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

(Incorporated in the Cayman Islands with limited liability)

(Stock Code: 8277)

ANNUAL RESULTS ANNOUNCEMENT FOR THE YEAR ENDED 31 MARCH 2019

CHARACTERISTICS OF THE GEM ("GEM") OF THE STOCK EXCHANGE

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

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

This announcement, for which the directors (the "Directors") of Steed Oriental (Holdings) Company Limited (the "Company") collectively and individually accept full responsibility, includes particulars given in compliance with the Rules Governing the Listing of Securities on the GEM of the Stock Exchange (the "GEM Listing Rules") for the purpose of giving information with regard to the Company. The Directors, having made all reasonable enquiries, confirm that to the best of their knowledge and belief the information contained in this announcement is accurate and complete in all material respects and not misleading or deceptive, and there are no other matters the omission of which would make any statement herein or this announcement misleading.

The board of Directors of the Company (the "Board") is pleased to present the audited operating results of the Company and its subsidiaries (collectively, the "Group") for the year ended 31 March 2019, together with comparative figures for the previous year as follows:

CONSOLIDATED STATEMENT OF PROFIT OR LOSS AND OTHER COMPREHENSIVE INCOME

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

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

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

CONSOLIDATED STATEMENT OF FINANCIAL POSITION

At 31 March 2019
(Expressed in HK$)

	Note	2019 HK$'000	2018 (Note) HK$'000
Non-current assets			
Property, plant and equipment		**226,610**	38,805
Lease prepayments		**66,269**	30,193
Intangible assets		**2,001**	–
Other non-current assets		**1,171**	1,869
		296,051	70,867
Current assets			
Trading securities		**337**	420
Inventories		**77,922**	30,454
Lease prepayments		**1,406**	656
Contract assets		**4,383**	–
Trade and other receivables	*8*	**15,942**	23,459
Cash at bank and on hand		**14,005**	19,974
Restricted deposits		**–**	28
Other current assets		**18,178**	–
		132,173	74,991
Current liabilities			
Trade and other payables	*9*	**98,210**	28,704
Contract liabilities		**1,992**	–
Derivative financial instruments		**99**	83
Bank and other borrowings		**103,593**	16,379
Obligations under a finance lease		**140**	–
Income tax payable		**2,407**	524
		206,441	45,690
Net current (liabilities)/assets		**(74,268)**	29,301
Total assets less current liabilities		**221,783**	100,168
Non-current liabilities			
Bank and other borrowings		**72,032**	7,880
Deferred tax liabilities		**6,286**	474
Deferred income		**468**	–
Obligations under a finance lease		**404**	–
Other non-current liabilities		**54,251**	1,211
		133,441	9,565
NET ASSETS		**88,342**	90,603
CAPITAL AND RESERVES			
Share capital		**2,187**	2,187
Reserves		**86,155**	88,416
TOTAL EQUITY		**88,342**	90,603

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

NOTES

(Expressed in HK$ unless otherwise indicated)

1 CORPORATE INFORMATION

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

2 SIGNIFICANT ACCOUNTING POLICIES

(a) Statement of compliance

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

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

(b) Basis of preparation of the financial statements

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

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

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

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

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

(c) Changes in accounting policies

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

(i) HKFRS 9, *Financial instruments*

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

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

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

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

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

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

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

a. Classification of financial assets and financial liabilities

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

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

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

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

b. *Credit losses*

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

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

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

– contract assets.

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

c. *Transition*

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

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

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

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

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

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

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

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

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

a. Timing of revenue recognition

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

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

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

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

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

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

The adoption of HKFRS 15 does not have a significant impact on the opening balances as at 1 April 2018. However, in future periods, it may have a material impact on certain made-to-order manufacturing arrangements with customers where the Group manufactures the product in accordance with the customer's specification and under the contract the Group has the right to be paid for work done to date if the customer were to cancel the contract before the order was fully completed. These contracts therefore satisfy the criteria for recognising revenue over time during the manufacturing process, whereas previously the sales of goods was recognised at a point of time. There were no such arrangements previously until the Group acquired a subsidiary (see note 11) in March 2019 which has certain made-to-order wooden product arrangements with customers.

b. Presentation of contract assets and liabilities

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

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

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

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

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

3 REVENUE AND SEGMENT REPORTING

(a) Revenue

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

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

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

(i) Disaggregation of revenue

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

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

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

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

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

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

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

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

(b) Geographic information

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

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

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

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

4 OTHER INCOME

	2019	2018
	HK$'000	*HK$'000*
Interest income	**62**	135
Net loss on disposal of property, plant and equipment	**(119)**	(5)
Net loss arising from forward foreign exchange contracts	**(68)**	(78)
Net loss on disposal of equity securities	**(107)**	(16)
Net foreign exchange gains	**506**	1,143
Gain on a bargain purchase *(note 11)*	**4,729**	–
Others	**90**	45
	5,093	1,224

5 PROFIT/(LOSS) BEFORE TAXATION

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

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

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

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

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

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

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

Cost of inventories includes HK$9,630,000 (2018: HK$10,463,000) relating to staff costs, depreciation expenses and operating lease charges, which amount is also included in the respective total amounts disclosed separately above or in note 5(b) for each of these types of expenses.

