STEED ORIENTAL (HOLDINGS) COMPANY LIMITED
駿東(控股)有限公司

(incorporated in the Cayman Islands with limited liability)
Stock Code: 8277

ANNUAL REPORT
2019

CHARACTERISTICS OF THE GEM ("GEM") OF THE STOCK EXCHANGE OF HONG KONG LIMITED (THE "STOCK EXCHANGE")

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

Given the emerging nature of companies listed on GEM, there is a risk that securities traded on GEM may be more susceptible to high market volatility than securities traded on the Main Board 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 Steed Oriental (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 enquiries, confirm that to the best of their knowledge and belief the information contained in this report is accurate and complete in all material respects 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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Corporate Information

BOARD OF DIRECTORS

Executive Directors

Ms. Sun Xue Song *(Chairman)*
Mr. Xue Zhao Qiang *(Chief Executive Officer)*

Non-executive Director

Mr. Ding Hongquan

Independent non-executive Directors

Mr. Wang Wei
Ms. Dong Ping
Mr. Zhu Da

AUDIT COMMITTEE MEMBERS

Mr. Zhu Da *(Chairman)*
Ms. Dong Ping
Mr. Wang Wei

NOMINATION COMMITTEE MEMBERS

Mr. Wang Wei *(Chairman)*
Ms. Dong Ping
Mr. Zhu Da

REMUNERATION COMMITTEE MEMBERS

Ms. Dong Ping *(Chairman)*
Mr. Zhu Da
Mr. Wang Wei

COMPLIANCE OFFICER

Ms. Sun Xue Song

COMPANY SECRETARY

Mr. Chan Yuk Hiu Taylor

AUTHORISED REPRESENTATIVES

Ms. Sun Xue Song
Mr. Chan Yuk Hiu Taylor

AUDITOR

KPMG
Certified Public Accountants
8th Floor, Prince's Building,
10 Charter Road,
Central, Hong Kong

REGISTERED OFFICE

Cricket Square,
Hutchins Drive,
P.O. Box 2681,
Grand Cayman KY1-1111,
Cayman Islands

HEAD OFFICE AND PRINCIPAL PLACE OF BUSINESS

Suites 2524-25, 25/F., Sun Hung Kai Centre,
30 Harbour Road,
Wanchai,
Hong Kong

PRINCIPAL SHARE REGISTRAR AND TRANSFER OFFICE IN CAYMAN ISLANDS

Conyers Trust Company (Cayman) Limited
Cricket Square,
Hutchins Drive,
P.O. Box 2681,
Grand Cayman KY1-1111,
Cayman Islands

HONG KONG BRANCH SHARE REGISTRAR AND TRANSFER OFFICE

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

PRINCIPAL BANKER

Bank of China (Hong Kong) Limited

COMPANY'S WEBSITE

www.steedoriental.com.hk

STOCK CODE

8277

Chairman's Statement

Dear Shareholders,

On behalf of the board (the "Board") of directors (the "Director(s)") of Steed Oriental (Holdings) Company Limited (the "Company"), I am pleased to present the audited consolidated results of the Company and its subsidiaries (collectively referred to as the "Group") for the year ended 31 March 2019.

PERFORMANCE

For the financial year ended 31 March 2019, the Group recorded a profit of approximately HK$3.3 million, compared to the loss of approximately HK$3.8 million for the year ended 31 March 2018. For the year ended 31 March 2019, the Group's revenue increased by approximately 41.4% to approximately HK$243.2 million (2018: approximately HK$172.0 million). The gross profit increased by approximately 87.8% to approximately HK$44.7 million for the year ended 31 March 2019 (2018: approximately HK$23.8 million). Selling expenses increased by approximately 28.1% to approximately HK$7.3 million for the year ended 31 March 2019 (2018: approximately HK$5.7 million). Administrative and other expenses increased by approximately 44.2% to approximately HK$32.6 million for the year ended 31 March 2019 (2018: approximately HK$22.6 million).

The Board does not recommend payment of a final dividend for the year ended 31 March 2019.

FUTURE PROSPECTS

The proposed new production plant in Dong Mu Shan Industrial Park is expected to have a gross area of approximately 31,390 square meters and the new production base is expected to have an annual production capacity of approximately 99,456 cubic meters of plywood products. Up to the date of this report, the main construction work of the new production plant has been completed. The management expects that the relocation will be started in the second half of this year.

The current production plant of the Group is located at No. 29, Gao Sha Middle Road, Jiangmen City, Guangdong Province, the People's Republic of China (the "PRC"). Due to the delay in the construction of new production plant, the tenancy agreement of current production plant has been renewed twice and extended to 30 June 2019. In order to minimize the impact of relocation on the Group's production and sales, it is expected that the entire relocation work will be completed by end of December 2019. In order to ensure the smoothness of the relocation work, the Group has signed a new tenancy agreement with the landlord on 16 May 2019 to further extend the current tenancy agreement to 31 December 2019. The Group considers that the proposed relocation of the production plant would not cause any material impact on the operation of the Group.

Currently, customers of the Group are mainly scattered in Japan, Thailand and Hong Kong, and the Group plans to develop its market in Northern China. In recent years, the market in Northern China has been driven by favourable government policies such as the coordinated development for the Beijing-Tianjin-Hebei region. The Outline of the Plan for Coordinated Development for the Beijing-Tianjin-Hebei Region (《京津冀協同發展規劃綱要》) aims to achieve environmental sustainability, integrated transport services and industrial upgrading. In particular, the development of the new Xiong'an District has provided ample business opportunities for the sale of high quality wooden products such as plywood and wooden furniture to be used in the interior decoration of property development projects. To capture these business opportunities, the Group plans to expand its business to Northern China by strengthening its trading business and identifying suitable production plants to process the plywood products for the Group. The Group is considering to broaden its product mix to include wooden building components and wooden products such as furniture, doors and window frames and other interior fitting materials. It also aims to increase sales to the downstream market by cooperating with other plywood processing enterprises for the process and manufacturing of wooden products.

In order to further strengthen sales efforts and to implement its expansion plan in the Northern China, a wholly-owned subsidiary of the Group, Hebei Jiapin Trading Limited*（河北迦品貿易有限公司）("Hebei Jiapin") , has entered into a sale and purchase agreement with Shijiazhuang Yonghe Property Development Company Limited*（石家莊雍和房地產開發有限公司）to purchase, at the consideration of RMB34.5 million, the building No. 3 of Mancheng Project situated of No. 88 Xisanzhuang Street, Shijiazhuang*（石家莊市西三莊街88號慢城項目3號商業全套房屋）as its office and as a showroom to exhibit the Group's products.

The Group's current product mix mainly includes the processing and sale of various plywood products sold to overseas customers mainly in Japan and Thailand and the sale of plywood and other wooden products in Northern China. In order to further develop the Northern China plywood and wooden products market, to widen the product range of the Group and to achieve economics of scale, Hebei Jiapin entered into an equity transfer agreement to acquire the entire equity interest in Hebei Youlin Technology Company Limited*（河北優林科技有限公司）("Hebei Youlin"). Hebei Youlin is primarily engaged in the sourcing, manufacturing and sale of wooden products. The transaction completed on 28 March 2019, and Hebei Youlin became an indirect wholly-owned subsidiary of the Company on the same day. Considering that the date of acquisition approximated the year end, i.e. 31 March 2019, there was no revenue or profit or loss contribution to the Group for the year ended 31 March 2019.

Apart from expanding the customer base of the Group by seeking business opportunities in potential markets of other countries, the management is also looking for other potential business development for the Group, including any possible expansion in the production capacity or diversification in the distribution channels of trading. In order to expand our customer base together with the business growth, certain trading subsidiaries of the Group have obtained the Forest Stewardship Council ("FSC") certification (while the production plant of the Group has renewed the FSC certification in March 2016) by which they can be involved in the chains of trade of the FSC products. The Directors believe that the Group is in a more advantageous position to further develop and expand its market and products than the small-scale local enterprises.

At the current stage, the Board will maintain the Group's existing principal activities, and will review the Group's business and operations and continue to seek new opportunities to enhance and strengthen the business of the Group, the Board may consider to make any changes that it deems necessary or appropriate to the Group's businesses and operations to increase the value of the Group.

WORDS OF THANKS

On behalf of the Company, I would like to express my gratitude to our shareholders and business partners for their support and to the management and staff for their unwavering dedication and contribution to the Group's development. I believe we can create a bright future with our concerted effort.

Sun Xue Song
Chairman and Executive Director

Hong Kong, 21 June 2019

Management Discussion and Analysis

MANAGEMENT DISCUSSION AND ANALYSIS

BUSINESS REVIEW

The Group is principally engaged in the sourcing, manufacturing and sale of plywood products and other wooden products. The Group's major products can be categorised into (i) general plywood used in interior applications of buildings and manufacture of wooden furniture for home and office; (ii) packing plywood used as packaging material; (iii) structural panel used for construction; (iv) floor base used for flooring; and (v) other wooden products.

The competition in the plywood market among countries was still keen, but fortunately, the plywood imports market in Japan is recovering and through the effort of the Group, the sales in the PRC and other markets also recorded considerable growth. Our sales volume of plywood products increased by about 26.4% from approximately 52,600 cubic meters for the year ended 31 March 2018 to approximately 66,500 cubic meters for the year ended 31 March 2019. The rise in average unit selling price of the plywood products resulting in the increase in the gross profit margin of approximately 4.6 percentage points to approximately 18.4% for the year ended 31 March 2019 (2018: approximately 13.8%).

To cope with the continued keen competition in the plywood market among countries, the Group continues seeking business opportunities in other potential markets like Taiwan to expand the customer base.

In order to expand its customer base together with the business growth, certain trading subsidiaries of the Group have obtained the FSC certification. The trading subsidiaries can now be involved in the chains of trade of FSC products which represents plywood manufactured up to FSC certification standards. As the FSC certification scheme is recognised as one of the highest worldwide standards for sustainable and responsible forest management, it is essential for businesses seeking to access to environmentally and socially aware markets.

Moreover, the Group will enhance productivity via different means, such as reducing staff costs through natural turnover, strengthening service quality control and improving its support to customers. Apart from that, the Group will also endeavour to promote a culture of continuous improvement and automation of internal processes so as to improve efficiency and reduce costs. It is expected that the various income-generating and cost-saving measures will help improving the performance of the Group.

FINANCIAL REVIEW

Revenue

During the year ended 31 March 2019, the Group recorded the revenue of approximately HK$243.2 million, representing an approximately 41.4% increase comparing to the previous year (2018: approximately HK$172.0 million). The increase was mainly attributable to a rise in average unit selling price of plywood products and the increase in orders received from the existing customers led by the strengthened plywood demand from Japan.

Gross profit

The gross profit margin of the Group increased from approximately 13.8% for the year ended 31 March 2018 to approximately 18.4% for the year ended 31 March 2019. The major reason for such increase was due to the rise in average unit selling price of the plywood products in the year ended 31 March 2019.

Selling expenses

The selling expenses increased by approximately 28.1% from approximately HK$5.7 million for the year ended 31 March 2018 to approximately HK$7.3 million for the year ended 31 March 2019. The increase was mainly due to the increase in the sales volume of plywood products.

Profit/(loss) for the year

The Group recorded a profit of approximately HK$3.3 million for the year ended 31 March 2019 compared to a loss of approximately HK$3.8 million for the year ended 31 March 2018.

The increase was mainly due to i) the increase in gross profit as a result of the rise in average unit selling price as described above by approximately HK$20.9 million to approximately HK$44.7 million for the year ended 31 March 2019 (2018: approximately HK$23.8 million); and ii) the increase in other income amounting to approximately HK$3.9 million. Such increase was offset by i) the increase in selling expenses by approximately HK$1.6 million to approximately HK$7.3 million for the year ended 31 March 2019 (2018: approximately HK$5.7 million); ii) the increase in administrative and other expenses by approximately HK$10.0 million to approximately HK$32.6 million for the year ended 31 March 2019 (2018: approximately HK$22.6 million); iii) the increase in the finance costs by approximately HK$3.4 million to approximately HK$3.5 million for the year ended 31 March 2019 as a result of the increase in the bank and other borrowings (2018: approximately HK$0.1 million); and iv) the increase in the income tax expenses by approximately HK$2.6 million.

Management Discussion and Analysis (continued)

LIQUIDITY, FINANCIAL RESOURCES AND CAPITAL STRUCTURE

The Group's working capital needs and other capital requirements have been met through a combination of shareholders' equity, cash generated from operations, advances from shareholders and bank and other borrowings. Going forward, the Group intends to finance future operations and capital expenditures with cash flow from the Group's operating activities, banking and other facilities as well as other external debt financing made available to the Group.

The primary uses of cash have been, and are expected to continue to be, operating costs and capital expenditures. As at 31 March 2019, the current assets of the Group comprised primarily cash at bank and on hand, trade and other receivables and inventories. The current liabilities comprised primarily of trade and other payables and bank and other borrowings.

As at 31 March 2019, the Group maintained cash and cash equivalents amounting to approximately HK$14.0 million (as at 31 March 2018: approximately HK$20.0 million). The Group recorded net current liabilities of approximately HK$74.3 million as at 31 March 2019 compared to net current assets of approximately HK$29.3 million as at 31 March 2018, mainly due to the increase in short-term bank and other borrowings.

As at 31 March 2019, the Group's total bank and other borrowings, all being denominated in Renminbi or United States dollars, amounted to approximately HK$175.6 million (as at 31 March 2018: approximately HK$24.3 million).

As at 31 March 2019, the capital structure of the Group consisted of cash and cash equivalents together with equity attributable to shareholders of the Company, comprised issued share capital and reserves.

As at 31 March 2019, the Group's gearing ratio (calculated by dividing total liabilities by total assets as at the end of financial year) was approximately 79.4% (as at 31 March 2018: approximately 37.9%). The increase in gearing ratio was mainly a result of the increase in the bank and other borrowings.

CHARGES ON THE GROUP'S ASSETS

As at 31 March 2019, the Group's trade receivables of approximately HK$2.5 million were charged to secure discounted export bills with full recourse.

As at 31 March 2019, the Group's land use rights of carrying amount of approximately HK$28.2 million and inter-company trade receivables of approximately HK$4.1 million were charged to secure bank borrowings of approximately HK$25.1 million.

CONTINGENT LIABILITIES

As at 31 March 2019, there were no significant contingent liabilities for the Group.

CAPITAL COMMITMENTS

As at 31 March 2019, the capital commitments in respect of property, plant and equipment contracted for but not provided for the consolidated financial statements were approximately HK$3.5 million (as at 31 March 2018: approximately HK$14.1 million).

SIGNIFICANT INVESTMENT

During the year ended 31 March 2019, the Group did not have any significant investment (2018: HK$Nil).

MATERIAL ACQUISITIONS AND DISPOSALS OF SUBSIDIARIES AND AFFILIATED COMPANIES

On 24 January 2019, Hebei Jiapin (the "Purchaser"), an indirect wholly-owned subsidiary of the Company established in the PRC, and Mr. Huo Julin（霍炬霖）and Mr. Li Xianfeng（李現鋒）(the "Vendors"), each a PRC individual resident directly owning 80% and 20% respectively of the equity interests of Hebei Youlin (the "Target Company"), a company established in the PRC with limited liability, entered into an equity transfer agreement, pursuant to which the Purchaser conditionally agreed to purchase and the Vendors conditionally agreed to sell the entire equity interest in the Target Company at a consideration of RMB28,000,000.

The Target Company is primarily engaged in the sourcing, manufacturing and sale of wooden products and is established under the laws of the PRC with limited liability.

The transaction was completed on 28 March 2019. Upon completion of the transaction, the Target Company becomes an indirect wholly-owned subsidiary of the Company, and the financial results, assets and liabilities of the Target Company are consolidated into the accounts of the Group.

For details, please refer to the announcements of the Company dated 24 January 2019, 19 February 2019, 14 March 2019, 18 March 2019 and 28 March 2019.

Save as disclosed above, no material acquisitions or disposals of its subsidiaries or affiliated companies were made by the Group for the year ended 31 March 2019 (2018: Nil).

FOREIGN EXCHANGE EXPOSURE

The trading of plywood products is conducted predominantly in United States dollars and Renminbi while the production costs are mainly denominated in Renminbi. The Group manages its foreign currency risk by closely monitoring the movements of foreign currency exchange rates. The Group does not currently designate any hedging relationship on the foreign exchange forward contracts for the purpose of the hedge accounting.

EMPLOYEES AND REMUNERATION POLICIES

As at 31 March 2019, the Group had a total of 240 employees. The Group remunerates its employees based on their performance, experience and the prevailing industry practice. Their remuneration packages are normally renewed on an annual basis, based on performance appraisals and other relevant factors. The Group may pay a discretionary bonus to its employees based on individual performance in recognition of their contribution and hard work. The emoluments of the Directors are determined with reference to, among other things, the prevailing market conditions, the experience, roles and responsibilities of the Directors with the Company. Staff benefit plans maintained by the Group include several mandatory provident fund schemes as well as travel, medical and life insurance.

The Company conditionally approved and adopted a share option scheme on 9 February 2015 (the "Share Option Scheme") under which certain employees, consultants and advisers of the Group including the executive Directors may be granted options to subscribe for Company's shares. As of 31 March 2019, none of the Directors or employees held any share options of the Company under the Share Option Scheme.

EVENT AFTER THE REPORTING PERIOD

No significant events have taken place subsequent to 31 March 2019 and up to the date of this report.

Directors and Senior Management Profile

EXECUTIVE DIRECTORS

Sun Xue Song, aged 29, is the Chairman and was appointed as an executive Director on 12 August 2016. She completed a three year computerized accounting professional course offered by Hebei Radio and TV University*（河北廣播電視大學）in June 2011 and obtained her graduation certificate in regional economic development and management from Hebei Normal University of Science and Technology*（河北科技師範學院）in December 2014. Since January 2012 till present, she is the executive director and legal representative of Hebei Jieming Investments Limited Company*（河北傑明投資有限公司）, which carries out investment activities in projects which are not restricted or prohibited according to the laws of the People's Republic of China. Ms. Sun now holds the directorship in Access Well Limited, Lead Access International Holdings Limited, Global Sino Rich Limited, Hebei Jiapin Trading Limited and Hebei Youlin Technology Company Limited*（河北優林科技有限公司）which are wholly owned subsidiaries of the Company.

Xue Zhao Qiang, aged 45, is the chief executive officer and was appointed as an executive Director on 12 August 2016. He completed a three year architecture professional course offered by Hebei University of Engineering*（河北工程大學科信學院）in June 1995 and since January 2010, is the chairman of Hebei Handan City Hejin Real Estate Development Company Limited*（河北邯鄲市合金房地產開發有限公司）, which develops and operates real-estate properties. He is also one of the directors of Hebei Handan City Rural Credit Bank*（河北邯鄲市農村商業銀行）since December 2015. He previously had been selected as the deputy to the People's Congress of the People's Republic of China of Handan City in the 14th session.

NON-EXECUTIVE DIRECTOR

Ding Hongquan, aged 47, before his re-designation as a non-executive Director on 6 March 2018, was appointed as an independent non-executive Director on 12 August 2016. He completed a professional course in Taxation at the Hebei Cadre Academy of Economic Management*（河北經濟管理幹部學院）in July 1991. In July 2000, he completed a two-year postgraduate course in the Communist Party of China Hebei Provincial Committee Party School*（中共河北省委黨校）.

From July 1991 to November 1994, he worked as a deputy commissioner（副局長）in Chuiyang Branch of the Nangong City Tax Bureau*（南宮市稅務局垂楊分局）and from November 1994 to September 1998, he worked as a deputy commissioner（副局長）in the Nangong City Local Taxation Bureau*（南宮市地稅局）. From January 2004 to March 2010 and March 2010 to November 2011, he served respectively as the deputy manager（副主任）and veteran office manager（老幹部辦公室主任）of Xingtai City People's Government State-owned Assets Supervision and Administration Commission*（邢臺市人民政府國有資產監督管理委員會）. From October 2011 to May 2016, he served as the chairman and general manager of Xintai Water Group Company Limited*（邢臺水業集團有限公司）. From October 2015 to November 2018, he served as the chairman and general manager of Hebei Shunde Investment Group Limited Company*（河北順德 投資集團有限公司）. He is the director (since October 2015) and the vice-chairman (since May 2017) of Heibei Offshore Listed Equity Investment Fund Company Limited*（河北境外上市股權投資基金有限公司）. He is also currently the deputy general manager of Zhongcai Financial Holding Investment Limited* (中財金控投資有限公司) since October 2018.

INDEPENDENT NON-EXECUTIVE DIRECTORS

Wang Wei, aged 35, was appointed as an independent non-executive Director on 6 March 2018. He obtained his bachelor's degree in international economy and trading in Hebei Agricultural University（河北農業大學）in June 2006 and completed the postgraduate courses in laws provided by China University of Political Science and Law（中國政法大學）in June 2010. From August 2008 to December 2012, Mr. Wang served in the investment department and subsequently in the Beijing Representative Office（駐京辦）of Hebei Province Information Industry Investment Company Limited*（河北省信息產業投資有限公司）. Since July 2014, Mr. Wang works as the general manger in Xin Yue Teng Xiang Investment Fund Management (Beijing) Company Limited*（鑫躍騰祥投資基金管理（北京）有限公司）.

Mr. Wang is the chairman of the nomination committee of the Company and a member of the audit committee and remuneration committee of the Company.

Dong Ping, aged 62, was appointed as an independent non-executive Director on 12 August 2016. She completed a three-year professional course in English language in December 1979 in Jiangxi Normal College (presently known as Jiangxi Normal University)（江西師範大學）("Jiangxi Normal University"). Ms. Dong obtained a certificate of study at the Beijing English Language Centre of the Institute of International Economic Management in cooperation with the University of California at Los Angeles China Exchange Program in April 1984. She had completed a course of instruction in Enterprise Management Development Programme in November 1992 which was provided by the British Government as part of its Technical Co-operation Training arrangements. She completed a postgraduate course at the University of Liaoning*（遼寧大學）in June 1999. In November 1997, she obtained a certificate of senior economist issued by the Department of Personnel of Guangdong Province*（廣東省人事廳）. In June 2000, she obtained a master's degree in management from Dongbei Agricultural University*（東北農業大學）. She also obtained a doctor of philosophy in economic studies at the Zhongnan University of Economics and Law*（中南財經政法大學）in June 2006.

