THIS CIRCULAR IS IMPORTANT AND REQUIRES YOUR IMMEDIATE ATTENTION

If you are in any doubt as to any aspect of this circular or as to the action to be taken, you should consult a stockbroker or other registered dealer in securities, bank manager, solicitor, professional accountant or other professional adviser.

If you have sold or transferred all your shares in Steed Oriental (Holdings) Company Limited (the "**Company**"), you should at once hand this circular to the purchaser or transferee, or to the bank, stockbroker or other agent through whom the sale or transfer was effected for transmission to the purchaser or transferee.

Steed Oriental (Holdings) Company Limited
駿東(控股)有限公司

(Incorporated in the Cayman Islands with limited liability)

(Stock Code: 8277)

MAJOR TRANSACTION IN RELATION TO THE ACQUISITION OF THE ENTIRE EQUITY INTEREST IN THE TARGET COMPANY

Financial Adviser

國泰君安國際
GUOTAI JUNAN INTERNATIONAL
GUOTAI JUNAN CAPITAL LIMITED

GUOTAI JUNAN CAPITAL LIMITED

A letter from the Board is set out on pages 4 to 18 of this circular.

This circular will remain on the "Latest Company Announcements" page of the GEM website at www.hkgem.com for at least 7 days from the date of its publication and will be published on the Company's website at www.steedoriental.com.hk.

19 March 2019

GEM has been positioned as a market designed to accommodate small and mid-sized 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.

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.

CONTENTS

In this circular, unless the context otherwise requires, the following expressions have the following meanings:

"Acquisition"	the proposed acquisition of the Target Interest by the Purchaser from the Vendors pursuant to the terms of the Equity Transfer Agreement
"Announcement"	the announcement of the Company dated 24 January 2019 in respect of the Acquisition
"Board"	the board of Directors
"Company"	Steed Oriental (Holdings) Company Limited (駿東(控股)有限公司), a company incorporated in Cayman Islands with limited liability, the shares of which are listed on the GEM of the Stock Exchange (Stock Code: 8277)
"connected person(s)"	has the meaning ascribed to it under the GEM Listing Rules
"Completion"	the completion of the Acquisition pursuant to the terms and conditions of the Equity Transfer Agreement which shall be on the day of the payment of the First Installment
"Consideration"	the aggregate consideration of RMB28,000,000 payable by the Purchaser for the Acquisition
"Director(s)"	director(s) of the Company
"Enlarged Group"	the Group as enlarged by the consolidation of the Target Company
"Equity Transfer Agreement"	the equity transfer agreement dated 24 January 2019 entered into between the Purchaser and the Vendors in relation to the Acquisition (as amended and supplemented by the Supplemental Agreement dated 14 March 2019)
"GEM Listing Rules"	the Rules Governing the Listing of Securities on GEM of the Stock Exchange
"Group"	the Company and its subsidiaries

"Independent Third Party(ies)"	a party or parties independent of and not connected with the Company and its connected persons
"Latest Practicable Date"	14 March 2019, being the latest practicable date prior to the printing of this circular for the purpose of ascertaining certain information contained in this circular
"Parties"	the Purchaser and the Vendors, being parties to the Equity Transfer Agreement and a "Party" shall be construed accordingly
"PRC"	The People's Republic of China
"PRC Legal Advisers"	Jingtian & Gongcheng, the Company's legal advisers advising on the laws of PRC
"Purchaser"	Hebei Jiapin Trading Limited* (河北迦品貿易有限公司), an indirect wholly-owned subsidiary of the Company and established in the PRC
"RMB"	Renminbi, the lawful currency of the PRC
"SFC"	The Securities and Futures Commission of Hong Kong
"Share(s)"	ordinary issued share(s) of HK$0.01 each in the share capital of the Company
"Shareholder(s)"	holder(s) of the Shares
"sq. m."	square metres
"Stock Exchange"	The Stock Exchange of Hong Kong Limited
"Supplemental Agreement"	the supplemental agreement entered into between the Vendors and the Purchaser on 14 March 2019, pursuant to which the Parties agreed that, *inter alia*, the Conditions Precedent for the Second Installment (i.e. the obtaining of the property ownership certificate (不動產權證書) by the Target Company in relation to all the constructions on the Land as at the date of the Equity Transfer Agreement (including but not limited to workshops, warehouses and office buildings) shall not be waivable

"Target Company"	Hebei Youlin Technology Company Limited* (河北優林科技有限公司), a company established in the PRC with limited liability, which is owned as to 80% by Mr. Huo Julin (霍炬霖) and 20% by Mr. Li Xianfeng (李現鋒) as at the Latest Practicable Date
"Target Interest"	the entire equity interest in the Target Company
"Vendors"	Mr. Huo Julin (霍炬霖) and Mr. Li Xianfeng (李現鋒), each a PRC individual resident directly owning 80% and 20% of the registered share capital of the Target Company, respectively
"%"	per cent.

Unless stated otherwise, in this circular, amounts denominated in RMB have been translated into HK$ at the exchange rate of RMB0.8643 to HK$1.00, being the exchange rate of RMB against HK$ as announced by The People's Bank of China on the date of the Equity Transfer Agreement. No representation is made that the HK$ amounts could have been or could be converted into RMB at such rate or any other rate or at all. Certain amounts and percentage figures in this circular have been subject to rounding adjustments.

* *For identification purposes only*

Steed Oriental (Holdings) Company Limited
駿東(控股)有限公司

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

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

Non-executive Director:
Mr. Ding Hongquan

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

Registered office:
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Wanchai,
Hong Kong

19 March 2019

To the Shareholders

Dear Sir or Madam,

MAJOR TRANSACTION IN RELATION TO THE ACQUISITION OF THE ENTIRE EQUITY INTEREST IN THE TARGET COMPANY

A. INTRODUCTION

Reference is made to the Announcement of the Company dated 24 January 2019 in which the Company announced that on 24 January 2019 (after trading hours), the Purchaser and the Vendors entered into the Equity Transfer Agreement, pursuant to which the Purchaser conditionally agreed to purchase and the Vendors conditionally agreed to sell the Target Interest at the Consideration of RMB28,000,000. Reference is also made to the announcement of the Company dated 14 March 2019 in relation to, among other things, the Supplemental Agreement.

The purpose of this circular is to provide you with, among other things, (i) further details of the Acquisition, (ii) financial information of the Group; (iii) financial information of the Target Company; (iv) unaudited pro forma financial information of the Enlarged Group; (v) the property valuation report; and (vi) the valuation report of the Target Company.

B. THE ACQUISITION

The principal terms of the Equity Transfer Agreement are:

Date: 24 January 2019

Parties:

(i) the Purchaser（Hebei Jiapin Trading Limited* 河北迦品貿易有限公司）, an indirect wholly-owned subsidiary of the Company; and

(ii) the Vendors, i.e. Mr. Huo Julin（霍炬霖）and Mr. Li Xianfeng（李現鋒）

To the best of the Directors' knowledge, information and belief, after having made all reasonable enquiries, each of the Vendors is an Independent Third Party and save for the business relationship as described below, does not have any existing or previous relationship with the Company and its connected persons. The Company has been trying to develop and expand the Northern China plywood market and since 2017, the Target Company is one of the trading partners of the Group in Hebei Province and has been providing processing services for the Group before the Acquisition. In 2017 and 2018, the aggregate amount of business provided by the Target Company to the Group amounted to approximately RMB300,000 of trading business and approximately RMB970,000 of processing services. The Target Company has also leased a storage area of 4,563 sq. m to the Purchaser pursuant to a lease contract dated 20 March 2018 for a term of one year from 25 March 2018 to 24 March 2019 at an annual rent of RMB50,000. The Directors consider that the terms of the lease contract are on normal commercial terms. For details of the lease contract, please refer to Note 4 under the section headed "Certified Opinion of Value" of the Property Valuation Report in Appendix V to this circular. Through continuous business cooperation, the management of the Purchaser and the Target Company have built up a cooperative relationship. The management of the Target Company expressed its intention to sell the business or seek potential investors to the Target Company such that the Target Company can expand its production scale so as to improve its operating results. In view of the Group's business plans to expand into the Northern China market by establishing a production base in the region, the Directors are of the view that it is time and cost saving by acquiring the Target Company instead of setting up a new production base. The Group can, by acquiring the Target Company, directly supervise the day to day operations of the Target Company and gain access to the Target Company's high-tech production equipment, technological know-how and intellectual property rights. In light of the above, the Vendors and the management of the Group started negotiations for the acquisition of the entire equity interest in the Target Company and subsequently, entered into the Acquisition.

Assets to be acquired

The Target Company is established in the PRC with limited liability on 11 July 2016 and is primarily engaged in the processing and sale of wooden structures, wooden panels and wooden furniture. Its principal assets are (i) its production base which consists of various production lines, machineries, equipment and office; (ii) the land at Huanmadian Town, Ningjin County, Hebei, PRC (河北寧晉縣換馬店鎮), with a site area of approximately 157,182 sq. m. (the "**Land**"); and (iii) inventories. It also possesses various intellectual property rights in the PRC including an invention patent in relation to a method for preserving wooden materials (一種利用環保低分子有機藥劑製備防腐木材的方法), utility model patents in relation to wood drying process (一種木材蒸氣烘乾窯), energy-saving steam boiler heating system (一種節能型燃氣蒸汽鍋爐加熱系統) and aluminum composite heat storage energy-saving window (一種改性木－鋁復合儲熱節能窗) and software in relation to pressurized heat treatment process control system (東方優木常壓熱處理工藝控制系統V1.0) and the modification technology automated control system (東方優木改性技術自動控制系統V1.0). In addition, it has obtained a licensed right up to June 2026 to use a technological process in relation to a method for improving the quality of wooden materials by increasing the durability, density and water resistance level of wooden materials.

As at the Latest Practicable Date, the Target Company is directly owned as to 80% by Mr. Huo Julin (霍炬霖) and as to 20% by Mr. Li Xianfeng (李現鋒). Pursuant to the terms of the Equity Transfer Agreement, the Purchaser will acquire the Target Interest from the Vendors. Upon Completion, the Target Company will become an indirect wholly-owned subsidiary of the Company, and the financial results, assets and liabilities of the Target Company will be consolidated into the accounts of the Group.

Consideration

The Consideration of RMB28,000,000 shall be paid by the Purchaser to the Vendors in cash in proportion to their respective equity interests in the Target Company (being 80% towards Mr. Huo Julin (霍炬霖) and 20% towards Mr. Li Xianfeng (李現鋒)) in the following manner:

(a) RMB16,800,000, being 60% of the Consideration (the "**First Installment**"), shall be payable in cash within 10 business days after the Conditions Precedent for the First Installment (as defined below) having been fulfilled (or waived, as the case may be); and

(b) RMB11,200,000, being 40% of the Consideration (the "**Second Installment**"), shall be payable in cash within 10 business days after the Conditions Precedent for the Second Installment (as defined below) having been fulfilled.

The Consideration shall be inclusive of all taxes which are payable by the Vendors in relation to the Acquisition. The Consideration was arrived at after arm's length negotiations between the Purchaser and the Vendors with reference to the valuation report of the market value of the Target Company of approximately RMB34.6 million as prepared by an independent valuer using the asset-based approach based on the unaudited financial information of the Target Company as at 31 December 2018. The Consideration represents a discount of approximately RMB6.6 million, or 19.1% to the market value of the Target Company as stated in the valuation report. For details of the valuation report of the Target Company, please refer to Appendix IV to this circular.

It is expected that the Consideration will be financed by way of shareholders' interest-free loan which was funded by the shareholders' own resources. The shareholders' loan is interest-free and will be obtained on normal commercial terms and will not be secured by any assets of the Group.

Conditions Precedent

The payment of the Consideration is subject to the fulfillment of the following conditions precedent in respect of the First Installment (the "**Conditions Precedent for the First Installment**") and the Second Installment (the "**Conditions Precedent for the Second Installment**"):

I. Conditions Precedent for the First Installment

(a) the Target Company, the Vendors, the Purchaser and the Company having obtained all the necessary consents or approvals in relation to the Acquisition and the transactions contemplated under the Equity Transfer Agreement from, including but not limited to the Stock Exchange, the SFC or any governmental and/or regulatory authority unless such consents or approvals (as the case may be) have been waived by the Stock Exchange or the SFC (if applicable);

(b) the completion of the legal and financial due diligence review and investigation on the Target Company conducted by the Purchaser to its reasonable satisfaction;

(c) the approval of the Equity Transfer Agreement at the shareholders meeting of the Target Company;

(d) the approval of the Acquisition and the transactions contemplated under the Equity Transfer Agreement by (i) the executive director and shareholder of the Purchaser and (ii) the Board and the Shareholders (either by way of voting in the general meeting or by way of written shareholders' approval) of the Company;

(e) that there is no material adverse change or effect to the financial conditions, management, business, properties, operating results, legal or financing structure, business prospects or assets or liabilities of the Target Company (as the case may be) before Completion;

(f) the completion of the relevant share transfer registration procedures (工商變更登記) for the Acquisition and the transactions contemplated under the Equity Transfer Agreement;

(g) the representations, warranties and undertakings provided by the Vendors set out in the Equity Transfer Agreement remaining true, accurate and complete in any respect since the date of the signing of the Equity Transfer Agreement; and

(For purpose of the fulfillment (or waiver, as the case may be) of the Conditions Precedent for the First Installment, the Conditions Precedent for the First Installment (a), (d) and (f) above shall not be waivable.)

II. Conditions Precedent for the Second Installment

(h) the obtaining of the property ownership certificate (不動產權證書) by the Target Company in relation to all the constructions on the Land as at the date of the Equity Transfer Agreement (including but not limited to workshops, warehouses and office buildings).

If the Conditions Precedent for the First Installment cannot be fulfilled (or waived by the Purchaser in whole or in part, as the case may be) by on or before 31 March 2019 or such other date as the Vendors and Purchaser may agree in writing, the Equity Transfer Agreement shall terminate whereupon no Party shall be liable to any of the other Parties, save in respect of claims arising out of any antecedent breaches of the Equity Transfer Agreement. The termination of the Equity Transfer Agreement shall not affect any existing rights (including but not limited to the claim for the penalty as a result of the breaches) under the Equity Transfer Agreement to any antecedent breaches and the provisions thereunder in relation to governing law, dispute resolution and confidentiality and other boilerplate provisions in the Equity Transfer Agreement shall remain in effect.

The Parties agree that the Conditions Precedent for the Second Installment shall be satisfied within one year after signing of the Equity Transfer Agreement. If the Conditions Precedent for the Second Installment are not fulfilled after the one year period, the Purchaser shall have the right to adjust the Second Installment based on the following mechanism:

(i) if the Conditions Precedent for the Second Installment are subsequently fulfilled after the first year but before the second year after the signing of the Equity Transfer Agreement, the Second Installment shall be adjusted by a discount of 5%, thus, the Second Installment shall then be RMB10,640,000;

(ii) if the Conditions Precedent for the Second Installment are subsequently fulfilled after the second year but before the third year after the signing of the Equity Transfer Agreement, the Second Installment shall be adjusted by a discount of 10%, thus, the Second Installment shall then be RMB10,080,000; or

(iii) if the Conditions Precedent for the Second Installment are subsequently fulfilled after the third year but before the fourth year after the signing of the Equity Transfer Agreement, the Second Installment shall be adjusted by a discount of 15%, thus, the Second Installment shall then be RMB9,520,000.

If the Conditions Precedent for the Second Installment are not fulfilled by the 24 January 2023, or such other date as the Purchaser may specify in writing, the Purchaser shall have the right to unilaterally terminate the Equity Transfer Agreement unless the Vendors have the evidence to prove that the Purchaser intentionally delayed the obtaining of the property ownership certificate（不動產權證書）in relation to all the constructions on the Land. Upon termination, the Purchaser shall be entitled to the full refund of all amounts paid along with interest at the benchmark interest rate for loans of the People's Bank of China at that time. In addition, the Purchaser is entitled to seek liquidated damages from the Vendors in the amount of 5% of all amounts paid by the Purchaser.

Save for the Conditions Precedent for the First Installment (a), (d) and (f) and the Conditions Precedent for the Second Installment (h) above, the Purchaser shall have the right to waive, in whole or in part, the Conditions Precedent for the First Installment by giving written notice to the Vendors.

As at the Latest Practicable Date, the Target Company (i) has obtained the property ownership certificate（不動產權證書）in relation to the Land and (ii) has not obtained the property ownership certificate（不動產權證書）in relation to all the constructions on the Land. Due to unfamiliarity with the procedures for obtaining the property ownership certificate（不動產權證書）for the relevant constructions on the Land, the Target Company has not applied for the relevant construction reporting procedures (as set out below) before the commencement of the construction of the relevant workshops, warehouses and office buildings on the Land. Hence, the property ownership certificate（不動產權證書）in relation to all the constructions on the Land as at the date of the Equity Transfer Agreement (including but not limited to workshops, warehouses and office buildings) have not been obtained as at the Latest Practicable Date. According to the Vendors, the Target Company is carrying out the relevant procedures necessary for the obtaining of the property ownership certificate（不動產權證書）and is currently applying for the development land use planning permit（建設用地規劃許可証） for the aforementioned constructions on the Land.

In order to obtain the property ownership certificate（不動產權證書）in relation to all the constructions on the Land, according to the PRC Legal Advisers, Jingtian & Gongcheng, the following outstanding procedures shall be completed:

(i) the application and obtaining of the development land use planning permit（建設用地規劃許可証）from the Natural Resources and Planning Bureau of Ningjin County（寧晉縣自然資源和規劃局）;

(ii) the application and obtaining of the development project planning permit（建設工程規劃許可証）from the Natural Resources and Planning Bureau of Ningjin County（寧晉縣自然資源和規劃局）;

(iii) the application and obtaining of the development project construction permit（建築工程施工許可証）from the Housing and Urban-Rural Development Bureau of Ningjin County（寧晉縣住房和城鄉建設局）; and

(iv) the completion of the completion acceptance procedures, and the application and obtaining of the construction project completion examination acceptance record（竣工驗收備案）from the Housing and Urban-Rural Development Bureau of Ningjin County（寧晉縣住房和城鄉建設局）.

According to the Vendors and the Target Company, it is expected that the property ownership certificate (不動產權證書) in relation to all the constructions on the Land will be obtained in or before December 2019. As advised by the PRC Legal Advisers, there is no legal impediment to obtain the property ownership certificate (不動產權證書) after the construction project completion examination acceptance record (竣工驗收備案) is obtained.

As further advised by the PRC Legal Advisers, without the property ownership certificate (不動產權證書), the Target Company's legal title of the constructions on the Land will be defective. According to the PRC Urban and Rural Planning Laws 《中華人民共和國城鄉規劃法》, the commencement of construction without obtaining the development project planning permit (建設工程規劃許可証) may lead to an imposition of a stop work order by the relevant authority. If corrective measures can be carried out to rectify the impact of the unauthorized construction and the corrective measures shall be carried out within the specified time frame, a fine of 5% to 10% of the construction cost shall be imposed. If corrective measures cannot be carried out to rectify the impact of the unauthorized construction, the relevant authority may issue a demolish order. If the unauthorized construction cannot be demolished, the relevant authority shall confiscate the construction and any illegal income derived from it and may impose a fine of up to 10% of the construction cost.

To assess the possible fine, legal consequence and penalty for the commencement of construction without obtaining the development project planning permit (建設工程規劃許可証), the PRC Legal Advisers conducted an interview with the relevant competent authority, namely the Natural Resources and Planning Bureau of Ningjin County (寧晉縣自然資源和規劃局) in February 2019. The deputy director general of the Natural Resources and Planning Bureau of Ningjin County (寧晉縣自然資源和規劃局) stated in the interview that considering the current situation of the Target Company, the Natural Resources and Planning Bureau of Ningjin County (寧晉縣自然資源和規劃局) would not generally punish the Target Company. As advised by the PRC Legal Advisers, considering the result of the interview, the risk that the Target Company being punished for the commencement of construction without obtaining the development project planning permit (建設工程規劃許可証) is remote. In the event that the Target Company is fined by the relevant authority, the management of the Target Company estimated that the amount of fine, pursuant to the PRC Urban and Rural Planning Laws《中華人民共和國城鄉規劃法》, will range from approximately RMB3.4 million to RMB6.7 million. Although the Target Company shall be liable for the aforementioned possible fine, legal consequence and penalty, the Equity Transfer Agreement provides that the Vendors shall indemnify the Purchaser for all fines and administrative punishments imposed by the government authorities or any liability incurred by the Target Company as a result of any non-compliance issues regarding the Land and the constructions on the Land. Therefore, the possible fine, legal consequence and penalty for the commencement of construction without obtaining the development project planning permit (建設工程規劃許可証) shall ultimately be borne by the Vendors.

