	–
Impairment loss on prepaid forestlands lease payments	17	5,366	–
Net loss/(gain) arising from changes in fair values less costs to sell of biological assets	18	64,516	(5,477)
Finance costs	10	27,787	25,325
Depreciation and amortisation	13	30,765	28,207
Loss allowances on trade receivables	9	709	–
Release of government grants	28	(3,749)	(3,210)
		70,086	77,274
Movements in working capital:			
Decrease/(increase) in trade and bills receivables		10,279	(9,100)
(Increase)/decrease in deposits, prepayments and other receivables		(1,659)	5,433
Increase in inventories		(21,505)	(1,597)
Increase in trade payable		6,846	10,097
Increase/(decrease) in other payables, accrued expenses and contract liabilities		3,344	(2,144)
Net cash generated from operating activities		67,391	79,963
Cash flows from investing activities			
Payments for property, plant and equipment		(16,457)	(24,740)
Prepayments for acquisition of property, plant and equipment		(1,235)	(8,039)
Payments made for acquisition of forestry rights of the forestlands	22(ii)	–	(42,287)
Proceeds received from disposal of an intangible asset		–	7,150
Placement of pledged bank deposits		(503)	(2,844)
Withdrawal of pledged bank deposits		3,214	11,802
Withdrawal of a fixed deposit with original terms over 3 months		3,861	–
Proceeds received from disposal of forestry rights of the forestlands		–	10,795
Interest received		23	26
Government grants received	28	4,036	5,259
Government grants returned	28	(809)	–
Net cash used in investing activities		(7,870)	(42,878)

CONSOLIDATED STATEMENT OF CASH FLOWS

For the year ended 31 December 2018

	Notes	2018 HK\$'000	2017 HK\$'000
Cash flows from financing activities			
Amounts advanced from a director of the Company	38(b)	6,524	18,675
Amounts repaid to a director of the Company	38(b)	(6,333)	(18,735)
Net proceeds from bank and other borrowings		230,180	172,012
Repayment of bank and other borrowings		(281,495)	(251,117)
Net proceeds from notes payable		91,173	–
Net proceeds from bonds		–	89,161
Repayment of bonds		(99,151)	(17,000)
Interest paid		(11,687)	(15,367)
Net cash used in financing activities	32	(70,789)	(22,371)
Net (decrease)/increase in cash and cash equivalents		(11,268)	14,714
Cash and cash equivalents at the beginning of the year		23,832	8,601
Effect of foreign exchange rate changes		(6,360)	517
Cash and cash equivalents at the end of the year	23	6,204	23,832

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 31 December 2018

1. GENERAL INFORMATION

Hong Wei (Asia) Holdings Company Limited (the "**Company**") was incorporated with limited liability in Hong Kong on 28 May 2012. Its ultimate controlling party and chairman of the Company is Mr. Wong Cheung Lok ("**Mr. Wong**"), who owned 51.65% direct interest of the Company as at 31 December 2018. The address of the Company's registered office and its principal place of business is Unit 504, 5/F, Tower 2, Admiralty Centre, 18 Harcourt Road, Admiralty, Hong Kong.

During the year, the Company's principal activity is investment holding and its principal subsidiaries are principally engaged in manufacturing and selling of particleboards and forestry business in the PRC.

The functional currency of the Company is Renminbi ("**RMB**"), while these consolidated financial statements are presented in Hong Kong dollar ("**HKD**"), 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 GEM of The Stock Exchange of Hong Kong Limited (the "**Stock Exchange**").

2. BASIS OF PREPARATION OF THE CONSOLIDATED FINANCIAL STATEMENTS

As at 31 December 2018, the Group's current liabilities exceeded its current assets by approximately HK\$39,930,000 (2017: HK\$101,794,000). Its current liabilities, including bank and other borrowings of approximately HK\$202,514,000 (2017: HK\$ 208,971,000) due within one year (note 27), exceeded its cash and cash equivalents of approximately HK\$6,204,000 (2017: HK\$23,832,000).

The directors of the Company prepared a working capital forecast for a period of 12 months ending on 31 December 2019, which have taken into the consideration of the Group's financial performance, working capital, liquidity position, available facilities from its principal bankers, financial institutions and a director, and the stability of the Group's business, operations and relationships with its suppliers, bankers and financial institutions. In view of this, 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.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 31 December 2018

3. APPLICATION OF NEW AND REVISED HONG KONG FINANCIAL REPORTING STANDARDS ("HKFRSs")

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

Amendments to HKFRS 2	Classification and Measurement of Share-based Payment Transactions
Amendments to HKFRS 4	Applying HKFRS 9 Financial Instruments with HKFRS 4 Insurance Contracts
HKFRS 9	Financial Instruments
HKFRS 15	Revenue from Contracts with Customers
Amendments to HKFRS 15	Clarification to HKFRS 15 Revenue from Contracts with Customers
Annual Improvements 2014 – 2016 Cycle	Amendments to HKFRS 1 and HKAS 28
Amendments to HKAS 40	Transfer of Investment Properties
HK(IFRIC) - Int 22	Foreign Currency Transactions and Advance Consideration

Except for the adoption of HKFRS 9 and HKFRS 15, the adoption of the interpretation and amendments to HKFRSs has no material effect on the Group's financial position and financial performance for the current and prior years. The impacts on HKFRS 9 and HKFRS 15 are described as follows:

HKFRS 9 Financial Instruments

The Group has adopted HKFRS 9 on 1 January 2018. HKFRS 9 introduces new requirements for classification and measurement of financial assets and financial liabilities, expected credit losses ("ECL") for financial assets and other items (for example, contract assets and lease receivables) and general hedge accounting, which have resulted in the following significant changes in accounting policies.

The Group has applied HKFRS 9 in accordance with the transition provisions set out in HKFRS 9. i.e. applied the classification and measurement requirements (including impairment) retrospectively to instruments that have not been derecognised as at 1 January 2018 (date of initial application) and has not applied the requirements to instruments that have already been derecognised as at 1 January 2018. The difference between carrying amounts as at 31 December 2017 and the carrying amounts as at 1 January 2018, if any, are recognised in the opening retained profits and other components of equity, without restating comparative information. Accordingly, certain comparative information may not be comparable as comparative information was prepared under HKAS 39 "Financial Instruments: Recognition and Measurement".

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 31 December 2018

3. APPLICATION OF NEW AND REVISED HONG KONG FINANCIAL REPORTING STANDARDS ("HKFRSs") (Continued)

HKFRS 9 Financial Instruments (Continued)

The Group's financial assets consist of trade and bills receivables, cash and bank balances, pledged fixed deposit and security deposit that are subsequently measured at amortised costs. The Group applies the HKFRS 9 simplified approach to measuring expected credit losses, using a lifetime expected loss allowance for all trade and bills receivables. Cash and bank balances, pledged fixed deposit and security deposit are also subject to the impairment requirements of HKFRS 9 and, due to their nature, the ECLs on these balances are immaterial.

To measure the expected credit losses, all trade and bills receivables have been grouped based on shared credit risk characteristics and days past due. The loss allowance for trade and bills receivables applying lifetime expected credit loss as compared to incurred loss model of HKAS 39 did not result in a material difference and hence did not result in an adjustment of opening retained earnings as of 1 January 2018. As at 31 December 2018, the loss allowance for trade and bills receivables applying lifetime expected credit loss amounted to approximately HK\$752,000. Further details are set out in note 37(b) to the consolidated financial statements.

HKFRS 15 Revenue from Contracts with Customers

HKFRS 15 supersedes HKAS 11 Construction Contracts, HKAS 18 Revenue and related Interpretations and it applies to all revenue arising from contracts with customers, unless those contracts are in the scope of other standards. The new standard establishes a five-step model to account for revenue arising from contracts with customers. Under HKFRS 15, revenue is recognised at an amount that reflects the consideration to which an entity expects to be entitled in exchange for transferring goods or services to a customer.

The standard requires entities to exercise judgement, taking into consideration all of the relevant facts and circumstances when applying each step of the model to contracts with their customers. The standard also specifies the accounting for the incremental costs of obtaining a contract and the costs directly related to fulfilling a contract. The adoption of HKFRS 15 does not have any material impact on the Group's consolidated financial statements as of 1 January 2018. As a result of adopting HKFRS 15, the Group has recognised contract liabilities with balance of approximately HK\$4,502,000 as at 31 December 2018. Such balance is related to the Group's obligation to delivery of goods to customers for which the Group has received consideration from customers in advance. Further details relating to contract liabilities are set out in note 26 to the consolidated financial statements.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 31 December 2018

3. APPLICATION OF NEW AND REVISED HONG KONG FINANCIAL REPORTING STANDARDS ("HKFRSs") (Continued)

The Group has not early applied the following new standards, interpretation and amendments to HKFRSs that have been issued but are not yet effective:

HKFRS 16	Leases ¹
HKFRS 17	Insurance Contracts ⁴
HK(IFRIC) – Int 23	Uncertainty over Income Tax Treatments ¹
Amendments to HKFRS 3	Definition of a Business ³
Amendments to HKFRS 9	Prepayment Features with Negative Compensation ¹
Amendments to HKFRS 10 and HKAS 28 (2011)	Sale or Contribution of Assets between an Investor and its Associate or Joint Venture ⁵
Amendments to HKAS 1 and HKAS 8	Amendments to Definition of Material ²
Amendments to HKAS 19	Plan Amendment, Curtailment or Settlement ¹
Amendments to HKAS 28	Long-term Interests in Associates and Joint Ventures ¹
Amendments to HKFRSs	Annual Improvements to HKFRSs 2015 – 2017 Cycle ¹

¹ Effective for annual periods beginning on or after 1 January 2019

² Effective for annual periods beginning on or after 1 January 2020

³ Effective for business combinations for which the acquisition date is on or after the beginning of the first annual reporting period beginning on or after 1 January 2020 and to asset acquisitions that occur on or after the beginning of that period

⁴ Effective for annual periods beginning on or after 1 January 2021

⁵ Effective for annual periods beginning on or after a date to be determined

Except for adoption of HKFRS 16, the directors of the Company do not anticipate that the application of the other new standard, interpretation and amendments to HKFRSs above will have a material effect on the Group's consolidated financial statements.

HKFRS 16 Leases

HKFRS 16 introduces a comprehensive model for the identification of lease arrangements and accounting treatments for both lessors and lessees. HKFRS 16 will supersede HKAS 17 Leases and the related interpretations when it becomes effective.

HKFRS 16 distinguishes lease and service contracts on the basis of whether an identified assets is controlled by a customer. Distinctions of operating leases and finance leases are removed for lessee accounting, and is replaced by a model where a right-of-use asset and a corresponding liability have to be recognised for all leases by lessees, except for short-term leases and leases of low value assets.

The right-of-use asset is initially measured at cost and subsequently measured at cost (subject to certain exceptions) less accumulated depreciation and impairment losses, adjusted for any remeasurement of the lease liability. The lease liability is initially measured at the present value of the lease payments that are not paid at that date. Subsequently, the lease liability is adjusted for interest and lease payments, as well as the impact of lease modifications, amongst others.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 31 December 2018

3. APPLICATION OF NEW AND REVISED HONG KONG FINANCIAL REPORTING STANDARDS ("HKFRSs") *(Continued)*

HKFRS 16 Leases *(Continued)*

Under HKAS 17, the Group has already recognised prepaid lease payments for leasehold lands and forestlands where the Group is a lessee.

Lessor accounting remains largely unchanged under the new standard.

The Group intends to elect the practical expedient to apply HKFRS 16 to contracts that were previously identified as leases applying HKAS 17 and not apply this standard to contracts that were not previously identified as containing a lease applying HKAS 17. Therefore, the Group will not reassess whether the contracts are, or contain a lease which already existed prior to the date of initial application. Further, the Group elected the modified retrospective approach for the application of HKFRS 16 as lessee without restating comparative information. The directors of the Company estimates that the adoption of HKFRS 16 has no material impact on the Group's consolidated statement of financial position as at 1 January 2019 (date of initial application of HKFRS 16) and the Group's future financial performance as the Group's non-cancellable operating lease has remaining terms of less than 12 months from 1 January 2019 and HKFRS 16 permits the Group to apply the practical expedient on such lease by recognising the lease payments as expenses on a straight-line basis over the remaining lease terms.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 31 December 2018

4. SIGNIFICANT ACCOUNTING POLICIES

The consolidated financial statements have been prepared in accordance with HKFRSs, which collective terms include all applicable individual HKFRSs, Hong Kong Accounting Standards (“**HKASs**”) and interpretations issued by the HKICPA, accounting principles generally accepted in Hong Kong and the requirements of Hong Kong Companies Ordinance. In addition, these consolidated financial statements include applicable disclosures provisions of the GEM Listing Rules.

The consolidated financial statements have been prepared on the historical cost, except for biological assets which are measured at fair values less costs to sell 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.

Fair value is the price that would be received to sell an asset or paid to transfer a liability in an orderly transaction between market participants at the measurement date, regardless of whether that price is directly observable or estimated using another valuation technique. In estimating the fair value of an asset or a liability, the Group takes into account the characteristics of the asset or liability if market participants would take those characteristics into account when pricing the asset or liability at the measurement date. Fair value for measurement and/or disclosure purposes in these consolidated financial statements is determined on such a basis, except for share-based payment transactions that are within the scope of HKFRS 2, leasing transactions that are within the scope of HKAS 17, and measurements that have some similarities to fair value but are not fair value, such as net realisable value in HKAS 2 or value in use in HKAS 36.

In addition, for financial reporting purposes, fair value measurements are categorised into Level 1, 2 or 3 based on the degree to which the inputs to the fair value measurements are observable and the significance of the inputs to the fair value measurement in its entirety, which are described as follows:

- Level 1 inputs are quoted prices (unadjusted) in active markets for identical assets or liabilities that the entity can access at the measurement date;
- Level 2 inputs are inputs, other than quoted prices included with Level 1, that are observable for the asset or liability, either directly or indirectly; and
- Level 3 inputs are unobservable inputs for the asset or liability.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 31 December 2018

4. SIGNIFICANT ACCOUNTING POLICIES (Continued)

The principal accounting policies are set out below:

(a) 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 in 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.

(b) Investment in subsidiaries

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

(c) Revenue recognition

Revenue recognition under HKAS 18 for the year ended 31 December 2017

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 2018

4. SIGNIFICANT ACCOUNTING POLICIES *(Continued)***(c) Revenue recognition** *(Continued)***Revenue recognition under HKAS 18 for the year ended 31 December 2017** *(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.

Revenue recognition under HKFRS 15 for the year ended 31 December 2018

Revenue is recognised to depict the transfer of promised goods or services to customers in an amount that reflects the consideration to which the Group expects to be entitled in exchange for those goods or services. Specifically, the Group uses a five-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

The Group 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 customers.

A performance obligation represents a good and service (or a bundle of goods and services) that is distinct or a service of distinct goods or services that are substantially the same.

Control of the asset may be transferred over time or at a point in time. Control of the asset is transferred over time if:

- the customer simultaneously receives and consumes the benefits provided by the Group's performance as the Group performs;
- the Group's performance creates and enhances an asset that the customer controls as the Group performs; or
- the Group's performance does not create an asset with an alternative use to the Group and the Group has an enforceable right to payment for performance completed to date.

If control of the asset transfers over time, revenue is recognised over the period of the contract by reference to the progress towards complete satisfaction of that performance obligation. Otherwise, revenue is recognised at a point in time when the customer obtains control of the asset.