Prior to joining the Company, she worked in the finance department of Jiangxi Province International Trust Investment Company Limited*（江西省國際信託投資公司）until 1990. She then worked in Shenzhen Development Bank（深圳發展銀行）since 1990 and was promoted to vice manager of the international business department in March 1994. In August 2000, she joined the Shenzhen branch of China Everbright Bank（中國光大銀行）as vice president. She retired in 2012 and she currently does not hold any positions in any companies.

Ms. Dong is the chairman of the remuneration committee of the Company and a member of the audit committee and nomination committee of the Company.

Zhu Da, aged 31, was appointed as an independent non-executive Director on 12 August 2016. He completed a business professional course at Portobello College, Dublin and Griffith College, Dublin and received a bachelor's degree of arts in accounting and finance from Higher Education and Training Awards Council, Ireland in July 2011. From July 2011 to March 2012, he was a project manager in the asset management department of Hebei Guofu Agricultural Investment Group Limited*（河北省國富農業投資集團有限公司）. He joined KPMG Huazhen LLP in Beijing in April 2012 and was later seconded to work in KPMG in Hong Kong as an assistant manager from November 2013 to March 2015. Mr. Zhu was a business manager and financial manager of Huajin Investment Company Limited during the period form March 2015 to July 2016. From December 2016 to April 2018, he was an assistant financial officer of Hebei Zhonghongji Catering Management Company Limited*（河北中鴻記餐飲管理有限公司）. Since April 2018, Mr. Zhu joined Glory Capital Management (Beijing) Limited*（光榮資產管理（北京）有限公司）as a senior investment manager.

Mr. Zhu is the chairman of the audit committee of the Company and a member of the remuneration committee and nomination committee of the Company.

COMPANY SECRETARY

Chan Yuk Hiu Taylor, aged 41, is the financial controller and company secretary of the Company. Mr. Chan obtained an Honours Diploma in Accounting from Hong Kong Shue Yan College (currently known as Hong Kong Shue Yan University) and a Master Degree of Professional Accounting from the Hong Kong Polytechnic University. Mr. Chan was an associate member of the Hong Kong Institute of Certified Public Accountants and a fellow member of the Association of Chartered Certified Accountants. Prior to joining our Group, Mr. Chan has acquired various accounting, auditing and company secretarial work experience from both certified public accountants firms and listed companies. Mr. Chan has over 18 years of experience in accounting and auditing.

COMPLIANCE OFFICER

Sun Xue Song was appointed as an executive Director and the compliance officer of the Company on 12 August 2016. Her biographical details and professional qualifications are set out on page 10 of this report.

* *For identification purpose only*

Corporate Governance Report

CORPORATE GOVERNANCE PRACTICES

The Board strives to uphold the principles of corporate governance set out in the Corporate Governance Code (the "CG Code") contained in Appendix 15 of the GEM Listing Rules. The Board also adopts various measures to enhance the internal control system, the Directors' continuous professional development and other areas of corporate governance practice. While the Board strives to maintain a high level of corporate governance, it also works hard to create value and achieve maximum return for its shareholders. The Board will continue to conduct reviews and improve the quality of corporate governance practices with reference to local and international standards.

During the year ended 31 March 2019, the Company had complied with the code provisions as set out in the CG Code.

DIRECTOR'S SECURITIES TRANSACTIONS

The Company has adopted the Model Code for Securities Transactions by Directors of Listed Issuers on terms no less exacting than the required standard of dealings as set out in Rules 5.48 to 5.67 of the GEM Listing Rules (the "Model Code") as its own code governing securities transactions of the Directors. Specific enquiries have been made to all Directors and all Directors have confirmed that they have fully complied with the required standard of dealings as set out in the Model Code during the year ended 31 March 2019.

BOARD OF DIRECTORS

All the Directors (including the independent non-executive Directors) have acquired a proper understanding of the Company's operation and business and are fully aware of his/her functions and responsibilities under statute and common law, the GEM Listing Rules and other applicable legal and regulatory requirements. Every Director has given the Company the details on the number and nature of their offices held in other companies and significant commitments at the time of his/her appointment.

The Board is responsible for the leadership and control of the Group and 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, determining the policy for the corporate governance of the Company and performing duties under code provision D.3.1 of the CG Code and setting the Group's values and standards. Though the Board delegates the day-to-day management, administration and operation of the Group to management, all the Directors continue to give sufficient time and attention to the Company's affairs. The delegated functions are reviewed by the Board periodically to ensure that they accommodate the needs of the Group.

BOARD COMPOSITION

The Board currently comprises six Directors, of which two are executive Directors, one is a non-executive Director, and three are independent non-executive Directors. The composition of the Board is as follows:

Executive Directors
Ms. Sun Xue Song *(Chairman)*
Mr. Xue Zhao Qiang *(Chief Executive Officer)*

Non-executive Director
Mr. Ding Hongquan

Independent non-executive Directors
Mr. Wang Wei
Ms. Dong Ping
Mr. Zhu Da

The biographical details of each Director are set out in the section "Directors and Senior Management Profile" on pages 10 to 11 of this report.

The Board is scheduled to meet regularly at least four times a year at approximately quarterly intervals, to discuss the overall strategy as well as the operational and financial performance of the Company. Other Board meetings will be held when necessary. Such Board meetings involve the active participation, either in person or through other electronic means of communication, of a majority of Directors. During the year ended 31 March 2019, four Board meetings were held and the attendance records of individual Directors are set out below:

Name of Directors	**Number of Board meetings attended/ Directors Eligible to attended**
Executive Directors	
Ms. Sun Xue Song *(Chairman)*	4/4
Mr. Xue Zhao Qiang *(Chief Executive Officer)*	4/4
Non-executive Director	
Mr. Ding Hongquan	4/4
Independent non-executive Directors	
Mr. Wang Wei	4/4
Ms. Dong Ping	4/4
Mr. Zhu Da	4/4

None of the Directors attended the above meetings by his/her alternate.

Appropriate notices are given to all Directors in advance for attending regular and other Board meetings. Meeting agendas and other relevant information are provided to the Directors in advance of Board meetings. All Directors are consulted to include additional matters in the agenda for Board meetings.

All Directors have access to the advice and services of the company secretary of the Company (the "Company Secretary") with a view to ensuring that Board procedures, and all applicable rules and regulations, are followed, and has the liberty to seek independent professional advice if required.

Both draft and final versions of the minutes are sent to all Directors for their comment and records. Minutes of Board meetings are kept by the Company Secretary and such minutes are open for inspection at any reasonable time on reasonable prior notice by any Director.

Each of the independent non-executive Directors had made a confirmation of independence by reference to Rule 5.09 of the GEM Listing Rules and the Board is satisfied that all the independent non-executive Directors were independent and met the independent guidelines set out in Rule 5.09 of the GEM Listing Rules since the date of their respective appointments, up to the date of this report.

APPOINTMENT, RE-ELECTION AND RETIREMENT OF THE DIRECTORS

In accordance with article 83 of the articles of association (the "Articles") of the Company, any Director appointed by the Board to fill a casual vacancy shall hold office until the first general meeting of the Company after his/her appointment and be subject to re-election at such meeting and any Director appointed by the Board as an addition to the existing Board shall hold office only until the next following annual general meeting ("AGM") of the Company and shall then be eligible for re-election. In accordance with article 84 of the Articles, at each AGM one-third of the Directors for the time being (or, if their number is not a multiple of three (3), 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 at an AGM at least once every three years.

Pursuant to article 84 of the Articles, Ms. Sun Xue Song, an executive Director, and Ms. Dong Ping, an independent non-executive Director, would retire from office by rotation and, being eligible, would offer themselves for re-election as Directors at the AGM.

CHAIRMAN AND CHIEF EXECUTIVE

According to the code provision A.2.1 of the CG Code, the roles of the chairman and the chief executive should be separate and should not be performed by the same individual. Currently, Ms. Sun Xue Song, the Chairman of the Company, is responsible for the overall strategic planning and corporate policies as well as overseeing the operations of the Group. The day-to-day operations of the Group are delegated to Mr. Xue Zhao Qiang, the Chief Executive Officer of the Company, and the management responsible for different aspects of the business. As such, the roles of the Chairman and the chief executive of the Company are separate and are not performed by the same individual.

BOARD DIVERSITY POLICY

Pursuant to the CG Code, the Board has adopted a board diversity policy (the "Board Diversity Policy") from the date of listing of the Company on the Stock Exchange up to the date of this corporate governance report. The Company recognises and embraces the benefits of diversity of Board members. While all Board appointments will continue to be made on a merit basis, the Company will ensure that the Board has the balance of skills, experience and diversity of perspectives appropriate to the needs of the Company's business. Selection of candidates will be based on a range of diversity perspectives, including but not limited to gender, age, cultural and educational background, experience (professional or otherwise), skills and knowledge.

GENERAL MEETINGS

The general meetings of the Company provide an opportunity for communication between the shareholders and the Board. An annual general meeting of the Company shall be held each year and at a place that may be determined by the Board. Each general meeting, other than an annual general meeting, shall be called an extraordinary general meeting. Under code provision A.6.7 of the CG Code, all independent non-executive Directors and non-executive Directors should attend general meetings of listed issuers.

The attendance records of the Directors at the annual general meeting held on 31 July 2018 and the extraordinary general meeting held on 28 September 2018 are set out below:

	Number of meetings attended/ Eligible to attended	
	Annual General Meeting	**Extraordinary General Meeting**
Executive Directors		
Ms. Sun Xue Song *(Chairman)*	1/1	1/1
Mr. Xue Zhao Qiang *(Chief Executive Officer)*	1/1	1/1
Non-executive Director		
Mr. Ding Hongquan	1/1	1/1
Independent non-executive Directors		
Mr. Wang Wei	1/1	1/1
Ms. Dong Ping	1/1	1/1
Mr. Zhu Da	1/1	1/1

AUDIT COMMITTEE

The Company established an audit committee (the "Audit Committee") on 9 February 2015 with written terms of reference in compliance with Rules 5.28 to 5.33 of the GEM Listing Rules and the CG Code. The primary duties of the Audit Committee are (among other things) to review and supervise the financial control, internal control and risk management systems of the Group, and provide advice and comments on the Group's financial reporting matters to the Board.

The Audit Committee currently comprises three independent non-executive Directors, namely Mr. Zhu Da, Mr. Wang Wei and Ms. Dong Ping. Mr. Zhu Da, who has appropriate professional qualifications and experience in accounting matters, has been appointed as the chairman of the Audit Committee.

During the year ended 31 March 2019, four Audit Committee meetings were held and the attendance record of each committee member is set out below:

Name of Directors	Attendance/ Number of the Audit Committee Meetings
Mr. Zhu Da *(Chairman)*	4/4
Ms. Dong Ping	4/4
Mr. Wang Wei	4/4

The Audit Committee has reviewed the annual results and financial statements of the Group for the year ended 31 March 2019 and recommended to the Board for approval.

NOMINATION COMMITTEE

The Company established a nomination committee (the "Nomination Committee") on 9 February 2015 and has formulated its written terms of reference, which have from time to time been modified in accordance with the prevailing provisions of the CG Code. The Nomination Committee currently comprises three independent non-executive Directors, namely Mr. Zhu Da, Mr. Wang Wei and Ms. Dong Ping. Mr. Wang Wei has been appointed as the chairman of the Nomination Committee.

The principal responsibilities of the Nomination Committee are (among other things) to review the composition of the Board, including its structure, size and diversity at least annually to ensure that it has the balance of expertise, skills and experience appropriate for the requirements of the business of the Group. It is also responsible to identify and recommend the Board suitably qualified persons to become a member of the Board, monitor the appointment or re-appointment and the succession planning of Directors and assess the independence of independent non-executive Directors. The Nomination Committee will also give consideration to the Board Diversity Policy when identifying suitably qualified candidates to become members of the Board, and the Board will review the Board Diversity Policy, so as to develop and review measurable objectives for the implementing the Board Diversity Policy and to monitor the progress on achieving these objectives.

During the year ended 31 March 2019, one Nomination Committee meeting was held and the attendance record of each committee member is set out below:

Name of Directors	Attendance/ Number of the Nomination Committee Meeting
Mr. Wang Wei *(Chairman)*	1/1
Ms. Dong Ping	1/1
Mr. Zhu Da	1/1

The Nomination Committee has, during its meeting, reviewed the composition of the Board and the suitability of the directors proposed for reappointment at the Company's annual general meeting.

NOMINATION POLICY

The Company has adopted a nomination policy ("Nomination Policy") which aims at strengthening the transparency and accountability of the Board and/or Nomination Committee on election of directors including independent non-executive directors. The Board will review the Nomination Policy from time to time.

Selection Criteria of Directors

The factors listed below would be used as reference by the Nomination Committee in assessing the suitability of a proposed candidate to be nominated to the Board for it to consider and make recommendation to shareholders for election as directors of the Company at the general meetings and appoint him/her to fill casual vacancies.

- Qualifications and experience in the relevant industries in which the Company's business is involved or is going to be involved;
- Commitment in respect of available time and relevant interest; and
- Diversity in all its aspects, including but not limited to gender, age, cultural and educational background, experience (professional or otherwise), skills and knowledge.

These factors are for reference only, and not meant to be exhaustive and decisive. The Nomination Committee has the discretion to nominate any person, as it considers appropriate.

Director Nomination Procedure

The Nomination Committee shall call a meeting, and invite nominations of candidates from Board members (if any) for consideration by the Nomination Committee prior to its meeting. The Nomination Committee may also put forward candidates who are not nominated by Board members;

- Proposed candidates will be asked to submit the necessary personal information, together with their written consent to be appointed as a director of the Company. The Nomination Committee may request candidates to provide additional information and documents, if considered necessary;
- The Nomination Committee shall evaluate the proposed candidate's suitability with reference to the factors stated above and make recommendation(s) to the Board's consideration and approval;
- In the case of the re-election of a director at the general meeting, the Nomination Committee shall review the overall contribution of the directors to the Company and their services, their participation and performance within the Board, and whether such director still meets the needs to complement the Company's corporate strategy.

REMUNERATION COMMITTEE

The Company established a remuneration committee (the "Remuneration Committee") on 9 February 2015 and has formulated its written terms of reference, which have from time to time been modified in accordance with the prevailing provisions of the CG Code. The Remuneration Committee currently comprises three independent non-executive Directors, namely Mr. Zhu Da, Mr. Wang Wei and Ms. Dong Ping. Ms. Dong Ping has been appointed as the chairman of the Remuneration Committee.

The primary duties of the Remuneration Committee are (among other things) to make recommendation to the Board the terms of remuneration packages, bonuses and other compensation (including benefits in kind, pension rights and compensation payments, including any compensation payable for loss or termination of their office or appointment) payable to the Directors and senior management and to make recommendations to the Board on the Group's policy and structure for all remuneration of the Directors and senior management.

During the year ended 31 March 2019, one Remuneration Committee meeting was held and the attendance record of each committee member is set out below:

Name of Directors	Attendance/ Number of the Remuneration Committee Meeting
Ms. Dong Ping *(Chairman)*	1/1
Mr. Zhu Da	1/1
Mr. Wang Wei	1/1

The Remuneration Committee has reviewed the remuneration package of the directors and senior management. No individual Director is involved in deciding his or her own remuneration.

Particulars of the Directors' emoluments for the year ended 31 March 2019 are set out in note 8 to the financial statements.

Pursuant to code provision B.1.5 of the CG Code, the remuneration of the members of the Board and senior management whose particulars are contained in the section headed "Directors and Senior Management Profile" in this annual report by band is set out below:

Remuneration band (in HK$)	Number of individuals
HK$Nil to HK$1,000,000	7

DIRECTORS' TRAINING

Each newly appointed director has received comprehensive, formal and tailored induction on appointment so as to ensure that he/she has appropriate understanding of the business and operations of the Group and that he/she is fully aware of his/her responsibilities under the GEM Listing Rules and relevant regulatory requirements. Pursuant the Code Provision A.6.5 of the CG Code, all Directors should participate in continuous professional development to develop and refresh their knowledge and skills. This is to ensure that their contribution to the Board remains informed and relevant. During the year, all Directors have participated in appropriate continuous professional development including reading regulatory updates in relation to the Group's business, attending internal briefing sessions, reading materials and watching videos relevant to the director's duties and responsibilities.

DIRECTORS AND OFFICERS LIABILITIES INSURANCE

The Company has arranged for appropriate insurance covering the liabilities of the Directors and officers in respect of legal actions against the Directors and officers of the Company and its subsidiaries arising out of corporate activities of the Group. The insurance coverage will be reviewed on an annual basis.

DIVIDEND POLICY

Pursuant to code provision E.1.5 of the CG Code, the Company should have a policy on payment of dividends which establishes an appropriate procedure on declaring and recommending the dividend payment of the Company (the "Dividend Policy").

The Company's Dividend Policy makes reference to the Company's Articles. The Dividend Policy provides that the Company in general meeting may from time to time declare dividends in any currency to be paid to the Shareholders of the Company but no dividend shall be declared in excess of the amount recommended by the Board.

Dividends may be declared and paid out of the profits of the Company, realised or unrealised, or from any reserve set aside from profits which the Directors determine is no longer needed. With the sanction of an ordinary resolution dividends may also be declared and paid out of share premium account or any other fund or account which can be authorized for this purpose in accordance with the Articles.

No dividend or other moneys payable by the Company on or in respect of any share shall bear interest against the Company.

Subject to compliance with applicable laws, rule and the Articles, the Company will declare and/or recommend the payment of dividends to Shareholders after considering the Company's ability to pay dividends, which will depend upon, among other things, its actual and expected financial results, cash flow, general business conditions and strategies, current and future operations, statutory, contractual and regulatory restrictions and so on.

The Company will review and reassess the Dividend Policy and its effectiveness on a regular basis or as required.

COMPANY SECRETARY

Mr. Chan Yuk Hiu Taylor was appointed as the Company Secretary on 5 September 2016. He is an employee of the Company and has day-to-day knowledge of the Company's affairs. He is responsible for ensuring a good information flow within the Board and the compliance of the Board policy and procedures.

Mr. Chan complies with the relevant professional training requirements under Rule 5.15 of the GEM Listing Rules during the year ended 31 March 2019. His biographical details are set out in the paragraph headed "Directors and Senior Management Profile" on page 11 in this report.

DIRECTORS' RESPONSIBILITY STATEMENT

The Directors ensure the consolidated financial statements of the Group are prepared in accordance with the applicable statutory requirement and accounting standards. The Directors' responsibilities in the preparation of the consolidated financial statements are set out in the section headed "Independent Auditor's Report" of this report.

INTERNAL CONTROL AND RISK MANAGEMENT

The Board recognises its responsibility to ensure that the Company maintains a sound and effective internal control and risk management systems and the Board has conducted a review of the effectiveness of the internal control and risk management systems of the Group during the year. The Group's internal control and risk management systems are designed to safeguard assets against misappropriation and unauthorised disposition and to manage operational risks.

Three-tier Risk Management Approach

The Group has adopted a three-tier risk management approach to identify, assess, mitigate and handle risks. At the first line of defence, business units are responsible for identifying, assessing and monitoring risks associated with each business or deal. The management, as the second line of defence, defines rule sets and models, provides technical support, develops new systems and oversees portfolio management. It ensures that risks are within the acceptable range and that the first line of defence is effective. As the final line of defence, the Audit Committee ensures that the first and second lines of defence are effective through constant inspection and monitoring.

Internal Control

The Board acknowledged that the management had progressively implementing an adequate internal control system to ensure the effective functioning of the Group's operational, financial and compliance areas as follows:

1. *Operational*

   Various principles and procedures are in place to cover the day-to-day operational activities including, but not limited to, the monitoring and reviewing of sales, purchases, production and inventory process, reviewing the financing and investing process, monitoring the compliance with taxation, customs and environmental protection laws and regulations.

2. *Financial*

   Effective financial control is a vital element of internal control. It helps in identifying and managing assets and liabilities to ensure that the Group is not unnecessarily exposed to avoidable financial risks. It also contributes to the safeguarding of assets from inappropriate use or loss, including the prevention and detection of fraud and errors.

   In order to achieve effective financial control, a set of measures have been implemented to tighten the control on cash flow. All payments are required to be properly checked and approved. Proper accounting and financial records shall be maintained to support financial budgets, monthly management accounts and reports.

   Regular reviews and audits are carried out on the financial report procedures to ensure that the preparation of financial statements is carried out in accordance with generally accepted accounting principles, the Group's accounting policies and applicable laws and regulations.

3. *Compliance*

The following policies and procedures are in place to safeguard the compliance control:

- the policies and practices on compliance with legal and regulatory requirements – which shall be reviewed and monitored regularly by the by the Board;

- the Systems and Procedures on Disclosure of Inside Information – to ensure that any material information which comes to the knowledge of any one or more officers should be promptly identified, assessed and escalated for the attention of the Board;

- Whistle-blowing policy – to deter wrongdoing and to promote standards of good corporate practices, the Company has adopted a whistle blowing policy which aims at encouraging and enabling employees of the Group at all levels and others to report violations or suspected violations and to raise serious concerns about possible improprieties in matters of financial reporting or other matters of the Group. Such arrangement will be reviewed by the Audit Committee which ensures that proper arrangement is in place for fair and independent investigation of the matters.

The Board and the Audit Committee have reviewed the Group's internal controls covering major operational, financial and compliance controls, as well as risk management functions of different systems on a systematic basis based on the risk assessments of the operations and controls. There were no critical issues found but areas for improvement have been identified. The Board and the Audit Committee considered that the key areas of the Group's internal control systems are reasonably implemented.

ROLE OF COMPLIANCE OFFICER

The compliance officer is responsible for establishing a formal mechanism for risk assessment, management monitoring the effectiveness of the Company's internal control system and procedures, and assessing the remediation status.

EXTERNAL AUDITOR'S REMUNERATION

During the year ended 31 March 2019, the Company engaged KPMG as the external auditor. The fees in respect of annual audit services provided by KPMG for the year ended 31 March 2019 approximately amounted to HK$1,700,000. The responsibilities of KPMG for the audit of the consolidated financial statements are set out in the section headed "Independent Auditor's Report" of this report.

