



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

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

2020
ANNUAL REPORT



CHARACTERISTICS OF THE 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 that the companies listed on GEM are generally small and mid-sized companies, there is a risk that securities traded on GEM may be more susceptible to high market volatility than securities traded on the Main Board of the Stock Exchange and no assurance is given that there will be a liquid market in the securities traded on GEM.

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*This report, for which the directors (the “**Directors**”) of Hong Wei (Asia) Holdings Company Limited (the “**Company**”, together with its subsidiaries, collectively, the “**Group**”) collectively and individually accept full responsibility, includes particulars given in compliance with the Rules Governing the Listing of Securities on GEM of the Stock Exchange (the “**GEM Listing Rules**”) for the purpose of giving information with regard to the Company. The Directors, having made all reasonable enquires, confirm that, to the best of their knowledge and belief the information contained in this report is accurate and complete in all material aspects and not misleading or deceptive and there are no other matters the omission of which would make any statement herein or this report misleading.*



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CORPORATE INFORMATION

REGISTERED OFFICE

Unit No.5, 10/F,
Well Tech Centre,
No.9 Pat Tat Street,
San Po Kong,
Kowloon, Hong Kong

HEAD OFFICE IN HONG KONG

Unit No.5, 10/F,
Well Tech Centre,
No.9 Pat Tat Street,
San Po Kong,
Kowloon, Hong Kong

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

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

COMPANY'S WEBSITE ADDRESS

www.hongweiasia.com

AUTHORISED REPRESENTATIVES

Mr. Wong Cheung Lok
Mr. Chen Kun

EXECUTIVE DIRECTORS

Mr. Wong Cheung Lok
Ms. Cheung Ngar Kwan
Mr. Liu Jiayong
Mr. Wong Kin Ching
Mr. Lai Weifeng
(resigned on 28 August 2020)

INDEPENDENT NON-EXECUTIVE DIRECTORS

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

COMPLIANCE OFFICER

Mr. Wong Kin Ching

AUDIT COMMITTEE

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

REMUNERATION COMMITTEE

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

NOMINATION COMMITTEE

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

COMPANY SECRETARY

Mr. Chen Kun (*Solicitor of HKSAR*)

SHARE REGISTRAR AND TRANSFER OFFICE

Tricor Investor Services Limited
Level 54
Hopewell Centre
183 Queen's Road East
Hong Kong

PRINCIPAL BANKERS

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

AUDITOR

Graham H. Y. Chan & Co.
Certified Public Accountants (Practising)
and Registered PIE Auditor

LEGAL ADVISERS TO THE COMPANY

as to Hong Kong law:
Jimmie K. S. Wong & Partners

GEM STOCK CODE

8191

BIOGRAPHICAL DETAILS OF DIRECTORS AND SENIOR MANAGEMENT

EXECUTIVE DIRECTORS

Mr. Wong Cheung Lok

Mr. Wong Cheung Lok ("**Mr. Wong**") of the Board, aged 59, is the chairman of the Board, chief executive officer of the Group and an executive Director. Mr. Wong is also the chairman of the nomination committee and a member of the remuneration committee of the Board of the Company. Mr. Wong founded our Group with Ms. Cheung Ngar Kwan ("**Mrs. Wong**") in 2003. Mr. Wong was appointed as a Director on 28 May 2012 and was designated as an executive Director on 13 December 2013. Mr. Wong is primarily responsible for the overall strategic planning and corporate management of our Group. Mr. Wong has approximately 25 years of experience in the wood-based panel industry which dates back to 1993 when he founded Zhangzhou Hongwei. In May 2003, Mr. Wong founded Hongwei (Renhua), the main operating subsidiary of our Group, and was the chairman, general manager and the legal representative of Hongwei (Renhua). In June 2012, Mr. Wong established the Company.

Mr. Wong is currently a vice chairman (副主任委員) of Wood-Based Panel Professional Committee (人造板專業委員會) of Guangdong Forestry Industry Association (廣東省林業產業協會), a standing director (常務理事) of Fujian Forest Products Industry Association (福建省林產品行業協會). Mr. Wong is the spouse of Mrs. Wong, an executive Director. Mr. Wong Kin Ching, an executive Director, is a son of Mr. Wong.

As at 31 December 2020, save for his beneficial interest in 430,000,000 Shares in the Company, Mr. Wong has no other interests in the Shares of the Company within the meaning of Part XV of the SFO.

Ms. Cheung Ngar Kwan

Ms. Cheung Ngar Kwan, aged 57, was appointed as an executive Director on 13 December 2013. Mrs. Wong established our Group with Mr. Wong in 2003 and she is primarily responsible for the strategic planning, corporate management and business operation of our Group. Mrs. Wong has accumulated over 18 years of experience in the wood-based panel industry since 1999 when she founded HK Hung Wai Partnership together with Mr. Wong. Mrs. Wong is currently a committee member (常委) of the Chinese People's Political Consultative Conference of Fujian Zhangzhou (福建省漳州市政協委員), a committee member of the women's commission of Hong Kong Federation of Fujian Association Limited, a standing director of HK Federation of Fujian Associations. Mrs. Wong is the spouse of Mr. Wong, an executive Director and the chairman of the Board. Mr. Wong Kin Ching, an executive Director, is a son of Mrs. Wong.

Since Mrs. Wong is the spouse of Mr. Wong, she is deemed to be also interested in the 430,000,000 Shares in the Company held by Mr. Wong. As at 31 December 2020, save as disclosed herein, Mrs. Wong had no other interests in the Shares of the Company within the meaning of Part XV of the SFO.

BIOGRAPHICAL DETAILS OF DIRECTORS AND SENIOR MANAGEMENT

Mr. Liu Jiayong

Mr. Liu Jiayong ("**Mr. Liu**"), aged 47, is an executive Director and the chief financial officer of the Group. Mr. Liu joined our Group in June 2009 and was appointed as an executive Director on 13 December 2013. Mr. Liu is primarily responsible for the overall finance and accounting management, taxation and compliance and other day-to-day financial administration of our Group. Mr. Liu is also responsible for the execution of strategies and the reform of the management system of our Group. Mr. Liu possesses over approximately 24 years' experience in the accounting field. Prior to joining our Group, Mr. Liu worked in Fujian Shanghang Secondary Vocational School (福建省上杭職業中專學校) as an accounting teacher from September 1994 to March 2003. Mr. Liu was also an external accounting teacher of both the Chinese Accounting Correspondence School at Shanghang (中華會計函授學校上杭分校) and the Open University of China at Shanghang (中央廣播電視大學上杭分校) from August 1996 to January 2003, the head of finance department of Fujian Shanghang Educational Garment Factory (福建省上杭縣教育服裝廠) from August 1995 to January 2003 and head of finance department of Fujian Toronto Bio-chemical Co., Ltd (福建省多倫多生物化工有限公司) from October 2000 to July 2001. Subsequently, Mr. Liu held the position of manager of the finance department of Xiamen Yifanda Medical Instrument Co., Ltd (廈門市益帆達醫療設備有限公司) from January 2003 to March 2004. Mr. Liu served as the manager of finance department in Zhangzhou Hongwei during March 2004 to May 2009.

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

Mr. Wong Kin Ching

Mr. Wong Kin Ching (formerly known as "Wong Kin Yong") ("**Mr. Wong KC**"), aged 31, was appointed as an executed Director and the Compliance Officer on 16 August 2019. Mr. Wong KC is experienced in operational management and marketing management in certain businesses engaged in wooden board products manufacturing and online social media respectively. He will be responsible for assisting in formulating business development strategies for the Group.

Prior to joining the Group, Mr. Wong KC served as Operations Manager in business engaging in wooden board manufacturing from 2012 to 2017. Besides, Mr. Wong KC serves as Marketing Director in business engaging online social media since 2017.

As at 31 December 2020, save for his beneficial interest in 372,000 Shares in the Company, Mr. Wong KC has no other interests in the Shares of the Company within the meaning of Part XV of the SFO.

BIOGRAPHICAL DETAILS OF DIRECTORS AND SENIOR MANAGEMENT

INDEPENDENT NON-EXECUTIVE DIRECTORS

Dr. Xu Jianmin

Dr. Xu Jianmin (“**Dr. Xu**”), aged 56, was appointed as an independent non-executive Director on 13 December 2013. Dr. Xu is also the chairman of the remuneration committee and a member of each of the audit committee and the nomination committee of the Board of the Company. Dr. Xu possesses approximately 33 years of forestry research experience in the PRC. Dr. Xu is currently a doctoral supervisor of Chinese Academy of Forestry (“**CAF**”) (中國林業科學研究院) and a chief expert and researcher of the forest tree breeding research office (林木育種研究室) under the Research Institute of Tropical Forestry, CAF (“**RITF**”) (中國林業科學研究院熱帶林業研究所). Between 1986 and 2006, Dr. Xu held several positions in the RITF, including deputy department head, department head of the forest tree breeding research office. He is also a former graduate supervisor of CAF. Dr. Xu is a committee member (委員) of Forest Genetics and Tree Breeding Branch (林木遺傳育種分會) of Chinese Society of Forestry (“**CSF**”) (中國林學會), a member of the standing committee (常委) of both Forestry Introduction and Taming Professional Committee (樹木引種馴化專業委員會) of CSF and Eucalypt Professional Committee (桉樹專業委員會) of CSF. Dr. Xu was appointed as a technical support expert (科技支撐專家) for the World Bank loan project of the Comprehensive Development and Protection of Forestry in Guangxi province (世行貸款廣西綜合林業發展和保護項目) between January 2007 and December 2012.

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

BIOGRAPHICAL DETAILS OF DIRECTORS AND SENIOR MANAGEMENT

Ms. Qian Xiaoyu

Ms. Qian Xiaoyu ("**Ms. Qian**"), aged 67, was appointed as an independent non-executive Director on 13 December 2013. Ms. Qian is also a member of the audit committee of the Board of the Company. Ms. Qian has accumulated over 30 years of experience in the forestry industry in the PRC. Ms. Qian has served in China National Forest Products Industry Corporation (中國林產工業公司) from 1989 to 2014. She is currently a vice chairman of China National Forest Product Industry Association (中國林產工業協會).

Ms. Qian holds a bachelor degree in engineering from Central South University of Forestry (中南林學院) (now known as Central South University of Forestry and Technology (中南林業科技大學)). In March and July 1996, Ms. Qian obtained a diploma in corporate operation and management from the College of Continuing Education under Beijing Normal University (北京師範大學繼續教育學院) and a diploma in law from China Women's University (中華女子學院) respectively. Ms. Qian has been qualified as a professor-level senior engineer (教授級高級工程師) by the Professional Qualification Evaluation Office of the State Forestry Administration of the PRC (國家林業局專業技術資格評定辦公室) since December 2005. In October 2006, she was appointed as a member of the Adjudication Committee of the Qualification of Specialty and Technology in Engineering by the State Forestry Administration of the PRC (國家林業局工程系列專業技術資格評審委員會委員). In February 2011, Ms. Qian has been awarded as "Person of the Year of China Forestry Industry of 2010" (2010年中國林業產業年度人物) by China Green Times (中國綠色時報社). In February 2014, been awarded with the "Award on Outstanding Contribution of China National Forest Product Industry" (中國林業產業突出貢獻獎) by the State Forestry Administration Bureau (國家林業局) and the National Committee of China Agricultural, Forestry and Water Conservancy Committee (中國農林水利工會全國委員會), and "Honorary Achievement Award in China National Forest Product Industry" (中國林產工業終身榮譽獎) in December of the same year by the China Forest Products Industry Association (中國林產工業協會) and awarded as "Person of 30 Years Meritorious Service in China Wood Industry" (中國木業30年功勳人物) in May 2015 by the China Wood and Wood Products Circulation Association (中國木材與木製品流通協會). In November 2016, Ms. Qian has been elected as executive chairman of "China's Domestic Industry Green Supply Chain Alliance" (中國家居產業綠色供應鏈聯盟).

Dr. Chow Ho Wan, Owen

Dr. Chow Ho Wan, Owen ("**Dr. Chow**"), aged 45, was appointed as an independent non-executive Director on 1 August 2016. Dr. Chow is the chairman of the audit committee and a member of each of the nomination committee and the remuneration committee of the Board of the Company.

Dr. Chow is a director and chief executive officer of Sino Fame International Group Limited. Dr. Chow is currently an independent non-executive director of Wan Leader International Limited, a company listed on GEM of the Stock Exchange (stock code: 8482) and of CIL Holdings Limited, a company listed on the main board of the Stock Exchange (stock code: 479), effective on 30 September 2019. He was an independent non-executive director of Greater Bay Area Investments Group Holdings Limited (Formerly known as "**CCT Land Holdings Limited**"), a company listed on the main board of the Stock Exchange (stock code: 261), until 30 September 2017. He is also the founder and chairman of the Association of International Certified Financial Consultants ("**AICFC**"). Dr. Chow is also the Managing Director of Emerald Capital Limited and Director of Nebpay Limited.

BIOGRAPHICAL DETAILS OF DIRECTORS AND SENIOR MANAGEMENT

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

SENIOR MANAGEMENT

Mr. Xiang Jianping

Mr. Xiang Jianping ("**Mr. Xiang**"), aged 40, is the vice general manager of Hongwei (Renhua). Mr. Xiang Kin Ping joined our Group in June 2013 and is primarily responsible for the management of the production and operation department, the quality assurance department and the warehouse management department.

Mr. Xiang has been engaged in the engineering industry for approximately 13 years and accumulated in-depth experience in production facilities and production management in relation to the manufacturing of wood-based panels, particularly of particleboards. Prior to joining our Group, Mr. Xiang worked for several companies in wood-related businesses. He served as the manager of the Process Department and assistant to general manager of Hengshui Bamailong Wood Industry Co., Ltd (衡水巴邁隆木業有限公司) for 3 years. Mr. Xiang has also worked for Fujian Dare Wood Based Panel Co., Ltd. (大亞木業(福建)有限公司) for 4 years. Mr. Xiang previously served Dareglobal Group as sales manager for wood-based panels (particleboards and fiberboards) in the Zhejiang sales region for 1 year. Mr. Xiang had been involved in building, implementing and managing of large-scale particleboard production lines imported from overseas.

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



BIOGRAPHICAL DETAILS OF DIRECTORS AND SENIOR MANAGEMENT

Mr. Lin Shenghua

Mr. Lin Shenghua ("**Mr. Lin**"), aged 49, is the sales and marketing director of Hongwei (Renhua). Mr. Lin joined our Group in January 2012 and is primarily responsible for the formulation and implementation of marketing strategies of our Group. He is also responsible for the business development and customer relationship for the regions of Shanghai, Jiangsu and Zhejiang provinces. Mr. Lin has 10 years of experience in the forestry business and worked as a marketing manager in Zhangzhou Hongwei from March 2007 to December 2011. Mr. Lin obtained his bachelor degree in chemistry from Fuzhou University (福州大學) in the PRC in July 1996.

Ms. Huang Xiuyan

Ms. Huang Xiuyan ("**Ms. Huang**"), aged 50, was an executive Director and the compliance officer of the Company from 13 December 2013 until 16 August 2019 and is currently the chief financial officer of Hongwei (Renhua). Ms. Huang joined our Group in June 2009 and was appointed as an executive Director on 13 December 2013. Following the resignation of Ms. Huang as executive Director of the Company, Ms. Huang remained to be primarily responsible for the internal auditing, internal control and the supervision of business operation of our Group. Between June 2009 and August 2012, Ms. Huang was the chief financial officer of Hongwei (Renhua). Ms. Huang has over 26 years of experience in financial management and internal control in the wood-based panel industry. Before joining our Group, Ms. Huang worked as a chief financial officer in Zhangzhou Hongwei from March 1994 to May 2009, and was primarily responsible for financial management, financing decisions, internal control, market development and strategic planning. Ms. Huang had also participated in the establishment of Zhangzhou Hongwei and the strategic planning for the business development of most of the companies Mr. Wong used to own.

COMPANY SECRETARY

Mr. Chen Kun ("**Mr. Chen**"), aged 35, has been appointed as the Company Secretary on 7 June 2020. Mr. Chen is a practising solicitor and was admitted as a solicitor in Hong Kong in November 2011. Mr. Chen received his Bachelor of Laws and Postgraduate Certificate in Laws from the University of Hong Kong.

CHAIRMAN'S STATEMENT

Dear shareholders,

On behalf of the board of directors, I am pleased to present the annual results of the Group for the year ended 31 December 2020.

In 2020, the Company continued to be primarily engaged in manufacturing and sales of particleboards. Our customers are mainly home or office furniture manufacturers, sports equipment manufacturers and wood-based panel processors and traders from the Pearl River Delta economic region, the Yangtze River Delta economic region and Fujian province. Our major revenue drivers include (i) our product competitiveness and the wide range of particleboards products, (ii) the customer relationship and market recognition, and (iii) the advanced production line with scaled production capacity.

Global trade frictions remain a concern and the outbreak of the coronavirus has also impacted the Group's sales activities. In addition, the Group is taking stringent precautionary measures to ensure the health and safety of its employees, and supporting the steps taken by the Chinese government to control the further spread of the virus. The Chinese economy continued to face with uncertainties, the domestic demand for consumer products such as household furniture and fixtures, sports equipment as well as construction materials had remained at a weak level recently and they are looking for lower-cost substitute. To cope with the impact, the Group will continue to exercise vigilant cost control to improve productivity and uphold quality service to customers and with the established long-term good relationships with suppliers, we are actively looking for opportunity to improve and modify our production line to meet the market shift to lower-cost product.

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

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

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

Hong Kong, 13 April 2021



CORPORATE GOVERNANCE REPORT

CORPORATE GOVERNANCE PRACTICES

The Board and the management of the Company are committed to establishing good corporate governance practices and procedures. The maintenance of high standard of business ethics and corporate governance practices has always been one of the Group's goals. Since the listing on The Stock Exchange of Hong Kong Limited ("**Stock Exchange**") in 2014 (the "**Listing**"), the Group strives to attain and uphold rigorous standards of corporate governance.

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

Unless otherwise stated in this annual report, the Board is pleased to report that the Company has complied with the code provisions of the CG Code for the year ended 31 December 2020.

SECURITIES DEALING CODE

The Company has adopted the rules set out in Rules 5.48 to 5.67 of the GEM Listing Rules as the code of conduct for dealing in securities of the Company by the Directors (the "**Securities Dealing Code**"). The Securities Dealing Code also applies to all employees to whom the same is given and those who are informed that they are subject to its provisions. Having made specific enquiry of the Directors and all the relevant employees, all the Directors and all the relevant employees have complied with the Securities Dealing Code throughout the year ended 31 December 2020.

CORPORATE GOVERNANCE REPORT

BOARD OF DIRECTORS

The Board comprises:

Name	Position	Main Responsibilities
Mr. Wong Cheung Lok	Chairman, executive Director and chief executive officer	Overall strategic planning and corporate management, Chairman of nomination committee, and member of remuneration committee
Ms. Cheung Ngar Kwan	Executive Director	Strategic planning, corporate management and business operation
Mr. Wong Kin Ching	Executive Director and compliance officer	Internal auditing, internal control and assisting in formulating business development strategies of the Group
Mr. Liu Jiayong	Executive Director	Finance and accounting management
Dr. Xu Jianmin	Independent Non-executive Director	Chairman of remuneration committee, member of audit committee and nominee committee
Ms. Qian Xiaoyu	Independent Non-executive Director	Member of audit committee
Dr. Chow Ho Wan, Owen	Independent Non-executive Director	Chairman of audit committee, member of remuneration committee and nomination committee

Ms. Cheung Ngar Kwan (“**Mrs. Wong**”) is the spouse of Mr. Wong Cheung Lok. Meanwhile, Mr. Wong Kin Ching is the son of Mrs. Wong and Mr. Wong Cheung Lok. Save as disclosed herein, to the best knowledge of the Board, there are no financial, business, family or other material relationships among the Board members.

CORPORATE GOVERNANCE REPORT

During the year ended 31 December 2020, the Company has complied with Rules 5.05 (1) and (2), 5.05A and 5.06, of the GEM Listing Rules which prescribed that at least one of the independent non-executive directors must have appropriate professional qualifications of accounting or related financial management expertise and an issuer must appoint at least three independent non-executive directors and the number of independent non-executive directors must represent at least one-third of the board. The number of independent non-executive Directors of the Company remained at three throughout 2020.

During the year ended 31 December 2020, a total of 6 regular Board meetings were held. The attendance record of each Director at the regular Board meetings, board committees meetings and general meeting held during the year ended 31 December 2020 is set out in the table below:

Name of Directors	Board meeting	Meetings attended/held			General meeting
		Audit committee meeting	Nomination committee meeting	Remuneration committee meeting	
Mr. Wong Cheung Lok	6/6	N/A	1/1	1/1	1/1
Ms. Cheung Ngar Kwan	6/6	N/A	N/A	N/A	1/1
Mr. Liu Jiayong	6/6	N/A	N/A	N/A	1/1
Mr. Wong Kin Ching	6/6	N/A	N/A	N/A	1/1
Mr. Lai Weifeng (resigned on 28 August 2020)	5/5	N/A	N/A	N/A	1/1
Dr. Xu Jianmin	6/6	4/4	1/1	1/1	1/1
Ms. Qian Xiaoyu	6/6	4/4	N/A	N/A	1/1
Dr. Chow Ho Wan, Owen	6/6	4/4	1/1	1/1	1/1

REMUNERATION AND BENEFITS FOR DIRECTORS AND SENIOR MANAGEMENT

Remuneration of directors and senior management of the Group for the year ended 31 December 2020 is within the band of Nil to HK\$1,000,000.

