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HONG WEI (ASIA) HOLDINGS COMPANY LIMITED
鴻偉（亞洲）控股有限公司

(Incorporated in Hong Kong with limited liability)

(Stock code: 8191)

ANNOUNCEMENT OF ANNUAL RESULTS FOR THE YEAR ENDED 31 DECEMBER 2017

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

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

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

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

FINANCIAL HIGHLIGHTS

For the year ended 31 December 2017, operating results of the Group were as follows:

–Revenue for the year ended 31 December 2017 amounted to approximately HK$491.4 million, representing an increase of 7.3% from approximately HK$457.9 million recorded in 2016.

–Gross profit for the year ended 31 December 2017 amounted to approximately HK$107.7 million, representing a decrease of 3.9% from approximately HK$112.1 million recorded in 2016.

–Profit attributable to owners of the Company for the year ended 31 December 2017 amounted to approximately HK$30.3 million, representing a decrease of 25.1% from approximately HK$40.5 million recorded in 2016.

–Total comprehensive income attributable to owners of the Company for the year ended 31 December 2017 amounted to approximately HK$57.2 million, representing an increase of approximately 228.3% from approximately HK$17.4 million recorded in 2016.

–The Board does not recommend the payment of a final dividend for the year ended 31 December 2017 (2016: nil).

ANNUAL RESULTS

The board of Directors (the "**Board**") is pleased to announce the audited consolidated results of the Company and its subsidiaries (collectively, the "**Group**") for the financial year ended 31 December 2017 together with the comparative audited figures for the financial year ended 31 December 2016. The Group's financial results have been audited by Messrs. Graham H.Y. Chan & Co.

CONSOLIDATED STATEMENT OF PROFIT OR LOSS AND OTHER COMPREHENSIVE INCOME

For the year ended 31 December 2017

	Notes	**2017** **HK$'000**	2016 *HK$'000*
Revenue	*4*	**491,428**	457,931
Cost of sales		**(383,710)**	(345,823)
Gross profit		**107,718**	112,108
Other income	*6*	**21,380**	20,456
Other (losses)/gains, net	*7*	**(2,263)**	2,167
Gain arising from agricultural produce at fair value less costs to sell at the point of harvest	*15*	**1,421**	–
Net gain arising from changes in fair values less costs to sell of biological assets	*15*	**5,477**	5,212
Selling and distribution expenses		**(41,342)**	(40,230)
Administration expenses		**(36,771)**	(34,138)
Finance costs	*8*	**(25,325)**	(25,122)
Profit before tax		**30,295**	40,453
Income tax expense	*9*	**–**	–
Profit for the year attributable to owners of the Company	*10*	**30,295**	40,453
Other comprehensive income/(expenses) which will not be reclassified subsequently to profit or loss:			
Exchange differences arising on translation to presentation currency		**26,879**	(23,036)
Other comprehensive income/(expenses) for the year		**26,879**	(23,036)
Total comprehensive income for the year		**57,174**	17,417
Total comprehensive income attributable to owners of the Company		**57,174**	17,417
Basic and diluted earnings per share, in HK cents	*11*	**3.64**	4.86

CONSOLIDATED STATEMENT OF FINANCIAL POSITION

As at 31 December 2017

	Notes	2017 HK$'000	2016 HK$'000
NON-CURRENT ASSETS			
Property, plant and equipment	*13*	**364,375**	339,308
Prepaid lease payments	*14*	**48,558**	40,607
Biological assets	*15*	**127,855**	90,559
Intangible assets	*16*	**3,150**	3,458
Deferred tax assets	*9*	**2,532**	2,366
Prepayments for acquisition of property, plant and equipment	*19*	**8,168**	–
Prepayments for acquisition of forestry rights of the forestlands	*19*	**28,233**	46,679
Pledged bank deposits	*20*	**9,472**	17,328
		592,343	540,305
CURRENT ASSETS			
Inventories	*17*	**105,121**	96,689
Trade and bills receivables	*18*	**62,633**	49,730
Deposits, prepayments and other receivables	*19*	**42,783**	52,317
Biological assets	*15*	**22,402**	3,011
Bank balances and cash	*20*	**27,494**	11,955
		260,433	213,702
CURRENT LIABILITIES			
Trade payables	*21*	**28,523**	16,891
Other payables and accrued expenses	*22*	**27,966**	28,375
Bank and other borrowings, due within one year	*23*	**208,971**	198,783
Deferred income		**4,382**	2,977
Bonds	*24*	**92,385**	16,384
		362,227	263,410
NET CURRENT LIABILITIES		**(101,794)**	(49,708)
TOTAL ASSETS LESS CURRENT LIABILITIES		**490,549**	490,597

	Notes	**2017** **HK$'000**	2016 *HK$'000*
NON-CURRENT LIABILITIES			
Deferred tax liabilities	*9*	**587**	548
Bank and other borrowings, due after one year	*23*	**53,909**	114,428
Deferred income		**35,791**	32,533
		90,287	147,509
NET ASSETS		**400,262**	343,088
CAPITAL AND RESERVES			
Share capital	*25*	**253,928**	253,928
Reserves		**146,334**	89,160
EQUITY ATTRIBUTABLE TO OWNERS OF THE COMPANY AND TOTAL EQUITY		**400,262**	343,088

CONSOLIDATED STATEMENT OF CHANGES IN EQUITY

For the year ended 31 December 2017

	Share capital	Capital reserve	Statutory reserve	Foreign currency translation reserve	Retained profits	Total
	HK$'000	*HK$'000*	*HK$'000*	*HK$'000*	*HK$'000*	*HK$'000*
Balance at 1 January 2016	253,928	(16,968)	13,251	(5,676)	81,136	325,671
Profit for the year	–	–	–	–	40,453	40,453
Other comprehensive loss for the year:						
Exchange differences arising on translation to presentation currency	–	–	–	(23,036)	–	(23,036)
Total comprehensive (loss)/income for the year	–	–	–	(23,036)	40,453	17,417
Transfer to statutory reserve	–	–	4,760	–	(4,760)	–
Balance at 31 December 2016 and 1 January 2017	253,928	(16,968)	18,011	(28,712)	116,829	343,088
Profit for the year	**–**	**–**	**–**	**–**	**30,295**	**30,295**
Other comprehensive income for the year:						
Exchange differences arising on translation to presentation currency	**–**	**–**	**–**	**26,879**	**–**	**26,879**
Total comprehensive income for the year	**–**	**–**	**–**	**26,879**	**30,295**	**57,174**
Transfer to statutory reserve	**–**	**–**	**4,830**	**–**	**(4,830)**	**–**
Balance at 31 December 2017	**253,928**	**(16,968)**	**22,841**	**(1,833)**	**142,294**	**400,262**