SHAREHOLDERS' RIGHTS

Right to convene extraordinary general meeting

Pursuant to the Articles, any shareholder(s) holding at the date of the deposit of the requisition not less than one-tenth of the paid-up capital of the Company carrying the right of voting at general meetings of the Company shall have the right to submit a written requisition requiring an extraordinary general meeting (the "EGM") to be called by the Board. The written requisition (i) must state the purposes of the EGM, and (ii) must be signed by the requisitionists and deposited at the registered office of the Company for attention of the Company Secretary, and may consist of several documents in like form, each signed by one or more requisitionists. Such requisitions will be verified with the Company's share registrars and upon their confirmation that the requisition is proper and in order, the Company Secretary will ask the Board to convene an EGM by serving sufficient notice to all shareholders. On the contrary, if the requisition has been verified as not in order, the requisitionists will be advised of this outcome and accordingly, the EGM will not be convened as requested.

If the Board does not within 21 days from the date of the deposit of the requisition proceed duly to convene an EGM, the requisitionists or any of them representing more than one-half of the total voting rights of all of them may convene a EGM, but any EGM so convened shall not be held after expiration of two months from the said date of deposit of the requisition. An EGM convened by the requisitionists shall be convened in the same manner, as nearly as possible, as that in any EGM to be convened by the Board.

Right to put forward proposals at general meeting

To put forward proposals at a general meeting of the Company, a shareholder should lodge a written notice of his or her proposal (the "Proposal") with his or her detailed contact information at the Company's principal place of business in Hong Kong.

The request will be verified with the Company's branch share registrars in Hong Kong and upon their confirmation that the request is proper and in order, the Board will be asked to include the Proposal in the agenda for the general meeting.

Right to enquire to the Board

Shareholders may send their enquiries and concerns, in written form, to the Board by addressing them to the Company Secretary at Suites 2524-25, 25/F., Sun Hung Kai Centre, 30 Harbour Road, Wanchai, Hong Kong. Shareholders may also make enquiries to the Board at the general meetings of the Company. In addition, shareholders can contact Tricor Investor Services Limited, the branch share registrar of the Company in Hong Kong, if they have any enquiries about their shareholdings and entitlements to dividend.

CONSTITUTIONAL DOCUMENTS

During the year ended 31 March 2019, there had been no significant change in the Company's constitutional documents. The Articles are available on the websites of the Stock Exchange and the Company.

INVESTOR RELATIONS

The Company believes that maintaining effective communication with the investment industry is crucial to having a deeper understanding of the Company's business and its development among investors. To achieve this goal and increase transparency, the Company will continue to adopt proactive measures to foster better investor relations and communications. As such, the purpose for the Company in formulating investor relations policies is to let investors have access to the information of the Group in a fair and timely manner, so that they can make an informed decision.

We welcome investors to write to the Company or send their inquiries to the Company's website www.steedoriental.com.hk to share their opinions with the Board. The Company's website also discloses the latest business information of the Group to investors and the public.

ACCOUNTABILITY AND AUDIT FINANCIAL REPORTING

The management provides such explanation and information to the Board and reports to the Board on the 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 state of affairs of the Group. As of the date of this report, 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 the consolidated financial statements prepared by the Board and to report to the shareholders of the Company. The responsibilities of the auditor are set out in the section headed "Independent Auditor's Report" of this report.

Report of the Directors

The Board of Directors of the Company is pleased to present their report and the audited consolidated financial statements of the Group for the year ended 31 March 2019.

PRINCIPAL ACTIVITIES

The principal activity of the Company is investment holding. Details of the principal activities of the principal subsidiaries are set out in note 13 to the financial statements in this report. The business of the Group is principally engaged in the sourcing, manufacturing and sale of plywood products and other wooden products.

RESULTS AND APPROPRIATIONS

The Group's profit for the year ended 31 March 2019 is set out in the consolidated statement of profit or loss and other comprehensive income on page 31 and the state of affairs of the Group as at 31 March 2019 are set out in the consolidated statement of financial position on page 32 of this report. The Directors do not recommend the payment of a final dividend for the year ended 31 March 2019.

SUMMARY OF FINANCIAL INFORMATION

A summary of the results and of the assets and liabilities of the Group for the past five years ended 31 March 2019 is set out on page 88 of this report. This summary does not form part of the audited consolidated financial statements.

CONTINGENT LIABILITIES, LEGAL AND POTENTIAL PROCEEDINGS

As at 31 March 2019, the Group did not have any material contingent liabilities, legal proceedings or potential proceedings.

PROPERTY, PLANT, AND EQUIPMENT

Details of movements in property, plant and equipment of the Group during the year ended 31 March 2019 are set out in note 11 to the financial statements in this report.

BANK AND OTHER BORROWINGS

Details of bank and other borrowings of the Group as at 31 March 2019 are set out in note 21 to the financial statements in this report.

SHARE CAPITAL

Details of movements in the Company's share capital during the year ended 31 March 2019 are set out in note 24(c) to the financial statements in this report.

RESERVES

Details of change in reserves of the Group and the Company are set out in the section headed "Consolidated Statement of Changes in Equity" on page 33 and note 24(a) to the financial statements in this report, respectively.

DISTRIBUTABLE RESERVES

Distributable reserves of the Company as at 31 March 2019, calculated under the Companies Law, Cap 22 (Law 3 of 1961, as consolidated and revised) of the Cayman Islands, amounted to approximately HK$69.3 million (2018: approximately HK$78.3 million).

DONATIONS

During the year ended 31 March 2019, donation made by the Group amounted to HK$nil (2018: approximately HK$236,000).

BUSINESS REVIEW

Details of review of the Group's business and particulars of important events affecting the Group that have occurred since the end of the financial year as well as indication of likely future development in the business of the Group are set out in the section headed "Chairman's Statement" on pages 4 to 5 of this report and "Management Discussion and Analysis" on pages 6 to 9 of this report.

Risks and uncertainties

The principal risks and uncertainties facing the Group have been addressed in the section headed "Management Discussion and Analysis" in this report. In addition, various financial risks have been disclosed in note 25 to the financial statements.

An analysis using financial key performance indicators

The relevant financial key performance indicators relating to the business of the Group are set out in the section headed "Management Discussion and Analysis" and the consolidated financial statements in this report.

Environmental policies and performance

The Group recognises its responsibility to protect the environment from its business activities. The Group continually seeks to identify and manage environmental impacts attributable to its operational activities in order to minimise these impacts if possible. The Group aims to promote efficient use of resources and adopting green technologies for emission reduction. For instance, the Group seeks to replace the equipment by the environmental friendly machines in order to minimise overall exhaust emission.

Relationships with employees, customers, suppliers and other stakeholders

The Group ensures all staff is reasonably remunerated and regularly reviews the employment policies on remuneration and other benefits. The Group maintains a good relationship with its customers and suppliers. The Group maintains close contacts with the customers and has regular review of requirements of customers and complaints. The Group will conduct review on the suppliers' performance on regular basis.

Compliance with laws and regulations

The Group recognises the importance of compliance with regulatory requirements and risks of non-compliance with such requirements. The Group has on-going review the new enacted laws and regulations affecting the operations of the Group. The Group is not aware of any material non-compliance with the laws and regulations that have significant impact on the business of the Group.

EVENT AFTER THE REPORTING PERIOD

No significant events have taken place subsequent to 31 March 2019 and up to the date of this report.

PUBLIC FLOAT

Based on the information that is publicly available to the Company and within the knowledge of the Directors, at least 25% of the Company's total issued share capital was held by the public as at the latest practicable date prior to the issue of this report.

MAJOR CUSTOMERS AND SUPPLIERS

During the year ended 31 March 2019, sales to the Group's five largest customers accounted for approximately 79.1% of total sales and sales to the largest customer included therein amounted to approximately 49.7% of total sales. The Group's five largest suppliers accounted for approximately 50.8% of total purchases during the year ended 31 March 2019 and purchases from the largest supplier included therein amounted to approximately 16.1% of total purchases.

None of the Directors or any of their close associates (as defined in the GEM Listing Rules), or any of the shareholders of the Company (which, to the best knowledge of the Directors, own more than 5% of the Company's issued share capital) had any beneficial interest in the Group's five largest customers or its five largest suppliers during the year ended 31 March 2019.

DIRECTORS

The Directors during the year ended 31 March 2019 and up to the date of this report were:

Executive Directors
Ms. Sun Xue Song *(Chairman)*
Mr. Xue Zhao Qiang *(Chief Executive Officer)*

Non-executive Director
Mr. Ding Hongquan

Independent non-executive Directors
Mr. Wang Wei
Ms. Dong Ping
Mr. Zhu Da

One-third of the Directors shall retire from office by rotation and re-election at an annual general meeting of the Company in accordance with the Articles, providing that every Director shall be retired at least once every three years. Any Director appointed by the Board to fill a casual vacancy shall hold office until the first general meeting of the Company after his/her appointment in accordance with the Articles.

Pursuant to article 84 of the Articles, Ms. Sun Xue Song, an executive Director, and Ms. Dong Ping, an independent non-executive Director, would retire from office by rotation and, being eligible, would offer themselves for re-election as Directors at the AGM.

DIRECTORS' SERVICE CONTRACTS

No Directors have service contracts with the Company with remaining unexpired period of 3 years which are not determinable within one year without payment of compensation (other than statutory compensation).

Each of the existing independent non-executive Directors has entered into a letter of appointment with the Company for a term of 3 years, commencing from 12 August 2016 for Mr. Zhu Da and Ms. Dong Ping and commencing from 6 March 2018 for Mr. Wang Wei, and all subject to termination by either party giving to the other not less than 3 months' prior written notice. Each of them is subject to retirement by rotation and re-election in accordance with the Articles.

The existing non-executive Director, Mr. Ding Hongquan, has entered into a letter of appointment with the Company for a term of 3 years, commencing from 6 March 2018, subject to termination by either party giving to the other not less than 3 months' prior written notice. Mr. Ding is subject to rotation and re-election in accordance with the Articles.

DIRECTORS AND SENIOR MANAGEMENT PROFILE

Biographical details of the Directors and the senior management of the Group are set out on pages 10 to 11 of this report.

DIRECTORS' AND CONTROLLING SHAREHOLDERS' INTERESTS IN CONTRACTS

No contract, transaction or arrangement of significance in relation to the Company's business, to which the Company or any of its subsidiaries was a party and in which any of the Directors or an entity connected with him/her or the controlling shareholders of the Company had a material interest, either directly or indirectly, subsisted during the year ended 31 March 2019 (2018: Nil).

COMPETING INTERESTS

The Directors are not aware of any business and interest of the Directors nor the controlling shareholder of the Company nor any of their respective close associates (as defined in the GEM Listing Rules) that compete or may compete with the business of the Group and any other conflict of interests which any such person has or may have with the Group during the year ended 31 March 2019.

RELATED PARTY TRANSACTIONS

Details of the Group's related party transactions are set out in note 28 to the financial statements in this report. Certain transactions are connected transactions that are exempt from annual reporting requirements under Chapter 20 of the GEM Listing Rules. Saved as disclosed above, there were no other related party transactions which are required to be disclosed as connected transactions or continuing connected transactions in accordance with the requirements of the GEM Listing Rules. The Board confirms that the Company has complied with the applicable disclosure requirements in accordance with Chapter 20 of the GEM Listing Rules.

CONFIRMATION OF INDEPENDENCE

The Company has received from each of the independent non-executive Directors a confirmation of independence pursuant to Rule 5.09 of the GEM Listing Rules and considers all the independent non-executive Directors were independent during the period from their respective appointments and up to the date of this report.

MANAGEMENT CONTRACTS

No contracts, other than employment contracts, concerning the management and administration of the whole and any part of the Company's business were entered into or existed during the year ended 31 March 2019.

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

As at 31 March 2019, the interests and short positions of the each of the Directors and the chief executive of the Company in the shares, underlying shares or debentures of the Company or any associated corporation (within the meaning of Part XV of the Securities and Futures Ordinance (the "SFO")), as recorded in the register required to be kept by the Company under Section 352 of the SFO, or as otherwise notified to the Company and the Stock Exchange pursuant to Rule 5.46 of the GEM Listing Rules, were as follows:

Long positions in ordinary shares of the Company

	Number of ordinary share held, capacity and nature of interest			
Name of Director	**Directly and beneficially owned**	**Through controlled corporations**	**Total**	**Approximate percentage of the Company's issued share capital** *(Note)*
Ms. Sun Xue Song	123,041,695	–	123,041,695	56.25%
Mr. Xue Zhao Qiang	30,760,425	–	30,760,425	14.06%

Note: The percentage is calculated by dividing the number of shares interested or deemed to be interested by 218,733,333 issued shares as at 31 March 2019.

Save as disclosed above, as at 31 March 2019, none of the Directors or chief executive of the Company had any interest or a short position in the shares or underlying shares or debentures of the Company or any of its associated corporations (within the meaning of Part XV of the SFO) that was recorded in the register required to be kept by the Company under Section 352 of the SFO, or was otherwise notified to the Company and the Stock Exchange pursuant to Rule 5.46 of the GEM Listing Rules.

SUBSTANTIAL SHAREHOLDERS' AND OTHER PERSONS' INTERESTS AND SHORT POSITIONS IN SHARES AND UNDERLYING SHARES OF THE COMPANY

As at 31 March 2019, so far as is known to the Directors, no person (other than the Directors or chief executive of the Company as disclosed above) had interests or short positions in the shares or underlying shares of the Company which were recorded in the register required to be kept by the Company under Section 336 of the SFO.

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

During the year ended 31 March 2019, neither the Company nor any of its subsidiaries has purchased, sold or redeemed any of the Company's listed securities.

COMPLIANCE WITH THE CODE ON CORPORATE GOVERNANCE PRACTICES

A full corporate governance report is set out on pages 12 to 20 of this report.

PRE-EMPTIVE RIGHTS

There are no provisions for pre-emptive rights under the Articles or the laws of the Cayman Islands, being the jurisdiction in which the Company was incorporated, which would oblige the Company to offer new shares on a pro rata basis to existing Shareholders unless otherwise required by the Stock Exchange.

SHARE OPTION SCHEME

The Company conditionally approved and adopted a share option scheme (the "Share Option Scheme") on 9 February 2015. The terms of the Share Option Scheme are in accordance with the provisions of Chapter 23 of the GEM Listing Rules.

The purpose of the Share Option Scheme is to provide an incentive or reward for eligible participants (any full-time or part-time employees, consultants or potential employees, consultants, executives or officers of the Group, and any suppliers, customers, consultants, agents and advisers, who in the absolute discretion of our Board has contributed or will contribute to the Group) (the "Eligible Participants") for their contribution or potential contribution to the Group.

Pursuant to the Share Option Scheme, the Directors may, at their absolute discretion, grant options to the Eligible Participants to subscribe for shares in the Company at a price determined by the directors and not less than the highest of:

(i) the closing price of the shares of the Company as stated in the daily quotation sheets issued by the Stock Exchange on the date of grant of the options;

(ii) the average closing price of the shares of the Company as stated in the daily quotation sheets issued by the Stock Exchange for the five business days immediately preceding the date of grant of the options; and

(iii) the nominal value of the shares of the Company on the date of grant.

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 the shares of the Company in issue immediately upon completion of the Placing which is 20,000,000 shares, representing approximately 9.14% of the issued shares of the Company as at the date of this report. The number of shares issued and to be issued in respect of which options granted and may be granted to any individual in any one year is not permitted to exceed 30% of the shares of the Company in issue from time to time.

An option may be exercised in accordance with the terms of the Share Option Scheme at any time during a period commencing on such date on or after the date on which the option is granted as the Board may determine in granting the option and expiring at the close of business on such date as the Board may determine in granting the option but in any event shall not exceed 10 years from the date of grant (which is the date of offer of grant if the offer for the grant of the option is accepted).

Unless approved by our shareholders in general meeting in the manner prescribed in the GEM Listing Rules, our Board shall not grant options to any Eligible Participants if the acceptance of those options would result in the total number of shares issued and to be issued to those Eligible Participants on exercise of the options during any 12-month period up to the offer date exceeding 1% of the total shares then in issue.

Options granted must be taken up within 14 days of that date of grant, upon payment of HK$1 in aggregate as consideration for the options granted.

The Share Option Scheme will be expired on 23 February 2025.

As of 1 April 2018 and as of 31 March 2019, no Share Options were outstanding.

During the year ended 31 March 2019, no share options were granted pursuant to the Share Option Scheme.

As at 31 March 2019, none of the Directors or employees held any share options of the Company under the Share Option Scheme.

DIRECTORS' RIGHTS TO ACQUIRE SHARES OR DEBENTURES

Save as disclosed above, at no time during the year was the Company, its subsidiaries, its fellow subsidiaries or its holding companies, a party to any arrangement 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.

AUDITORS

On 28 December 2016, KPMG had been appointed as auditor of the Company to fill the casual vacancy following the resignation of Deloitte Touche Tohmatsu.

The consolidated financial statements for the years ended 31 March 2019, 2018 and 2017 were audited by KPMG who will retire and, being eligible, offer themselves for re-appointment.

A resolution for the re-appointment of KPMG as the auditor of the Company is to be proposed at the forthcoming AGM. Save for the above, there has been no other change in the auditors of the Company in any of the preceding three years.

By Order of the Board
Steed Oriental (Holdings) Company Limited
Sun Xue Song
Chairman and Executive Director

Hong Kong, 21 June 2019

Independent auditor's report to the shareholders of
Steed Oriental (Holdings) Company Limited
(Incorporated in the Cayman Islands with limited liability)

OPINION

We have audited the consolidated financial statements of Steed Oriental (Holdings) Company Limited (the "Company") and its subsidiaries (the "Group") set out on pages 31 to 87, which comprise the consolidated statement of financial position as at 31 March 2019, the consolidated statement of profit or loss and other comprehensive income, the consolidated statement of changes in equity and the consolidated cash flow statement 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 March 2019 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 disclosure requirements of 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") together with any ethical requirements that are relevant to our audit of the consolidated financial statements in the Cayman Islands, and we have fulfilled our other ethical responsibilities in accordance with these requirements and 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 judgement, 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 (CONTINUED)

Assessing impairment of property, plant and equipment

Refer to note 11 to the consolidated financial statements and the accounting policies in note 2(k)(ii).

The Key Audit Matter	How the matter was addressed in our audit
As at 31 March 2019, the carrying amount of the Group's certain property, plant and equipment ("PP&E") comprising plant and machinery used in the manufacture of plywood products, totalled HK$226,610,000 (net of accumulated impairment losses of HK$2,950,000) before the consideration of any potential impairment adjustment, if any. In view of the marginal profit recorded for the year ended 31 March 2019, management considered that indicators of potential impairment of certain PP&E still existed at the reporting date and performed impairment assessments by assessing the recoverable amounts of each identifiable group of assets that generate independent cash flows ("cash-generating unit") using the value-in-use method based on discounted cash flow forecasts for each cash-generating unit ("CGU"). Preparing discounted cash flow forecasts requires management to exercise significant judgement, particularly in relation to forecasting future revenue and estimating future costs, the growth rates and the discount rates applied in assessing the recoverable amount of each CGU. We identified assessing impairment of PP&E as a key audit matter because the impairment assessments prepared by management contain certain judgemental and subjective assumptions which may be subject to error or potential management bias.	Our audit procedures to assess impairment of PP&E included the following: • assessing management's identification of CGUs and the allocation of PP&E and other assets to each CGU and assessing the methodology adopted by management in its preparation of the discounted cash flow forecasts with reference to our understanding of the Group's business and the requirements of the prevailing accounting standards; • evaluating management's discounted cash flow forecasts for each CGU by comparing the assumptions adopted by management with the historical performance of the Group, recent trends and externally available economic data; • engaging our internal valuation specialists to assist us in assessing whether the discount rates applied in the discounted cash flow forecasts were within the ranges adopted by other companies in the same industry; • comparing the actual revenue and operating costs for the current year to the assumptions adopted by management in the discounted cash flow forecasts for the previous year in order to assess the historical accuracy of the management's forecasting process; • performing sensitivity analyses of the discount rates applied and the assumptions for revenue adopted by management in the discounted cash flow forecasts to assess what changes thereto, either individually or collectively, would result in a different conclusion being reached and assessing whether there were any indicators of management bias in the selection of key assumptions; and • assessing the disclosures in the consolidated financial statements in respect of the assessment of impairment of PP&E with reference to the requirements of the prevailing accounting standards.

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 THE DIRECTORS FOR THE CONSOLIDATED FINANCIAL STATEMENTS

The directors are responsible for the preparation of the consolidated financial statements that give a true and fair view in accordance with HKFRSs issued by the HKICPA and the disclosure requirements of 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 RESPONSIBILITIES 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, 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 HKSAs 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.

As part of an audit in accordance with HKSAs, we exercise professional judgement and maintain professional scepticism 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.

Independent Auditor's Report (continued)

AUDITOR'S RESPONSIBILITIES FOR THE AUDIT OF THE CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)

We communicate with the Audit Committee regarding, among other matters, 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 communicate with them all relationships and other matters that may reasonably be thought to bear on our independence and, where applicable, related safeguards.

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 Ho Ying Man, Simon.

KPMG
Certified Public Accountants

8th Floor, Prince's Building
10 Chater Road
Central, Hong Kong

21 June 2019

Consolidated Statement of Profit or Loss and Other Comprehensive Income

For the year ended 31 March 2019
(Expressed in Hong Kong dollars ("HK$"))

	Note	2019 HK$'000	2018 (Note) HK$'000
Revenue	4	**243,232**	171,997
Cost of sales		**(198,578)**	(148,218)
Gross profit		**44,654**	23,779
Other income	5	**5,093**	1,224
Selling expenses		**(7,318)**	(5,655)
Administrative and other expenses		**(32,605)**	(22,648)
Profit/(loss) from operations		**9,824**	(3,300)
Finance costs	6(a)	**(3,467)**	(146)
Profit/(loss) before taxation	6	**6,357**	(3,446)
Income tax	7(a)	**(3,013)**	(397)
Profit/(loss) for the year attributable to equity shareholders of the Company		**3,344**	(3,843)
Other comprehensive income for the year (after tax and reclassification adjustments)			
Item that may be reclassified subsequently to profit or loss:			
Exchange differences arising on translation of foreign operations		**(5,605)**	7,861
Other comprehensive income for the year		**(5,605)**	7,861
Total comprehensive income for the year attributable to equity shareholders of the Company		**(2,261)**	4,018
Earnings/(loss) per share			
Basic and diluted (HK cents)	10	**1.53**	(1.76)

Note: The Group has initially applied HKFRS 15 and HKFRS 9 at 1 April 2018. Under the transition methods chosen, comparative information is not restated. See note 2(c).