For sale of goods, revenue is recognised when the customer obtains the control of the goods and the Group has present right to payment and the collection of the consideration is probable.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 31 December 2018

4. SIGNIFICANT ACCOUNTING POLICIES *(Continued)***(c) Revenue recognition** *(Continued)***Revenue recognition under HKFRS 15 for the year ended 31 December 2018** *(Continued)**Existence of significant financing component*

In determining the transaction price, the Group adjusts the promised amount of consideration for the effects of the time value of money if the timing of payments agreed (either explicitly or implicitly) provides the customer or the Group with a significant benefit of financing the transfer of goods or services to the customer. In those circumstances, the contract contains a significant financing component. A significant financing component may exist regardless of whether the promise of financing is explicitly stated in the contract or implied by the payment terms agreed to by the parties to the contract.

For contracts where the period between payment and transfer of the associated goods or services is less than one year, the Group applies the practical expedient of not adjusting the transaction price for any significant financing component.

For advance payments received from customers before the transfer of the associated goods or services in which the Group adjusts for the promised amount of consideration for a significant financing component, the Group applies a discount rate that would be reflected in a separate financing transaction between the Group and the customer at contract inception. The relevant interest expenses during the period between the advance payments were received and the transfer of the associated goods and services are accounted for on the same basis as other borrowing costs.

Incremental costs of obtaining a contract

Incremental costs of obtaining a contract are those costs that the Group incurs to obtain a contract with a customer that it would not have incurred if the contract had not been obtained.

The Group recognises such costs (sales commissions and stamp duty paid/payable) as an asset if it expects to recover these costs. The asset so recognised is subsequently amortised to profit or loss on a systematic basis that is consistent with the transfer to the customer of the goods or services to which the assets relate. The asset is subject to impairment review.

The Group applies the practical expedient of expensing all incremental costs to obtain a contract if these costs would otherwise have been fully amortised to profit or loss within one year.

Contract assets and liabilities

A contract asset represents the Group's right to consideration in exchange for goods or services that the Group has transferred to a customer that is not yet unconditional. It is assessed for impairment in accordance with HKFRS 9. In contrast, a receivable represents the Group's unconditional right to consideration, i.e. only the passage of time is required before payment of that consideration is due.

A contract liability represents the Group's obligation to transfer goods or services to a customer for which the Group has received consideration (or an amount of consideration is due) from the customer. Deposit and prepayments are typically received from purchasers in advance of revenue recognition and they are presented as contract liabilities under current liabilities.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 31 December 2018

4. SIGNIFICANT ACCOUNTING POLICIES *(Continued)***(d) Leasing*****Finance leases***

Leases that transfer substantially all the rewards and risks of ownership of assets to the Group, other than legal title, are accounted for as finance leases. At the inception of a finance lease, the cost of the leased asset is capitalised at the present value of the minimum lease payments and recorded together with the obligation, excluding the interest element, to reflect the purchase and financing. Asset held under capitalised finance leases are included in "property, plant and equipment", and depreciated over the shorter of the lease terms and the estimated useful lives of the assets. The finance costs of such leases are charged to profit or loss so as to provide a constant periodic rate of charge over the lease terms.

Operating leases

Leases where substantially all the rewards and risks of ownership of assets remain with the lessor are accounted for as operating leases.

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 within "prepaid lease payments" in the consolidated statement of financial position and is amortised over the lease term on a straight-line basis.

Forestlands

The initial costs of forestlands lease payments represent the allocated consideration arising from acquisition of forestry rights the forestlands, basing on the proportion of relative fair values of leasehold interests in the forestlands and biological assets at initial recognition and are accounted for as an operating lease. Leasehold interests in forestlands are presented within "prepaid lease payments" in the consolidated statement of financial position and is amortised over the remaining lease terms on a straight-line basis.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 31 December 2018

4. SIGNIFICANT ACCOUNTING POLICIES *(Continued)***(e) 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 Company (i.e. HKD) 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.

(f) 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.

(g) 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.

(h) 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.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 31 December 2018

4. SIGNIFICANT ACCOUNTING POLICIES *(Continued)***(i) 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 (loss)/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 is realised, based on tax rates (and tax laws) that have been enacted or substantively enacted by the end of the reporting period.

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.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 31 December 2018

4. SIGNIFICANT ACCOUNTING POLICIES *(Continued)*

(j) 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 statement 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.

(k) Intangible assets acquired separately

Intangible assets with finite useful lives that are acquired separately are carried at costs less accumulated amortisation and any accumulated impairment losses. Amortisation for intangible assets with finite useful lives is recognised on a straight-line basis over their estimated useful lives. The estimated useful life and amortisation method are reviewed at the end of each reporting period, with the effect of any changes in estimate being accounted for on a prospective basis.

(l) Internally-generated intangible assets – research and development expenditure

Expenditure on research activities is recognised as an expense in the period in which it is incurred.

An internally-generated intangible assets arising from development activities is recognised if, and only if, all of the following have been demonstrated:

- the technical feasibility of completing the intangible asset so that it will be available for use or sale;
- the intention to complete the intangible asset and use or sell it;
- the ability to use or sell the intangible asset;
- how the intangible asset will generate probable future economic benefits;
- the availability of adequate technical, financial and other resources to complete the development and to use or sell the intangible asset; and
- the ability to measure reliably the expenditure attributable to the intangible asset during its development.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 31 December 2018

4. SIGNIFICANT ACCOUNTING POLICIES *(Continued)***(l) Internally-generated intangible assets – research and development expenditure**

(Continued)

The amount initially recognised for internally-generated intangible asset is the sum of the expenditure incurred from the date when the intangible asset first meets the recognition criteria listed above. Where no internally-generated intangible asset can be recognised, development expenditure is recognised in profit or loss in the period in which it is incurred.

Subsequent to initial recognition, internally-generated intangible assets are reported at cost less accumulated amortisation and accumulated impairment losses (if any), on the same basis as intangible assets that are acquired separately.

(m) Impairment of tangible and intangible assets

At the end of each reporting period, the Group reviews the carrying amounts of its tangible and intangible 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 values less costs to sell 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.

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.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 31 December 2018

4. SIGNIFICANT ACCOUNTING POLICIES *(Continued)*

(n) Biological assets

Biological assets are standing timber trees attached to the forestlands which could be logged to produce timber woods as agricultural produce. Biological assets are measured at fair value less costs to sell at initial recognition and at the end of each reporting period. Agricultural produce is measured at fair value less costs to sell at the point of harvest, which is deemed as the cost at that date when the agricultural produce becomes inventory. Fair values less costs to sell of biological assets are determined with reference to the work performed by independent professional valuers. Costs to sell are the incremental costs directly attributable to the disposal of an asset, excluding finance costs and income taxes. Gain or loss arising on initial recognition and subsequent changes in fair values less costs to sell of biological assets is recognised in profit or loss in the period in which it arises.

Subsequent expenditure relating to producing and harvesting biological assets are charged to expenses when incurred and costs that increase the number of units of biological assets owned or controlled by the Group are capitalised in the carrying amount of the biological assets.

(o) 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.

(p) Financial instruments (before the adoption of HKFRS 9 as at 1 January 2018)

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 loans and receivables. The classification depends on the nature and purpose of the financial assets and is determined at the time of initial recognition. All regular way purchases and sales of financial assets are recognised and derecognised on a trade date basis. Regular way purchases or sales are purchases or sales of financial assets that require delivery of assets within the time frame established by regulation or convention in the market place.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 31 December 2018

4. SIGNIFICANT ACCOUNTING POLICIES *(Continued)***(p) Financial instruments (before the adoption of HKFRS 9 as at 1 January 2018)** *(Continued)**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 fair value through profit or loss, of which interest income is included in net gain or losses.

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 receivables, bank balances and cash and pledged bank deposit) 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.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 31 December 2018

4. SIGNIFICANT ACCOUNTING POLICIES (Continued)

(p) Financial instruments (before the adoption of HKFRS 9 as at 1 January 2018) (Continued)

Impairment of loans and receivables (Continued)

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.

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 trade and other payables, bank and other borrowings, and bonds) are subsequently measured at amortised cost using the effective interest method.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 31 December 2018

4. SIGNIFICANT ACCOUNTING POLICIES *(Continued)***(p) Financial instruments (before the adoption of HKFRS 9 as at 1 January 2018)** *(Continued)**Financial liabilities (Continued)*

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.

(q) Financial instruments (under HKFRS 9)

Financial assets and financial liabilities are recognised in the Group's consolidated statements of financial position when the group entity becomes a party to the contractual provisions of the instrument.

Recognised financial assets and financial liabilities are initially measured at fair value except for trade receivables arising from contracts with customers which are initially measured in accordance with HKFRS 15 since 1 January 2018. Transaction costs that are directly attributable to the acquisition or issue of financial assets and financial liabilities 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 in profit or loss ("FVTPL").

Financial assets

All recognised financial assets that are within the scope of HKFRS 9 are required to be subsequently measured at amortised cost or fair value on the basis of the Group's business model for managing the financial assets and the contractual cash flow characteristics of the financial assets.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 31 December 2018

4. SIGNIFICANT ACCOUNTING POLICIES (Continued)

(q) Financial instruments (under HKFRS 9) (Continued)

Financial assets (Continued)

Specifically,

- (i) debt instruments that are held within a business model whose objective is to collect the contractual cash flows, and that have contractual cash flows that are solely payments of principal and interest on the principal amount outstanding ("**SPPI**"), are subsequently measured at amortised cost;
- (ii) debt instruments that are held within a business model whose objective is both to collect the contractual cash flows and to sell the debt instruments, and that have contractual cash flows that are SPPI, are subsequently measured at fair value through other comprehensive income ("**FVTOCI**"); and
- (iii) all other debt instruments and equity investments are subsequently measured at FVTPL.

However, the Group may make the following irrevocable election/designation at initial recognition of a financial asset on an instrument-by-instrument basis:

- the Group may irrevocably elect to present subsequent changes in fair value of an equity investment that is neither held for trading nor contingent consideration recognised by an acquirer in a business combination to which HKFRS 3 applies, in other comprehensive income ("**OCI**"); and
- the Group may irrevocably designate a debt instrument that meets the amortised cost or FVTOCI criteria as measured at FVTPL if doing so eliminates or significantly reduces an accounting mismatch (referred to as the fair value option).

Amortised cost and 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.

For financial instruments other than purchased or originated credit-impaired financial assets, 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) excluding expected credit losses ("**ECLs**"), through the expected life of the debt instrument, or, where appropriate, a shorter period, to the gross carrying amount of the debt instrument on initial recognition.

The amortised cost of a financial asset is the amount at which the financial asset is measured at initial recognition minus the principal repayments, plus the cumulative amortisation using the effective interest method of any difference between that initial amount and the maturity amount, adjusted for any loss allowance. On the other hand, the gross carrying amount of a financial asset is the amortised cost of a financial asset before adjusting for any loss allowance.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 31 December 2018

4. SIGNIFICANT ACCOUNTING POLICIES (Continued)**(q) Financial instruments (under HKFRS 9)** (Continued)*Amortised cost and effective interest method (Continued)*

Interest income is recognised using the effective interest method for debt instruments measured subsequently at amortised cost. For financial instruments other than purchased or originated credit impaired financial assets, interest income is calculated by applying the effective interest rate to the gross carrying amount of a financial asset, except for financial assets that have subsequently become credit-impaired. For financial assets that have subsequently become credit-impaired, interest income is recognised by applying the effective interest rate to the amortised cost of the financial asset from the next reporting period. If, in subsequent reporting periods, the credit risk on the credit-impaired financial instrument improves so that the financial asset is no longer credit-impaired, interest income is recognised by applying the effective interest rate to the gross carrying amount of the financial asset from the beginning of the reporting period following the determination that the asset is no longer credit impaired.

Interest income is recognised in profit or loss and is included in the “**Other income**” line item.

Debt instruments that are subsequently measured at amortised cost are subject to impairment.

Impairment of financial assets

The Group recognises loss allowances for ECLs on the following financial instruments that are neither measured at FVTPL nor equity instruments designated at FVTOCI which are subject to impairment under HKFRS 9:

- (a) trade and bills receivables;
- (b) security deposit; and
- (c) pledged bank deposits and bank balances and cash.

ECLs are required to be measured through a loss allowance at an amount equal to:

- (a) 12-month ECLs, i.e. lifetime ECLs that result from those default events on the financial instrument that are possible within 12 months after the reporting date (referred to as Stage 1); or
- (b) Lifetime ECLs, i.e. lifetime ECLs that result from all possible default events over the life of the financial instrument (referred to as Stage 2 and Stage 3).

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 31 December 2018

4. SIGNIFICANT ACCOUNTING POLICIES *(Continued)***(q) Financial instruments (under HKFRS 9)** *(Continued)**Impairment of financial assets (Continued)*

Lifetime ECLs represents the ECLs that will result from all possible default events over the expected life of the relevant instrument. In contrast, 12-month ECLs ("12m ECLs") represents the portion of lifetime ECLs that is expected to result from default events that are possible within 12 months after the reporting date. Assessment are done based on the Group's historical credit loss experience, adjusted for factors that are specific to the debtors, general economic conditions and an assessment of both the current conditions at the reporting date as well as the forecast of future conditions.

The Group always recognises lifetime ECLs for trade and bills receivables. The ECLs on these assets are assessed collectively for debtors with shared risk characteristics.

For all other instruments, the Group measures the loss allowance equal to 12m ECLs, unless when there has been a significant increase in credit risk since initial recognition, the Group recognises lifetime ECLs. The assessment of whether lifetime ECLs should be recognised is based on significant increases in the likelihood or risk of a default occurring since initial recognition.

ECLs are a probability-weighted estimate of the present value of credit losses. These are measured as the present value of the difference between the cash flows due to the Group under the contract and the cash flows that the Group expects to receive arising from the weighting of multiple future economic scenarios, discounted at the asset's effective interest rate.

The Group measures ECLs on an individual basis, or on a collective basis for portfolios of financial instruments that share similar economic risk characteristics. The measurement of loss allowance is based on the present value of the asset's expected cash flows using the asset's original effective interest rate, regardless of whether it is measured on an individual basis or a collective basis.

Significant increase in credit risk

In assessing whether the credit risk on a financial instrument has increased significantly since initial recognition, the Group compares the risk of a default occurring on the financial instrument as at the reporting date with the risk of a default occurring on the financial instruments as at the date of initial recognition. In making this assessment, the Group considers both quantitative and qualitative information that is reasonable and supportable, including historical experience and forward-looking information that is available without undue cost or effort.

In particular, the following information taken into account when assessing whether credit risk has increased significantly since initial recognition:

- an actual or expected significant deterioration in the financial instrument's external (if available) or internal credit rating;
- significant deterioration in external market indicators of credit risk for a particular financial instrument, e.g. a significant increase in the credit spread, the credit default swap prices for the debtor, or the length of time or the extent to which the fair value of a financial asset has been less than its amortised cost;

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 31 December 2018

4. SIGNIFICANT ACCOUNTING POLICIES *(Continued)***(q) Financial instruments (under HKFRS 9)** *(Continued)**Significant increase in credit risk (Continued)*

- existing or forecast adverse changes in business, financial or economic conditions that are expected to cause a significant decrease in the debtor's ability to meet its debt obligations;
- an actual or expected significant deterioration in the operating results of the debtor;
- significant increases in credit risk on other financial instruments of the same debtor;
- an actual or expected significant adverse change in the regulatory, economic, or technological environment of the debtor that results in a significant decrease in the debtor's ability to meet its debt obligations.

Irrespective of the outcome of the above assessment, the Group presumes that the credit risk on a financial asset has increased significantly since initial recognition when contractual payments are more than 30 days past due, unless the Group has reasonable and supportable information that demonstrates otherwise.