CONSOLIDATED STATEMENT OF CASH FLOWS

For the year ended 31 December 2017

	Notes	2017 HK$'000	2016 HK$'000
Cash flows from operating activities			
Profit before tax		**30,295**	40,453
Adjustments for:			
Interest income	*6*	**(129)**	(304)
Net foreign exchange losses	*7*	**258**	209
Loss on disposal of forestry rights of the forestlands	*7*	**2,005**	–
Write back of other payables and accrued expenses	*7*	**–**	(3,995)
Net gain arising from changes in fair values less costs to sell of biological assets	*15*	**(5,477)**	(5,212)
Finance costs	*8*	**25,325**	25,122
Depreciation and amortisation	*10*	**28,207**	25,776
Impairment loss on trade receivables	*7*	**–**	69
Loss on disposal of an intangible asset	*7*	**–**	1,550
Release of government grants		**(3,210)**	(2,436)
		77,274	81,232
Movements in working capital:			
(Increase)/decrease in trade and bills receivables		**(9,100)**	23,841
Decrease in deposits, prepayments and other receivables		**5,433**	123,271
Increase in inventories		**(1,597)**	(54,183)
Increase/(decrease) in trade payable		**10,097**	(27,293)
Decrease in other payables and accrued expenses		**(2,144)**	(14,167)
Net cash generated from operating activities		**79,963**	132,701

	Notes	**2017**	2016
		HK$'000	*HK$'000*
Cash flows from investing activities			
Payments for property, plant and equipment		**(24,740)**	(21,002)
Prepayments for acquisition of property, plant and equipment		**(8,039)**	–
Payments made for acquisition of forestry rights of the forestlands	*19(ii)*	**(42,287)**	(166,053)
Proceeds received from disposal of an intangible asset		**7,150**	350
Placement of pledged bank deposits		**(2,844)**	(17,770)
Placement of a fixed bank deposit with original maturity over 3 months		–	(3,603)
Withdrawal of pledged bank deposits		**11,802**	15,249
Proceeds received from disposal of forestry rights of the forestlands		**10,795**	–
Proceeds received from sale of property, plant and equipment		–	7,290
Interest received		**26**	304
Government grants received		**5,259**	16,138
Net cash used in investing activities		**(42,878)**	(169,097)
Cash flows from financing activities			
Amounts advanced from a director of the Company		**18,675**	–
Amounts repaid to a director of the Company		**(18,735)**	(1,020)
Net proceeds from bank and other borrowings		**172,012**	261,433
Repayment of bank and other borrowings		**(251,117)**	(235,399)
Net proceeds from bonds		**89,161**	–
Repayment of bonds		**(17,000)**	–
Repayment of puttable notes		–	(23,487)
Interest paid		**(15,367)**	(24,019)
Net cash used in financing activities		**(22,371)**	(22,492)
Net increase/(decrease) in cash and cash equivalents		**14,714**	(58,888)
Cash and cash equivalents at the beginning of the year		**8,601**	68,442
Effect of foreign exchange rate changes		**517**	(953)
Cash and cash equivalents at the end of the year	*20*	**23,832**	8,601

1. GENERAL INFORMATION

Hong Wei (Asia) Holdings Company Limited (the "Company") was incorporated with limited liability in Hong Kong on 28 May 2012. Its ultimate controlling party and chairman of the Company is Mr. Wong Cheung Lok ("Mr. Wong"), who owned 51.65% direct interest of the Company as at 31 December 2017. The address of the Company's registered office and its principal place of business is Unit 504, 5/F, Tower 2, Admiralty Centre, 18 Harcourt Road, Admiralty, Hong Kong.

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

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

The financial information relating to each of the years ended 31 December 2017 ("FY2017") and 2016 ("FY2016") included in this preliminary announcement of annual results 2017 do not constitute the Company's statutory annual consolidated financial statements for FY2017 and FY2016 but is derived from those financial statements. Further information relating to these statutory financial statements required to be disclosed in accordance with section 436 of the Hong Kong Companies Ordinance is as follows: The Company has delivered financial statements for the year ended 31 December 2016 to the Registrar of Companies as required by section 662(3) of, and Part 3 of Schedule 6 to, the Hong Kong Companies Ordinance and will deliver the financial statements for the year ended 31 December 2017 in due course. The Company's auditor has reported on the financial statements of the Group for both years. The auditor's report was unqualified, did not include a reference to any matters to which the auditor drew attention by way of emphasis without qualifying its report, and did not contain a statement under section 406(2), 407(2) or (3) of the Hong Kong Companies Ordinance.

2. BASIS OF PREPARATION AND ACCOUNTING POLICIES

As at 31 December 2017, the Group's current liabilities exceeded its current assets by approximately HK$101,794,000 (2016: HK$49,708,000). Its current liabilities, including current bank and other borrowings of approximately HK$208,971,000 (2016: HK$198,783,000) and a bond of approximately HK$92,385,000 (2016: HK$16,384,000), exceeded its cash and cash equivalents of approximately HK$23,832,000 (2016: HK$8,601,000).

The directors of the Company prepared a working capital forecast for a period of 12 months ending on 31 December 2018, which have taken into the consideration of the Group's financial performance, working capital, liquidity position, available facilities from its principal bankers, financial institutions and a director, and the stability of the Group's business, operations and relationships with its suppliers, bankers and financial institutions. As set out in note 26 to this announcement, subsequent to the end of the reporting period, Mr. Wong agreed to provide a revolving facility of HK$55,000,000 to the Company to meet its financial obligation pursuant to a facility letter dated 22 March 2018 (the "Facility Letter"). In view of this, the directors are of the view that the Group will be able to meet in full its financial obligations as they fall due for the foreseeable future.

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

The Group has applied the following amendments to HKFRSs issued by the Hong Kong Institute of Certified Public Accountants (the “HKICPA”) for the first time in the current year:

Amendments to HKAS 7	Disclosure Initiative
Amendments to HKAS 12	Recognition of Deferred Tax Assets for Unrealised Losses
Amendments to HKFRS 12 as part of the Annual Improvements to HKFRS 2014–2016 Cycle	Disclosure of Interest in Other Entities: Clarification of the Scope of HKFRS 12

The application of the amendments to HKFRSs in the current year has had no material impact on the Group’s financial performance and positions for the current and prior years and/or on the disclosures set out in these consolidated financial statements, except for the application of amendments to HKAS 7 “Disclosure Initiative”.

The Group has applied the amendments to HKAS 7 for the first time in the current year. The amendments require an entity to provide disclosures that enable users of financial statements to evaluate changes in liabilities arising from financing activities, including both cash and non-cash changes. In addition, the amendments also require disclosures on changes in financial assets if cash flows from those financial assets were, or future cash flows will be, included in cash flows from financing activities.

Specifically, the amendments require the following to be disclosed: (i) changes from financing cash flows; (ii) changes arising from obtaining or losing control of subsidiaries or other businesses; (iii) the effect of changes in foreign exchange rates; (iv) changes in fair values; and (v) other changes.

A reconciliation between the opening and closing balances of these items is provided in the consolidated financial statements. Consistent with the transition provisions of the amendments, the Group has not disclosed comparative information for the prior year. Apart from the additional disclosure, the application of these amendments has had no impact on the Group’s consolidated financial statements.