As confirmed by the Vendors and the Target Company, the Target Company is in the process of applying for the relevant permits as stated above with an aim to obtaining the property ownership certificate (不動產權證書). In addition, according to the terms and conditions of the Equity Transfer Agreement, the Purchaser shall have a right to unilaterally terminate the Equity Transfer Agreement if the property ownership certificate (不動產權證書) cannot be obtained by 24 January 2023. On the other hand and as stated above, the Equity Transfer Agreement also provides that the Vendors shall indemnify the Purchaser for all fines and administrative punishments imposed by the government authorities or any liability incurred by the Target Company as a result of any non-compliance issues regarding the Land and the constructions on the Land and therefore, the Directors are of the view that there will be no material adverse impact on the Group regarding the absence of the property ownership certificate (不動產權證書) in relation to the constructions on the Land.

Completion

Completion shall be on the day of the payment of the First Installment. The Parties agree that the Vendors shall procure the Target Company to complete the relevant share transfer registration procedures (工商變更登記) within 15 business days after the date of the fulfillment of the Conditions Precedent for the First Installment (a) above. The Vendors shall, on the date of issue of the new business licence of the Target Company, deliver the business licence, company seals (including but not limited to the official seal, financial seal and contract seal) to the Purchaser.

INFORMATION OF THE PARTIES

The Company is a company incorporated in the Cayman Islands with limited liability and is principally engaged in the sourcing, manufacturing and sale of plywood products. The Purchaser is a company established in the PRC and is an indirect wholly-owned subsidiary of the Company. The Purchaser is principally engaged in the sale of plywood products.

As at the Latest Practicable Date, the Vendors, i.e. Mr. Huo Julin (霍炬霖) and Mr. Li Xianfeng (李現鋒), are each a PRC individual resident directly owning 80% and 20% of the registered share capital of the Target Company, respectively, and each an Independent Third Party.

THE TARGET COMPANY

The Target Company is a limited liability company established under the laws of the PRC on 11 July 2016 with a registered capital of RMB50 million. It is primarily engaged in the processing and sale of wooden structures, wooden panels and wooden furniture. The raw materials of the Target Company mainly consist of maple, black mangrove wood and brown albizzia wood. Most of the raw materials required for the production of the Target Company's wood products are mainly procured from the ports of Zhangjiagang. After initial processing by the upstream suppliers in Zhangjiagang, the raw materials are delivered to the Target Company's production base, where quality inspection procedures are conducted before the raw materials are used to manufacture the Target Company's products which include improved wood, wooden structures, wooden doors and windows, wooden furniture and processed wooden panels. The main production procedures for the Target Company's products contain a combination of processes involving cutting, milling, assembly, grinding, drying, heat preservation and other processes.

The Target Company developed the prefabricated lightweight wooden structure construction technology and the prefabricated wooden structures include wooden walls, floors and roofs. Since the Target Company's products feature the characteristics of water resistance, anti-corrosion, anti-insect, high temperature resistance, heat preservation, anti-deformation and flame retardant, the products are mainly used for interior and exterior decoration, construction and home furniture. The Target Company's main target customers are in PRC and include (i) construction companies, in particular, from the tourism sector, that require relatively high industry requirements for environmental protection and (ii) high-end domestic consumers of high quality home furniture products. The Target Company also targets the mass market for cost-effective wooden products and panels.

Currently, its principal assets are (i) its production base with a gross area of approximately 157,182 sq. m. containing various production lines, machineries, equipment and office; (ii) the Land; and (iii) inventories. As at 31 December 2018, it has 102 employees. It also possesses various intellectual property rights which is unique to the Target Company. For example, the utility model patents in relation to energy-saving boiler heating system (一種節能型燃鍋爐加熱系統) and the wood drying process (一種木材蒸氣烘乾窯) can effectively reduce the loss of heat energy and save fuel in the process of drying wooden materials, thereby, reducing production cost and improving efficiency. The invention patent in relation to a method for preserving wooden materials (一種利用環保低分子有機藥劑製備防腐木材的方法) has been applied in the process of manufacturing improved wood. The application of this technology reduces environmental pollution caused by waste liquids during the process of wood preservation. The utility model patent in relation to aluminum composite heat storage energy-saving window (一種改性木－鋁復合儲熱節能窗) is applied to the Target Company's production of doors and windows in which the sound insulation, heat preservation, noise reduction, water resistance level and quality of doors and windows has been effectively improved. The modification technology automated control system (東方優木改性技術自動控制系統V1.0) is applied in the wood modification process and greatly reduces labour costs and safety risks associated with the wood modification process. The software in relation to pressurized heat treatment process control system (東方優木常壓熱處理工藝控制系統V1.0) is applied during the process of producing improved wood and increases the quality of the product by easing the difficulty of controlling the temperature of the wooden materials during the process. In addition, the Target Company has obtained a license up until June 2026 to use a technological process for the production of improved wood by increasing the durability, density and water resistance level of wooden materials.

The annual production capacity of the Target Company's production base is estimated to be approximately 100,000 m^3 of improved wood; 120,000 sq. m. of wood structures; 60,000 sq. m. of wooden doors and windows; 60,000 m^3 of processed wooden panels and 10,000 m^3 of wooden furniture (approximately 85,000 units). As at 31 December 2018, the value of the constructions on the Land is approximately HK$79.8 million. Upon the fulfillment of the Conditions Precedent for the First Installment, the Target Company will become an indirect wholly-owned subsidiary of the Company, and the financial results, assets and liabilities of the Target Company will be consolidated into the accounts of the Group.

FINANCIAL INFORMATION OF THE TARGET COMPANY

Set out below is the financial information of the Target Company for the period from 11 July 2016 (date of establishment) to 31 December 2016, the year ended 31 December 2017 and the nine months ended 30 September 2018 prepared in accordance with Hong Kong Financial Reporting Standards:

	Period from 11 July 2016 (date of establishment) to 31 December 2016	**For the financial year ended 31 December 2017**	**For the nine months ended 30 September 2018**
	RMB'000	*RMB'000*	*RMB'000*
Turnover	–	3,279	76,302
Loss before taxation	5,037	13,441	6,702
Loss after taxation	5,037	13,441	6,702

The total and net asset values of the Target Company as at 30 September 2018 are approximately RMB142.1 million and RMB24.8 million, respectively.

The Target Company recorded nil and minimal turnover for the period from 11 July 2016 to 31 December 2016 and the year ended 31 December 2017, respectively, as the Target Company was established on 11 July 2016 and did not commence official operations until mid-2017. The Target Company recorded a substantial increase in turnover for the nine months ended 30 September 2018 as the Target Company's marketing efforts in the region during the preceding years have materialized and the Target Company was able to develop business relationships with customers in the region, leading to an increase in the sales of wooden panels and the production and sales of new products of wooden structures.

For the period from 11 July 2016 to 31 December 2016, the year ended 31 December 2017 and for the nine months ended 30 September 2018, the Target Company recorded a total net loss of approximately RMB5.0 million, RMB13.4 million and RMB6.7 million, respectively. The loss recorded in 2016 was mainly due to the Target Company incurring administrative expenses and selling expenses at its inception while no sales were generated in the same period as the Target Company did not start its official operations until mid-2017. The loss in 2017 was mainly due to the gross loss recorded because of high costs incurred in the early operation stage as well as the payment of administrative expenses, selling expenses and finance costs. In 2018, the Target Company incurred loss despite that it recorded gross profit, as the gross profit margin was merely approximately 6.6% since the selling prices were not raised significantly in an attempt to increase the Target Company's market share as soon as possible, resulting in administrative expenses, selling expenses and finance costs being not fully covered by the increase in sales.

Despite that the Target Company has recorded continuous losses since its establishment, with the synergistic benefits brought by (i) the time and costs saved by the Group in relation to its expansion and development of the Northern China plywood market by acquiring the Target Company instead of setting up a new production base; (ii) the wider range of wood products, including high-tech products which the Enlarged Group will be able to produce by acquiring the Target Company; and (iii) the economies of scale as a result of the increased scale of production and the provision of adequate resources and sound management by the Group through direct and daily supervision of the Target Company's operation upon Completion (in which the Target Company will become an indirect wholly-owned subsidiary of the Company), the Directors are of the view that the Target Company will be able to reverse its loss position and realize its potential for growth in the Northern China's plywood market. For details of the reasons for the Acquisition, please refer to the sub-section headed "Business prospect of the Group" of this Letter from the Board. Based on the foregoing and considering that the Group can acquire the Target Company at a consideration which is at a discount to the market value of the Target Company, the Directors consider that the Acquisition is fair and reasonable and in the interest of the Company and its shareholders as a whole.

REASONS FOR AND BENEFITS OF THE ACQUISITION

Business prospect of the Group

The Group's current product mix mainly includes the processing and sale of various wooden panels sold to overseas customers mainly in Japan and Thailand with total sales amounting to approximately HK$118.0 million for the six months ended 30 September 2018, representing approximately 86.8% of the Group's total sales. During the same period, the Group has generated revenue of approximately HK$13.3 million from the sale of construction materials in Northern China, representing approximately 10.0% of the Group's total sales. The Group considers the Northern China plywood market to be at a developing stage with great potential for growth. In light of this, the Group has made strategic planning towards developing the Northern China market and has started to engage in negotiations with potential customers in Northern China throughout 2017 and 2018. For the three months ended 30 September 2018, the Group has generated revenue of approximately HK$12.4 million from the sale of construction materials in Northern China, representing approximately 17.4% of the Group's total sales during the same period. Going forward, the Group has also entered into a long term business cooperation agreement with a construction company in Northern China for the supply of construction and wooden materials for the coming three years. The Group is also in negotiations with two entities in Northern China for two additional business cooperation agreements. However, due to the Group's product mix which mainly consists of wooden panels, and relatively high market competition that the Group faces, the Group's net profit margin has been undermined. Many plywood enterprises are faced with a pressure of technological innovation and improvement in processing technology. On the premise that orders from the Group's existing overseas customers will not be affected and considering factors such as rising labour costs in Guangdong Province, the physical distance between the Group's production base in Guangdong Province and the Group's sales market in Northern China and the limited production line to produce a wider range of product mix, including in particular, highly technical wood products which tend to generate relatively higher profit margin, there is a need for the Group to establish a production base in Northern China and the Group has decided to engage potential high-tech wood processing enterprises in Hebei Province to produce a wider range of wood products to extend the Group's reach to midstream and downstream markets such as construction, furniture manufacturing and tourism property development as well as cultural sectors. The Directors are of the view that the Acquisition of the Target Company is beneficial to the Group based on the following reasons:

(i) The Acquisition offers the most time-efficient solution for the Group to expand and further develop the Northern China plywood market

Given that (i) the solid customer base of the Target Company in Hebei region will enable the Group to establish and expand its sales channel in Northern China after the Acquisition; (ii) the Acquisition will spare the Group from long application and approval time for acquiring land to establish a new production base in the Hebei region, and the time required for subsequent construction and interior decoration procedures; (iii) the closer location of the Target Company's production base to the Group's existing and potential customer base in Northern China and overseas countries, such as Japan, which will enable the Group to reduce transportation costs; (iv) the Target Company's existing production facilities will enable the Group to instantly enlarge its production capacity from approximately 100,000 m^3 wooden panel products per year to approximately 170,000 to 200,000 m^3 per year, the Directors are of the view that the Acquisition offers the most time-efficient solution for the Group to expand into Northern China's plywood market immediately and to capture the potential business opportunities therefrom, such as the development of the new Xiong'an District in Hebei region, and the expected increase in demand for wooden construction materials from new tourism-related real estate projects.

(ii) The Acquisition will enable the Group to produce high-tech products which is in-line with market trends

The plywood industry has undergone an upgrade towards advanced manufacturing and the application of information technology in production. Market players need to upgrade their products and give greater added value by raising the level of technology innovation to achieve low cost, high quality and high efficiency. The Target Company is a high-tech wood processing enterprise and possesses the relevant qualification certificates issued by the government, as well as independent production lines specialized for the development and improvement of wood products. It also possesses various intellectual property rights and a licensed right as stated above in relation to certain highly technological production processes. The Directors are of the view that the high-tech production equipment, technological know-how and intellectual property rights possessed and retained by Target Company after the Acquisition will provide the desired supplement to and create synergy with the Group's existing reserve of traditional production technology and related intellectual property rights, hence further enhancing the Group's production efficiency. Furthermore, the product line of the Target Company offers a greater product mix to complement the Group's existing products. The Directors are of the view that the Acquisition will enable the Group to be transformed into a more comprehensive wood processing enterprise with competitive technical capabilities to deliver a wider range of high value-added products to the midstream and downstream plywood market, hence improving its profit margin.

(iii) The Acquisition will enable the Group to achieve economies of scale and achieve higher net profit

Upon Completion, the Target Company will become an indirect wholly-owned subsidiary of the Company and the Target Company's production facilities will instantly enlarge the Group's scale of production. As such, the Group will be able to procure its raw materials in bulk and as a result can enjoy higher bargaining power to purchase raw materials at a more competitive price, thereby achieving economies of scale.

Despite the Target Company has recorded losses for the period from 11 July 2016 to 31 December 2016, the year ended 31 December 2017 and the nine months ended 30 September 2018, the Directors are of the view that with the benefits brought by (i) economies of scale and (ii) adequate resources and sound management provided by the Group through direct and daily supervision of the Target Company's operation, the Directors are of the view that the Target Company will be able to reverse its loss and materialize its great potential for growth in the Northern China's plywood market.

The Directors expect that the Group will be able to achieve higher net profits through the growth in sales contributed by the Target Company and the reduction in costs as a result of economies of scale after the Acquisition.

Based on the foregoing, the Directors consider the terms of the Equity Transfer Agreement and the Acquisition are fair and reasonable and in the interests of the Company and its shareholders as a whole.

LISTING RULES IMPLICATIONS OF THE ACQUISITION

As one or more of the applicable percentage ratios (as defined under the GEM Listing Rules) in respect of the Acquisition exceed(s) 25% but is/are less than 100%, the Acquisition constitutes a major transaction of the Company and is subject to the notification, announcement and shareholders' approval requirements under Chapter 19 of the GEM Listing Rules.

C. WRITTEN SHAREHOLDER'S APPROVAL

Pursuant to Rule 19.44 of the GEM Listing Rules, in lieu of a resolution to be passed at a general meeting of the Company, written shareholder's approval for the Acquisition has been obtained from the controlling shareholder of the Company, Ms. Sun Xue Song who is an executive Director and is directly holding 123,041,695 shares of the Company, representing approximately 56.25% of the issued share capital of the Company as at the Latest Practicable Date. To the best of the Directors' knowledge, information and belief, after having made all reasonable enquiries, none of the shareholders of the Company has any material interest in the Acquisition and therefore no shareholder is required to abstain from voting if the Company were to convene an extraordinary general meeting for the approval of the Acquisition.

Completion is subject to the fulfillment of the conditions precedent set out in the Equity Transfer Agreement and therefore may or may not proceed. Shareholders and potential investors of the Company are advised to exercise caution when dealing in the Shares.

D. GENERAL INFORMATION

Your attention is also drawn to the additional information set out in the appendices to this circular.

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

1. FINANCIAL INFORMATION OF THE GROUP

Details of the financial information of the Group for the years ended 31 March 2016, 31 March 2017 and 31 March 2018 and the six months ended 30 September 2018 respectively have been set out in the following documents which have been published on the website of the Stock Exchange at www.hkexnews.hk and the Company's website at www.steedoriental.com.hk:

(i) Annual report of the Company for the year ended 31 March 2016 published on 23 June 2016 (pages 26 to 68)

(ii) Annual report of the Company for the year ended 31 March 2017 published on 28 June 2017 (pages 27 to 80)

(iii) Annual report of the Company for the year ended 31 March 2018 published on 28 June 2018 (pages 25 to 78)

(iv) Interim report of the Company for the six months ended 30 September 2018 published on 12 November 2018 (pages 2 to 17)

2. INDEBTEDNESS STATEMENT

At the close of business on 31 January 2019, being the latest practicable date for the purpose of preparing this indebtedness statement prior to the publication of this circular, the total indebtedness of the Enlarged Group was as follows:

Bank and other borrowings

The Group

(i) outstanding secured long-term bank borrowings of approximately RMB12,422,000, which were secured by land use rights of and guaranteed by subsidiaries of the Group;

(ii) outstanding secured short-term bank borrowings of approximately United States dollars 400,000 which were secured by export invoices, land use rights and guaranteed by a subsidiary of the Group;

(iii) outstanding secured short-term bank borrowings of approximately RMB2,000,000 which were secured by land use rights and guaranteed by a subsidiary of the Group;

(iv) outstanding unsecured long-term other borrowings of approximately RMB26,250,000; and

(v) discounted export bills under letters of credit of approximately United States dollars 167,000 to commercial banks for cash with full recourse.

The Target Company

Outstanding unsecured and unguaranteed long-term other borrowings of approximately RMB50,000,000.

Other Indebtedness

The Group

(i) Advances from a shareholder of the Group, Mr. Xue Zhao Qiang, of approximately HK$950,000 which were unsecured, non-interest bearing and have no fixed terms of repayment; and

(ii) Advances from a shareholder of the Group, Ms. Sun Xue Song, of approximately RMB23,750,000 and HK$5,089,000 which were unsecured, non-interest bearing and have no fixed terms of repayment.

The Target Company

(i) Advances from Mr. Huo Julin and Mr. Li Xianfeng, the existing equity owners of the Target Company, of approximately RMB61,730,000 which were unsecured, non-interest bearing and have no fixed terms of repayment; and

(ii) Advances from a related party of the Target Company of approximately RMB19,170,000 which was unsecured, non-interest bearing and has no fixed terms of repayment.

Obligations under a finance lease

The Group

The Group had outstanding obligations under a finance lease with carrying amount of approximately HK$566,000.

Save as aforesaid or as otherwise disclosed herein, and apart from the intra-group liabilities and normal trade payables, the Enlarged Group did not have, at the close of business on 31 January 2019, any debt securities issued and outstanding or agreed to be issued, bank overdrafts, loans or other similar indebtedness, liabilities under acceptance or acceptance credits, debentures, mortgages, charges, hire purchase or finance lease commitments, guarantees or contingent liabilities.

3. WORKING CAPITAL SUFFICIENCY

After due and careful consideration, the Directors are of the opinion that, taking into account the cash flows generated from the operating activities, the financial resources available to the Enlarged Group and the effect of the Acquisition, the working capital available to the Enlarged Group is sufficient for the Enlarged Group's requirements for at least 12 months from the date of this circular.

4. FINANCIAL AND TRADING PROSPECTS OF THE ENLARGED GROUP

Upon Completion, the Target Company will become an indirect wholly-owned subsidiary of the Company and accordingly, the financial information of the Target Company will be consolidated into the accounts of the Group. The aggregate of the remuneration payable to and benefits in kind receivable by the directors of the Target Company will not be varied in consequence of the Acquisition.

The Enlarged Group will expand and optimize the Group's current product mix to meet various market demand for wood products. With the Group's previous strategic planning on developing the Northern China market, the Enlarged Group will seek more cooperation with customers which are willing to enter into long term business cooperation agreements. In addition, the Enlarged Group will start to engage the premium market gradually with its highly technical wood products which tend to generate relatively higher profit margin.

Despite that the Target Company has recorded continuous losses since its establishment, with the synergistic benefits brought by (i) the time and costs saved by the Group in relation to its expansion and development of the Northern China plywood market by acquiring the Target Company instead of setting up a new production base; (ii) the wider range of wood products, including high-tech products which the Enlarged Group will be able to produce by acquiring the Target Company; and (iii) the economies of scale as a result of the increased scale of production and the provision of adequate resources and sound management by the Group through direct and daily supervision of the Target Company's operation upon Completion (in which the Target Company will become an indirect wholly-owned subsidiary of the Company), the Directors are of the view that the Acquisition will likely contribute positively to the Group. For further details of the reasons and benefits of the Acquisition, please refer to the sub-section headed "Business prospect of the Group" of the Letter from the Board in this circular.