Despite the foregoing, the Group assumes that the credit risk on a financial instrument has not increased significantly since initial recognition if the financial instrument is determined to have low credit risk at the reporting date. A financial instrument is determined to have low credit risk if i) the financial instrument has a low risk of default, ii) the borrower has a strong capacity to meet its contractual cash flow obligations in the near term and iii) adverse changes in economic and business conditions in the longer term may, but will not necessarily, reduce the ability of the borrower to fulfil its contractual cash flow obligations. The Group considers a financial asset to have low credit risk when it has an internal or external credit rating of 'investment grade' as per globally understood definition.

For financial guarantee contracts, the date that the Group becomes a party to the irrevocable commitments is considered to be the date of initial recognition for the purposes of assessing the financial instrument for impairment. In assessing whether there has been a significant increase in the credit risk since initial recognition of financial guarantee contracts, the Group considers the changes in the risk that the specified debtor will default on the contract.

The Group regularly monitors the effectiveness of the criteria used to identify whether there has been a significant increase in credit risk and revises them as appropriate to ensure that the criteria are capable of identifying significant increase in credit risk before the amount becomes past due.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 31 December 2018

4. SIGNIFICANT ACCOUNTING POLICIES *(Continued)***(q) Financial instruments (under HKFRS 9)** *(Continued)**Definition of default*

The Group considers the following as constituting an event of default for internal credit risk management purposes as historical experience indicates that receivables that meet either of the following criteria are generally not recoverable.

- when there is a breach of financial covenants by the counterparty; or
- information developed internally or obtained from external sources indicates that the debtor is unlikely to pay its creditors, including the Group, in full (without taking into account any collaterals held by the Group).

Irrespective of the above analysis, the Group considers that default has occurred when a financial asset is more than 90 days past due unless the Group has reasonable and supportable information to demonstrate that a more lagging default criterion is more appropriate.

Credit-impaired financial assets

A financial asset is “credit-impaired” when one or more events that have a detrimental impact on the estimated future cash flows of the financial asset have occurred. Evidence of credit-impairment includes observable data about the following events:

- (a) significant financial difficulty of the borrower or issuer;
- (b) a breach of contract such as a default or past due event;
- (c) the lender of the borrower, for economic or contractual reasons relating to the borrower’s financial difficulty, having granted to the borrower a concession that the lender would not otherwise consider;
- (d) the disappearance of an active market for a security because of financial difficulties; or
- (e) the purchase of a financial asset at a deep discount that reflects the incurred credit losses.

Write-off policy

The Group writes off a financial asset when there is information indicating that the counterparty is in severe financial difficulty and there is no realistic prospect of recovery, e.g. when the counterparty has been placed under liquidation or has entered into bankruptcy proceedings. Financial assets written off may still be subject to enforcement activities under the Group’s recovery procedures, taking into account legal advice where appropriate. Any recoveries made are recognised in profit or loss.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 31 December 2018

4. SIGNIFICANT ACCOUNTING POLICIES *(Continued)***(q) Financial instruments (under HKFRS 9)** *(Continued)**Measurement and recognition of ECLs*

The measurement of ECLs is a function of the probability of default, loss given default (i.e. the magnitude of the loss if there is a default) and the exposure at default. The assessment of the probability of default and loss given default is based on historical data adjusted by forward-looking information as described above. As for the exposure at default, for financial assets, this is represented by the assets' gross carrying amount at the reporting date; for financial guarantee contracts, the exposure includes the amount drawn down as at the reporting date, together with any additional amounts expected to be drawn down in the future by default date determined based on historical trend, the Group's understanding of the specific future financing needs of the debtors, and other relevant forward-looking information.

For financial assets, the ECLs is estimated as the difference between all contractual cash flows that are due to the Group in accordance with the contract and all the cash flows that the Group expects to receive, discounted at the original effective interest rate.

For a financial guarantee contract, as the Group is required to make payments only in the event of a default by the debtor in accordance with the terms of the instrument that is guaranteed, the expected loss allowance is the expected payments to reimburse the holder for a credit loss that it incurs less any amounts that the Group expects to receive from the holder, the debtor or any other party.

Where lifetime ECLs is measured on a collective basis to cater for cases where evidence of significant increases in credit risk at the individual instrument level may not yet be available, the financial instruments are grouped on the following basis:

- Nature of financial instruments (i.e. the Group's trade and bills receivables are each assessed as a separate group);
- Past-due status;
- Nature, size and industry of debtors;
- Nature of collaterals for finance lease receivables; and
- External credit ratings where available.

The grouping is regularly reviewed by management to ensure the constituents of each separate group continues to share similar credit risk characteristics.

If the Group has measured the loss allowance for a financial instrument at an amount equal to lifetime ECLs in the previous reporting period, but determines at the current reporting date that the conditions for lifetime ECLs are no longer met, the Group measures the loss allowance at an amount equal to 12m ECLs at the current reporting date.

For ECLs on financial guarantee contracts for which the effective interest rate cannot be determined, the Group will apply a discount rate that reflects the current market assessment of the time value of money and the risks that are specific to the cash flows but only if, and to the extent that, the risk are taken into account by adjusting the cash shortfalls being discounted.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 31 December 2018

4. SIGNIFICANT ACCOUNTING POLICIES (Continued)

(q) Financial instruments (under HKFRS 9) (Continued)

Measurement and recognition of ECLs (Continued)

For financial guarantee contracts, the loss allowances are recognised at the higher of the amount of the loss allowance determined in accordance with HKFRS 9 and the amount initially recognised less, where appropriate, cumulative amount of income recognised over the guarantee period.

The Group recognises an impairment gain or loss in profit or loss for all financial instruments by adjusting their carrying amount with the exception of trade receivables where the corresponding adjustment is recognised through a loss allowance account.

Presentation of allowance for ECLs in the consolidated statements of financial position

Loss allowances for ECLs are presented in the consolidated statements of financial position as follows:

- (a) for financial assets measured at amortised cost; loss allowances for ECLs are presented in the consolidated statements of financial position as a deduction from the gross carrying amount of the assets;
- (b) for equity instruments measured at FVTOCI, no loss allowance is recognised in the consolidated statements of financial position as the carrying amount is at fair value. However, the loss allowance is included as part of the revaluation amount in the FVTOCI reserve.

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 the financial asset and substantially all the risks and rewards of ownership of the asset are transferred to another entity.

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.

Financial liabilities and equity

Debt and equity instruments that are issued are classified as either financial liabilities or as equity in accordance with the substance of the contractual arrangement.

Financial liabilities

Financial liabilities, including trade and other payables, bank and other borrowings and secured and guaranteed notes payable 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 through the expected life of the financial liability, or, where appropriate, a shorter period, to the net carrying amount on initial recognition.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 31 December 2018

4. SIGNIFICANT ACCOUNTING POLICIES (Continued)

(q) Financial instruments (under HKFRS 9) (Continued)

Derecognition of financial liabilities

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

Equity instruments

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

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.

(a) Judgment

In the process of applying the Group's accounting policies, management has made the following judgments, apart from those involving estimations, which have the most significant effect on the amounts recognised in the consolidated financial statements:

(i) *Going concern*

The consolidated financial statements have been prepared on a going concern basis, the validity of which depends upon the success of the Group in generating sufficient cash flows from operations and utilising its future financing resources to meet its financial obligation as they fall due for the foreseeable future. Details are set out in note 2 above.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 31 December 2018

5. KEY SOURCES OF ESTIMATION UNCERTAINTY *(Continued)***(b) Estimation uncertainty**

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.

(i) Valuations of biological assets

The Group's biological assets are valued at fair values less costs to sell with reference to the work performed by LCH (Asia-Pacific) Surveyors Limited (the "**Independent Valuers**") which involves the use of assumptions and estimates. Any changes in the estimates may affect the fair values less costs to sell of these biological assets and result in fair value re-measurement changes in future accounting periods. The directors and the Independent Valuers have exercised their judgement and are satisfied that the valuation is reflective of their fair values. As at 31 December 2018, the carrying amount of the Group's biological assets was approximately HK\$102,602,000 (2017: HK\$150,257,000).

Further details about the valuations of biological assets are set out in note 18 to the consolidated financial statements.

(ii) Estimated impairment of prepaid lease payments, intangible assets, prepayments for acquisition of property, plant and equipment and forestry rights of the forestlands, and payments in advance to suppliers

Details of the Group's prepaid lease payments of approximately HK\$44,069,000 (2017: HK\$50,207,000), intangible assets of approximately HK\$2,559,000 (2017: HK\$3,150,000), and prepayments for acquisition of property, plant and equipment and forestry rights of the forestlands, approximately HK\$3,455,000 (2017: HK\$36,401,000) and payments in advance to suppliers of approximately HK\$20,551,000 (2017: HK\$21,205,000) are set out in notes 17, 19, 22 and 22 to the consolidated financial statements, respectively.

The Group assesses whether there are any indicators of impairment for non-financial assets at the end of each reporting period. These assets are tested for impairment annually, and/or when there are indicators that the carrying amounts may not be recoverable. Impairment exists when the carrying value of an asset or a cash-generating unit exceeds its recoverable amount, which is the higher of its fair value less costs to sell and its value in use. The calculation of the fair value less costs to sell is based on available data from binding sales transactions in an arm's length transaction of similar assets or observable market price less incremental costs for disposing of the asset. When value in use calculations are undertaken, management must estimate the expected future cash flows from the asset or cash-generating unit and choose a suitable discount rate in order to calculate the present value of those cash flows. As at 31 December 2018, other than the impairment loss made for the Group's prepaid forestlands lease payments of approximately HK\$5,366,000 (2017: HK\$ nil) (note 17), the Group does not make any impairment loss for the above mentioned assets.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 31 December 2018

5. KEY SOURCES OF ESTIMATION UNCERTAINTY *(Continued)***(b) Estimation uncertainty** *(Continued)***(iii) 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 from 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 to sell 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. To determine fair value less costs to sell, the Group engaged the Independent Valuers to perform valuation, which involves the use of assumptions and estimates.

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 2018, the carrying amount of property, plant and equipment amounted to approximately HK\$339,042,000 (2017: HK\$364,375,000). During the year ended 31 December 2018, an impairment loss on property, plant and equipment amounting to approximately HK\$2,203,000 (2017: HK\$ nil) was recognised in profit or loss.

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

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 31 December 2018

5. KEY SOURCES OF ESTIMATION UNCERTAINTY *(Continued)***(b) Estimation uncertainty** *(Continued)***(iv) Calculation of loss allowance**

When measuring ECL the Group uses reasonable and supportable forward looking information, which is based on assumptions for the future movement of different economic drivers and how these drivers will affect each other.

Loss given default is an estimate of the loss arising on default. It is based on the difference between the contractual cash flows due and those that the lender would expect to receive, taking into account cash flows from collateral and integral credit enhancements.

Probability of default constitutes a key input in measuring ECL. Probability of default is an estimate of the likelihood of default over a given time horizon, the calculation of which includes historical data, assumptions and expectations of future conditions.

As at 31 December 2018, the Group determines a loss allowance for trade and bills receivables amounting to approximately HK\$752,000. Details are set out in notes 21 and 37(b) to the consolidated financial statements.

(v) 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 2018, the carrying amount of inventories amounting to approximately HK\$126,626,000 (2017: HK\$105,121,000). No write-down of inventories is made during the year ended 31 December 2018 and 2017. Further details are set out in note 20 to the consolidated financial statements.

6. REVENUE

Revenue represents the amounts received and receivable for sales of particleboards and timber woods, both of which are conducted in the PRC by the Group. An analysis of revenue is as follows:

	2018 HK\$'000	2017 HK\$'000
<i>Timing of revenue recognition – a point in time:</i>		
Sales of particleboards	406,369	490,923
Sales of timber woods	510	505
Revenue from contracts with customers	406,879	491,428

Sales of particleboards and timber woods are recognised at point in time when particleboards and timber woods are delivered to customers.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 31 December 2018

7. SEGMENT INFORMATION

The Group determines its operating segments based on the reports that are used to make strategic decisions reviewed by the executive directors, being the chief operating decision makers (“**CODM**”). The Group’s operating business are structured and managed separately according to the nature of their operations and the products and services they provide. Each of the Group’s operating segments represents a strategic business unit that offers products and services which are subject to risks and returns that are different from those of other operating segments.

During the year ended 31 December 2018 and 2017, the Group has two reportable operating segments. Details are as follows:

- (i) Particleboards segment, principally engaged in manufacturing and selling of particleboards in the PRC; and
- (ii) Forestry segment, principally engaged in timber logging, plantation and sales of timber woods and agricultural products in the PRC.

The accounting policies of the reportable segments are the same as the Group’s accounting policies as set out in note 4 above. Segment revenue represents the revenue generated by each operating segment. Inter-segment revenue represents inter-segment sales which were transacted with reference to the selling prices used for sales made to third parties at the then prevailing market prices.

Segment results represent the profit earned or loss incurred by each operating segment without allocation of central administration expenses (unallocated corporate expenses), interest income, finance costs and income tax expenses. This is the measure reported to CODM for the purpose of resource allocation and assessment of segment performance.

For the purpose of monitoring segment performance and allocating resource between segments:

- All assets are allocated to reportable segments other than pledged bank deposit, security deposit, deferred tax assets and unallocated corporate assets; and
- All liabilities are allocated to reportable segments other than bank and other borrowings, bonds, notes payable, deferred tax liabilities and unallocated corporate liabilities.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 31 December 2018

7. SEGMENT INFORMATION (Continued)**Operating segments**

The following tables represent segment information of the Group provided to the Group's CODM.