The Group has not early applied the following new and revised HKFRSs that have been issued but are not yet effective:

HKFRS 9	Financial Instruments[1]
HKFRS 15	Revenue from Contracts with Customers[1]
HKFRS 16	Leases[2]
HKFRS 17	Insurance Contracts[4]
HK(IFRIC) – Int 22	Foreign Currency Transactions and Advance Considerations[1]
HK(IFRIC) – Int 23	Uncertainty over Income Tax Treatments[2]
Amendments to HKFRS 2	Classification and Measurement of Share-based Payment Transactions[1]
Amendments to HKFRS 4	Applying HKFRS 9 Financial Instruments with HKFRS 4 Insurance Contracts[1]
Amendments to HKFRS 9	Prepayment Features with Negative Compensation[2]
Amendments to HKFRS 10 and HKAS 28 (2011)	Sale or Contribution of Assets between an Investor and its Associate or Joint Venture[3]
Amendments to HKFRS 15	Clarification to HKFRS 15 Revenue from Contracts with Customers[1]
Amendments to HKAS 28	Long-term Interests in Associates and Joint Ventures[2]
Amendments to HKFRS 1 and HKAS 28	As part of the Annual Improvements to HKFRS 2014–2016 Cycle[1]
Amendments to HKAS 40	Transfers of Investment Property[1]
Amendments to HKFRSs	Annual Improvements to HKFRSs 2015 – 2017 Cycle[2]

1 Effective for annual periods beginning on or after 1 January 2018
2 Effective for annual periods beginning on or after 1 January 2019
3 Effective for annual periods beginning on or after a date to be determined
4 Effective for annual periods beginning on or after 1 January 2021

Except for adoption of HKFRS 9, HKFRS 15 and HKFRS 16, the directors of the Company do not anticipate that the application of the new and revised HKFRSs above will have a material effect on the Group's consolidated financial statements.

HKFRS 9 Financial Instruments

HKFRS 9 introduces new requirements for the classification and measurement of financial assets, financial liabilities, general hedge accounting and impairment requirements for financial assets.

Key requirement of HKFRS 9 in relation to the impairment of financial assets is:

- HKFRS 9 requires an expected credits loss model, as opposed to an incurred credit loss model under HKAS 39. The expected credit loss model requires an entity to account for expected credit losses and changes in those expected credit losses at each reporting date to reflect changes in credit risk since initial recognition. In other words, it is no longer necessary for a credit event to have occurred before credit losses are recognised.

The directors of the Company anticipate that the application of the expected credit loss model of HKFRS 9 will result in earlier provision of credit losses which are not yet incurred in relation to the Group's financial assets measured at amortised costs and other items that subject to the impairment provisions upon application of HKFRS 9 by the Group. However, the directors of the Company do not anticipate that the application of the expected credit loss model of HKFRS 9 will have material impact to the opening retained profits at 1 January 2018.

HKFRS 15 Revenue from Contracts with Customers

HKFRS 15 was issued which establishes a single comprehensive model for entities to use in accounting for revenue arising from contracts with customers; HKFRS 15 will supersede the current revenue recognition guidance including HKAS 18 Revenue, HKAS 11 Construction Contracts and the related Interpretations when it becomes effective.

The core principle of HKFRS 15 is that an entity should recognise revenue to depict the transfer of promised goods or services to customers in an amount that reflects the consideration to which the entity expects to be entitled in exchange for those goods or services. Specially, the Standard introduces a 5-step approach to revenue recognition.

- Step 1: Identify the contract(s) with a customer
- Step 2: Identify the performance obligations in the contract
- Step 3: Determine the transaction price
- Step 4: Allocate the transaction price to the performance obligations in the contract
- Step 5: Recognise revenue when (or as) the entity satisfies a performance obligation

Under HKFRS 15, an entity recognises revenue when (or as) a performance obligation is satisfied, i.e, when 'control' of the goods or services underlying the particular performance obligation is transferred to the customer. Far more prescriptive guidance has been added in HKFRS 15 to deal with specific scenarios. Furthermore, extensive disclosures are required by HKFRS 15.

The directors of the Company anticipate that the application of HKFRS 15 in the future may result in more disclosures, however, the directors of the Company do not anticipate that the application of HKFRS 15 will have a material impact on the timing and amounts of revenue recognised in the respective reporting periods.

HKFRS 16 Leases

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

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

The right-of-use asset is initially measured at cost and subsequently measured at cost (subject to certain exceptions) less accumulated depreciation and impairment losses, adjusted for any remeasurement of the lease liability. The lease liability is initially measured at the present value of the lease payments that are not paid at that date. Subsequently, the lease liability is adjusted for interest and lease payments, as well as the impact of lease modifications, amongst others. For the classification of cash flows, the Group currently presents upfront prepaid lease payments as investing cash flows in relation to leasehold lands for owned use and those classified as investment properties while other operating lease payments are presents as operating cash flows. Under the HKFRS 16, lease payments in relation to lease liability will be allocated into a principal and an interest portion which will be presented as financing cash flows.

Under HKAS 17, the Group has already recognised prepaid lease payments for leasehold lands and forestlands where the Group is a lessee. The application of HKFRS 16 may result in potential changes in classification of these assets depending on whether the Group presents right-of-use assets separately or within the same line item at which the corresponding underlying assets would be presented if they were owned. In addition, as at 31 December 2017, the Group has non-cancellable operating lease commitments of approximately HK$929,000. A preliminary assessment indicates that the arrangement will meet the definition of a lease under HKFRS 16, and hence the Group will recognise a right-of-use asset and a corresponding liability in respect of the lease unless it qualifies for low value or short-term lease upon the adoption of HKFRS 16. However, it is not practicable to provide a reasonable estimate of the financial effect until the directors of the Company complete a detailed review.

In contrast to lessee accounting, HKFRS 16 substantially carries forward the lessor accounting requirements in HKAS 17, and continues to require a lessor to classify a lease either as an operating lease or a finance lease.

Furthermore, extensive disclosures are required by HKFRS 16.

4. REVENUE

Revenue represents the amounts received and receivable for sales of particleboards and timber woods. An analysis of revenue is as follows:

	2017	2016
	HK$'000	*HK$'000*
Sales of particleboards	**490,923**	457,931
Sales of timber woods	**505**	–
	491,428	457,931

5. SEGMENT INFORMATION

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

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

(i) Particleboards segment, principally engaged in manufacturing and selling of particleboards in the PRC; and

(ii) Forestry segment, principally engaged in timber logging, plantation and sales of timber woods and agricultural products in PRC.

For the financial year ended 31 December 2016, the Group had only one reportable segment, being manufacture and sales of particleboards in the PRC. Accordingly, no segment information other than entity-wide disclosures is presented for the year ended 31 December 2016.

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

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

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

–All assets are allocated to reportable segments other than pledged bank deposits, deferred tax assets and unallocated corporate assets; and

–All liabilities are allocated to reportable segments other than bank and other borrowings, bonds, deferred tax liabilities and unallocated corporate liabilities.

Operating segments

The following tables represent segment information of the Group provided to the Group's CODM for the year ended 31 December 2017.