Details of the remuneration of the Directors for the year ended 31 December 2020 are set out in note 9 to the consolidated financial statements in this annual report.

CHAIRMAN AND CHIEF EXECUTIVE OFFICER

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

CORPORATE GOVERNANCE REPORT

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

APPOINTMENT AND RE-ELECTION OF DIRECTORS

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

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

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

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

BOARD DIVERSITY POLICY

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

PROFESSIONAL DEVELOPMENT

To assist Directors' continuing professional development, the Company plans to provide briefings and other training to develop and refresh the Directors' knowledge and skills, recommends Directors to attend relevant seminars to develop and refresh their knowledge and skills. A record of the training received by the respective Directors are kept and updated by the Company Secretary. During the year ended 31 December 2020, all Board members have received a directors training hosted by the legal advisor to our Company on, among other things, updates on the GEM Listing Rules and enforcement decisions.



CORPORATE GOVERNANCE REPORT

RESPONSIBILITIES OF THE BOARD

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

CORPORATE GOVERNANCE FUNCTIONS

No corporate governance committee has been established and the Board is responsible for performing the corporate governance functions such as (i) developing and reviewing the Company's policies, practices on corporate governance, training and the continuous professional development of the Directors and senior management, the Company's policies and practices on compliance with legal and regulatory requirements, etc; (ii) developing, reviewing and monitoring the code of conduct and compliance manual applicable to employees and Directors; and (iii) reviewing the Company's compliance with the CG Code and disclosure in this corporate governance report.

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

AUDIT COMMITTEE

The audit committee of the Company (the "**Audit Committee**") currently consists of 3 Independent Non-executive Directors namely Dr. Chow Ho Wan, Owen, Dr. Xu Jianmin and Ms. Qian Xiaoyu, and its primary duties include reviewing and supervising the Company's financial reporting process, internal controls systems as well as risk management of the Group, and the quarterly, interim and annual results, and providing advice to the Board. Dr. Chow Ho Wan, Owen is the chairman of the Audit Committee. No member of the Audit Committee is a member of the former or existing auditor of the Company. The terms of reference of the Audit Committee which sets out and its roles and functions are available at the Company's website and on the website of the Stock Exchange.

During the year ended 31 December 2020, the Company has complied with 5.28 of the GEM Listing Rules for which prescribed that a listed issuer's audit committee must comprise a minimum of 3 members, at least one of whom is an independent non-executive director with appropriate professional qualifications or accounting or related financial management expertise.

CORPORATE GOVERNANCE REPORT

During the year ended 31 December 2020, a total of four regular Audit Committee meetings were held to, inter alia, review the Group's financial results for the year ended 31 December 2019 and the three months ended 31 March 2020, the six months ended 30 June 2020 and the nine months ended 30 September 2020, respectively, before submission to the Board for approval. Besides, the Audit Committee reviewed the independence of Graham H. Y. Chan & Co., the auditor of the Company (the "**Auditor**"); approved the Auditor's remuneration and other terms of engagement for the year ended 31 December 2020; reviewed and adopted the scope of statutory audit for the year ended 31 December 2020; and reviewed the Group's internal control, financial controls and risk management systems.

REMUNERATION COMMITTEE

The remuneration committee of the Company (the "**Remuneration Committee**") consists of 2 Independent Non-executive Directors namely Dr. Xu Jianmin and Dr. Chow Ho Wan, Owen, and an executive Director, Mr. Wong Cheung Lok, and its primary duties include providing recommendations to the Board on the Company's policy and structure for all remuneration of the Directors and senior management. Dr. Xu Jianmin is the chairman of the Remuneration Committee. The terms of reference of the Remuneration Committee which sets out its roles and functions are available at the Company's website and on the website of the Stock Exchange.

During the year ended 31 December 2020, the Company complied with Rule 5.34 of the GEM Listing Rules which prescribed that a listed issuer's remuneration committee must comprise a majority of independent non-executive directors.

During the year ended 31 December 2020, one Remuneration Committee meeting was held to, inter alia, review the remuneration policies of the Directors and Senior Management and the general staff; and recommended to the Board on relevant matters relating to the re-election of Directors as well as the terms of renewal of appointment of an independent non-executive Director.

The emolument payable to Directors depends on their respective contractual terms under the service contracts and the appointment letters, and as recommended by the Remuneration Committee in accordance with the emolument policy as set out in the section headed "Report of the Directors — Emolument Policy" in this annual report. Details of the Directors' emolument for the year ended 31 December 2020 are set out in note 9 to the consolidated financial statements.

NOMINATION COMMITTEE

The nomination committee of the Company (the "**Nomination Committee**") consists of the 2 Independent Non-executive Directors, namely Dr. Xu Jianmin and Dr. Chow Ho Wan, Owen, and an executive Director, Mr. Wong Cheung Lok. Its primary function is (inter alia) to review and make recommendations on the appointment or re-appointment of directors. Mr. Wong Cheung Lok is currently the chairman of the Nomination Committee. The terms of reference of the Nomination Committee, which sets out its roles and functions, are available at the Company's website and on the website of the Stock Exchange.

During the year ended 31 December 2020, the Company complied with paragraph A.5.1 of Appendix 15 of the GEM Listing Rules which prescribed that a listed issuer's nomination committee must comprise a majority of independent non-executive directors.



CORPORATE GOVERNANCE REPORT

During the year ended 31 December 2020, one Nomination Committee meeting was held to, inter alia, assess the independence of the independent non-executive Directors and review the re-election of Directors at the forthcoming annual general meeting and the re-appointment of independent non-executive Directors during the year. Besides, the Nomination Committee has also reviewed the structure, size and composition of the Board and considered and recommended the candidates to the Board for consideration to be appointed as the executive directors and independent non-executive director of the Company.

Upon recommendation of the Nomination Committee, the Board adopted the Board Diversity Policy on 26 March 2014 setting out the approach to diversity of the Board. The Board Diversity Policy facilitates the Board to make good use of differences in the skills, regional and industrial experience, background, race, gender and other qualities of members of the Board. These criteria will be taken into account in determining the optimum composition of the Board. The Board Diversity Policy will be reviewed by the Nomination Committee, as appropriate, to ensure its effectiveness to cope with needs of the Company's business development from time to time.

NOMINATION POLICY

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

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

Nomination Procedure and Process

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

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

CORPORATE GOVERNANCE REPORT

3. The Nomination Committee shall review the overall contribution and service to the Company of each retiring director, having regard to the Nomination Policy and the Board Diversity Policy, and assess the independence of each retiring independent non-executive director. The Nomination Committee shall then make recommendations to the Board.
4. The Board may recommend the retiring director(s) to stand for re-elections at the annual general meeting in according with the Company's articles of association.

During the year ended 31 December 2020, the Nomination Committee also considered the Board Diversity Policy and whether the Board had the appropriate balance of skills, experience and diversity of perspectives necessary to enhance the effectiveness of the Board and to maintain high standards of corporate governance. After due consideration, the Nomination Committee has concluded that based on the Company's existing business model and specific needs, the current composition of the Board satisfies the Board Diversity Policy for the year under review.

ACCOUNTABILITY AND AUDIT

Financial Reporting

The management provides information and reports regularly to the Board on financial position and prospects of the business of the Company so as to enable the Board to make an informed assessment of the financial and other information put before the Board for approval. Since June 2020, the Group has outsourced certain of its financial reporting functions. The Group will continue to strengthen its controls over the financial reporting functions and has assigned a staff to review outsourced work.

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

Risk management and internal control

The Board is responsible for the Company's internal control system and risk management procedures and for reviewing the effectiveness of the Company's internal control. The Board conducted review from time to time during the year to monitor the effectiveness of all material controls, including financial, operational and compliance controls, risk management function, the adequacy of resources, staff qualifications and experience, training programmes and budget of the Company's accounting and financial reporting function.

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



CORPORATE GOVERNANCE REPORT

The main features of the risk management and internal control systems

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

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

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

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

Internal audit

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

During 2020, ongoing review of the effectiveness of the risk management and internal control systems was conducted by the Board and the Directors considered that the risk management and internal control systems of the Group are effective and adequate.

CORPORATE GOVERNANCE REPORT

Code of Conduct and Handling of Inside Information

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

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

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

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

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

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

Based on information furnished to it and on its own observations, the Board is satisfied with the present internal controls of the Group for the year ended 31 December 2020 and as of the date of this annual report.

AUDITOR'S REMUNERATION

During the year ended 31 December 2020, the fees paid to the Company's auditor are set out as follows:

Services rendered	Fees paid/payable (HK\$'000)
Annual audit services	1,305



CORPORATE GOVERNANCE REPORT

COMPANY SECRETARY

All Directors have access to the advice and services of the Company Secretary. The Company Secretary reports to the Chairman on board governance matters, and is responsible for ensuring that Board and Board committees procedures are followed, and for facilitating communications among Directors, senior management as well as with Shareholders. During the year ended 31 December 2020, the Company Secretary undertook over 15 hours of professional training to update his/her skills and knowledge.

RIGHT TO CONVENE EXTRAORDINARY GENERAL MEETING

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

RIGHT TO PUT ENQUIRIES TO THE BOARD

Shareholders have the right to put enquiries to the Board. All enquiries shall be in writing and sent by post to the principal place of business of the Company in Hong Kong or by e-mail to acs@hongweiasia.com for the attention of the Company Secretary.

RIGHT TO PUT FORWARD PROPOSALS AT GENERAL MEETINGS

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

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

All request shall be sent to the principal place of business of the Company in Hong Kong or by e-mail to acs@hongweiasia.com for the attention of the Company Secretary.

INVESTOR RELATIONS

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

CONSTITUTION

For the year ended 31 December 2020, there had been no change in the Company's constitutional document.

MANAGEMENT DISCUSSIONS AND ANALYSIS

BUSINESS REVIEW

During the year ended 31 December 2020 (“**Current Period**”), the Group continued to be engaged in the manufacturing and selling of particleboards (“**Particleboards Segment**”) and the plantation, timber logging and sales of wood and agricultural products in the PRC (“**Forestry Segment**”).

Particleboards Segment

During the Current Period, our products were principally used by our customers in the manufacture of furniture and fixtures, sport equipment, decoration and construction materials. Meanwhile, the Chinese economy continued to face uncertainties under the pressure of the ongoing Sino-United States conflicts and the volatility of worldwide capital markets. The negative impacts on the export market have indirectly affected the domestic consumer demand for particleboards. And for the domestic demand for consumer products such as household furniture and fixtures, sport equipment as well as construction materials had remained at a low level and they are looking for lower-cost substitute.

Under such challenging environment, we are determined to further our supply chain operations to mitigate our business risks and strengthen our sustainability and competitiveness by tightening cost control measures.

The unexpected outbreak of the COVID-19 in early 2020 affected many cities and provinces in the PRC domestically as well as the global market in general. Due to the outbreak of the pandemic, the global economy is still facing many uncertainties, and the operational environment of enterprises are becoming more dynamic and challenging, this will further tighten up customers’ spending and lead to reduced demand for furniture and construction materials. Such adverse impact has greatly affected the Group’s revenue in 2020.

Forestry Segment

During the Current Period, the Group had not received any update on the measures regarding the grant by the relevant government department of timber wood harvesting quotas which have been materially curtailed as part of the PRC government’s policy to strengthen environmental protection since the end of 2018. The Group highly recognises global climate change’s risks and opportunities, and actively supports the PRC government’s efforts to achieve the goal of carbon neutrality before 2060. To support the PRC government’s environmental protection supervision as the main line, the Group will improve the environmental management system and control with our forestry asset and is going to contribute to the realisation of “carbon neutrality”. Nevertheless, the Group will continue to further explore and assess other possible alternatives to utilize its forestry resources in order to benefit the Group as a whole.



MANAGEMENT DISCUSSIONS AND ANALYSIS

FINANCIAL REVIEW

Revenue

During the year ended 31 December 2020, the Group's revenue for the Particleboards Segment decreased to approximately HK\$330.2 million from approximately HK\$396.7 million, representing a decrease of approximately 16.8% as compared to the year ended 31 December 2019. The decrease was mainly due to decrease in the average unit selling price of particleboards (in Hong Kong Dollars) and average sales volume of particleboards by approximately 5.6% and 11.8% respectively.

During the years ended 31 December 2020 and 2019, no income generating activity took place for the Forestry Segment and hence no revenue was recognized for such segment.

Cost of Sales

During the year ended 31 December 2020, the Group's costs of sales decreased to approximately HK\$274.9 million from approximately HK\$312.5 million, representing a decrease of approximately 12.0% as compared to the year ended 31 December 2019. The decrease was mainly attributed to the decrease in revenue and the increase in unit cost of major raw materials during the year.

Gross profit and margin

During the year ended 31 December 2020, the Group's gross profit decreased to approximately HK\$55.3 million from approximately HK\$84.1 million, representing a decrease of approximately 34.3% as compared to the year ended 31 December 2019. The Group's gross profit margin decreased to approximately 16.7% for the year ended 31 December 2020 from approximately 21.2% for the year ended 31 December 2019. The decrease in gross profit was mainly attributable to the decrease in revenue and the increase in unit cost of major raw materials during the year.

Other income

During the year ended 31 December 2020, the Group's other income decreased to approximately HK\$13.9 million from approximately HK\$17.5 million, representing a decrease of approximately 20.2% as compared to the year ended 31 December 2019. The decrease was mainly attributable to the decrease in subsidies arising from value added tax refund received by the Group during the year.

MANAGEMENT DISCUSSIONS AND ANALYSIS

Impairment loss on right-of-use assets – forestlands

As at 31 December 2020, there exists an indicator of impairment for right-of-use assets – forestlands because the recent transaction prices or latest listing prices of comparable forestlands decline significantly. The Group engaged an independent valuers (the “Independent Valuers”) to determine the recoverable amount of the right-of-use assets – forestlands (the “Recoverable Amounts”), being the fair values less costs to sell of “bare lands”, using sales comparison approach. During the year ended 31 December 2020, the Group’s right-of-use assets were written down to the Recoverable Amounts by approximately HK\$7,598,000 and an impairment loss was recognised in profit or loss.

Valuation changes of biological assets

During the year ended 31 December 2020, the net loss arising from changes in fair value less costs to sell of biological assets amounted to approximately HK\$55.1 million (2019: net gain of HK\$1.7 million) has been recognised. The Independent Valuers adopted sales comparison approach to determine the combined fair values less costs to sell of the forestlands (the “Combined Values”) and the fair value less costs to sell of “bare lands” as at year end date. The fair value less costs to sell of biological assets are difference between the Combined Values and the Recoverable Amounts. Because of the significant decline in the Combined Values, the fair values less costs to sell of the biological assets decreases significantly.

Selling and distribution expenses

During the year ended 31 December 2020, the Group’s selling and distribution expenses decreased to approximately HK\$26.4 million from approximately HK\$28.5 million during the year ended 31 December 2019, representing a decrease of approximately 7.3%, which was mainly attributable to the decrease in freight charges and packaging costs incurred during the year as a result of decrease in revenue during the year.



MANAGEMENT DISCUSSIONS AND ANALYSIS

Administration expenses

During the year ended 31 December 2020, the Group's administration expenses decreased to approximately HK\$20.9 million from approximately HK\$23.1 million, representing a decrease of approximately 9.6% as compared to the year ended 31 December 2019. The decrease is mainly attributable to decrease in staff costs and legal, consultancy and professional expenses during the year.

Meanwhile, there was approximately HK\$1.8 million incurred mainly for the depreciation of right-of-use assets of forestlands, fertilizer fee, replantation cost and other maintenance expenses of forestlands under the Forestry Segment during the year ended 31 December 2020 (2019: HK\$1.9 million).

Finance costs

During the year ended 31 December 2020, the Group's finance costs increased to approximately HK\$27.8 million from approximately HK\$24.6 million, representing an increase of approximately 13.0% as compared to the year ended 31 December 2019. The increase was mainly due to the advancement of long-term bank borrowings and other borrowings.

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

During the year ended 31 December 2020, the Group's loss attributable to owners of the Company amounted to approximately HK\$70.2 million, while the Group's profit attributable to owners of the Company during the year ended 31 December 2019 amounted to approximately HK\$25.3 million. The loss for the year ended 31 December 2020 was mainly caused by the decrease in gross profit and recognition of impairment loss on right-of-use assets – forestlands and net loss arising from changes in fair value less costs to sell of biological assets during the year.

Total comprehensive loss/income attributable to owners of the Company

During the year ended 31 December 2020, the Group's total comprehensive loss attributable to owners of the Company amounted to approximately HK\$46.9 million, while the Group's total comprehensive income attributable to owners of the Company during the year ended 31 December 2019 amounted to approximately HK\$15.4 million. Such total comprehensive loss mainly comprises loss for the year but a portion of loss was offset by the exchange gain arising from translation.

MANAGEMENT DISCUSSIONS AND ANALYSIS

PRINCIPAL RISKS AND UNCERTAINTIES FACING THE GROUP

Potential fluctuation in the prices of raw materials

The Directors consider that residual wood is one of the major raw materials for particleboard production which accounted for approximately 70.6% of the total procurement for the year ended 31 December 2020 (2019: 70.9%).

Our average purchase cost of residual wood was approximately RMB395.3 per tonne for the year ended 31 December 2020 and approximately RMB393.8 per tonne for the year ended 31 December 2019. Fluctuation in price and supply of residual wood will affect the prices and supplies of particleboards. It is believed that residual wood prices may further increase in the next few years. Since residual wood is a plant product, its supplies are vulnerable to many factors beyond our control, including weather, infestations and other forces of nature that may result in shortage in supplies and an increase in price. An increase in demand may also result in an increase in the price of residual wood.

Collection risks associated with credit sales

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

Competitive market

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

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



MANAGEMENT DISCUSSIONS AND ANALYSIS

Operating risks related to the biological assets

The Group is exposed to the following operating risks related to its biological assets:

(i) *Regulatory and environmental risks*

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

(ii) *Supply and demand risks*

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

(iii) *Climate and other natural risks*

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

KEY PERFORMANCE INDICATORS

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

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

Total volume of particleboards produced per annum

The Group produced an aggregate of approximately 267,000 cubic meters particleboards in 2020, comparing to approximately 277,000 cubic meters in 2019. The Group is seeking to improve the utilisation rate of its production capacity by exploring new customers and providing more variety of specifications of particleboards in different sizes and thickness to meet the needs of different market segments.

Data used as the financial and non-financial key performance indicators for the two financial years ended 31 December 2019 and 2020 are sourced from the Group's internal records and consistent methods of calculation are applied.

MANAGEMENT DISCUSSIONS AND ANALYSIS

LIQUIDITY, FINANCIAL RESOURCES AND CAPITAL STRUCTURE

As at 31 December 2020 and 2019, the Group had bank borrowings of approximately HK\$130.8 million and HK\$134.7 million respectively. As at 31 December 2020, all bank borrowings are dominated in RMB. Other than certain bank borrowings which bear fixed interest rate ranging from 3.34% to 5.31% per annum, other bank borrowings bear floating interest rates ranging from 4.30% to 6.41% per annum as at 31 December 2020.

As at 31 December 2020, the Group had other borrowings comprising sales and leaseback arrangement with financial institutions, which provides loans to the Group with tenure of one to three years (2019: one to three years) from the date of advancement. The carrying amount of such borrowings amounted to approximately HK\$97.1 million as at 31 December 2020 (2019: HK\$90.3 million). Other borrowings of approximately HK\$47.6 million (2019: HK\$31.7 million) carried fixed interest with effective interest rates ranging from 11.48% to 11.65% (2019: 11.48% to 11.65%) whereas other borrowings of approximately HK\$49.5 million (2019: HK\$58.6 million) carried floating interest with effective interest rate of 9.76% (2019: 9.76% to 12.21%) as at 31 December 2020.

In view of the existing contractual obligation and constraints the Company owed to its major creditor (particularly the Note Subscriber) and other financial institutions, Mr. Wong's associates have entered into unsecured loan agreements with the Company in order to allow the Company to access timely financial resources to fulfill its general working capital purposes. Details of these loans are set out in note 26(iii) to the consolidated financial statement.

As at 31 December 2020 and 2019, the Group had net current liabilities of approximately HK\$26.3 million and HK\$23.8 million respectively. The current ratio of the Group, being its current assets over its current liabilities, increase to 0.92x as at 31 December 2020 (2019: 0.93x). No material change in current ratio between years.

During the years ended 31 December 2020 and 2019 respectively, no new shares were issued by the Company.

Gearing Ratio

As at 31 December 2020, the gearing ratio stood at 1.14x (2019: 1.02x) calculated by total borrowings (including lease liabilities, bank and other borrowings and notes payable) over shareholders' equity. Advancement of long-term bank and other borrowings to meet the working capital need resulted in increase in gearing ratio as at 31 December 2020.



MANAGEMENT DISCUSSIONS AND ANALYSIS

FOREIGN EXCHANGE EXPOSURE

As at 31 December 2020 and 2019, functional currency of the Company and its major operating subsidiaries is RMB while the presentation currency of the Company is HKD. The Group's bank balances were mainly denominated in RMB and HKD. The Group manages its foreign currency risk by closely monitoring the movement of the foreign currency rate. As at 31 December 2020, lease liabilities and secured and guaranteed notes payable were denominated in HKD.

Other than as described above, the Group has no significant exposure to foreign currency risk as it carries out its sales and purchases mainly in RMB.