For the year ended 31 December 2018

	Particleboards segment HK\$'000	Forestry segment HK\$'000	Total HK\$'000
<i>Segment revenue:</i>			
Reportable segment revenue	406,369	2,093	408,462
Elimination of inter-segment revenue	–	(1,583)	(1,583)
Consolidated revenue	406,369	510	406,879
<i>Segment results:</i>			
Reportable segment results	53,258	(71,847)	(18,589)
Interest income (note 8)			101
Finance costs (note 10)			(27,787)
Unallocated corporate staff costs			(3,278)
Unallocated corporate expenses			(7,923)
Consolidated loss before tax			(57,476)
<i>Other segment information</i>			
Capital expenditures – allocated	17,692	–	17,692
Depreciation – allocated	27,857	–	27,857
Depreciation – unallocated			630
			28,487
Amortisation	906	1,372	2,278
Gain arising from agricultural produce at fair values less costs to sell at the point of harvest	–	1,583	1,583
Impairment loss on property, plant and equipment (note 16)	2,203	–	2,203
Impairment loss on prepaid forestlands lease payments (note 17)	–	5,366	5,366
Net loss arising from changes in fair values less costs to sell of biological assets	–	64,516	64,516
Loss allowance for trade and bills receivables (note 9)	709	–	709

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 31 December 2018

7. SEGMENT INFORMATION (Continued)**Operating segments** (Continued)

For the year ended 31 December 2017

	Particleboards segment HK\$'000	Forestry segment HK\$'000	Total HK\$'000
<i>Segment revenue:</i>			
Reportable segment revenue	490,923	1,926	492,849
Elimination of inter-segment revenue	–	(1,421)	(1,421)
Consolidated revenue	490,923	505	491,428
<i>Segment results:</i>			
Reportable segment results	68,118	1,359	69,477
Interest income (note 8)			129
Finance costs (note 10)			(25,325)
Unallocated corporate staff costs			(2,886)
Unallocated corporate expenses			(11,100)
Consolidated profit before tax			30,295
<i>Other segment information</i>			
Capital expenditures – allocated	29,513	42,287	71,800
Capital expenditures – unallocated			3,266
			75,066
Depreciation – allocated	25,723	–	25,723
Depreciation – unallocated			421
			26,144
Amortisation	966	1,097	2,063
Gain arising from agricultural produce at fair values less costs to sell at the point of harvest	–	1,421	1,421
Net gain arising from changes in fair values less costs to sell of biological assets	–	5,477	5,477
Loss on disposal of forestry rights of the forestlands (note 9)	–	2,005	2,005

Capital expenditures of particleboards segment mainly represent the addition of property, plant and equipment and prepayments made for acquisition of property, plant and equipment during the year. Capital expenditures of forestry segment mainly represent the consideration paid for acquisition of forestry rights of the forestlands during the year.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 31 December 2018

7. SEGMENT INFORMATION (Continued)**Operating segments** (Continued)**As at 31 December 2018**

	Particleboards segment HK\$'000	Forestry segment HK\$'000	Total HK\$'000
<i>Segment assets:</i>			
Reportable segment assets	582,935	128,312	711,247
Deferred tax assets			350
Pledged bank deposit			6,277
Security deposit			1,712
Unallocated corporate assets			3,304
Consolidated total assets			722,890
<i>Segment liabilities:</i>			
Reportable segment liabilities	98,301	1,801	100,102
Deferred tax liabilities			560
Bank and other borrowings			205,698
Notes payable			96,731
Unallocated corporate liabilities			2,030
Consolidated total liabilities			405,121

As at 31 December 2017

	Particleboards segment HK\$'000	Forestry segment HK\$'000	Total HK\$'000
<i>Segment assets:</i>			
Reportable segment assets	625,605	209,352	834,957
Deferred tax assets			2,532
Pledged bank deposit			9,472
Unallocated corporate assets			5,815
Consolidated total assets			852,776
<i>Segment liabilities:</i>			
Reportable segment liabilities	92,471	1,325	93,796
Deferred tax liabilities			587
Bank and other borrowings			262,880
Bonds			92,385
Unallocated corporate liabilities			2,866
Consolidated total liabilities			452,514

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 31 December 2018

7. SEGMENT INFORMATION (Continued)**Entity-wide disclosures***Geographical information*

The Group's operation is located in the PRC and all of its revenue is generated from the PRC and other Asian countries for both years. The Group's revenue for the year ended 31 December 2017 was also generated from the Middle East. The analysis is as follows:

	2018 HK\$'000	2017 HK\$'000
Revenue from the PRC	406,323	479,638
Revenue from other Asian countries	556	11,619
Revenue from the Middle East	—	171
	406,879	491,428

The Group's non-current assets other than deferred tax assets, security deposit and pledged bank deposit are located in the PRC by location of assets in case of property, plant and equipment, prepaid lease payments and biological assets or by location of operation to which they are allocated, in case of prepayments for acquisition of property, plant and equipment and forestry rights of the forestlands and intangible assets.

Information about major customers

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

	2018 HK\$'000	2017 HK\$'000
Customer A	229,512	267,460

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 31 December 2018

8. OTHER INCOME

	2018 HK\$'000	2017 HK\$'000
Value added tax ("VAT") refund	12,440	16,735
Government grants*	4,738	4,467
Bank interest income	101	129
Others	382	49
	17,661	21,380

* The amount of HK\$3,749,000 (2017: HK\$3,210,000) represented financial subsidy released from deferred income for interest expenses incurred by the Group for its bank borrowings. The amount of HK\$989,000 (2017: HK\$1,257,000) have been received to provide immediate financial support to the Group with no unfulfilled conditions related to the subsidy.

9. OTHER LOSSES, NET

	2018 HK\$'000	2017 HK\$'000
Loss on disposal of forestry rights of the forestlands (note)	–	2,005
Net foreign exchange losses	66	258
Loss allowance for trade and bills receivables	709	–
	775	2,263

Note: During the year ended 31 December 2018, the Group did not dispose any forestry rights of the forestlands. During the year ended 31 December 2017, the Group disposed several forestry rights of the forestlands situated in Ninhua County of Fujian Province in the PRC to individual third parties at the aggregate consideration of approximately HK\$10,795,000. As a result, standing trees of the forestlands included in biological assets of approximately HK\$11,300,000 and prepaid forestlands lease payment of approximately HK\$1,500,000 had been disposed of and a loss on disposal of forestry rights of the forestlands of approximately HK\$2,005,000 was recognised. Details are set out in notes 17 and 18 below.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 31 December 2018

10. FINANCE COSTS

	2018 HK\$'000	2017 HK\$'000
Interests on bank and other borrowings	15,872	18,286
Interests on bonds and notes payable	10,452	5,212
Interests on unsecured loans	—	821
Interests on finance lease liabilities	55	84
Other finance costs	1,408	922
	27,787	25,325

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

Directors

Remuneration of the Company's directors disclosed pursuant to section 383 of the Companies Ordinance (Cap. 622), the Companies (Disclosure of Information about Benefits of Directors) Regulation (Cap. 622G) and the GEM Listing Rules is as follows:

	For the year ended 31 December 2018			
	Fees HK\$'000	Salaries and other benefits HK\$'000	Contribution to retirement benefit schemes HK\$'000	Total HK\$'000
Executive directors:				
Mr. Wong	360	115	18	493
Ms. Cheung Ngar Kwan ("Mrs. Wong")	240	—	12	252
Ms. Huang Xiuyan	180	148	5	333
Mr. Liu Jiayong	315	262	5	582
Non-executive director:				
Mr. Lai Ming Wai (resigned on 11 May 2018)	44	—	—	44
Independent non-executive directors:				
Dr. Xu Jianmin	120	—	—	120
Ms. Qian Xiaoyu	120	—	—	120
Dr. Chow Ho Wan, Owen	150	—	—	150
	1,529	525	40	2,094

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 31 December 2018

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

	For the year ended 31 December 2017			
	Fees HK\$'000	Salaries and other benefits HK\$'000	Contribution to retirement benefit schemes HK\$'000	Total HK\$'000
Executive directors:				
Mr. Wong	375	112	18	505
Mrs. Wong	250	—	12	262
Ms. Huang Xiuyan	188	140	5	333
Mr. Liu Jiayong	188	256	5	449
Non-executive director:				
Mr. Lai Ming Wai	120	—	—	120
Independent non-executive directors:				
Dr. Xu Jianmin	125	—	—	125
Ms. Qian Xiaoyu	125	—	—	125
Dr. Chow Ho Wan, Owen	150	—	—	150
	1,521	508	40	2,069

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 31 December 2018

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

Fees paid to executive directors were mainly for services as directors of the Company. Other emoluments paid to executive directors shown above were mainly for their services in connection with the management of the affairs of the Group.

The non-executive director and independent non-executive directors' emoluments shown above were mainly for their services as directors of the Company.

Employees

Of the five individuals with the highest emoluments in the Group, two (2017: two) were directors of the Company for the year ended 31 December 2018, whose emoluments are set out above. The emoluments of the remaining three (2017: three) individuals during the year were as follows:

	2018 HK\$'000	2017 HK\$'000
Salaries and other benefits	1,156	1,131
Discretionary bonus	33	32
Contribution to retirement benefits schemes	41	41
	1,230	1,204

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

During the years ended 31 December 2018 and 2017, saved as disclosed above, 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. In addition, during the years ended 31 December 2018 and 2017, no director waived any emoluments.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 31 December 2018

12. INCOME TAX EXPENSE**12.1 Income tax recognised in profit or loss**

	2018 HK\$'000	2017 HK\$'000
Current tax	—	—
Deferred tax charged/(credited):		
– origination and reversal of temporary difference	1,608	—
– write-down of previously recognised deferred tax assets	2,070	—
– recognition of deferred tax assets previously not recognised	(1,540)	—
	2,138	—
Income tax expenses	2,138	—

No provision for Hong Kong Profits Tax has been made for the year ended 31 December 2018 as the Group did not have assessable profits in Hong Kong for the year. No provision for Hong Kong Profits Tax had been made for the year ended 31 December 2017 as the Group had an allowable tax loss brought forward which exceeded its estimated assessable profit for that year or the Group did not have assessable profits for that year.

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 Renhua is 25% in both years.

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 year ended 31 December 2018 and 2017, Hongwei Renhua is entitled to such preferential policy and only 90% of the income of Hongwei Renhua from the sale of particleboards was regarded as taxable income.

According to the EIT Law and Implementation Regulation of the EIT Law, enterprises that engage in qualified agricultural business are eligible for exemption from payment of enterprise income tax. During the year ended 31 December 2018 and 2017, the Group's two subsidiaries are engaged in qualified agricultural business and therefore, the profit of them are entitled to exemption from payment of enterprise income tax (the "**Tax Exemption**").

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 31 December 2018

12. INCOME TAX EXPENSE *(Continued)***12.1 Income tax recognised in profit or loss** *(Continued)*

The income tax expense for the year can be reconciled to the (loss)/profit before tax per the consolidated statement of profit or loss and other comprehensive income as follows:

	2018 HK\$'000	2017 HK\$'000
(Loss)/profit before tax	(57,476)	30,295
Tax at the statutory tax rate of 25%	(14,369)	7,574
Effect of different tax rates	1,629	1,675
Tax effect of income not taxable for tax purpose	(160)	(1,205)
Tax effect of expenses not deductible for tax purpose	21,076	3,434
Utilisation of tax losses previously not recognised	–	(12)
Tax effect of tax losses not recognised	1,656	1,244
Tax effect of deductible temporary differences not recognised	1,935	–
Write-down of previously recognised deferred tax assets	2,070	–
Tax effect of recognition of tax loss previously not recognised	(1,540)	–
Effect of Tax Concessions	(10,159)	(12,258)
Effect of Tax Exemption	–	(452)
Income tax expense	2,138	–

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:

	2018 HK\$'000	2017 HK\$'000
Deferred tax assets	350	2,532
Deferred tax liabilities	(560)	(587)
	(210)	1,945

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 31 December 2018

12. INCOME TAX 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	Withholding tax on undistributed profit of PRC subsidiary HK\$'000	Depreciation of property, plant and equipment HK\$'000	Deferred government grants HK\$'000	Tax losses HK\$'000	Total HK\$'000
At 1 January 2017	1,959	(548)	407	–	–	1,818
Charge to profit or loss	–	–	–	–	–	–
Effect of foreign currency exchange differences	138	(39)	28	–	–	127
At 31 December 2017 and 1 January 2018	2,097	(587)	435	–	–	1,945
Credit/(charge) to profit or loss	(2,070)	–	(2,170)	362	1,740	(2,138)
Effect of foreign currency exchange differences	(27)	27	47	(12)	(52)	(17)
At 31 December 2018	–	(560)	(1,688)	350	1,688	(210)

Deferred tax assets have not been recognised in respect of the following items:

	2018 HK\$'000	2017 HK\$'000
Tax losses	21,147	16,488
Deductible temporary differences	8,618	2,425
	29,765	18,913

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 31 December 2018

12. INCOME TAX EXPENSE *(Continued)***12.2 Deferred taxation** *(Continued)*

Deferred tax assets have not been recognised in respect of the above deductible temporary differences as it is not considered probable that taxable profits will be available against which the deductible temporary differences can be utilised.

As at 31 December 2018, the Group has unused tax losses of approximately HK\$28,409,000 (2017: HK\$16,488,000) available for offset against future profits. Deferred tax asset of approximately HK\$1,688,000 (2017: HK\$ nil) has been recognised in respect of tax losses of approximately HK\$7,262,000 (2017: HK\$ nil) as at 31 December 2018. No deferred tax asset has been recognised in respect of the remaining tax losses of approximately HK\$21,147,000 (2017: HK\$16,488,000) during the year ended 31 December 2018 due to unpredictability of future profit streams. Other than the tax losses of approximately HK\$22,043,000 (2017: HK\$11,444,000) which may be carried forward indefinitely, other tax losses of approximately HK\$6,366,000 (2017: HK\$5,044,000) will expire according to EIT Law.

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\$216,824,000 (2017: HK\$196,710,000) as at 31 December 2018 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 2018

13. (LOSS)/PROFIT FOR THE YEAR

(Loss)/profit for the year has been arrived at after charging:

	Note	2018 HK\$'000	2017 HK\$'000
Employee benefits expenses (include directors' emoluments)			
Salaries and other benefits		15,602	15,393
Contribution to retirement benefit schemes		1,017	1,005
Total employee benefit expenses		16,619	16,398
Depreciation of property, plant and equipment		28,487	26,144
Amortisation:			
– intangible assets	(i)	463	532
– release of prepaid land lease payments	(i)	443	434
– release of prepaid forestland lease payments	(i)	1,372	1,097
Cost of goods sold recognised as expenses		321,136	383,710
Auditor's remuneration			
– Provision in respect of current year		1,380	1,658
– Non-audit services		200	1,460
Operating lease payments		610	347
Donation		178	2,444
Professional fee for proposed major and connected acquisition terminated during the year, excluding auditor's remuneration	(ii)	–	1,034

Note:

- (i) The amount was included in administrative expenses in the consolidated statement of profit or loss and other comprehensive income.
- (ii) On 26 April 2017, the Company and Mr. Wong Kin Ching, son of Mr. and Mrs. Wong, entered into a termination agreement to terminate the proposed acquisition of a target company. The target company through its subsidiary is engaged into forestry management. Details are set out in note 38 below.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 31 December 2018

14. (LOSS)/EARNINGS PER SHARE

The calculation of basic and diluted (loss)/earnings per share attributable to the owners of the Company is based on the following data:

(Loss)/earnings

	2018 HK\$'000	2017 HK\$'000
(Loss)/profit for the year attributable to owners of the Company for the purpose of basic and diluted earnings per share	(59,614)	30,295

Number of shares

	2018 '000	2017 '000
Weighted average number of ordinary shares for the purpose of basic and diluted earnings per share	832,603	832,603

Note: Basic and diluted earnings per share were the same for both years as there has been no potential dilutive ordinary shares outstanding during the years.

15. DIVIDENDS

No dividend was paid or proposed for the year ended 31 December 2018 (2017: nil), nor has any dividend been proposed since the end of the reporting period.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 31 December 2018

16. PROPERTY, PLANT AND EQUIPMENT

	Buildings and leasehold improvement HK\$'000	Plant and machinery HK\$'000	Motor vehicles HK\$'000	Furniture and equipment HK\$'000	Construction in progress HK\$'000	Total HK\$'000
Cost						
Balance at 1 January 2017	125,962	274,350	2,817	2,904	5,418	411,451
Additions	14,647	4,119	3,382	463	4,868	27,479
Transfer	3,767	3,634	–	–	(7,401)	–
Exchange differences	9,470	19,503	203	219	291	29,686
Balance at 31 December 2017 and 1 January 2018	153,846	301,606	6,402	3,586	3,176	468,616
Additions	1,077	16,485	425	443	3,344	21,774
Transfer	197	4,134	–	–	(4,331)	–
Exchange differences	(7,116)	(14,643)	(159)	(108)	(112)	(22,138)
Balance at 31 December 2018	148,004	307,582	6,668	3,921	2,077	468,252
Accumulated depreciation and impairment						
Balance at 1 January 2017	(16,884)	(51,814)	(2,499)	(946)	–	(72,143)
Depreciation charge for the year	(6,757)	(18,572)	(536)	(279)	–	(26,144)
Exchange differences	(1,420)	(4,278)	(180)	(76)	–	(5,954)
Balance at 31 December 2017 and 1 January 2018	(25,061)	(74,664)	(3,215)	(1,301)	–	(104,241)
Depreciation charge for the year	(7,316)	(20,199)	(745)	(227)	–	(28,487)
Impairment loss for the year	–	(2,203)	–	–	–	(2,203)
Exchange differences	1,402	4,119	132	68	–	5,721
Balance at 31 December 2018	(30,975)	(92,947)	(3,828)	(1,460)	–	(129,210)
Carrying amount						
Balance at 31 December 2018	117,029	214,635	2,840	2,461	2,077	339,042
Balance at 31 December 2017	128,785	226,942	3,187	2,285	3,176	364,375

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 31 December 2018

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 and leasehold improvement	20 years
Plant and machinery	10-15 years
Motor vehicles	5 years
Furniture and equipment	5 years

As at 31 December 2018, buildings with carrying amount of approximately HK\$70,306,000 (2017: HK\$78,060,000), plant and machinery with carrying amount of approximately HK\$214,635,000 (2017: HK\$220,818,000) and motor vehicle with carrying amount of approximately HK\$1,733,000 (2017: HK\$2,239,000) have been pledged to secure bank and other borrowings granted to the Group (note 27).