For the year ended 31 December 2017

	Particleboards segment *HK$'000*	Forestry segment *HK$'000*	Total *HK$'000*
Segment revenue:			
Reportable segment revenue	**490,923**	**1,926**	**492,849**
Elimination of inter-segment revenue	**–**	**(1,421)**	**(1,421)**
Consolidated revenue	**490,923**	**505**	**491,428**
Segment results:			
Reportable segment results	**68,118**	**1,359**	**69,477**
Interest income *(note 6)*			**129**
Finance costs *(note 8)*			**(25,325)**
Unallocated corporate staff costs			**(2,886)**
Unallocated corporate expenses			**(11,100)**
Consolidated profit before tax			**30,295**
Other segment information			
Capital expenditures – allocated#	**32,252**	**42,279**	**74,531**
Capital expenditures – unallocated#			**3,266**
			77,797
Depreciation – allocated	**25,723**	**–**	**25,723**
Depreciation – unallocated			**421**
			26,144
Amortisation	**966**	**1,097**	**2,063**
Gain arising from agricultural produce at fair values less costs to sell at the point of harvest	**–**	**1,421**	**1,421**
Net gain arising from changes in fair values less costs to sell of biological assets	**–**	**5,477**	**5,477**
Loss on disposal of forestry rights of the forestlands *(note 7)*	**–**	**2,005**	**2,005**

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

As at 31 December 2017

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

Entity-wide disclosures

Geographical information

The Group's operation is located in the PRC and most of the revenue is generated from the PRC, the Middle East and other Asian countries as follows:

	2017 *HK$'000*	2016 *HK$'000*
Revenue from PRC	**479,638**	455,361
Revenue from other Asian countries	**11,619**	2,570
Revenue from the Middle East	**171**	–
	491,428	457,931

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

Information about major customers

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

	2017	2016
	HK$'000	*HK$'000*
Customer A	**267,460**	179,248

6.OTHER INCOME

	2017	2016
	HK$'000	*HK$'000*
Value added tax ("VAT") refund	**16,735**	17,130
Government grants*	**4,467**	2,831
Bank interest income	**129**	304
Others	**49**	191
	21,380	20,456

* The amount of HK$3,210,000 (2016: HK$2,436,000) represented financial subsidy released from deferred income for interest expenses incurred by the Group for its bank borrowings. The amount of HK$1,257,000 (2016: HK$395,000) have been received to provide immediate financial support to the Group with no unfulfilled conditions related to the subsidy.

7. OTHER (LOSSES)/GAINS, NET

	2017	2016
	HK$'000	*HK$'000*
Loss on disposal of forestry rights of the forestlands *(note)*	**(2,005)**	–
Net foreign exchange losses	**(258)**	(209)
Impairment loss on trade receivables	**–**	(69)
Written back of other payables and accrued expenses	**–**	3,995
Loss on disposal of an intangible assets	**–**	(1,550)
	(2,263)	2,167

Note: During the year ended 31 December 2017, the Group disposed several forestry rights of the forestlands situated in Ninhua County of Fujian Province in the PRC to individual third parties at costs for an aggregate consideration of approximately HK$10,795,000 (2016: HK$ nil). As a result, standing trees of the forestlands included in biological assets of approximately HK$11,300,000 (2016: HK$ nil) and prepaid forestlands lease payment of approximately HK$1,500,000 (2016: HK$ nil) have been disposed of and a loss on disposal of forestry rights of the forestlands of approximately HK$2,005,000 (2016: HK$ nil) was recognised. Details are set out in notes 14 and 15 below.

8. FINANCE COSTS

	2017	2016
	HK$'000	*HK$'000*
Interests on bank and other borrowings	**18,286**	18,004
Interests on puttable notes and bonds	**5,212**	4,219
Interests on unsecured loans	**821**	–
Interests on finance lease liabilities	**84**	–
Other finance costs	**922**	2,899
	25,325	25,122

9. INCOME TAX EXPENSE

9.1 Income tax recognised in profit or loss

No provision for Hong Kong Profits Tax has been made for the year ended 31 December 2017 as the Group had an allowable tax loss brought forward which exceeded its estimated assessable profit for that year. No provision for Hong Kong Profits Tax had been made for the year ended 31 December 2016 as the Group did not have assessable profits for that year.

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

Pursuant to the EIT Law and its implementation regulations, where an enterprise utilises the resources as listed in the Catalogue of Resources for Comprehensive Utilisation Entitling Enterprises to Income Tax Preferences ("資源綜合利用企業所得稅優惠目錄") as its major raw materials to make products which are not restricted or prohibited by the state and are consistent with the relevant state or industrial standards, only 90% of the income derived therefrom shall be accounted for as taxable income of the enterprise in that year (the "Tax Concessions"). During the year ended 31 December 2017 and 2016, Hongwei Renhua is entitled to such preferential policy and only 90% of the income of Hongwei Renhua from the sale of particleboards was regarded as taxable income.

According to the EIT law and Implementation Regulation of the EIT Law, enterprises that engage in qualified agricultural business are eligible for exemption from payment of enterprise income tax. During the year ended 31 December 2017 and 2016, the Group's two subsidiaries are engaged in qualifying agricultural business and therefore, the profit of them are entitled to exemption from payment of enterprise income tax (the "Tax Exemption").

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

	2017	2016
	HK$'000	*HK$'000*
Profit before tax	**30,295**	40,453
Tax at the statutory tax rate of 25%	**7,574**	10,113
Effect of different tax rates	**1,675**	1,438
Tax effect of income not taxable for tax purpose	**(1,205)**	(1,091)
Tax effect of expenses not deductible for tax purpose	**3,434**	3,055
Utilisation of tax loses previously not recognised	**(12)**	(1,938)
Tax effect of tax losses not recognised	**1,244**	638
Effect of Tax Concessions	**(12,258)**	(11,447)
Effect of Tax Exemption	**(452)**	(768)
Income tax expenses	**–**	–

9.2 Deferred taxation

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

	2017	2016
	HK$'000	*HK$'000*
Deferred tax assets	**2,532**	2,366
Deferred tax liabilities	**(587)**	(548)
	1,945	1,818

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

	Payroll payable and accrued expenses	Withholding tax on undistributed profit of PRC subsidiary	Depreciation of property, plant and equipment	Total
	HK$'000	*HK$'000*	*HK$'000*	*HK$'000*
At 1 January 2016	2,091	(585)	435	1,941
Charge to profit or loss	–	–	–	–
Effect of foreign currency exchange differences	(132)	37	(28)	(123)
At 31 December 2016 and 1 January 2017	1,959	(548)	407	1,818
Charge to profit or loss	–	–	–	–
Effect of foreign currency exchange differences	138	(39)	28	127
At 31 December 2017	**2,097**	**(587)**	**435**	**1,945**

As at 31 December 2017, the Group has unused tax losses of approximately HK$7,744,000 (2016: HK$2,463,000) available for offset against future profits. No deferred tax asset has been recognised in respect of such losses during the year ended 31 December 2017 and 2016 due to unpredictability of future profit streams. Other than the tax losses of approximately HK$49,000 (2016: HK$20,000) which may be carried forward indefinitely, other tax losses of approximately HK$7,695,000 (2016: HK$2,443,000) will expire according to EIT Law.

Under the EIT Law, starting from 1 January 2008, 10% withholding income tax is imposed on dividends declared in respect of profits earned in year 2008 onwards and distributed to foreign investors from companies established in the PRC. For investors incorporated in Hong Kong, a preferential rate of 5% will be applied where appropriate. Other than the PRC withholding income tax provided as above, no deferred taxation has been provided for the retained profits of HK$196,710,000 (2016: HK$140,048,000) as at 31 December 2017 which were derived from the PRC subsidiary since 1 January 2008, as the Group has set aside such sum for non-distributable purpose and is able to control the timing of the reversal of the temporary differences, and it is probable that the temporary differences will not reverse in the foreseeable future.