TREASURY POLICIES

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

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

The Group had no significant investment held as at 31 December 2020. The Group has no plan for material investments or capital assets except that the Group will acquire new machineries and continue the construction work as mentioned in note 14 to the consolidated financial statements as at the date of this annual report.

PLEDGE AND RESTRICTION OF ASSETS

Details of pledge and restriction of assets of the Group as at 31 December 2020 are set out in note 30 to the consolidated financial statements in this annual report.

COMMITMENTS AND CONTINGENT LIABILITIES

Details of the Group's capital commitments are set out in note 33 to the consolidated financial statements.

EMPLOYEES AND REMUNERATION POLICIES

As at 31 December 2020, the Group employed a total of 167 employees (2019: 171). The remuneration payable to our employees included fees, salaries, retirement benefits scheme contributions and other benefits. For the years ended 31 December 2020 and 2019, the remuneration was approximately HK\$14.3 million and HK\$16.1 million, respectively. The Group determines the employee's remuneration based on factors such as qualifications, duty, contributions and years of experience. The key principles of the remuneration policy are to remunerate employees in a manner that is market competitive, consistent with best practice and supports the interests of the shareholders of the Company (the "**Shareholders**"). The Group aims to align the interests of the senior executives through performance and long-term incentive plans in addition to their fixed remuneration.

The Company also adopted a share option scheme. As at 31 December 2020 and 2019, no share option was granted or outstanding.

MANAGEMENT DISCUSSIONS AND ANALYSIS

DIVIDEND

Dividend Policy

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

The Board does not recommend the payment of any final dividend for the year ended 31 December 2020 (2019: nil).

FUTURE PLANS AND PROSPECT

The prospect of the macroeconomic conditions in 2021 remain grim and complicated. Due to the COVID-19 outbreak, major developed economies are expected to report weak economic growth. In China, the economy is still in its downward cycle, with an insufficient economic growth momentum, weak financing environment, and unfavorable corporate investment sentiment. Further, the ongoing trade war between China and the United States remains uncertain as to whether additional tariffs would be imposed on furniture products exported from the Mainland China to the United States. The Group's particleboard business will be adversely affected if tariffs were imposed. The Group will closely monitor changes in the domestic policies and continue its efforts in taking proactive production cost saving initiatives, strengthening the controls of the inventory level, negotiating with customers regarding product pricing and considering the feasibility of developing more variety of specifications of particleboards in sizes and thickness to meet the need in different market segments.

We find that the domestic market demand is shifting from quality oriented to cost oriented, we are looking for opportunity to improve and modify our production line to meet this market shift.

Since the grant of timber wood harvesting quotas have been materially curtailed in 2018 as part of the PRC government's policy to strengthen environmental protection, and such enhanced control is expected to last for a period which is unknown to the Group at the moment, the Group has commenced the feasibility study on new business strategy that seeks to better utilise its forestry resources. In this regard, the Company has noted that the PRC government is supportive of the development and promotion of a more diverse and ecologically friendly forestry economy, such as undergrowth planting, aquaculture, collection and forest tourism. The aim is to achieve ecological protection and economic development in a manner consistent with the State's strategy of developing a green economy, a low-carbon economy and a circular economy. The Group highly recognises global climate change's risks and opportunities, and actively supports the PRC government's efforts to achieve the goal of carbon neutrality before 2060. To support the PRC government's environmental protection supervision as the main line, the Group will improve the environmental management system and control with our forestry asset and is going to contribute to the realisation of "carbon neutrality". The Group will closely keep track of changes in the relevant policies and regulations that implement such governmental approach and will be taking proactive initiatives to maximize the value of its forestry assets.



REPORT OF THE DIRECTORS

The Directors hereby present their report and the audited consolidated financial statements for the year ended 31 December 2020.

PRINCIPAL ACTIVITIES

The Group is primarily engaged in manufacturing and sales of particleboards ("**Particleboards Segment**") and the timber logging, plantation and sales of wood and agricultural products in the PRC ("**Forestry Segment**"). Particleboards are made with raw materials such as undersized log, wood branches and agriculture and forestry residues, and hence they are generally considered to be environmentally-friendly and resources-saving reconstituted wood-based panels. During the year ended 31 December 2020, there was no significant change in the nature of the Group's principal activities.

FINANCIAL SUMMARY

The summary of the results and of the assets and liabilities of the Group is set out in the section headed "Five-Year Financial Summary" in this annual report.

DONATIONS

Charitable and other donations made by the Group during the year amounted to approximately HK\$47,000 (2019: HK\$707,000).

SHARES CAPITAL

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

SECURED AND GUARANTEED NOTES

On 13 August 2018, pursuant to the subscription agreement dated 10 August 2018 (the "**Note Subscription Agreement**") between the Company and AI Global Investment SPC (formerly known as Haitong Global Investment SPC III) acting on behalf of and for a segregated portfolio ("**Note Subscriber**"), the Company issued secured and guaranteed notes in the principal amount of HK\$100,000,000 (the "**Notes**") originally due on 12 August 2020 to the Note Subscriber. The Notes carries an interest rate at Hong Kong prime rate plus 3% per annum, and is secured, among other things, by personal guarantee executed by Mr. Wong and Mrs. Wong (together, "**Guarantors**").

On 13 July 2020, the Company, the Guarantors and the Note Subscriber entered into a deed of amendment, pursuant to which, among other things, the Note Subscriber agreed to amend the terms and conditions of the Notes, having effect that, among others, the maturity date of the Notes was extended from 12 August 2020 to 12 August 2021. Please refer to the announcement of the Company dated 13 July 2020 for more details.

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

REPORT OF THE DIRECTORS

PURCHASE, SALE OR REDEMPTION OF LISTED SECURITIES

During the year ended 31 December 2020, neither the Company nor its subsidiaries have purchased, sold or redeemed any listed securities of the Company.

RESERVES

Details of the movements in the reserves of the Company and the Group during the year ended 31 December 2020 are set out in note 38 to the consolidated financial statements and the consolidated statement of changes in equity, respectively.

DISTRIBUTABLE RESERVES

The Company did not have any distributable reserves which are available for distribution to equity holders as at 31 December 2020.

EQUITY LINKED AGREEMENT

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

ARRANGEMENTS TO ENABLE DIRECTORS TO ACQUIRE SHARES AND DEBENTURES

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

SHARE OPTION SCHEME

Details of Share Option Scheme are set out in note 32(b) to the consolidated financial statements. No share option was granted by the Company during the year.

PERMITTED INDEMNITY PROVISION

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



REPORT OF THE DIRECTORS

MAJOR CUSTOMERS AND SUPPLIERS

The percentages of sales and purchases for the year ended 31 December 2020 attributable to the Group's major customers and suppliers were as follows:

- (1) The aggregate amount of revenue attributable to the Group's five largest customers represented approximately 55.7% (2019: 66%) of the Group's total revenue. The amount of revenue from the Group's largest customer represented approximately 40.4% (2019: 46%) of the Group's total revenue.
- (2) The aggregate amount of purchases attributable to the Group's five largest suppliers represented approximately 37.3% (2019: 31%) of the Group's total purchases. The amount of purchases from the Group's largest supplier represented approximately 10.2% (2019: 11%) of the Group's total purchases.

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

DIRECTORS OF THE COMPANY

The Directors of the Company during the year ended 31 December 2020 and up to the date of this report were as follows:

Executive Directors

Mr. Wong Cheung Lok
Ms. Cheung Ngar Kwan
Mr. Liu Jiayong
Mr. Wong Kin Ching
Mr. Lai Weifeng (resigned on 28 August 2020)

Independent non-executive Directors

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

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

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

REPORT OF THE DIRECTORS

DIRECTORS AND SUPERVISOR OF THE COMPANY'S SUBSIDIARIES

During the year ended 31 December 2020 and up to the date of the report, Mr. Wong Cheung Lok, Ms. Cheung Ngar Kwan and Mr. Wong Kin Ching are also directors of the subsidiaries of the Company. Mr. Wong Kin Keung is the supervisor of the Company's subsidiaries established in the PRC during the year and up to the date of the report. Mr. Zeng Dehua is a director of the Company's subsidiary during the year and up to the date of the report.

DIRECTORS' SERVICE CONTRACTS

Mr. Wong Cheung Lok, Ms. Cheung Ngar Kwan and Mr. Liu Jiayong has each entered into a service agreement with the Company for an initial term of three years commencing from the Listing Date and will continue thereafter until terminated in accordance with the terms of the agreement. In August 2020, Mr. Wong Kin Ching signed the renewed service agreement with the company for a fixed term of one year.

Each of the Independent Non-executive Directors signed an appointment letter with the Company for a term of three years commencing from Listing date or two years from the date of appointment and are subject to termination in accordance with their respective terms. In January 2020, two Independent Non-executive Directors signed the renewed appointment letters with the Company for a further service term of three years with effect from January 2020. In August 2020, one Independent Non-executive Director signed a renewed appointment letter with the Company for a further service term of one year with effect from 1 August 2020.

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

DIRECTORS' MATERIAL INTERESTS IN TRANSACTIONS, ARRANGEMENTS AND CONTRACTS OF SIGNIFICANCE

Saved as disclosed in the section headed "Secured and Guaranteed Notes" above, and save as disclosed in note 37 to the consolidated financial statements, no transactions, arrangements or contracts of significance in relation to the Group's business to which the Company or any of its subsidiaries was a party and in which a Director of the Company or the Director's connected party had a material interest, whether directly or indirectly, subsisted at the end of the year or at any time during the year.

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

CONTRACTS OF SIGNIFICANCE BETWEEN THE GROUP AND THE CONTROLLING SHAREHOLDER

Save as disclosed in the section headed "Secured and Guaranteed Notes" above, and save as disclosed in note 37 to the consolidated financial statements, none of the Company or any of its subsidiaries had entered into any contract of significance with the controlling shareholder of the Company, namely Mr. Wong Cheung Lok, for the provision of services to the Group by the controlling shareholder and/or otherwise during the financial year ended 31 December 2020.



REPORT OF THE DIRECTORS

MANAGEMENT CONTRACTS

No contracts concerning the management and administration of the whole or any substantial part of the business of the Group were entered into or existed during the year ended 31 December 2020.

REMUNERATION OF THE DIRECTORS

Details of the remuneration of the Directors for the year ended 31 December 2020 are set out in note 9 to the consolidated financial statements in this annual report. During the year ended 31 December 2020, there was no arrangement under which any Directors waived or agreed to waive any remuneration.

EMOLUMENT POLICY

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

The Company has adopted a share option scheme as incentive to Directors and eligible employees, details of which are set out in note 32(b) to the consolidated financial statements.

COMPLIANCE WITH NON-COMPETITION DEED

Mr. Wong Cheung Lok, our Controlling Shareholder (the "**Covenanter**") entered into a deed of non-competition (the "**Non-competition Deed**") in favour of our Company, pursuant to which the Covenanter has undertaken to our Company that he would not, and that his associates (except any member of our Group) would not, during the restricted period set out therein, directly or indirectly, either on his own account or in conjunction with or on behalf of any person, firm or company, among other things, carry on, participate or be interested or engaged in or acquire or hold (in each case whether as a shareholder, partner, agent or otherwise) any business which is or may be in competition with our existing core business. Mr. Wong has confirmed to the Company that the Non-competition Deed has been fully complied with during the year ended 31 December 2020 and up to the date of this report.

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

REPORT OF THE DIRECTORS

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

So far as the Directors are aware, as at 31 December 2020, the interests and short positions of the Directors and chief executive of the Company in the shares, underlying shares and debentures of the Company or its associated corporations (within the meaning of Part XV of the Securities and Futures Ordinance (Chapter 571. Laws of Hong Kong) (the “SFO”) which will have to be notified to the Company and the Stock Exchange under Divisions 7 and 8 of Part XV of the SFO (including interests or short positions which they are taken or deemed to have under such provisions of the SFO) or which will be required, pursuant to section 352 of the SFO, to be entered in the register as referred to therein, or pursuant to Rules 5.46 to 5.67 of the GEM Listing Rules required to be notified to the Company and the Stock Exchange, are as follows:

Long position in the Shares

Name	Capacity/Nature of interest	Aggregate number of Shares or underlying Shares (Note 1)	Approximate percentage of interest in our Company
Mr. Wong Cheung Lok (“ Mr. Wong ”)	Beneficial owner	430,000,000 (L)	51.65%
Ms. Cheung Ngar Kwan (“ Mrs. Wong ”) ⁽²⁾	Interest of spouse	430,000,000 (L)	51.65%
Mr. Wong Kin Ching	Beneficial owner	372,000 (L)	0.04%

Notes:

- (1) The letter “L” denotes the person’s long positions in the Shares.
- (2) Mrs. Wong is the spouse of Mr. Wong. Under the SFO, Mrs. Wong is deemed to be interested in the same number of Shares in which Mr. Wong is interested.



REPORT OF THE DIRECTORS

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

So far as the Directors are aware, as at 31 December 2020, none of any other persons (other than a Director or chief executive) had any interest or short position in the Shares or underlying Shares which would fall to be disclosed to us and the Hong Kong Stock Exchange under the provisions of Divisions 2 and 3 of Part XV of the SFO or to be recorded in the register kept by the Company pursuant to Section 336 of the SFO:

DIRECTORS' AND CONTROLLING SHAREHOLDER'S INTERESTS IN COMPETING BUSINESSES

During the year ended 31 December 2020, save as disclosed below, none of the Directors, the controlling shareholder of the Company or any of their respective close associates, has engaged in any business that competes or may compete with the business of the Group, or has or may have any other conflict of interest with the Group.

At the date of this report, Mr. Wong Kin Ching, directly or indirectly, owned the following companies of which he also serves as the sole director: Gifted Multitude Limited, Hung Tat Investment (Hong Kong) Company Limited and Shaoguan Hongwei Forestry Company Limited (韶關鴻偉林場有限公司). Gifted Multitude Limited and Hung Tat Investment (Hong Kong) Company Limited are investment holding companies which wholly own, directly or indirectly, Shaoguan Hongwei Forestry Company Limited (韶關鴻偉林場有限公司), which is the operating company incorporated in the PRC and engaged in the forestry plantation business, including forestry planting and development with respect to forestlands located at Renhua County, Guangdong Province, PRC.

CONNECTED TRANSACTIONS AND RELATED PARTY TRANSACTIONS

Details of connected and related party transactions are set out in note 37 to the consolidated financial statements. Those transactions are fully exempt from announcement, shareholders' approval, annual review and all disclosure requirements under the GEM Listing Rules.

SUFFICIENCY OF PUBLIC FLOAT

Based on the information that is publicly available to the Company and to the best knowledge of the Directors, the Directors confirm that the Company maintained the amount of public float as required under the GEM Listing Rules for the financial year ended 31 December 2020 and up to the date of this report.

BUSINESS REVIEW

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

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

REPORT OF THE DIRECTORS

Environmental policies and performance

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

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

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

The Group's compliance with the relevant laws and regulations

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

AUDITOR

The consolidated financial statements for the year ended 31 December 2020 have been audited by Messrs. Graham H. Y. Chan & Co. which retires, and being eligible, offers itself for re-appointment at 2020 AGM. A resolution to re-appoint Messrs. Graham H. Y. Chan & Co. and to authorize the Directors to fix its remuneration will be proposed at 2021 AGM.

By Order of the Board
Wong Cheung Lok
Executive Director

Hong Kong, 13 April 2021



INDEPENDENT AUDITOR'S REPORT

TO THE MEMBERS OF HONG WEI (ASIA) HOLDINGS COMPANY LIMITED

(incorporated in Hong Kong with limited liability)

OPINION

We have audited the consolidated financial statements of Hong Wei (Asia) Holdings Company Limited (the “**Company**”) and its subsidiaries (together, the “**Group**”) set out on pages 48 to 133, which comprise the consolidated statement of financial position as at 31 December 2020, and the consolidated statement of profit or loss and other comprehensive income, the consolidated statement of changes in equity and the consolidated statement of cash flows for the year then ended, and notes to the consolidated financial statements, including a summary of significant accounting policies.

In our opinion, the consolidated financial statements give a true and fair view of the consolidated financial position of the Group as at 31 December 2020, and of its consolidated financial performance and its consolidated cash flows for the year then ended in accordance with Hong Kong Financial Reporting Standards (“**HKFRSs**”) issued by the Hong Kong Institute of Certified Public Accountants (the “**HKICPA**”) and have been properly prepared in compliance with the Hong Kong Companies Ordinance.

BASIS FOR OPINION

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

KEY AUDIT MATTERS

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

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

- Ownership and existence of forestry rights of forestlands
- Valuations of biological assets and recoverable amounts of right-of-use assets – forestlands
- Construction work for restoring a mined land located at the Group’s factory land
- Financial reporting management
- Going concern

INDEPENDENT AUDITOR'S REPORT

KEY AUDIT MATTERS (Continued)

1. Ownership and existence of forestry rights of forestlands

Nature of the key audit matter

Refer to notes 15 and 16 to the consolidated financial statements.

The Group recognised its forestry rights of forestlands as right-of-use assets and the standing trees attached to those forestlands as biological assets.

Due to the enactment of the real estate title registration policy in the year 2016, all real estate title must be registered with the Real Estate Registration Center (不動產登記中心) for issuance of registered title certificate. As of the date of this report, the Group completed the registration of all title of the Group's forestry rights of the forestlands in Qingliu County and one title of the Group's forestry right of the forestland in Renhua County (the "Registered Forestry Rights"), and corresponding Forestry Right Certificates have been obtained. The Group has been in the progress to apply for registration of the remaining forestry rights (the "Remaining Forestry Rights") of forestlands in Renhua County other than those forestry rights having been disposed of subsequently.

The aggregate carrying amount of the Registered Forestry Rights is approximately HK\$49,573,000 (comprising right-of-use assets of approximately HK\$11,209,000 and biological assets of approximately HK\$38,364,000) as at 31 December 2020. The carrying amounts of the Remaining Forestry Rights and the disposed forestry rights are amounted to approximately HK\$14,159,000 (comprising right-of-use assets of approximately HK\$3,678,000 and biological assets of approximately HK\$10,481,000) and HK\$4,991,000 (comprising right-of-use assets of approximately HK\$1,317,000 and biological assets of approximately HK\$3,674,000) as at 31 December 2020, respectively.

The audit was focused in this area as the balances are material, the forestlands are inherently large in size, and, as of the date of this report, the application for the registration of the title of the Remaining Forestry Rights is still in progress.

How our audit addressed the key audit matter

We obtained the confirmations (the "Year-end Confirmations") from the Real Estate Registration Center in Qingliu County and relevant Forestry Administration to confirm the existence and ownership of forestry rights for forestlands located in Renhua County and Qingliu County as at year end date.

We matched details of the Ownership Confirmations (for the Remaining Forestry Rights and the disposed forestry rights of forestlands located in Renhua County) and the Forestry Right Certificates in the name of the Group (for all forestry rights of forestlands located in Qingliu County and one forestry right of forestland located in Renhua County) to the details in the Year-end Confirmations.

We obtained the new Forestry Right Certificate issued for one title of forestry rights of forestland in Renhua County and matched its details to the information in Real Estate Registration Center of Renhua County. We also obtained the application forms for issue of Forestry Right Certificates of the Remaining Forestry Rights.

We sample selected several pieces of forestlands for forestry consultants ("Forestry Consultants") to perform site visit and assessed their capabilities, objectivity and competence. We also obtained and assessed their report.

INDEPENDENT AUDITOR'S REPORT

KEY AUDIT MATTERS (Continued)

2. Valuation of biological assets and recoverable amounts of right-of-use assets – forestlands

Nature of the key audit matter

Refer to notes 4(b)(i), 4(b)(ii), 15(d) and 16(c) to the consolidated financial statements.

The Group's biological assets are measured at fair values less costs to sell at the end of each reporting period and a net loss of approximately HK\$55,131,000 arising from changes in fair values less costs to sell was recognised in profit or loss in the current year. In addition, the Group's right-of-use assets – forestlands was written down to their estimated recoverable amounts (the "Recoverable Amounts") and an impairment loss of approximately HK\$7,598,000 was recognised in profit or loss in the current year.

The Group engaged the independent valuers (the "Independent Valuers") to perform the valuation of biological assets as at 31 December 2020. The Group also carried out impairment assessment by estimating the Recoverable Amounts, being their fair values less costs to sell, with reference to the work performed by the Independent Valuers. The Independent Valuers adopted sales comparison approach to determine the combined fair values less costs to sell of the forestlands (the "Combined Values") and the Recoverable Amounts. The fair value less costs to sell of biological assets are the difference between the Combined Values and the Recoverable Amounts.

How the matter was addressed in our audit

We assessed the capabilities, objectivity and competence of the Independent Valuers and the valuation report prepared by the Independent Valuers.

We evaluated the approach, methodology and key assumptions adopted by the management and the Independent Valuers in estimating the Combined Values and the Recoverable Amount.

We held discussion with the Independent Valuers and management to understand why the alternative valuation methodologies (such as income approach or cost approach) are not applicable for the valuation.

We considered the work performed by the Independent Valuers. For recent transaction prices of the forestlands and "bare lands" in Renhua County, we assessed whether these transactions represented orderly transactions in accordance with HKFRS 13 "Fair Value Measurement" and compared them to the transaction price of subsequent disposal of the Group's forestry assets. For adjusted latest listing prices in Qingliu County, we assessed whether the adjusted latest listing prices could reflect the result of transactions for the purpose of fair value measurement.

We searched latest listing prices of forestlands in Renhua County and Qingliu County and compared them to the transaction prices or latest listing prices information obtained by the Independent Valuers.