Impairment loss – plant and machinery

During the year ended 31 December 2018, the Group suffered a decline in sales volume and average unit selling price of particleboards due to the impact of adverse market condition. As a result, sign of impairment regarding plant and machinery arises. Having determined that the value in use and fair value less costs to sell of plant and machinery with reference to the work performed by the Independent Valuers, the Group considered that the recoverable amount of plant and machinery is fair value less costs to sell. The Independent Valuers used market approach to determine the fair values of plant and machinery with reference to prices of similar equipment, which have taken into consideration the type of equipment, age, condition, attached auxiliary equipment, manufacturer, location of sale, installation and other associated costs. This is a Level 3 fair value hierarchy. The key assumption is the adjusted prices of plant and machinery. Accordingly, an impairment loss of approximately HK\$2,203,000 (2017: HK\$nil) was made for the year ended 31 December 2018.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 31 December 2018

17. PREPAID LEASE PAYMENTS

	Prepaid land lease payments HK\$'000	Prepaid forestlands lease payments HK\$'000	Total HK\$'000
At 1 January 2017	19,109	22,889	41,998
Additions for the year	–	8,010	8,010
Amortisation during the year	(434)	(1,097)	(1,531)
Disposal for the year (note 9)	–	(1,500)	(1,500)
Exchange realignment	1,325	1,905	3,230
At 31 December 2017 and 1 January 2018	20,000	30,207	50,207
Additions for the year	–	3,448	3,448
Amortisation during the year	(443)	(1,372)	(1,815)
Impairment for the year	–	(5,366)	(5,366)
Exchange realignment	(905)	(1,500)	(2,405)
At 31 December 2018	18,652	25,417	44,069
	2018 HK\$'000	2017 HK\$'000	
Analysed for reporting purposes:			
Current assets, including in deposits, prepayments and other receivables (note 22)	1,502	1,649	
Non-current assets	42,567	48,558	
	44,069	50,207	

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 31 December 2018

17. PREPAID LEASE PAYMENTS *(Continued)***Forestlands**

As at 31 December 2018 and 2017, the Group's leasehold interests in forestlands are situated in Renhua County of Guangdong Province in the PRC and Qingliu County of Fujian Province in the PRC.

As at 31 December 2018, the forestlands have leasehold land base of approximately 46,502 (2017: 40,400) Chinese Mu ("mu") and have remaining lease terms ranging from 11 to 43 years (2017: 12 to 44 years). Usage of the forestlands is regulated by the implementation regulations of the PRC Forest Law promulgated by the State Council of the PRC.

Due to the enactment of the real estate title registration policy in the year 2016, all real estate titleship must be registered with the Real Estate Registration Center ("不動產登記中心") for issuance of registered title certificate. As at the date of this report, registration of the title of forestry rights of the forestlands in Qingliu County has been completed and Forestry Right Certificates have been obtained while the registration of the title of forestry rights of the forestlands in Renhua County are still pending, nevertheless, the Group had obtained ownership confirmations from Forestry Administration of the respective counties. Based on a legal opinion issued by a practicing PRC lawyer in previous year, the lawyer opined that the ownership of the forestry rights has been legally transferred to the Group though the registration with the Real Estate Registration Center is yet to complete.

As at 31 December 2018, the carrying amount of prepaid forestlands lease payments of approximately HK\$13,055,000 (2017: HK\$14,973,000) had been successfully registered while the carrying amount of prepaid forestlands lease payments of approximately HK\$12,362,000 (2017: HK\$15,234,000) are still pending for completion of the registration.

During the year ended 31 December 2018, the Group completed the acquisition of forestry rights of forestlands with aggregate consideration of approximately HK\$28,233,000 (2017: HK\$61,204,000). The cost of prepaid forestlands lease payments amounting to approximately HK\$3,448,000 (2017: HK\$8,010,000) represented the allocated consideration in proportion to the relative fair values of leasehold interests in the forestlands and biological assets at initial recognition, with reference to the work performed by the forestry consultants (the "Forestry Consultants") and the Independent Valuers.

The Forestry Consultants estimated the types of tree species, their quantities, the respective recovery rates ("**Recovery Rates**") of each type of tree species in different forests, quality and distribution of forests. The Independent Valuers estimated the fair values of leasehold interests in the forestlands and biological assets using sales comparison approach at initial recognition.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 31 December 2018

17. PREPAID LEASE PAYMENTS *(Continued)***Forestlands** *(Continued)**Impairment loss*

In or about the end of 2018, the Group noted that the grant by the relevant government department of timber wood harvesting quotas had been materially curtailed as part of the PRC government's strengthening in the drive of environmental protection. Such tightened control is expected to last for a certain period which is unknown to and uncontrolled by the Group as of the date of this report. As a result, signs of impairment regarding the prepaid forestlands lease payments arise. The Group engaged the Independent Valuers to determine the recoverable amounts of prepaid forestlands lease payments, being fair values less costs to sell. The Independent Valuers used sales comparison approach to determine the fair values with reference to latest listing prices of "raw lands" situated in Guangdong Province and Fujian Province which are adjusted by various factors including the remaining land use terms, accessibility of each of the forestlands held by the Group. This is a Level 3 fair value measurement. The key assumption is adjusted listing price per mu of "raw lands". An impairment loss on prepaid forestlands lease payments of approximately HK\$5,366,000 (2017: HK\$ nil) was recognised during the year ended 31 December 2018.

Leasehold lands

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

As at 31 December 2018, prepaid leasehold land lease payments with a carrying amount of approximately HK\$18,652,000 (2017: HK\$20,000,000) have been pledged to secure the banking facilities granted to the Group (note 27).

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 31 December 2018

18. BIOLOGICAL ASSETS

(a) Nature of activities

Biological assets are standing timber trees attached to the forestlands which could be logged to produce timber woods as agricultural produce. Majority of timber woods harvested, being the smaller-sized timber woods, were used as raw materials of the Group to produce particleboards for sale and the remaining timber woods harvested, being the larger-sized timber woods, were sold to external customers.

The Group engaged the Forestry Consultants to perform physical counting on standing timber trees annually. As at 31 December 2018, the Forestry Consultants estimate that the Group's forestlands comprise standing timber trees with approximately 398,275 cubic meters (2017: 332,004 cubic meters).

As at 31 December 2018, the carrying amount of biological assets of approximately HK\$73,956,000 (2017: HK\$119,034,000) are attached to the forestlands which the corresponding forestry rights had been successfully registered while the carrying amount of biological assets of approximately HK\$28,646,000 (2017: HK\$31,223,000) are attached to the forestlands which the corresponding forestry rights are still pending for completion of the registration. Details are set out in note 17 above.

In addition to the financial risk management as disclosed in note 37, the Group is exposed to the following operational risks relating the biological assets:

(i) Regulatory and environmental risks

The Group is subject to laws and regulations in the PRC in which it operates. Such risks may also arise from material curtailment or suspension of timber wood harvesting quotas (which are typically granted on an annual basis) to be granted by relevant government department to privately owned enterprises as part of the PRC government strengthening in the drive of environmental protection. The Group is assessing the feasibility of different business strategy that seeks to better utilise its forestry assets. The Group has established environmental policies and procedures aimed at compliance with local environment and other laws. Management will perform regular reviews to identify environmental risks and to ensure that the systems in place are adequate to manage those risks.

(ii) Supply and demand risks

The Group is exposed to risks arising from fluctuations in the price and sales volume of log. The Group's forestlands are maintained for the purpose of providing stable source of raw materials to the Group to produce particleboards for sale. Where possible the Group will align harvest volume to its production schedule so as to ensure continuous production of particleboards.

(iii) Climate and other natural risks

The Group's biological assets are exposed to the risk of damage from climate changes, diseases, forest fires and other natural forces. The Group has adopted different measures aimed at monitoring and mitigating those risks, including regular forest inspections by setting up forest patrol team.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 31 December 2018

18. BIOLOGICAL ASSETS *(Continued)***(b) Value of biological assets**

The amount of standing timber trees at the end of the reporting period are set out below:

	2018 HK\$'000	2017 HK\$'000
Balance at beginning of the year	150,257	93,570
Additions during the year	24,785	53,194
Disposal during the year (note 9)	–	(11,300)
Transfer to cost at the point of harvest	(1,583)	(1,421)
Net gain arising on initial recognition of biological assets at fair values less costs to sell	–	11,349
Net loss arising from changes in fair values less costs to sell of biological assets after initial recognition	(62,933)	(4,451)
Exchange realignment	(7,924)	9,316
Balance at end of the year	102,602	150,257
Analysed for reporting purposes:		
Current assets	–	22,402
Non-current assets	102,602	127,855
	102,602	150,257

The Group's biological assets are measured at fair values less costs to sell at initial recognition and at the end of each reporting period in accordance with HKAS 41 "Agriculture". The fair values less costs to sell of biological assets were determined with reference to the work performed by the Independent Valuers. The Independent Valuers have various professional qualifications and extensive experience in the valuation of agricultural and biological assets and its related businesses for the listed companies in Hong Kong. Accordingly, the directors are of the view that the Independent Valuers are competent to determine the fair values less costs to sell of the Group's biological assets. The Group's management has discussion with the Independent Valuers on the valuation assumptions and valuation results when the valuation is performed at the end of each reporting period.

Because the fair values less costs to sell of the Group's biological assets are non-cash in nature, are derived from many assumptions and are affected by factors including different usage of the timbers harvested, presence of natural defects in the wood, growth and death rates of trees, calamities, market prices at the time of harvest and buyers' preference, any changes in assumptions and factors may affect the fair values less costs to sell of the Group's biological assets dramatically.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 31 December 2018

18. BIOLOGICAL ASSETS *(Continued)***(b) Value of biological assets** *(Continued)**Valuation at initial recognition*

The approach to value for newly acquired biological assets is set out as follows:

	2018 HK\$'000	2017 HK\$'000
Income approach	24,785	10,051
Sales comparison approach	–	43,143
	24,785	53,194
Gain on initial recognition recognised in profit or loss	–	11,349

Income approach was adopted for valuation at initial recognition of biological assets as they were incorporated into the revised harvesting plan when the Group was finalising the plan. Market approach was adopted for valuation at initial recognition of biological assets as the Group's harvesting plan at the time being did not include the logging activities on those newly acquired forestlands.

(c) Fair value measurements*Valuation at 31 December 2018*

Owing to the circumstances mentioned in note 17 above, having discussed with the Independent Valuers, the directors of the Company considered that the valuation methodology used in previous year, i.e. income approach, is no longer suitable for the valuation of biological assets at 31 December 2018. Therefore, the Independent Valuers used sales comparison approach, with reference to latest listing prices of forestlands situated in Guangdong Province and Fujian Province which are adjusted by various factors including the remaining land use terms and accessibility of each of the forestlands held by the Group, to determine the overall fair values less costs to sell of the Group's forestlands. Fair values less costs to sell of "raw lands" are deducted from the overall value to arrive at the fair values less costs to sell of the Group's biological assets as at 31 December 2018. Details of fair values less costs to sell of the Group's "raw land" are set out in note 17 above.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 31 December 2018

18. BIOLOGICAL ASSETS (Continued)**(c) Fair value measurements** (Continued)*Valuation at 31 December 2017*

As at 31 December 2017, the Group included all biological assets that existed as at that day in its revised harvesting plan. Based on the revised harvesting plan, the Independent Valuers adopted income approach, which is based on the discounted future cash flows to be generated by logging timber trees, as the valuation methodology as at 31 December 2017 to determine combined values of the Group's biological assets and the forestlands. Fair values less costs to sell of "raw land" are deducted from the combined value to arrive at the fair values less costs to sell of the Group's biological assets.

Fair value hierarchy

The following table illustrates the fair value measurement hierarchy of the Group's biological assets at as 31 December 2018. As at 31 December 2018, in estimating the fair value of the Group's biological assets, the Independent Valuers assume that the Group sells the forestlands to independent third parties. However, the Group's intended use is to harvest timber woods, which is different from the highest and best use of the biological assets. As at 31 December 2017, in estimating the fair values of the biological assets, the highest and best use of the biological assets was the Group's intended use.

	Fair value measurement categorised into			
	Fair value HK\$'000	Level 1 HK\$'000	Level 2 HK\$'000	Level 3 HK\$'000
Group				
Recurring fair value measurement:				
As at 31 December 2018				
– biological assets	102,602	–	–	102,602
As at 31 December 2017				
– biological assets	150,257	–	–	150,257

During the year ended 31 December 2018 and 31 December 2017, there were no transfers between Level 1 and Level 2, or transfers into or out of Level 3.

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For the year ended 31 December 2018

18. BIOLOGICAL ASSETS *(Continued)***(c) Fair value measurements** *(Continued)**Information about Level 3 fair value measurements*

The following table set out the details of significant unobservable inputs used to determine the fair values less costs to sell of the Group's biological assets:

As at 31 December 2018

Significant unobservable inputs	Inter-relationship between significant unobservable inputs and fair value measurements
Estimated adjusted listing price per mu of forestlands ranges from RMB105 and RMB120 depending on various factors including the land use terms and accessibility.	A increase in estimated adjusted listing price of forestlands would result in a larger percentage increase in the fair value measurement of the biological assets, and vice versa.
Estimated adjusted listing price per mu of "raw lands" ranges from RMB23 and RMB38 depending on various factors including the land use terms and accessibility.	An increase in estimated adjusted listing price of "raw lands" would result in a larger percentage decrease in the fair value measurement of the biological assets, and vice versa.

As at 31 December 2017

Significant unobservable inputs	Inter-relationship between significant unobservable inputs and fair value measurements
Estimated local market price per cubic meter of timber woods ranges from RMB600 and RMB860 depending on the size of timber woods logged.	An increase in estimated local market price would result in a larger percentage increase in the fair value measurement of the biological assets, and vice versa.
The forestlands could have as many as five rotation cycles within the remaining lease terms of the forestlands. Estimated annual yield of the forestlands during the five rotation cycles ranged from 14,700 to 71,000 cubic meters depending on the physical condition of each of the forestlands, and is subject to the logging quota promulgated by the PRC government from time to time.	An increase in estimated annual yield used would result in a larger percentage increase in the fair value measurement of the biological assets, and vice versa.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 31 December 2018

18. BIOLOGICAL ASSETS (Continued)**(c) Fair value measurements** (Continued)*Information about Level 3 fair value measurements (Continued)*

As at 31 December 2017

Significant unobservable inputs

Estimated cost of harvest is RMB204 per cubic meter and is estimated to grow at 2% per annum thereafter.