10. PROFIT FOR THE YEAR

Profit for the year has been arrived at after charging:

	Notes	2017 HK$'000	2016 HK$'000
Employee benefits expenses (include directors' emoluments)			
Salaries and other benefits		**14,327**	13,912
Contribution to retirement benefit schemes		**2,071**	2,026
Total employee benefit expenses		**16,398**	15,938
Depreciation of property, plant and equipment		**26,144**	23,895
Amortisation:			
– intangible assets	(i)	**532**	1,073
– release of prepaid land lease payments	(i)	**434**	438
– release of prepaid forestland lease payments	(i)	**1,097**	370
Cost of goods sold recognised as an expense		**383,710**	345,823
Auditor's remuneration			
– Provision in respect of current year		**1,658**	1,550
– Under-provision in respect of prior year		**–**	300
– Non-audit services		**1,460**	671
Operating lease payments		**347**	88
Donation		**2,444**	783
Research and development expenses		**–**	801
Professional fee for proposed major and connected acquisition terminated during the year, excluding auditor's remuneration	(ii)	**1,034**	–

Note:

(i) The amount was included in administrative expenses in the consolidated statement of profit or loss and other comprehensive income.

(ii) On 26 April 2017, the Company and Mr. Wong Kin Ching, son of Mr. Wong and Ms. Cheung Ngar Kwan ("Mrs. Wong"), entered into a termination agreement to terminate the proposed acquisition of a target company. The target company through its subsidiary is engaged into forestry management.

11. EARNINGS PER SHARE

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

Earnings

	2017	2016
	HK$'000	*HK$'000*
Profit for the year attributable to owners of the Company for the purpose of basic and diluted earnings per share	**30,295**	40,453

Number of shares

	2017	2016
	'000	*'000*
Weighted average number of ordinary shares for the purpose of basic and diluted earnings per share	**832,603**	832,603

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

12. DIVIDENDS

No dividend was paid or proposed for the year ended 31 December 2017 (2016: nil), nor has any dividend been proposed since the end of the reporting period.

13. PROPERTY, PLANT AND EQUIPMENT

	Buildings and leasehold improvement HK$'000	Plant and machinery HK$'000	Motor vehicles HK$'000	Furniture and equipment HK$'000	Construction in progress HK$'000	Total HK$'000
Cost						
Balance at 1 January 2016	104,461	285,507	2,899	3,086	10,402	406,355
Additions	20,666	2,919	106	14	8,515	32,220
Transfer	8,694	4,336	–	–	(13,030)	–
Exchange differences	(7,859)	(18,412)	(188)	(196)	(469)	(27,124)
Balance at 31 December 2016 and 1 January 2017	125,962	274,350	2,817	2,904	5,418	411,451
Additions	14,647	4,119	3,382	463	4,868	27,479
Transfer	3,767	3,634	–	–	(7,401)	–
Exchange differences	9,470	19,503	203	219	291	29,686
Balance at 31 December 2017	**153,846**	**301,606**	**6,402**	**3,586**	**3,176**	**468,616**
Accumulated depreciation and impairment						
Balance at 1 January 2016	(12,520)	(36,801)	(2,533)	(1,167)	–	(53,021)
Depreciation charge for the year	(5,384)	(18,109)	(133)	(269)	–	(23,895)
Exchange differences	1,020	3,096	167	490	–	4,773
Balance at 31 December 2016 and 1 January 2017	(16,884)	(51,814)	(2,499)	(946)	–	(72,143)
Depreciation charge for the year	(6,757)	(18,572)	(536)	(279)	–	(26,144)
Exchange differences	(1,420)	(4,278)	(180)	(76)	–	(5,954)
Balance at 31 December 2017	**(25,061)**	**(74,664)**	**(3,215)**	**(1,301)**	**–**	**(104,241)**
Carrying amount						
Balance at 31 December 2017	**128,785**	**226,942**	**3,187**	**2,285**	**3,176**	**364,375**
Balance at 31 December 2016	109,078	222,536	318	1,958	5,418	339,308

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

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

As at 31 December 2017, buildings with carrying amount of approximately HK$53,438,000 (2016: HK$55,297,000), plant and machinery with carrying amount of approximately HK$220,818,000 (2016: HK$222,536,000) and motor vehicle with carrying amount of approximately HK$2,239,000 (2016: HK$ nil) have been pledged to secure bank and other borrowings granted to the Group.

14. PREPAID LEASE PAYMENTS

	Prepaid land lease payments	**Prepaid forestlands lease payments**	**Total**
	HK$'000	*HK$'000*	*HK$'000*
At 1 January 2016	20,851	–	20,851
Additions for the year	–	24,556	24,556
Amortisation during the year	(438)	(370)	(808)
Exchange realignment	(1,304)	(1,297)	(2,601)
At 31 December 2016 and 1 January 2017	19,109	22,889	41,998
Additions for the year	–	8,010	8,010
Amortisation during the year	(434)	(1,097)	(1,531)
Disposal for the year	–	(1,500)	(1,500)
Exchange realignment	1,325	1,905	3,230
At 31 December 2017	**20,000**	**30,207**	**50,207**

	2017	2016
	HK$'000	*HK$'000*
Analysed for reporting purposes:		
Current assets, including in deposits, prepayments and other receivables *(note 19)*	**1,649**	1,391
Non-current assets	**48,558**	40,607
	50,207	41,998

Forestlands

As at 31 December 2017 and 2016, the Group's leasehold interests in forestlands are situated in Renhua County of Guangdong Province in the PRC and Qingliu County of Fujian Province in the PRC. As at 31 December 2016, the Group's leasehold interests in forestlands were also situated in Ninghua County of Fujian Province in the PRC, which have been disposed of during the year ended 31 December 2017.

As at 31 December 2017, the forestlands have leasehold land base of approximately 40,400 (2016:28,462) Chinese Mu ("mu") and have remaining lease terms ranging from 12 to 44 years (2016: 6 to 45 years). Usage of the Forestlands is regulated by the implementation regulations of the PRC Forest Law promulgated by the State Council of the PRC. Analysis of leasehold interests in forestlands by remaining lease terms is as follows:

	2017	2016
	HK$'000	*HK$'000*
Remaining lease terms falling within:		
Within 10 years	–	323
Over 10 years but less than 50 years	**30,207**	22,566
	30,207	22,889

Due to the enactment of the real estate title registration policy in 2016, all real estate titleship must be registered with the Bureau of Land and Resources ("國土資源局") for issuance of registered title certificate. As at the date of this announcement, registration of the title of forestry rights of the forestlands in Qingliu County has been completed and the relevant Forestry Right Certificates have been obtained while the registration of the title of forestry rights of the forestlands in Renhua County is still pending but the Group has obtained ownership confirmations from the Forestry Administration of the respective counties. Based on a legal opinion issued by a practicing PRC lawyer in previous year, the lawyer opined that the ownership of the forestry rights has been legally transferred to the Group though the registration with the Bureau of Land and Resources is yet to complete.

As at 31 December 2017, the carrying amount of prepaid forestlands lease payments of approximately HK$14,973,000 (2016: HK$6,656,000) had been successfully registered while the carrying amount of prepaid forestlands lease payments of approximately HK$15,234,000 (2016: HK$16,233,000) are still pending for registration.

During the year ended 31 December 2017, the Group completed the acquisition of forestry rights of forestlands with aggregate consideration of approximately HK $ 61,204,000 (2016: HK$117,867,000). The cost of prepaid forestlands lease payments represented the allocated consideration in the proportion to the relative fair values of leasehold interests in the forestlands and biological assets at initial recognition, with reference to the work performed by forestry consultants (the "Forestry Consultants") and LCH (Asia-Pacific) Surveyors Limited (the "Independent Valuers").