5. MATERIAL ADVERSE CHANGE

As at the Latest Practicable Date, the Directors confirm that there has been no material adverse change in the financial or trading position of the Group since 31 March 2018 (being the date to which the latest published audited financial statements of the Group were made up).

6. EFFECT OF THE ACQUISITION ON THE EARNINGS AND ASSETS AND LIABILITIES OF THE GROUP

After the Acquisition, the Target Company will become a wholly-owned subsidiary of the Purchaser and the financial results of the Target Company will be consolidated into the accounts of the Group.

1. Earnings

Upon Completion, it is expected that the Acquisition will likely contribute positively to the Group. Nevertheless, the actual effect on earnings of the Group will depend on the future financial performance of the Target Company.

2. Assets and liabilities

Based on the unaudited pro forma financial information of the Enlarged Group set out in Appendix III to this circular and the bases and assumptions taken into account in preparing such unaudited pro forma financial information, the Group's total assets and total liabilities would be increased by approximately HK$188,259,000 and HK$182,436,000 respectively as a result of the Acquisition. The details of the financial effect of the Acquisition on the financial position of the Group together with the bases and assumptions taken into account in preparing the unaudited pro forma financial information of the Enlarged Group are set out, for illustration purpose only, in Appendix III to this circular.

The following is the text of a report set out on pages II–1 to II–50, received from the Company's reporting accountants, KPMG, Certified Public Accountants, Hong Kong, for the purpose of incorporation in this circular.

ACCOUNTANTS' REPORT ON HISTORICAL FINANCIAL INFORMATION OF HEBEI YOULIN TECHNOLOGY COMPANY LIMITED TO THE DIRECTORS OF STEED ORIENTAL (HOLDING) COMPANY LIMITED

Introduction

We report on the historical financial information of Hebei Youlin Technology Company Limited ("Hebei Youlin") set out on pages II–4 to II–50,which comprises the statements of financial position of Hebei Youlin as at 31 December 2016 and 2017 and 30 September 2018 and the statements of profit or loss and other comprehensive income, the statements of changes in equity and the cash flow statements, for the period from 11 July 2016 (date of establishment) to 31 December 2016, the year ended 31 December 2017 and the nine months ended 30 September 2018 (the "Relevant Periods"), and a summary of significant accounting policies and other explanatory information (together, the "Historical Financial Information"). The Historical Financial Information set out on pages II–4 to II–50 forms an integral part of this report, which has been prepared for inclusion in the circular of Steed Oriental (Holdings) Company Limited ("Steed Oriental" or the "Company") dated 19 March 2019 in connection with the acquisition of Hebei Youlin by the Company (the "Acquisition").

Directors' responsibility for Historical Financial Information

The directors of the Company are responsible for the preparation of Historical Financial Information that gives a true and fair view in accordance with the basis of preparation and presentation set out in Note 1 to the Historical Financial Information, and for such internal control as the directors of the Company determine is necessary to enable the preparation of the Historical Financial Information that is free from material misstatement, whether due to fraud or error.

Reporting accountants' responsibility

Our responsibility is to express an opinion on the Historical Financial Information and to report our opinion to you. We conducted our work in accordance with Hong Kong Standard on Investment Circular Reporting Engagements 200 "Accountants' Reports on Historical Financial Information in Investment Circulars" issued by the Hong Kong Institute of Certified Public Accountants (the "HKICPA"). This standard requires that we comply with ethical standards and plan and perform our work to obtain reasonable assurance about whether the Historical Financial Information is free from material misstatement.

Our work involved performing procedures to obtain evidence about the amounts and disclosures in the Historical Financial Information. The procedures selected depend on the reporting accountants' judgement, including the assessment of risks of material misstatement of the Historical Financial Information, whether due to fraud or error. In making those risk assessments, the reporting accountants consider internal control relevant to the entity's preparation of Historical Financial Information that give a true and fair view in accordance with the basis of preparation and presentation set out in Note 1 to the Historical Financial Information in order to design procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control. Our work also included evaluating the appropriateness of accounting policies used and the reasonableness of accounting estimates made by the directors, as well as evaluating the overall presentation of the Historical Financial Information.

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

Opinion

In our opinion, the Historical Financial Information gives, for the purpose of the accountants' report, a true and fair view of Hebei Youlin's financial position as at 31 December 2016 and 2017 and 30 September 2018 and of Hebei Youlin's financial performance and cash flows for the Relevant Periods in accordance with the basis of preparation and presentation set out in Note 1 to the Historical Financial Information.

Review of stub period corresponding financial information

We have reviewed the stub period corresponding financial information of Hebei Youlin which comprises the statement of profit or loss and other comprehensive income, the statement of changes in equity and the cash flow statement for the nine months ended 30 September 2017 and other explanatory information (the "Stub Period Corresponding Financial Information"). The directors of the Company are responsible for the preparation and presentation of the Stub Period Corresponding Financial Information in accordance with the basis of preparation and presentation set out in Note 1 to the Historical Financial Information. Our responsibility is to express a conclusion on the Stub Period Corresponding Financial Information based on our review. We conducted our review in accordance with Hong Kong Standard on Review Engagements 2410 "Review of Interim Financial Information Performed by the Independent Auditor of the Entity" issued by the HKICPA. A review consists of making enquiries, primarily of persons responsible for financial and accounting matters, and applying analytical and other review procedures. A review is substantially less in scope than an audit conducted in accordance with Hong Kong Standards on Auditing and consequently does not enable us to obtain assurance that we would become aware of all significant matters that might be identified in an audit. Accordingly, we do not express an audit opinion. Based on our review, nothing has come to our attention that causes us to believe that the Stub Period Corresponding Financial Information, for the purpose of the accountants' report, is not prepared, in all material respects, in accordance with the basis of preparation and presentation set out in Note 1 to the Historical Financial Information.

Report on matters under the Rules Governing the Listing of Securities on GEM of The Stock Exchange of Hong Kong Limited

Adjustments

In preparing the Historical Financial information, no adjustments to the Underlying Financial Statements as defined on page II-4 have been made.

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

19 March 2019

HISTORICAL FINANCIAL INFORMATION

Set out below is the Historical Financial Information which forms an integral part of this accountants' report.

The financial statements of Hebei Youlin for the Relevant Periods, on which the Historical Financial Information is based, were audited by KPMG Huazhen LLP in accordance with Hong Kong Standards on Auditing issued by the HKICPA ("Underlying Financial Statements").

STATEMENTS OF PROFIT OR LOSS AND OTHER COMPREHENSIVE INCOME

(Expressed in Renminbi ("RMB"))

	Note	Period from 11 July 2016 (date of establishment) to 31 December 2016	Year ended 31 December 2017	Nine months ended 30 September 2017	Nine months ended 30 September 2018
		RMB'000	*RMB'000*	*RMB'000* (unaudited)	*RMB'000*
Revenue	*4*	–	3,279	1,932	76,302
Cost of sales		–	(3,410)	(2,170)	(71,258)
Gross (loss)/profit		–	(131)	(238)	5,044
Other income		17	4	3	101
Selling expenses		(393)	(434)	(424)	(242)
Administrative and other expenses		(4,036)	(8,905)	(6,786)	(7,171)
Loss from operations		(4,412)	(9,466)	(7,445)	(2,268)
Finance costs	*5(a)*	(625)	(3,975)	(2,418)	(4,434)
Loss before taxation	*5*	(5,037)	(13,441)	(9,863)	(6,702)
Income tax	*6*	–	–	–	–
Loss and total comprehensive income for the period/year		(5,037)	(13,441)	(9,863)	(6,702)

The accompanying notes form part of the Historical Financial Information.

STATEMENTS OF FINANCIAL POSITION

(Expressed in RMB)

		At 31 December		At 30 September
		2016	**2017**	**2018**
	Note	*RMB'000*	*RMB'000*	*RMB'000*
Non-current assets				
Property, plant and equipment	*9*	67,935	111,983	102,379
Intangible assets	*10*	–	2,045	1,887
Other non-current assets	*11*	36,768	25,405	6,808
		104,703	139,433	111,074
Current assets				
Inventories	*12*	7,788	70,599	19,090
Trade receivables	*13*	612	–	39
Prepayments and other current assets	*14*	2,717	13,229	11,609
Cash at bank and on hand	*15*	2,269	289	262
		13,386	84,117	31,000
Current liabilities				
Trade and other payables	*16*	23,126	102,295	26,402
Contract liabilities	*17*	–	29,733	852
Bank and other borrowings	*18*	–	60,000	40,000
		23,126	192,028	67,254
Net current liabilities		(9,740)	(107,911)	(36,254)
Total assets less current liabilities		94,963	31,522	74,820

		At 31 December		At 30 September
		2016	2017	2018
	Note	*RMB'000*	*RMB'000*	*RMB'000*
Non-current liabilities				
Bank and other borrowings	*18*	50,000	–	50,000
NET ASSETS		44,963	31,522	24,820
CAPITAL AND RESERVES				
Paid-in capital	*19*	50,000	50,000	50,000
Reserves		(5,037)	(18,478)	(25,180)
TOTAL EQUITY		44,963	31,522	24,820

The accompanying notes form part of the Historical Financial Information.

STATEMENTS OF CHANGES IN EQUITY

(Expressed in RMB)

	Paid-in capital *RMB'000*	Accumulated losses *RMB'000*	Total *RMB'000*
Balance at 11 July 2016 (date of establishment)	–	–	–
Capital contributions	50,000	–	50,000
Loss and total comprehensive income	–	(5,037)	(5,037)
Balance at 31 December 2016 and 1 January 2017	50,000	(5,037)	44,963
Loss and total comprehensive income	–	(13,441)	(13,441)
Balance at 31 December 2017 and 1 January 2018	50,000	(18,478)	31,522
Loss and total comprehensive income	–	(6,702)	(6,702)
Balance at 30 September 2018	50,000	(25,180)	24,820
Balance at 1 January 2017	50,000	(5,037)	44,963
Loss and total comprehensive income (unaudited)	–	(9,863)	(9,863)
Balance at 30 September 2017 (unaudited)	50,000	(14,900)	35,100

The accompanying notes form part of the Historical Financial Information.

CASH FLOW STATEMENTS

(Expressed in RMB)

	Note	Period from 11 July 2016 (date of establishment) to 31 December 2016	Year ended 31 December 2017	Nine months ended 30 September 2017	Nine months ended 30 September 2018
		RMB'000	*RMB'000*	*RMB'000* (unaudited)	*RMB'000*
Operating activities					
Loss before taxation		(5,037)	(13,441)	(9,863)	(6,702)
Adjustments for:					
Depreciation	*5(c)*	21	802	344	5,016
Amortisation	*5(c)*	–	55	2	158
Interest income		(17)	(4)	(3)	(1)
Finance costs	*5(a)*	625	3,975	2,418	4,434
Changes in working capital:					
(Increase)/decrease in inventories		(7,788)	(62,811)	(51,916)	51,509
(Increase)/decrease in trade receivables		(612)	612	612	(39)
(Increase)/decrease in prepayments and other assets		(3,227)	(6,142)	(38,127)	11,848
Increase/(decrease) in trade and other payables		1,358	5,590	3,493	(3,058)
Increase/(decrease) in contract liabilities		–	29,733	10,593	(28,881)
Cash (used in)/generated from operations		(14,677)	(41,631)	(82,447)	34,284
Income tax paid		–	–	–	–
Net cash (used in)/generated from operating activities		(14,677)	(41,631)	(82,447)	34,284
Investing activities					
Payments for purchase of property, plant and equipment		(60,441)	(38,169)	(35,972)	(10,958)
Payments for purchase of intangible assets		–	(100)	(100)	(2,000)
Prepayments for land compensation and related tax	*11*	(28,005)	(6,127)	(6,127)	–
Refund of prepayments for land compensation	*11*	–	20,000	–	8,005
Proceeds from disposal of property, plant and equipment		–	–	–	6,195
Interest received		17	4	3	1
Net cash (used in)/generated from investing activities		(88,429)	(24,392)	(42,196)	1,243

	Note	Period from 11 July 2016 (date of establishment) to 31 December 2016 *RMB'000*	Year ended 31 December 2017 *RMB'000*	Nine months ended 30 September 2017 *RMB'000* (unaudited)	Nine months ended 30 September 2018 *RMB'000*
Financing activities					
Proceeds from capital contributions		50,000	–	–	–
Proceeds from bank and other borrowings	*15(b)*	50,000	30,000	30,000	90,000
Repayment of bank and other borrowings	*15(b)*	–	(20,000)	–	(60,000)
Advances from related parties	*15(b)*	26,000	106,100	96,200	35,350
Repayment to related parties	*15(b)*	(20,000)	(48,500)	–	(96,400)
Interest and other finance costs paid	*15(b)*	(625)	(3,557)	(2,250)	(4,504)
Net cash generated from/ (used in) financing activities		105,375	64,043	123,950	(35,554)
Net increase/(decrease) in cash and cash equivalents		2,269	(1,980)	(693)	(27)
Cash and cash equivalents at the beginning of the period/year	*15(a)*	–	2,269	2,269	289
Cash and cash equivalents at the end of the period/year	*15(a)*	2,269	289	1,576	262

The accompanying notes form part of the Historical Financial Information.

NOTES TO THE HISTORICAL FINANCIAL INFORMATION

(Expressed in RMB)

1 Basis of preparation and presentation of the historical financial information

Hebei Youlin Technology Company Limited ("Hebei Youlin") was established in the People's Republic of China (the "PRC") on 11 July 2016 as a company with limited liability under the laws of the PRC. Hebei Youlin is principally engaged in the processing, production and sale of wooden products.

The Historical Financial Information set out in this report has been prepared in accordance with Hong Kong Financial Reporting Standards ("HKFRSs"), which collective term includes all applicable individual HKFRSs, Hong Kong Accounting Standards and Interpretations issued by the Hong Kong Institute of Certified Public Accountants (the "HKICPA"). Further details of the significant accounting policies adopted are set out in Note 2.

The HKICPA has issued certain new and revised HKFRSs. For the purpose of preparing this Historical Financial Information, Hebei Youlin has adopted all applicable new and revised HKFRSs to the Relevant Periods, except for any new standards or interpretations that are not yet effective for the accounting periods beginning on 1 January 2018. The revised and new accounting standard and interpretations issued but not yet effective for accounting period beginning on 1 January 2018 are set out in Note 23.

The Historical Financial Information also complies with the applicable disclosure provisions of the Rules Governing the Listing of Securities on GEM of The Stock Exchange of Hong Kong Limited.

The accounting policies set out below have been applied consistently to all periods presented in the Historical Financial Information.

The Stub Period Corresponding Financial Information for the nine months ended 30 September 2017 has been prepared in accordance with the same basis of preparation and presentation adopted in respect of the Historical Financial Information.

The Historical Financial Information is presented in Renminbi ("RMB"), rounded to the nearest thousand, which is the functional currency of Hebei Youlin.

The Historical Financial Information has been prepared on the basis that Hebei Youlin will continue as a going concern notwithstanding the net current liabilities of Hebei Youlin as at 30 September 2018, considering that the existing equity owners of Hebei Youlin have agreed to provide continual financial support and adequate funds to Hebei Youlin to meet its liabilities as and when they fall due before the completion of the Acquisition and the Company also agreed to provide such financial support and adequate funds to Hebei Youlin to meet its liabilities as and when they fall after the completion of the Acquisition.

2 Significant accounting policies

(a) Basis of measurement

The measurement basis used in the preparation of the Historical Financial Information is the historical cost basis.

(b) Use of estimates and judgements

The preparation of the Historical Financial Information 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 Relevant Periods 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) Property, plant and equipment

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

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

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

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

– Plant and buildings	20 years
– Machinery and equipment	3-10 years
– Motor vehicles	2-6 years
– Office equipment and others	3 years

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

(d) Intangible assets

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

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

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

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

Both the period and method of amortisation are reviewed annually.

(e) Leased assets

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

(i) Classification of assets leased to Hebei Youlin

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

(ii) Operating lease charges

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

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

(f) Credit losses and impairment of assets

(i) Credit losses from financial instruments and contract assets

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

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

– contract assets as defined in HKFRS 15 (see note 2(h));

Measurement of ECLs

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

The expected cash shortfalls are discounted using effective interest rate determined at initial recognition or an approximation thereof as discount rates where the effect of discounting is material for the fixed-rate financial assets, trade and other receivables and contract assets.

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

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

ECLs are measured on either of the following bases:

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

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

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

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

Significant increases in credit risk

In assessing whether the credit risk of a financial instrument has increased significantly since initial recognition, Hebei Youlin compares the risk of default occurring on the financial instrument assessed at the reporting date with that assessed at the date of initial recognition. In making this reassessment, Hebei Youlin considers that a default event occurs when (i) the borrower is unlikely to pay its credit obligations to Hebei Youlin in full, without recourse by Hebei Youlin to actions such as realising security (if any is held); or (ii) the financial asset is 90 days past due. Hebei Youlin considers both quantitative and qualitative information that is reasonable and supportable, including historical experience and forward-looking information that is available without undue cost or effort.

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

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

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

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

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

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

ECLs are remeasured at each reporting date to reflect changes in the financial instrument's credit risk since initial recognition. Any change in the ECL amount is recognised as an impairment gain or loss in profit or loss. Hebei Youlin recognises an impairment gain or loss for those financial instruments with a corresponding adjustment to their carrying amount through a loss allowance account.

Basis of calculation of interest income

Interest income is calculated based on the gross carrying amount of the financial asset unless the financial asset is credit-impaired, in which case interest income is calculated based on the amortised cost (i.e. the gross carrying amount less loss allowance) of the financial asset.

At each reporting date, Hebei Youlin assesses whether a financial asset is credit-impaired. A financial asset is credit-impaired when one or more events that have a detrimental impact on the estimated future cash flows of the financial asset have occurred.

Evidence that a financial asset is credit-impaired includes the following observable events:

– significant financial difficulties of the debtor;

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

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

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

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

Write-off policy

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

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

(ii) Impairment of other non-current assets

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

– property, plant and equipment and

– intangible assets.

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

– Calculation of recoverable amount

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

– Recognition of impairment losses

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

– Reversals of impairment losses

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

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

(g) Inventories

Inventories are carried at the lower of cost and net realisable value as follows:

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

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

When inventories are sold, the carrying amount of those inventories is recognised as an expense in the period in which the related revenue is recognised.

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

(h) Contract assets and contract liabilities

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

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

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

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

(i) Trade and other receivables

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

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

(j) Cash and cash equivalents

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

(k) Trade and other payables

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

(l) Interest-bearing borrowings

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

(m) Employee benefits

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

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

(ii) Termination benefits

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

(n) Income tax

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

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

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

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

The limited exceptions to recognition of deferred tax assets and liabilities are those temporary differences arising from the initial recognition of assets or liabilities that affect neither accounting nor taxable profit (provided they are not part of a business combination).

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

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

- in the case of current tax assets and liabilities, Hebei Youlin intends either to settle on a net basis, or to realise the asset and settle the liability simultaneously; or
- in the case of deferred tax assets and liabilities, if they relate to income taxes levied by the same taxation authority on either:
  - the same taxable entity; or
  - different taxable entities, which, in each future period in which significant amounts of deferred tax liabilities or assets are expected to be settled or recovered, intend to realise the current tax assets and settle the current tax liabilities on a net basis or realise and settle simultaneously.

(o) Provisions and contingent liabilities

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

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

(p) Revenue and other income

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

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

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

Further details of Hebei Youlin's revenue and other income recognition policies are as follows:

(i) Sale of wooden products

Sales of wooden products are recognised as follows:

– Made-to-order manufacturing arrangements

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

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

– Sales of other wooden products

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

(ii) Interest income

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

(iii) Government grants

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

(q) Borrowing costs

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

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

(r) Related parties

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

(i) has control or joint control over Hebei Youlin;

(ii) has significant influence over Hebei Youlin; or

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

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

(i) The entity and Hebei Youlin are members of the same group (which means that each parent, subsidiary and fellow subsidiary is related to the others).

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

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

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

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

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

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

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

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

(s) Segment reporting

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

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

3 Accounting judgement and estimates

In the process of applying Hebei Youlin's accounting policies, management has made the following accounting judgements.

(i) Provision for inventories

Inventories are stated at the lower of cost or net realisable value. Net realisable value of inventories is the expected selling price in the ordinary course of business, less estimated costs to completion and selling expenses. These estimates are based on current market conditions and the historical experience of manufacturing and selling products of similar nature. These estimates could change significantly as a result of changes in customer preferences and competitor actions in response to the market.