Estimated cost of replanting ranges from RMB350 to RMB400 per mu.

Growth rate of timber price of larger-sized timber woods is 5% for the first two years and 2% per annum thereafter during the remaining lease terms of the forestlands and growth rate of timber price of smaller-sized timber woods is 15% per annum and reduces gradually to 2% per annum during the first five years.

Discount rate for estimated future cash flows is 13.0%.

Inter-relationship between significant unobservable inputs and fair value measurements

An increase in estimated cost of harvest used would result in decrease in the fair value measurement of biological assets, and vice versa.

An increase in estimated cost of replanting used would result in decrease in the fair value measurement of biological assets, and vice versa.

An increase in growth rates of timber prices would result in increase in the fair value measurement of biological assets, and vice versa.

An increase in estimated discount rate used would result in decrease in the fair value measurement of biological assets, and vice versa.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 31 December 2018

18. BIOLOGICAL ASSETS (Continued)**(c) Fair value measurements** (Continued)*Sensitivity analysis*

The following table demonstrates the sensitivity to a reasonably possible change in the significant unobservable inputs and key assumptions used, with all other variables held constant, of the Group's (loss)/profit for the year ended 31 December 2018 and 2017:

For the year ended 31 December 2018

Significant unobservable inputs and key assumptions	Increase/ (decrease) by	Decrease/ (increase) in loss for the year HK\$'000
Estimated adjusted listing prices of forestlands	5% (5%)	6,702 (6,702)
Estimated adjusted listing prices of "raw lands"	5% (5%)	(1,567) 1,567

For the year ended 31 December 2017

Significant unobservable inputs and key assumptions	Increase/ (decrease) by	Increase/ (decrease) in profit for the year HK\$'000
Estimated local market prices	5% (5%)	18,782 (18,303)
Estimated annual yield	10% (10%)	15,193 (18,303)
Estimated costs of harvest	5% (5%)	(3,948) 4,426
Estimated cost of replanting	5% (5%)	(5,144) 5,623
Growth rates of timber prices	1% (1%)	36,726 (32,659)
Discount rate	3% (3%)	(33,855) 48,689

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 31 December 2018

19. INTANGIBLE ASSETS

	Development costs HK\$'000	Licenses HK\$'000	Total HK\$'000
Cost			
At 1 January 2017	3,158	958	4,116
Effect of foreign currency exchange differences	222	67	289
At 31 December 2017 and 1 January 2018	3,380	1,025	4,405
Effect of foreign currency exchange differences	(156)	(47)	(203)
At 31 December 2018	3,224	978	4,202
Amortisation			
At 1 January 2017	(505)	(153)	(658)
Charge for the year	(444)	(88)	(532)
Effect of foreign currency exchange differences	(51)	(14)	(65)
At 31 December 2017 and 1 January 2018	(1,000)	(255)	(1,255)
Charge for the year	(454)	(9)	(463)
Effect of foreign currency exchange differences	62	13	75
At 31 December 2018	(1,392)	(251)	(1,643)
Carrying values			
At 31 December 2018	1,832	727	2,559
At 31 December 2017	2,380	770	3,150

The above intangible assets have finite useful lives. Such intangible assets are amortised on a straight-line basis over the following periods:

	Useful lives
Development costs	10 years
Licenses	10 years

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 31 December 2018

20. INVENTORIES

	2018 HK\$'000	2017 HK\$'000
Raw materials	89,321	83,106
Work in progress	3,956	3,489
Finished goods	33,349	18,526
Total	126,626	105,121

As at 31 December 2018, all finished goods with carrying amount of approximately HK\$33,349,000 (2017: HK\$18,526,000) were pledged to a bank to secure the banking facilities granted by the bank. (notes 27 and 31)

21. TRADE AND BILLS RECEIVABLES

	2018 HK\$'000	2017 HK\$'000
Trade receivables	32,554	39,448
Bills receivables	17,337	23,603
	49,891	63,051
Less: loss allowances (note 37(b))	(752)	(418)
	49,139	62,633

The Group's trading terms with its customers are mainly on open account terms, except for new customers, where payment in advance is normally required. The credit period is generally for a period up to 90 days (2017: 90 days). The Group seeks to maintain strict control over its outstanding receivables to minimise its credit risk. Overdue balances are regularly reviewed by senior management. Trade receivables are non-interest bearing and their carrying amounts approximate to their fair values.

The following is an aged analysis of trade receivables, presented based on invoice date, at the end of the reporting period.

	2018 HK\$'000	2017 HK\$'000
Within three months	31,950	39,009
Over three months but within six months	—	39
Over six months	604	400
Total	32,554	39,448

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 31 December 2018

21. TRADE AND BILLS RECEIVABLES *(Continued)*

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.

	2018 HK\$'000	2017 HK\$'000
Within three months	11,286	13,011
Over three months but within six months	6,051	10,592
Total	17,337	23,603

22. DEPOSITS, PREPAYMENTS AND OTHER RECEIVABLES

	2018 HK\$'000	2017 HK\$'000
VAT recoverable	17,186	16,191
VAT refund	1,808	2,427
Payments in advance to suppliers (note (i))	20,551	21,205
Prepaid lease payments (note 17)	1,502	1,649
Prepayments paid for acquisition of property, plant and equipment	3,455	8,168
Prepayments paid for acquisition of forestry rights of the forestlands (note (ii))	–	28,233
Security deposit placed to a financial institution to secure a sales-and-leaseback operating lease arrangement	1,712	–
Others	1,310	1,311
	47,524	79,184
Analyses for reporting purposes:		
Current assets	42,357	42,783
Non-current assets	5,167	36,401
	47,524	79,184

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 31 December 2018

22. DEPOSITS, PREPAYMENTS AND OTHER RECEIVABLES (Continued)

Notes:

- (i) As at 31 December 2018, included in payments in advance to suppliers are prepayments of approximately HK\$18,982,000 (2017: HK\$17,346,000) made to suppliers for securing wood supplies. Subsequent to the end of the reporting period and up to the date of the report, substantial amounts have been settled with delivery of raw materials.
- (ii) During the year ended 31 December 2018, the Group did not pay for acquisition of forestlands. During the year ended 31 December 2017, the Group had paid a total consideration of approximately RMB36,200,000 or equivalent to HK\$42,287,000 for the acquisition of forestry rights of the forestlands, of which approximately RMB12,600,000 or equivalent to HK\$14,517,000 had been completed during that year. The remaining balance of RMB23,600,000 or equivalent to HK\$28,233,000 has been completed during the year ended 31 December 2018.

23. BANK BALANCES AND CASH AND PLEDGED BANK DEPOSIT

	2018 HK\$'000	2017 HK\$'000
Cash and cash equivalents	6,204	23,832
Unpledged fixed deposit with original maturity over 3 months	–	3,662
Pledged bank deposit	6,277	9,472
Bank balances and cash and pledged bank deposit	12,481	36,966
Analyses for reporting purposes:		
Current assets	12,481	27,494
Non-current assets	–	9,472
	12,481	36,966

As at 31 December 2018, the Group has unpledged bank deposits and cash of approximately HK\$5,275,000 (2017: HK\$24,464,000) and pledged deposit of approximately HK\$6,277,000 (2017: HK\$9,472,000) in banks in the PRC, the remittance of which is subject to relevant rules and regulations of foreign exchange control promulgated by the PRC government.

As at 31 December 2018 and 2017, the pledged bank deposit was placed to secure the bank and other borrowings. (note 27)

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 31 December 2018

24. TRADE PAYABLES

	Note	2018 HK\$'000	2017 HK\$'000
Trade payables	(i)	34,058	28,523

Note:

- (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:

	2018 HK\$'000	2017 HK\$'000
Within 3 months	25,823	21,231
Over 3 months but within 6 months	6,834	6,478
Over 6 months	1,401	814
	34,058	28,523

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

25. OTHER PAYABLES AND ACCRUED EXPENSES

	2018 HK\$'000	2017 HK\$'000
Payables for acquisition of property, plant and equipment	764	1,687
Payroll payable	6,365	5,340
Accrued expenses	13,938	14,791
Receipts in advance from customers	–	374
Other tax payables	3,039	4,983
Others	1,615	791
	25,721	27,966

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 31 December 2018

26. CONTRACT LIABILITIES

	2018 HK\$'000	2017 HK\$'000
Amounts received in advance of delivery for goods	4,502	–

Contract liabilities represent amounts received by customers in advance that delivery of goods, being the timing to satisfy performance obligation, has not yet made as at 31 December 2018.

Comparative figures have not been restated as permitted by the transitional provision set out in HKFRS 15. Further details are disclosed in note 3 above.

27. BANK AND OTHER BORROWINGS

	Notes	2018 HK\$'000	2017 HK\$'000
Bank borrowings	(i)	158,618	206,466
Other borrowings	(ii)	43,195	54,278
Finance lease liability	(iii)	1,602	2,136
Unsecured loan	(iv)	2,283	–
		205,698	262,880
Less: amount included in current liabilities		(202,514)	(208,971)
Non-current portion		3,184	53,909
Analysed as:			
Secured but unguaranteed	(v)	110,877	132,068
Secured and guaranteed	(v)(vi)	65,603	108,804
Unsecured and unguaranteed		29,218	22,008
		205,698	262,880

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 31 December 2018

27. BANK AND OTHER BORROWINGS (Continued)

Notes:

- (i) Other than bank borrowings with an aggregate carrying amount of approximately HK\$79,775,000 (2017: HK\$83,376,000) which bear fixed interest rate ranging from 4.35% to 5.87% (2017: 5.09% to 7.18%) per annum as at 31 December 2018, other bank borrowings with an aggregate carrying amount of approximately HK\$78,843,000 (2017: HK\$123,090,000) bear floating interest rates ranging from 4.75% to 6.88% (2017: 2.62% to 6.88%) per annum as at 31 December 2018.

The maturity analysis of bank borrowings is as follows:

	2018 HK\$'000	2017 HK\$'000
Within one year	158,618	184,329
More than one year, but not exceeding two years	–	22,137
	158,618	206,466

As at 31 December 2018, all bank borrowings were denominated in RMB. As at 31 December 2017, other than a bank borrowing with carrying amount of approximately HK\$11,959,000 which is denominated in United State Dollars ("USD"), other bank borrowings with aggregate carrying amounts of approximately HK\$194,507,000 are denominated in RMB.

- (ii) As at 31 December 2018, the Group's other borrowings represents sales and leaseback operating lease arrangements with financial institutions, pursuant to which the Group transfers certain of its equipments to the financial institutions for loans to the Group with tenure of two to three years (2017: three years) from the date of advancements. At the end of the terms, the Group could pay a minimal amount of consideration to re-acquire the leased equipments. Other borrowings of approximately HK\$31,569,000 (2017: HK\$54,278,000) carry fixed interest with interest rate of 9.68% per annum as at 31 December 2018 (2017: 9.68%) and other borrowings of approximately HK\$11,626,000 (2017: HK\$nil) carry floating interest with interest rate of 12.21%. Other borrowings are denominated in RMB in both years.

The maturity analysis of other borrowings is as follows:

	2018 HK\$'000	2017 HK\$'000
Within one year	41,061	24,108
More than one year, but not exceeding two years	2,133	30,170
	43,194	54,278

- (iii) As at 31 December 2018, the Group's financial leases liability represents a finance lease arrangement for the purchase of a motor vehicle. The lease period is for 5 years. At the end of the lease term, the Group had an option to purchase the leased motor vehicle at a price that was expected to be sufficiently lower than the fair value of the leased motor vehicle at the end of the lease. None of the lease included contingent rentals. The finance lease liability is denominated in HKD.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 31 December 2018

27. BANK AND OTHER BORROWINGS (Continued)

Notes: (Continued)

(iii) (Continued)

Analysis of the finance lease liability is as follows:

	2018 HK\$'000	2017 HK\$'000
Total minimum lease payments:		
Within one year	589	589
More than one year, but not exceeding two years	589	589
More than two years, but not exceeding five years	491	1,080
	1,669	2,258
Future finance charges on finance leases	(67)	(122)
	1,602	2,136
Present value of minimum lease payments:		
Within one year under current liabilities	551	534
More than one year but not exceeding than two years	567	551
More than two years but not exceeding than five years	484	1,051
	1,602	2,136

- (iv) As at 31 December 2018, the unsecured loan is interest-free, unsecured and repayable within 1.5 months after advancement. As at 31 December 2017, the Group had no unsecured loan.
- (v) As at 31 December 2018, the Group's secured bank and other borrowings are secured by the following assets of the Group:
- (a) the pledge of the Group's property, plant and equipment with an aggregate carrying amount of approximately HK\$286,674,000 (2017: HK\$301,117,000) (note 16);
 - (b) the pledge of the Group's prepaid lease payments with an aggregate carrying amount of approximately HK\$18,652,000 (2017: HK\$20,000,000) (note 17);
 - (c) the pledge of the Group's inventories with an aggregate carrying amount of approximately HK\$33,349,000 (2017: HK\$18,526,000) (note 20);
 - (d) the pledge of the Group's security deposit with carrying amount of HK\$1,712,000 (2017: HK\$nil) (note 22); and
 - (e) the pledge of the Group's bank deposits with an aggregate carrying amount of approximately HK\$6,277,000 (2017: HK\$9,472,000) (note 23).

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

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27. BANK AND OTHER BORROWINGS (Continued)

Notes: (Continued)

- (vi) As at 31 December 2018 and 2017, the Group's secured and guaranteed bank borrowings are secured by a personal guarantee executed by Mr. Wong for the maximum amount of guarantee up to approximately HK\$225,976,000 (2017: HK\$236,868,000). As at 31 December 2018, the Group's secured and guaranteed bank borrowings are also secured by a personal guarantee executed by Mr. Wong Kin Ching, son of Mr. and Mrs. Wong, for the maximum amount of guarantee up to approximately HK\$225,976,000 (2017: HK\$nil).
- (vii) As at 31 December 2018, certain of the Group's bank borrowings are attached with financial covenants which require that at any time, total liabilities over total assets and contingent liabilities of Hongwei Renhua are not more than, and current assets over current liabilities and net profits of Hongwei Renhua are not less than certain required levels. During the year ended 31 December 2018, all these covenants have been complied with by Hongwei Renhua. As at 31 December 2017, the Group's bank borrowings were not attached with financial covenants.

28. DEFERRED INCOME

	2018 HK\$'000	2017 HK\$'000
Balance at beginning of the year	40,173	35,510
Additions	4,036	5,259
Grants returned	(809)	–
Credited to profit or loss during the year (note 8)	(3,749)	(3,210)
Exchange differences	(1,800)	2,614
Balance at end of the year	37,851	40,173
Analysed for reporting purpose as:		
Current liabilities	3,738	4,382
Non-current liabilities	34,113	35,791
Balance at end of the year	37,851	40,173

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

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29. BONDS AND NOTES PAYABLE

	Notes	2018 HK\$'000	2017 HK\$'000
Bonds, secured and guaranteed	(i)	–	92,385
Notes payable, secured and guaranteed	(ii)	96,731	–
		96,731	92,385

Notes:

- (i) On 13 September 2017, the Company issued 10% secured and guaranteed bonds in the aggregate principal amount of HK\$100,000,000 at a term of 364 days to an independent subscriber (the “**Bonds Subscriber**”). The guaranteed bonds are secured by personal guarantees executed by Mr. Wong and Mrs. Wong. Under the subscription agreement and several supplemental agreements (collectively referred to as the “**Bonds Subscription Agreements**”), Mr. Wong and Mrs. Wong, among other things, undertakes to the Bonds Subscriber that as long as any bonds is outstanding, he or she shall not (i) provide any guarantee in any form to anyone which will result in the aggregate amount of indebtedness (secured or unsecured) guaranteed by them exceeding HK\$530,000,000 and (ii) pledge any of his or her existing specified properties and assets in Hong Kong to anyone.