INDEPENDENT AUDITOR'S REPORT

KEY AUDIT MATTERS (Continued)

2. Valuation of biological assets and recoverable amounts of right-of-use assets – forestlands (Continued)

Nature of the key audit matter

Basing on the market research performed by the Independent Valuers, they adopted the average of recent transaction prices of the forestlands and “bare lands” in Renhua County with adjustments to form the Combined Values and the Recoverable Amounts for forestlands located in Renhua County, respectively. Owing to the lack of recent transaction, the Independent Valuers adopted average of latest listing prices of the forestlands and “bare lands” in Qingliu County with adjustments to form the Combined Values and the Recoverable Amounts for forestlands located in Qingliu County, respectively.

We focused in this area as the inherent level of complex and subject judgements and assumptions required in determining fair values less costs to sell of biological assets, the Combined Values and the Recoverable Amounts using sales comparison approach and in considering the valuation methodology adopted.

How the matter was addressed in our audit

We considered the work performed by the Independent Valuers regarding the adjustments for various factor including the remaining land use terms and accessibility of each of the forestlands held by the Group.

We assessed whether there was any management bias in estimating the Combined Values, the Recoverable Amounts and the fair values less costs to sell of biological assets.

We recalculated the Combined Values, the Recoverable Amounts and the fair values less costs to sell of biological assets and compared to the amount reported in the consolidated financial statements.

We have also considered the adequacy of the Group's disclosure in respect of the biological assets and the Recoverable Amount, including fair value measurements, in notes 15(d) and 16(c) to the consolidated financial statements.

INDEPENDENT AUDITOR'S REPORT

KEY AUDIT MATTERS (Continued)

3. Construction work for restoring a mined land located at the Group's factory land

Nature of the key audit matter

Refer to note 14 to the consolidated financial statements.

During the year, the Group engaged construction foreman to perform excavation and backfilling work (the "Restoration Work") to restore an abandoned mined land that was located inside the factory land of the Group and exist at the time when the Group acquired the land use rights in year 2012. As of 31 December 2020, the Group paid and incurred approximately HK\$13,616,000 for the Restoration Work. Such amount was recognised as construction in progress under property, plant and equipment as at 31 December 2020. Subsequently, the Group has terminated the original construction contracts with construction foreman and engaged a surveying company to estimate the completion status of the Restoration Work. Basing on a survey report, as of the date of this report, the Group has completed approximately 67% of the construction work.

We focused in this area as there is inherent limitation to observe the status of the construction work and the amount is material.

How the matter was addressed in our audit

We inquired the management regarding the purpose of the Restoration Work and obtained an approved application for the Restoration Work.

We obtained the original contracts and termination contracts with construction foreman and performed test vouching on the payment evidence and internal acceptance form.

We obtained audit confirmations from the construction foreman and verified their identities by performing interviews.

In respect of the survey report, we performed the following audit procedures:

- assessing the capabilities, objectivity and competence of the surveying company;
- reviewing the survey report by evaluating the method and approach adopted for the survey;
- comparing the results in the survey report to the quantity of soil used by the Group.

We assessed the management intent and ability to complete the Restoration Work by inquiring the management regarding their plan and assessing whether the Group is financially capable to complete the Restoration Work.

INDEPENDENT AUDITOR'S REPORT

KEY AUDIT MATTERS (Continued)

4. Financial reporting management

Nature of the key audit matter

How the matter was addressed in our audit

Refer to “Financial Reporting” section under the heading of “Accountability and Audit” of the Corporate Governance Report on page 17 of the annual report.

We assessed the appropriateness of the accounting entries made for the Company and its Hong Kong incorporated subsidiaries, and the consolidation or elimination entries on a sample basis.

The Group has outsourced bookkeeping function of the Company and its Hong Kong incorporated subsidiaries and the Group’s statutory financial reporting preparation (the “Outsourced Functions”) since June 2020. It was identified that the Group did not have adequate controls over the Outsourced Functions. The Group has subsequently taken some remedial actions by assigning a staff to review the outsourced work but some controls were not fully remediated.

We reconciled the year-end balance to underlying accounting records or third-party confirmations received by us.

We considered the qualification of the staff assigned by the Group to review the outsourced work.

We performed substantive analytical review on material financial statement items.

We focused in this area as we have assessed the risk of material misstatement arising from the Outsourced Functions as significant for the audit.

INDEPENDENT AUDITOR'S REPORT

KEY AUDIT MATTERS (Continued)

5. Going concern

Nature of the key audit matter

Refer to note 2 to the consolidated financial statements.

As at 31 December 2020, the Group's current liabilities exceeded its current assets by approximately HK\$26,252,000. Its current liabilities, including bank and other borrowings of approximately HK\$148,762,000 and notes payable of approximately HK\$87,789,000 that are due within one year whereas the Group's cash and cash equivalents were approximately HK\$17,517,000.

The directors of the Company prepared a working capital forecast (the "Working Capital Forecast") for a period of 12 months ending on 31 December 2021, which have taken into the consideration of the Group's financial performance, working capital, liquidity position, available facilities from its principal bankers and financial institutions, and the stability of the Group's business, operations and relationships with its suppliers, bankers and financial institutions. In addition, Mr. Wong Cheung Lok, an executive director and ultimate controlling party of the Company, and his family members ("Wong's family") have agreed to provide financial support to the Group and will not demand the Group to repay the amounts due to them unless the Group could be able to do so. In view of this, the directors are of the view that the Group will be able to meet in full its financial obligations as they fall due for the foreseeable future.

We focused in this area as the management's assessment on the Group's ability to continue as a going concern involves significant judgment about inherently uncertain future outcomes of events or conditions.

How the matter was addressed in our audit

We obtained the Working Capital Forecast and tested its principles and integrity. We challenged the key assumptions used in the Working Capital Forecast, including revenue projection and financing facilities and resources available to the Group during the forecast period by comparing the Group's historical results to its forecasted amounts.

We performed sensitivity analysis by considering the downside scenario of reduction of sales of particleboards in both quantities sold and unit average selling price through the forecast period.

We ran through the terms of agreements with banks, financial institutions and other lenders to determine whether any of these agreements were breached.

We performed interview with the Group's principal bankers to confirm the existence of the banking facilities.

We obtained loan covenants calculation to consider whether all financial covenants attached to the subscription agreement as supplemented by several amendments with the notes subscriber and a bank loan agreement have been complied with by the Group.

We obtained letters of financial support from Wong's family and have assessed their ability to provide financial support to the Group.

INDEPENDENT AUDITOR'S REPORT

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

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

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

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

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

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

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

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

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

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

Our objectives are to obtain reasonable assurance about whether the consolidated financial statements as a whole are free from material misstatement, whether due to fraud or error, and to issue an auditor's report that includes our opinion. This report is made solely to you, as a body, in accordance with section 405 of the Hong Kong Companies Ordinance, and for no other purpose. We do not assume responsibility towards or accept liability to any other person for the contents of this report.

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



INDEPENDENT AUDITOR'S REPORT

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

(Continued)

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

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

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

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

INDEPENDENT AUDITOR'S REPORT

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

(Continued)

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

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

Graham H.Y. Chan & Co.

Certified Public Accountants (Practising)

Hong Kong, 13 April 2021

CONSOLIDATED STATEMENT OF PROFIT OR LOSS AND OTHER COMPREHENSIVE INCOME

For the year ended 31 December 2020

	Notes	2020 HK\$'000	2019 HK\$'000
Revenue	5	330,161	396,682
Cost of sales		(274,888)	(312,547)
Gross profit		55,273	84,135
Other income	7	13,933	17,457
Other gain/(losses), net		408	(34)
Impairment loss on right-of-use assets – forestlands	15	(7,598)	–
Impairment loss on trade and bills receivables	36(b)	(4,416)	(480)
Net (loss)/gain arising from changes in fair values less costs to sell of biological assets	16	(55,131)	1,672
Selling and distribution expenses		(26,447)	(28,519)
Administration expenses		(20,868)	(23,082)
Finance costs	8	(27,828)	(24,637)
(Loss)/profit before tax		(72,674)	26,512
Income tax credit/(expenses)	10	2,462	(1,222)
(Loss)/profit for the year attributable to owners of the Company	11	(70,212)	25,290
Other comprehensive income/(loss) which will not be reclassified subsequently to profit or loss: Exchange differences arising on translation to presentation currency		23,288	(9,913)
Other comprehensive income/(loss) for the year		23,288	(9,913)
Total comprehensive (loss)/income for the year		(46,924)	15,377
Total comprehensive (loss)/income attributable to owners of the Company		(46,924)	15,377
Basic and diluted (loss)/earnings per share, in HK cents	12	(8.43)	3.04

CONSOLIDATED STATEMENT OF FINANCIAL POSITION

As at 31 December 2020

	Notes	2020 HK\$'000	2019 HK\$'000
NON-CURRENT ASSETS			
Property, plant and equipment	14	334,135	309,455
Right-of-use assets	15	35,511	43,110
Biological assets	16	52,519	102,255
Intangible assets	17	1,734	2,066
Deferred tax assets	10	1,918	317
Prepayments for acquisition of property, plant and equipment	20	6,664	588
		432,481	457,791
CURRENT ASSETS			
Inventories	18	128,250	105,840
Trade and bills receivables	19	78,200	83,868
Deposits, prepayments and other receivables	20	52,692	40,107
Loan receivable	21	7,000	–
Bank balances and cash	22	17,517	69,689
Restricted deposit	22	–	5,000
		283,659	304,504
CURRENT LIABILITIES			
Trade payables	23	28,127	19,407
Other payables and accrued expenses	24	39,031	34,880
Tax payables		129	–
Contract liabilities	25	1,261	613
Bank and other borrowings, due within one year	26	148,762	171,445
Deferred income	27	4,103	3,732
Lease liabilities	15	709	723
Notes payable, secured and guaranteed	28	87,789	97,532
		309,911	328,332
NET CURRENT LIABILITIES		(26,252)	(23,828)
TOTAL ASSETS LESS CURRENT LIABILITIES		406,229	433,963

CONSOLIDATED STATEMENT OF FINANCIAL POSITION

As at 31 December 2020

	Notes	2020 HK\$'000	2019 HK\$'000
NON-CURRENT LIABILITIES			
Deferred tax liabilities	10	678	1,723
Bank and other borrowings, due after one year	26	89,185	67,832
Deferred income	27	29,997	30,671
Lease liabilities	15	147	591
		120,007	100,817
NET ASSETS			
		286,222	333,146
CAPITAL AND RESERVES			
Share capital	29	253,928	253,928
Reserves		32,294	79,218
EQUITY ATTRIBUTABLE TO OWNERS OF THE COMPANY AND TOTAL EQUITY			
		286,222	333,146

The consolidated financial statements on pages 48 to 133 were approved and authorised for issue by the Board of Directors on 13 April 2021 and are signed on its behalf by:

Wong Cheung Lok
Director

Liu Jiayong
Director

CONSOLIDATED STATEMENT OF CHANGES IN EQUITY

For the year ended 31 December 2020

	Share capital HK\$'000	Capital reserve HK\$'000 (note (ii))	Statutory reserve HK\$'000 (note (iii))	Foreign currency translation reserve HK\$'000	Retained profits HK\$'000	Total HK\$'000
Balance at 1 January 2019	253,928	(16,968)	25,835	(24,712)	79,686	317,769
Profit for the year	-	-	-	-	25,290	25,290
Other comprehensive loss:						
Exchange differences arising on translation to presentation currency	-	-	-	(9,913)	-	(9,913)
Total comprehensive (loss)/income for the year	-	-	-	(9,913)	25,290	15,377
Transfer to statutory reserve	-	-	4,490	-	(4,490)	-
Balance at 31 December 2019 and 1 January 2020	253,928	(16,968)	30,325	(34,625)	100,486	333,146
Loss for the year	-	-	-	-	(70,212)	(70,212)
Other comprehensive income:						
Exchange differences arising on translation to presentation currency	-	-	-	23,288	-	23,288
Total comprehensive (loss)/income for the year	-	-	-	23,288	(70,212)	(46,924)
Transfer to statutory reserve	-	-	1,003	-	(1,003)	-
Balance at 31 December 2020	253,928	(16,968)	31,328	(11,337)	29,271	286,222

- (i) Capital reserve represents the excess of consideration paid by the Company for acquiring the entire shares capital of Hongwei Wooden Products (Renhua) Company Limited ("Hongwei Renhua") over its capital at the time of the group reorganisation in the year 2012.
- (ii) In accordance with relevant laws and regulations in the People's Republic of China (the "PRC"), the PRC subsidiary is required to transfer at least 10% of its profit after tax reported in its statutory financial statements prepared under the relevant accounting principles and financial regulations applicable to enterprises established in the PRC to the statutory reserve.

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

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

CONSOLIDATED STATEMENT OF CASH FLOWS

For the year ended 31 December 2020

	Notes	2020 HK\$'000	2019 HK\$'000
Cash flows from operating activities			
(Loss)/profit before tax		(72,674)	26,512
Adjustments for:			
Interest income	7	(795)	(520)
Net foreign exchange (gain)/losses	11	(408)	34
Net loss/(gain) arising from changes in fair values less costs to sell of biological assets	16	55,131	(1,672)
Finance costs	8	27,828	24,637
Depreciation and amortisation	11	33,012	30,266
Impairment loss on right-of-use assets – forestlands	15	7,598	–
Impairment loss on trade and bills receivables	36(b)	4,416	480
Release of government grants	27	(3,835)	(3,746)
		50,273	75,991
Movements in working capital:			
Decrease/(increase) in trade and bills receivables		6,068	(37,675)
Increase in deposits, prepayments and other receivables		(8,750)	(147)
(Increase)/decrease in inventories		(14,769)	18,338
Increase in biological assets		(1,789)	(260)
Increase/(decrease) in trade payables		7,509	(13,905)
Increase in other payables, accrued expenses and contract liabilities		2,975	5,286
Net cash generated from operating activities		41,517	47,628
Cash flows from investing activities			
Payments for property, plant and equipment		(34,914)	(4,080)
Prepayments for acquisition of property, plant and equipment		(5,718)	–
Advancement of loan to a third party		(7,000)	–
Placement of restricted bank deposit		–	(5,000)
Withdrawal of restricted and pledged bank deposits		5,000	6,085
Interest received		25	520
Government grants received	27	1,408	1,069
Net cash used in investing activities		(41,199)	(1,406)

CONSOLIDATED STATEMENT OF CASH FLOWS

For the year ended 31 December 2020

	Notes	2020 HK\$'000	2019 HK\$'000
Cash flows from financing activities			
Repayment of principal of notes payable		(10,000)	–
Advancement of other borrowings from related parties	37(a)	10,281	19,400
Repayment of other borrowings from related parties	37(a)	(14,406)	(5,200)
Net proceeds from bank and other borrowings from third parties		161,998	294,926
Repayment of bank and other borrowings from third parties		(188,776)	(271,348)
Net changes in discounted bills		6,369	–
Repayment of lease liabilities		(478)	(623)
Interest paid		(18,789)	(19,660)
Net cash (used in)/generated from financing activities	31	(53,801)	17,495
Net (decrease)/increase in cash and cash equivalents		(53,483)	63,717
Cash and cash equivalents at the beginning of the year		69,689	6,204
Effect of foreign exchange rate changes		1,311	(232)
Cash and cash equivalents at the end of the year	22	17,517	69,689

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 31 December 2020

1. GENERAL INFORMATION

Hong Wei (Asia) Holdings Company Limited (the “**Company**”) was incorporated with limited liability in Hong Kong on 28 May 2012. Its ultimate controlling party and chairman of the Company is Mr. Wong Cheung Lok (“**Mr. Wong**”), who owned 51.65% direct interest of the Company as at 31 December 2020. The address of the Company’s registered office and its principal place of business is Unit No.5, 10/F., Well Tech Centre, No.9 Pat Tat Street, San Po Kong, Kowloon, Hong Kong.

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

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

2. BASIS OF PREPARATION OF THE CONSOLIDATED FINANCIAL STATEMENTS AND GOING CONCERN

As at 31 December 2020, the Group’s current liabilities exceeded its current assets by approximately HK\$26,252,000 (2019: HK\$23,828,000). Its current liabilities, including bank and other borrowings of approximately HK\$148,762,000 (2019: HK\$171,445,000) (note 26) and notes payable of approximately HK\$87,789,000 (2019: HK\$97,532,000) (note 28) that are due within one year, whereas its cash and cash equivalents were approximately HK\$17,517,000 (2019: HK\$69,689,000).

Taking into consideration of the Group’s financial performance, working capital, liquidity position, available facilities from its principal bankers, financial institutions and the stability of the Group’s business, operations and relationships with its suppliers, bankers and financial institution, the directors have prepared and assessed working capital forecast for a period of 12 months ending on 31 December 2021. In addition, Mr. Wong and his family members (“Wong’s family”) have agreed to provide financial support to the Group and will not demand the Group to repay the amounts due to them unless the Group could be able to do so. In view of this, the directors are of the view that the Group will be able to meet in full its financial obligations as they fall due for the foreseeable future.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 31 December 2020

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

Amendments to HKFRSs and revised conceptual framework adopted as at 1 January 2020

The Hong Kong Institute of Certified Public Accountants (the “HKICPA”) has issued the following new amendments to HKFRSs and revised conceptual framework which are effective for the first time in the current year:

Amendments to HKFRS 3	Definition of a Business
Amendments to HKAS 1 and HKAS 8	Definition of Material
Amendments to HKFRS 9, HKAS 39 and HKFRS 7	Interest Rate Benchmark Reform
Revised Conceptual Framework	Revised Conceptual Framework for Financial Reporting

The application of amendments to HKFRSs and revised conceptual framework had no material effect on the amounts reported in the consolidated financial statements and/or disclosures set out in the consolidated financial statements.

HKFRSs issued but not yet effective

The Group has not early applied the following new standard and amendments to HKFRSs that have been issued but are not yet effective in these financial statements:

Amendments to HKFRSs	Annual Improvements to HKFRSs 2018 – 2020 Cycle ³
Amendments to HKAS 1	Classification of Liabilities as Current or Non-current and related amendments to Hong Kong Interpretation 5 (2020) ⁴
Amendments to HKAS 16	Property, Plant and Equipment: Proceeds before intended use ³
Amendments to HKAS 37	Onerous Contracts – Cost of Fulfilling a Contract ³
Amendments to HKFRS 3	Reference to the Conceptual Framework ³
Amendments to HKFRS 9, HKAS 39, HKFRS 7, HKFRS 4 and HKFRS 16	Interest Rate Benchmark Reform – Phase 2 ²
Amendments to HKFRS 10 and HKAS 28	Sale or Contribution of Assets between an Investor and its Associate or Joint Venture ⁵
Amendments to HKFRS 16	Covid-19-Related Rent Concession ¹
HKFRS 17	Insurance Contracts ⁴

¹ Effective for annual periods beginning on or after 1 June 2020

² Effective for annual periods beginning on or after 1 January 2021

³ Effective for annual periods beginning on or after 1 January 2022

⁴ Effective for annual periods beginning on or after 1 January 2023

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

The directors of the Company do not anticipate that the application of the new standard and amendments to HKFRSs above will have a material effect on the consolidated financial statements.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 31 December 2020

3.2. SIGNIFICANT ACCOUNTING POLICIES

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

The consolidated financial statements have been prepared on the historical cost, except for biological assets which are measured at fair values less costs to sell as explained in the accounting policies set out below.

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

Fair value is the price that would be received to sell an asset or paid to transfer a liability in an orderly transaction between market participants at the measurement date, regardless of whether that price is directly observable or estimated using another valuation technique. In estimating the fair value of an asset or a liability, the Group takes into account the characteristics of the asset or liability if market participants would take those characteristics into account when pricing the asset or liability at the measurement date. Fair value for measurement and/or disclosure purposes in these consolidated financial statements is determined on such a basis, except for share-based payment transactions that are within the scope of HKFRS 2, leasing transactions that are within the scope of HKFRS 16, and measurements that have some similarities to fair value but are not fair value, such as net realisable value in HKAS 2 or value in use in HKAS 36.

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

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

The principal accounting policies are set out below:

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 31 December 2020

3.2. SIGNIFICANT ACCOUNTING POLICIES *(Continued)*

(a) Basis of consolidation

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

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

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

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

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

(b) Investment in subsidiaries

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

(c) Revenue recognition

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

Step 1: Identify the contract(s) with a customer

Step 2: Identify the performance obligations in the contract

Step 3: Determine the transaction price

Step 4: Allocate the transaction price to the performance obligations in the contract

Step 5: Recognise revenue when (or as) the entity satisfies a performance obligation

The Group recognises revenue when (or as) a performance obligation is satisfied, i.e. when "control" of the goods or services underlying the particular performance obligation is transferred to customers.

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

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 31 December 2020

3.2. SIGNIFICANT ACCOUNTING POLICIES (Continued)

(c) Revenue recognition (Continued)

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

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

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

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

Existence of significant financing component

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

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

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

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 31 December 2020

3.2. SIGNIFICANT ACCOUNTING POLICIES (Continued)

(c) Revenue recognition (Continued)

Incremental costs of obtaining a contract

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

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

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

Contract assets and liabilities

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

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

(d) Leasing

The Group assesses whether a contract is or contains a lease, at inception of the contract. The Group recognises a right-of-use asset and a corresponding lease liability with respect to all lease arrangements in which it is the lessee, except for short-term leases (defined as leases with a lease term of 12 months or less) and leases of low value assets. For these leases, the Group recognises the lease payments as an operating expense on a straight-line basis over the term of the lease unless another systematic basis is more representative of the time pattern in which economic benefits from the leased assets are consumed.