(ii) Impairment of property, plant and equipment

In considering the impairment losses that may be required for Hebei Youlin's property, plant and equipment, the recoverable amount of the asset needs to be determined. The recoverable amount is the greater of fair value less cost of disposal and the value in use. In determining the value in use, expected cash flows generated by the asset are discounted to their present values, which require significant judgement relating to items such as the level of sales volume, selling price and amount of operating costs. Where the actual future cash flows are less than expected, a material impairment loss may arise.

4 Revenue and segment reporting

(a) Revenue

The principal activities of Hebei Youlin are the processing, production and sale of wooden products.

(i) Disaggregation of revenue

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

	Period from 11 July 2016 (date of establishment) to 31 December 2016	Year ended 31 December 2017	Nine months ended 30 September 2017	2018
	RMB'000	*RMB'000*	*RMB'000* (unaudited)	*RMB'000*
Sales of wooden panels	–	2,715	1,932	27,805
Sales of wooden structure products	–	564	–	47,039
Others	–	–	–	1,458
	–	3,279	1,932	76,302

Disaggregation of revenue from contracts with customers by the timing of revenue recognition is as follows:

	Period from 11 July 2016 (date of establishment) to 31 December 2016	Year ended 31 December 2017	Nine months ended 30 September 2017	2018
	RMB'000	*RMB'000*	*RMB'000* (unaudited)	*RMB'000*
Point in time	–	2,715	1,932	72,612
Over time	–	564	–	3,690
	–	3,279	1,932	76,302

During the Relevant Periods, revenue from customers with whom transactions have exceeded 10% of Hebei Youlin's revenue are as follows:

	Period from 11 July 2016 (date of establishment) to 31 December 2016	Year ended 31 December 2017	Nine months ended 30 September 2017	2018
	RMB'000	*RMB'000*	*RMB'000* (unaudited)	*RMB'000*
Customer A	*	993	993	*
Customer B	*	772	573	*
Customer C	*	564	*	*
Customer D	*	*	*	43,315
Customer E	*	*	*	26,254

* *Transactions from these customers did not exceed 10% of Hebei Youlin's revenue in the respective period or year.*

All revenue are generated in the PRC. Hebei Youlin's non-current assets, including property, plant and equipment and intangible assets are all located in the PRC. Accordingly, no segment analysis based on geographical locations of the customers and assets is provided.

Details of concentrations of credit risk arising from this customer are set out in Note 20(a).

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

Hebei Youlin 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) Segment reporting

HKFRS 8, Operating Segments, requires identification and disclosure of operating segment information based on internal financial reports that are regularly reviewed by the Hebei Youlin's chief operating decision maker for the purpose of resources allocation and performance assessment. On this basis, Hebei Youlin has determined that it only has one operating segment which is the manufacture and sales of wooden products and located in the PRC.

5 Loss before taxation

Loss before taxation is arrived at after charging:

(a) Finance costs

	Period from 11 July 2016 (date of establishment) to 31 December 2016	Year ended 31 December 2017	Nine months ended 30 September 2017	Nine months ended 30 September 2018
	RMB'000	*RMB'000*	*RMB'000* (unaudited)	*RMB'000*
Interest on bank and other borrowings	625	3,557	2,250	3,570
Other finance costs	–	418	168	864
	625	3,975	2,418	4,434

(b) Staff costs#

	Period from 11 July 2016 (date of establishment) to 31 December 2016	Year ended 31 December 2017	Nine months ended 30 September 2017	Nine months ended 30 September 2018
	RMB'000	*RMB'000*	*RMB'000* (unaudited)	*RMB'000*
Contributions to defined contribution retirement schemes	213	274	207	482
Salaries, wages and other benefits	2,569	3,506	2,724	3,298
	2,782	3,780	2,931	3,780

The employees of Hebei Youlin participate in a defined contribution retirement benefit plan managed by the local government authority and are entitled to retirement benefits, calculated based on a percentage of the defined salaries level in the PRC, from the above mentioned retirement plan at their normal retirement age.

Hebei Youlin has no further material obligation for payment of other retirement benefits beyond the above contributions.

(c) *Other items*

	Period from 11 July 2016 (date of establishment) to 31 December 2016	Year ended 31 December 2017	Nine months ended 30 September 2017	2018
	RMB'000	*RMB'000*	*RMB'000* (unaudited)	*RMB'000*
Amortisation	–	55	2	158
Depreciation#	21	802	344	5,016
Operating lease charges in respect of buildings	249	249	187	–
Research and development costs (including costs relating to staff costs disclosed in Note 5(b) and depreciation expenses disclosed above)	349	978	874	497
Cost of inventories# (Note 12(b))	–	3,410	2,170	71,258

\# Cost of inventories includes RMBNil, RMB942,000, RMB400,000 (unaudited) and RMB6,536,000 relating to staff costs and depreciation expenses for the period from 11 July 2016 (date of establishment) to 31 December 2016, the year ended 31 December 2017 and the nine months ended 30 September 2017(unaudited) and 2018 respectively, which amounts are also included in the respective total amount disclosed separately above or in Note 5(b) for each of these types of expenses.

6 Income tax in the statement of profit or loss and other comprehensive income

Reconciliation between tax expense and accounting loss at applicable tax rates:

	Period from 11 July 2016 (date of establishment) to 31 December 2016	Year ended 31 December 2017	Nine months ended 30 September 2017	2018
	RMB'000	*RMB'000*	*RMB'000* (unaudited)	*RMB'000*
Loss before taxation	5,037	13,441	9,863	6,702
Expected tax on loss before taxation, calculated at the applicable rates (note (i))	(1,259)	(2,016)	(1,479)	(1,005)
Tax effect of non-deductible expenses	34	40	27	1
Tax concessions	–	(110)	(98)	(56)
Effect of tax losses not recognised (note (ii))	1,225	2,086	1,550	1,060
Income tax expense	–	–	–	–

Notes:

(i) Hebei Youlin is subject to the PRC Corporate Income Tax rate of 25% during the Relevant Periods. Hebei Youlin has obtained an approval from the tax bureau to be taxed as an advanced and new technology enterprise, and therefore enjoys a preferential PRC Corporate Income Tax rate of 15% for the years from 2017 to 2019.

(ii) In accordance with the accounting policy set out in note 2(n), Hebei Youlin has not recognised deferred tax assets on cumulative tax losses of RMB4,900,000, RMB18,807,000 and RMB25,873,000 as at 31 December 2016 and 2017 and 30 September 2018, respectively, as it is not probable that future taxable profits against which the losses can be utilised will be available.

7 Director's emoluments

During the Relevant Periods, the sole director of Hebei Youlin, Mr. Huo Julin did not receive any fees or emoluments from Hebei Youlin.

8 Individuals with highest emoluments

During the Relevant Periods, the aggregate of the emoluments in respect of the five individuals with the highest emoluments of Hebei Youlin are as follows:

	Period from 11 July 2016 (date of establishment) to 31 December 2016	Year ended 31 December 2017	Nine months ended 30 September 2017	2018
			2017	2018
	RMB'000	*RMB'000*	*RMB'000* (unaudited)	*RMB'000*
Salaries and other emoluments	201	307	261	207
Discretionary bonuses	1	12	1	6
Retirement scheme contributions	7	30	16	34
	209	349	278	247

The emoluments of the five highest paid individuals of Hebei Youlin are within the following bands:

	Period from 11 July 2016 (date of establishment) to 31 December 2016	Year ended 31 December 2017	Nine months ended 30 September 2017	2018
			2017 (unaudited)	2018
Hong Kong Dollars ("HK$")				
Nil – HK$1,000,000	5	5	5	5

9 Property, plant and equipment

	Plant and buildings *RMB'000*	Machinery and equipment *RMB'000*	Motor vehicles *RMB'000*	Electronic equipment and others *RMB'000*	Construction in progress *RMB'000*	Total *RMB'000*
Cost						
At 11 July 2016 (date of establishment)	–	–	–	–	–	–
Additions	–	13,048	1,291	264	53,387	67,990
At 31 December 2016 and 1 January 2017	–	13,048	1,291	264	53,387	67,990
Transfer	66,406	13,943	–	286	(80,635)	–
Additions	–	4,348	344	819	41,896	47,407
At 31 December 2017 and 1 January 2018	66,406	31,339	1,635	1,369	14,648	115,397
Transfer	843	6,193	–	428	(7,464)	–
Additions	–	944	–	25	359	1,328
Disposals	–	(5,654)	–	–	–	(5,654)
At 30 September 2018	67,249	32,822	1,635	1,822	7,543	111,071
Accumulated depreciation:						
At 11 July 2016 (date of establishment)	–	–	–	–	–	–
Charge for the period	–	(48)	–	(7)	–	(55)
At 31 December 2016 and 1 January 2017	–	(48)	–	(7)	–	(55)
Charge for the year	(1,391)	(1,620)	(174)	(174)	–	(3,359)
At 31 December 2017 and 1 January 2018	(1,391)	(1,668)	(174)	(181)	–	(3,414)
Charge for the period	(2,638)	(2,469)	(214)	(315)	–	(5,636)
Written back on disposals	–	358	–	–	–	358
At 30 September 2018	(4,029)	(3,779)	(388)	(496)	–	(8,692)
Net book value:						
At 31 December 2016	–	13,000	1,291	257	53,387	67,935
At 31 December 2017	65,015	29,671	1,461	1,188	14,648	111,983
At 30 September 2018	63,220	29,043	1,247	1,326	7,543	102,379

As at 30 September 2018, Hebei Youlin is in the process of applying for registration of the ownership certificates for its properties. The director is of the opinion that Hebei Youlin is entitled to lawfully occupy or use these properties.

In December 2018, Hebei Youlin subsequently acquired the land use right and obtained the land use right certificate with a consideration of RMB25,060,000.

10 Intangible assets

	Patents and use right of technological know-how
	RMB'000
Cost:	
At 11 July 2016 (date of establishment), 31 December 2016 and 1 January 2017	–
Additions	2,100
At 31 December 2017, 1 January 2018 and 30 September 2018	2,100
Less: Accumulated amortisation	
At 11 July 2016 (date of establishment), 31 December 2016 and 1 January 2017	–
Charge for the year	(55)
At 31 December 2017 and 1 January 2018	(55)
Charge for the period	(158)
At 30 September 2018	(213)
Net book value:	
At 31 December 2016	–
At 31 December 2017	2,045
At 30 September 2018	1,887

11 Other non-current assets

	At 31 December		At 30 September
	2016	**2017**	**2018**
	RMB'000	*RMB'000*	*RMB'000*
Deductible value added tax ("VAT") (note)	6,580	10,402	–
Prepayment for land compensation and related tax	28,005	14,132	6,127
Prepayment for acquisition of property, plant and equipment	2,183	871	681
	36,768	25,405	6,808

Note:

Deductible VAT mainly represents the input VAT relating to purchase of property, plant and equipment and inventories, which is deductible from output VAT. The portion of deductible VAT expected to be deducted within one year is presented in prepayments and other current assets (Note 14).

12 Inventories

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

	At 31 December		At 30 September
	2016	**2017**	**2018**
	RMB'000	*RMB'000*	*RMB'000*
Raw materials	7,788	11,483	3,469
Work in progress	–	39,055	13,196
Finished goods	–	20,061	2,425
	7,788	70,599	19,090

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

	Period from 11 July 2016 (date of establishment) to 31 December	Year ended 31 December	Nine months ended 30 September	
	2016	**2017**	**2017**	**2018**
	RMB'000	*RMB'000*	*RMB'000* (unaudited)	*RMB'000*
Carrying amount of inventories sold	–	3,410	2,170	71,258

13 Trade receivables

	At 31 December		At 30 September
	2016	**2017**	**2018**
	RMB'000	*RMB'000*	*RMB'000*
Amounts due from third parties	612	–	39
Less: allowance for doubtful debts	–	–	–
	612	–	39

All of the trade receivables are expected to be recovered within one year.

The ageing analysis of trade receivables, based on the invoice date and net of loss allowance, is as follows:

	At 31 December		At 30 September
	2016	**2017**	**2018**
	RMB'000	*RMB'000*	*RMB'000*
Within 1 year	612	–	39

Further details on Hebei Youlin's credit policy and credit risk arising from trade receivables are set out in Note 20(a).

14 Prepayments and other current assets

	At 31 December		At 30 September
	2016	2017	2018
	RMB'000	*RMB'000*	*RMB'000*
Prepayments for purchase of inventories	1,903	1,456	841
Deductible input VAT (Note 11)	462	11,430	10,745
Other receivables	352	343	23
	2,717	13,229	11,609
Less: allowance for doubtful debts	–	–	–
	2,717	13,229	11,609

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

15 Cash at bank and on hand and other cash flow information

(a) Cash and cash equivalents comprise:

	At 31 December		At 30 September
	2016	2017	2018
	RMB'000	*RMB'000*	*RMB'000*
Cash at bank and on hand	2,269	289	262

(b) Reconciliation of liabilities arising from financing activities

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

	Interest and other finance costs payable *RMB'000* *(Note16)*	Bank and other borrowings *RMB'000* *(Note 18)*	Amounts due to related parties *RMB'000* *(Note 16)*	Total *RMB'000*
At 11 July 2016 (date of establishment)	–	–	–	–
Proceeds from bank and other borrowings	–	50,000	–	50,000
Advances from related parties	–	–	26,000	26,000
Repayment to related parties	–	–	(20,000)	(20,000)
Interest paid	(625)	–	–	(625)
Total changes from financing cash flows	(625)	50,000	6,000	55,375
Other changes:				
Interest expenses *(Note 5(a))*	625	–	–	625
At 31 December 2016 and 1 January 2017	–	50,000	6,000	56,000
Changes from financing cash flows:				
Proceeds from bank and other borrowings	–	30,000	–	30,000
Repayment of bank and other borrowings	–	(20,000)	–	(20,000)
Advances from related parties	–	–	106,100	106,100
Repayment to related parties	–	–	(48,500)	(48,500)
Interest and other finance costs paid	(3,557)	–	–	(3,557)
Total changes from financing cash flows	(3,557)	10,000	57,600	64,043
Other changes:				
Interest expenses *(Note 5(a))*	3,557	–	–	3,557
Other finance costs *(Note 5(a))*	418	–	–	418
At 31 December 2017 and 1 January 2018	418	60,000	63,600	124,018

	Interest and other finance costs payable *RMB'000* *(Note16)*	Bank and other borrowings *RMB'000* *(Note 18)*	Amounts due to related parties *RMB'000* *(Note 16)*	Total *RMB'000*
Changes from financing cash flows:				
Proceeds from bank and other borrowings	–	90,000	–	90,000
Repayment of bank and other borrowings	–	(60,000)	–	(60,000)
Advances from related parties	–	–	35,350	35,350
Repayment to related parties	–	–	(96,400)	(96,400)
Interest and other finance costs paid	(4,504)	–	–	(4,504)
Total changes from financing cash flows	(4,504)	30,000	(61,050)	(35,554)
Other changes:				
Interest expenses *(Note 5(a))*	3,570	–	–	3,570
Other finance costs *(Note 5(a))*	864	–	–	864
Input VAT	61	–	–	61
At 30 September 2018	409	90,000	2,550	92,959

16 Trade and other payables

	At 31 December		At 30 September
	2016	**2017**	**2018**
	RMB'000	*RMB'000*	*RMB'000*
Trade payable			
– Third parties	91	2,344	1,616
Payables for acquisition of property, plant and equipment and intangible assets			
– Third parties	15,768	29,329	19,553
– a related party	–	2,000	–
Amounts due to related parties *(note)*			
– Mr. Huo Julin	6,000	48,200	2,550
– Mr. Li Xianfeng	–	15,400	–
Payables for staff related costs	993	1,598	2,215
Interest and other finance costs payable	–	418	409
Other accruals and payables	274	3,006	59
	23,035	99,951	24,786
	23,126	102,295	26,402

Note:

Amounts due to related parties, which are due to existing equity owners of Hebei Youlin, are unsecured, non-interest bearing and have no fixed terms of repayment.

All of other trade and other payables are expected to be settled within one year or are repayable on demand.

The ageing analysis of trade payable, based on the invoice date, is as follows:

	At 31 December		At 30 September
	2016	**2017**	**2018**
	RMB'000	*RMB'000*	*RMB'000*
Within 30 days	91	1,352	90
31 to 60 days	–	423	–
61 to 90 days	–	147	–
Over 90 days	–	422	1,526
	91	2,344	1,616

17 Contract liabilities

	At 31 December 2016	**At 31 December 2017**	**At 30 September 2018**
	RMB'000	*RMB'000*	*RMB'000*
Arising from contracts of wooden products with customers	–	29,733	852
Revenue recognised during the period/year that was included in the contract liabilities balance at the beginning of the period/year	–	–	20,000
Decrease in contract liabilities as a result of termination of contracts existed at the beginning of the period/year	–	–	9,733

When Hebei Youlin receives a deposit before the production activity commences, this will give rise to contract liabilities at the start of a contract, until the revenue recognised on the contract exceeds the amount of the deposit. For the amount of the deposit, if any, Hebei Youlin negotiated on a case by case basis with customers.

18 Bank and other borrowings

(a) Short-term bank and other borrowings are analysed as follows:

	At 31 December		At 30 September
	2016	**2017**	**2018**
	RMB'000	*RMB'000*	*RMB'000*
Bank borrowings			
– Secured (notes (i) and (ii))	–	30,000	40,000
Add: Current portion of long-term other borrowings	–	30,000	–
	–	60,000	40,000

Notes:

(i) At 31 December 2017, short-term bank borrowing was secured by land use rights and property of third parties. The third parties charged the fee on the principal amount of secured short-term bank borrowings at a fixed rate of 3.5% per annum.

(ii) At 30 September 2018, short-term bank borrowing was secured by land use right of a third party. The third party charged the fee on the principal amount of secured short-term bank borrowings at a fixed rate of 3.5% per annum.

(b) Long-term other borrowings are analysed as follows:

	At 31 December		At 30 September
	2016	**2017**	**2018**
	RMB'000	*RMB'000*	*RMB'000*
Other borrowings			
– Guaranteed *(note)*	50,000	30,000	–
– Unsecured and unguaranteed	–	–	50,000
	50,000	30,000	50,000
Less: Current portion of long-term other borrowings	–	30,000	–
	50,000	–	50,000

Note:

At 31 December 2016 and 2017, long-term other borrowings were guaranteed by the equity owners of Hebei Youlin, Mr. Li Xianfeng and Mr. Huo Julin.

(c) The long-term other borrowings (including current portion) are repayable as follows:

	At 31 December		At 30 September
	2016	**2017**	**2018**
	RMB'000	*RMB'000*	*RMB'000*
Within 1 year or on demand	–	30,000	–
After 1 year but within 2 years	50,000	–	50,000
	50,000	30,000	50,000

19 Capital and reserves

(a) Distributions

No distributions have been made by Hebei Youlin during the Relevant Periods.

(b) Capital management

Hebei Youlin's primary objectives when managing capital are to safeguard Hebei Youlin's ability to continue as a going concern, so that it can continue to provide returns and benefits for equity owners, and to maintain an optimal capital structure to reduce the cost of capital.

Hebei Youlin actively and regularly reviews and manages its capital structure to maintain a balance between the higher equity holders' returns that might be possible with higher levels of borrowings and the advantages and security afforded by a sound capital position.

Hebei Youlin is not subject to externally imposed capital requirements.

20 Financial risk management and fair values of financial instruments

Exposure to credit, liquidity and interest rate risks arises in the normal course of Hebei Youlin's business.

Hebei Youlin's exposure to these risks and the financial risk management policies and practices used by Hebei Youlin to manage these risks are described below.

(a) Credit risk

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

Hebei Youlin's exposure to credit risk is influenced mainly by the individual characteristics of each customer rather than the industry or country in which the customers operate and therefore significant concentrations of credit risk primarily arise when Hebei Youlin has significant exposure to individual customers.

Individual credit evaluations are performed on all customers requiring credit over a certain amount. These evaluations focus on the customer's past history of making payments when due and current ability to pay, and take into account information specific to the customer as well as pertaining to the economic environment in which the customer operates. Normally, Hebei Youlin does not obtain collateral from customers. Currently, for trade receivables arising from Hebei Youlin's made-to-order manufacturing arrangements business, Hebei Youlin receives a deposit before the production activity commences and generally requires customers to settle immediately after the completion of the related transactions; for sales of other wooden products, payment before delivery is generally required for all customers. As at 30 September 2018, the balances of trade and other receivables are not considered significant and no significant expected credit losses are expected.