On 15 September 2017, the Company and the Bonds Subscriber entered into a share pledge agreement, pursuant to which, among other things, the Company agreed to pledge its fully paid up capital in Hongwei Renhua to secure the secured and guaranteed bonds and both parties agreed that the Company shall complete the share pledge registration in the relevant governmental departments in the PRC within 2 months from the date of issuance of the bonds.

The Company and the Bonds Subscriber subsequently entered into several supplemental agreements, pursuant to which, among other things, both parties have agreed to extend the share pledge registration date in the PRC to 5 months from the date of issuance of the bonds. The share pledge registration has been completed subsequently on 22 January 2018.

The secured and guaranteed bonds are denominated in HKD. The bonds have been fully settled during the year ended 31 December 2018.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

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29. BONDS AND NOTES PAYABLE *(Continued)*Notes: *(Continued)*

- (ii) On 10 August 2018, the Company entered into a subscription agreement (the “**Notes Subscription Agreement**”) with a subscriber (the “**Notes Subscriber**”) for the issuance of secured and guaranteed notes (the “**Notes**”) in the principal amount of HK\$100,000,000 for an initial term of 2 years from the date of issuance, which could be extendable for another year as agreed by the Company and the Notes Subscriber. The Notes carry floating interest at Hong Kong Prime Rate (“**Prime Rate**”) plus 3% per annum, being 8.125% per annum as at 31 December 2018. The Notes are secured by the Company’s fully paid up capital in Hongwei Renhua and personal guarantees executed by the Company’s chairman and executive directors, Mr. Wong and Mrs. Wong (the “**Guarantors**”).

The subscription agreement and the instrument constituting the Notes (the “**Instrument**”) contain covenants that require Mr. Wong to remain as the single largest shareholder of the Company, the chairman of the Board and executive director of the Company and restrict the creation by either of the Guarantors of any additional encumbrances over real properties owned by them in Hong Kong as at the date of the Notes Subscription Agreement and the Instrument, the breach of which will constitute an event of default. In addition, the bankruptcy or inability to pay debts when due of the Guarantors or any change of control (within the meaning of the Code on Takeovers and Mergers) of the Company will also constitute an event of default. Upon the occurrence of a continuing event of default, the holder(s) of the Notes is(are) entitled to request immediate redemption of the Notes at a higher interest rate and such amount which would give a 20% internal rate of return (inclusive of all interest and fee payable by the Company) to the Notes Subscriber as stipulated in the Instrument.

On 31 December 2018, the Company and the Notes Subscriber entered into an amended and restated note instrument (the “**Amended Instrument**”), among other things, for the amendment of the terms of certain financial covenants.

The Notes are attached with financial covenants which require that at the end of March, June, September and December during the terms of the Notes, the adjusted consolidated net assets and the adjusted interest coverage ratio as defined in the Amended Instrument are not less than, and the consolidated total liabilities to the adjusted consolidated total assets and the consolidated total liabilities are not more than certain required levels of the Group. During the year, all these covenants have been complied with by the Group.

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30. SHARE CAPITAL**(a) Issued and fully paid shares**

	Number of shares		Share capital	
	2018 '000	2017 '000	2018 HK\$'000	2017 HK\$'000
<i>Ordinary shares, issued and fully paid</i>				
At 31 December	832,603	832,603	253,928	253,928

There is no movement in share capital between years.

(b) Capital risk management

The Group manages its capital to ensure that entity will be able to continue as a going concern while maximising 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 bank and other borrowings, bonds, and notes payable, net of cash and cash equivalents and pledged and unpledged bank deposits, and equity attributable to owners of the Group comprising share capital, retained 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 and other borrowings, bonds and notes payable.

31. PLEDGE OF ASSETS

As at 31 December 2018 and 2017, the Group's secured bank and other borrowings were secured by certain of the Group's property, plant and equipment, prepaid lease payments, bank deposit, security deposit and inventories, and certain of the Group's secured bank borrowings are secured by a personal guarantee executed by Mr. Wong. As at 31 December 2018, the Group's secured and guaranteed bank borrowings are also secured by a personal guarantee executed by Mr. Wong Kin Ching, son of Mr. Wong and Mrs. Wong. Details are set out in note 27 above.

As at 31 December 2018, the notes payable are secured by personal guarantees executed by Mr. Wong and Mrs. Wong and the Company's fully paid up capital in Hongwei Renhua. As at 31 December 2017, the Group's secured and guaranteed bonds were secured by personal guarantees executed by Mr. Wong and Mrs. Wong and the Company's fully paid up capital in Hongwei Renhua. Details are set out in note 29 above.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

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32. RECONCILIATION OF LIABILITIES ARISING FROM FINANCING ACTIVITIES

	Liabilities					Asset	Total
	Due to a director HK\$'000	Interest and other finance costs payable HK\$'000	Bank and other borrowings HK\$'000 (note 27)	Bonds HK\$'000 (note 29)	Notes payable HK\$'000 (note 29)	Security deposit HK\$'000 (note 22)	
Balance at 1 January 2018	–	–	262,880	92,385	–	–	355,265
Changes from financing activities:							
Net proceeds from bank and other borrowings	–	–	230,180	–	–	(1,872)	228,308
Net proceeds from notes issuance	–	–	–	–	93,044	–	93,044
Amounts advanced from a director	6,524	–	–	–	–	–	6,524
Repayment of bank and other borrowings	–	–	(281,495)	–	–	–	(281,495)
Repayment of bonds	–	–	–	(99,123)	–	–	(99,123)
Amounts repaid to a director	(6,333)	–	–	–	–	–	(6,333)
Interest paid	–	(1,408)	(10,279)	(27)	–	–	(11,714)
Total changes from financing activities	191	(1,408)	(61,594)	(99,150)	93,044	(1,872)	(70,789)
Non-cash changes:							
Interest and other finance costs charged to profit or loss (note 10)	–	1,408	15,927	6,765	3,687	–	27,787
Exchange realignment	(191)	–	(11,515)	–	–	160	(11,546)
Total non-cash changes	(191)	1,408	4,412	6,765	3,687	160	16,241
Balance at 31 December 2018	–	–	205,698	–	96,731	(1,712)	300,717

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32. RECONCILIATION OF LIABILITIES ARISING FROM FINANCING ACTIVITIES *(Continued)*

	Liabilities				
	Due to a director HK\$'000	Interest and other finance costs payable HK\$'000	Bank and other borrowings HK\$'000 (note 27)	Bonds HK\$'000 (note 29)	Total HK\$'000
Balance at 1 January 2017	–	–	313,211	16,384	329,595
Changes from financing activities:					
Net proceeds from bank and other borrowings	–	–	172,012	–	172,012
Net proceeds from bonds issuance	–	–	–	89,161	89,161
Amounts advanced from a director	18,675	–	–	–	18,675
Repayment of bank and other borrowings	–	–	(251,117)	–	(251,117)
Repayment of bonds	–	–	–	(17,000)	(17,000)
Amounts repaid to a director	(18,735)	–	–	–	(18,735)
Interest paid	–	(922)	(13,073)	(1,372)	(15,367)
Total changes from financing activities	(60)	(922)	(92,178)	70,789	(22,371)
Non-cash changes:					
Acquisition of finance lease ^(#)	–	–	2,739	–	2,739
Interest and other finance costs charged to profit or loss (note 10)	–	922	19,191	5,212	25,325
Exchange realignment	60	–	19,917	–	19,977
Total non-cash changes	60	922	41,847	5,212	48,041
Balance at 31 December 2017	–	–	262,880	92,385	355,265

[#] During the year ended 31 December 2017, the Group entered into a finance lease arrangement in respect of a motor vehicle with a total capital value at the inception of the lease of HK\$2,739,000.

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33. EMPLOYEE BENEFITS**(a) Retirement benefit scheme**

The Group participates in the “MPF Scheme” for all qualifying employees in Hong Kong. The assets of the MPF Scheme are held separately from those of the Group, in funds under the control of trustees. The Group contributes 5% of the employees’ monthly relevant income capped at HK\$30,000, to the MPF Scheme, which contribution is matched by employees.

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 14% (2017: 14% to 15%) of the employees’ salaries during the year or in accordance with the requirements of the plans. The Group has no obligation for the payment of benefits beyond the annual contributions for the government administered programs.

At the end of the reporting period, there was no forfeited contribution in respect of employees leaving the retirement benefits scheme before they were fully vested in the contributions and which were available to reduce the contributions payable by the Group in the future years.

The aggregate contributions paid/payable by the Group to the MPF Scheme and defined contribution retirement benefit plans in the PRC for the year ended 31 December 2018 amounted to approximately HK\$1,017,000 (2017: HK\$1,005,000), which has been recognised as expenses and included in staff costs as disclosed in note 13 to the consolidated financial statements.

(b) Share option scheme

Prior to the listing of Company’s shares to GEM of the Stock Exchange (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 caliber 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 and will expire on 18 December 2023. Under the Share Option Scheme, the Board of Director 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 subsidiaries or associated companies or any other person whom the Board considers, in its sole discretion, has contributed or will contribute to the Group to subscribe for shares in the Company. 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.

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For the year ended 31 December 2018

33. EMPLOYEE BENEFITS (Continued)**(b) Share option scheme** (Continued)

Unless the Company obtains a fresh approval from the shareholders, the total number of shares in respect of which options may be granted under the Share Option Scheme is not permitted to exceed 10% of shares of the Company in issue immediately following completion of placing shares at the time of the Listing, which is 71,111,510 shares, representing 8.5% (2017: 8.5%) of the Company's issued shares at 31 December 2018 and as at the date of this report. The total number of shares which may be issued upon exercise all outstanding options granted and yet to be exercised under the Share Option Scheme must not exceed 30% of the shares in issue from time to time. The number of shares in respect of which options may be granted to any individual in any 12-month period is not permitted to exceed 1% of the shares of the Company in issue at any point in time without prior approval from the Company's shareholders.

Options granted must be taken up within 30 days from the date of grant, upon payment of HK\$1.00 per each grant of options(s). Options may be exercised at any time from the date of grant to the 10th anniversary of the date of grant. In each grant of options, the Board at its discretion determines the specific exercise period and exercise price. The exercise price shall not be less than the highest of (i) the closing price of shares on the Stock Exchange on the date of the offer of grant; (ii) the average closing price of shares on the Stock Exchange for the five trading days immediately preceding the date of the offer of grant; and (iii) the nominal value of the shares.

As at 31 December 2018 and 2017, no option has been granted under the Share Option Scheme.

34. COMMITMENTS**Operating lease commitments**

Minimum lease payments paid under operating leases in respect of land and buildings during the year amounting to approximately HK\$610,000 (2017: HK\$347,000). At the end of the reporting period, the Group had commitments for future minimum lease under non-cancellable operating leases in respect of land and buildings which fall due as follows:

	2018 HK\$'000	2017 HK\$'000
Not later than one year	319	610
Later than one year and not later than five years	—	319
	319	929

Operating lease payment represents rentals payable by the Group for its office premises with remaining lease term of 6 months (2017: 18 months) and rentals are fixed throughout the lease periods. The Group does not have an option to purchase the leased assets at the expiry of the lease period.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 31 December 2018

34. COMMITMENTS *(Continued)***Capital commitments**

	2018 HK\$'000	2017 HK\$'000
Commitments for the acquisition of property, plant and equipments		
– Contracted for but not provided in these consolidated financial statements	3,424	4,982

35. TRANSFER OF FINANCIAL ASSETS

	Bills receivable endorsed to suppliers with full recourse HK\$'000 (note)	Total HK\$'000
As at 31 December 2018		
Carrying amount of transferred assets included in:		
– trade and bills receivables	16,070	16,070
Carrying amount of associated liabilities	(16,070)	(16,070)
Net position	–	–
As at 31 December 2017		
Carrying amount of transferred assets included in:		
– trade and bills receivables	18,373	18,373
Carrying amount of associated liabilities	(18,373)	(18,373)
Net position	–	–

Note: 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 2018

36. CATEGORIES OF FINANCIAL INSTRUMENTS

	2018 HK\$'000	2017 HK\$'000
Financial assets		
Amortised cost/Loans and receivables:		
Trade and bills receivables	49,139	62,633
Bank balances and cash	6,204	27,494
Security deposit	1,712	–
Pledged bank deposit	6,277	9,472
	63,332	99,599
Financial liabilities		
Amortised cost:		
Trade payables	34,058	28,523
Other payables	19,805	25,531
Bank and other borrowings	205,698	262,880
Bonds, secured and guaranteed	–	92,385
Notes payable, secured and guaranteed	96,731	–
	356,292	409,319

37. FINANCIAL RISK MANAGEMENT

The Group's financial instruments include trade and bills receivables, bank balances and cash, security deposit, pledged bank deposit, trade payables, other payables, bank and other borrowings, bonds and notes payable. 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.

(a) Market risks

(i) Foreign currency risk

The Group's monetary assets, liabilities and transactions are principally denominated in HKD, RMB and USD.

The Group exposes to foreign currency risk that are denominated in HKD and USD. The Group currently does not have hedging policy against HKD and USD. However, management monitors the Group's foreign currency risk exposure and will consider hedging significant currency risk exposure should the need arise.

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For the year ended 31 December 2018

37. FINANCIAL RISK MANAGEMENT (Continued)

(a) Market risks (Continued)

(i) Foreign currency risk (Continued)

As at 31 December 2018 and 2017, the carrying amounts of the Group's monetary assets which are denominated in HKD and USD are as follows:

	2018 HK\$'000	2017 HK\$'000
Assets:		
Bank balances and cash	914	2,737
Liabilities:		
Bank and other borrowings	(1,602)	(14,095)
Bonds	—	(92,385)
Notes payable	(96,731)	—

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

The following table illustrates the sensitivity of the Group's (loss)/profit after tax and equity to reasonably possible changes in RMB against HKD and USD exchange rates. 10% (2017: 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 increase in the sensitivity rate to 10% in current year is caused by the expectation of large fluctuation in foreign exchange rates in the future. The management assess the foreign currency risk arising from USD and HKD collectively because the exchange rate between USD and HKD is pegged.

	Increase/ (decrease) in rate %	(Increase)/ decrease in loss for the year and (decrease)/ increase in equity HK\$'000
2018		
If RMB strengthens against HKD and USD	10	8,134
If RMB weakens against HKD and USD	(10)	(8,134)
	Increase/ (decrease) in rate %	(Decrease)/ increase in profit for the year and equity HK\$'000
2017		
If RMB strengthens against HKD and USD	5	4,281
If RMB weakens against HKD and USD	(5)	(4,281)

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.

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For the year ended 31 December 2018

37. FINANCIAL RISK MANAGEMENT *(Continued)***(a) Market risks** *(Continued)***(ii) Interest rate risk**

The Group's interest rate risk is mainly concentrated on the fluctuation of London Inter-Bank Offered Rate ("**LIBOR**") arising from the Group's bank borrowings carried floating interest rates, interest rates published by the People's Bank of China ("**PBOC**") arising from the Group's bank balances, pledged bank deposit and other borrowings carried floating interest rates and the Prime Rate arising from notes payable for the year ended 31 December 2018. For the year ended 31 December 2017, the Group's interest rate risk was affected by the fluctuation of LIBOR arising from an USD denominated bank borrowing carried floating interest rate, and interest rates published by PBOC arising from the Group's bank balances, pledged bank deposit and RMB denominated bank borrowings carried floating interest rates.