6 INCOME TAX

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

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

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

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

7 EARNINGS/(LOSS) PER SHARE

(a) Basic earnings/(loss) per share

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

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

(b) Diluted earnings/(loss) per share

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

8 TRADE AND OTHER RECEIVABLES

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

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

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

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

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

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

9 TRADE AND OTHER PAYABLES

	2019	2018
	HK$'000	*HK$'000*
Trade payables:		
– Amounts due to third parties	**12,927**	10,278
Other payables and accrued expenses:		
– Payables for staff related costs	**8,283**	3,337
– Amounts due to related parties	**–**	6,600
– Amounts due to then related parties of Hebei Youlin Technology Company Limited ("Hebei Youlin") *(note)*	**33,965**	–
– Payables for acquisition of property, plant and equipment	**21,920**	4,469
– Payables for acquisition of a subsidiary *(note 11)*	**13,099**	–
– Interest payables	**817**	–
– Other accruals and payables	**7,199**	4,020
	85,283	18,426
	98,210	28,704

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

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

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

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

10 DIVIDENDS

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

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

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

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

11 ACQUISITION OF A SUBSIDIARY

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

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

Identifiable assets acquired and liabilities assumed

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

	Note	**Recognised values on acquisition** *HK$'000*
Property, plant and equipment		137,521
Lease prepayments		39,442
Intangible assets		2,001
Inventories		21,989
Contract assets		4,383
Trade and other receivables		4,043
Cash at bank and on hand		754
Other current assets		12,910
Short-term bank and other borrowings		(59,144)
Trade and other payables		(59,534)
Contract liabilities		(1,992)
Long-term bank and other borrowings		(58,707)
Deferred income		(468)
Deferred tax liabilities		(5,720)
Total identifiable net assets acquired		37,478
Gain on a bargain purchase	*4*	(4,729)
Total cash consideration		32,749
Less: Payables for second installment related to the Acquisition	*9*	(13,099)
Cash at bank and on hand acquired		(754)
Net cash outflow		18,896

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

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

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

MANAGEMENT DISCUSSION AND ANALYSIS

BUSINESS REVIEW

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

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

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

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

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

FINANCIAL REVIEW

Revenue

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

Gross profit

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

Selling expenses

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

Profit/(loss) for the year

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

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

LIQUIDITY, FINANCIAL RESOURCES AND CAPITAL STRUCTURE

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

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

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

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

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

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

CHARGES ON THE GROUP'S ASSETS

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

As at 31 March 2019, the Group's land use rights of carrying amount of approximately HK$28.2 million and inter-company trade receivables of approximately HK$4.0 million were charged to secure bank borrowings of approximately HK$25.1 million.

CONTINGENT LIABILITIES

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

CAPITAL COMMITMENTS

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

SIGNIFICANT INVESTMENT

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

MATERIAL ACQUISITIONS AND DISPOSALS OF SUBSIDIARIES AND AFFILIATED COMPANIES

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

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

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

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

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

FOREIGN EXCHANGE EXPOSURE

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

EMPLOYEES AND REMUNERATION POLICIES

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

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

EVENT AFTER THE REPORTING PERIOD

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

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

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

FUTURE PROSPECTS

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

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

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

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

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

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

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

CORPORATE GOVERNANCE PRACTICES

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

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

REVIEW BY THE AUDIT COMMITTEE

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

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

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

Hong Kong, 21 June 2019

As at the date of this announcement, the Board comprises Ms. Sun Xue Song and Mr. Xue Zhao Qiang as executive Directors; Mr. Ding Hongquan as non-executive Director; Mr. Wang Wei, Ms. Dong Ping and Mr. Zhu Da as independent non-executive Directors.

This announcement, for which the Directors of the Company collectively and individually accept full responsibility, includes particulars given in compliance with the Rules Governing the Listing of Securities on the GEM for the purpose of giving information with regard to the Company. The Directors, having made all reasonable enquiries, confirm that to the best of their knowledge and belief the information contained in this announcement is accurate and complete in all material respects and not misleading or deceptive, and there are no other matters the omission of which would make any statement herein or this announcement misleading.

This announcement will remain on the "Latest Company Announcements" page of GEM website at www.hkgem.com for at least seven days from the date of its publication and will be published on the website of the Company at www.steedoriental.com.hk.