The lease liability is initially measured at the present value of the lease payments that are not paid at the commencement date, discounted by using the rate implicit in the lease. If this rate cannot be readily determined, the lessee uses its incremental borrowing rate.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 31 December 2020

3.2. SIGNIFICANT ACCOUNTING POLICIES (Continued)

(d) Leasing (Continued)

Lease payments included in the measurement of the lease liability comprise:

- Fixed lease payments (including in-substance fixed payments), less any lease incentives receivable;
- Variable lease payments that depend on an index or rate, initially measured using the index or rate at the commencement date;
- The amount expected to be payable by the lessee under residual value guarantees;
- The exercise price of purchase options, if the lessee is reasonably certain to exercise the options; and
- Payments of penalties for terminating the lease, if the lease term reflects the exercise of an option to terminate the lease.

The lease liability is presented as a separate line in the consolidated statement of financial position.

The lease liability is subsequently measured by increasing the carrying amount to reflect interest on the lease liability (using the effective interest method) and by reducing the carrying amount to reflect the lease payments made.

The Group remeasures the lease liability (and makes a corresponding adjustment to the related right-of-use asset) whenever:

- The lease term has changed or there is a significant event or change in circumstances resulting in a change in the assessment of exercise of a purchase option, in which case the lease liability is remeasured by discounting the revised lease payments using a revised discount rate.
- The lease payments change due to changes in an index or rate or a change in expected payment under a guaranteed residual value, in which cases the lease liability is remeasured by discounting the revised lease payments using an unchanged discount rate (unless the lease payments change is due to a change in a floating interest rate, in which case a revised discount rate is used).
- A lease contract is modified and the lease modification is not accounted for as a separate lease, in which case the lease liability is remeasured based on the lease term of the modified lease by discounting the revised lease payments using a revised discount rate at the effective date of the modification.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 31 December 2020

3.2. SIGNIFICANT ACCOUNTING POLICIES *(Continued)*

(d) Leasing *(Continued)*

The right-of-use assets comprise the initial measurement of the corresponding lease liability, lease payments made at or before the commencement date, less any lease incentives received and any initial direct costs. They are subsequently measured at cost less accumulated depreciation and impairment losses.

Whenever the Group incurs an obligation for costs to dismantle and remove a leased asset, restore the site on which it is located or restore the underlying asset to the condition required by the terms and conditions of the lease, a provision is recognised and measured under HKAS 37. To the extent that the costs relate to a right-of-use asset, the costs are included in the related right-of-use asset, unless those costs are incurred to produce inventories.

Right-of-use assets are depreciated over the shorter period of lease term and useful life of the underlying asset. If a lease transfers ownership of the underlying asset or the cost of the right-of-use asset reflects that the Group expects to exercise a purchase option, the related right-of-use asset is depreciated over the useful life of the underlying asset. The depreciation starts at the commencement date of the lease.

The right-of-use assets are presented as a separate line in the consolidated statement of financial position.

The Group applies HKAS 36 to determine whether a right-of-use asset is impaired and accounts for any identified impairment loss as described in the "Impairment of non-financial assets" policy.

Variable rents that do not depend on an index or rate are not included in the measurement of the lease liability and the right-of-use asset. The related payments are recognised as an expense in the period in which the event or condition that triggers those payments occurs and are recognised in profit or loss.

For a contracts that contain a lease component and one or more additional lease or non-lease components, the Group allocates the consideration in the contract to each lease component on the basis of the relative stand-alone price of the lease component and the aggregate stand-alone price of the non-lease components.

If the transfer of an asset by the seller-lessee does not satisfy the requirements of HKFRS 15 to be accounted for as a sale of the asset, the Group continues to recognise the transferred asset and recognise a financial liability equal to the transfer proceeds by applying HKFRS 9.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 31 December 2020

3.2. SIGNIFICANT ACCOUNTING POLICIES *(Continued)*

(e) Foreign currencies

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

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

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

(f) Borrowing costs

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

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

(g) Government grants

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

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

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

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 31 December 2020

3.2. SIGNIFICANT ACCOUNTING POLICIES *(Continued)*

(h) Retirement benefit costs

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

(i) Taxation

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

Current tax

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

A provision is recognised for those matters for which the tax determination is uncertain but it is considered probable that there will be a future outflow of funds of a tax authority. The provisions are measured at the best estimate of the amount expected to become payable.

Deferred tax

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

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

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

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 31 December 2020

3.2. SIGNIFICANT ACCOUNTING POLICIES (Continued)

(i) Taxation (Continued)

Deferred tax (Continued)

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

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

Deferred tax assets and liabilities are offset when there is a legally enforceable right to set off current tax assets against current tax liabilities and when they relate to income taxes levied by the same taxation authority and the Group intends to settle its current tax assets and liabilities on a net basis.

Current and deferred tax are recognised in profit or loss, except when they relate to items that are recognised in other comprehensive income or directly in equity, in which case, the current and deferred tax are also recognised in other comprehensive income or directly in equity respectively. Where current tax or deferred tax arises from the initial accounting for a business combination, the tax effect is included in the accounting for the business combination.

(j) Property, plant and equipment

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

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

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

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

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 31 December 2020

3.2. SIGNIFICANT ACCOUNTING POLICIES *(Continued)*

(k) Intangible assets acquired separately

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

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

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

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

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

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

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

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 31 December 2020

3.2. SIGNIFICANT ACCOUNTING POLICIES (Continued)

(m) Impairment of non-financial assets

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

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

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

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

(n) Biological assets

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

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

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 31 December 2020

3.2. SIGNIFICANT ACCOUNTING POLICIES *(Continued)*

(o) Inventories

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

(p) Financial instruments

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

Recognised financial assets and financial liabilities are initially measured at fair value except for trade receivables arising from contracts with customers which are initially measured in accordance with HKFRS 15. Transaction costs that are directly attributable to the acquisition or issue of financial assets and financial liabilities are added to or deducted from the fair value of the financial assets or financial liabilities, as appropriate, on initial recognition. Transaction costs directly attributable to the acquisition of financial assets or financial liabilities at fair value through profit or loss ("FVTPL") are recognised in profit or loss.

Financial assets

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

Specifically,

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

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 31 December 2020

3.2. SIGNIFICANT ACCOUNTING POLICIES (Continued)

(p) Financial instruments (Continued)

Financial assets (Continued)

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

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

Amortised cost and effective interest method

The effective interest method is a method of calculating the amortised cost of a debt instrument and of allocating interest income over the relevant period.

For financial instruments other than purchased or originated credit-impaired financial assets, the effective interest rate is the rate that exactly discounts estimated future cash receipts (including all fees and points paid or received that form an integral part of the effective interest rate, transaction costs and other premiums or discounts) excluding expected credit losses (“ECLs”), through the expected life of the debt instrument, or, where appropriate, a shorter period, to the gross carrying amount of the debt instrument on initial recognition.

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

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

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

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

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 31 December 2020

3.2. SIGNIFICANT ACCOUNTING POLICIES (Continued)

(p) Financial instruments (Continued)

Impairment of financial assets

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

- (a) trade and bills receivables;
- (b) loan receivable;
- (c) restricted deposit; and
- (d) bank balances and cash.

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

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

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

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

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 31 December 2020

3.2. SIGNIFICANT ACCOUNTING POLICIES (Continued)

(p) Financial instruments (Continued)

Impairment of financial assets (Continued)

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

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

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

Significant increase in credit risk

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

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

- an actual or expected significant deterioration in the financial instrument's external (if available) or internal credit rating;
- significant deterioration in external market indicators of credit risk for a particular financial instrument, e.g. a significant increase in the credit spread, the credit default swap prices for the debtor, or the length of time or the extent to which the fair value of a financial asset has been less than its amortised cost;
- existing or forecast adverse changes in business, financial or economic conditions that are expected to cause a significant decrease in the debtor's ability to meet its debt obligations;
- an actual or expected significant deterioration in the operating results of the debtor;
- significant increases in credit risk on other financial instruments of the same debtor;
- an actual or expected significant adverse change in the regulatory, economic, or technological environment of the debtor that results in a significant decrease in the debtor's ability to meet its debt obligations.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 31 December 2020

3.2. SIGNIFICANT ACCOUNTING POLICIES *(Continued)*

(p) Financial instruments *(Continued)*

Significant increase in credit risk *(Continued)*

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

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

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

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

Definition of default

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

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

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

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 31 December 2020

3.2. SIGNIFICANT ACCOUNTING POLICIES (Continued)

(p) Financial instruments (Continued)

Credit-impaired financial assets

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

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

Write-off policy

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

Measurement and recognition of ECLs

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

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

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

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 31 December 2020

3.2. SIGNIFICANT ACCOUNTING POLICIES (Continued)

(p) Financial instruments (Continued)

Measurement and recognition of ECLs (Continued)

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

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

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

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

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

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

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

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 31 December 2020

3.2. SIGNIFICANT ACCOUNTING POLICIES (Continued)

(p) Financial instruments (Continued)

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

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

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

Derecognition of financial assets

The Group derecognises a financial asset only when the contractual rights to the cash flows from the asset expire or when the financial asset and substantially all the risks and rewards of ownership of the asset are transferred to another entity.

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

Financial liabilities and equity

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

Financial liabilities

Financial liabilities, including trade and other payables, bank and other borrowings, lease liabilities and secured and guaranteed notes payable are subsequently measured at amortised cost using the effective interest method.

The effective interest method is a method of calculating the amortised cost of a financial liability and of allocating interest expense over the relevant period. The effective interest rate is the rate that exactly discounts estimated future cash payments through the expected life of the financial liability, or, where appropriate, a shorter period, to the net carrying amount on initial recognition.

Derecognition of financial liabilities

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

Equity instruments

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

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 31 December 2020

4. KEY SOURCES OF ESTIMATION UNCERTAINTY

In the application of the Group's accounting policies, which are described in note 3.2, the management of the Group are required to make judgments, estimates and assumptions about the carrying amounts of assets and liabilities that are not readily apparent from other sources. The estimates and associated assumptions are based on historical experience and other factors that are considered to be relevant. Actual results may differ from these estimates.

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

(a) Judgment

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

(i) *Going concern*

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

(ii) *Assessing future economic benefits associated with additions to existing plant and machineries*

In assessing whether future economic benefits associated with additions to existing plant and machineries could be probable to flow to the Group, the directors consider whether these additions were acquired for improvements to existing plant and machineries, or for safety or environmental reasons, or for costs of day-to-day servicing such as consumables. If the additions could be probable to bring future economic benefits to the Group, they are recognised as property, plant and equipment; otherwise, they are charged to profit or loss when they are incurred.

(b) Estimation uncertainty

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

(i) *Valuations of biological assets*

The Group's biological assets are valued at fair values less costs to sell with reference to the work performed by LCH (Asia-Pacific) Surveyors Limited (the "Independent Valuers") which involves the use of assumptions and estimates. Any changes in the estimates may affect the fair values less costs to sell of these biological assets and result in fair value re-measurement changes in future accounting periods. The directors and the Independent Valuers have exercised their judgement and are satisfied that the valuation is reflective of their fair values. As at 31 December 2020, the carrying amount of the Group's biological assets was approximately HK\$52,519,000 (2019: HK\$102,255,000).

Further details about the valuations of biological assets are set out in note 16 to the consolidated financial statements.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 31 December 2020

4. KEY SOURCES OF ESTIMATION UNCERTAINTY *(Continued)*

(b) Estimation uncertainty *(Continued)*

(ii) **Estimated impairment of non-financial assets**

The Group's major non-financial assets as at 31 December 2020 comprise, property, plant and equipment of approximately HK\$334,135,000 (2019: HK\$309,455,000) (note 14), right-of-use assets of approximately HK\$35,511,000 (2019: HK\$43,110,000) (note 15) and payments in advance to suppliers of approximately HK\$32,333,000 (2019: HK\$23,632,000) (note 20).

The Group assesses whether there are any indicators of impairment for non-financial assets at the end of each reporting period. These assets are tested for impairment annually, and/or when there are indicators that the carrying amounts may not be recoverable. Impairment exists when the carrying value of an asset or a cash-generating unit exceeds its recoverable amount, which is the higher of its fair value less costs to sell and its value in use. The calculation of the fair value less costs to sell is based on available data from binding sales transactions in an arm's length transaction of similar assets or observable market price less incremental costs for disposing of the asset. When value in use calculations are undertaken, management must estimate the expected future cash flows from the asset or cash-generating unit and choose a suitable discount rate in order to calculate the present value of those cash flows. As at 31 December 2020, other than the impairment loss on right-of-use assets - forestlands of approximately HK\$7,598,000 (2019: HK\$ nil) was made, no impairment was made in respect of the Group's other non-financial assets. Details of impairment loss on right-of-use assets - forestlands are set out in note 15 to the consolidated financial statements.

(iii) **Useful lives of property, plant and equipment**

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

Further details about the estimated useful lives and the carrying amounts of the property, plant and equipment are set out in note 14 to the consolidated financial statements.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 31 December 2020

4. KEY SOURCES OF ESTIMATION UNCERTAINTY *(Continued)*

(b) Estimation uncertainty *(Continued)*

(iv) **Calculation of loss allowance**

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

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

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

As at 31 December 2020, the Group determines a loss allowance for trade and bills receivables amounting to approximately HK\$5,777,000 (2019: HK\$1,208,000). Details are set out in notes 19 and 36 (b) to the consolidated financial statements.

(v) **Allowance for obsolete inventories**

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

Net realisable value of inventories is the estimated selling price in the ordinary course of business, less any estimated costs to be incurred to completion and to make the sale. These estimates are based on the current market condition and the historical experience of manufacturing and selling products of similar nature. Management reassesses the estimation at the end of each reporting period. Where the net realisable value is less than expected, a material write down may arise. As at 31 December 2020, the carrying amount of inventories amounting to approximately HK\$128,250,000 (2019: HK\$105,840,000). No write-down of inventories is made during the year ended 31 December 2020 and 2019. Further details are set out in note 18 to the consolidated financial statements.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 31 December 2020

5. REVENUE

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

	2020 HK\$'000	2019 HK\$'000
<i>Timing of revenue recognition – a point in time:</i>		
Sales of particleboards	330,161	396,682
Revenue from contracts with customers	330,161	396,682

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

6. SEGMENT INFORMATION

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

During the year ended 31 December 2020 and 2019, the Group has two reportable operating segments. Details are as follows:

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

The accounting policies of the reportable segments are the same as the Group's accounting policies as set out in note 3.2 above. Segment revenue represents the revenue generated by each operating segment. Inter-segment revenue represents inter-segment sales which were transacted with reference to the selling prices used for sales made to third parties at the then prevailing market prices.

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

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 31 December 2020

6. SEGMENT INFORMATION (Continued)

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

- All assets are allocated to reportable segments other than restricted bank deposit, loan receivable, deferred tax assets and unallocated corporate assets; and
- All liabilities are allocated to reportable segments other than bank and other borrowings, notes payable, lease liabilities, tax payable, deferred tax liabilities and unallocated corporate liabilities.

Operating segments

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

For the year ended 31 December 2020

	Particleboards segment HK\$'000	Forestry segment HK\$'000	Total HK\$'000
<i>Segment revenue:</i>			
Reportable segment revenue	330,161	–	330,161
Elimination of inter-segment revenue	–	–	–
Consolidated revenue	330,161	–	330,161
<i>Segment results:</i>			
Reportable segment results	25,386	(64,568)	(39,182)
Interest income (note 7)			795
Finance costs (note 8)			(27,828)
Unallocated corporate staff costs			(3,065)
Unallocated corporate expenses			(3,394)
Consolidated loss before tax			(72,674)
<i>Other segment information</i>			
Capital expenditures – allocated	40,950	–	40,950
Depreciation – allocated	30,695	1,058	31,753
Depreciation – unallocated			819
			32,572
Amortisation	440	–	440
Net losses arising from changes in fair values less costs to sell of biological assets (note 16)	–	55,131	55,131
Impairment loss on right-of-use assets – forestlands (note 15)	–	7,598	7,598
Impairment loss on trade and bills receivables (note 36(b))	4,416	–	4,416

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 31 December 2020

6. SEGMENT INFORMATION (Continued)

Operating segments (Continued)

For the year ended 31 December 2019

	Particleboards segment HK\$'000	Forestry segment HK\$'000	Total HK\$'000
<i>Segment revenue:</i>			
Reportable segment revenue	396,682	–	396,682
Elimination of inter-segment revenue	–	–	–
Consolidated revenue	396,682	–	396,682
<i>Segment results:</i>			
Reportable segment results	59,837	(247)	59,590
Interest income (note 7)			520
Finance costs (note 8)			(24,637)
Unallocated corporate staff costs			(3,455)
Unallocated corporate expenses			(5,506)
Consolidated profit before tax			26,512
<i>Other segment information</i>			
Capital expenditures – allocated	4,080	–	4,080
Depreciation – allocated	28,083	1,069	29,152
Depreciation – unallocated			669
			29,821
Amortisation	445	–	445
Net gain arising from changes in fair values less costs to sell of biological assets (note 16)	–	1,672	1,672
Impairment loss on trade and bills receivables (note 36(b))	480	–	480

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

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 31 December 2020

6. SEGMENT INFORMATION (Continued)

Operating segments (Continued)

As at 31 December 2020

	Particleboards segment HK\$'000	Forestry segment HK\$'000	Total HK\$'000
<i>Segment assets:</i>			
Reportable segment assets	636,545	68,813	705,358
Deferred tax assets			1,918
Loan receivable			7,000
Unallocated corporate assets			1,864
Consolidated total assets			716,140
<i>Segment liabilities:</i>			
Reportable segment liabilities	96,007	2,094	98,101
Deferred tax liabilities			678
Tax payable			129
Bank and other borrowings			237,947
Lease liabilities			856
Notes payable			87,789
Unallocated corporate liabilities			4,418
Consolidated total liabilities			429,918

As at 31 December 2019

	Particleboards segment HK\$'000	Forestry segment HK\$'000	Total HK\$'000
<i>Segment assets:</i>			
Reportable segment assets	627,767	126,234	754,001
Deferred tax assets			317
Restricted deposit			5,000
Unallocated corporate assets			2,977
Consolidated total assets			762,295
<i>Segment liabilities:</i>			
Reportable segment liabilities	80,364	2,032	82,396
Deferred tax liabilities			1,723
Bank and other borrowings			239,277
Lease liabilities			1,314
Notes payable			97,532
Unallocated corporate liabilities			6,907
Consolidated total liabilities			429,149

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 31 December 2020

6. SEGMENT INFORMATION (Continued)

Entity-wide disclosures

Geographical information

The Group's operation is located in the PRC and all of its revenue is generated from the PRC and other Asian countries for both years. The analysis is as follows:

	2020 HK\$'000	2019 HK\$'000
Revenue from the PRC	330,161	396,682
	330,161	396,682

The Group's non-current assets other than deferred tax assets are located in the PRC by location of assets in case of property, plant and equipment and biological assets or by location of operation to which they are allocated, in case of right-of-use assets, prepayments for acquisition of property, plant and equipment and intangible assets.

Information about major customers

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

	2020 HK\$'000	2019 HK\$'000
Customer A	133,393	182,457
Customer B	N/A*	45,536

* The corresponding sales for the year did not account for over 10% of total sales of the Group for that year.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 31 December 2020

7. OTHER INCOME

	2020 HK\$'000	2019 HK\$'000
Value added tax ("VAT") refund *	7,865	12,368
Government grants**	5,106	4,526
Interest income	795	520
Others	167	43
	13,933	17,457

* VAT refund is received/receivable for the year in relation to Hongwei Renhua's operation in the PRC. There is no unfulfilled condition attached to the receipt of VAT refund.

** The amount of HK\$3,835,000 (2019: HK\$3,746,000) represented financial subsidy released from deferred income for interest expenses incurred by the Group for its bank borrowings. The amount of HK\$1,271,000 (2019: HK\$780,000) have been received to provide immediate financial support to the Group with no unfulfilled conditions related to the subsidy.