(b) Liquidity risk

Hebei Youlin is responsible for its own cash management, including the short term investment of cash surpluses and the raising of loans to cover expected cash demands. Hebei Youlin's policy is to regularly monitor its liquidity requirements and its compliance with lending covenants, to ensure that it maintains sufficient reserves of cash and readily realisable marketable securities and adequate committed lines of funding from major financial institutions to meet its liquidity requirements in the short and longer term.

The following tables show the remaining contractual maturities at the end of the reporting period/year of Hebei Youlin's financial liabilities, which are based on contractual undiscounted cash flows (including interest payments computed using contractual rates or, if floating, based on rates current at the end of the reporting period/year) and the earliest date Hebei Youlin can be required to pay:

	At 31 December 2016 Contractual undiscounted cash outflow			
	Within 1 year or on demand	More than 1 year but less than 2 years	Total	Carrying amount at 31 December 2016
	RMB'000	*RMB'000*	*RMB'000*	*RMB'000*
Bank and other borrowings	2,500	51,250	53,750	50,000
Trade and other payables	23,126	–	23,126	23,126
	25,626	51,250	76,876	73,126

	At 31 December 2017 Contractual undiscounted cash outflow			
	Within 1 year or on demand	More than 1 year but less than 2 years	Total	Carrying amount at 31 December 2017
	RMB'000	*RMB'000*	*RMB'000*	*RMB'000*
Bank and other borrowings	62,825	–	62,825	60,000
Trade and other payables	102,295	–	102,295	102,295
	165,120	–	165,120	162,295

	At 30 September 2018 Contractual undiscounted cash outflow			
	Within 1 year or on demand	More than 1 year but less than 2 years	Total	Carrying amount at 30 September 2018
	RMB'000	*RMB'000*	*RMB'000*	*RMB'000*
Bank and other borrowings	45,738	51,486	97,224	90,000
Trade and other payables	26,402	–	26,402	26,402
	72,140	51,486	123,626	116,402

(c) Interest rate risk

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

The following table details the interest rate profile of Hebei Youlin's borrowings at the end of the reporting period/year.

	At 31 December				At 30 September	
	2016		2017		2018	
	Effective interest rate		*Effective interest rate*		*Effective interest rate*	
	%	*RMB'000*	*%*	*RMB'000*	*%*	*RMB'000*
Fixed rate borrowings:						
Bank and other borrowings	5.0%	50,000	5.0%/9.0%	60,000	5.0%/10.44%	90,000
Fixed rate borrowings as a percentage of total borrowings		100%		100%		100%

(d) Fair value measurement

The carrying amounts of the Hebei Youlin's financial instruments carried at amortised cost are not materially different from their fair values at the end of the Relevant Periods.

21 Commitments

(a) Capital commitments

Capital commitments outstanding at the end of each reporting period not provided for in the financial statements were as follows:

	At 31 December		At 30 September
	2016	**2017**	**2018**
	RMB'000	*RMB'000*	*RMB'000*
Commitments in respect of property, plant and equipment			
– Contracted for	22,428	2,893	–

(b) Operating lease commitments

At the end of each reporting period, the total future minimum lease payments under non-cancellable operating leases are payable as follows:

	At 31 December		At 30 September
	2016	2017	2018
	RMB'000	*RMB'000*	*RMB'000*
Within 1 year	249	–	–

Hebei Youlin leased certain properties held under operating leases. None of the leases includes contingent rentals.

22 Material related party transactions

In addition to the transactions and balances disclosed elsewhere in the Historical Financial Information, the material related party transactions entered into by Hebei Youlin during the Relevant Periods are set out below.

(a) Transactions with related parties

	Period from 11 July 2016 (date of establishment) to 31 December	Year ended 31 December	Nine months ended 30 September	
	2016	2017	2017	2018
	RMB'000	*RMB'000*	*RMB'000* (unaudited)	*RMB'000*
Advances from equity owners				
– Mr. Huo Julin	26,000	90,700	83,800	34,350
– Mr. Li Xianfeng	–	15,400	12,400	1,000
Repayment to equity owners				
– Mr. Huo Julin	(20,000)	(48,500)	–	(80,000)
– Mr. Li Xianfeng	–	–	–	(16,400)
Purchase from a related party *(note)*				
– Equipment and motor vehicles	9,276	140	140	–
– Use right of technological know-how	–	2,000	–	–
– Raw materials	536	–	–	–

Note:

During the period from 11 July 2016 (date of establishment) to 31 December 2016 and the year ended 31 December 2017, Hebei Youlin acquired certain equipment and motor vehicles, use right of technological know-how and raw materials from a company with 20% equity interests held by Mr. Li Xianfeng, one of equity owners of Hebei Youlin.

(b) Key management personnel remuneration

Remuneration for key management personnel of Hebei Youlin, including amounts paid to certain of the highest paid employees as disclosed in Note 8, is as follows:

	Period from 11 July 2016 (date of establishment) to 31 December	Year ended 31 December	Nine months ended 30 September	
	2016	**2017**	**2017**	**2018**
	RMB'000	*RMB'000*	*RMB'000* (unaudited)	*RMB'000*
Salaries and other emoluments	38	70	54	72
Discretionary bonuses	–	–	–	3
Retirement scheme contributions	3	9	9	10
	41	79	63	85

Total remuneration is included in "staff costs" (see Note 5(b)).

23 Possible impact of amendments, new standards and interpretations issued but not yet effective for the accounting period beginning on 1 January 2018

Up to the date of issue of this report, the HKICPA has issued a number of amendments, new standards and interpretations which are not yet effective for the accounting period beginning on 1 January 2018 and which have not been adopted in these Historical Financial Information. These include the following which may be relevant to Hebei Youlin.

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

Hebei Youlin is in the process of making an assessment of what the impact of these amendments, new standards and interpretations is expected to be in the period of initial application. So far it has concluded that, the adoption of them is unlikely to have a significant impact on Hebei Youlin's results of operations and financial position. The actual impact upon the initial adoption of these amendments, new standards and interpretations may differ as the assessment completed to date is based on the information currently available to Hebei Youlin, and further impacts may be identified before the amendments, standards and interpretations are initially applied.

SUBSEQUENT FINANCIAL STATEMENTS

No audited financial statements have been prepared by Hebei Youlin in respect of any period subsequent to 30 September 2018.

The following is the text of a report received from the reporting accountants, KPMG, Certified Public Accountants, Hong Kong, in respect of the Group's pro forma financial information for the purpose in this circular.

INDEPENDENT REPORTING ACCOUNTANTS' ASSURANCE REPORT ON THE COMPILATION OF PRO FORMA FINANCIAL INFORMATION

TO THE DIRECTORS OF STEED ORIENTAL (HOLDINGS) COMPANY LIMITED

We have completed our assurance engagement to report on the compilation of pro forma financial information of Steed Oriental (Holdings) Company Limited (the "Company") and its subsidiaries (collectively the "Group") by the directors of the Company (the "Directors") for illustrative purposes only. The pro forma financial information consists of the unaudited pro forma consolidated statement of assets and liabilities as at 30 September 2018 and related notes as set out in Part B of Appendix III to the circular dated 19 March 2019 (the "Circular") issued by the Company. The applicable criteria on the basis of which the Directors have compiled the pro forma financial information are described in Part B of Appendix III to the Circular.

The pro forma financial information has been compiled by the Directors to illustrate the impact of the proposed acquisition of the entire equity interest in Hebei Youlin Technology Company Limited (the "Acquisition") on the Group's financial position as at 30 September 2018 as if the Acquisition had taken place at 30 September 2018. As part of this process, information about the Group's financial position as at 30 September 2018 has been extracted by the Directors from the interim financial report of the Group for the six months ended 30 September 2018, on which no review report has been published.

Directors' Responsibilities for the Pro Forma Financial Information

The Directors are responsible for compiling the pro forma financial information in accordance with paragraph 7.31 of the Rules Governing the Listing of Securities on GEM of The Stock Exchange of Hong Kong Limited (the "GEM Listing Rules") and with reference to Accounting Guideline 7 "Preparation of Pro Forma Financial Information for Inclusion in Investment Circulars" ("AG 7") issued by the Hong Kong Institute of Certified Public Accountants (the "HKICPA").

Our Independence and Quality Control

We have complied with the independence and other ethical requirements of the Code of Ethics for Professional Accountants issued by the HKICPA, which is founded on fundamental principles of integrity, objectivity, professional competence and due care, confidentiality and professional behavior.

The firm applies Hong Kong Standard on Quality Control 1 "Quality Control for Firms That Perform Audits and Reviews of Financial Statements, and Other Assurance and Related Services Engagements" issued by the HKICPA and accordingly maintains a comprehensive system of quality control including documented policies and procedures regarding compliance with ethical requirements, professional standards and applicable legal and regulatory requirements.

Reporting Accountants' Responsibilities

Our responsibility is to express an opinion, as required by paragraph 7.31(7) of the GEM Listing Rules, on the pro forma financial information and to report our opinion to you. We do not accept any responsibility for any reports previously given by us on any financial information used in the compilation of the pro forma financial information beyond that owed to those to whom those reports were addressed by us at the dates of their issue.

We conducted our engagement in accordance with Hong Kong Standard on Assurance Engagements ("HKSAE") 3420 "Assurance Engagements to Report on the Compilation of Pro Forma Financial Information Included in a Prospectus" issued by the HKICPA. This standard requires that the reporting accountants plan and perform procedures to obtain reasonable assurance about whether the Directors have compiled the pro forma financial information in accordance with paragraph 7.31 of the GEM Listing Rules, and with reference to AG 7 issued by the HKICPA.

For purpose of this engagement, we are not responsible for updating or reissuing any reports or opinions on any historical financial information used in compiling the pro forma financial information, nor have we, in the course of this engagement, performed an audit or review of the financial information used in compiling the pro forma financial information.

The purpose of pro forma financial information included in an investment circular is solely to illustrate the impact of a significant event or transaction on the unadjusted financial information of the Group as if the event had occurred or the transaction had been undertaken at an earlier date selected for purposes of the illustration. Accordingly, we do not provide any assurance that the actual outcome of the events or transactions at 30 September 2018 would have been as presented.

A reasonable assurance engagement to report on whether the pro forma financial information has been properly compiled on the basis of the applicable criteria involves performing procedures to assess whether the applicable criteria used by the Directors in the compilation of the pro forma financial information provide a reasonable basis for presenting the significant effects directly attributable to the event or transaction, and to obtain sufficient appropriate evidence about whether:

- the related pro forma adjustments give appropriate effect to those criteria; and
- the pro forma financial information reflects the proper application of those adjustments to the unadjusted financial information.

The procedures selected depend on the reporting accountants' judgement, having regard to the reporting accountants' understanding of the nature of the Group, the event or transaction in respect of which the pro forma financial information has been compiled, and other relevant engagement circumstances.

The engagement also involves evaluating the overall presentation of the pro forma financial information.

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

Opinion

In our opinion:

a) the pro forma financial information has been properly compiled on the basis stated;

b) such basis is consistent with the accounting policies of the Group, and

c) the adjustments are appropriate for the purposes of the pro forma financial information as disclosed pursuant to paragraph 7.31(1) of the GEM Listing Rules.

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

19 March 2019

A. Introduction to the Unaudited Pro Forma Financial Information

The following unaudited pro forma financial information of the Group, comprising the unaudited pro forma consolidated statement of assets and liabilities as at 30 September 2018 ("Unaudited Pro Forma Financial Information"), has been prepared to illustrate the effect of the Acquisition as if it had been completed on 30 September 2018.

The Unaudited Pro Forma Financial Information has been prepared in accordance with paragraph 7.31 of the GEM Listing Rules by the directors of the Company for the purpose of illustrating the effect of the Acquisition.

The Unaudited Pro Forma Financial Information has been prepared for illustrative purposes only and because of its hypothetical nature, it may not give a true picture of the financial position of the Group had the Acquisition been completed as of the specified dates or any other dates.

The Unaudited Pro Forma Financial Information is based upon the unaudited consolidated statement of financial position of the Group as at 30 September 2018, which has been extracted from the Company's published interim financial report for the six months ended 30 September 2018, and adjusted on a pro forma basis to reflect the effect of the Acquisition. These pro forma adjustments are directly attributable to the Acquisition and not relating to other future events and decision.

B. Unaudited Pro Forma Financial Information

(Expressed in Hong Kong dollars ("HK$") unless otherwise indicated)

Unaudited pro forma consolidated statement of assets and liabilities as at 30 September 2018

		Pro Forma Adjustments				
	Consolidated assets and liabilities of the Group as at 30 September 2018	Assets and liabilities of Hebei Youlin as at 30 September 2018	Assets and liabilities of Hebei Youlin as at 30 September 2018	Other pro forma adjustments		Unaudited pro forma consolidated statement of assets and liabilities of the Group
	Note 1	*Note 2*	*Note 3*	*Notes 3 and 4*	*Notes 3 and 5*	
	HK$'000	*Renminbi ("RMB")'000*	*HK$'000*	*HK$'000*	*HK$'000*	*HK$'000*
Non-current assets						
Property, plant and equipment	42,660	102,379	116,346	–	13,820	172,826
Land use right	27,217	–	–	37,493	832	65,542
Intangible assets	–	1,887	2,144	–	(69)	2,075
Other non-current assets	38,517	6,808	7,737	(6,963)	–	39,291
	108,394	111,074	126,227	30,530	14,583	279,734
Current assets						
Trading securities	308	–	–	–	–	308
Inventories	60,339	19,090	21,694	–	–	82,033
Land use right	598	–	–	765	17	1,380
Trade and other receivables	14,648	39	44	–	–	14,692
Prepayments and other current assets	–	11,609	13,193	–	–	13,193
Cash at bank and on hand	45,290	262	298	–	(19,092)	26,496
	121,183	31,000	35,229	765	(19,075)	138,102
Current Liabilities						
Trade and other payables	74,749	26,402	30,004	31,295	12,728	148,776
Contract liabilities	–	852	968	–	–	968
Bank and other borrowings	15,201	40,000	45,457	–	1,147	61,805
Obligations under a finance lease	137	–	–	–	–	137
Income tax payable	2,291	–	–	–	–	2,291
	92,378	67,254	76,429	31,295	13,875	213,977
Net current assets/(liabilities)	28,805	(36,254)	(41,200)	(30,530)	(32,950)	(75,875)
Total assets less current liabilities	137,199	74,820	85,027	–	(18,367)	203,859
Non-current liabilities						
Bank and other borrowings	48,819	50,000	56,821	–	349	105,989
Deferred tax liabilities	643	–	–	–	3,667	4,310
Obligations under a finance lease	474	–	–	–	–	474
Other non-current liabilities	1,421	–	–	–	–	1,421
	51,357	50,000	56,821	–	4,016	112,194
NET ASSETS	85,842	24,820	28,206	–	(22,383)	91,665

Notes:

1. The unadjusted consolidated assets and liabilities of the Group as at 30 September 2018 is extracted from the consolidated statement of financial position of the Group as at 30 September 2018 as set out in the published interim financial report of the Company for the six months ended 30 September 2018.

2. The assets and liabilities of Hebei Youlin as at 30 September 2018 is extracted from the historical financial information of Hebei Youlin as set out in Appendix II to this circular.

3. For the purpose of the Unaudited Pro Forma Financial Information, amounts in RMB are converted into HK$ at the exchange rate of People's Bank of China of RMB1 to HK$1.13643 prevailing on 30 September 2018. No representation is made that the RMB amounts have been, could have been or may be converted to Hong Kong dollars, or vice versa, at that rate or at all.

4. Pursuant to the Equity Transfer Agreement, the principal assets of Hebei Youlin, among others, include the land use right that was acquired by Hebei Youlin in December 2018. The adjustment represents the consideration of the land use right and other directly attributable costs in respect of the acquisition of the land use right in December 2018. This was considered as directly attributable to the Acquisition and an adjustment to the Unaudited Pro Forma Financial Information was made.

   The consideration and other directly attributable costs was satisfied in cash by advances from the existing equity owners of Hebei Youlin, Mr. Huo Julin and Mr. Li Xianfeng.

	RMB'000	*HK$'000*
		(Note 3)
Consideration for the land use right	25,060	28,479
Other directly attributable costs	2,478	2,816
	27,538	31,295
Reclassification of prepayments for tax in connection with the land use right recorded in other non-current assets	6,127	6,963
	33,665	38,258
Including:		
Land use right as current asset	673	765
Land use right as non-current asset	32,992	37,493

5. Pursuant to the terms of the Equity Transfer Agreement, the consideration for the Acquisition is RMB28,000,000, which will be satisfied in cash and paid by two installments subject to the fulfillment of the conditions precedent as set out in the Equity Transfer Agreement.

Upon completion of the Acquisition, Hebei Youlin will become an indirect wholly-owned subsidiary of the Company, and the identifiable assets and liabilities of Hebei Youlin will be accounted for by the Group at their fair values in accordance with HKFRS 3 (Revised) "*Business Combinations*".

The provisional purchase price allocation arising from the Acquisition of Hebei Youlin is calculated as follows:

	RMB'000	*HK$'000* (Note 3)
Fair value of the Consideration		
– The First Installment	16,800	19,092
– The Second Installment	11,200	12,728
	28,000	31,820
Less:		
Carrying amount of net assets of Hebei Youlin as at 30 September 2018	24,820	28,206
Fair value adjustments on:		
– Property, plant and equipment	12,161	13,820
– Intangible assets *(note (ii))*	(61)	(69)
– Land use right	747	849
– Recognition of deferred tax liabilities arising from revaluation of property, plant and equipment and land use right	(3,227)	(3,667)
– Short-term bank and other borrowings	(1,010)	(1,147)
– Long-term bank and other borrowings	(307)	(349)
	33,123	37,643
Gain arising from the Acquisition	5,123	5,823

(i) For the purpose of preparing the Unaudited Pro Forma Financial Information, the Directors have estimated the fair value of the identifiable assets and liabilities of Hebei Youlin as at 30 September 2018 with reference to a valuation report dated 28 January 2019 prepared by an independent valuer, Castores Magi Asia Limited and estimated the fair value of the land use right of Hebei Youlin acquired in December 2018 with reference to a valuation report dated 19 March 2019 prepared by an independent valuer, Castores Magi Asia Limited.

The asset accumulation method and comparable transactions method were adopted in the valuation reports mentioned above. The asset accumulation appraisal method is the process for determining the market value of Hebei Youlin as the difference between the market value of all identifiable assets and all its liabilities. These valuation reports were prepared on the basis of market value.

The valuation methodology was set out as follows:

(A) Asset Accumulation Method

In the asset accumulation method under Asset-based Approach, all of the subject's individual asset and liability account categories are analysed and valued separately. This method involves a separate identification and individual revaluation of Hebei Youlin's:

(a) financial asset account categories (e.g. cash, accounts receivables, prepaid expenses, inventory);

(b) tangible personal property (e.g. machinery and equipment, furniture and fixtures, trucks and automobiles);

(c) real estate (e.g. land, land improvements, buildings, building improvements);

(d) intangible real property (e.g. leasehold interests, easements, mineral exploitation rights, air and water rights, development rights, and so on);

(e) intangible personal property (e.g. patents, trademarks, copyrights, computer software. Trade secrets, customer relationships, going-concern value, goodwill, and so on);

(f) current liability account categories (e.g. accounts payable, taxes payable, salaries payable, accrued expenses, and so on);

(g) long-term liability account categories (e.g. bonds, notes, mortgages, and debentures payable, and so on);

(h) contingent liabilities (e.g. pending tax disputes, pending litigation, pending environmental concerns, and so on); and

(i) special obligations (e.g. unfounded pensions, earned vacations or other leaves of absence, ESOP repurchase liabilities, and so on).

In the asset accumulation method, the value of the individual assets (both tangible and intangible) less the value of the liabilities (both recorded and contingent) represents the subject business value of Hebei Youlin.

(B) Current Assets Valuation

In valuing the current assets of Hebei Youlin, cash at bank and on hand, inventories, prepayments and other current assets and trade receivables are stated at the carrying values on the balance sheet.