The notes on pages 35 to 87 form part of these financial statements.

Consolidated Statement of Financial Position

At 31 March 2019
(Expressed in HK$)

	Note	2019 HK$'000	2018 (Note) HK$'000
Non-current assets			
Property, plant and equipment	11	**226,610**	38,805
Lease prepayments	12	**66,269**	30,193
Intangible assets		**2,001**	–
Other non-current assets	14	**1,171**	1,869
		296,051	70,867
Current assets			
Trading securities		**337**	420
Inventories	15	**77,922**	30,454
Lease prepayments	12	**1,406**	656
Contract assets	16	**4,383**	–
Trade and other receivables	17	**15,942**	23,459
Cash at bank and on hand	18	**14,005**	19,974
Restricted deposits		**–**	28
Other current assets	19	**18,178**	–
		132,173	74,991
Current liabilities			
Trade and other payables	20	**98,210**	28,704
Contract liabilities	16	**1,992**	–
Derivative financial instruments		**99**	83
Bank and other borrowings	21	**103,593**	16,379
Obligations under a finance lease		**140**	–
Income tax payable	22(a)	**2,407**	524
		206,441	45,690
Net current (liabilities)/assets		**(74,268)**	29,301
Total assets less current liabilities		**221,783**	100,168
Non-current liabilities			
Bank and other borrowings	21	**72,032**	7,880
Deferred tax liabilities	22(b)	**6,286**	474
Deferred income		**468**	–
Obligations under a finance lease		**404**	–
Other non-current liabilities	23	**54,251**	1,211
		133,441	9,565
NET ASSETS		**88,342**	90,603
CAPITAL AND RESERVES	24		
Share capital		**2,187**	2,187
Reserves		**86,155**	88,416
TOTAL EQUITY		**88,342**	90,603

Note: The Group has initially applied HKFRS 15 and HKFRS 9 at 1 April 2018. Under the transition methods chosen, comparative information is not restated. See note 2(c).

Approved and authorised for issue by the board of directors on 21 June 2019.

Sun Xue Song
Chairman and Executive Director

Xue Zhao Qiang
Executive Director

The notes on pages 35 to 87 form part of these financial statements.

Consolidated Statement of Changes in Equity

For the year ended 31 March 2019
(Expressed in HK$)

	Attributable to equity shareholders of the Company					
	Share capital HK$'000 (note 24(c))	Share premium HK$'000 (note 24(d)(i))	Other reserve HK$'000 (note 24(d)(ii))	Exchange reserve HK$'000 (note 24(d)(iii))	Accumulated losses HK$'000	Total equity HK$'000
Balance at 1 April 2017	2,187	72,403	41,355	(4,747)	(24,613)	86,585
Changes in equity for the year ended 31 March 2018:						
Loss for the year	–	–	–	–	(3,843)	(3,843)
Other comprehensive income	–	–	–	7,861	–	7,861
Total comprehensive income	–	–	–	7,861	(3,843)	4,018
Balance at 31 March 2018 (Note)	2,187	72,403	41,355	3,114	(28,456)	90,603

Note: The Group has initially applied HKFRS 15 and HKFRS 9 at 1 April 2018. Under the transition methods chosen, comparative information is not restated. See note 2(c).

	Attributable to equity shareholders of the Company					
	Share capital HK$'000 (note 24(c))	Share premium HK$'000 (note 24(d)(i))	Other reserve HK$'000 (note 24(d)(ii))	Exchange reserve HK$'000 (note 24(d)(iii))	Accumulated losses HK$'000	Total equity HK$'000
Balance at 1 April 2018	2,187	72,403	41,355	3,114	(28,456)	90,603
Changes in equity for the year ended 31 March 2018:						
Profit for the year	–	–	–	–	3,344	3,344
Other comprehensive income	–	–	–	(5,605)	–	(5,605)
Total comprehensive income	–	–	–	(5,605)	3,344	(2,261)
Balance at 31 March 2019	2,187	72,403	41,355	(2,491)	(25,112)	88,342

The notes on pages 35 to 87 form part of these financial statements.

Consolidated Cash Flow Statement

For the year ended 31 March 2019
(Expressed in HK$)

	Note	2019 HK$'000	2018 (Note) HK$'000
Operating activities			
Profit/(loss) before taxation		**6,357**	(3,446)
Adjustments for:			
Depreciation	6(c)	**2,994**	2,753
Amortisation	6(c)	**613**	656
Finance costs	6(a)	**3,467**	146
Interest income	5	**(62)**	(135)
Net loss on disposal of equity securities	5	**107**	16
Net loss arising from forward foreign exchange contracts	5	**68**	78
Gain on a bargain purchase	5	**(4,729)**	–
Net loss on disposal of property, plant and equipment	5	**119**	5
Changes in working capital:			
Increase in inventories		**(25,479)**	(5,446)
Decrease/(increase) in trade and other receivables		**9,579**	(2,080)
Increase in other current asset		**(3,789)**	–
Increase in trade and other payables		**2,402**	3,683
Cash used in operations		**(8,353)**	(3,770)
Income tax paid	22(a)	**(1,038)**	(173)
Net cash used in operating activities		**(9,391)**	(3,943)
Investing activities			
Payments for purchase of property, plant and equipment		**(52,025)**	(20,908)
Acquisition of a subsidiary, net of cash paid	26	**(18,896)**	–
Payments for purchase of trading securities		**(1,598)**	(3,940)
Proceeds from disposal of trading securities		**1,537**	3,855
Loans to related parties		**–**	(2,031)
Interest received	5	**62**	135
Net cash used in investing activities		**(70,920)**	(22,889)
Financing activities			
Proceeds from new bank and other borrowings		**68,497**	24,259
Repayment of bank and other borrowings		**(34,098)**	(2,256)
Finance costs paid		**(3,153)**	(146)
Restricted deposits		**28**	(28)
Advances from related parties	28(a)	**87,462**	8,371
Repayment to related parties	28(a)	**(43,905)**	(4,750)
Capital element of finance lease rentals paid		**(176)**	–
Net cash generated from financing activities		**74,655**	25,450
Net decrease in cash and cash equivalents		**(5,656)**	(1,382)
Cash and cash equivalents at 1 April	18(a)	**19,974**	20,897
Effect of foreign exchange rate changes		**(313)**	459
Cash and cash equivalents at 31 March	18(a)	**14,005**	19,974

Note: The Group has initially applied HKFRS 15 and HKFRS 9 at 1 April 2018. Under the transition methods chosen, comparative information is not restated. See note 2(c).

The notes on pages 35 to 87 form part of these financial statements.

1 CORPORATE INFORMATION

Steed Oriental (Holdings) Company Limited (the "Company") was incorporated in the Cayman Islands on 7 August 2013 as an exempted company with limited liability under the Companies Law, Chapter 22 (Law 3 of 1961, as consolidated and revised) of the Cayman Islands. The Company's shares were listed on the GEM (the "GEM") of The Stock Exchange of Hong Kong Limited (the "Stock Exchange") on 23 February 2015. The Company and its subsidiaries (collectively referred to as the "Group") principally engages in the sourcing, manufacturing and sale of plywood products and other wooden products.

2 SIGNIFICANT ACCOUNTING POLICIES

(a) Statement of compliance

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

The HKICPA has issued certain new and revised HKFRSs that are first effective or available for early adoption for the current accounting period of the Group. Note 2(c) provides information on any changes in accounting policies resulting from initial application of these developments to the extent that they are relevant to the Group for the current and prior accounting periods reflected in these financial statements.

(b) Basis of preparation of the financial statements

The consolidated financial statements for the year ended 31 March 2019 comprise the Company and its subsidiaries.

As at 31 March 2019, the Group has net current liabilities of HK$74,268,000. Considering that the two largest shareholders of the Company have agreed to provide continual financial support and adequate funds to the Group, the directors of the Company are of the opinion that the Group would have adequate funds to meet its liabilities as and when they fall due at least twelve months from the end of the reporting period. Accordingly, the directors of the Company consider it is appropriate to prepare the consolidated financial statements on a going concern basis.

The measurement basis used in the preparation of the financial statements is the historical cost basis except that financial instruments classified as trading securities (see note 2(f)) and derivative financial instruments (see note 2(g)) are stated at their fair values.

The preparation of financial statements in conformity with HKFRSs requires management to make judgements, estimates and assumptions that affect the application of policies and reported amounts of assets, liabilities, income and expenses. The estimates and associated assumptions are based on historical experience and various other factors that are believed to be reasonable under the circumstances, the results of which form the basis of making the judgements about carrying values of assets and liabilities that are not readily apparent from other sources. 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.

Judgements made by management in the application of HKFRSs that have significant effect on the financial statements and major sources of estimation uncertainty are discussed in note 3.

2 SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

(c) Changes in accounting policies

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

(i) HKFRS 9, *Financial instruments*

(ii) HKFRS 15, *Revenue from contracts with customers*

(iii) HK(IFRIC) 22, *Foreign currency transactions and advance consideration*

The Group has not applied any new standard or interpretation that is not yet effective for the current accounting period, except for the amendments to HKFRS 9, *Prepayment features with negative compensation* which have been adopted at the same time as HKFRS 9.

(i) HKFRS 9, Financial instruments, including the amendments to HKFRS 9, Prepayment features with negative compensation

HKFRS 9 replaces HKAS 39, *Financial instruments: recognition and measurement*. It sets out the requirements for recognising and measuring financial assets, financial liabilities and some contracts to buy or sell non-financial items.

The Group has applied HKFRS 9 retrospectively to items that existed at 1 April 2018 in accordance with the transition requirements. The adoption of HKFRS 9 does not have a significant impact on the opening balance of equity at 1 April 2018. Comparative information continues to be reported under HKAS 39.

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

a. Classification of financial assets and financial liabilities

HKFRS 9 categorises financial assets into three principal classification categories: measured at amortised cost, at fair value through other comprehensive income (FVOCI) and at fair value through profit or loss (FVPL). These supersede HKAS 39's categories of held-to-maturity investments, loans and receivables, available-for-sale financial assets and financial assets measured at FVPL. The classification of financial assets under HKFRS 9 is based on the business model under which the financial asset is managed and its contractual cash flow characteristics. Under HKFRS 9, derivatives embedded in contracts where the host is a financial asset in the scope of the standard are not separated from the host. Instead, the hybrid instrument as a whole is assessed for classification.

The measurement categories and carrying amounts for each class of the Group's financial assets under HKFRS 9 are the same as those under HKAS 39 at 1 April 2018.

For an explanation of how the Group classifies and measures financial assets and recognises related gains and losses under HKFRS 9, see respective accounting policy notes in notes 2(f), 2(g), 2(k)(i), 2(m) and 2(o).

The measurement categories for all financial liabilities remain the same. The carrying amounts for all financial liabilities at 1 April 2018 have not been impacted by the initial application of HKFRS 9.

The Group did not designate or de-designate any financial asset or financial liability at FVPL at 1 April 2018.

2 SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

(c) Changes in accounting policies (continued)

(i) HKFRS 9, Financial instruments, including the amendments to HKFRS 9, Prepayment features with negative compensation (continued)

b. Credit losses

HKFRS 9 replaces the "incurred loss" model in HKAS 39 with the "expected credit loss" (ECL) model. The ECL model requires an ongoing measurement of credit risk associated with a financial asset and therefore recognises ECLs earlier than under the "incurred loss" accounting model in HKAS 39.

The Group applies the new ECL model to the following items:

– financial assets measured at amortised cost (including cash and cash equivalents and trade and other receivables);

– contract assets.

For further details on the Group's accounting policy for accounting for credit losses, see respective accounting policy note 2(k)(i).

This change in accounting policy does not have a significant impact on the opening balance of equity at 1 April 2018 as compared with that recognised under HKAS 39 and accordingly, no additional ECLs has been recognised by the Group at 1 April 2018.

c. Transition

Changes in accounting policies resulting from the adoption of HKFRS 9 have been applied retrospectively, except as described below:

– Information relating to comparative periods has not been restated. Accordingly, the information presented for the comparative periods continues to be reported under HKAS 39 and thus may not be comparable with the current period.

– The assessment of the determination of the business model within which a financial asset is held has been made on the basis of the facts and circumstances that existed at 1 April 2018 (the date of initial application of HKFRS 9 by the Group).

– If, at the date of initial application, the assessment of whether there has been a significant increase in credit risk since initial recognition would have involved undue cost or effort, a lifetime ECL has been recognised for that financial instrument.

(ii) HKFRS 15, Revenue from contracts with customers

HKFRS 15 establishes a comprehensive framework for recognising revenue and some costs from contracts with customers. HKFRS 15 replaces HKAS 18, *Revenue*, which covered revenue arising from sale of goods and rendering of services, and HKAS 11, *Construction contracts*, which specified the accounting for construction contracts.

HKFRS 15 also introduces additional qualitative and quantitative disclosure requirements which aim to enable users of the financial statements to understand the nature, amount, timing and uncertainty of revenue and cash flows arising from contracts with customers.

The Group has elected to use the cumulative effect transition method and there is no impact to the opening balance of equity at 1 April 2018 on the initial application of HKFRS 15. Comparative information has not been restated and continues to be reported under HKAS 18. As allowed by HKFRS 15, the Group has applied the new requirements only to contracts that were not completed before 1 April 2018.

2 SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

(c) Changes in accounting policies (continued)

(ii) HKFRS 15, Revenue from contracts with customers (continued)

Further details of the nature and effect of the changes on previous accounting policies are set out below:

a. Timing of revenue recognition

Previously, revenue from sale of goods was generally recognised at a point in time when the risks and rewards of ownership of the goods had passed to the customers, whereas, revenue arising from construction contracts and provision of services was recognised over time.

Under HKFRS 15, revenue is recognised when the customer obtains control of the promised good or service in the contract. This may be at a single point in time or over time. HKFRS 15 identifies the following three situations in which control of the promised good or service is regarded as being transferred over time:

A. When the customer simultaneously receives and consumes the benefits provided by the entity's performance, as the entity performs;

B. When the entity's performance creates or enhances an asset (for example work in progress) that the customer controls as the asset is created or enhanced;

C. When the entity's performance does not create an asset with an alternative use to the entity and the entity has an enforceable right to payment for performance completed to date.

If the contract terms and the entity's activities do not fall into any of these 3 situations, then under HKFRS 15 the entity recognises revenue for the sale of that good or service at a single point in time, being when control has passed. Transfer of risks and rewards of ownership is only one of the indicators that is considered in determining when the transfer of control occurs.

The adoption of HKFRS 15 does not have a significant impact on the opening balance as at 1 April 2018. However, in future periods it may have a material impact on certain made-to-order manufacturing arrangements with customers where the Group manufactures the products in accordance with the customer's specification and under the contract the Group has the right to be paid for work done to date if the customer were to cancel the contract before the order was fully completed. These contracts therefore satisfy the criteria for recognising revenue over time during the manufacturing process, whereas previously the sales of goods was recognised at a point of time (see note 2(u)(i)). There were no such arrangements previously until the Group acquired a subsidiary in March 2019 (see note 26) which has certain made-to-order wooden product arrangements with customers.

b. Presentation of contract assets and liabilities

Under HKFRS 15, a receivable is recognised only if the Group has an unconditional right to consideration. If the Group recognises the related revenue (see note 2(u)) before being unconditionally entitled to the consideration for the promised goods and services in the contract, then the entitlement to consideration is classified as a contract asset. Similarly, a contract liability, rather than a payable, is recognised when a customer pays consideration, or is contractually required to pay consideration and the amount is already due, before the Group recognises the related revenue. For a single contract with the customer, either a net contract asset or a net contract liability is presented. For multiple contracts, contract assets and contract liabilities of unrelated contracts are not presented on a net basis (see note 2(q)).

The adoption of HKFRS 15 does not have a significant impact on the presentation of assets and liabilities at 1 April 2018, and accordingly, no adjustment has been made in this regard.

2 SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

(c) Changes in accounting policies (continued)

(iii) HK(IFRIC) 22, Foreign currency transactions and advance consideration

This Interpretation provides guidance on determining "the date of the transaction" for the purpose of determining the exchange rate to use on initial recognition of the related asset, expense or income (or part of it) arising from a transaction in which an entity receives or pays advance consideration in a foreign currency.

The Interpretation clarifies that "the date of the transaction" is the date on initial recognition of the non-monetary asset or liability arising from the payment or receipt of advance consideration. If there are multiple payments or receipts in advance of recognising the related item, the date of the transaction for each payment or receipt should be determined in this way. The adoption of HK(IFRIC) 22 does not have any material impact on the financial position and the financial result of the Group.

(d) Subsidiaries and non-controlling interests

Subsidiaries are entities controlled by the Group. The Group controls an entity when it is exposed, or has rights, to variable returns from its involvement with the entity and has the ability to affect those returns through its power over the entity. When assessing whether the Group has power, only substantive rights (held by the Group and other parties) are considered.

An investment in a subsidiary is consolidated into the consolidated financial statements from the date that control commences until the date that control ceases. Intra-group balances, transactions and cash flows and any unrealised profits arising from intra-group transactions are eliminated in full in preparing the consolidated financial statements. Unrealised losses resulting from intra-group transactions are eliminated in the same way as unrealised gains but only to the extent that there is no evidence of impairment.

Non-controlling interests represent the equity in a subsidiary not attributable directly or indirectly to the Company, and in respect of which the Group has not agreed any additional terms with the holders of those interests which would result in the Group as a whole having a contractual obligation in respect of those interests that meets the definition of a financial liability. For each business combination, the Group can elect to measure any non-controlling interests either at fair value or at the non-controlling interests' proportionate share of the subsidiary's net identifiable assets.

Non-controlling interests are presented in the consolidated statement of financial position within equity, separately from equity attributable to the equity shareholders of the Company. Non-controlling interests in the results of the Group are presented on the face of the consolidated statement of profit or loss and other comprehensive income as an allocation of the total profit or loss and total comprehensive income for the year between non-controlling interests and the equity shareholders of the Company.

Changes in the Group's interests in a subsidiary that do not result in a loss of control are accounted for as equity transactions, whereby adjustments are made to the amounts of controlling and non-controlling interests within consolidated equity to reflect the change in relative interests, but no adjustments are made to goodwill and no gain or loss is recognised.

When the Group loses control of a subsidiary, it is accounted for as a disposal of the entire interest in that subsidiary, with a resulting gain or loss being recognised in profit or loss. Any interest retained in that former subsidiary at the date when control is lost is recognised at fair value and this amount is regarded as the fair value on initial recognition of a financial asset (see note 2(f)) or, when appropriate, the cost on initial recognition of an investment in an associate or joint venture.

In the Company's statement of financial position, an investment in a subsidiary is stated at cost less impairment losses (see note 2(k)(ii)), unless the investment is classified as held for sale.

2 SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

(e) Goodwill

Goodwill represents the excess of

(i) the aggregate of the fair value of the consideration transferred, the amount of any non-controlling interest in the acquiree and the fair value of the Group's previously held equity interest in the acquiree; over

(ii) the net fair value of the acquiree's identifiable assets and liabilities measured as at the acquisition date.

When (ii) is greater than (i), then this excess is recognised immediately in profit or loss as a gain on a bargain purchase.

Goodwill is stated at cost less accumulated impairment losses. Goodwill arising on a business combination is allocated to each cash-generating unit, or groups of cash generating units, that is expected to benefit from the synergies of the combination and is tested annually for impairment.

On disposal of a cash generating unit during the year, any attributable amount of purchased goodwill is included in the calculation of the profit or loss on disposal.

(f) Other investments in debt and equity securities

The Group's policies for investments in debt and equity securities, other than investments in subsidiaries, associates and joint ventures, are as follows:

Investments in debt and equity securities are recognised/derecognised on the date the Group commits to purchase/sell the investment. The investments are initially stated at fair value plus directly attributable transaction costs, except for those investments measured at fair value through profit or loss (FVPL) for which transaction costs are recognised directly in profit or loss. For an explanation of how the Group determines fair value of financial instruments, (see note 25(e)). These investments are subsequently accounted for as follows, depending on their classification.

(A) Policy applicable from 1 April 2018

Investments other than equity investments

Non-equity investments held by the Group are classified into one of the following measurement categories:

– amortised cost, if the investment is held for the collection of contractual cash flows which represent solely payments of principal and interest. Interest income from the investment is calculated using the effective interest method (see note 2(u)(iii)).

– fair value through other comprehensive income (FVOCI) - recycling, if the contractual cash flows of the investment comprise solely payments of principal and interest and the investment is held within a business model whose objective is achieved by both the collection of contractual cash flows and sale. Changes in fair value are recognised in other comprehensive income, except for the recognition in profit or loss of expected credit losses, interest income (calculated using the effective interest method) and foreign exchange gains and losses. When the investment is derecognised, the amount accumulated in other comprehensive income is recycled from equity to profit or loss.

– fair value at profit or loss (FVPL) if the investment does not meet the criteria for being measured at amortised cost or FVOCI (recycling). Changes in the fair value of the investment (including interest) are recognised in profit or loss.

2 SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

(f) Other investments in debt and equity securities (continued)

(A) Policy applicable from 1 April 2018 (continued)

Equity investments
An investment in equity securities is classified as FVPL unless the equity investment is not held for trading purposes and on initial recognition of the investment the Group makes an irrevocable election to designate the investment at FVOCI (non-recycling) such that subsequent changes in fair value are recognised in other comprehensive income. Such elections are made on an instrument-by-instrument basis, but may only be made if the investment meets the definition of equity from the issuer's perspective. Where such an election is made, the amount accumulated in other comprehensive income remains in the fair value reserve (non-recycling) until the investment is disposed of. At the time of disposal, the amount accumulated in the fair value reserve (non-recycling) is transferred to retained earnings. It is not recycled through profit or loss.

Dividends from an investment in equity securities, irrespective of whether classified as at FVPL or FVOCI, are recognised in profit or loss as other income in accordance with the policy set out in note 2(u)(ii).