8. FINANCE COSTS

	2020 HK\$'000	2019 HK\$'000
Interests on bank and other borrowings	16,309	12,501
Interests on bonds and notes payable	9,859	11,039
Interests on lease liabilities (note 15)	20	40
Other finance costs	1,640	1,057
	27,828	24,637

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 31 December 2020

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

Directors

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

For the year ended 31 December 2020				
	Fees HK\$'000	Salaries and other benefits HK\$'000	Contribution to retirement benefit schemes HK\$'000	Total HK\$'000
Executive directors:				
Mr. Wong	360	97	18	475
Ms. Cheung Ngai Kwan ("Mrs. Wong")	240	–	12	252
Mr. Liu Jiayong	360	214	1	575
Mr. Wong Kin Ching (appointed on 16 August 2019)	120	52	6	178
Mr. Lai Weifeng (appointed on 16 August 2019 and resigned on 28 August 2020)	80	–	–	80
Independent non-executive directors:				
Dr. Xu Jianmin	120	–	–	120
Ms. Qian Xiaoyu	120	–	–	120
Dr. Chow Ho Wan, Owen	150	–	–	150
	1,550	363	37	1,950

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 31 December 2020

9. DIRECTORS', CHIEF EXECUTIVE'S AND EMPLOYEES' EMOLUMENTS (Continued)

Directors (Continued)

	For the year ended 31 December 2019			
	Fees HK\$'000	Salaries and other benefits HK\$'000	Contribution to retirement benefit schemes HK\$'000	Total HK\$'000
Executive directors:				
Mr. Wong	360	110	18	488
Mrs. Wong	240	–	12	252
Mr. Liu Jiayong	360	252	5	617
Mr. Wong Kin Ching (appointed on 16 August 2019)	45	43	4	92
Ms. Huang Xiuyan (resigned on 16 August 2019)	113	89	3	205
Mr. Lai Weifeng (appointed on 16 August 2019)	45	–	–	45
Independent non-executive directors:				
Dr. Xu Jianmin	120	–	–	120
Ms. Qian Xiaoyu	120	–	–	120
Dr. Chow Ho Wan, Owen	150	–	–	150
	1,553	494	42	2,089

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

Employees

Of the five individuals with the highest emoluments in the Group, two (2019: two) were directors of the Company for the year ended 31 December 2020, whose emoluments are set out above. The emoluments of the remaining three (2019: three) individuals during the year were as follows:

	2020 HK\$'000	2019 HK\$'000
Salaries and other benefits	1,202	1,228
Discretionary bonus	–	81
Contribution to retirement benefits schemes	18	54
	1,220	1,363

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 31 December 2020

9. DIRECTORS', CHIEF EXECUTIVE'S AND EMPLOYEES' EMOLUMENTS (Continued)

Employees

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

During the year ended 31 December 2020 and 2019, saved as disclosed above, no emoluments were paid by the Group to any of the directors or the five highest paid individuals as an inducement to join or upon joining the Group or as compensation for loss of office. In addition, during the year ended 31 December 2020 and 2019, no director waived any emoluments.

10. INCOME TAX

10.1 Income tax recognised in profit or loss

	2020 HK\$'000	2019 HK\$'000
Current tax	129	–
Deferred tax (credited)/charged:		
– origination and reversal of temporary difference	(2,591)	1,222
Income tax (credit)/expenses	(2,462)	1,222

Hong Kong profits tax provided at the two-tiered rate of 8.25% for the first HK\$2 million of the estimated assessable profits for one of the Group's Hong Kong subsidiaries for the year and 16.5% on the remaining estimated assessable profits for the year ended 31 December 2020. No provision of Hong Kong profits tax had been made for the year ended 31 December 2019 as the Group did not have assessable profits in Hong Kong for that year.

Under the Law of the People's Republic of China on Enterprise Income Tax (the "EIT Law") and Implementation Regulation of the EIT Law, the tax rate of Hongwei Renhua is 25% in both years.

Pursuant to the EIT Law and its implementation regulations, where an enterprise utilises the resources as listed in the Catalogue of Resources for Comprehensive Utilisation Entitling Enterprises to Income Tax Preferences ("資源綜合利用企業所得稅優惠目錄") as its major raw materials to make products which are not restricted or prohibited by the state and are consistent with the relevant state or industrial standards, only 90% of the income derived therefrom shall be accounted for as taxable income of the enterprise in that year (the "Tax Concessions"). During the year ended 31 December 2020 and 2019, Hongwei Renhua is entitled to such preferential policy and only 90% of the income of Hongwei Renhua from the sale of particleboards was regarded as taxable income.

According to the EIT Law and Implementation Regulation of the EIT Law, enterprises that engage in qualified agricultural business are eligible for exemption from payment of enterprise income tax. During the year ended 31 December 2020 and 2019, the Group's two subsidiaries are engaged in qualified agricultural business and therefore, the profit of them are entitled to exemption from payment of enterprise income tax (the "Tax Exemption").

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 31 December 2020

10. INCOME TAX (Continued)

10.1 Income tax recognised in profit or loss (Continued)

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

	2020 HK\$'000	2019 HK\$'000
(Loss)/profit before tax	(72,674)	26,512
Tax at the statutory tax rate of 25%	(18,169)	6,628
Effect of different tax rates	1,354	1,551
Tax effect of income not taxable for tax purpose	(726)	(430)
Tax effect of expenses not deductible for tax purpose	19,421	4,413
Tax effect of tax losses not recognised	4,316	–
Utilisation of tax losses previously not recognised	(19)	(106)
Utilisation of deductible temporary difference previously not recognised	–	(499)
Effect of Tax Concessions	(8,253)	(9,917)
Effect of Tax Exemption	–	(418)
Others	(386)	–
Income tax (credit)/expenses	(2,462)	1,222

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 31 December 2020

10. INCOME TAX (Continued)

10.2 Deferred taxation

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

	2020 HK\$'000	2019 HK\$'000
Deferred tax assets	1,918	317
Deferred tax liabilities	(678)	(1,723)
	1,240	(1,406)

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

	Withholding tax on undistributed profit of PRC subsidiary HK\$'000	Depreciation of property, plant and equipment HK\$'000	Deferred government grants HK\$'000	Impairment loss on trade and bills receivables HK\$'000	Tax losses HK\$'000	Total HK\$'000
At 1 January 2019	(560)	(1,688)	350	–	1,688	(210)
Credited/(charged) to profit or loss	–	269	(27)	–	(1,464)	(1,222)
Effect of foreign currency exchange differences	12	26	(6)	–	(6)	26
At 31 December 2019 and 1 January 2020	(548)	(1,393)	317	–	218	(1,406)
Credited to profit or loss	–	1,095	7	1,489	–	2,591
Effect of foreign currency exchange differences	(35)	(15)	21	84	–	55
At 31 December 2020	(583)	(313)	345	1,573	218	1,240

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 31 December 2020

10. INCOME TAX (Continued)

10.2 Deferred taxation (Continued)

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

	2020 HK\$'000	2019 HK\$'000
Tax losses	38,667	20,555
Deductible temporary differences	5,046	6,468
	43,713	27,023

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

As at 31 December 2020, the Group has unused tax losses of approximately HK\$39,988,000 (2019: HK\$21,876,000) available for offset against future profits. As at 31 December 2020, deferred tax asset of approximately HK\$218,000 (2019: HK\$218,000) had been recognised in respect of tax losses of approximately HK\$1,321,000 (2019: HK\$1,321,000). No deferred tax asset had been recognised in respect of the remaining tax losses of approximately HK\$38,667,000 (2019: HK\$20,555,000) as at 31 December 2020 due to unpredictability of future profit streams. As at 31 December 2020, the Group's unused tax losses of approximately HK\$21,759,000 (2019: HK\$21,876,000) may be carried forward indefinitely and the Group's unused tax losses of approximately HK\$18,229,000 (2019: HK\$ nil) may be expired within 5 years.

Under the EIT Law, starting from 1 January 2009, 10% withholding income tax is imposed on dividends declared in respect of profits earned in year 2008 onwards and distributed to foreign investors from companies established in the PRC. For investors incorporated in Hong Kong, a preferential rate of 5% will be applied where appropriate. Other than the PRC withholding income tax provided as above, no deferred taxation has been provided for the retained profits of HK\$275,457,000 (2019: HK\$249,844,000) as at 31 December 2020 which were derived from the PRC subsidiary since 1 January 2008, as the Group has set aside such sum for non-distributable purpose and is able to control the timing of the reversal of the temporary differences, and it is probable that the temporary differences will not reverse in the foreseeable future.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 31 December 2020

11. (LOSS)/PROFIT FOR THE YEAR

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

	Notes	2020 HK\$'000	2019 HK\$'000
Employee benefits expenses (include directors' emoluments)			
Salaries and other benefits		14,111	15,181
Contribution to retirement benefit schemes		184	949
Total employee benefit expenses		14,295	16,130
Depreciation of:			
– property, plant and equipment		30,398	27,772
– right-of-use assets		2,174	2,049
Amortisation:			
– intangible assets	(i)	440	445
Cost of goods sold recognised as expenses		274,888	312,547
Auditor's remuneration			
– Provision in respect of current year		1,305	1,450
– Over provision in respect of prior year		(100)	–
Operating lease payments for lease with remaining lease term ended on or before 31 December 2019	(ii)	–	319
Other taxes		2,108	2,801
Legal, consultancy and professional fees		1,347	1,640
Entertainment and travelling expenses		2,005	1,364
Donation		47	707
Research and development expenses		1,418	–
Exchange (gain)/losses, net		(408)	34

Note:

- (i) The amount was included in administrative expenses in the consolidated statement of profit or loss and other comprehensive income.
- (ii) Upon adoption of HKFRS 16 in 2019, the Group had applied one of the practical expedients permitted by the standard to account for lease with remaining lease term ended on or before 31 December 2019 as short-term lease and all other leases have been no longer recognised under operating lease payments.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 31 December 2020

12. (LOSS)/EARNINGS PER SHARE

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

(Loss)/earnings

	2020 HK\$'000	2019 HK\$'000
(Loss)/profit for the year attributable to owners of the Company for the purpose of basic and diluted (loss)/earnings per share	(70,212)	25,290

Number of shares

	2020 '000	2019 '000
Weighted average number of ordinary shares for the purpose of basic and diluted (loss)/earnings per share	832,603	832,603

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

13. DIVIDENDS

No dividend was paid or proposed for the year ended 31 December 2020 (2019: nil), nor has any dividend been proposed since the end of the reporting period.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 31 December 2020

14. PROPERTY, PLANT AND EQUIPMENT

	Buildings and leasehold improvement HK\$'000	Plant and machinery HK\$'000	Motor vehicles HK\$'000	Furniture and equipment HK\$'000	Construction in progress HK\$'000	Total HK\$'000
Cost						
Balance at 1 January 2019	148,004	307,582	4,008	3,921	2,077	465,592
Additions	13	6,646	–	–	262	6,921
Transfer	–	1,858	–	–	(1,858)	–
Exchange realignment	(3,255)	(6,895)	(75)	(51)	(17)	(10,293)
Balance at 31 December 2019	144,762	309,191	3,933	3,870	464	462,220
Balance at 1 January 2020	144,762	309,191	3,933	3,870	464	462,220
Additions	1,070	19,833	392	–	13,619	34,914
Transfer	–	423	–	–	(423)	–
Exchange realignment	9,382	21,146	236	148	766	31,678
Balance at 31 December 2020	155,214	350,593	4,561	4,018	14,426	528,812
Accumulated depreciation and impairment						
Balance at 1 January 2019	(30,975)	(92,947)	(2,901)	(1,460)	–	(128,283)
Depreciation charge for the year	(7,051)	(20,300)	(228)	(193)	–	(27,772)
Exchange realignment	802	2,390	63	35	–	3,290
Balance at 31 December 2019	(37,224)	(110,857)	(3,066)	(1,618)	–	(152,765)
Balance at 1 January 2020	(37,224)	(110,857)	(3,066)	(1,618)	–	(152,765)
Depreciation charge for the year	(7,220)	(22,863)	(272)	(43)	–	(30,398)
Exchange realignment	(2,801)	(8,266)	(217)	(230)	–	(11,514)
Balance at 31 December 2020	(47,245)	(141,986)	(3,555)	(1,891)	–	(194,677)
Carrying amount						
Balance at 31 December 2020	107,969	208,607	1,006	2,127	14,426	334,135
Balance at 31 December 2019	107,538	198,334	867	2,252	464	309,455

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 31 December 2020

14. PROPERTY, PLANT AND EQUIPMENT *(Continued)*

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

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

As at 31 December 2020, buildings with carrying amount of approximately HK\$56,730,000 (2019: HK\$57,071,000), and plant and machinery with carrying amount of approximately HK\$203,839,000 (2019: HK\$195,054,000) have been pledged to secure bank and other borrowings granted to the Group (note 26).

Construction in progress

During the year, the Group engaged construction foreman to perform excavation and backfilling work (the "Restoration Work") to restore an abandoned mined land that was located inside the factory land of the Group and exist at the time when the Group acquired the land use rights in year 2012. As of 31 December 2020, the Group paid and incurred approximately HK\$13,616,000 for the Restoration Work. Such amount was recognised as construction in progress under property, plant and equipment as at 31 December 2020. Subsequently, the Group further paid and incurred for the construction work amounting to approximately HK\$2,096,000. For better management of the construction work, the Group has terminated the original construction contracts with construction foreman subsequently and engaged a surveying company to estimate the completion status of the Restoration Work. Up to the date of this report, the Group has completed approximately 67% of the work basing on the survey report. The Group is in the progress of negotiation with various interested parties for the Restoration Work and up to the date of this report, the Group has not yet entered into any contracts for the remaining 33% of the work and will do so in due course.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 31 December 2020

15. LEASES

(a) Amounts recognised in consolidated statement of financial position

Right-of-use assets

	Factory lands HK\$'000	Forestlands HK\$'000	Building HK\$'000	Motor vehicle HK\$'000	Total HK\$'000
Carrying amounts:					
At 1 January 2019	18,652	25,417	–	1,733	45,802
Additions	–	–	295	–	295
Depreciation	(426)	(1,069)	(49)	(505)	(2,049)
Exchange realignment	(401)	(537)	–	–	(938)
At 31 December 2019	17,825	23,811	246	1,228	43,110
At 1 January 2020	17,825	23,811	246	1,228	43,110
Depreciation	(422)	(1,058)	(147)	(547)	(2,174)
Impairment	–	(7,598)	–	–	(7,598)
Exchange realignment	1,124	1,049	–	–	2,173
At 31 December 2020	18,527	16,204	99	681	35,511

Lease liabilities

	2020 HK\$'000	2019 HK\$'000
Current liabilities	709	723
Non-current liabilities	147	591
	856	1,314

The maturity analysis of lease liabilities is disclosed in note 36 (c) to the consolidated financial statements.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 31 December 2020

15. LEASES (Continued)

(b) Amounts recognised in consolidated statement of profit or loss and other comprehensive income and consolidated statement of cash flows

	2020 HK\$'000	2019 HK\$'000
Depreciation expense on right-of-use assets (included in administrative expenses)	2,174	2,049
Interest on lease liabilities	20	40
Expenses relating to lease with remaining lease term ending on or before 31 December 2019 (included in administrative expenses)	—	319
Total cash outflow for leases:		
– within financing cash flows	478	623

(c) Particular of leases

(i) Factory lands

The Group's leasehold interest in factory land are situated in the PRC and held under medium term leases. Lump sum payments were made upfront to acquire these leasehold interests, and there are no ongoing payments to be made under the terms of the land lease.

As at 31 December 2020, the right-of-use assets relating to factory land lease with carrying amount of approximately HK\$18,527,000 (2019: HK\$17,825,000) have been pledged to secure certain of the Group's bank and other borrowings. Details are set out in note 26.

(ii) Forestlands

The Group has leasehold interests in forestlands situated in Renhua County of Guangdong Province in the PRC and Qingliu County of Fujian Province in the PRC. Lump sum payments were made upfront to acquire these leasehold interests from their previous registered owners, and there are no ongoing payments to be made under the terms of the forestlands leases.

As at 31 December 2020, the forestlands have leasehold land base of approximately 46,423 (2019: 46,423) Chinese Mu ("mu") and have remaining lease terms ranging from 9 to 41 (2019: 10 to 42) years. Usage of the forestlands is regulated by the implementation regulations of the PRC Forest Law promulgated by the State Council of the PRC.

Due to the enactment of the real estate title registration policy in the year 2016, all real estate titles must be registered with the Real Estate Registration Center ("不動產登記中心") for issuance of registered title certificate. As of the date of this report, the Group completed the registration of all title of the Group's forestry rights of the forestlands in Qingliu County and one title of the Group's forestry right of the forestland in Renhua County (the "Registered Forestry Rights"), and corresponding Forestry Right Certificates have been obtained. The Group has been in the progress to apply for registration of the remaining forestry rights (the "Remaining Forestry Rights") of forestlands in Renhua County other than those forestry rights having been disposed of subsequently.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 31 December 2020

15. LEASES (Continued)

(c) Particular of leases (Continued)

(ii) Forestlands (Continued)

The aggregate carrying amount of the Registered Forestry Rights is approximately HK\$49,573,000 (comprising right-of-use assets of approximately HK\$11,209,000 and biological assets of approximately HK\$38,364,000) as at 31 December 2020. The carrying amounts of the Remaining Forestry Rights and the disposed forestry rights are amounted to approximately HK\$14,159,000 (comprising right-of-use assets of approximately HK\$3,678,000 and biological assets of approximately HK\$10,481,000) and HK\$4,991,000 (comprising right-of-use assets of approximately HK\$1,317,000 and biological assets of approximately HK\$3,674,000) as at 31 December 2020, respectively.

The carrying amount of forestry rights of approximately HK\$85,881,000 (comprising right-of-use assets of approximately HK\$12,204,000 and biological assets of approximately HK\$73,677,000) had been successfully registered as of 31 December 2019, while the carrying amount of forestry rights of approximately HK\$40,185,000 (comprising right-of-use assets of approximately HK\$11,607,000 and biological assets of approximately HK\$28,578,000) were pending for registration as of 31 December 2019.

(iii) Building

The Group has obtained the right to use a building as office in Hong Kong. The lease runs for an initial period of 2 years. Lease payments are fixed throughout the lease term.

(iv) Motor vehicle

The Group entered into a lease arrangement for the purchase of a motor vehicle with an initial period of 5 years. At the end of the lease term, the Group had an option to purchase the leased motor vehicle at a price that was expected to be sufficiently lower than the fair value of the leased motor vehicle at the end of the lease.

(d) Impairment loss on right-of-use assets – forestlands

As at 31 December 2020, there exists an indicator of impairment for right-of-use assets – forestlands because the recent transaction prices or latest listing prices of comparable forestlands decline significantly. The Group has engaged the Independent Valuer to determine the recoverable amount of the right-of-use assets – forestlands (the “Recoverable Amounts”), being the fair values less costs to sell. During the year ended 31 December 2020, the Group’s right-of-use assets were written down to the Recoverable Amounts by approximately HK\$7,598,000 and an impairment loss was recognised in profit or loss. The Independent Valuers adopted sales comparison approach to determine the Recoverable Amounts. It is categorised as Level 3 fair value measurement. Further details of key assumption used are set out in note 16(c).

16. BIOLOGICAL ASSETS

(a) Nature of activities

Biological assets are standing timber trees attached to the forestlands which could be logged to produce timber woods as agricultural produce.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 31 December 2020

16. BIOLOGICAL ASSETS (Continued)

(a) Nature of activities (Continued)

The Group engaged the Forestry Consultants to perform physical counting on standing timber trees annually. As at 31 December 2020, the Forestry Consultants estimate that the Group's forestlands comprise standing timber trees with approximately 433,560 cubic meters (2019: 415,686 cubic meters).

Details of registration of forestry rights are set out in note 15(c)(ii) above.

In addition to the financial risk management as disclosed in note 36, the Group is exposed to the following operational risks relating the biological assets:–

(i) Regulatory and environmental risks

The Group is subject to laws and regulations in the PRC in which it operates. The Group has established environmental policies and procedures aimed at compliance with local environment and other laws. Management will perform regular reviews to identify environmental risks and to ensure that the systems in place are adequate to manage those risks.

(ii) Supply and demand risks

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

(iii) Climate and other natural risks

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

(b) Value of biological assets

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

	2020 HK\$'000	2019 HK\$'000
Balance at beginning of the year	102,255	102,602
Additions for the year arising from:		
– purchase of biological assets	1,789	260
Net (loss)/gain arising from changes in fair values less costs to sell of biological assets after initial recognition	(55,131)	1,672
Exchange realignment	3,606	(2,279)
Balance at end of the year	52,519	102,255

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 31 December 2020

16. BIOLOGICAL ASSETS (Continued)

(b) Value of biological assets (Continued)

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

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

No gain on initial recognition has been recognised in profit or loss for both years.

(c) Fair value measurements

The Independent Valuers adopted sales comparison approach to determine the combined fair values less costs to sell of the forestlands (the "Combined Values") and the fair value less costs to sell of "bare lands" as at 31 December 2020 and 2019. The fair value less costs to sell of biological assets are the difference between the Combined Values and the Recoverable Amounts/the fair values less costs to sell of "bare lands" as at 31 December 2020 and 2019.

Particulars of valuation of biological assets and the Recoverable Amounts as at 31 December 2020

Basing on the market research performed by the Independent Valuers, they adopted the average of recent transaction prices of the forestlands and "bare lands" in Renhua County with adjustments to form the Combined Values and the Recoverable Amounts for forestlands located in Renhua County, respectively. The Independent Valuers were given to understand that the available comparable information represents orderly transactions. Owing to the lack of recent transaction, the Independent Valuers adopted average of latest listing prices of the forestlands and "bare lands" in Qingliu County with adjustments to form the Combined Values and the Recoverable Amounts for forestlands located in Qingliu County, respectively.

Particulars of valuation of biological assets as at 31 December 2019

The Independent Valuers adopted the average of latest listing prices of the forestlands and "bare lands" with adjustments to form the Combined Values and the fair values less costs to sell of "bare lands" located in Renhua County and Qingliu County, respectively.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 31 December 2020

16. BIOLOGICAL ASSETS (Continued)

(c) Fair value measurements (Continued)

Fair value hierarchy

The following table illustrates the fair value measurement hierarchy of the Group's biological assets at as 31 December 2020 and 2019. As at 31 December 2020 and 2019, in estimating the fair value of the Group's biological assets, the Independent Valuers assume that the Group sells the forestlands to independent third parties. However, the Group's intended use is to harvest timber woods, which is different from the highest and best use of the biological assets.