(C) Identifiable Intangible Asset Valuation

A number of alternative valuation methods have been considered. Various valuation methods under Income Approach such as Incremental Income Analyses and Profit Split Analyses have not been considered since Hebei Youlin did not make any profits previously and it lacks for persuasive basis for Hebei Youlin to make a profit forecast. It was concluded that the most appropriate method for valuing the identifiable intangible assets in this appraisal is the Cost Approach.

It was concluded the Cost Approach as the most appropriate approach and either reproduction cost method or replacement cost method have been employed for valuing the acquired patent and licensed use right of technological know-how in relation to wooden materials.

Reproduction cost represents the construction of an intellectual property asset which is identical to the subject intellectual property asset. Replacement cost, on the other hand, reflects the cost of creating an intellectual property asset of a like kind and quality to that of the subject intellectual property asset. Both of these definitions underscore the notion that a reasonable investor would never pay more than it would cost him today to create a duplicate of the subject intellectual property asset or a comparable intellectual property asset.

A valuation analysis may be based on reproduction cost, replacement cost, or, where appropriate, other definitions of cost, as they merely provide the baseline of the analysis. The value indication achieved should be similar regardless of the type of cost used. Cost components involved in most cost approach analysis are material cost, labor cost, overhead cost, and developer's return. These cost components are calculated or estimated based on the actual historical cost of creating the subject intellectual property asset. Proper adjustments for inflation and other relevant economic factors must be taken into account.

The resulting cost indication is then adjusted by relevant obsolescence factors. This is a very important step in which the cost indication is turned into a value indication. Obsolescence factors include physical deterioration, functional obsolescence, technological obsolescence and economic obsolescence. The relevant measures of obsolescence are subtracted from the cost indication in order to estimate the current value of the subject intellectual property asset.

Replacement cost has been adopted in valuing the acquired patent and licensed use right of technological know-how in relation to wooden materials. As for the three patents including utility model patents in relation to wood drying process（一種木材蒸氣烘乾窯）, energysaving steam boiler heating system（一種節能型燃氣蒸汽鍋爐加熱系統）and aluminium composite heat storage energy-saving window（一種改性木－鋁復合儲熱節能窗）and two software copyright in relation to pressurized heat treatment process control system（東方優木常壓熱處理工藝控制系統V1.0）and the modification technology automated control system（東方優木改性技術自動控制系統V1.0）, no commercial value was ascribed by virtue of the reproduction cost could not be reliably assessed.

(D) *Property, Plant and Equipment Valuation*

In valuing the property (building and structures), machinery & equipment, the Cost Approach has been adopted. The Cost Approach is based on the economic principle that a purchaser will pay no more for an asset than the cost to obtain one of equal utility whether by purchase or construction. Under the Cost Approach, Replacement Cost Method has been utilized. Replacement cost is the cost that is relevant to determining the price that a participant would pay as it is based on replicating the utility of the asset, not the exact physical properties of the asset. Usually replacement cost is adjusted for physical deterioration and all relevant forms of obsolescence. After such adjustments, this can be referred to as depreciated replacement cost.

(E) *Non-current Assets*

Apart from the intangible assets, property, machinery and equipment, the remaining non-current assets of Hebei Youlin were the prepayment for land compensation and related tax and prepayment for acquisition of property, plant and equipment. Their carrying values were directly adopted in the valuation.

(F) *Current Liabilities Valuation*

In valuing the bank and other borrowings, trade and other payables and contract liabilities of Hebei Youlin, these accounting items were stated at the carrying values on the balance sheet.

(G) *Non-current Liabilities Valuation*

In valuing the long-term loan, the value of financial liability has been assessed which is the present value of the contractually determined stream of future cash flows discounted at the rate of interest applied at that time by the market to instruments of comparable credit status and providing substantially the same cash flows, on the same terms.

For the valuation reports, the valuation was undertaken on the premise of a going concern. And the land use right was valued assuming sale in vacant possession. Going concern premise assumes:

– an operating business;

– Hebei Youlin will continue in operation indefinitely; and

– Hebei Youlin has neither the intention nor the necessity of liquidation or of curtailing materially the scope of its operation.

Since the fair values of identifiable net assets of Hebei Youlin on the actual completion date of the Acquisition may be different from the fair values used in the preparation of the Unaudited Pro Forma Financial Information, the final actual amounts of the fair value of identifiable net assets (including intangible assets) and the gain on bargain purchase to be recognised in connection with the Acquisition may be different from the amounts presented above.

(ii) As at 30 September 2018, the intangible assets of Hebei Youlin included acquired patent and licensed use right of technological know-how in relation to wooden materials.

According to the Group's accounting policies, the Directors have performed the assessment of impairment of intangible assets in accordance with HKAS 36, *Impairment of Assets*. The Directors assessed the impairment of the cash-generating unit to which the intangible assets belong (the "CGU") by considering whether the carrying amount of the CGU will exceed the recoverable amount, being higher of value in use and fair value less cost of disposal as at 30 September 2018.

The fair value less cost of disposal of the CGU was assessed by the Directors with reference to the valuation report prepared by an independent valuer, Castores Magi Asia Limited. The valuation is determined using replacement cost method, which reflects the cost of creating the assets of a like kind and quality to that of the subject asset. The resulting cost indication is then adjusted by relevant obsolescence factors including physical deterioration, functional obsolescence, technological obsolescence and economic obsolescence. The relevant measures of obsolescence are subtracted from the cost indication in order to estimate the current value of the subject asset.

Based on internal assessment and with reference to the valuation report, the Directors do not consider that the CGU shall be impaired as the fair value less cost of disposal exceeds the carrying amount of the CGU, and the Directors confirm that the Company will adopt consistent accounting policies, valuation method and principal assumptions as used in the Unaudited Pro Forma Financial Information as set out in Appendix III to assess the impairment of the CGU in the future financial periods.

6. Apart from the above, no other adjustment has been made to the Unaudited Pro Forma Financial Information to reflect any trading results or other transactions entered into by the Group and Hebei Youlin subsequent to 30 September 2018.

The following is the text of a business valuation report prepared for the purpose of incorporation in this circular, received from the valuer, Castores Magi Asia Limited.

嘉漫亞洲有限公司
CASTORES MAGI ASIA LIMITED
BUSINESS AND INTANGIBLE ASSET APPRAISAL
INVESTMENT PROJECT ADVISORY SERVICES

CASTORES
MAGI

Unit 1301, 13th Floor
Ka Wah Bank Centre
232 Des Voeux Road Central
Hong Kong

19 March, 2019

The Directors
Steed Oriental (Holdings) Company Limited
Suites 2524-25, 25/F.
Sun Hung Kai Centre
30 Harbour Road
Wanchai
Hong Kong

Dear Sirs,

In accordance with the instructions from Steed Oriental (Holdings) Company Limited (hereinafter known as "your Company"), we have undertaken a business appraisal of the market value of 100% equity interest of Hebei Youlin Technology Company Limited (河北優林科技有限公司)(hereinafter known as "the Target Company") as at 31 December, 2018 (hereinafter known as the "Valuation Date") on a going concern premise for possible acquisition purpose.

The purpose of this appraisal is to formulate and express an independent opinion on the market value of the Target Company as at Valuation Date on the premise of a going concern. The term Market Value* is defined as "the estimated amount for which an asset or liability should exchange on the valuation date between a willing buyer and a willing seller in an arm's-length transaction after proper marketing and where the parties had each acted knowledgeably, prudently and without compulsion." There are no other purposes intended or should be inferred other than possible acquisition purpose.

* *With reference to the HKIS Valuation Standards 2017 – VGN3 Section 1.6, the references in International Financial Report Standard 13 to market participants and a sale make it clear that for most practical purposes the concept of fair value is consistent with that of market value, and so there would ordinarily be no difference between them in terms of the valuation figure reported.*

INTRODUCTION

The Target Company was incorporated in the People's Republic of China (hereinafter known as "the PRC") on 11 July, 2016 and is owned as to 80% by Huo Julin (霍炬霖) and 20% by Li Xianfeng (李現峰).

The production base of the Target Company is located in Ningjin County, Xingtai Shi, Hebei Province, the PRC and commenced operation in 2016. It occupies a site area of 157,182 sq.m. The plant has an annual production capacity of improved wood and optimized wood, processed wood materials, wood furniture, wooden doors and windows and wood structural components of about 100,000 cubic metres, 60,000 cubic metres, 10,000 cubic metres, 60,000 cubic metres, and 120,000 cubic metres, respectively.

The Target Company focuses on the research and development of solid wood improvement technology and is principally engaged in wood products' design, manufacturing, processing, trading, installation and sales. The products of the Target Company include wooden doors and windows, wood structure and furniture.

The modified wood manufactured by the Target Company is based on the green function improvement concept of strengthening the wood's own performance by the wood component unit. Based on the cell wall modification theory and the cell compaction enhancement theory, the functional improvement technology system developed through research and development starts from the molecular level and microscopic structure. Biological treatment of infinitely regenerated cork resources, forming a wood of life that is more perfect than the hardwood that has grown for thousands of years, instead of gradually reducing the natural hardwood. The product has the characteristics of good dimensional stability, resistance to cracking, beautiful texture, pleasant color, durability, flame retardant, smoke proof, mildew proof, anti-corrosion, anti-mite, waterproof, self-cleaning, etc. It is applied to high-end furniture, flooring, decoration, outdoor landscape materials, vehicle and boat interiors, yacht decks, wooden structural components and other fields.

MARKET OVERVIEW

In the past 10 years, the PRC's total wood consumption has increased from 380 million cubic meters in 2007 to 600 million cubic meters in 2017, with an average annual growth rate of 4.67%. In 2017, the PRC's total timber consumption accounted for 186 million cubic meters of construction materials, accounting for 31% of the country's wood consumption; papermaking materials of 174 million cubic meters, accounting for 29% of total consumption; export materials of 114 million cubic meters, accounting for total 19% of consumption; domestic furniture materials are 72 million cubic meters, accounting for 12% of total consumption.

With reference to the data from China Timber & Wood Products Distribution Association#, the output value of the wood industry in 2017 reached RMB2.11 trillion, a year-on-year increase of 5.64%. The output value of the wooden door industry reached RMB146 billion, a year-on-year increase of 10.6%. The total sales volume of the flooring industry was 415 million square meters, an increase of 4.64%. The output of the wood-based panel industry reached 315 million cubic meters, a year-on-year increase of 4.9%. In 2017, the output value of wooden furniture was RMB583.44 billion, a year-on-year increase of 11.1%. The standard of living in the PRC continues to improve and the people are becoming increasingly willing to invest in home decoration. Consumers' increasing purchasing power has driven the wood products' market to develop in leaps and bounds.

Beginning from 2018, the PRC government focuses on stimulating domestic demand, urbanisation is bound to drive general market growth. Data from the National Bureau of Statistics shows that the urbanisation rate in the PRC reached 58.5% in 2017, up 1.2% over the end of the preceding year. In this urbanisation process, wage and salary earners, as well as peasant families who have settled in towns and cities, have become major wood products' consumer groups. In addition, it is estimated that by 2020 about 54 million houses will have been renovated under the country's shantytown reconstruction project, and these renovated houses will also generate demand for furniture and relevant wood products.

At present, the PRC has completely stopped commercial forest harvesting, and the supply of domestically produced timber has decreased. Imported timber has become the main source of timber production in the PRC, with external dependence exceeding 60% and timber acquisition costs increasing.

The problem of low investment in environmental protection and safety production of wood products enterprises is more prominent. In particular, the wood-based panel industry has been listed by the Ministry of Environmental Protection as a "two high" (high pollution, high environmental risk) industry, and the industry will be under greater pressure in the future.

China Timber & Wood Products Distribution Association, which was established in 1985 upon the approval of the Ministry of Civil Affairs, is a non-profit organization voluntarily joined by enterprises, institutions and individuals engaged in the timber and wood products (including bamboo and bamboo products) processing and distribution industry. The association is subject to the administration of Ministry of Civil Affairs and the supervision and guidance of the State-Owned Assets Supervision and Administration Commission of the State Council in the PRC.

An increasing number of consumers, in particular mid-to-high end consumers and children's furniture consumers, choose to embrace new living concepts, such as the 'eco home'. These consumers have a strong preference for environment-friendly wood products, such as odour- and formaldehyde-free products, despite the fact that the price of most of such wood products is higher. According to the Hong Kong Trade Development Council's consumer survey, over 90% of respondents in the PRC are interested in using green, eco-friendly materials and are willing to pay a premium of 14% on average in purchasing products made of green materials. In view of this, many furniture and building materials brands have added the idea of eco-friendliness in their brand concept. Examples in the mainland market include 'smart' furniture incorporating indoor air purification functions and lightweight honeycomb board furniture. As a low-carbon, green, and only renewable household product, wood products are increasingly favored by consumers. At present, the PRC's per capita annual wood consumption is less than 0.4 cubic meters, and it is expected that wood consumption will exceed 800 million cubic meters in the next few years.

Custom-made furniture is becoming popular in tandem with the growing demand for personalised home products. Furniture makers treat each customer as unique and tailor-make products according to individual needs. At present, a number of large bespoke furniture manufacturers are developing rapidly. Companies such as Shangpin Home Decoration, Suofeiya Home Collection and Oppein Home are now offering bespoke manufacture of different types of furniture, or even furniture for the whole house. Currently, the most popular custom-made furniture items on the mainland are kitchen cabinets and wardrobes, but other items, such as TV cabinets, shoe cabinets, book shelves and wine cabinets, are also gaining favour. The upgrading of the consumption structure has promoted the rapid development of smart homes, integrated customization and one-stop services. It is predicted that customized homes will maintain a growth rate of more than 20%, and the market size is expected to reach RMB160.6 billion in 2020.

Star-graded hotels are a major source of demand of upmarket furniture and wood products. Statistics from the China National Tourism Administration show that the number of five-star hotels on the mainland has increased from 640 in 2012 to 822 in 2017, representing an average annual growth rate of 5.3%. The number of four-star hotels has increased from 1,817 in 2012 to 2,392 in 2017, an average annual growth rate of 1.9%. According to reports, the demand for furniture replacement in four-star and five-star hotels across the country will hit RMB7.7 billion in 2018.

The PRC's furniture and wood products industry has started the process of upgrading, with advanced manufacturing and the application of information technology in production. The enterprises need to upgrade their products and give greater added value by raising the level of technology innovation to achieve low cost, high quality and high efficiency. A key future development trend is green manufacturing, with the whole life cycle of products conducive to environmental protection and the reduction of energy consumption. For example, paying greater attention to environmental protection, human health and home safety in the production process will help sustain the development of the industry.

CURRENT ASSETS VALUATION

In accordance with the management accounts of the Target Company as at 31 December, 2018 provided by your Company, the current assets of the Target Company comprise cash at bank and on hand, inventories, prepayments and other current assets and trade receivables. We have valued each item by examining the nature of these current assets.

INTANGIBLE ASSETS VALUATION

A. Identifiable Intangible Assets

From a valuation perspective, identifiable intangible assets possess the following characteristics:

(a) it should be subject to legal existence and protection;

(b) it should be subject to a private ownership;

(c) there should be some tangible evidence or manifestation of the existence of intangible assets (such as contract, licence and lists of customers);

(d) it should have been created or have come into existence at an identifiable time or as the result of an identifiable event; and

(e) it should be subject to being destroyed or to a termination of existence at an identifiable time or as the result of an identifiable event.

B. Identifiability

An intangible asset is identifiable when it:

(a) is separable (i.e. is capable of being separated or divided from the entity and sold, transferred, licensed, rented, or exchanged, either individually or together with a related contract, asset or liability); or

(b) arises from contractual or other legal rights, regardless of whether those rights are transferable or separable from the entity or from other rights and obligations.

An intangible asset shall be recognised if, and only if:

(a) it is probable that the expected future economic benefits that are attributable to the asset will flow to the entity; and

(b) the cost of the asset can be measured reliably.

C. Identifiable Intangible Assets of the Target Company

Identifiable intangible assets basically are classified into five categories:

(a) Marketing-related intangible assets;

The class of marketing-related intangible assets generally consists of trademarks, brands, company logos, marketing strategy and promotion concepts, design of labels or packages, trade dress, trademark registrations, shelf space, and other similar intangible assets.

As advised by your Company, the Target Company does not possess any reputable trademarks which are classified as this type of intangible asset.

(b) Customer-related intangible assets;

Customer-related intangible assets basically refer to customer lists, customer contracts and the related customer relationships.

In our valuation, customer relationship should be considered as a valuable asset only unless it is separable and has a long-term contractual relationship. In this regard, we have not taken into account the intangible asset value under this category.

(c) Artistic-related intangible assets;

Artistic-related intangible assets comprise books, magazines, newspapers and other literary and musical works. They are considered to be irrelevant in our valuation.

(d) Contract-based intangible assets; and

Contract-based intangible assets include licensing, royalty, standstill agreements, advertising, construction, management service or supply contracts, lease agreements, construction permits, franchise agreements, operating and broadcast rights, use rights and servicing contract. The Target Company does not have this type of intangible assets.

(e) Technology-based intangible assets

Technology-based intangible assets consist of patented and unpatented technologies, databases and trade secrets. The Target Company possesses certain technology which belongs to this type of intangible assets.

Pursuant to a Patent Transfer Contract dated 3 March, 2017 made between Northeast Forestry University (東北林業大學) and the Target Company, the former party agreed to transfer an invention patent in relation to a method for preserving wooden materials (一種利用環保低分子有機藥劑製備防腐木材的方法) to the latter party at a consideration of RMB100,000. The aforesaid technique is subject to an Invention Patent Certificate (發明專利證書)(No. ZL 2013 1 0652295.6) which has a patent period of 20 years commencing from 5 December, 2013.

Pursuant to another Technology Transfer Contract dated 5 May, 2017 made between 河北優化木業科技有限公司 and the Target Company, the former party agreed to transfer a licensed right of technological know-how up to June 2026 in relation to a method for improving the quality of wooden materials by increasing the durability, density and water resistance level of wooden materials to the latter party at a consideration of RMB2,000,000. The Target Company is entitled to use the aforesaid technique for a period commencing from 3 May, 2017 to 5 June, 2026.

Apart from the two aforesaid contracts, the Target Company possesses two Computer Software Copyright Registration Certificates (計算機軟件著作權登記證書), namely, "Eastern Optimized Wood Modification Technology's Automatic Control System V 1.0" (東方優木改性技術自動控制系統V 1.0) (Ruan Zhu Deng Zi No. 1811057) and "Eastern Optimized Wood Pressurized Heat Treatment Process Control System V 1.0" (東方優木常壓熱處理工藝控制系統V 1.0) (Ruan Zhu Deng Zi No. 1808669) and three patent certificates, namely, "Aluminum Composite Heat Storage Energy-saving Window" (一種改性木 – 鋁復合儲熱節能窗)(No. ZL 2017 2 0329843.5) applied on 31 March, 2017, "Energy-saving Steam Boiler Heating System" (一種節能型燃氣蒸汽鍋爐加熱系統)(No. ZL 2017 2 0277200.0) applied on 21 March, 2017 and "Wood Steam Drying Kiln" (一種木材蒸氣烘乾窯)(No. ZL 2017 2 0277752.1) applied on 21 March, 2017. These patent certificates have a patent period of 10 years commencing from various application dates.

PROPERTY, PLANT AND MACHINERY

In accordance with the management accounts of the Target Company as at 31 December, 2018 provided by your Company, the Target Company possesses a parcel of land, a number of buildings, machinery and equipment in the plant which are located at Xingtai Shi, Hebei Province, the PRC.

Pursuant to State-owned Development Land Use Rights Grant Contract (國有建設用地使用權出讓合同) dated 14 December, 2018 entered into between the State Land and Resources Bureau of Ningjin County (寧晉縣國土資源局) and the Target Company, the former party agreed to grant the latter party a land use rights of a parcel of land having a site area of 157,182 sq.m. for a term of 50 years for industrial use at a land premium of RMB25,060,000. Pursuant to an Immovable Property Certificate (不動產權證) issued by the State Land and Resources Bureau of Ningjin County (寧晉縣國土資源局) on 7 January, 2019, the Target Company was granted a land use rights for a term commencing from 30 December, 2018 to 30 December, 2068.

OTHER NON-CURRENT ASSETS

The other non-current assets include the prepayment for land compensation and related tax and prepayment for acquisition of property, plant and equipment of the Target Company.