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

Leasehold lands

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

As at 31 December 2017, prepaid leasehold land lease payments with a carrying amount of approximately HK$20,000,000 (2016: HK$19,109,000) have been pledged to secure the banking facilities granted to the Group.

15. BIOLOGICAL ASSETS

(a) Nature of activities

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

The Group engaged the Forestry Consultants to perform physical counting on standing timber trees annually. As at 31 December 2017, the Forestry Consultants estimate that the Group's forestlands comprise standing timber trees with approximately 332,004 cubic meters (2016: 218,896 cubic meters).

As at 31 December 2017, the carrying amount of biological assets of approximately HK$119,034,000 (2016: HK$55,590,000) are attached to the forestlands which the corresponding forestry rights had been successfully registered while the carrying amount of biological assets of approximately HK$31,223,000 (2016: HK$37,980,000) are attached to the forestlands which the corresponding forestry rights are still pending for registration. Details are set out in note 14 above.

The Group is exposed to the following operational risks relating the biological assets:-

(i) Regulatory and environmental risks

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

(ii) Supply and demand risks

The Group's forestlands are maintained for the purpose of providing stable source of raw materials to the Group to produce particleboards for sale. Where possible the Group will align harvest volume to its production schedule so as to ensure continuous production of particleboards.

(iii) Climate and other natural risks

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

(b) Value of biological assets

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

	2017	2016
	HK$'000	*HK$'000*
Balance at beginning of the year	**93,570**	–
Additions during the year	**53,194**	93,311
Disposal during the year	**(11,300)**	–
Transfer to cost at the point of harvest	**(1,421)**	–
Net gain arising on initial recognition of biological assets at fair values less costs to sell	**11,349**	15,295
Net loss arising from changes in fair values less costs to sell of biological assets after initial recognition	**(4,451)**	(10,083)
Exchange realignment	**9,316**	(4,953)
Balance at end of the year	**150,257**	93,570
Analysed for reporting purposes:		
Current assets	**22,402**	3,011
Non-current assets	**127,855**	90,559
	150,257	93,570

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

During the year ended 31 December 2017, market approach was adopted for valuation of newly acquired biological assets amounting to approximately HK$43,143,000 at initial recognition as the Group's harvesting plan at the time being did not include the logging activities on those forestlands whose forestry rights were newly obtained before the end of June 2017, whereas income approach was adopted for valuation of newly acquired biological assets amounting to approximately HK$10,051,000 at initial recognition as the acquisition has been completed towards the end of the year which the Group at the time being was finalising the revised harvesting plan.

As at 31 December 2017, the Group includes all biological assets exist as at that day in its revised harvesting plan. Based on the revised harvesting plan, the Independent Valuers adopted income approach as the valuation methodology as at 31 December 2017 to determine combined value of the biological assets and the forestlands. Fair values of raw land are deducted from the combined value to arrive at the fair values less costs to sell of the Group's biological assets.

For the year ended 31 December 2016, market approach was adopted at initial recognition for all newly added biological assets as the Group did not have any harvesting plan at initial recognition. As at 31 December 2016, the Group had prepared harvesting plan and had submitted the application to the relevant government authority for the logging of timber trees and therefore, income approach was adopted as the valuation methodology of biological assets as at 31 December 2016.

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

16. INTANGIBLE ASSETS

	Development costs	Licenses	Distribution right	Total
	HK$'000	*HK$'000*	*HK$'000* *(note)*	*HK$'000*
Cost				
At 1 January 2016	3,372	1,022	6,000	10,394
Disposal	–	–	(6,000)	(6,000)
Effect of foreign currency exchange differences	(214)	(64)	–	(278)
At 31 December 2016 and 1 January 2017	3,158	958	–	4,116
Effect of foreign currency exchange differences	222	67	–	289
At 31 December 2017	**3,380**	**1,025**	**–**	**4,405**
Amortisation				
At 1 January 2016	(168)	(51)	(350)	(569)
Eliminated upon disposal	–	–	950	950
Charge for the year	(363)	(110)	(600)	(1,073)
Effect of foreign currency exchange differences	26	8	–	34
At 31 December 2016 and 1 January 2017	(505)	(153)	–	(658)
Charge for the year	(444)	(88)	–	(532)
Effect of foreign currency exchange differences	(51)	(14)	–	(65)
At 31 December 2017	**(1,000)**	**(255)**	**–**	**(1,255)**
Carrying values				
At 31 December 2017	**2,380**	**770**	**–**	**3,150**
At 31 December 2016	2,653	805	–	3,458

Note:

During the year ended 31 December 2016, the Company and an independent third party entered into a transfer agreement pursuant to which the Company agreed to transfer the distribution right of sports car "Gumpert Apollo" and the prepayment made to the supplier to the independent third party with considerations of HK$3,500,000 and HK$4,000,000, respectively. Among the total consideration, the Company received HK$350,000 during the year ended 31 December 2016 and the remaining balance of HK$7,150,000 was recognised as "deposits, prepayments and other receivables" as at 31 December 2016, which has been settled during the year ended 31 December 2017.

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

	Useful lives
Development costs	10 years
License	10 years
Distribution right	10 years

17. INVENTORIES

	2017	2016
	HK$'000	*HK$'000*
Raw materials	**83,106**	81,428
Work in progress	**3,489**	1,911
Finished goods	**18,526**	13,350
Total	**105,121**	96,689

As at 31 December 2017, all finished goods with carrying amount of approximately HK$18,526,000 (2016: HK$13,350,000) were pledged to a bank to secure the banking facilities granted by the bank.

18. TRADE AND BILLS RECEIVABLES

	2017	2016
	HK$'000	*HK$'000*
Trade receivables	**39,448**	41,596
Allowance for doubtful debts	**(418)**	(391)
	39,030	41,205
Bills receivables	**23,603**	8,525
	62,633	49,730

The Group's trading terms with its customers are mainly on open account terms, except for new customers, where payment in advance is normally required. The credit period is generally for a period up to 90 days (2016: 90 days). The Group seeks to maintain strict control over its outstanding receivables to minimise its credit risk. Overdue balances are regularly reviewed by senior management. Trade receivables are non-interest bearing and their carrying amounts approximate to their fair values.

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

	2017	2016
	HK$'000	*HK$'000*
Within three months	**39,009**	32,631
Over three months but within six months	**21**	3,799
Over six months	**–**	4,775
Total	**39,030**	41,205

The maturity period of bills receivable are within 6 months from the date the Group received the notes as an extended period to the original credit term. The following is an aged analysis of bills receivables presented based on the maturity date.

	2017	2016
	HK$'000	*HK$'000*
Within three months	**13,011**	3,520
Over three months but within six months	**10,592**	5,005
Total	**23,603**	8,525

Other than the following balances, there are no other customers with balances representing more than 10% of the total balance of trade and bills receivables in that year.

	2017	2016
	HK$'000	*HK$'000*
A	**23,651**	13,240
B	**N/A***	5,291
C	**7,718**	7,611
D	**9,092**	N/A*
Total	**40,461**	26,142

* The corresponding balance did not contribute over 10% of the total trade and bills receivables of the Group in that year.