	Fair value measurement categorised into			
	Fair value HK\$'000	Level 1 HK\$'000	Level 2 HK\$'000	Level 3 HK\$'000
Group				
Recurring fair value measurement:				
As at 31 December 2020				
– biological assets	52,519	–	–	52,519
As at 31 December 2019				
– biological assets	102,255	–	–	102,255

During the year ended 31 December 2020 and 2019, there were no transfers between Level 1 and Level 2, or transfers into or out of Level 3.

Information about Level 3 fair value measurements

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

As at 31 December 2020

Significant unobservable inputs	Inter-relationship between significant unobservable inputs and fair value measurements
Estimated average recent transaction price for the forestlands and "bare lands" in Renhua County of RMB69 and RMB19 per mu per annum, respectively after adjusting various factors including the land use terms and accessibility.	An increase in estimated adjusted price of forestlands would result in a smaller percentage decrease in the fair value measurement the biological assets, and vice versa.
Estimated average listing price for the forestlands and "bare lands" in Qingliu County of RMB63 and RMB19 per mu per annum, respectively after adjusting various factors including the land use terms and accessibility.	An increase in estimated adjusted price of "bare lands" would result in a larger percentage increase in the Recoverable Amounts and decrease in the fair value measurement the biological assets, and vice versa.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

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16. BIOLOGICAL ASSETS (Continued)

(c) Fair value measurements (Continued)

Fair value hierarchy (Continued)

Information about Level 3 fair value measurements (Continued)

As at 31 December 2019

Significant unobservable inputs	Inter-relationship between significant unobservable inputs and fair value measurements
Estimated adjusted listing price per mu of forestlands ranges from RMB110 and RMB127 depending on various factors including the land use terms and accessibility.	An increase in estimated adjusted listing price of forestlands would result in a larger percentage increase in the fair value measurement of the biological assets, and vice versa.
Estimated adjusted listing price per mu of "bare lands" ranges from RMB23 and RMB38 depending on various factors including the land use terms and accessibility.	An increase in estimated adjusted listing price of "bare lands" would result in a larger percentage decrease in the fair value measurement of the biological assets, and vice versa.

(d) Sensitivity analysis

The following table demonstrates the sensitivity to a reasonably possible change in the significant unobservable inputs and key assumptions used, with all other variables held constant, of the Group's (loss)/profit for the year ended 31 December 2020 and 2019:

Significant unobservable inputs and key assumptions	(Decrease)/increase by		2020 Decrease/ (increase) in loss for the year HK\$'000	2019 Increase/ (decrease) in profit for the year HK\$'000
	2020	2019		
Estimated adjusted prices of forestlands	5% (5%)	5% (5%)	3,251 (3,051)	6,737 (6,672)
Estimated adjusted prices of "bare lands"	5% (5%)	5% (5%)	(332) 494	(1,558) 654

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 31 December 2020

17. INTANGIBLE ASSETS

	Development costs HK\$'000	Licenses HK\$'000	Total HK\$'000
Cost			
At 1 January 2019	3,224	978	4,202
Effect of foreign currency exchange differences	(69)	(22)	(91)
At 31 December 2019 and 1 January 2020	3,155	956	4,111
Effect of foreign currency exchange differences	203	61	264
At 31 December 2020	3,358	1,017	4,375
Amortisation			
At 1 January 2019	(1,392)	(251)	(1,643)
Charge for the year	(437)	(8)	(445)
Effect of foreign currency exchange differences	38	5	43
At 31 December 2019 and 1 January 2020	(1,791)	(254)	(2,045)
Charge for the year	(432)	(8)	(440)
Effect of foreign currency exchange differences	(139)	(17)	(156)
At 31 December 2020	(2,362)	(279)	(2,641)
Carrying values			
At 31 December 2020	996	738	1,734
At 31 December 2019	1,364	702	2,066

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

	Useful lives
Development costs	10 years
Licenses	10 years

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 31 December 2020

18. INVENTORIES

	2020 HK\$'000	2019 HK\$'000
Raw materials	104,338	91,534
Work in progress	3,871	2,750
Finished goods	20,041	11,556
Total	128,250	105,840

As at 31 December 2020, all finished goods with carrying amount of approximately HK\$20,041,000 (2019: HK\$11,556,000) were pledged to a bank to secure certain of the Group's bank and other borrowings. (notes 26 and 30)

19. TRADE AND BILLS RECEIVABLES

	2020 HK\$'000	2019 HK\$'000
Trade receivables	57,477	77,060
Bills receivables	26,500	8,016
	83,977	85,076
Less: loss allowances (note 36 (b))	(5,777)	(1,208)
	78,200	83,868

The Group's trading terms with its customers are mainly on open account terms, except for new customers, where payment in advance is normally required. The credit period is generally for a period up to 90 days (2019: 90 days). The Group seeks to maintain strict control over its outstanding receivables to minimise its credit risk. Overdue balances are regularly reviewed by senior management. Trade receivables are non-interest bearing and their carrying amounts approximate to their fair values.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 31 December 2020

19. TRADE AND BILLS RECEIVABLES (Continued)

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

	2020 HK\$'000	2019 HK\$'000
Within three months	50,928	76,536
Over three months but within six months	6,361	79
Over six months	188	445
Total	57,477	77,060

The maturity period of bills receivable are within 12 months from the date the Group received the notes as an extended period to the original credit term. The following is an aged analysis of bills receivables presented based on the maturity date.

	2020 HK\$'000	2019 HK\$'000
Within three months	16,983	5,132
Over three months but within twelve months	9,517	2,884
Total	26,500	8,016

As at 31 December 2020, the Group's bills receivables with an aggregate carrying amount of approximately HK\$6,369,000 (2019: HK\$ nil) have been pledged to secure bank and other borrowings (note 26).

The Group applies the HKFRS 9 simplified approach to measuring expected credit losses which uses a lifetime expected credit loss allowance for all trade and bills receivables. Information about the expected credit loss of trade and bills receivables and the Group's exposure to credit risk can be found in note 36 (b) to the consolidated financial statements.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 31 December 2020

20. DEPOSITS, PREPAYMENTS AND OTHER RECEIVABLES

	2020 HK\$'000	2019 HK\$'000
VAT recoverable	15,472	13,098
VAT refund receivables	1,257	1,726
Payments in advance to suppliers (note)	32,333	23,632
Prepayments paid for acquisition of property, plant and equipment	6,664	588
Others	3,630	1,651
	59,356	40,695
Analyses for reporting purposes:		
Current assets	52,692	40,107
Non-current assets	6,664	588
	59,356	40,695

Note:

As at 31 December 2020, included in payments in advance to suppliers are prepayments of approximately HK\$30,775,000 (2019: HK\$23,028,000) made to suppliers for securing wood supplies. Subsequent to the end of the reporting period and up to the date of the report, substantial amounts have been settled with delivery of raw materials.

21. LOAN RECEIVABLE

	2020 HK\$'000	2019 HK\$'000
Loan receivable, unsecured and unguaranteed	7,000	–

As at 31 December 2020, loan receivable is unsecured and unguaranteed, carries fixed interest rate of 1% per month and is repayable within one year. As at 31 December 2019, the Group had no loan receivable.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 31 December 2020

22. BANK BALANCES, CASH, AND RESTRICTED DEPOSIT

	2020 HK\$'000	2019 HK\$'000
Cash and cash equivalents		
– Cash at banks in the PRC*	17,490	68,605
– Cash at banks in Hong Kong and cash in hand	27	1,084
	17,517	69,689
Restricted deposit**		
– Restricted deposit in Hong Kong	–	5,000
	–	5,000

* The remittance of the Group's cash at banks in the PRC is subject to relevant rules and regulations of foreign exchange control promulgated by the PRC government.

** The restricted deposit was held at other financial institution, which may only be utilised for the purposes of payment of interest and/or principal amount of the Group's notes payable (note 28).

23. TRADE PAYABLES

	2020 HK\$'000	2019 HK\$'000
Trade payables (note)	28,127	19,407

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

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 31 December 2020

23. TRADE PAYABLES (Continued)

	2020 HK\$'000	2019 HK\$'000
Within 3 months	19,334	13,229
Over 3 months but within 6 months	6,287	4,489
Over 6 months	2,506	1,689
	28,127	19,407

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

24. OTHER PAYABLES AND ACCRUED EXPENSES

	2020 HK\$'000	2019 HK\$'000
Payables for acquisition of property, plant and equipment	298	1,195
Payroll payables	7,991	7,296
Delivery charges payables	18,840	11,747
Accrued operating expenses	6,393	6,644
Amount due to Mr. Wong's associate (note 37(d))	–	1,458
Interest payable to Mr. Wong's associates (note 37(d))	308	613
Other taxes payables	3,380	4,250
Others	1,821	1,677
	39,031	34,880

As at 31 December 2020, balances due to related parties comprise interest payable of HK\$308,000 (2019: HK\$613,000), payroll payables of approximately HK\$496,000 (2019: HK\$1,273,000) and amount due to Mr. Wong's associate of nil (2019: HK\$1,458,000). Further details are set out in note 37(d) to the consolidated financial statements.

25. CONTRACT LIABILITIES

	2020 HK\$'000	2019 HK\$'000
Amounts received in advance of delivery for goods	1,261	613

Contract liabilities represent amounts received from customers in advance that delivery of goods, being the timing to satisfy performance obligation, has not yet made as at 31 December 2020 and 2019. The amount of revenue recognised for the year ended 31 December 2020 related to contract liabilities balance at 31 December 2019 of approximately HK\$638,000 (2019: HK\$4,180,000).

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 31 December 2020

26. BANK AND OTHER BORROWINGS

	Notes	2020 HK\$'000	2019 HK\$'000
Bank borrowings	(i)		
– due within one year		93,810	134,739
– due after one year		30,596	–
Bank borrowings obtained in relation to discounted bills receivable		6,369	–
Other borrowings	(ii)	97,097	90,338
Unsecured loans from Mr. Wong and his associate	(iii)		
– due within one year		–	14,200
– due after one year		10,075	–
		237,947	239,277
Less: amount included in current liabilities		(148,762)	(171,445)
Non-current portion		89,185	67,832
Analysed as:			
Secured but unguaranteed	(iv)	52,353	62,799
Secured and guaranteed	(iv)(v)	156,508	142,184
Unsecured and unguaranteed		29,086	34,294
		237,947	239,277

Notes:

- (i) Other than bank borrowings with an aggregate carrying amount of approximately HK\$49,145,000 (2019: HK\$72,560,000) which bear fixed interest rate ranging from 3.34% to 5.31% (2019: 4.35% to 5.79%) per annum as at 31 December 2020, other bank borrowings with an aggregate carrying amount of approximately HK\$81,630,000 (2019: HK\$62,179,000) bear floating interest rates ranging from 4.30% to 6.41% (2019: 4.57% to 6.31%) per annum as at 31 December 2020. As at 31 December 2020, all bank borrowings were denominated in RMB.

The maturity analysis of bank borrowings is as follows:

	2020 HK\$'000	2019 HK\$'000
Within one year	93,810	134,739
More than one year, but not exceeding two years	5,347	–
More than two years, but not exceeding five years	18,417	–
More than five years	6,832	–
	124,406	134,739

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

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26. BANK AND OTHER BORROWINGS (Continued)

Notes: (Continued)

- (ii) As at 31 December 2020, the Group's other borrowings represents sales and leaseback arrangements with financial institutions, pursuant to which the Group transfers certain of its equipments to the financial institutions for loans to the Group with tenure of one to three years (2019: one to three years) from the date of advancements. At the end of the terms, the Group could pay a minimal amount of consideration to re-acquire the leased equipments. Other borrowings of approximately HK\$47,594,000 (2019: HK\$31,696,000) carry fixed interest with effective interest rates ranging from 11.48% to 11.65% (2019: 11.48% to 11.65%) per annum whereas other borrowings of approximately HK\$49,503,000 (2019: HK\$58,642,000) carried floating interest with effective interest rate of 9.76% (2019: 9.76% to 12.21%) per annum as at 31 December 2020. Other borrowings are denominated in RMB in both years.

The maturity analysis of other borrowings is as follows:

	2020 HK\$'000	2019 HK\$'000
Within one year	48,583	22,506
More than one year, but not exceeding two years	42,903	33,131
More than two years, but not exceeding five years	5,611	34,701
	97,097	90,338

As at 31 December 2020, the Group's other borrowings has not been offset by any assets of the Group. As at 31 December 2019, the Group's other borrowings with gross carrying amount of approximately HK\$2,295,000 had been offset by the security deposit of approximately HK\$1,674,000 and the net amount of approximately HK\$621,000 was included in the balance of other borrowings.

- (iii) As at 31 December 2020, the balance represented the unsecured loans from Mrs. Wong and Ms. Wong Wan Yu, a daughter of Mr. and Mrs. Wong, which amounted to approximately HK\$1,700,000 and HK\$8,375,000. Both loans carry interest of 7% per annum, unsecured and will repay in year 2022.

As at 31 December 2019, the balance represented the unsecured loans from Mr. Wong and Ms. Wong Wan Yu, which amounted to approximately HK\$7,500,000 and HK\$6,700,000. Both loans carried interest of 7% per annum, unsecured and would repay in year 2020.

Details are set out in note 37(d) to the consolidated financial statements.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 31 December 2020

26. BANK AND OTHER BORROWINGS *(Continued)*

Notes: *(Continued)*

- (iv) As at 31 December 2020, the Group's secured bank and other borrowings are secured by the following assets of the Group:
 - (a) the pledge of the Group's property, plant and equipment with an aggregate carrying amount of approximately HK\$260,569,000 (2019: HK\$252,125,000) (note 14);
 - (b) the pledge of the Group's right-of-use assets with an aggregate carrying amount of approximately HK\$18,527,000 (2019: HK\$17,825,000) (note 15); and
 - (c) the pledge of the Group's inventories with an aggregate carrying amount of approximately HK\$20,041,000 (2019: HK\$11,556,000) (note 18);
 - (d) the pledge of the Group's bills receivables with an aggregate carrying amount of approximately HK\$6,369,000 (2019: HK\$ nil) (note 19);
- (v) As at 31 December 2020, the Group's secured and guaranteed bank borrowings of approximately HK\$59,411,000 (2019: HK\$52,467,000) are secured by personal guarantees executed by Mr. Wong and Mr. Wong Kin Ching for the maximum amount of guarantee up to approximately HK\$118,821,000 (2019: HK\$221,031,000). As at 31 December 2020, the Group's secured and guaranteed other borrowings of approximately HK\$97,097,000 (2019: HK\$ 89,717,000) are secured by personal guarantees executed by Mr. Wong and Mrs. Wong/Mr. Wong, Mrs. Wong and Mr. Wong Kin Ching.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 31 December 2020

27. DEFERRED INCOME

	2020 HK\$'000	2019 HK\$'000
Balance at beginning of the year	34,403	37,851
Additions	1,408	1,069
Credited to profit or loss during the year (note 7)	(3,835)	(3,746)
Exchange differences	2,124	(771)
Balance at end of the year	34,100	34,403
Analysed for reporting purpose as:		
Current liabilities	4,103	3,732
Non-current liabilities	29,997	30,671
Balance at end of the year	34,100	34,403

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

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 31 December 2020

28. NOTES PAYABLE

	2020 HK\$'000	2019 HK\$'000
Notes payable, secured and guaranteed (note)	87,789	97,532
	87,789	97,532

Note:

On 10 August 2018, the Company entered into a subscription agreement (the **"Notes Subscription Agreement"**) with a subscriber (the **"Notes Subscriber"**) for the issuance of secured and guaranteed notes (the **"Notes"**) in the principal amount of HK\$100,000,000 for an initial term of 2 years from the date of issuance, which could be extendable for another year as agreed by the Company and the Notes Subscriber. The Notes carry floating interest at Hong Kong Prime Rate (**"Prime Rate"**) plus 3% per annum, being 8% (2019: 8%) per annum as at 31 December 2020. The Notes are secured by the Company's fully paid up capital in Hongwei Renhua and personal guarantees executed by the Company's chairman and executive directors, Mr. Wong and Mrs. Wong (the **"Guarantors"**).

On 13 July 2020, the Company, the Guarantors and the Note Subscriber entered into a deed of amendment, pursuant to which, among other things, the Note Subscriber agreed to amend the terms and conditions of the Notes, having effect that, among others, the maturity date of the Notes was extended from 12 August 2020 to 12 August 2021. Please refer to the announcement of the Company dated 13 July 2020 for more details.

The Note Subscription Agreement and the instrument constituting the Notes (together with the amended and restated note instrument dated on 31 December 2018, 13 July 2020 and 11 December 2020, collectively referred to as the **"Instrument"**) contain covenants that, among other things, require Mr. Wong to remain as the single largest shareholder of the Company, the chairman of the Board and executive director of the Company and restrict the creation by either of the Guarantors of any additional encumbrances over real properties owned by them in Hong Kong as at the date of the Notes Subscription Agreement and the Instrument, the breach of which will constitute an event of default. In addition, the bankruptcy or inability to pay debts when due of the Guarantors or any change of control (within the meaning of the Code on Takeovers and Mergers) of the Company will also constitute an event of default. Upon the occurrence of a continuing event of default, the holder(s) of the Notes is(are) entitled to request immediate redemption of the Notes at a higher interest rate and such amount which would give a 20% internal rate of return (inclusive of all interest and fee payable by the Company) to the Notes Subscriber as stipulated in the Instrument.

As at 31 December 2020, the Group does not place any restricted deposit at a financial institution. As at 31 December 2019, the Group placed HK\$5,000,000 restricted deposit at a financial institution, which may only be utilised for the purposes of payment of interest and/or principal amount of the Group's notes payable.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 31 December 2020

29. SHARE CAPITAL

(a) Issued and fully paid shares

	Number of shares		Share capital	
	2020 '000	2019 '000	2020 HK\$'000	2019 HK\$'000
Ordinary shares, issued and fully paid				
At 31 December	832,603	832,603	253,928	253,928

There is no movement in share capital between years.

(b) Capital risk management

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

The capital structure of the Group consists of net debt including bank and other borrowings, lease liabilities, notes payable, net of cash and cash equivalents and restricted deposit, and equity attributable to owners of the Group comprising share capital, retained profits and reserves.

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

30. PLEDGE AND RESTRICTION OF ASSETS

As at 31 December 2020 and 2019, the Group's secured bank and other borrowings were secured by certain of the Group's property, plant and equipment, right-of-use assets, bills receivables, and inventories. As at 31 December 2020 and 2019, the Group's secured and guaranteed bank and other borrowings are also secured by personal guarantees executed by Mr. Wong and Mrs. Wong/Mr. Wong, Mrs. Wong and Mr. Wong Kin Ching. Details are set out in note 26 above.

As at 31 December 2020 and 2019, the notes payable are secured by personal guarantees executed by Mr. Wong and Mrs. Wong and the Company's fully paid up capital in Hongwei Renhua.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 31 December 2020

31. RECONCILIATION OF LIABILITIES ARISING FROM FINANCING ACTIVITIES

	Interest payable HK\$'000 (note 24)	Bank and other borrowings HK\$000 (note 26)	Lease liabilities HK\$000 (note 15)	Notes payable HK\$000 (note 28)	Total HK\$000
At 1 January 2019	–	204,096	1,602	96,731	302,429
Net cash (used in)/generated from financing activities	(444)	28,800	(623)	(10,238)	17,495
Finance costs (note 8)	1,057	12,501	40	11,039	24,637
Recognition of right-of-use asset	–	–	295	–	295
Exchange realignment	–	(4,446)	–	–	(4,446)
Set-off (note 26)	–	(1,674)	–	–	(1,674)
At 31 December 2019	613	239,277	1,314	97,532	338,736
At 1 January 2020	613	239,277	1,314	97,532	338,736
Net cash used in financing activities	(1,945)	(31,776)	(478)	(19,602)	(53,801)
Finance costs (note 8)	1,640	16,309	20	9,859	27,828
Exchange realignment	–	14,137	–	–	14,137
At 31 December 2020	308	237,947	856	87,789	326,900

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 31 December 2020

32. EMPLOYEE BENEFITS

(a) Retirement benefit scheme

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

In accordance with the rules and regulations of the PRC, the employees of the PRC subsidiary participated in various defined contribution retirement benefit plans operated by the relevant municipal and provincial social insurance management bodies in the mainland of the PRC under which the PRC subsidiary and its employees are required to make monthly contributions to these plans at a stated contribution rate based on the monthly basic compensation of the employees. The Group has no obligation for the payment of benefits beyond the annual contributions for the government administered programs.

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

The aggregate contributions paid/payable by the Group to the MPF Scheme and defined contribution retirement benefit plans in the PRC for the year ended 31 December 2020 amounted to approximately HK\$184,000 (2019: HK\$949,000), which has been recognised as expenses and included in staff costs as disclosed in note 11 to the consolidated financial statements.