CURRENT LIABILITIES

In accordance with the management accounts of the Target Company as at 31 December, 2018 provided by your Company, the current liabilities of the Target Company comprise bank and other borrowings, trade and other payables and contract liabilities. In valuing the current liabilities, we have accounted for whether the current liabilities incur interest payments or not.

NON-CURRENT LIABILITIES

In accordance with the management accounts of the Target Company as at 31 December, 2018 provided by your Company, the non-current liabilities of the Target Company comprise long-term loan. In valuing the non-current liabilities, we have accounted for whether it incur interest payments or not.

THE BASIS OF VALUATION AND ASSUMPTIONS

We have appraised the Target Company on the basis of "Market Value" on the premise of a going concern. Going concern premise assumes:

(a) an operating business;

(b) an established enterprise/entity that will continue in operation indefinitely;

(c) the entity has neither the intention nor the necessity of liquidation or of curtailing materially the scope of its operation.

The valuation of the Target Company required consideration of all pertinent factors affecting the operations of the business. The factors considered in the appraisal including, but were not limited to, the following:

- the nature and the performance of the Target Company's business;
- the economic and industry outlooks affecting the Target Company's business;
- the ability and network of the Target Company to market its products;
- the production capacity of the Target Company's factory; and
- the risks faced by the Target Company.

In view of the ever–changing business environment in which the Target Company is operating, we have made a number of reasonable assumptions in the course of our appraisal, which are set out as follows:

- the management accounts of the Target Company provided by your Company are reliable;
- there were no material changes from political, legal, economic or financial aspects in the jurisdictions in which the Target Company currently runs or intends to run its business which will materially affect its operation;
- there was no substantial market fluctuation in the jurisdictions in which the Target Company currently runs or intends to run its business which will materially affect its operations and the revenues attributed to shareholders;
- there was no substantial fluctuation in the interest rates and foreign currency exchange rates in the jurisdictions in which the Target Company currently runs or intends to run its business which will materially affect its operations and the revenues attributed to shareholders;
- the economic life of the property, machinery and equipment is achievable; and
- the Target Company will allocate sufficient resources to keep abreast of her future operation.

APPROACH TO VALUE

In the process of valuing the Target Company, we adopted the Asset-based Approach to value its equity interest. Asset-based Approach is a means of estimating the value of a business and/or equity interest using methods based on Market Value of individual business assets less liabilities. This approach provides an indication of the value of the business enterprise by developing a Market Value balance sheet and all of the business's liabilities are brought to current value as of the valuation date. The difference between the Market Value of the assets and the current value of the liabilities is an indication of the business enterprise equity value under the asset-based approach.

In the process of valuing the assets of the Target Company, we considered the classical appraisal approaches to value, namely the Market Approach, Cost Approach and Income Approach.

The Market Approach is based on the related economic principles of competition and equilibrium. These economic principles conclude that, in a free and unrestricted market, supply and demand factors will drive the price of an investment to a point of equilibrium. The principle of substitution also directly influences the market approach. This is because the identification and analysis of equilibrium prices for substitute investments will provide important evidence to the appraiser with regard to the indicated value for the subject asset.

The Market Approach establishes value based on recent sale of comparable assets. However, it is difficult to find some transactions that are exactly comparable. In valuing the assets of the Target Company, the search for a comparable market transaction becomes almost futile. This is not only due to lack of compatibility, but also because the assets of the Target Company are generally not developed to be sold, and many sales are usually only a small part of a larger transaction and details are kept confidential. There are other impediments that limit the usefulness of this method, namely special purchasers, different negotiating skills, and the distorting effects of the peaks and troughs of economic cycles. Under such circumstances, we have not relied on the Market Approach in our estimate of the market value of the assets of the Target Company.

The Cost Approach is based on the economic principle of substitution. This basic economic principle asserts that an investor will pay no more for an investment of equal utility. For purposes of this economic principle, utility can be measured in many ways, including functionality, desirability, and so on. The availability and the cost of substitute investments is directly affected by shifts in the supply and demand functions with regard to the universe of substitute investments.

The Cost Approach seeks to estimate the market value of the subject assets by quantifying the amount of money that would be required to replace the income producing capability of the subject assets. In other words, this approach assumes that the subject assets' values are indicated by the cost of reproducing or replacing its agreed terms and conditions. The adoption of Cost Approach is apt in valuing the fixed assets such as machinery and equipment and intangible assets.

In arriving at our opinion of value of the fixed assets, we have researched and obtained price information (brand new, refurbished and used, etc.) and reference materials (specification, capacity and production process, etc) of the machinery and equipments or similar to them through searching on Internet web sites and referring to our own pricing database and publications.

The Income Approach is based on the economic principle of anticipation. In this approach, the values of the subject assets are the present value of the expected economic income to be earned from the ownership of the subject assets. As the name of this economic principle implies, the investor "anticipates" the "expected" economic income to be earned from and economic expenditure to be paid for the investment. This expectation of prospective economic income and economic expenditure are converted to a present worth – that is, the indicated value of the subject assets.

The Income Approach focuses on the income-producing capability of the subject assets. This approach's underlying theory is that the values of the subject assets can be measured by the present worth of the net economic benefit to be received over the useful life or economic life of the subject assets. Based on this valuation principle, the Income Approach estimates the future economic benefits and discounts these benefits to its present value using a discount rate suitable for the risks associated with realizing those benefits and repayments. We did not adopt Income Approach in our valuation as the Target Company did not make any profits in the past two years.

VALUATION METHODOLOGY

(A) Asset Accumulation Method

In the asset accumulation method under Asset-based Approach, all of the subject's individual asset and liability account categories are analysed and valued separately. This method involves a separate identification and individual revaluation of the Target Company's:

(a) financial asset account categories (e.g. cash, accounts receivables, prepaid expenses, inventory);

(b) tangible personal property (e.g. machinery and equipment, furniture and fixtures, trucks and automobiles);

(c) real estate (e.g. land, land improvements, buildings, building improvements);

(d) intangible real property (e.g. leasehold interests, easements, mineral exploitation rights, air and water rights, development rights, and so on);

(e) intangible personal property (e.g. patents, trademarks, copyrights, computer software, trade secrets, customer relationships, going-concern value, goodwill, and so on);

(f) current liability account categories (e.g. accounts payable, taxes payable, salaries payable, accrued expenses, and so on);

(g) long-term liability account categories (e.g. bonds, notes, mortgages, and debentures payable, and so on);

(h) contingent liabilities (e.g. pending tax disputes, pending litigation, pending environmental concerns, and so on); and

(i) special obligations (e.g. unfounded pensions, earned vacations or other leaves of absence, ESOP repurchase liabilities, and so on).

In the asset accumulation method, the value of the individual assets (both tangible and intangible) less the value of the liabilities (both recorded and contingent) represents the subject business value of the Target Company.

(B) Current Assets Valuation

In valuing the current assets of the Target Company, cash at bank and on hand, inventories, prepayments and other current assets and trade receivables are stated at the carrying values on the balance sheet.

(C) Identifiable Intangible Asset Valuation

We have considered a number of alternative valuation methods. Various valuation methods under Income Approach such as Incremental Income Analyses and Profit Split Analyses have not been considered since the Target Company did not make any profits previously and it lacks for persuasive basis for the Target Company to make a profit forecast. We have concluded that the most appropriate method for valuing the identifiable intangible assets in this appraisal is the Cost Approach.

We have concluded the Cost Approach as the most appropriate approach and we have employed either reproduction cost method or replacement cost method for valuing the Patent Transfer Contract and Technology Transfer Contract in this appraisal.

Reproduction cost represents the construction of an intellectual property asset which is identical to the subject intellectual property asset. Replacement cost, on the other hand, reflects the cost of creating an intellectual property asset of a like kind and quality to that of the subject intellectual property asset. Both of these definitions underscore the notion that a reasonable investor would never pay more than it would cost him today to create a duplicate of the subject intellectual property asset or a comparable intellectual property asset.

A valuation analysis may be based on reproduction cost, replacement cost, or, where appropriate, other definitions of cost, as they merely provide the baseline of the analysis. The value indication achieved should be similar regardless of the type of cost used. Cost components involved in most cost approach analysis are material cost, labor cost, overhead cost, and developer's return. These cost components are calculated or estimated based on the actual historical cost of creating the subject intellectual property asset. Proper adjustments for inflation and other relevant economic factors must be taken into account.

The resulting cost indication is then adjusted by relevant obsolescence factors. This is a very important step in which the cost indication is turned into a value indication. Obsolescence factors include physical deterioration, functional obsolescence, technological obsolescence and economic obsolescence. The relevant measures of obsolescence are subtracted from the cost indication in order to estimate the current value of the subject intellectual property asset.

Replacement cost has been adopted in valuing the Patent Transfer Contract and Technology Transfer Contract. As for the computer software copyright and the other three aforesaid patents, no commercial value was ascribed by virtue of the reproduction cost could not be reliably assessed by us.

(D) Property, Plant and Equipment Valuation

In valuing the property (building and structures), machinery & equipment, we have adopted the Cost Approach. The Cost Approach is based on the economic principle that a purchaser will pay no more for an asset than the cost to obtain one of equal utility whether by purchase or construction. Under the Cost Approach, we have utilized Replacement Cost Method. Replacement cost is the cost that is relevant to determining the price that a participant would pay as it is based on replicating the utility of the asset, not the exact physical properties of the asset. Usually replacement cost is adjusted for physical deterioration and all relevant forms of obsolescence. After such adjustments, this can be referred to as depreciated replacement cost.

In valuing the land use rights of the property, we have adopted Comparable Transactions Method. The comparable transactions method, also known as the guideline transactions method, utilises information on transactions involving assets that are the same or similar to the subject asset to arrive at an indication of value.

(E) Non-current Assets

Apart from the intangible assets, property, machinery and equipment, the remaining non-current assets of the Target Company were the prepayment for land compensation and related tax and prepayment for acquisition of property, plant and equipment. Their carrying values were directly adopted in our valuation.

(F) Current Liabilities Valuation

In valuing the bank and other borrowings, trade and other payables and contract liabilities of the Target Company, these accounting items were stated at the carrying values on the balance sheet.

(G) Non-current Liabilities Valuation

In valuing the long-term loan, we have assessed the value of financial liability which is the present value of the contractually determined stream of future cash flows discounted at the rate of interest applied at that time by the market to instruments of comparable credit status and providing substantially the same cash flows, on the same terms.

VALUATION COMMENTS

We understand that your Company will use our appraisal as part of the due diligence and we have not been engaged to make specific purchase or sale recommendations. Our work is designed solely to provide information for your Company's possible acquisition purpose.

In the course of our valuation, we have utilized the data and certain supplementary financial information provided by your Company.

In valuing the equity interest of the Target Company, we have made reference to the HKIS Valuation Standards 2017.

We visited the Target Company's production base in Ningjin County, Xingtai Shi, Hebei Province, the PRC and interviewed various representatives of the Target Company from 26 – 30 November, 2018. Mr. Au Chi Chung Deret, a Registered Business Valuer of Hong Kong Business Valuation Forum and a Corporate Member from General Practice Division of the Hong Kong Institute of Surveyors, is responsible for handling this valuation assignment.

We have assumed that the appraised equity interest of the Target Company is freely disposable and transferable for her existing or alternative uses in the open market.

No investigation has been made of the legal title of the Target Company. All legal documents disclosed (if any) are for reference only and no responsibility is assumed for any legal matters concerning the legal title and the rights (if any) to the Target Company. We have not verified the original documents furnished to us, any responsibility for our misinterpretation of the legal documents, therefore, cannot be accepted. We are not the attorney indeed, therefore, we are not in a position to advise and comment on the title and encumbrances to the Target Company.

For the purpose of this appraisal, we were furnished with the data, balance sheet, management accounts, business licence, contracts and patent registration documents, other documents germane to the appraisal. These data have been utilized without further verification as correctly representing the results and future prospects of the operation and the financial condition of the business.

To the best of our knowledge, all data set forth in this report are true and accurate. Although gathered from reliable sources, no guarantee is made nor liability assumed for the accuracy of any data, opinions, or estimates identified as being furnished by others, which have been used in formulating this analysis.

We are unable to accept any responsibility for the information that has not been supplied to us by your Company. We have had no reason to doubt the authenticity and accuracy of the information provided to us by your Company. We also sought and received confirmation from your Company that no materials factors have been omitted from the information supplied.

No allowance has been made in our appraisal for any charges or amounts owing nor any expenses or taxation, which may be incurred in effecting a transfer of the assets and liabilities. It is assumed that the Target Company will be rendered free from encumbrances, restrictions and outgoings of any onerous nature, which could affect its value.

Neither the whole nor any part of this valuation report or any reference hereto may be included in any published document, circular or statement, or published in any way, without our written approval of the form and context in which it may appear.

Unless otherwise stated, the base currency of this report is Renminbi.

CERTIFIED OPINION OF VALUE

Based on the investigation, analysis, reasoning and data outlined as above, and on the appraisal methods employed, it is our opinion that as at the Valuation Date, the Market Value of 100% equity interest of the Target Company on the premise of going concern is reasonably stated in the amount of **RMB34,612,682 (RENMINBI THIRTY-FOUR MILLION SIX HUNDRED TWELVE THOUSAND SIX HUNDRED AND EIGHTY-TWO ONLY).**

The conclusion of value is based on generally accepted appraisal procedures and practices that rely extensively on assumptions and considerations, not all of which can be easily quantified or ascertained exactly. While we have exercised our professional judgement in arriving at the appraisal, you are urged to consider carefully the nature of such assumptions, which are disclosed in this report and should exercise caution in interpreting this report.

We hereby certify that we have neither present nor prospective interest in the Target Company and your Company or the value reported.

Yours faithfully,
For and on behalf of
Castores Magi Asia Limited
Au Chi Chung Deret
Registered Business Valuer of
Hong Kong Business Valuation Forum
B.Sc., MHKIS, RPS (GP), MCIArb, MHKIArb, MCIREA

APPENDIX (VALUATION SCHEDULE OF THE TARGET COMPANY)

ASSETS

	Market Value *(RMB)*
Cash	369,733
Accounts Receivable	767,720
Prepayment	576,367
Other receivable	17,082
Inventories	21,118,232
Other non-current Assets	10,821,822
Current Assets	33,670,956
Fixed Assets – Buildings and Structures	70,036,637
Fixed Assets – Motor Vehicles & Equipment	36,410,000
Construction In Progress	7,563,789
Land Use Rights	34,412,000
Intangible Assets	1,765,752
Other non-current Assets	681,359
Non-current Assets	150,869,537
Total Assets	184,540,493

LIABILITIES

	Market Value *(RMB)*
Accounts payable	1,808,357
Advance receipts	1,051,582
Accrued payroll	2,357,698
Tax payable	4,281
Other payable	94,445,652
Current Liabilities	99,667,571
Long-term Loan	50,260,240
Non-current Liabilities	50,260,240
Total Liabilities	149,927,811
Total Assets less Total Liabilities	34,612,682

The following is the text of a property valuation report for the purpose of incorporation in this circular, received from the valuer, Castores Magi (Hong Kong) Limited.

嘉漫(香港)有限公司
CASTORES MAGI (HONG KONG) LIMITED
REGISTERED PROFESSIONAL SURVEYORS (GENERAL PRACTICE)
REAL ESTATE, MINERALS, MACHINERY & EQUIPMENT AND BUSINESS VALUERS

CASTORES MAGI

Unit 1301, 13th Floor
Ka Wah Bank Centre
232 Des Voeux Road Central
Hong Kong

19 March, 2019

The Directors
Steed Oriental (Holdings) Company Limited
Suites 2524-25, 25th Floor
Sun Hung Kai Centre
30 Harbour Road
Wanchai
Hong Kong

Dear Sirs,

In accordance with your instruction to value the property interest to be acquired by Steed Oriental (Holdings) Company Limited (the "Company") and its subsidiaries (together the "Group"), we confirm that we have made relevant enquiries, searches and obtained such further information as we consider necessary for the purpose of providing you with our opinion of the value of the property as at 31 December, 2018 ("valuation date") for possible acquisition purpose.

The valuation assignment was handled by Mr. Au Chi Chung Deret who is a Corporate Member from the General Practice Division of the Hong Kong Institute of Surveyors ("HKIS") and is in a position to provide an objective and unbiased valuation. He has no material connection or involvement with the subject assets or other parties to this valuation assignment. He has sufficient current local and national knowledge of the particular market, and the skills and understanding to undertake the valuation competently.

Our valuation of the property interest is our opinion of market value which we would define as "the estimated amount for which an asset or liability should exchange on the valuation date between a willing buyer and a willing seller in an arm's-length transaction after proper marketing and where the parties had each acted knowledgeably, prudently and without compulsion." Market Value is understood as the value of an asset or liability estimated without regard to costs of sale or purchase (or transaction) and without offset for any associated taxes or potential taxes.

Our valuation has been made on the assumption that the owner sells the property on the open market in its existing state without the benefit of a deferred term contracts, leaseback, joint venture, management agreement or any similar arrangement which would serve to increase the value of the property.

The property interest has been valued on a market basis assuming sale in vacant possession by reference to comparable market transactions. This approach rests on the wide acceptance of market price as the best indicator of value and pre-supposes that evidence of recent transactions in the market place can be extrapolated to similar properties, subject to allowance for variable factors.

In the course of our valuation, we have adopted the Cost Approach. The cost approach is based on the economic principle that a purchaser will pay no more for an asset than the cost to obtain one of equal utility whether by purchase or construction. Under the Cost Approach, we have utilized Replacement Cost Method to value the buildings and structures. Replacement cost is the cost that is relevant to determining the price that a participant would pay as it is based on replicating the utility of the asset, not the exact physical properties of the asset. Usually replacement cost is adjusted for physical deterioration and all relevant forms of obsolescence. After such adjustments, this can be referred to as depreciated replacement cost.

In valuing the land use rights of the property, we have adopted Comparable Transactions Method. The comparable transactions method, also known as the guideline transactions method, utilises information on transactions involving assets that are the same or similar to the subject asset to arrive at an indication of value.

The current status of the property regarding major approvals, consents or licences required in the People's Republic of China ("the PRC") is as follows:

Property	**Contract or Certificate**
State-owned Development Land Use Rights Grant Contract (國有建設用地使用權出讓合同)	Yes
Immovable Property Certificate (不動產權證) – Land Use Rights	Yes
Immovable Property Certificate (不動產權證) – Buildings	No

In valuing the property interest, we have made reference to the HKIS Valuation Standards 2017 published by the HKIS and the International Valuation Standards 2017 published by the International Valuation Standards Council.

In valuing the property in the PRC, we have complied with all the requirements contained in Chapter 8 of the Rules Governing the Listing of Securities on GEM of The Stock Exchange of Hong Kong Limited.

The scope of valuation has been determined with reference to the property list provided and confirmed by the Group. The property on the list has been included in this certified opinion of value.

We have relied to a considerable extent on the information provided by the Company and have accepted advice given to us on such matters as planning approvals or statutory notices, easements, tenure, occupation, letting, rentals, licences, site and floor areas and all other relevant matters.

We have not carried out detailed site measurements to verify the correctness of the site areas in respect of the property but have assumed that the site areas shown on the documents and official site plans handed to us are correct. All documents and contracts have been used as reference only and all dimensions, measurements and areas are approximations. No on-site measurements have been taken.

Mr. Au Chi Chung Deret inspected the exterior and where possible, the interior of the property on 27 November, 2018, in respect of which we have been provided with such information as we have required for the purpose of our valuation. However, no structural survey, investigation or examinations has been made, but in the course of our inspection, we did not note any serious defects. We are not, however, able to report that the property was free from rot, infestation or any other structural defects. No tests were carried out to any of the services.

We have been shown copies of various documents relating to the property (such as property title documents and floor plans). However, we have not searched the original documents to verify any amendments which may not appear on the copies handed to us. Due to restrictions of the land registration system in the PRC, we are unable to search the original documents to verify the existing title of the property or any material encumbrances that might be attached to the property. We are not in a position to advise on the title to the property.

No allowance has been made in our report for any charges, mortgages or amounts owing on the property nor for any expenses or taxation which may be incurred in effecting a sale. Unless otherwise stated, it is assumed that the property was free from encumbrances, restrictions and outgoings of an onerous nature which could affect its value. In our valuation, we have assumed that the land use rights holder/vendor will have free and uninterrupted rights to use the property for the whole of the unexpired land use right term and the land use rights holder/vendor could transfer the property without payment of any additional premium.