(B) Policy applicable prior to 1 April 2018

Investments in securities held for trading were classified as financial assets measured at FVPL. Any attributable transaction costs were recognised in profit or loss as incurred. At the end of each reporting period the fair value was remeasured, with any resultant gain or loss being recognised in profit or loss.

Dated debt securities that the Group had the positive ability and intention to hold to maturity were classified as held-to-maturity securities. Held-to-maturity securities were stated at amortised cost (for impairment see note 2(k)(i) – policy applicable prior to 1 April 2018).

Investments which did not fall into any of the above categories were classified as available-for-sale financial assets. At the end of each reporting period the fair value was remeasured, with any resultant gain or loss being recognised in other comprehensive income and accumulated separately in equity in the fair value reserve (recycling). Dividend income from equity investments and interest income from debt securities calculated using the effective interest method were recognised in profit or loss in accordance with the policies set out in notes 2(u)(ii) and 2(u)(iii), respectively. Foreign exchange gains and losses arising from debt securities were also recognised in profit or loss. When the investments were derecognised or impaired (see note 2(k)(i) - policy applicable prior to 1 April 2018), the cumulative gain or loss recognised in equity was reclassified to profit or loss.

(g) Derivative financial instruments

Derivative financial instruments are recognised initially at fair value. At the end of each reporting period the fair value is remeasured. The gain or loss on remeasurement to fair value is recognised immediately in profit or loss, except where the derivatives qualify for cash flow hedge accounting or hedge the net investment in a foreign operation, in which case recognition of any resultant gain or loss depends on the nature of the item being hedged.

2 SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

(h) Property, plant and equipment

Property, plant and equipment are stated at cost less accumulated depreciation and impairment losses (see note 2(k)(ii)).

The cost of self-constructed items of property, plant and equipment includes the cost of materials, direct labour, the initial estimate, where relevant, of the costs of dismantling and removing the items and restoring the site on which they are located, and an appropriate proportion of production overheads and borrowing costs (see note 2(w)).

Gains or losses arising from the retirement or disposal of an item of property, plant and equipment are determined as the difference between the net disposal proceeds and the carrying amount of the item and are recognised in profit or loss on the date of retirement or disposal.

Depreciation is calculated to write off the cost of items of property, plant and equipment, less their estimated residual values, if any, using the straight line method over their estimated useful lives as follows:

	Estimated useful lives
Plant, property and machinery	3 – 30 years
Leasehold improvements	2 – 5 years
Furniture, fixtures and equipment	3 – 10 years
Motor vehicles	2 – 15 years

Where parts of an item of property, plant and equipment have different useful lives, the cost of the item is allocated on a reasonable basis between the parts and each part is depreciated separately. Both the useful life of an asset and its residual value, if any, are reviewed annually. No depreciation is provided in respect of construction in progress until it is completed and ready for its intended use.

(i) Intangible assets (other than goodwill)

Expenditure on research activities is recognised as an expense in the period in which it is incurred. Expenditure on development activities is capitalised if the product or process is technically and commercially feasible and the Group has sufficient resources and the intention to complete development. The expenditure capitalised includes the costs of materials, direct labour, and an appropriate proportion of overheads and borrowing costs (see note 2(w)), where applicable. Capitalised development costs are stated at cost less accumulated amortisation and impairment losses (see note 2(k)(ii)). Other development expenditure is recognised as an expense in the period in which it is incurred.

Other intangible assets that are acquired by the Group are stated at cost less accumulated amortisation (where the estimated useful life is finite) and impairment losses (see note 2(k)(ii)).

Amortisation of intangible assets with finite useful lives is charged to profit or loss on a straight-line basis over the assets' estimated useful lives. The following intangible assets with finite useful lives are amortised from the date they are available for use and their estimated useful lives are as follows:

– Patents and use right of technological know-how 10 years

Both the period and method of amortisation are reviewed annually.

2 SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

(j) Leased assets

An arrangement, comprising a transaction or a series of transactions, is or contains a lease if the Group determines that the arrangement conveys a right to use a specific asset or assets for an agreed period of time in return for a payment or a series of payments. Such a determination is made based on an evaluation of the substance of the arrangement and is regardless of whether the arrangement takes the legal form of a lease.

(i) Classification of assets leased to the Group

Assets that are held by the Group under leases which transfer to the Group substantially all the risks and rewards of ownership are classified as being held under finance leases. Leases which do not transfer substantially all the risks and rewards of ownership to the Group are classified as operating leases.

(ii) Assets acquired under finance leases

Where the Group acquires the use of assets under finance leases, the amounts representing the fair value of the leased asset, or, if lower, the present value of the minimum lease payments, of such assets are recognised as property, plant and equipment and the corresponding liabilities, net of finance charges, are recorded as obligations under finance leases. Depreciation is provided at rates which write off the cost of the assets over the term of the relevant lease or, where it is likely the Group will obtain ownership of the asset, the life of the asset, as set out in note 2(h). Impairment losses are accounted for in accordance with the accounting policy as set out in note 2(k)(ii). Finance charges implicit in the lease payments are charged to profit or loss over the period of the leases so as to produce an approximately constant periodic rate of charge on the remaining balance of the obligations for each accounting period. Contingent rentals are charged to profit or loss in the accounting period in which they are incurred.

(iii) Operating lease charges

Where the Group has the use of assets held under operating leases, payments made under the leases are charged to profit or loss in equal instalments over the accounting periods covered by the lease term, except where an alternative basis is more representative of the pattern of benefits to be derived from the leased asset. Lease incentives received are recognised in profit or loss as an integral part of the aggregate net lease payments made. Contingent rentals are charged to profit or loss in the accounting period in which they are incurred.

The cost of acquiring land held under an operating lease is amortised on a straight-line basis over the period of the lease term.

2 SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

(k) Credit losses and impairment of assets

(i) Credit losses from financial instruments and contract assets

(A) Policy applicable from 1 April 2018

The Group recognises a loss allowance for expected credit losses (ECLs) on the following items:

– financial assets measured at amortised cost (including cash and cash equivalents and trade and other receivables); and

– contract assets as defined in HKFRS 15 (see note 2(q)).

Financial assets measured at fair value including equity securities measured at FVPL are not subject to the ECL assessment.

Measurement of ECLs

ECLs are a probability-weighted estimate of credit losses. Credit losses are measured as the present value of all expected cash shortfalls (i.e. the difference between the cash flows due to the Group in accordance with the contract and the cash flows that the Group expects to receive).

The expected cash shortfalls of trade and other receivables and contract assets are discounted using the effective interest rate determined at initial recognition on an approximation thereof where the effect of discounting is material.

The maximum period considered when estimating ECLs is the maximum contractual period over which the Group is exposed to credit risk.

In measuring ECLs, the Group takes into account reasonable and supportable information that is available without undue cost or effort. This includes information about past events, current conditions and forecasts of future economic conditions.

ECLs are measured on either of the following bases:

– 12-month ECLs: these are losses that are expected to result from possible default events within the 12 months after the reporting date; and

– lifetime ECLs: these are losses that are expected to result from all possible default events over the expected lives of the items to which the ECL model applies.

Loss allowances for trade receivables and contract assets are always measured at an amount equal to lifetime ECLs. ECLs on these financial assets are estimated using a provision matrix based on the Group's historical credit loss experience, adjusted for factors that are specific to the debtors and an assessment of both the current and forecast general economic conditions at the reporting date.

For all other financial instruments, the Group recognises a loss allowance equal to 12-month ECLs unless there has been a significant increase in credit risk of the financial instrument since initial recognition, in which case the loss allowance is measured at an amount equal to lifetime ECLs.

2 SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

(k) Credit losses and impairment of assets (continued)

(i) Credit losses from financial instruments and contract assets (continued)

(A) Policy applicable from 1 April 2018 (continued)

Significant increases in credit risk

In assessing whether the credit risk of a financial instrument has increased significantly since initial recognition, the Group compares the risk of default occurring on the financial instrument assessed at the reporting date with that assessed at the date of initial recognition. In making this reassessment, the Group considers that a default event occurs when the borrower is unlikely to pay its credit obligations to the Group in full, without recourse by the Group to actions such as realising security (if any is held). 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 is taken into account when assessing whether credit risk has increased significantly since initial recognition:

– failure to make payments of principal or interest on their contractually due dates;

– an actual or expected significant deterioration in a financial instrument's external or internal credit rating (if available);

– an actual or expected significant deterioration in the operating results of the debtor; and

– existing or forecast changes in the technological, market, economic or legal environment that have a significant adverse effect on the debtor's ability to meet its obligation to the Group.

Depending on the nature of the financial instruments, the assessment of a significant increase in credit risk is performed on either an individual basis or a collective basis. When the assessment is performed on a collective basis, the financial instruments are grouped based on shared credit risk characteristics, such as past due status and credit risk ratings.

ECLs are remeasured at each reporting date to reflect changes in the financial instrument's credit risk since initial recognition. Any change in the ECL amount is recognised as an impairment gain or loss in profit or loss. The Group recognises an impairment gain or loss for all financial instruments with a corresponding adjustment to their carrying amount through a loss allowance account, except for investments in debt securities that are measured at FVOCI (recycling), for which the loss allowance is recognised in other comprehensive income and accumulated in the fair value reserve (recycling).

2 SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

(k) Credit losses and impairment of assets (continued)

(i) Credit losses from financial instruments and contract assets (continued)

(A) Policy applicable from 1 April 2018 (continued)

Basis of calculation of interest income
Interest income recognised in accordance with note 2(u)(iii) is calculated based on the gross carrying amount of the financial asset unless the financial asset is credit-impaired, in which case interest income is calculated based on the amortised cost (i.e. the gross carrying amount less loss allowance) of the financial asset.

At each reporting date, the Group assesses whether a financial asset is credit-impaired. 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 that a financial asset is credit-impaired includes the following observable events:

– significant financial difficulties of the debtor;

– a breach of contract, such as a default or delinquency in interest or principal payments;

– it becoming probable that the borrower will enter into bankruptcy or other financial reorganisation;

– significant changes in the technological, market, economic or legal environment that have an adverse effect on the debtor; or

– the disappearance of an active market for a security because of financial difficulties of the issuer.

Write-off policy
The gross carrying amount of a financial asset or contract asset is written off (either partially or in full) to the extent that there is no realistic prospect of recovery. This is generally the case when the Group determines that the debtor does not have assets or sources of income that could generate sufficient cash flows to repay the amounts subject to the write-off.

Subsequent recoveries of an asset that was previously written off are recognised as a reversal of impairment in profit or loss in the period in which the recovery occurs.

2 SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

(k) Credit losses and impairment of assets (continued)

(i) Credit losses from financial instruments and contract assets (continued)

(B) Policy applicable prior to 1 April 2018

Prior to 1 April 2018, an "incurred loss" model was used to measure impairment losses on financial assets not classified as at FVPL (e.g. trade and other receivables). Under the "incurred loss" model, an impairment loss was recognised only when there was objective evidence of impairment. Objective evidence of impairment included:

– significant financial difficulties of the debtor;

– a breach of contract, such as a default or delinquency in interest or principal payments;

– it becoming probable that the debtor will enter bankruptcy or other financial reorganisation;

– significant changes in the technological, market, economic or legal environment that have an adverse effect on the debtor; and

– a significant or prolonged decline in the fair value of an investment in an equity instrument below its cost.

If any such evidence existed, an impairment loss was determined and recognised as follows:

– For trade and other receivables and other financial assets carried at amortised cost, impairment loss was measured as the difference between the asset's carrying amount and the present value of estimated future cash flows, discounted at the financial asset's original effective interest rate, where the effect of discounting was material. This assessment was made collectively where these financial assets shared similar risk characteristics, such as similar past due status, and had not been individually assessed as impaired. Future cash flows for financial assets which were assessed for impairment collectively were based on historical loss experience for assets with credit risk characteristics similar to the collective group.

If in a subsequent period the amount of an impairment loss decreased and the decrease could be linked objectively to an event occurring after the impairment loss was recognised, the impairment loss was reversed through profit or loss. A reversal of an impairment loss was only recognised to the extent that it did not result in the asset's carrying amount exceeding that which would have been determined had no impairment loss been recognised in prior years.

When the recovery of a trade debtor or other financial assets carried at amortised cost was considered doubtful but not remote, associated impairment losses were recorded using an allowance account. When the Group was satisfied that recovery was remote, the amount considered irrecoverable was written off against the gross carrying amount of those assets directly. Subsequent recoveries of amounts previously charged to the allowance account were reversed against the allowance account. Other changes in the allowance account and subsequent recoveries of amounts previously written off directly were recognised in profit or loss.

2 SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

(k) Credit losses and impairment of assets (continued)

(i) Credit losses from financial instruments and contract assets (continued)

(B) Policy applicable prior to 1 April 2018 (continued)

– For available-for-sale investments, the cumulative loss that had been recognised in the fair value reserve (recycling) was reclassified to profit or loss. The amount of the cumulative loss that was recognised in profit or loss was the difference between the acquisition cost (net of any principal repayment and amortisation) and current fair value, less any impairment loss on that asset previously recognised in profit or loss.

Impairment losses recognised in profit or loss in respect of available-for-sale equity securities were not reversed through profit or loss. Any subsequent increase in the fair value of such assets was recognised in other comprehensive income.

Impairment losses recognised in profit or loss in respect of available-for-sale debt securities were reversed if the subsequent increase in fair value could be objectively related to an event occurring after the impairment loss was recognised. Reversals of impairment losses in such circumstances were recognised in profit or loss.

(ii) Impairment of other assets

Internal and external sources of information are reviewed at the end of each reporting period to identify indications that the following assets may be impaired or an impairment loss previously recognised no longer exists or may have decreased:

– property, plant and equipment;

– intangible assets;

– pre-paid interests in leasehold land classified as being held under an operating lease; and

– investments in subsidiaries in the Company's statement of financial position.

If any such indication exists, the asset's recoverable amount is estimated.

– *Calculation of recoverable amount*

The recoverable amount of an asset is the greater of its fair value less costs of disposal and value in use. In assessing value in use, the estimated future cash flows are discounted to their present value using a pre-tax discount rate that reflects current market assessments of the time value of money and the risks specific to the asset. Where an asset does not generate cash inflows largely independent of those from other assets, the recoverable amount is determined for the smallest group of assets that generates cash inflows independently (i.e. a cash-generating unit).

– *Recognition of impairment losses*

An impairment loss is recognised in profit or loss if the carrying amount of an asset, or the cash-generating unit to which it belongs, exceeds its recoverable amount. Impairment losses recognised in respect of cash-generating units are allocated to reduce the carrying amount of the assets in the unit (or group of units) on a pro rata basis, except that the carrying value of an asset will not be reduced below its individual fair value less costs of disposal (if measurable) or value in use (if determinable).

– *Reversals of impairment losses*

An impairment loss is reversed if there has been a favourable change in the estimates used to determine the recoverable amount.

A reversal of an impairment loss is limited to the asset's carrying amount that would have been determined had no impairment loss been recognised in prior years. Reversals of impairment losses are credited to profit or loss in the year in which the reversals are recognised.

2 SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

(k) Credit losses and impairment of assets (continued)

(iii) Interim financial reporting and impairment

Under the Listing Rules, the Group is required to prepare an interim financial report in compliance with HKAS 34, *Interim financial reporting*, in respect of the first six months of the financial year. At the end of the interim period, the Group applies the same impairment testing, recognition, and reversal criteria as it would at the end of the financial year (see note 2(k)(i)).

(l) Inventories

Inventories are assets which are held for sale in the ordinary course of business, in the process of production for such sale or in the form of materials or supplies to be consumed in the production process or in the rendering of services.

Inventories are carried at the lower of cost and net realisable value.

Cost is calculated using the weighted average cost formula and comprises all costs of purchase, costs of conversion and other costs incurred in bringing the inventories to their present location and condition.

Net realisable value is the estimated selling price in the ordinary course of business less the estimated costs of completion and the estimated costs necessary to make the sale.

When inventories are sold, the carrying amount of those inventories is recognised as an expense in the period in which the related revenue is recognised. The amount of any write-down of inventories to net realisable value and all losses of inventories are recognised as an expense in the period the write-down or loss occurs. The amount of any reversal of any write-down of inventories is recognised as a reduction in the amount of inventories recognised as an expense in the period in which the reversal occurs.

(m) Trade and other receivables

A receivable is recognised when the Group has an unconditional right to receive consideration. A right to receive consideration is unconditional if only the passage of time is required before payment of that consideration is due. If revenue has been recognised before the Group has an unconditional right to receive consideration, the amount is presented as a contract asset (see note 2(q)).

Receivables are stated at amortised cost using the effective interest method less allowance for credit losses (see note 2(k)(i)).

(n) Interest-bearing borrowings

Interest-bearing borrowings are measured initially at fair value less transaction costs. Subsequent to initial recognition, interest-bearing borrowings are stated at amortised cost using the effective interest method. Interest expense is recognised in accordance with the Group's accounting policy for borrowing costs (see note 2(w)).

(o) Cash and cash equivalents

Cash and cash equivalents comprise cash at bank and on hand, demand deposits with banks and other financial institutions, and short-term, highly liquid investments that are readily convertible into known amounts of cash and which are subject to an insignificant risk of changes in value, having been within three months of maturity at acquisition. Cash and cash equivalents are assessed for expected credit losses (ECL) in accordance with the policy set out in note 2(k)(i).

(p) Trade and other payables

Trade and other payables are initially recognised at fair value, and are subsequently stated at amortised cost unless the effect of discounting would be immaterial, in which case they are stated at cost.

2 SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

(q) Contract assets and contract liabilities

A contract asset is recognised when the Group recognises revenue (see note 2(u)) before being unconditionally entitled to the consideration under the payment terms set out in the contract. Contract assets are assessed for expected credit losses (ECL) in accordance with the policy set out in note 2(k)(i) and are reclassified to receivables when the right to the consideration has become unconditional (see note 2(m)).

A contract liability is recognised when the customer pays consideration before the Group recognises the related revenue (see note 2(u)). A contract liability would also be recognised if the Group has an unconditional right to receive consideration before the Group recognises the related revenue. In such cases, a corresponding receivable would also be recognised (see note 2(m)).

For a single contract with the customer, either a net contract asset or a net contract liability is presented. For multiple contracts, contract assets and contract liabilities of unrelated contracts are not presented on a net basis.

When the contract includes a significant financing component, the contract balance includes interest accrued under the effective interest method (see note 2(u).

(r) Employee benefits

(i) Short-term employee benefits and contributions to defined contribution retirement plans

Salaries, annual bonuses, paid annual leave, contributions to defined contribution retirement plans and the cost of non-monetary benefits are accrued in the year in which the associated services are rendered by employees. Where payment or settlement is deferred and the effect would be material, these amounts are stated at their present values.

(ii) Share-based payments

The fair value of share options granted to employees is recognised as an employee cost with a corresponding increase in a share option reserve within equity. The fair value is measured at grant date using the Binomial Option Pricing Model, taking into account the terms and conditions upon which the options were granted. Where the employees have to meet vesting conditions before becoming unconditionally entitled to the options, the total estimated fair value of the options is spread over the vesting period, taking into account the probability that the options will vest.

During the vesting period, the number of share options that is expected to vest is reviewed. Any resulting adjustment to the cumulative fair value recognised in prior years is charged/credited to the profit or loss for the year of the review, unless the original employee expenses qualify for recognition as an asset, with a corresponding adjustment to the share option reserve. On vesting date, the amount recognised as an expense is adjusted to reflect the actual number of options that vest (with a corresponding adjustment to the share option reserve) except where forfeiture is only due to not achieving vesting conditions that relate to the market price of the Company's shares. The equity amount is recognised in the share option reserve until either the option is exercised (when it is included in the amount recognised in share capital for the shares issued) or the option expires (when it is released directly to retained profits).

(iii) Termination benefits

Termination benefits are recognised at the earlier of when the Group can no longer withdraw the offer of those benefits and when it recognises restructuring costs involving the payment of termination benefits.

2 SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

(s) Income tax

Income tax for the year comprises current tax and movements in deferred tax assets and liabilities. Current tax and movements in deferred tax assets and liabilities are recognised in profit or loss except to the extent that they relate to business combinations, items recognised in other comprehensive income or directly in equity, in which case the relevant amounts of tax are recognised in other comprehensive income or directly in equity, respectively.

Current tax is the expected tax payable on the taxable income for the year, using tax rates enacted or substantively enacted at the end of the reporting period, and any adjustment to tax payable in respect of previous years.

Deferred tax assets and liabilities arise from deductible and taxable temporary differences respectively, being the differences between the carrying amounts of assets and liabilities for financial reporting purposes and their tax bases. Deferred tax assets also arise from unused tax losses and unused tax credits.

Apart from certain limited exceptions, all deferred tax liabilities, and all deferred tax assets to the extent that it is probable that future taxable profits will be available against which the asset can be utilised, are recognised. Future taxable profits that may support the recognition of deferred tax assets arising from deductible temporary differences include those that will arise from the reversal of existing taxable temporary differences, provided those differences relate to the same taxation authority and the same taxable entity, and are expected to reverse either in the same period as the expected reversal of the deductible temporary difference or in periods into which a tax loss arising from the deferred tax asset can be carried back or forward. The same criteria are adopted when determining whether existing taxable temporary differences support the recognition of deferred tax assets arising from unused tax losses and credits, that is, those differences are taken into account if they relate to the same taxation authority and the same taxable entity, and are expected to reverse in a period, or periods, in which the tax loss or credit can be utilised.

The limited exceptions to recognition of deferred tax assets and liabilities are those temporary differences arising from the initial recognition of assets or liabilities that affect neither accounting nor taxable profit (provided they are not part of a business combination), and temporary differences relating to investments in subsidiaries to the extent that, in the case of taxable differences, the Group controls the timing of the reversal and it is probable that the differences will not reverse in the foreseeable future, or in the case of deductible differences, unless it is probable that they will reverse in the future.

The amount of deferred tax recognised is measured based on the expected manner of realisation or settlement of the carrying amount of the assets and liabilities, using tax rates enacted or substantively enacted at the end of the reporting period. Deferred tax assets and liabilities are not discounted.

The carrying amount of a deferred tax asset is reviewed at the end of each reporting period and is reduced to the extent that it is no longer probable that sufficient taxable profits will be available to allow the related tax benefit to be utilised. Any such reduction is reversed to the extent that it becomes probable that sufficient taxable profits will be available.