(b) Share option scheme

Prior to the listing of Company’s shares to GEM of the Stock Exchange (the “Listing”), the Company had conditionally adopted a share option scheme (the “Share Option Scheme”) on 19 December 2013 which became unconditional and effective upon the Listing. The purpose of the Share Option Scheme is to enable the Group to grant options to eligible participants as incentives or awards for their contribution to the Group and/or to enable the Group to recruit and retain high caliber employees and attract human resources that are valuable to the Group and any entity which the Group holds any equity interest. The Share Option Scheme will remain in force for a period of 10 years commencing on the date on which the Share Option Scheme is conditionally adopted and will expire on 18 December 2023. Under the Share Option Scheme, the Board of Director may, at its discretion, invite any executive, non-executive or independent non-executive directors or any employees (whether full-time or part-time) of the Company, or any of its subsidiaries or associated companies or any other person whom the Board considers, in its sole discretion, has contributed or will contribute to the Group to subscribe for shares in the Company. The basis of eligibility of any of the class of the participants to the grant of any option shall be determined by the Board from time to time on the basis of their contribution to the development and growth of the Group and any entity which the Group holds any equity interest.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 31 December 2020

32. EMPLOYEE BENEFITS (Continued)

(b) Share option scheme (Continued)

Unless the Company obtains a fresh approval from the shareholders, the total number of shares in respect of which options may be granted under the Share Option Scheme is not permitted to exceed 10% of shares of the Company in issue immediately following completion of placing shares at the time of the Listing, which is 71,111,510 shares, representing 8.5% (2019: 8.5%) of the Company's issued shares at 31 December 2020 and as at the date of this report. The total number of shares which may be issued upon exercise all outstanding options granted and yet to be exercised under the Share Option Scheme must not exceed 30% of the shares in issue from time to time. The number of shares in respect of which options may be granted to any individual in any 12-month period is not permitted to exceed 1% of the shares of the Company in issue at any point in time without prior approval from the Company's shareholders.

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

As at 31 December 2020 and 2019, no option has been granted under the Share Option Scheme.

33. CAPITAL COMMITMENTS

	2020 HK\$'000	2019 HK\$'000
Commitments for the acquisition of property, plant and equipments		
– Contracted for but not provided in these consolidated financial statements	2,735	–
Commitments for the Restoration Work		
– Authorised but not contracted for	(note)	–
– Contracted but not provided for	2,096	–

Note: The Group has completed approximately 67% of the Restoration Work basing on the survey report and has capital commitment on the remaining 33% of the Restoration Work that has not yet contracted as at 31 December 2020 and as of the date of this report. Details are set out in note 14 above.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 31 December 2020

34. TRANSFER OF FINANCIAL ASSETS

	Bills receivable discounted to banks with full recourse HK\$'000 (note (i))	Bills receivable endorsed to suppliers with full recourse HK\$'000 (note (ii))	Total HK\$'000
As at 31 December 2020			
Carrying amount of transferred assets included in:			
– trade and bills receivables	6,369	20,131	26,500
Carrying amount of associated liabilities	(6,369)	(20,131)	(26,500)
Net position	–	–	–
As at 31 December 2019			
Carrying amount of transferred assets included in:			
– trade and bills receivables	–	7,793	7,793
Carrying amount of associated liabilities	–	(7,793)	(7,793)
Net position	–	–	–

Note:

- (i) Amounts represented the Group's financial assets that were transferred to banks by discounting those bills receivables on a full recourse basis. As the Group has not transferred the significant risks and rewards relating to these bills receivables, it continues to recognise the full carrying amount of bills receivables and has recognised the cash received on the transfer as secured bank loans (note 26). These financial assets are carried at amortised cost in the Group's consolidated statement of financial position.
- (ii) Amounts represented the bills receivable that the Group transferred to its suppliers to settle its payables through endorsing the bills receivable to its suppliers. The Group continues to recognise the full carrying amount of these bills receivable and the payables to suppliers, as the Group has not transferred the significant risks and rewards relating to these bills receivable to the suppliers. The Group has exposure in respect of the settlement obligation of these bills receivable under relevant PRC rules and regulations should the issuing financial institutions failed to settle the bills upon maturity. These financial assets are carried at amortised cost in the Group's consolidated statement of financial position.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 31 December 2020

35. CATEGORIES OF FINANCIAL INSTRUMENTS

	2020 HK\$'000	2019 HK\$'000
<i>Financial assets</i>		
Amortised costs:		
Trade and bills receivables	78,200	83,868
Loan receivable	7,000	–
Bank balances and cash	17,517	69,689
Restricted deposit	–	5,000
	102,717	158,557
<i>Financial liabilities</i>		
Amortised cost:		
Trade payables	28,127	19,407
Financial liabilities included in other payables	32,233	26,893
Bank and other borrowings	237,947	239,277
Lease liabilities	856	1,314
Notes payable	87,789	97,532
	386,952	384,423

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

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36. FINANCIAL RISK MANAGEMENT

The Group's financial instruments include trade and bills receivables, loan receivable, bank balances and cash, restricted deposit, trade payables, financial liabilities included in other payables, bank and other borrowings, lease liabilities and notes payable. Details of these financial instruments are disclosed in respective notes.

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

(a) Market risks

(i) Foreign currency risk

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

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

As at 31 December 2020 and 2019, the carrying amounts of the Group's monetary assets which are denominated in HKD and USD are as follows:

	2020 HK\$'000	2019 HK\$'000
Assets		
Bank balances and cash	13	6,077
Restricted deposit	–	5,000
Liabilities		
Financial liabilities included in other payables	2,754	(4,628)
Bank and other borrowings	10,075	(14,200)
Lease liabilities	(856)	(1,314)
Notes payable	(87,789)	(97,532)

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

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 31 December 2020

36. FINANCIAL RISK MANAGEMENT (Continued)

(a) Market risks (Continued)

(i) Foreign currency risk (Continued)

The following table illustrates the sensitivity of the Group's (loss)/profit after tax and equity to reasonably possible changes in RMB against HKD and USD exchange rates. 10% (2019: 10%) is the sensitivity rate used when reporting foreign currency risk internally to key management personnel and represents management's assessment of the reasonably possible change in foreign exchange rates. The management assess the foreign currency risk arising from USD and HKD collectively because the exchange rate between USD and HKD is pegged.

	Increase/ (decrease) in rate %	(Increase)/ decrease in loss for the year and (decrease)/ increase in equity HK\$'000
2020		
If RMB strengthens against HKD and USD	10	8,472
If RMB weakens against HKD and USD	(10)	(8,472)
	Increase/ (decrease) in rate %	(Decrease)/ increase in profit for the year and equity HK\$'000
2019		
If RMB strengthens against HKD and USD	10	8,901
If RMB weakens against HKD and USD	(10)	(8,901)

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

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 31 December 2020

36. FINANCIAL RISK MANAGEMENT (Continued)

(a) Market risks (Continued)

(ii) Interest rate risk

The Group's interest rate risk is mainly concentrated on the fluctuation of London Inter-Bank Offered Rate ("LIBOR") arising from the Group's bank borrowings carried floating interest rates, interest rates published by the People's Bank of China ("PBOC") arising from the Group's bank balances and other borrowings carried floating interest rates and the Prime Rate arising from notes payable.

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

The sensitivity analysis below has been determined based on the exposure to pledged and unpledged bank balances, bank and other borrowings and notes payable carried at floating interest rates at the end of each reporting period. 0.5% (2019: 0.5%) increase or decrease in interest rate is used when reporting interest rate risk internally to key management personnel and represents management's assessment of the reasonably possible change in interest rates.

If interest rates had been 0.5% higher/lower and all other variables were held constant, the Group's post-tax loss for the year would increase/decrease and equity would decrease/increase by approximately HK\$858,000 (2019: the Group's post-tax profit for the year and equity would decrease/increase by approximately HK\$860,000).

(b) Credit risk

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

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

Group 1 – Banks and financial institution in Hong Kong

Group 2 – Top four banks in the PRC, excluding Hong Kong (China Construction Bank, Bank of China Limited, Agricultural Bank of China and Industrial and Commercial Bank of China)

Group 3 – Other state-controlled bank in the PRC

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

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36. FINANCIAL RISK MANAGEMENT (Continued)

(b) Credit risks (Continued)

	2020 HK\$'000	2019 HK\$'000
Group 1	20	6,084
Group 2	17,435	45,704
Group 3	55	22,898
Total bank balances and restricted bank deposit	17,510	74,686

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

	2020 HK\$'000	2019 HK\$'000
Customer A	14,885	31,188
Customer B	12,563	N/A*
	27,448	31,188

* The corresponding trade and bills receivables for the year did not account for over 10% of total trade and bills receivables of the Group for that year.

These customers are relating to particleboards segment in both years.

In order to minimise the credit risk, the management of the Group has designated a team responsible for determination of credit limits, credit approvals and other monitoring procedures to ensure that follow-up action is taken to recover overdue debts. In addition, the Group reviews the recoverability of these receivables at the end of each reporting to ensure that adequate impairment losses are made for irrecoverable amounts.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 31 December 2020

36. FINANCIAL RISK MANAGEMENT (Continued)

(b) Credit risks (Continued)

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

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

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

At 31 December 2020

	Expected loss rate	Gross carrying amount HK\$'000	Loss allowance HK\$'000
Current	0.90%	76,724	688
Past due 1 – 30 days	62.94%	2,913	1,834
Past due 31 – 90 days	73.87%	4,152	3,067
Past due over 180 days	100.00%	188	188
Total		83,977	5,777

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 31 December 2020

36. FINANCIAL RISK MANAGEMENT (Continued)

(b) Credit risks (Continued)

At 31 December 2019

	Expected loss rate	Gross carrying amount HK\$'000	Loss allowance HK\$'000
Current	0.88%	84,463	742
Past due 1 – 30 days	14.19%	168	24
Past due 91 – 180 days	90.00%	35	32
Past due over 180 days	100.00%	410	410
Total		85,076	1,208

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

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

	2020 HK\$'000	2019 HK\$'000
At 1 January	1,208	752
Expected credit losses recognised during the year	4,416	480
Write-off	(162)	–
Exchange realignment	315	(24)
At 31 December	5,777	1,208

For loan receivable, having considered the settlement history in the past 3 years, the Group expected that the expected credit loss on loan receivable is minimal.

(c) Liquidity risk

Ultimate responsibility for liquidity risk management rests with the board of directors, which has established an appropriate liquidity risk management framework for the management of the short-term and long-term funding and liquidity management requirements. The Group manages liquidity risk by maintaining adequate reserves and banking facilities, by continuously monitoring forecast and actual cash flows.

In order to mitigate the liquidity risk, the management regularly monitors the cash flows of the Group through monitoring the operating cash flows and utilisation of bank loans in order to meet its liquidity requirement in the short and long term. The Group's management also monitors its compliance with loan covenants.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 31 December 2020

36. FINANCIAL RISK MANAGEMENT (Continued)

(c) Liquidity risk (Continued)

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

As at 31 December 2020

	On demand or less than 6 months HK\$'000	Over 6 months but not more than 1 year HK\$'000	Over 1 year but not more than 5 years HK\$'000	Over 5 years HK\$'000	Total undiscounted cash flows HK\$'000	Carrying amounts HK\$'000
Trade payables	28,127	–	–	–	28,127	28,127
Financial liabilities included in other payables	32,233	–	–	–	32,233	32,233
Bank borrowings:						
– at floating rate	24,719	28,764	26,877	7,346	87,706	81,630
– at fixed rate	732	49,728	–	–	50,460	49,145
Other borrowings:						
– at floating rate	13,663	13,663	27,344	–	54,670	49,503
– at fixed rate	11,986	11,986	41,239	–	65,211	57,669
Lease liabilities	461	262	147	–	870	856
Notes payable	23,620	93,620	–	–	117,240	87,789
	135,541	198,023	95,607	7,346	436,517	386,952

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36. FINANCIAL RISK MANAGEMENT (Continued)

(c) Liquidity risk (Continued)

As at 31 December 2019

	On demand or less than 6 months HK\$'000	Over 6 months but not more than 1 year HK\$'000	Over 1 year but not more than 5 years HK\$'000	Total undiscounted cash flows HK\$'000	Carrying amounts HK\$'000
Trade payables	19,407	–	–	19,407	19,407
Other payables	26,893	–	–	26,893	26,893
Bank borrowings:					
– at floating rate	28,413	35,334	–	63,747	62,179
– at fixed rate	1,946	74,063	–	76,009	72,560
Other borrowings:					
– at floating rate	4,581	12,837	51,363	68,781	58,642
– at fixed rate	10,766	14,122	27,339	52,227	45,896
Finance lease liability	375	375	598	1,348	1,314
Notes payable	4,108	100,000	–	104,108	97,532
	96,489	236,731	79,300	412,520	384,423

(d) Fair value of financial instruments

As at 31 December 2020 and 2019, there is no financial instrument of the Group that is measured at fair value on a recurring basis. The directors of the Company consider that the carrying amounts of financial assets and financial liabilities carried at amortised cost in these consolidated financial statements approximate their fair values.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 31 December 2020

37. RELATED PARTY TRANSACTIONS

Information about related parties and their relationships with the Group are as follows:

Name of related party	Relationship
Ms. Wong Wan Yu	Daughter of Mr. Wong and Mrs. Wong
Mr. Wong Kin Ching	Director and son of Mr. and Mrs. Wong
Mr. Wong Kin Keung	Son of Mr. and Mrs. Wong

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

(a) Transactions with related parties

	2020 HK\$'000	2019 HK\$'000
Loan advanced from related parties:		
– Mr. Wong	–	12,700
– Mrs. Wong	1,900	–
– Ms. Wong Wan Yu	8,381	6,700
	10,281	19,400
Loan principal repayment to related parties:		
– Mr. Wong	7,500	5,200
– Mrs. Wong	200	–
– Ms. Wong Wan Yu	6,706	–
	14,406	5,200
Interest expenses on unsecured loans from:		
– Mr. Wong	19	439
– Mrs. Wong	79	–
– Ms. Wong Wan Yu	247	174
	345	613
Loan facilities provided by:		
– Mr. Wong	–	55,000
– Mrs. Wong	5,000	–
– Ms. Wong Wan Yu	10,000	10,000
	15,000	65,000

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 31 December 2020

37. RELATED PARTY TRANSACTIONS (Continued)

(b) Personal guarantees executed by related parties

	2020 HK\$'000	2019 HK\$'000
Personal guarantees executed by Mr. Wong and Mrs. Wong in respect of the following balances:		
– notes payable (note 28)	87,789	97,532
Personal guarantees executed by Mr. Wong, Mrs. Wong and Mr. Wong Kin Ching in respect of the following balances:		
– other borrowings (note 26)	97,097	89,717
Personal guarantee executed by Mr. Wong Kin Ching and Mr. Wong in respect of the following balances:		
– bank borrowings (#) (note 26)	59,411	52,467

Maximum amounts of guarantees provided by Mr. Wong and Mr. Wong Kin Ching are each approximately HK\$118,821,000 (2019: HK\$221,031,000).

(c) Compensation of key management personnel and related parties

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

	2020 HK\$'000	2019 HK\$'000
Short-term benefits	2,813	2,782
Post-employment benefits	37	54
	2,850	2,836

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 31 December 2020

37. RELATED PARTY TRANSACTIONS (Continued)

(c) Compensation of key management personnel and related parties (Continued)

The remunerations paid by the Group to other related parties during the year are set out as follows:

	2020 HK\$'000	2019 HK\$'000
Ms. Wong Wan Yu		
– Short-term benefits	576	437
– Post-employment benefits	18	18
	594	455
Mr. Wong Kin Keung		
– Short-term benefits	109	160
– Post-employment benefits	5	8
	114	168

(d) Year-end balances with related parties

	2020 HK\$'000	2019 HK\$'000
Interest payable to related parties:		
– Mr. Wong	79	439
– Ms. Wong Wan Yu	229	174
	308	613
Payroll payables to related parties:		
– Mr. Wong	86	230
– Mrs. Wong	57	153
– Mr. Wong Kin Ching	29	45
– Ms. Wong Wan Yu	140	314
– Mr. Wong Kin Keung	57	76
– Other directors and a key management personnel	127	455
	496	1,273
Amounts due to Ms. Wong Wan Yu	–	1,458
Total amounts included in other payables and accrued expenses (note 24)	804	3,344

The balance above included in other payables and accrued expenses are interest-free, unsecured and have no fixed term of repayment in both years.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 31 December 2020

37. RELATED PARTY TRANSACTIONS (Continued)

(d) Year-end balances with related parties (Continued)

	2020 HK\$'000	2019 HK\$'000
Unsecured loans from		
– Mr. Wong	1,700	7,500
– Ms. Wong Wan Yu	8,375	6,700
Total amounts included in bank and other borrowings (note 26)	10,075	14,200

The unsecured loans carry interest of 7% per annum and is repayable after one year (2019: within one year) from 31 December 2020.

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

The transactions set out above are exempted continuing connected transactions as they are conducted on terms favourable than normal commercial terms, and the loans, year-end balances or guarantee are not secured by the assets of the Group.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 31 December 2020

38. STATEMENT OF FINANCIAL POSITION OF THE COMPANY

	2020 HK\$'000	2019 HK\$'000
NON-CURRENT ASSETS		
Investment in subsidiaries	283,884	266,970
Property, plant and equipment	242	366
Right-of-use assets	780	1,474
Loans to a subsidiary	–	24,001
	284,906	292,811
CURRENT ASSETS		
Loans to a subsidiary	17,823	16,745
Amount due from subsidiaries	7,356	309
Deposit and other receivables	55	55
Bank balances and cash	15	1,076
Restricted deposit	–	5,000
	25,249	23,185
CURRENT LIABILITIES		
Amount due to a subsidiary	86,998	72,099
Other payables and accrued expenses	4,334	6,661
Contract liabilities	–	241
Other borrowings, due within one year	–	14,200
Lease liabilities	709	723
Notes payable, secured and guaranteed	87,789	97,532
	179,830	191,456
NET CURRENT LIABILITIES	(154,581)	(168,271)
TOTAL ASSETS LESS CURRENT LIABILITIES	130,325	124,540

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 31 December 2020

38. STATEMENT OF FINANCIAL POSITION OF THE COMPANY (Continued)

	2020 HK\$'000	2019 HK\$'000
NON-CURRENT LIABILITIES		
Other borrowings due after one year	10,075	–
Lease liabilities	147	591
	10,222	591
NET ASSETS	120,103	123,949
CAPITAL AND RESERVES		
Share capital	253,928	253,928
Reserves	(133,825)	(129,979)
TOTAL EQUITY	120,103	123,949

The Company's statements of financial position was approved and authorised for issue by the Board of Directors on 13 April 2021 and are signed on its behalf by:

Wong Cheung Lok
Director

Liu Jiayong
Director

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 31 December 2020

38. STATEMENT OF FINANCIAL POSITION OF THE COMPANY (Continued)

Movement in Company's reserves

	Share capital HK\$'000	Capital reserve HK\$'000	Foreign currency translation reserve HK\$'000	Accumulated losses HK\$'000	Total HK\$'000
At 1 January 2019	253,928	492	(23,054)	(83,890)	147,476
Loss and total comprehensive loss for the year	–	–	(5,331)	(18,196)	(23,527)
At 31 December 2019 and 1 January 2020	253,928	492	(28,385)	(102,086)	123,949
Loss and total comprehensive loss for the year	–	–	12,555	(16,401)	(3,846)
At 31 December 2020	253,928	492	(15,830)	(118,487)	120,103

Particulars of the subsidiaries are as follows:

Name of subsidiary	Place of establishment and operation	Registered capital/ Paid in capital	Percentage of ownership interests directly held by the Company	Principal activities
Hero Summit Limited [#]	Samoa Islands	US\$1.00/US\$1.00	100%	Investment holding
Hongwei Renhua* (note)	PRC	HK\$302,000,000/ HK\$272,500,000	100%	Manufacturing and selling of particleboards
Shaoguan HongTaiHeng Trading Co. Ltd.* (note)	PRC	RMB5,000,000/ RMB nil	100%	Trading of particleboards

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 31 December 2020

38. STATEMENT OF FINANCIAL POSITION OF THE COMPANY (Continued)

Particulars of the subsidiaries are as follows: (Continued)

Name of subsidiary	Place of establishment and operation	Registered capital/ Paid in capital	Percentage of ownership interests directly held by the Company	Principal activities
Shaoguan Jianhong Forestry Co., Ltd.* (note)	PRC	HK\$5,000,000/ HK\$nil	100%	Forestry business
Superb Fancy Limited#	Hong Kong	N/A/HK\$1.00	100%	Investment holding
Qingliu Jianhong Forestry Co., Ltd.* (note)	PRC	HK\$5,000,000/ HK\$nil	100%	Forestry business
Universal Success Enterprise Limited#	Hong Kong	N/A/HK\$1.00	100%	Investment holding

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

Registered as limited company in the relevant jurisdiction.

Note: English name is for identification purpose only.

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

39. COMPARATIVE INFORMATION

Certain of the comparative figures have been restated to conform with current year's presentation.

FIVE-YEAR FINANCIAL SUMMARY

The following is a summary of the published results and of the assets and liabilities of the Group for the five years ended 31 December, 2016, 2017, 2018, 2019 and 2020.

RESULTS

	2020 HK\$'000	Year ended 31 December			
		2019 HK\$'000	2018 HK\$'000	2017 HK\$'000	2016 HK\$'000
Revenue	330,161	396,682	406,879	491,428	457,931
(Loss)/profit before tax	(72,674)	26,512	(57,476)	30,295	40,453
Income tax expense	2,462	(1,222)	(2,138)	–	–
(Loss)/profit for the year	(70,212)	25,290	(59,614)	30,295	40,453

		As at 31 December			
	2020	2019	2018	2017	2016
	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000
ASSETS AND LIABILITIES					
Current assets	283,659	304,504	230,603	260,433	213,702
Non-current assets	432,481	457,791	492,287	592,343	540,305
Total assets	716,140	762,295	722,890	852,776	754,007
Current liabilities	309,911	328,332	270,533	362,227	263,410
Non-current liabilities	120,007	100,817	134,588	90,287	147,509
Net assets	286,222	333,146	317,769	400,262	343,088
EQUITY					
Equity attributable to owners of the Company	286,222	333,146	317,769	400,262	343,088