Most of the trade receivables are neither past due nor impaired and have good repayment history in prior years. Included in the Group's trade receivables balance are debtors with aggregate carrying amount of approximately HK$482,000 (2016: HK$8,574,000) which are past due at the end of the reporting period for which the Group has not provided for impairment loss. The Group does not hold any collateral over these balances.

An aged analysis of trade receivables which are past due but not impaired, based on past due date, is as follows:

	2017	2016
	HK$'000	*HK$'000*
Within 3 months	**482**	3,422
Over 3 months	**–**	5,152
Total	**482**	8,574

Trade receivables that were past due but not impaired related to customers that have good track records with the Group. Management believes that no impairment allowance is necessary in respect of these balances as there has not been any significant change in credit quality and the balances are still considered fully recoverable. A substantial amount of which has been received after the end of the reporting period.

Movement in the allowance for doubtful debts is as follows:

	2017	2016
	HK$'000	*HK$'000*
Balance at beginning of year	**391**	347
Impairment loss recognised on trade receivables	**–**	69
Effect of foreign currency exchange differences	**27**	(25)
Balance at end of year	**418**	391

Included in the allowance for doubtful debts are individually impaired trade receivables with an aggregate balance of approximately HK$418,000 (2016: HK$391,000) which related to a customer that was in financial difficulty and the directors of the Company consider the recoverability of these debts is remote. The Group does not hold any collateral over these balances.

19. DEPOSITS, PREPAYMENTS AND OTHER RECEIVABLES

	2017	2016
	HK$'000	*HK$'000*
VAT recoverable	**16,191**	14,785
VAT refund	**2,427**	1,368
Payments in advance to suppliers *(note (i))*	**21,205**	24,228
Prepaid lease payments	**1,649**	1,391
Prepayments paid for acquisition of property, plant and equipment	**8,168**	–
Prepayments paid for acquisition of forestry rights of the forestlands *(note(ii))*	**28,233**	46,679
Receivable from disposal of an intangible asset	**–**	7,150
Others	**1,311**	3,395
	79,184	98,996
Analyses for reporting purposes:		
Current assets	**42,783**	52,317
Non-current assets	**36,401**	46,679
	79,184	98,996

Notes:

(i) As at 31 December 2017, included in payments in advance to suppliers are prepayments of approximately HK$17,346,000 (2016: HK$21,352,000) made to suppliers for securing wood supplies. Subsequent to the end of the reporting period and up to the date of this announcement, substantial amounts have been settled with delivery of raw materials.

(ii) During the year ended 31 December 2017, the Group has paid a total consideration of approximately RMB36,200,000 or equivalent to HK$42,287,000 (2016: RMB141,780,000 or equivalent to HK$166,053,000) for the acquisition of forestry rights of the forestlands, of which approximately RMB12,600,000 or equivalent to HK $ 14,517,000 (2016: RMB100,025,000 or equivalent to HK$117,867,000) has been completed during the year. The remaining balance of RMB23,600,000 or equivalent to HK$28,233,000 translated at year end rate of exchange (2016: RMB41,755,000 or equivalent to HK$46,679,000 at the year end rate of exchange) has been completed after the end of the reporting period.

20. BANK BALANCES AND CASH AND PLEDGED BANK DEPOSITS

	2017	2016
	HK$'000	*HK$'000*
Cash and cash equivalents	**23,832**	8,601
Unpledged fixed deposit with original maturity over 3 months	**3,662**	3,354
Pledged bank deposits	**9,472**	17,328
Bank balances and cash and pledged bank deposits	**36,966**	29,283
Analyses for reporting purposes:		
Current assets	**27,494**	11,955
Non-current assets	**9,472**	17,328
	36,966	29,283

As at 31 December 2017, the Group has unpledged bank deposits of approximately HK$24,464,000 (2016: HK$11,233,000) and pledged deposits of approximately HK$9,472,000 (2016: HK$17,328,000) in banks in the PRC, the remittance of which is subject to relevant rules and regulations of foreign exchange control promulgated by the PRC government.

As at 31 December 2017 and 2016, the pledged bank deposits were placed to secure the bank and other borrowings.

21. TRADE PAYABLES

		2017	2016
	Note	***HK$'000***	*HK$'000*
Trade payables	(i)	**28,523**	16,891

Note:

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

	2017	2016
	HK$'000	*HK$'000*
Within 3 months	**21,231**	9,244
Over 3 months but within 6 months	**6,478**	4,594
Over 6 months	**814**	3,053
	28,523	16,891

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

22. OTHER PAYABLES AND ACCRUED EXPENSES

	2017	2016
	HK$'000	*HK$'000*
Payables for acquisition of property, plant and equipment	**1,687**	3,214
Payroll payable	**5,340**	4,658
Accrued expenses	**14,791**	13,619
Receipts in advance from customers	**374**	3,453
Other tax payables	**4,983**	3,418
Others	**791**	13
	27,966	28,375

23. BANK AND OTHER BORROWINGS

		2017	2016
	Notes	***HK$'000***	*HK$'000*
Bank borrowings	(i)	**206,466**	253,572
Other borrowings	(ii)	**54,278**	59,639
Finance lease liability	(iii)	**2,136**	–
		262,880	313,211
Secured	(iv)	**240,872**	298,454
Unsecured and unguaranteed		**22,008**	14,757
		262,880	313,211
Less: amount included in current liabilities		**(208,971)**	(198,783)
Non-current portion		**53,909**	114,428

Notes:

(i) Other than bank borrowings with an aggregate carrying amount of approximately HK$83,376,000 (2016: HK$81,273,000) which bear fixed interest rate ranging from 5.09% to 7.18% (2016: 5.09% to 7.18%) per annum as at 31 December 2017, other bank borrowings with an aggregate carrying amount of approximately HK $ 123,090,000 (2016: HK$172,299,000) bear floating interest rates ranging from 2.62% to 6.88% (2016: 4.51% to 6.41%) per annum as at 31 December 2017.

The maturity analysis of bank borrowings is as follows:

	2017	2016
	HK$'000	*HK$'000*
Within one year	**184,329**	185,317
More than one year, but not exceeding two years	**22,137**	37,060
More than two years, but not exceeding five years	**–**	31,195
	206,466	253,572

As at 31 December 2017, other than a bank borrowing with carrying amount of approximately HK$11,959,000 is denominated in US Dollar ("USD"), other bank borrowings with aggregate carrying amounts of approximately HK$194,507,000 are denominated in RMB. As at 31 December 2016, all bank borrowings were denominated in RMB.

(ii) As at 31 December 2017, the Group's other borrowings represents a sales and leaseback operating lease arrangement with a financial institution, pursuant to which the Group transfer its equipments to the financial institution and the financial institution provides a loan to the Group of approximately HK$63,675,000, with tenure of three years from the date of advancement. At the end of the terms, the Group could pay a minimal amount of consideration to re-acquire the lease equipments. Such borrowing carries fixed interest rate of 9.68% per annum as at 31 December 2017 (2016: 9.68%). Other borrowings are denominated in RMB.