Current tax balances and deferred tax balances, and movements therein, are presented separately from each other and are not offset. Current tax assets are offset against current tax liabilities, and deferred tax assets against deferred tax liabilities, if the Company or the Group has the legally enforceable right to set off current tax assets against current tax liabilities and the following additional conditions are met:

- in the case of current tax assets and liabilities, the Company or the Group intends either to settle on a net basis, or to realise the asset and settle the liability simultaneously; or

- in the case of deferred tax assets and liabilities, if they relate to income taxes levied by the same taxation authority on either:

  - the same taxable entity; or

  - different taxable entities, which, in each future period in which significant amounts of deferred tax liabilities or assets are expected to be settled or recovered, intend to realise the current tax assets and settle the current tax liabilities on a net basis or realise and settle simultaneously.

2 SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

(t) Provisions and contingent liabilities

Provisions are recognised when the Group has a legal or constructive obligation arising as a result of a past event, it is probable that an outflow of economic benefits will be required to settle the obligation and a reliable estimate can be made. Where the time value of money is material, provisions are stated at the present value of the expenditure expected to settle the obligation.

Where it is not probable that an outflow of economic benefits will be required, or the amount cannot be estimated reliably, the obligation is disclosed as a contingent liability, unless the probability of outflow of economic benefits is remote. Possible obligations, whose existence will only be confirmed by the occurrence or non-occurrence of one or more future events are also disclosed as contingent liabilities unless the probability of outflow of economic benefits is remote.

(u) Revenue and other income

Income is classified by the Group as revenue when it arises from the sale of goods or the provision of services in the ordinary course of the Group's business.

Revenue is recognised when control over a product or service is transferred to the customer at the amount of promised consideration to which the Group is expected to be entitled, excluding those amounts collected on behalf of third parties. Revenue excludes value added tax or other sales taxes and is after deduction of any trade discounts.

Where the contract contains a financing component which provides a significant financing benefit to the customer for more than 12 months, revenue is measured at the present value of the amount receivable, discounted using the discount rate that would be reflected in a separate financing transaction with the customer, and interest income is accrued separately under the effective interest method. Where the contract contains a financing component which provides a significant financing benefit to the Group, revenue recognised under that contract includes the interest expense accreted on the contract liability under the effective interest method. The Group takes advantage of the practical expedient in paragraph 63 of HKFRS 15 and does not adjust the consideration for any effects of a significant financing component if the period of financing is 12 months or less.

Further details of the Group's revenue and other income recognition policies are as follows:

(i) Sale of goods

Sales of goods are recognised as follows:

– *Made-to-order manufacturing arrangements*

The Group classifies contracts as made-to-order manufacturing arrangements when the Group manufactures the products in accordance with the customer's specification and under the contract the Group has the right to be paid for work done to date if the customer were to cancel the contract before the order was fully completed.

Revenue arising from made-to-order manufacturing arrangements, and a corresponding contract asset (see note 2(q)), are recognised progressively over time using the cost-to-cost method, i.e. based on the proportion of the actual costs incurred relative to the estimated total costs. The contract asset (either partially or in full) is reclassified to receivables when the entitlement to payment for that amount has become unconditional (see note 2(m)).

– *Sales of other goods*

Revenue is recognised when the customer takes possession of and accepts the products. If the products are a partial fulfilment of a contract covering other goods and/or services, then the amount of revenue recognised is an appropriate proportion of the total transaction price under the contract, allocated between all the goods and services promised under the contract on a relative stand-alone selling price basis.

In the comparative period, revenue from sales of goods was recognised when the goods were delivered and titles have passed which is taken to be the point in time when the customer has accepted the goods and the related risks and rewards of ownership. The change in accounting policy for sales of goods has no impact to opening balances at 1 April 2018 (see note 2(c)(ii)).

2 SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

(u) Revenue and other income (continued)

(ii) Dividends

Dividend income from listed investments is recognised when the share price of the investment goes ex-dividend.

(iii) Interest income

Interest income is recognised as it accrues using the effective interest method. For credit-impaired financial assets, the effective interest rate is applied to the amortised cost (i.e. gross carrying amount net of loss allowance) of the asset (see note 2(k)(i)).

(iv) Government grants

Government grants are recognised in the statement of financial position initially when there is reasonable assurance that they will be received and that the Group will comply with the conditions attaching to them. Grants that compensate the Group for expenses incurred are recognised as income in profit or loss on a systematic basis in the same periods in which the expenses are incurred. Grants that compensate the Group for the cost of an asset are initially recognised as deferred income and consequently recognised in profit or loss over the useful life of the related asset.

(v) Translation of foreign currencies

Foreign currency transactions during the year are translated at the foreign exchange rates ruling at the transaction dates. Monetary assets and liabilities denominated in foreign currencies are translated at the foreign exchange rates ruling at the end of the reporting period. Exchange gains and losses are recognised in profit or loss.

Non-monetary assets and liabilities that are measured in terms of historical cost in a foreign currency are translated using the foreign exchange rates ruling at the transaction dates. The transaction date is the date on which the entity initially recognises such non-monetary assets or liabilities.

The results of foreign operations are translated into HK$ at the exchange rates approximating the foreign exchange rates ruling at the dates of the transactions. Statement of financial position items are translated into HK$ at the closing foreign exchange rates at the end of the reporting period. The resulting exchange differences are recognised in other comprehensive income and accumulated separately in equity in the exchange reserve.

On disposal of a foreign operation, the cumulative amount of the exchange differences relating to that foreign operation is reclassified from equity to profit or loss when the profit or loss on disposal is recognised.

2 SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

(w) Borrowing costs

Borrowing costs that are directly attributable to the acquisition, construction or production of an asset which necessarily takes a substantial period of time to get ready for its intended use or sale are capitalised as part of the cost of that asset. Other borrowing costs are expensed in the period in which they are incurred.

The capitalisation of borrowing costs as part of the cost of a qualifying asset commences when expenditure for the asset is being incurred, borrowing costs are being incurred and activities that are necessary to prepare the asset for its intended use are in progress. Capitalisation of borrowing costs is suspended or ceases when substantially all the activities necessary to prepare the qualifying asset for its intended use are interrupted or complete.

(x) Related parties

(a) A person, or a close member of that person's family, is related to the Group if that person:

(i) has control or joint control over the Group;

(ii) has significant influence over the Group; or

(iii) is a member of the key management personnel of the Group or the Group's parent.

(b) An entity is related to the Group if any of the following conditions applies:

(i) The entity and the Group are members of the same group.

(ii) One entity is an associate or joint venture of the other entity (or an associate or joint venture of a member of a group of which the other entity is a member).

(iii) Both entities are joint ventures of the same third party.

(iv) One entity is a joint venture of a third entity and the other entity is an associate of the third entity.

(v) The entity is a post-employment benefit plan for the benefit of employees of either the Group or an entity related to the Group.

(vi) The entity is controlled or jointly controlled by a person identified in (a).

(vii) A person identified in (a)(i) has significant influence over the entity or is a member of the key management personnel of the entity (or of a parent of the entity).

(viii) The entity, or any member of a group of which it is a part, provides key management personnel services to the Group or to the Group's parent.

Close members of the family of a person are those family members who may be expected to influence, or be influenced by, that person in their dealings with the entity.

2 SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

(y) Segment reporting

Operating segments, and the amounts of each segment item reported in the financial statements, are identified from the financial information provided regularly to the Group's most senior executive management for the purposes of allocating resources to, and assessing the performance of, the Group's various lines of business and geographical locations.

Individually material operating segments are not aggregated for financial reporting purposes unless the segments have similar economic characteristics and are similar in respect of the nature of products and services, the nature of production processes, the type or class of customers, the methods used to distribute the products, and the nature of the regulatory environment. Operating segments which are not individually material may be aggregated if they share a majority of these criteria.

3 ACCOUNTING JUDGEMENT AND ESTIMATES

Note 25 contains information about the assumptions and their risk factors relating to fair value of financial instruments. Other key sources of estimation uncertainty are as follows:

(a) Impairment losses of property, plant and equipment

If circumstances indicate that the carrying amount of property, plant and equipment may not be recoverable, the asset may be considered "impaired", and an impairment loss may be recognised in accordance with accounting policy for impairment of long-lived assets as described in note 2(k)(ii). These assets are tested for impairment whenever the events or changes in circumstances indicate that their recorded carrying amounts may not be recoverable. When such a decline has occurred, the carrying amount is reduced to recoverable amount. The recoverable amount is the greater of the fair value less costs of disposal and the value in use. In determining the value in use, expected future cash flows generated by the asset are discounted to their present value, which requires significant judgement relating to the level of revenue and amount of operating costs. The Group uses all readily available information in determining an amount that is a reasonable approximation of the recoverable amount, including estimates based on reasonable and supportable assumptions and projections of the level of revenue and amount of operating costs. Changes in these estimates could have a significant impact on the carrying value of the assets and could result in additional impairment charge or reversal of impairment in future years.

(b) Impairment of trade and other receivables

The management maintains a loss allowance for receivables for estimated losses resulting from the inability of the debtors to make the required payments. The management bases the estimates on the historical credit loss experience, adjusted for factors that are specific to the debtors and assessments of both current and forecast general economic conditions. If the financial condition of the debtors were to deteriorate, and/or the existing/forecast changes have a negative impact on the general economic conditions, credit losses would be higher than estimated.

(c) Depreciation

Property, plant and equipment are depreciated on a straight-line basis over the estimated useful lives of the assets, after taking into account the estimated residual values. The management reviews the estimated useful lives and residual values of the assets regularly in order to determine the amount of depreciation expense to be recorded during any reporting period. The determination of the useful lives and residual values are based on historical experience with similar assets. The depreciation expense for future periods is adjusted if there are significant changes from previous estimates.

4 REVENUE AND SEGMENT REPORTING

(a) Revenue

The principal activities of the Group are the sourcing, manufacturing and sale of plywood products and other wooden products.

The executive directors of the Company have been identified as the chief operating decision makers (the "CODM"). The CODM review the Group's revenue analyses by products and by the geographical location in the delivery of goods in order to assess performance and allocation of resources.

Other than revenue analyses, no operating results and other discrete financial information are available for the assessment of performance by the respective major products and customers. The CODM review the results of the Group as a whole to make decisions. Accordingly, other than entity wide information, no other segment analysis is presented.

(i) Disaggregation of revenue

Disaggregation of revenue from contracts with customers by major products is as follows:

	2019 HK$'000	2018 HK$'000
Revenue from contracts with customers within the scope of HKFRS 15		
Disaggregated by major products or service lines		
Sales of general plywood	**174,875**	114,776
Sales of packing plywood	**10,110**	20,410
Sales of structural panel	**43,212**	17,767
Sales of floor base	**6,932**	18,359
Others	**8,103**	685
	243,232	171,997

Note: The Group has initially applied HKFRS 15 using the cumulative effect method. Under this method, the comparative information is not restated and was prepared in accordance with HKAS 18 and HKAS 11 (see note 2(c)(ii)).

During the years ended 31 March 2019 and 2018, all revenue from contracts with customers are recognised at a point in time.

Revenue from customers with whom transactions have exceeded 10% of the Group's revenue is as follows:

	2019 HK$'000	2018 HK$'000
Customer A	**120,777**	80,251
Customer B	**34,892**	49,862

Note:

Details of concentrations of credit risk are set out in note 25(a).

(ii) Revenue expected to be recognised in the future arising from contracts with customers in existence at the reporting date.

The Group has applied the practical expedient in paragraph 121 of HKFRS 15 to its sales contracts for wooden products that had an original expected duration of one year or less.

4 REVENUE AND SEGMENT REPORTING (CONTINUED)

(b) Geographic information

The following table sets out information about the geographical location of the Group's revenue from external customers which is based on the location at which the goods are delivered.

	2019 HK$'000	2018 HK$'000
Japan	**195,564**	151,845
Mainland China	**35,047**	2,682
Thailand	**5,665**	7,159
Hong Kong	**5,677**	5,971
Other countries	**1,279**	4,340
	243,232	171,997

The Group has operations in two principal geographical areas – Hong Kong and the mainland China during the years ended 31 March 2019 and 2018. Information about the Group's non-current assets presented based on the location of the non-current assets is as below:

	2019 HK$'000	2018 HK$'000
Hong Kong	**1,248**	318
Mainland China	**294,803**	70,549
	296,051	70,867

5 OTHER INCOME

	2019 HK$'000	2018 HK$'000
Interest income	**62**	135
Net loss on disposal of property, plant and equipment	**(119)**	(5)
Net loss arising from forward foreign exchange contracts	**(68)**	(78)
Net loss on disposal of equity securities	**(107)**	(16)
Net foreign exchange gains	**506**	1,143
Gain on a bargain purchase (note 26)	**4,729**	–
Others	**90**	45
	5,093	1,224

6 PROFIT/(LOSS) BEFORE TAXATION

Profit/(loss) before taxation is arrived at after charging:

	2019 HK$'000	2018 HK$'000
(a) Finance costs		
Interest on bank and other borrowings	**3,430**	146
Finance charges on obligations under a finance lease	**37**	–
	3,467	146

No borrowing costs have been capitalised for the years ended 31 March 2019 and 2018.

	2019 HK$'000	2018 HK$'000
(b) Staff costs#		
Salaries, wages and other benefits	**20,862**	18,534
Contributions to defined contribution retirement plans	**1,315**	1,078
	22,177	19,612

The Group operates a Mandatory Provident Fund Scheme for all qualifying employees in Hong Kong. The assets of the scheme are held separately from those of the Group, in funds under the control of a trustee. The Group contributes 5% of relevant payroll costs to the scheme, of which contribution is matched by employees.

The employees of the Group's subsidiaries in the People's Republic of China (the "PRC") are members of state-managed retirement benefit plan operated by the government of the PRC. The subsidiaries are required to contribute a specified percentage of payroll costs to the retirement benefit scheme to fund the benefits. The only obligation of the Group with respect to the retirement benefit plans is to make the specified contributions.

	2019 HK$'000	2018 HK$'000
(c) Other items		
Depreciation#	**2,994**	2,753
Amortisation of lease prepayments	**613**	656
Operating lease charges in respect of properties and machinery#	**2,963**	2,876
Auditors' remuneration		
– audit services	**2,010**	1,239
– in connection with the major acquisitions	**2,736**	–
Cost of inventories#	**198,578**	148,218

Cost of inventories includes HK$9,630,000 (2018: HK$10,463,000) relating to staff costs, depreciation expenses and operating lease charges, which amount is also included in the respective total amounts disclosed separately above or in note 6(b) for each of these types of expenses.

7 INCOME TAX IN THE CONSOLIDATED STATEMENT OF PROFIT OR LOSS AND OTHER COMPREHENSIVE INCOME

(a) Taxation in the consolidated statement of profit or loss and other comprehensive income represents:

	2019 HK$'000	2018 HK$'000
Current taxation: (note 22(a))		
– Provision for PRC Corporate Income Tax for the year	**808**	223
– Provision for Hong Kong Profits Tax for the year	**1,906**	35
– Under-provision of PRC Corporate Income Tax in prior years	**207**	231
	2,921	489
Deferred taxation: (note 22(b))		
– Origination and reversal of temporary differences	**18**	(43)
– The PRC Withholding Tax on retained profits to be distributed	**74**	(49)
	92	(92)
	3,013	397

(b) Reconciliation between tax expense and accounting profit/(loss) at applicable tax rates:

	2019 HK$'000	2018 HK$'000
Profit/(loss) before taxation	**6,357**	(3,446)
Income tax on profit/(loss) before taxation, calculated at the rates applicable to profits in the jurisdictions concerned (notes (i), (ii) and (iii))	**216**	(1,031)
Tax effect of non-deductible expenses	**1,882**	1,046
Tax effect of tax losses and temporary differences not recognised	**925**	631
Tax effect of tax losses utilised where no deferred tax assets recognised in prior years	**(86)**	(369)
Under-provision in prior years	**207**	231
Others	**(131)**	(111)
Income tax	**3,013**	397

Notes:

(i) The Company and the subsidiaries of the Group incorporated in Hong Kong are subject to Hong Kong Profits Tax rate of 16.5% for the year ended 31 March 2019 (2018: 16.5%).

(ii) The Company and the subsidiaries of the Group incorporated in the Cayman Islands and the British Virgin Islands (the "BVI") are not subject to any income tax pursuant to the rules and regulations of their respective countries of incorporation.

(iii) The subsidiaries of the Group established in the PRC (excluding Hong Kong) are subject to the PRC Corporate Income Tax rate of 25% for the year ended 31 March 2019 (2018: 25%).

8 DIRECTORS' EMOLUMENTS

Directors' emoluments disclosed pursuant to section 383(1) of the Hong Kong Companies Ordinance and Part 2 of the Companies (Disclosure of Information about Benefits of Directors) Regulation are as follows:

	Directors' fees HK$'000	Salaries, allowances and benefits in kind HK$'000	Discretionary bonuses HK$'000	Retirement scheme contributions HK$'000	2019 Total HK$'000
Executive directors					
Ms. Sun Xue Song	–	240	–	–	240
Mr. Xue Zhao Qiang	–	240	–	–	240
Non-executive directors					
Mr. Huang Dong Sheng (retired on 1 April 2018)	–	–	–	–	–
Mr. Ding Hongquan	–	–	–	–	–
Independent non-executive directors					
Ms. Dong Ping	–	–	–	–	–
Mr. Zhu Da	–	–	–	–	–
Mr. Wang Wei	–	–	–	–	–
	–	480	–	–	480

	Directors' fees HK$'000	Salaries, allowances and benefits in kind HK$'000	Discretionary bonuses HK$'000	Retirement scheme contributions HK$'000	2018 Total HK$'000
Executive directors					
Ms. Sun Xue Song	–	240	–	–	240
Mr. Xue Zhao Qiang	–	240	–	–	240
Non-executive directors					
Mr. Huang Dong Sheng	120	1,077	93	65	1,355
Mr. Ding Hongquan (note)	–	–	–	–	–
Independent non-executive directors					
Mr. Ding Hongquan (note)	–	–	–	–	–
Ms. Dong Ping	–	–	–	–	–
Mr. Zhu Da	–	–	–	–	–
Mr. Wang Wei (appointed on 6 March 2018)	–	–	–	–	–
	120	1,557	93	65	1,835

Notes:

On 6 March 2018, Mr. Ding Hongquan was re-designated from an independent non-executive director to a non-executive director of the Company.

No emoluments were paid by the Group to the directors during the year in connection with their retirement from employment or compensation for loss of office with the Group, or inducement to join. There was no arrangement under which a director waived or agreed to waive any remuneration during the year.

9 INDIVIDUALS WITH HIGHEST EMOLUMENTS

Of the five individuals with the highest emoluments, no (2018: one) director whose emoluments is disclosed in note 8. The aggregate of the emoluments in respect of the five (2018: four) individuals are as follows:

	2019 **HK$'000**	2018 HK$'000
Salaries, allowances and benefits in kind	**4,860**	2,634
Discretionary bonuses	**704**	239
Retirement scheme contributions	**264**	128
	5,828	3,001

The emoluments of the five (2018: four) individuals who are not directors and who are amongst the five highest paid individuals of the Group are within the following bands:

	2019	2018
HK$Nil – HK$1,000,000	**3**	4
HK$1,000,000 - HK$1,500,000	**1**	–
HK$2,500,000 - HK$3,000,000	**1**	–
	5	4

10 EARNINGS/(LOSS) PER SHARE

(a) Basic earnings/(loss) per share

The basic earnings per share for the year ended 31 March 2019 is calculated based on the profit attributable to the equity shareholders of the Company of HK$3,344,000 and the weighted average of 218,733,000 ordinary shares in issue during the year.

The basic loss per share for the year ended 31 March 2018 is calculated based on the loss attributable to the equity shareholders of the Company of HK$3,843,000 and the weighted average of 218,733,000 ordinary shares in issue during the year.

(b) Diluted earnings/(loss) per share

There was no difference between the basic and diluted earnings or loss per share as there were no dilutive potential shares outstanding for the years ended 31 March 2019 and 2018.

11 PROPERTY, PLANT AND EQUIPMENT

(a) Reconciliation of carrying amount

	Plant, property and machinery HK$'000	Leasehold improvements HK$'000	Furniture, fixtures and equipment HK$'000	Motor vehicles HK$'000	Construction in progress HK$'000	Total HK$'000
Cost						
At 1 April 2017	20,052	1,940	779	3,799	8,134	34,704
Exchange adjustments	2,179	135	59	271	884	3,528
Additions	438	234	27	19	22,615	23,333
Disposals	(10)	–	–	–	–	(10)
At 31 March 2018	22,659	2,309	865	4,089	31,633	61,555
Exchange adjustments	(1,222)	(354)	(40)	(181)	(2,053)	(3,850)
Additions	38,450	63	46	994	16,581	56,134
Acquisition of a subsidiary (note 26)	133,179	–	1,541	1,479	1,322	137,521
Disposals	(699)	–	(60)	(120)	–	(879)
At 31 March 2019	192,367	2,018	2,352	6,261	47,483	250,481
Accumulated depreciation and impairment losses (note (i))						
At 1 April 2017	14,461	1,256	451	2,284	–	18,452
Exchange adjustments	1,251	126	36	137	–	1,550
Charge for the year	1,729	468	70	486	–	2,753
Written back on disposals	(5)	–	–	–	–	(5)
At 31 March 2018	17,436	1,850	557	2,907	–	22,750
Exchange adjustments	(695)	(332)	(27)	(105)	–	(1,159)
Charge for the year	2,113	373	147	361	–	2,994
Written back on disposals	(586)	–	(56)	(72)	–	(714)
At 31 March 2019	18,268	1,891	621	3,091	–	23,871
Net book value						
At 31 March 2019	174,099	127	1,731	3,170	47,483	226,610
At 31 March 2018	5,223	459	308	1,182	31,633	38,805

Note:

(i) In view of the marginal profit recorded for the year ended 31 March 2019, management considered that indicators of potential impairment of certain property, plant and equipment still existed at 31 March 2019. The Group assessed the recoverable amounts of property, plant and equipment, and as a result no further impairment losses was recognised for the year ended 31 March 2019 (2018: HK$Nil). The estimates of the recoverable amount of these assets were based on their value in use.