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 bank deposit is insignificant. Therefore, no sensitivity analysis on interest rates for bank balances and pledged bank deposit is presented.

The sensitivity analysis below has been determined based on the exposure to bank borrowings carried at floating interest rates at the end of each reporting period. 0.5% (2017: 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 loss for the year would increase/decrease and equity would decrease/increase by approximately HK\$827,000 (2017: the Group's post-tax profit for the year and equity would decrease/increase by approximately HK\$462,000).

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

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37. FINANCIAL RISK MANAGEMENT (Continued)**(b) Credit risk**

The Group is exposed to credit risk in relation to its trade and bills receivables, pledged and unpledged cash deposits at banks and security deposit placed at a financial institution. The carrying amounts of these financial assets represent the Group's maximum exposure to credit risk.

The Group expects no significant credit risk associated with cash deposits at banks since they are substantially deposited to state-owned banks and other medium or large-sized listed banks. Management does not expect that there will be any significant losses from non-performance by these counterparties. The Group's pledged and unpledged cash deposits are placed in the following banks:

- Group 1 – Banks regulated under Banking Ordinance in Hong Kong
- Group 2 – Top four banks in the PRC, excluding Hong Kong (China Construction Bank, Bank of China Limited, Agricultural Bank of China and Industrial and Commercial Bank of China)
- Group 3 – Other state-controlled banks in the PRC

	2018 HK\$'000	2017 HK\$'000
Group 1	929	3,030
Group 2	11,514	29,573
Group 3	10	4,348
Total bank balances and pledged bank deposit	12,453	36,951

The Group has concentration risk regarding trade and bills receivables. The following balances with customers each represent more than 10% of the total trade and bills receivables for that year:

	2018 HK\$'000	2017 HK\$'000
Customer A	16,007	23,651
Customer B	9,000	7,718
Customer C	8,651	9,092
	33,658	40,461

These customers are relating to particleboards segment in both years.

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 recoverability of these receivables at the end of each reporting period to ensure that adequate impairment losses are made for irrecoverable amounts.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

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37. FINANCIAL RISK MANAGEMENT (Continued)**(b) Credit risks** (Continued)

The Group considers the probability of default upon initial recognition of asset and whether there has been a significant increase in credit risk on an ongoing basis throughout each reporting period. To assess whether there is a significant increase in credit risk, the Group compares the risk of a default occurring on the asset as at the reporting date with the risk of default as at the date of initial recognition. It considers available reasonable and supportive forwarding-looking information. Especially the following indicators are incorporated:

- actual or expected significant adverse changes in business, financial or economic conditions that are expected to cause a significant change to the customer's ability to meet its obligations;
- actual or expected significant changes in the operating results of the debtor/customer;
- significant changes in the expected performance and behaviour of the customer, including changes in the payment status of customer in the Group and changes in the operating results of the customer.

The Group measures loss allowances for trade and bills receivable at an amount equal to lifetime ECLs, which is calculated using a provision matrix. As the Group's historical credit loss experience does not indicate significantly different loss patterns for different customer segments, the loss allowance based on past due status is not further distinguished between the Group's different customer bases. The following table provides information about the Group's exposure to credit risk and ECLs for trade and bills receivables as at 31 December 2018:

	Expected loss rate	Gross carrying amount HK\$'000	Loss allowance HK\$'000
Current	0.3%	49,206	148
Past due 1 – 30 days	0.5%	81	1
Past due 91 – 180 days	90%	8	7
Past due over 180 days	100%	596	596
Total		49,891	752

Expected loss rates are based on actual loss experience over the past 3 years. These rates are adjusted to reflect differences between economic conditions during the period over which the historic data has been collected, current conditions and the Group's view of economic conditions over the expected lives of the receivables.

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37. FINANCIAL RISK MANAGEMENT (Continued)**(b) Credit risks** (Continued)

Movement in loss allowance in respect of trade receivables during the year is as follows:

	2018 HK\$'000	2017 HK\$'000
At 1 January	418	391
Amounts written off during the year	(343)	–
Impairment losses recognised during the year (note 9)	709	–
Exchange realignment	(32)	27
At 31 December	752	418

Prior to 1 January 2018, an impairment loss was recognised only when there was objective evidence of impairment. As at 31 December 2017, trade receivables of approximately HK\$418,000 were determined to be impaired. The ageing analysis of trade receivables that were past due but not impaired is as follows:

	2017 HK\$'000
Neither past due nor impaired	38,548
Past due 1 – 30 days	482
Trade receivable, net of allowance for impairment loss	39,030

Trade receivables that were neither past due nor impaired have good repayment history in prior years.

Trade receivables that were past due but not impaired related to customers that had good track records with the Group. Management believed that no impairment allowance was necessary in respect of these balances as there had not been any significant change in credit quality and the balances were still considered fully recoverable.

As at 31 December 2017, included in loss allowance are individually impaired trade receivables with an aggregate balance of approximately HK\$418,000 which related to customers that were in financial difficulty and the management considered the recoverability of these debts is remote. The Group did not hold any collateral over these balances.

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37. FINANCIAL RISK MANAGEMENT (Continued)**(c) Liquidity risk**

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 manages liquidity risk by maintaining adequate reserves and banking facilities, by continuously monitoring forecast and actual cash flows.

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 Group's management also monitors its compliance with loan covenants.

The following tables set out the Group'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 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.

As at 31 December 2018

	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	Total undiscounted cash flows HK\$'000	Carrying amounts HK\$'000
Trade payables	34,058	–	–	34,058	34,058
Other payables	19,805	–	–	19,805	19,805
Bank borrowings:					
– at floating rate	52,535	27,744	–	80,279	78,843
– at fixed rate	13,324	69,994	–	83,318	79,775
Other borrowings:					
– at floating rate	5,081	4,902	2,384	12,367	11,626
– at fixed rate	6,332	27,467	–	33,799	31,569
Unsecured loan					
– interest-free	2,283	–	–	2,283	2,283
Finance lease liability	294	295	1,080	1,669	1,602
Notes payable	4,085	6,153	104,108	114,346	96,731
	137,797	136,555	107,572	381,924	356,292

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37. FINANCIAL RISK MANAGEMENT (Continued)**(c) Liquidity risk** (Continued)

As at 31 December 2017

	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	Total undiscounted cash flows HK\$'000	Carrying amounts HK\$'000
Trade payables	28,523	–	–	28,523	28,523
Other payables	25,531	–	–	25,531	25,531
Bank borrowings:					
– at floating rate	61,737	42,642	22,499	126,878	123,090
– at fixed rate	49,344	37,565	–	86,909	83,376
Other borrowings:					
– at fixed rate	7,340	18,330	35,428	61,098	54,278
Finance lease liability	294	295	1,669	2,258	2,136
Bonds	–	100,000	–	100,000	92,385
	172,769	198,832	59,596	431,197	409,319

(d) Fair value of financial instruments

As at 31 December 2018 and 2017, there is no financial instrument of the Group 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.

38. RELATED PARTY TRANSACTIONS

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

(a) Transactions

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

	Purchases of material	
	2018	2017
	HK\$'000	HK\$'000
Shaoguan Hongwei Forestry Company Limited	–	432

Purchases of material from Shaoguan Hongwei Forestry Company Limited, a company controlled by Mr. Wong Kin Ching, son of Mr. Wong and Mrs. Wong, were made at price agreed by both parties.

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38. RELATED PARTY TRANSACTIONS (Continued)**(b) Advance/repayment from Mr. Wong**

	2018 HK\$'000	2017 HK\$'000
Loans advanced from Mr. Wong	6,524	18,675
Repayment to Mr. Wong	6,333	18,735

During the year ended 31 December 2018, the Group and Mr. Wong entered into a loan agreement pursuant to which Mr. Wong agreed to provide the Group a loan of approximately HK\$6,524,000, which is interest-free, unsecured and repayable within 21 days from the drawdown date. During the year ended 31 December 2017, the Group and Mr. Wong entered into three loan agreements pursuant to which Mr. Wong agreed to provide the Group the aggregate loan amounts of approximately HK\$18,675,000, which were interest-free, unsecured and repayable within 30 days from the drawdown date of the respective loans.

(c) Personal guarantees executed by related parties

	2018 HK\$'000	2017 HK\$'000
Personal guarantees executed by Mr. Wong and Mrs. Wong in respect of the following balances:		
– bonds (note 29)	–	92,385
– notes payable (note 29)	96,731	–
Personal guarantee executed by Mr. Wong Kin Ching and Mr. Wong (2017: Mr. Wong) in respect of the following balances:		
– bank borrowings ^(#)	56,950	63,039

[#] Maximum amounts of guarantees provided by Mr. Wong and Mr. Wong Kin Ching (2017: Mr. Wong) are each approximately HK\$225,976,000 (2017: HK\$236,868,000).

(d) Facility letter entered with a director

On 22 March 2018, Mr. Wong and the Company entered into the Facility Letter, pursuant to which Mr. Wong agreed to provide a revolving facility of HK\$55,000,000 to the Company. The Company could make any drawings of the total facility amount at any date falling not less than one month before 31 March 2019. Maturity date of the loans is 12 months after the first drawing and interest is calculated at 12% per annum on outstanding principal amounts. During the year ended 31 December 2018, the Company did not utilise the facility.

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38. RELATED PARTY TRANSACTIONS (Continued)**(e) Proposed acquisition of a target company**

During the year ended 31 December 2018, the Group does not enter into any acquisition agreement.

During the year ended 31 December 2017, the Company and Mr. Wong Kin Ching entered into a termination agreement to terminate the acquisition agreement and the supplemental agreements for the proposed acquisition of a target company owned by Mr. Wong Kin Ching. The target company through its subsidiary engaged into forestry plantation business, including forestry planning and development.

(f) Compensation of key management personnel and related parties

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

	2018 HK\$'000	2017 HK\$'000
Short-term benefits	3,004	2,938
Post-employment benefits	65	58
	3,069	2,996

Remunerations paid by the Group for Miss Wong Wan Yu, daughter of Mr. Wong and Mrs. Wong, and Mr. Wong Kin Keung, son of Mr. Wong and Mrs. Wong, are set out as follows:

	Miss Wong Wan Yu		Mr. Wong Kin Keung	
	2018 HK\$'000	2017 HK\$'000	2018 HK\$'000	2017 HK\$'000
Short-term benefits	299	292	280	52
Post-employment benefits	14	13	13	3
	313	305	293	55

(g) Applicability of the GEM Listing Rules relating to connected person transactions

The purchase of materials from Shaoguan Hongwei Forestry Company Limited as set out in note (a) above is exempted continuing connected transactions as they are conducted on normal commercial terms and are fallen into the definition of de minimis transactions under Chapter 20 of the GEM Listing Rules.

The transactions set out in notes (b), (c) and (d) above are exempted continuing connected transactions as they are conducted on terms favourable than normal commercial terms, and the loans or guarantee are not secured by the assets of the Group.

The transaction set out in note (e) above constitutes connected and major transaction which had been terminated during the year ended 31 December 2017.

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39. STATEMENT OF FINANCIAL POSITION OF THE COMPANY

	2018 HK\$'000	2017 HK\$'000
NON-CURRENT ASSETS		
Investment in subsidiaries	272,846	285,788
Motor vehicles	2,215	2,845
Loans to a subsidiary	17,119	29,908
	292,180	318,541
CURRENT ASSETS		
Loan to a subsidiary	31,956	37,085
Amount due from subsidiaries	268	39
Deposit and other receivables	172	172
Bank balances and cash	915	2,795
	33,311	40,091
CURRENT LIABILITIES		
Amount due to subsidiaries	74,440	79,659
Contract liabilities	1,443	1,443
Other payables and accrued expenses	3,558	3,223
Finance lease liability, due within one year	551	534
Bonds, secured and guaranteed	–	92,385
	79,992	177,244
NET CURRENT LIABILITIES	(46,681)	(137,153)
TOTAL ASSETS LESS CURRENT LIABILITIES	245,499	181,388
NON-CURRENT LIABILITIES		
Contract liabilities	241	1,684
Finance lease liability, due after one year	1,051	1,602
Notes payable, secured and guaranteed	96,731	–
	98,023	3,286
NET ASSETS	147,476	178,102
CAPITAL AND RESERVES		
Share capital	253,928	253,928
Reserves	(106,452)	(75,826)
TOTAL EQUITY	147,476	178,102

The Company's statements of financial position was approved and authorised for issue by the Board of Directors on 25 March 2019 and are signed on its behalf by:

Wong Cheung Lok
Director

Liu Jiayong
Director

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 31 December 2018

39. STATEMENT OF FINANCIAL POSITION OF THE COMPANY (Continued)**Movement in Company's reserves**

	Share capital HK\$'000	Capital reserve HK\$'000	Foreign currency translation reserve HK\$'000	Accumulated losses HK\$'000	Total HK\$'000
At 1 January 2017	253,928	492	(25,668)	(46,262)	182,490
Loss and total comprehensive income/(loss) for the year	–	–	14,142	(18,530)	(4,388)
At 31 December 2017 and 1 January 2018	253,928	492	(11,526)	(64,792)	178,102
Loss and total comprehensive loss for the year	–	–	(11,528)	(19,098)	(30,626)
At 31 December 2018	253,928	492	(23,054)	(83,890)	147,476

Particulars of the subsidiaries are as follows:

Name of subsidiary	Place of establishment and operation	Registered capital/ Paid in capital	Percentage of ownership interests directly held by the Company	Principal activities
Hero Summit Limited [#]	Samoa Islands	US\$1.00/US\$1.00	100%	Investment holding
Hongwei Renhua [*]	PRC	HK\$302,000,000/ HK\$272,500,000	100%	Manufacturing and selling of particleboards
Shaoguan Jianhong Forestry Co., Ltd.*	PRC	HK\$5,000,000/HK\$nil	100%	Forestry business
Superb Fancy Limited [#]	Hong Kong	N/A/HK\$1.00	100%	Investment holding
Qingliu Jianhong Forestry Co., Ltd.*	PRC	HK\$5,000,000/HK\$nil	100%	Forestry business
Universal Success Enterprise Limited [#]	Hong Kong	N/A/HK\$1.00	100%	General corporate activity and trading of particleboards

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

[#] Registered as limited company in the relevant jurisdiction.

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

FIVE-YEAR FINANCIAL SUMMARY

The following is a summary of the published results and of the assets and liabilities of the Group for the five years ended 31 December 2014, 2015, 2016, 2017 and 2018.

RESULTS

	Year ended 31 December				
	2018 HK\$'000	2017 HK\$'000	2016 HK\$'000	2015 HK\$'000	2014 HK\$'000
Revenue	406,879	491,428	457,931	400,659	396,583
(Loss)/profit before tax	(57,476)	30,295	40,453	26,732	24,568
Income tax (expense)/credit	(2,138)	–	–	(2,077)	1,625
(Loss)/profit for the year	(59,614)	30,295	40,453	24,655	26,193

	As at 31 December				
	2018 HK\$'000	2017 HK\$'000	2016 HK\$'000	2015 HK\$'000	2014 HK\$'000
ASSETS AND LIABILITIES					
Current assets	230,603	260,433	213,702	393,736	269,666
Non-current assets	492,287	592,343	540,305	397,306	445,753
Total assets	722,890	852,776	754,007	791,042	715,419
Current liabilities	270,533	362,227	263,410	329,107	291,067
Non-current liabilities	134,588	90,287	147,509	136,264	169,535
Net assets	317,769	400,262	343,088	325,671	254,817
EQUITY					
Equity attributable to owners of the Company	317,769	400,262	343,088	325,671	254,817