We have had no reason to doubt the authenticity, genuineness and accuracy of the information provided to us by the Company. We have also sought and received confirmation from the Company that no material factors have been omitted from the information supplied. We consider that we have been provided with sufficient information to reach an informed view and have no reason to suspect that any material information has been withheld.

Unless otherwise stated, all monetary amounts stated in this certified opinion of value are in Hong Kong Dollar. The exchange rate adopted in our valuation was the exchange rate prevailing as at the valuation date which was HK$1=RMB0.877976. There has been no significant fluctuation in the exchange rate between the date of valuation and the date of this report.

The conclusion of value is based on generally accepted valuation procedures and practices that rely extensively on assumptions and considerations, not all of which can be easily quantified or ascertained exactly. While we have exercised our professional judgment in arriving at the valuation, you are urged to consider carefully the nature of such assumptions which are disclosed in this report and should exercise caution when interpreting this report.

Neither the whole nor any part of this letter and the certified opinion of value attached nor any reference thereto shall be included in any document, circular or statement without our prior written consent of the form and context in which they will respectively appear. This letter and certified opinion of value are only for the use of the party to whom it is addressed and no responsibility shall be accepted to any third party for the whole or any part of its content.

We hereby certify that we have neither present nor prospective interest in the Group/vendor or the value reported.

Yours faithfully,
For and on behalf of
Castores Magi (Hong Kong) Limited
Au Chi Chung Deret
Registered Business Valuer of
Hong Kong Business Valuation Forum
B.Sc., MHKIS, RPS (GP), MCIArb, MHKIArb, MCIREA

Note: Deret Au Chi Chung is a Registered Professional Surveyor (General Practice) and has over 26 years of experience in valuing properties in Hong Kong and the properties of private and state-owned enterprises in over 100 towns and cities in the PRC. He also possesses over 21 years of valuation experience in the Asia-Pacific Region. His name is included on the List of Property Valuers for Undertaking Valuations for Incorporation or Reference in Listing Particulars and Circulars and Valuations in Connection with Takeovers and Mergers set forth by the Hong Kong Institute of Surveyors.

CERTIFIED OPINION OF VALUE

Property interest to be acquired by the Group in the PRC

Property	Description and tenure	Particulars of occupancy	Market value in existing state as at 31 December, 2018 *(HK$)*
A parcel of land and a number of buildings and structures erected thereon, No. 28 Loudi Road, Loudi Village, Huanmadian Town, Ningjin County, Xingtai Shi, Hebei Province, the PRC.	The property comprises 26 buildings and structures erected on a parcel of land having a site area of approximately 157,182 sq. m. The buildings and structures, which were 1-6 storeys in height, have a total gross floor area of 129,503 sq. m. The buildings were completed in 2017. The property is held under the land use rights for a term from 30 December, 2018 to 30 December, 2068.	Apart from some storage area leased to a third party, the remaining portion of the property is currently occupied by Hebei Youlin Technology Company Limited (河北優林科技有限公司) for production, storage and office purposes. *(see Note 4)*	39,194,000

Notes:

1. Pursuant to a State-owned Development Land Use Rights Grant Contract (國有建設用地使用權出讓合同) dated 14 December, 2018 entered into between the State Land and Resources Bureau of Ningjin County (寧晉縣國土資源局) and Hebei Youlin Technology Company Limited (河北優林科技有限公司), the former party agreed to grant the latter party a land use rights of a parcel of land having a site area of 157,182 sq.m. for a term of 50 years for industrial use at a land premium of RMB25,060,000. As advised by the Company, the land premium was fully paid;

2. Pursuant to an Immovable Property Certificate (不動產權證) issued by the State Land and Resources Bureau of Ningjin County (寧晉縣國土資源局) on 7 January, 2019, Hebei Youlin Technology Company Limited (河北優林科技有限公司) was granted a land use rights for a term commencing from 30 December, 2018 to 30 December, 2068;

3. In valuing the buildings and structures of the property, we have not ascribed any commercial value since the Immovable Property Certificates (不動產權證) for the buildings were not available as at the valuation date. On the assumption of the aforesaid certificates would have been issued, the depreciated replacement cost of the buildings and structures should be HK$79,771,000;

4. Pursuant to a Lease Contract dated 20 March, 2018 made between Hebei Youlin Technology Company Limited (河北優林科技有限公司) and a third party, certain storage area of the property was let to the latter party for a term of one year commencing from 25 March, 2018 to 24 March, 2019 at an annual rent of RMB50,000;

5. Pursuant to a confirmation letter given by Hebei Youlin Technology Company Limited (河北優林科技有限公司), the storage area under the aforesaid Lease Contract has a lettable area of 4,563 sq.m.

6. In the course of our valuation, we have referred to the legal opinion given by the Company's PRC legal advisers – Jingtian & Gongcheng (北京競天公誠律師事務所), *inter alia*, that:

   (a) the Company is entitled to lawfully possess, use, derive income from, dispose (including but not limited to transfer, let and mortgage) the land of the property during the land use period; and

   (b) apart from the Lease Contract (see *Note 4*), the land of the property is not subject to any seizure, mortgage, the restriction of other right and the third party's interest.

*Set out below is the management discussion and analysis of the Target Company for the the period from 11 July 2016 (date of establishment) to 31 December 2016, the year ended 31 December 2017 and the nine months ended 30 September 2018 (the "**Relevant Periods**").*

MANAGEMENT ANALYSIS OF THE TARGET COMPANY

Business Review

The Target Company is located in Ningjin County, Hebei Province, the PRC and is primarily engaged in the processing and sale of wooden structures, wooden panels and wooden furniture. It is a high-tech wood processing enterprise as well as a technology-based small and medium enterprise in Hebei Province. The Target Company was established in July 2016. In 2016, it mainly carried out construction of plants and infrastructure, power supply of workshops, fire protection and equipment installation and commissioning. In 2017, the Target Company was principally engaged in the processing and manufacturing of wooden panels. In 2018, the products mix was adjusted according to market demand, mainly for the development and production of wooden doors and windows, wood structures and the processing of furniture, etc.

Financial Review

Revenue

For the period from 11 July 2016 to 31 December 2016, the year ended 31 December 2017 and for the nine months ended 30 September 2018, the Target Company recorded revenue of nil, approximately RMB3.3 million and approximately RMB76.3 million, respectively. The sales of wooden panels and the sales of wooden structures accounted for approximately 82.8% and 17.2% respectively of the total sales for the year ended 31 December 2017; the sales of wooden panels and the sales of wooden structures accounted for approximately 36.5% and 61.7% respectively of the total sales for the nine months ended 30 September 2018. The Target Company started its official operations in mid-2017, and achieved a significant increase in revenue in 2018 when compared to 2017, mainly due to the increase in sale of wooden panels and the production and sale of wooden structures products, especially the increase in the sales of wood structure products that have higher price.

Gross profit/(loss)

No gross profit had been recorded for the period from 11 July 2016 to 31 December 2016, as there was no sales revenue. For the year ended 31 December 2017, the Target Company recorded gross loss of approximately RMB0.1 million, mainly due to the fact that in 2017, the Target Company was exploring the market and seeking proper customers, thus only a small amount of products was sold during the year which led to the inability of the revenue to cover the substantial costs. For the nine months ended 30 September 2018, it recorded gross profit of approximately RMB5.0 million, mainly by reason of the increase in the sale of wooden structures which has higher gross profit margin compared to wooden panels.

Selling expenses

For the period from 11 July 2016 to 31 December 2016, the year ended 31 December 2017 and for the nine months ended 30 September 2018, the selling expenses amounted to approximately RMB0.4 million, approximately RMB0.4 million and approximately RMB0.2 million, respectively.

Loss for the year/period

For the period from 11 July 2016 to 31 December 2016, the year ended 31 December 2017 and for the nine months ended 30 September 2018, it recorded a total net loss of approximately RMB5.0 million, approximately RMB13.4 million and approximately RMB6.7 million, respectively. The loss recorded in 2016 was mainly due to the fact that the Target Company incurred preliminary expenses, administrative expenses and selling expenses at its inception while no revenue was generated in 2016. The loss in 2017 was mainly due to the gross loss recorded because of high costs in the early operation stage as well as the payment of administrative expenses, selling expenses and finance costs. In 2018, the Target Company suffered loss despite that it recorded gross profit, as the gross profit margin was merely approximately 6.6% and the selling prices were not raised significantly in an attempt to increase its market share as soon as possible, resulting in administrative expenses, selling expenses and finance costs being not fully covered.

Liquidity, financial resources and capital structure

Liquidity

As at 31 December 2016, the Target Company's current assets and current liabilities amounted to approximately RMB13.4 million and RMB23.1 million, respectively.

As at 31 December 2017, the Target Company's current assets and current liabilities amounted to approximately RMB84.1 million and RMB192.0 million, respectively.

As at 30 September 2018, the Target Company's current assets and current liabilities amounted to approximately RMB31.0 million and RMB67.3 million, respectively.

Financial resources

As at 31 December 2016, the Target Company had cash and bank balance in aggregate of approximately RMB2.3 million; and its trade receivables amounted to approximately RMB0.6 million.

As at 31 December 2017, the Target Company had cash and bank balance in aggregate of approximately RMB0.3 million; and its trade receivables were nil.

As at 30 September 2018, the Target Company had cash and bank balance in aggregate of approximately RMB0.3 million; and its trade receivables amounted to approximately RMB39,000.

Capital structure

The Target Company's total equity amounted to approximately RMB45.0 million, RMB31.5 million and RMB24.8 million as at 31 December 2016, 2017 and 30 September 2018, respectively. The major reason for the decline of the total equity from 2016 to 2018 was due to the continuous records of net loss during the period from 2016 to 2018.

Gearing ratio

The Target Company's gearing ratio is calculated by dividing total interest-bearing debts by total equity as at the end of the financial year or period. The Target Company's gearing ratio amounted to 1.1 times, 1.9 times and 3.6 times as at 31 December 2016, 2017 and 30 September 2018, respectively. The increase in gearing ratio from 2016 to 2018 was due to the combined effect of the decline in total equity and the increase in borrowings as a result of the continuous records of net loss during the period from 2016 to 2018.

Charges on assets

The Target Company had no charges on assets as at 31 December 2016, 2017 and 30 September 2018, respectively.

Contingent liabilities

There were no significant contingent liabilities for the Target Company as at 31 December 2016, 2017 and 30 September 2018, respectively.

Foreign exchange exposure

The Target Company was not exposed to foreign exchange risks as both of its revenue and costs were denominated in RMB.

Employees and remuneration policies

As at 31 December 2016, 2017 and 30 September 2018, the Target Company had 70, 74 and 110 employees, respectively. The employees' compensation package generally consists of salary, discretionary bonus and social insurance benefits. For the period from 11 July 2016 to 31 December 2016, the year ended 31 December 2017 and the nine months ended 30 September 2018, the Target Company's staff costs were approximately RMB2.8 million, RMB3.8 million and RMB3.8 million, respectively.

Future Plans

The long-term plan of the Target Company is to adjust its main product mix towards wooden structures and related wooden products based on its operational experience in the past two years and making reference to the market performance of various products.

1. RESPONSIBILITY STATEMENT

This circular, for which the Directors collectively and individually accept full responsibility, includes particulars given in compliance with 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 circular 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 circular misleading.

2. DISCLOSURE OF INTERESTS

(i) Interests of Directors

Save as disclosed below, as at the Latest Practicable Date, none of the Directors or chief executives of the Company had interest in any securities of the Company or any of its associated corporations (within the meaning of Part XV of the SFO) which are required (a) to be notified to the Company and the Stock Exchange pursuant to 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 (b) pursuant to section 352 of the SFO, to be entered in the register referred to therein; or (c) pursuant to Rules 5.46 to 5.67 of the GEM Listing Rules relating to securities transactions by the Directors to be notified to the Company and the Stock Exchange:

Long position in the Shares

Name	Capacity and nature of interest	Number of Shares held	Percentage of the Company's issued share capital
Ms. Sun Xue Song	Beneficial owner	123,041,695	56.25%
Mr. Xue Zhao Qiang	Beneficial owner	30,760,425	14.06%

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

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

(ii) Interests of Substantial Shareholders and other persons

So far as was known to any Directors or chief executives of the Company, as at the Latest Practicable Date, there were no persons or companies (other than the interests as disclosed above in respect of the Directors) who had equity interests or short positions in the shares or underlying shares of the Company which would fall to be disclosed under Divisions 2 and 3 of Part XV of the SFO; or who were deemed to be directly or indirectly interested in 10% or more of the nominal value of any class of share capital of the Company carrying rights to vote in all circumstances at general meetings of the Company; or who were shareholders of the Company as recorded in the register maintained under section 336 of the SFO.

3. MATERIAL CONTRACTS

Save as disclosed below, no contracts (not being contracts in the ordinary course of business of the Group) have been entered into by members of the Enlarged Group within two years immediately preceding the Latest Practicable Date which are or may be material:

1. the sale and purchase agreement dated 31 July 2018 entered into between Hebei Jiapin Trading Limited*（河北迦品貿易有限公司）and Shijiazhuang Yonghe Property Development Company Limited*（石家莊雍和房地產開發有限公司）for the acquisition of the building No. 3 of Mancheng Project situated at 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）;

2. the supplemental agreement dated 31 August 2018 entered into between Hebei Jiapin Trading Limited*（河北迦品貿易有限公司）and Shijiazhuang Yonghe Property Development Company Limited*（石家莊雍和房地產開發有限公司）in relation to (1) above to amend certain terms and conditions as stated in the announcement of the Company dated 31 August 2018;

3. the second supplemental agreement dated 10 September 2018 entered into between Hebei Jiapin Trading Limited*（河北迦品貿易有限公司）and Shijiazhuang Yonghe Property Development Company Limited*（石家莊雍和房地產開發有限公司）in relation to (1) above to amend certain terms and conditions as stated in the announcement of the Company dated 10 September 2018;

4. the Equity Transfer Agreement; and

5. the Supplemental Agreement.

4. DIRECTORS' SERVICE CONTRACTS

As at the Latest Practicable Date, none of the Directors had any existing or proposed service contract with any member of the Group (excluding contracts expiring or determinable by the employer within one year without payment of compensation other than statutory compensation).

5. EXPERTS AND CONSENTS

The following are the qualifications of the experts who have been named in this circular or have given opinions, letter or advice contained in this circular:

Name	Qualification
KPMG	Certified Public Accountants
Castores Magi Asia Limited	Professional valuer
Castores Magi (Hong Kong) Limited	Professional valuer
Jingtian & Gongcheng	PRC legal advisers

Each of the above experts has given and has not withdrawn its written consent to the issue of this circular with the inclusion herein of its letter and/or reference to its name, in the form and context in which they appear.

As at the Latest Practicable Date, each of the above experts was not beneficially interested in the share capital of any member of the Group nor had any right, whether legally enforceable or not, to subscribe for or to nominate persons to subscribe for securities in any member of the Group, nor did it have any interest, either directly or indirectly, in the assets which have been acquired or disposed of by or leased to any members of the Group since 31 March 2018, being the date to which the latest published audited consolidated financial statements of the Group were made up.

6. LITIGATION

No member of the Group was engaged in any litigation or arbitration of material importance and there was no litigation or claim of material importance known to the Directors to be pending or threatened against any member of the Group.

7. COMPETING INTERESTS

To the best knowledge of the Directors, as at the Latest Practicable Date, none of the Directors, controlling shareholder (as defined under the GEM Listing Rules) of the Company or their respective close associates had any interests in a business, which competes or is likely to compete either directly or indirectly with the business of the Group.

8. DIRECTORS' INTERESTS IN CONTRACTS OR ARRANGEMENTS

None of the Directors was materially interested in any contract or arrangement subsisting as at the Latest Practicable Date which is significant in relation to the business of the Group, nor had any Director had any direct or indirect interests in any assets which have been acquired or disposed of by or leased to, or are proposed to be acquired or disposed of by or leased to, any member of the Group since 31 March 2018, being the date to which the latest published audited consolidated financial statements of the Group were made up.

9. GENERAL

(1) The registered office of the Company is at Cricket Square, Hutchins Drive, P.O. Box 2681, Grand Cayman KY1-1111, Cayman Islands.

(2) The head office and principal place of business of the Company in Hong Kong is at Suites 2524-25, 25/F., Sun Hung Kai Centre, 30 Harbour Road, Wanchai, Hong Kong.

(3) The company secretary of the Company is Mr. Chan Yuk Hiu, Taylor, who is a member of the Hong Kong Institute of Certified Public Accountants.

(4) The compliance officer of the Company is Ms. Sun Xue Song and her biographical details and professional qualifications are set out on page 9 of the annual report of the Company for the year ended 31 March 2018 published on 28 June 2018.

(5) The Company's branch share registrar and transfer office in Hong Kong is Tricor Investor Services Limited, Level 22, Hopewell Centre, 183 Queen's Road East, Hong Kong.

(6) The English text of this circular shall prevail over the Chinese text.

10. AUDIT COMMITTEE

The Company established an audit committee (the "**Audit Committee**") with written terms of reference in accordance with Rules 5.28 to 5.33 of the GEM Listing Rules. The Audit Committee members as at the date of this circular are Mr. Wang Wei, Ms. Dong Ping and Mr. Zhu Da, with Mr. Zhu Da as the chairman. They are the independent non-executive Directors of the Company. The Audit Committee's principal duties are to review and supervise the financial reporting process and internal control procedures of the Group.

Biographical information of each member of the Audit Committee is set out below:

Mr. Wang Wei ("Mr. Wang")

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

Ms. Dong Ping ("Ms. Dong")

Ms. Dong, aged 62, was appointed as an independent non-executive Director on 12 August 2016. She completed a three-year professional course in English language in December 1979 in Jiangxi Normal College (presently known as Jiangxi Normal University) (江西師範大學)("Jiangxi Normal University"). Ms. Dong obtained a certificate of study at the Beijing English Language Centre of the Institute of International Economic Management in cooperation with the University of California at Los Angeles China Exchange Program in April 1984. She had completed a course of instruction in Enterprise Management Development Programme in November 1992 which was provided by the British Government as part of its Technical Co-operation Training arrangements. She completed a postgraduate course at the University of Liaoning* (遼寧大學) in June 1999. In November 1997, she obtained a certificate of senior economist issued by the Department of Personnel of Guangdong Province* (廣東省人事廳). In June 2000, she obtained a master's degree in management from Dongbei Agricultural University* (東北農業大學). She also obtained a doctor of philosophy in economic studies at the Zhongnan University of Economics and Law* (中南財經政法大學) in June 2006. Prior to joining the Company, she worked in the finance department of Jiangxi Province International Trust Investment Company Limited* (江西省國際信託投資公司) until 1990. She then worked in Shenzhen Development Bank (深圳發展銀行) since 1990 and was promoted to vice manager of the international business department in March 1994. In August 2000, she joined the Shenzhen branch of China Everbright Bank (中國光大銀行) as vice president. She retired in 2012 and she currently does not hold any positions in any companies. Ms. Dong is the chairman of the remuneration committee of the Company and a member of the audit committee and nomination committee of the Company.

Mr. Zhu Da (“Mr. Zhu”)

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

11. DOCUMENTS AVAILABLE FOR INSPECTION

Copies of the following documents will be available for inspection during normal business hours (Saturdays and public holidays excepted) from 10:00 a.m. to 1:00 p.m. and from 2:00 p.m. to 5:00 p.m. at Suites 2524-25, 25/F., Sun Hung Kai Centre, 30 Harbour Road, Wanchai, Hong Kong for a period of 14 days from the date of this circular:

(1) the memorandum of association and articles of association of the Company;

(2) the annual reports of the Company for the years ended 31 March 2016, 2017 and 2018;

(3) the accountants’ report of the Target Company from the reporting accountants, KPMG, the text of which is set out in Appendix II to this circular;

(4) the report from the reporting accountants, KPMG, on unaudited pro forma financial information of the Enlarged Group, the text of which is set out in Appendix III to this circular;

(5) the valuation report from Castores Magi Asia Limited, the text of which is set out in Appendix IV to this circular;

(6) the property valuation report from Castores Magi (Hong Kong) Limited, the text of which is set out in Appendix V to this circular;

(7) the written consents referred to in the section headed "Experts and Consents" in this appendix;

(8) the material contracts referred to in the section headed "Material Contracts" in this appendix;

(9) the circular of the Company dated 11 September 2018 in relation to, among other things, the major and connected transaction in relation to the acquisition of property; and

(10) this circular.