(ii) As at 31 March 2019, the Group is in the process of applying for registration of the ownership certificates for its properties. The director is of the opinion that the Group is entitled to lawfully occupy or use these properties.

(b) Asset held under a finance lease

At 31 March 2019, the carrying amount of the motor vehicle held under a finance lease was HK$588,000 (2018:HK$Nil).

12 LEASE PREPAYMENTS

	2019 HK$'000	2018 HK$'000
Cost:		
At 1 April	**32,778**	29,565
Exchange adjustments	**(2,128)**	3,213
Acquisition of a subsidiary (note 26)	**39,442**	–
At 31 March	**70,092**	32,778
Accumulated amortisation:		
At 1 April	**1,929**	1,150
Exchange adjustments	**(125)**	123
Charge for the year	**613**	656
At 31 March	**2,417**	1,929
Net book value:		
At 31 March	**67,675**	30,849
Representing:		
Current assets	**1,406**	656
Non-current assets	**66,269**	30,193
	67,675	30,849

Lease prepayments represent land use right premiums paid by the Group for land situated in mainland China. The land use rights are with lease terms of 50 years.

(Expressed in HK$ unless otherwise indicated)

13 INVESTMENTS IN SUBSIDIARIES

The following list contains the particulars of subsidiaries which principally affected the results, assets or liabilities of the Group.

Name of subsidiaries	Place and date of establishment/ incorporation	Particulars of issued/ registered and paid up capital	Proportion of ownership interest: The Group's effective interest	Proportion of ownership interest: Held by the Company	Proportion of ownership interest: Held by a subsidiary	Principal activities
Million Champ Trading Limited	Hong Kong 21 March 2003	1,000,000 shares	99.99%	–	99.99%	Sale of plywood products and investment holding
Jiangmen Changda Wood Products Company Limited (江門市昌達木業有限公司)*	The PRC 13 October 2003	Registered capital of HK$5,000,000	99.99%	–	99.99%	Sourcing, manufacturing and sale of plywood products
CD Enterprises Company Limited	The BVI 17 April 2008	United States dollars ("US$") 100,000	100%	100%	–	Investment holding
Sunchance International Industrial Limited	Hong Kong 17 April 2008	10,000 shares	100%	–	100%	Sale of plywood products
Profit Chance Trading (Asia) Limited	Hong Kong 19 July 2011	100 shares	100%	–	100%	Sale of plywood products and investment holding
Million Champ Holdings (HK) Limited	Hong Kong 20 August 2012	100 shares	100%	–	100%	Sale of plywood products
Jiangmen Chance East Wood Products Company Limited (江門市駿東木業有限公司)*	The PRC 28 September 2012	Registered capital of US$10,000,000	100%	–	100%	Sourcing, manufacturing and sale of plywood products
Star Resources Trading (HK) Limited	Hong Kong 3 October 2012	100 shares	100%	–	100%	Sale of plywood products
Access Well Limited	Hong Kong 1 April 2016	10,000 shares	100%	100%	–	Investment holding
Lead Access International Holdings Limited	The BVI 3 May 2016	US$10	100%	100%	–	Investment holding
Global Sino Rich Limited	Hong Kong 29 September 2016	10,000 shares	100%	–	100%	Investment holding
Hebei Jiapin Trading Limited ("Hebei Jiapin", 河北迦品貿易有限公司)*	The PRC 16 January 2017	Registered capital of Renminbi ("RMB") 50,000,000	100%	–	100%	Sale of plywood and other wooden products
Hebei Youlin Technology Company Limited ("Hebei Youlin", 河北優林科技有限公司)*(note 26)	The PRC 11 July 2016	Registered capital of RMB50,000,000	100%	–	100%	Sourcing, manufacturing and sale of wooden products

* These companies are foreign owned enterprises established in mainland China. The English translation of their names are for reference only. The official names of these companies are in Chinese.

The directors of the Company consider that the Group's non-controlling interests are not material to the consolidated financial statements for the years ended 31 March 2019 and 2018.

14 OTHER NON-CURRENT ASSETS

	2019 HK$'000	2018 HK$'000
Deposits and prepayments to third parties (note (i))	**1,171**	632
Deductible Value added tax ("VAT") (note (ii))	**–**	1,237
	1,171	1,869

Notes:

(i) The deposits and advances to third parties are unsecured and interest free.

(ii) Deductible VAT mainly represents the input VAT relating to purchase of property, plant and equipment and inventories, which is deductible from output VAT. Those expected to be deducted within one year is presented in other current assets (see note 19).

15 INVENTORIES

(a) Inventories in the consolidated statement of financial position comprise:

	2019 HK$'000	2018 HK$'000
Raw materials	**24,832**	15,010
Work in progress	**19,216**	6,876
Finished goods	**33,874**	8,568
	77,922	30,454

(b) The analysis of the amount of inventories recognised as an expense and included in the consolidated statement of profit or loss and other comprehensive income during the year is as follows:

	2019 HK$'000	2018 HK$'000
Carrying amount of inventories sold	**198,578**	148,218

16 CONTRACT ASSETS AND CONTRACT LIABILITIES

(a) Contract assets

	31 March 2019 HK$'000	1 April 2018 HK$'000	31 March 2018 HK$'000
Contract assets			
Arising from performance under made-to-order wooden products contracts with customers	**4,383**	–	–
Receivables from contracts with customers within the scope of HKFRS 15, which are included in "Trade and other receivables" (note 17)	**11,537**	5,939	

As at 31 March 2019, the amounts of contract assets and contract liabilities represented made-to-order wooden products contracts with customers of a newly acquired subsidiary, Hebei Youlin (see note 26).

Such made-to-order wooden products contracts include payment schedules which usually require stage payments over the production period once milestones are reached. When Hebei Youlin receives a deposit before the production activity commences, this will give rise to contract liabilities at the start of a contract, until the revenue recognised on the contract exceeds the amount of the deposit. The payment schedules and the amount of deposit were negotiated on a case by case basis with customers.

All the contract assets are expected to be recovered within one year.

(b) Contract liabilities

	31 March 2019 HK$'000	1 April 2018 HK$'000	31 March 2018 HK$'000
Contract liabilities			
Billing in advance of performance under made-to-order wooden products contracts with customers	**1,992**	–	–

Movements in contract liabilities

	HK$'000
Balance at 1 April 2018	**–**
Additions from acquisition of a subsidiary (note 26)	**1,992**
Balance at 31 March 2019	**1,992**

All the contract liabilities are expected to be recognised as revenue within one year.

17 TRADE AND OTHER RECEIVABLES

	31 March 2019 HK$'000	1 April 2018 HK$'000	31 March 2018 HK$'000
Trade receivables due from third parties	**11,640**	6,049	6,049
Less: Loss allowance	**(103)**	(110)	(110)
	11,537	5,939	5,939
Prepayments, deposits and other receivables:			
– Prepayments for purchase of inventories	**4,964**	16,964	16,964
– Others	**370**	1,549	1,549
	5,334	18,513	18,513
Less: Loss allowance	**(929)**	(993)	(993)
	4,405	17,520	17,520
	15,942	23,459	23,459

All of the trade and other receivables are expected to be recovered or recognised as expenses within one year.

Ageing analysis

As of the end of the reporting period, the ageing analysis of trade receivables, based on the invoice date and net of loss allowance, is as follows:

	2019 HK$'000	2018 HK$'000
Within 30 days	**6,573**	5,939
31 to 60 days	**2,297**	–
61 to 90 days	**240**	–
90 to 180 days	**2,427**	–
	11,537	5,939

The Group usually accepts letters of credit issued by commercial banks to facilitate payment in its trade with overseas customers and no credit period is granted to these customers. For other customers, credit period ranging from 30-90 days is granted from date of delivery of goods.

At 31 March 2019, trade receivables with an aggregate carrying amount of HK$3,274,000 (2018: HK$5,933,000) are supported by letters of credit. The Group does not hold any collateral over these balances.

Further details on the Group's credit policy and credit risk arising from trade receivables are set out in note 25(a).

18 CASH AT BANK AND ON HAND AND OTHER CASH FLOW INFORMATION

(a) Cash at bank and on hand comprise:

	2019 HK$'000	2018 HK$'000
Cash at bank and other financial institutions	**13,847**	19,958
Cash on hand	**158**	16
	14,005	19,974

The Group's operations in the PRC (excluding Hong Kong) are conducted in RMB. RMB is not a freely convertible currency and the remittance of RMB out of the PRC (excluding Hong Kong) is subject to the relevant rules and regulations of foreign exchange control promulgated by the PRC government.

(b) Reconciliation of liabilities arising from financing activities:

The table below details changes in the Group's liabilities from financing activities, including both cash and non-cash changes. Liabilities arising from financing activities are liabilities for which cash flows were, or future cash flows will be, classified in the Group's consolidated cash flow statement as cash flows from financing activities.

	Bank and other borrowings HK$'000 (note 21)	**Amounts due to related parties** HK$'000 (note 20 and 23)	**Obligations under a finance lease** HK$'000	**Interest payable** HK$'000 (note 20)	**Total** HK$'000
At 1 April 2018	24,259	6,600	–	–	30,859
Changes from financing cash flows:					
Proceeds from new bank and other borrowings	68,497	–	–	–	68,497
Repayment of bank and other borrowings	(34,098)	–	–	–	(34,098)
Finance costs paid	(1,228)	–	(37)	(1,888)	(3,153)
Advances from related parties	–	87,462	–	–	87,462
Repayment to related parties	–	(43,905)	–	–	(43,905)
Capital element of finance lease rentals paid	–	–	(176)	–	(176)
Total changes from financing cash flows	33,171	43,557	(213)	(1,888)	74,627
Other changes:					
Interest on bank and other borrowings (note 6(a))	911	–	–	2,519	3,430
Finance charges on obligations under a finance lease (note 6(a))	–	–	37	–	37
Acquisition of a subsidiary	117,851	–	–	186	118,037
New finance lease	–	–	720	–	720
Exchange adjustments	(567)	–	–	–	(567)
Total other changes	118,195	–	757	2,705	121,657
At 31 March 2019	175,625	50,157	544	817	227,143

18 CASH AT BANK AND ON HAND AND OTHER CASH FLOW INFORMATION (CONTINUED)

(b) Reconciliation of liabilities arising from financing activities: (continued)

	Bank and other borrowings HK$'000 (note 21)	Amounts due to related parties HK$'000 (note 20)	Total HK$'000
At 1 April 2017	2,256	4,781	7,037
Changes from financing cash flows:			
Proceeds from new bank and other borrowings	24,259	–	24,259
Repayment of bank and other borrowings	(2,256)	–	(2,256)
Finance costs paid	(146)	–	(146)
Advances from related parties	–	8,371	8,371
Repayment to a related party	–	(4,750)	(4,750)
Total changes from financing cash flows	21,857	3,621	25,478
Other changes:			
Interest expenses (note 6(a))	146	–	146
Other non-cash settlements	–	(1,802)	(1,802)
Total other changes	146	(1,802)	(1,656)
At 31 March 2018	24,259	6,600	30,859

19 OTHER CURRENT ASSETS

	2019 HK$'000	2018 HK$'000
Deductible VAT (note 14(ii))	**18,178**	–

20 TRADE AND OTHER PAYABLES

	2019 HK$'000	2018 HK$'000
Trade payables:		
– Amounts due to third parties	**12,927**	10,278
Other payables and accrued expenses:		
– Payables for staff related costs	**8,283**	3,337
– Amounts due to related parties	**–**	6,600
– Amounts due to then related parties of Hebei Youlin (note)	**33,965**	–
– Payables for acquisition of property, plant and equipment	**21,920**	4,469
– Payables for acquisition of a subsidiary (note 26)	**13,099**	–
– Interest payables	**817**	–
– Other accruals and payables	**7,199**	4,020
	85,283	18,426
	98,210	28,704

Note:

At 31 March 2019, amounts due to then related parties of Hebei Youlin include advances from Mr. Huo Julin, one of then equity owners of Hebei Youlin, amounting to HK$12,281,000 and advances from a company with 20% of equity interests held by Mr. Li Xianfeng, another then equity owner of Hebei Youlin amounting to HK$ 21,684,000, which are unsecured, non-interest bearing and expected to be settled within one year.

All of the trade and other payables at 31 March 2019 and 2018 are expected to be settled or recognised in profit or loss within one year or are repayable on demand.

As of the end of the reporting period, the ageing analysis of trade payables, based on the invoice date, is as follows:

	2019 HK$'000	2018 HK$'000
Within 30 days	**6,293**	7,214
31 to 60 days	**1,255**	616
61 to 90 days	**707**	120
Over 90 days	**4,672**	2,328
	12,927	10,278

21 BANK AND OTHER BORROWINGS

(a) The Group's short-term bank and other borrowings are analysed as follows:

	2019 HK$'000	2018 HK$'000
Bank borrowings		
– Secured (note (i))	**69,312**	10,019
Other borrowings		
– Unsecured	**30,131**	–
– Discounted export bills (note (ii))	**2,540**	3,180
– Import bills advance	**–**	2,292
	101,983	15,491
Add: Current portion of long-term bank borrowings	**1,610**	888
	103,593	16,379

Notes:

(i) At 31 March 2019, short-term bank borrowings of HK$ 7,018,000 (2018: HK$10,019,000) and long-term bank borrowings of HK$ 14,935,000 (2018: HK$8,768,000) were secured by land use rights of carrying amount of HK$28,233,000 (2018: HK$30,849,000) and guaranteed by a subsidiary of the Group.

At 31 March 2019, secured short-term bank borrowings also include borrowings of HK$3,150,000 secured by inter-company trade receivables of HK$4,068,000, land use rights of carrying amount of HK$28,233,000 and guaranteed by a subsidiary of the Group and borrowings of HK$59,144,000 secured by land use rights of a third party.

(ii) At 31 March 2019, the Group has discounted export bills under letters of credit of HK$ 2,540,000 (2018: HK$3,180,000) to commercial banks for cash with full recourse, with the proceeds received recorded as other borrowings.

(b) The Group's long-term bank and other borrowings are analysed as follows:

	2019 HK$'000	2018 HK$'000
Bank borrowings:		
– Secured (note 21(a)(i))	**14,935**	8,768
Other borrowings		
– Unsecured	**58,707**	–
	73,642	8,768
Less: Current portion of long-term bank borrowings	**1,610**	888
	72,032	7,880

21 BANK AND OTHER BORROWINGS (CONTINUED)

(b) The Group's long-term bank and other borrowings are analysed as follows: (continued)

The Group's long-term bank and other borrowings are repayable as follows:

	2019 HK$'000	2018 HK$'000
Within 1 year	**1,610**	888
After 1 year but within 2 years	**60,317**	876
After 2 years but within 5 years	**4,830**	2,628
After 5 years	**6,885**	4,376
	73,642	8,768

(c) At 31 March 2019, none of the Group's bank loans are subject to the fulfilment of covenants relating to financial ratios commonly found in lending arrangements with financial institutions.

Further details of the Group's management of liquidity risk are set out in note 25(b).

22 INCOME TAX IN THE CONSOLIDATED STATEMENT OF FINANCIAL POSITION

(a) Current taxation in the consolidated statement of financial position represents:

	2019 HK$'000	2018 HK$'000
Income tax payable at 1 April	**524**	208
Provision for the year (note 7(a))	**2,714**	258
Under-provision in prior years (note 7(a))	**207**	231
Income tax paid during the year	**(1,038)**	(173)
Income tax payable at 31 March	**2,407**	524
Representing:		
Income tax payable	**2,407**	524

22 INCOME TAX IN THE CONSOLIDATED STATEMENT OF FINANCIAL POSITION (CONTINUED)

(b) Deferred tax liabilities recognised:

The components of deferred tax liabilities recognised in the consolidated statement of financial position and the movements during the year are as follows:

Deferred tax arising from:	Fair value adjustment HK$'000	Accelerated tax depreciation HK$'000	Withholding tax on undistributed profits of the subsidiaries HK$'000	Total HK$'000
At 1 April 2017	–	51	515	566
Credited to the consolidated statement of profit or loss and other comprehensive income (note 7(a))	–	(43)	(49)	(92)
At 31 March 2018	–	8	466	474
At 1 April 2018	–	8	466	474
Charged to the consolidated statement of profit or loss and other comprehensive income (note 7(a))	–	18	74	92
Additions from acquisition of a subsidiary (note 26)	5,720	–	–	5,720
At 31 March 2019	5,720	26	540	6,286

(c) Deferred tax assets not recognised

In accordance with the accounting policy set out in note 2(s), the Group has not recognised deferred tax assets in respect of unused tax losses and temporary differences of HK$54,566,000 at 31 March 2019 (2018: HK$13,028,000), as it is not probable that future taxable profits against which the losses and temporary differences can be utilised will be available in the relevant tax jurisdiction and entity.

23 OTHER NON-CURRENT LIABILITIES

	2019 HK$'000	2018 HK$'000
Payables for acquisition of property, plant and equipment due to		
– Third parties	**59**	1,211
– A related party	**4,035**	–
	4,094	1,211
Advances from related parties		
– Ms. Sun Xue Song	**45,277**	–
– Mr. Xue Zhao Qiang	**4,880**	–
	50,157	–
	54,251	1,211

Amounts due to related parties are unsecured, non-interest bearing and payable after one year.

24 CAPITAL, RESERVES AND DIVIDENDS

(a) Movements in components of equity

The reconciliation between the opening and closing balances of each component of the Group's consolidated equity is set out in the consolidated statement of changes in equity. Details of the changes in the Company's individual components of equity between the beginning and the end of the year are set out below:

The Company

	Share capital HK$'000 (note 24(c))	**Share premium** HK$'000 (note 24(d)(i))	**Other reserve** HK$'000 (note 24(d)(ii))	**Accumulated losses** HK$'000	**Total** HK$'000
Balance at 1 April 2017	2,187	72,403	34,132	(24,183)	84,539
Change in equity for the year ended 31 March 2018:					
Total comprehensive income for the year	–	–	–	(4,093)	(4,093)
Balance at 31 March 2018 (Note)	2,187	72,403	34,132	(28,276)	80,446
Balance at 1 April 2018	2,187	72,403	34,132	(28,276)	80,446
Change in equity for the year ended 31 March 2019:					
Total comprehensive income for the year	–	–	–	(8,950)	(8,950)
Balance at 31 March 2019	2,187	72,403	34,132	(37,226)	71,496

Note: The Group, including the Company, has initially applied HKFRS 15 and HKFRS 9 at 1 April 2018. Under the transition methods chosen, comparative information is not restated. See note 2(c).

(b) Dividends

(i) *Dividends payable to equity shareholders of the Company attributable to the year*

The directors of the Company do not recommend the payment of a final dividend for the year ended 31 March 2019 (2018: HK$Nil).

(ii) *Dividends payable to equity shareholders of the Company attributable to the previous financial year, approved and paid during the year*

The directors of the Company do not recommend the payment of a final dividend for the year ended 31 March 2018 (2017: HK$Nil).

24 CAPITAL, RESERVES AND DIVIDENDS (CONTINUED)

(c) Share capital

	2019 No. of shares '000	2019 HK$'000	2018 No. of shares '000	2018 HK$'000
Authorised:				
Ordinary shares of HK$0.01 each	**10,000,000**	**100,000**	10,000,000	100,000

	2019 No. of shares '000	2019 HK$'000	2018 No. of shares '000	2018 HK$'000
Ordinary shares, issued and fully paid:				
At 1 April and 31 March	**218,733**	**2,187**	218,733	2,187

(d) Nature and purpose of reserves

(i) Share premium

The application of the share premium account is governed by Section 34 of the Companies Law, Chapter 22 (Law 3 of 1961, as consolidated and revised) of the Cayman Islands.

(ii) Other reserve

Other reserve comprises:

– Capital contribution from the equity shareholders of the Company in the form of waived amounts due to them of HK$33,352,000.

– Other changes in equity arising from the Group reorganisation took place during the listing of the Company's shares in prior years.

(iii) Exchange reserve

The exchange reserve comprises all foreign exchange differences arising from the translation of the financial statements of foreign operations into HK$. The reserve is dealt with in accordance with the accounting policies set out in note 2(v).

24 CAPITAL, RESERVES AND DIVIDENDS (CONTINUED)

(e) Capital management

The Group's primary objectives when managing capital are to safeguard the Group's ability to continue as a going concern, so that it can continue to provide returns for shareholders and benefits for other stakeholders, by pricing products and services commensurately with the level of risk and by securing access to finance at a reasonable cost.

The Group actively and regularly reviews and manages its capital structure to maintain a balance between the higher shareholders returns that might be possible with higher levels of borrowings and the advantages and security afforded by a sound capital position, and makes adjustments to the capital structure in light of changes in economic conditions.

The Group monitors its capital structure on the basis of the ratio of total liabilities to total assets (i.e. the "liability-to-asset ratio"). During the year ended 31 March 2019, the Group's strategy was to maintain the liability-to-asset ratio at an acceptable level. In order to maintain or adjust the ratio, the Group may adjust the amount of dividends paid to equity shareholders, issue new shares, return capital to equity shareholders, raise new debt financing or sell assets to reduce debt. At 31 March 2019, the liability-to-asset ratio of the Group is 79.4% (31 March 2018: 37.9%).

Neither the Company nor any of its subsidiaries are subject to externally imposed capital requirements.

25 FINANCIAL RISK MANAGEMENT AND FAIR VALUES

Exposure to credit, liquidity, interest rate and currency risks arises in the normal course of the Group's business. The Group's exposure to these risks and the financial risk management policies and practices used by the Group to manage these risks are described below.

(a) Credit risk

Credit risk refers to the risk that a counterparty will default on its contractual obligations resulting in a financial loss to the Group. The Group's credit risk is primarily attributable to trade and other receivables and contract assets. The Group's exposure to credit risk arising from cash and cash equivalents is limited because the counterparties are banks and financial institutions with high credit standing, for which the Group considers to have low credit risk.

The Group does not provide any guarantees which would expose the Group to credit risk.

Trade receivables and contract assets

The Group's exposure to credit risk is influenced mainly by the individual characteristics of each customer or debtor rather than the industry in which the customers and the debtors operate and therefore significant concentrations of credit risk primarily arise when the Group has significant exposure to individual customers. At the end of the reporting period, 49% (2018: 48%) and 86% (2018: 100%) of the total trade receivables and contract assets was due from the Group's largest customer and the five largest customers, respectively.

Individual credit evaluations are performed on all customers. These evaluations focus on the customer's past history of making payments when due and current ability to pay, and take into account information specific to the customer as well as pertaining to the economic environment in which the customer operates. The Group usually accepts letters of credit issued by commercial banks to facilitate payment in its trade with overseas customers and no credit period are granted to these customers. Most of the sales are settled by letters of credit. The credit risk is limited as the letters of credit are issued by banks with high credit ratings. For other customers, trade receivables are due with 30-90 days from date of billing. Debtors with balances that are more than 3 months past due are request to settle all outstanding balances before any further credit is granted. Normally, the Group does not obtain collateral from customers.

The Group measures loss allowances for trade receivables and contract assets 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 Group's exposure to credit risk and ECLs for trade receivables and contract assets is not material as at 31 March 2019.

Expected loss rates are based on actual loss experience 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.

25 FINANCIAL RISK MANAGEMENT AND FAIR VALUES (CONTINUED)

(a) Credit risk (continued)

Comparative information under HKAS 39

Prior to 1 April 2018, an impairment loss was recognised only when there was objective evidence of impairment (see Note 2(k)(i) – Policy applicable prior to 1 April 2018). At 31 March 2018, trade receivables of HK$110,000 were determined to be impaired. The ageing analysis of trade receivables that were not considered to be impaired was as follows:

	2018 HK$'000
Neither past due nor impaired	5,939

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

Except for exchange adjustments, there were no other movements in the loss allowance for trade and other receivables during the years ended 31 March 2019 and 2018.

(b) Liquidity risk

The Company is responsible for the Group's overall cash management and the raising of borrowings to cover expected cash demands. The Group's policy is to regularly monitor its current and expected liquidity requirements, to ensure that it maintains sufficient reserves of cash to meet its liquidity requirement in the short and longer term.

The following tables show the remaining contractual maturities at the end of the reporting period of the Group's non-derivative and derivative financial liabilities, which are based on contractual undiscounted cash flows (including interest payments computed using contractual rates or, if floating, based on rates current at the end of the reporting period) and the earliest dates the Group can be required to pay.

	2019 Contractual undiscounted cash outflow					
	Within 1 year or on demand HK$'000	More than 1 year but less than 2 years HK$'000	More than 2 years but less than 5 years HK$'000	More than 5 years HK$'000	Total HK$'000	Carrying amount HK$'000
Trade and other payables measured at amortisation cost	98,031	–	–	–	98,031	98,031
Bank and other borrowings (note 21)	116,350	61,067	6,390	7,707	191,514	175,625
Obligations under a finance lease	160	160	267	–	587	544
Other non-current liabilities (note 23)	–	54,251	–	–	54,251	54,251
At 31 March	214,541	115,478	6,657	7,707	344,383	328,451

25 FINANCIAL RISK MANAGEMENT AND FAIR VALUES (CONTINUED)

(b) Liquidity risk (continued)

	2018 Contractual undiscounted cash outflow					
	Within 1 year or on demand HK$'000	More than 1 year but less than 2 years HK$'000	More than 2 years but less than 5 years HK$'000	More than 5 years HK$'000	Total HK$'000	Carrying amount HK$'000
Trade and other payables measured at amortisation cost	28,473	–	–	–	28,473	28,473
Bank and other borrowings (note 21)	17,315	1,300	3,608	5,036	27,259	24,259
Other non-current liabilities (note 23)	–	1,211	–	–	1,211	1,211
At 31 March	45,788	2,511	3,608	5,036	56,943	53,943

	2019		2018	
	Contractual undiscounted cash inflow/ (outflow) within 1 year or on demand HK$'000	**Carrying amount HK$'000**	Contractual undiscounted cash inflow/ (outflow) within 1 year or on demand HK$'000	Carrying amount HK$'000
Derivatives settled gross:				
Forward foreign exchange contracts				
– inflow	**43,107**	**42,709**	1,978	1,968
– outflow	**(43,208)**	**(42,808)**	(2,062)	(2,051)

(c) Interest rate risk

Interest rate risk is the risk that the fair value or future cash flows of a financial instrument will fluctuate because of changes in market interest rates. The Group's interest rate risk arises primarily from interest-bearing borrowings. Borrowings issued at variable rates and at fixed rates expose the Group to cash flow interest rate risk and fair value interest rate risk respectively.

(i) Interest rate profile

The following table details the interest rate profile of the Group's borrowings at the end of the reporting period.

	2019		2018	
	Effective interest rate %	**HK$'000**	Effective interest rate %	HK$'000
Fixed rate borrowings:				
Bank and other borrowings	**2.36% - 13.44%**	**150,522**	2.36% – 3.83%	5,472
Obligations under a finance lease	**2.25%**	**544**	n/a	–
		151,066		5,472
Variable rate borrowings:				
Bank and other borrowings	**4.50% - 5.80%**	**25,103**	4.92% – 5.54%	18,787
Total borrowings		**176,169**		24,259
Fixed rate borrowings as a percentage of total borrowings		**86%**		23%

25 FINANCIAL RISK MANAGEMENT AND FAIR VALUES (CONTINUED)

(c) Interest rate risk (continued)

(ii) Sensitivity analysis

At 31 March 2019, it is estimated that a general increase/decrease of 100 basis points in interest rates, with all other variables held constant, would have increased/decreased the Group's profit/loss after tax and affected accumulated losses by approximately HK$188,000 (2018: HK$141,000).

The sensitivity analysis above indicates the instantaneous change in the Group's profit/loss after tax and accumulated losses assuming that the change in interest rates had occurred at the end of the reporting period and had been applied to re-measure those non-derivative financial instruments held by the Group which expose the Group to cash flow interest rate risk at the end of the reporting period. The impact on the Group's profit/loss after tax and accumulated losses is estimated as an annualised impact on interest expenses of such a change in interest rates.

(d) Currency risk

The Group is exposed to currency risk primarily through sales and purchases which give rise to receivables, payables and cash balances that are denominated in a foreign currency, i.e. a currency other than the functional currency of the operations to which the transactions relate. The currencies giving rise to this risk are primarily US$, HK$ and RMB. The Group manages this risk as follows:

(i) Recognised assets and liabilities

In respect of cash at bank, receivables, payables, and borrowings denominated in foreign currencies, the Group ensures that the net exposure is kept to an acceptable level, by buying or selling foreign currencies at spot rates where necessary to address short-term imbalances and entering into forward foreign exchange contracts. The Group does not currently designate any hedge relationship on the forward foreign exchange contracts for the purpose of hedge accounting.

(ii) Exposure to currency risk

The following table details the Group's exposure at the end of the reporting period to currency risk arising from recognised assets or liabilities denominated in a currency other than the functional currency of the entity to which they relate. For presentation purposes, the amounts of the exposure are shown in HK$, translated using the spot rate at the year end date. Differences resulting from the translation of the financial statements of foreign operations into the Group's presentation currency are excluded.

	Exposure to foreign currencies (expressed in HK$)					
	2019			2018		
	US$	**HK$**	**RMB**	US$	HK$	RMB
	HK$'000	**HK$'000**	**HK$'000**	HK$'000	HK$'000	HK$'000
Cash at bank and on hand	**1,943**	**2,804**	**105**	1,755	5,796	394
Trade and other receivables	**3,945**	**–**	**–**	26,908	555	–
Trade and other payables	**(2,288)**	**–**	**(5,411)**	(6,497)	(6,748)	(3,164)
Bank and other borrowings	**(3,150)**	**–**	**–**	(2,292)	–	–
Gross exposure arising from recognised assets and liabilities	**450**	**2,804**	**(5,306)**	19,874	(397)	(2,770)

25 FINANCIAL RISK MANAGEMENT AND FAIR VALUES (CONTINUED)

(d) Currency risk (continued)

(iii) Sensitivity analysis

The following table indicates the instantaneous change in the Group's profit or loss after tax and accumulated losses that would arise if foreign exchange rates to which the Group has significant exposure at the end of the reporting period had changed at that date, assuming all other risk variables remained constant. In this respect, it is assumed that the pegged rate between HK$ and US$ would be materially unaffected by any changes in movement in value of the US$ against other currencies.

	2019		2018	
	Increase/ (decrease) in foreign exchange rates	**(Decrease)/ increase in loss after tax and accumulated losses HK$'000**	Increase/ (decrease) in foreign exchange rates	(Decrease)/ increase in loss after tax and accumulated losses HK$'000
US$	**5%**	**(17)**	5%	(745)
	(5)%	**17**	(5)%	745
HK$	**5%**	**(105)**	5%	(112)
	(5)%	**105**	(5)%	112
RMB	**5%**	**222**	5%	116
	(5)%	**(222)**	(5)%	(116)

Results of the analysis as presented in the above table represent an aggregation of the instantaneous effects on each of the Group entities' profit/loss after tax and equity measured in the respective functional currencies, translated into HK$ at the exchange rate ruling at the end of the reporting period for presentation purposes.

The sensitivity analysis assumes that the change in foreign exchange rates had been applied to re-measure those financial instruments held by the Group which expose the Group to foreign currency risk at the end of the reporting period, including inter-company payables and receivables within the Group which are denominated in a currency other than the functional currencies of the lender or the borrower. The analysis excludes differences that would result from the translation of the financial statements of foreign operations into the Group's presentation currency, which depends on the foreign currencies the Group is exposed to, may or may not have an effect on the Group's net assets. The analysis is performed on the same basis for the year ended 31 March 2018.

25 FINANCIAL RISK MANAGEMENT AND FAIR VALUES (CONTINUED)

(e) Fair value measurement

(i) Financial assets and liabilities measured at fair value

Fair value hierarchy

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

– Level 1 valuations: Fair value measured using only Level 1 inputs, i.e. unadjusted quoted prices in active markets for identical assets or liabilities at the measurement date.

– Level 2 valuations: Fair value measured using Level 2 inputs, i.e. observable inputs which fail to meet Level 1, and not using significant unobservable inputs. Unobservable inputs are inputs for which market data are not available.

– Level 3 valuations: Fair value measured using significant unobservable inputs.

	Fair value at 31 March 2019	Fair value measurements as at 31 March 2019 categorised into		Fair value at 31 March 2018	Fair value measurements as at 31 March 2018 categorised into	
		Level 1	Level 2		Level 1	Level 2
	HK$'000	HK$'000	HK$'000	HK$'000	HK$'000	HK$'000
Recurring fair value measurements						
Assets:						
Trading securities	337	337	–	420	420	–
Liabilities:						
Derivative financial instruments:						
– Forward foreign exchange contracts	99	–	99	83	–	83

During the years ended 31 March 2019 and 2018, there were no transfers between level 1 and level 2, or transfers into or out of level 3. The Group's policy is to recognise transfers between levels of fair value hierarchy as at the end of the reporting period in which they occur.

(ii) Fair values of financial assets and liabilities carried at other than fair value

The carrying amounts of the Group's financial instruments carried at cost or amortised cost are not materially different from their fair values at 31 March 2019 and 2018.

26 ACQUISITION OF A SUBSIDIARY

On 24 January 2019, Hebei Jiapin entered into an equity transfer agreement (the "Agreement") with Mr. Huo Julin and Mr. Li Xianfeng to acquire the entire equity interest in Hebei Youlin (the "Acquisition") with consideration of RMB28,000,000 (HK$32,749,000), which will be satisfied in cash and paid by two installments subject to the fulfillment of the conditions precedent as set out in the Agreement.

The Acquisition was completed and Hebei Jiapin paid the first installment of RMB16,800,000 (HK$19,650,000) on 28 March 2019. As a result, Hebei Youlin became an indirect wholly-owned subsidiary of the Company.

Identifiable assets acquired and liabilities assumed

The following table summarises the recognised amounts of assets acquired and liabilities assumed on the date of acquisition.

	Note	Recognised values on acquisition HK$'000
Property, plant and equipment	11	137,521
Lease prepayments	12	39,442
Intangible assets		2,001
Inventories		21,989
Contract assets	16(a)	4,383
Trade and other receivables		4,043
Cash at bank and on hand		754
Other current assets		12,910
Short-term bank and other borrowings		(59,144)
Trade and other payables		(59,534)
Contract liabilities	16(b)	(1,992)
Long-term bank and other borrowings		(58,707)
Deferred income		(468)
Deferred tax liabilities	22(b)	(5,720)
Total identifiable net assets acquired		37,478
Gain on bargain purchase	5	(4,729)
Total cash consideration		32,749
Less: Payables for second installment related to the Acquisition	20	(13,099)
Cash at bank and on hand acquired		(754)
Net cash outflow		18,896

The Group recognised the gain on a bargain purchase of HK$4,729,000 and recorded in "Other income" in the consolidated statement of profit or loss and other comprehensive income. The directors of the Company of the view that the Acquisition will offer the most time-efficient solution for the Group to expand and further develop the Northern China plywood market, enable the Group to produce high-tech products which is in line with market trends and achieve economies of scale and higher net profit.

The directors of the Company have estimated the fair value of the identifiable assets and liabilities of Hebei Youlin as at acquisition date with reference to a valuation report prepared by an independent valuer, Castores Magi Asia Limited, on the basis of market value.

Considering that the date of acquisition approximated the year end i.e. 31 March 2019, there was no revenue or profit or loss contribution to the Group for the year ended 31 March 2019. If the Acquisition had occurred on 1 April 2018, management estimates that consolidated revenue would have been HK$286,078,000, and consolidated loss for the year would have been HK$14,138,000. In determining these amounts, management has assumed that the fair value adjustments that arose on the date of acquisition would have been the same if the Acquisition had occurred on 1 April 2018.

27 COMMITMENTS

(a) Capital commitments

At 31 March 2019, the outstanding capital commitments of the Group not provided for the consolidated financial statements were summarised as follows:

	2019 **HK$'000**	2018 HK$'000
Commitments in respect of property, plant and equipment		
– Contracted for	**3,490**	14,102

(b) Operating lease commitments

At 31 March 2019, the total future minimum lease payments under non-cancellable operating leases are payable as follows:

	2019 **HK$'000**	2018 HK$'000
Within 1 year	**2,432**	1,865
After 1 year but within 5 years	**584**	–
	3,016	1,865

The Group leases certain properties and machinery held under operating leases. None of the leases includes contingent rentals.

On 16 May 2019, Jiangmen Changda Wood Products Company Limited has renewed the leasing contracts of its manufacturing premise, which were originally expired on 30 June 2019, to 31 December 2019.

28 RELATED PARTY TRANSACTIONS

In addition to the transactions and balances disclosed elsewhere in the financial statements, the material related party transactions entered into by the Group during the year are set out below.

(a) Transactions with related parties

	2019 HK$'000	2018 HK$'000
Operating lease expenses	**–**	276
Acquisition of property from a related party	**40,351**	–
Advances from related parties	**87,462**	8,371
Repayment to related parties	**(43,905)**	(4,750)
Loans to related parties	**–**	2,031
Interest income	**–**	20
Donation to a related party	**–**	236

(b) Key management personnel remuneration

Remuneration for key management personnel of the Group, including amounts paid to the directors of the Company as disclosed in note 8, and certain of the highest paid employees as disclosed in note 9, is as follows:

	2019 HK$'000	2018 HK$'000
Short-term employee benefits	**1,143**	2,440
Contributions to defined contribution retirement plans	**18**	83
	1,161	2,523

Total remuneration is included in "staff costs" (see note 6(b)).

(c) Applicability of the Listing Rules relating to connected transactions

The related party transaction in respect of acquisition of property above constitutes connected transaction as defined in Chapter 20 of the Listing Rules. The disclosures required by Chapter 20 of the Listing Rules are provided in the "Reports of the Directors" section of the annual report for the year ended 31 March 2019.

The related party transactions in respect of advances from related parties constitute connected transactions as defined in the Chapter 20 of the Listing Rules. However those transactions are exempt from the disclosure requirements in Chapter 20 of the Listing Rules under Rule 20.88.

29 COMPANY-LEVEL STATEMENT OF FINANCIAL POSITION

	Note	2019 HK$'000	2018 HK$'000
Non-current assets			
Investments in subsidiaries		**790**	790
Current assets			
Amounts due from subsidiaries		**85,062**	83,903
Cash at bank and on hand		**136**	86
		85,198	83,989
Current liabilities			
Other payables		**11,459**	3,319
Amounts due to a subsidiary		**3,033**	1,014
		14,492	4,333
Net current assets		**70,706**	79,656
NET ASSETS		**71,496**	80,446
CAPITAL AND RESERVES	24		
Share capital		**2,187**	2,187
Reserves		**69,309**	78,259
TOTAL EQUITY		**71,496**	80,446

Approved and authorised for issue by the board of directors on 21 June 2019.

Sun Xue Song
Chairman and Executive Director

Xue Zhao Qiang
Executive Director

(Expressed in HK$ unless otherwise indicated)

30 COMPARATIVE FIGURES

The Group has initially applied HKFRS 15 and HKFRS 9 at 1 April 2018. Under the transition methods chosen, comparative information is not restated. Further details of the changes in accounting policies are disclosed in note 2(c).

31 POSSIBLE IMPACT OF AMENDMENTS, NEW STANDARDS AND INTERPRETATIONS ISSUED BUT NOT YET EFFECTIVE FOR THE YEAR ENDED 31 MARCH 2019

Up to the date of issue of these financial statements, the HKICPA has issued a number of amendments, new standards and interpretations which are not yet effective for the year ended 31 March 2019 and which have not been adopted in these financial statements. These include the following which may be relevant to the Group.

	Effective for accounting periods beginning on or after
HKFRS 16, *Leases*	1 January 2019
HK(IFRIC) 23, *Uncertainty over income tax treatments*	1 January 2019
Annual Improvements to HKFRSs 2015-2017 Cycle	1 January 2019

The Group is in the process of making an assessment of what the impact of these amendments, new standards and interpretations is expected to be in the period of initial application. So far the Group has identified some aspects of HKFRS 16 which may have an impact on the consolidated financial statements. Further details of the expected impacts are discussed below. While the assessment has been substantially completed for HKFRS 16, the actual impact upon the initial adoption of the standards may differ as the assessment completed to date is based on the information currently available to the Group, and further impacts may be identified before the standards are initially applied in the Group's interim financial report for the six months ending 30 September 2019. The Group may also change its accounting policy elections, including the transition options, until the standards are initially applied in that financial report.

HKFRS 16, Leases

As disclosed in note 2(j), currently the Group classifies leases into finance leases and operating leases and accounts for the lease arrangements differently, depending on the classification of the lease. The Group enters into some leases as the lessor and others as the lessee.

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

HKFRS 16 will primarily affect the Group's accounting as a lessee of leases for properties and machinery which are currently classified as operating leases. The application of the new accounting model is expected to lead to an increase in both assets and liabilities and to impact on the timing of the expense recognition in the consolidated statement of profit or loss and other comprehensive income over the period of the lease.

HKFRS 16 is effective for annual periods beginning on or after 1 January 2019. As allowed by HKFRS 16, the Group plans to use the practical expedient to grandfather the previous assessment of which existing arrangements are, or contain, leases. The Group will therefore apply the new definition of a lease in HKFRS 16 only to contracts that are entered into on or after the date of initial application. In addition, the Group plans to elect the practical expedient for not applying the new accounting model to short-term leases and leases of low-value assets.

31 POSSIBLE IMPACT OF AMENDMENTS, NEW STANDARDS AND INTERPRETATIONS ISSUED BUT NOT YET EFFECTIVE FOR THE YEAR ENDED 31 MARCH 2019 (CONTINUED)

HKFRS 16, Leases (continued)

The Group plans to elect to use the modified retrospective approach for the adoption of HKFRS 16 and will recognise the cumulative effect of initial application as an adjustment to the opening balance of equity at 1 April 2019 and will not restate the comparative information. As disclosed in note 27(b), at 31 March 2019 the Group's future minimum lease payments under non-cancellable operating leases amount to HK$3,016,000, the majority of which is payable within 1 year after the reporting date. The initial adoption of HKFRS 16 is not expected to have a significant impact on the opening balance at 1 April 2019.

Other than the recognition of lease liabilities and right-of-use assets, the Group expects that the transition adjustments to be made upon the initial adoption of HKFRS 16 will not be material. However, the expected changes in accounting policies as described above could have a material impact on the Group's financial statements from 1 April 2019 onwards.

Summary of Financial Information

The following is a summary of the published consolidated results and of the assets and liabilities of the Group for the past five financial years:

	Year ended 31 March				
	2019	2018	2017	2016	2015
	HK$'000	HK$'000	HK$'000	HK$'000	HK$'000
RESULTS					
Revenue	**243,232**	171,997	145,293	242,073	308,290
Profit/(loss) before taxation	**6,357**	(3,446)	(15,463)	(8,810)	5,997
Income tax	**(3,013)**	(397)	66	(640)	(3,878)
Profit/(loss) for the year	**3,344**	(3,843)	(15,397)	(9,450)	2,119
Attributable to:					
Equity shareholders/owners of the Company	**3,344**	(3,843)	(15,397)	(9,450)	2,119
Non-controlling interests	**–**	–	–	–	–
	3,344	(3,843)	(15,397)	(9,450)	2,119

	As at 31 March				
	2019	2018	2017	2016	2015
	HK$'000	HK$'000	HK$'000	HK$'000	HK$'000
ASSETS AND LIABILITIES					
Non-current assets	**296,051**	70,867	45,141	29,611	30,996
Current assets	**132,173**	74,991	67,496	112,922	119,668
Current liabilities	**206,441**	45,690	25,486	59,116	58,488
Non-current liabilities	**133,441**	9,565	566	506	934
Total equity	**88,342**	90,603	86,585	82,911	91,242
Attributable to:					
Equity shareholders/owners of the Company	**88,342**	90,603	86,585	82,911	91,242
Non-controlling interests	**–**	–	–	–	–
	88,342	90,603	86,585	82,911	91,242

Notes:

(1) The summary for the year ended 31 March 2015 was prepared as if the current structure of the Group had been in existence throughout this financial year.

(2) The consolidated results of the Group for the years ended 31 March 2018 and 2019 are set out on page 31 of this annual report.

(3) The consolidated assets and liabilities of the Group at 31 March 2018 and 2019 are set out on page 32 of this annual report.

(4) The summary above does not form part of the audited consolidated financial statements.