The maturity analysis of other borrowings is as follows:

	2017	2016
	HK$'000	*HK$'000*
Within one year	**24,108**	13,466
More than one year, but not exceeding two years	**30,170**	20,513
More than two years, but not exceeding five years	**–**	25,660
	54,278	59,639

(iii) During the year ended 31 December 2017, the Group has entered into a finance lease arrangement for the purchase of a motor vehicle. The lease period is for 5 years. At the end of the lease term, the Group had an option to purchase the leased motor vehicle at a price that was expected to be sufficiently lower than the fair value of the leased motor vehicle at the end of the lease. None of the lease included contingent rental. The finance lease liability is denominated in HKD.

Analysis of the finance lease liability is as follows:

	2017	2016
	HK$'000	*HK$'000*
Total minimum lease payments:		
Within one year	**589**	–
More than one year, but not exceeding two years	**589**	–
More than two years, but not exceeding five years	**1,080**	–
	2,258	–
Future finance charges on finance leases	**(122)**	–
	2,136	–
Present value of minimum lease payments:		
Within one year under current liabilities	**534**	–
More than one year, but not exceeding two years	**551**	–
More than two years, but not exceeding five years	**1,051**	–
	2,136	–

(iv) As at 31 December 2017, the Group's secured bank and other borrowings are secured by the following assets of the Group:

(a) the pledge of the Group's property, plant and equipment with an aggregate carrying amount of approximately HK$276,495,000 (2016: HK$277,833,000);

(b) the pledge of the Group's prepaid lease payments with an aggregate carrying amount of approximately HK$20,000,000 (2016: HK$19,109,000);

(c) the pledge of the Group's bank deposits with an aggregate carrying amount of approximately HK$9,472,000 (2016: HK$17,328,000); and

(d) the pledge of the Group's inventories with an aggregate carrying amount of approximately HK$18,526,000 (2016: HK$13,350,000).

24. BONDS

	Notes	2017 HK$'000	2016 HK$'000
Bonds:			
Unsecured but guaranteed	(i)	**–**	16,384
Secured and guaranteed	(ii)	**92,385**	–
		92,385	16,384

Notes:

(i) On 10 December 2015, the Company issued 15% coupon guaranteed bonds of HK$17,000,000 due on 9 December 2016 originally which bear an effective interest rate of 18% per annum and are secured by personal guarantee executed by Mr. Wong. The Company shall redeem the bonds on the maturity date at the redemption price which is the principal amount of the bond together with all interest accrued. Save for the following circumstances, the Company shall not redeem any of the bonds prior to the maturity date: 1) upon the occurrence of an event of default, and if so required by holder or holders of not less than 75% of the outstanding principal amount of the bonds in writing; 2) upon the guarantor ceasing to be beneficially interested in less than 30% of the shareholding interest in the Company; or (3) the Company issues any equity after the date of the instrument.

On 9 December 2016, each of the subscribers of the guaranteed bonds entered into a supplemental deed with the Company and Mr. Wong, pursuant to which, among other things, the maturity date of the guaranteed bonds is agreed to extend to one-and-a-half-year anniversary from the date of issuance of the bonds.

On 9 June 2017, each of the subscribers of the guaranteed bonds entered into a supplemental deed with the Company and Mr. Wong, pursuant to which, among other things, the maturity date of the guaranteed bonds is agreed to extend to second anniversary from the date of issuance of the bonds.

During the year ended 31 December 2017, the Company has redeemed the bonds before the maturity date at the redemption price which is the principal amount of the bond together with all interest accrued.

The unsecured but guaranteed bonds were denominated in HKD.

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

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

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

The secured and guaranteed bond is denominated in HKD.

25. SHARE CAPITAL

	Numbers of shares		Share capital	
	2017	2016	**2017**	2016
	'000	*'000*	***HK$'000***	*HK$'000*
Ordinary shares, issued and fully paid				
At 31 December	**832,603**	832,603	**253,928**	253,928

There is no movement in share capital between years.

26. EVENTS AFTER THE END OF THE REPORTING PERIOD

(a) On 1 January 2018, the Company and an independent third party (the "Lender") entered into a sales and leaseback arrangement, pursuant to which the Group transferred its machineries and equipments (the "Leased Assets") to the Lender at a consideration of RMB16,500,000 (or equivalent to approximately HK$19,824,000) and the Group leased back the Leased Assets for a period of 24 months from the date of transfer by paying monthly rental to the Lender. The total rental payment is approximately RMB17,806,000 (or equivalent to approximately HK$21,393,000). The Group has to pay a interest-free security deposit of RMB1,500,000 (or equivalent to approximately HK$1,802,000) to the Lender to secure the said arrangement. At the end of the terms of the arrangement, the Group could pay a minimal amount to repurchase the Leased Assets. As at the date of the report, the Leased Assets have not yet transferred to the Lender and the Group has not yet received the consideration.

(b) On 22 March 2018, Mr. Wong and the Company entered into the Facility Letter, pursuant to which Mr. Wong agreed to provide a revolving facility of HK$55,000,000 to the Company. Details are set out in note 2 above.

(c) Subsequent to the end of reporting period, the Group has completed the acquisition of forestry rights of the forestlands with aggregate initial considerations of approximately RMB23,600,000 (or equivalent to approximately HK$28,233,000 translated at year end rate of exchange).

MANAGEMENT DISCUSSIONS AND ANALYSIS

BUSINESS REVIEW

During the year ended 31 December 2017, the Group continued to engage in the manufacturing and selling of particleboards ("**Particleboards Segment**") and the timber logging, plantation and sales of wood and agricultural products in the People's Republic of China ("**PRC**") ("**Forestry Segment**").

Particleboards Segment

During the year ended 31 December 2017, the Group continued to engage in the manufacturing and selling of particleboards and our products were principally used by our customers in the manufacturing of furniture and fixtures, sport equipment, decoration and construction materials. For the year ended 31 December 2017, the Group's revenue for Particleboards Segment increased to approximately HK$490.9 million from approximately HK$457.9 million, representing an increase of approximately 7.2% as compared to the year ended 31 December 2016. The increase was mainly due to increase in the average unit selling price and sales volume of particleboard by approximately
4. 9% and 2.3% respectively during the year. However, the Group's gross profit decreased to approximately HK$107.7 million from approximately HK$112.1 million, representing a decrease of approximately 3.9% as compared to the year ended 31 December 2016. The Group's gross profit margin decreased to approximately 21.9% for the year ended 31 December 2017 from approximately 24.5% for the year ended 31 December 2016. The decrease was mainly attributable to the increase in average unit price of raw materials particularly in residual wood which offset the increase in average unit selling price of particleboards during the year. In order to ascertain and strengthen the stability of supply of raw materials and the costs level, the Group has commenced to carry out the forestry harvesting plan in certain of its forestlands in order to give it greater assurance on the supply of the raw materials. In 2017, the Group improved the performance of the production line and achieved a record high on annual total production volume of 341,000 cubic meters (2016: 323,000 cubic meters). This shows an improvement of the Group's annual production capacity which can cater for more demand for particleboards manufactured by the Group. Looking forward, in order to cope with the competitive market conditions, we will still be keen on maintaining our competitiveness by optimizing our customer base and continuous assessment on the key performance indicators.

Forestry Segment

During the year ended 31 December 2017, the Group generated revenue of approximately HK$0.5 million for the Forestry Segment. There was no income generating activity took place during the year ended 31 December 2016 and no revenue was recognised during the last reporting period. During the second half year of 2017, the Group has obtained harvesting approval from the relevant local authority for selected forestlands of by the Group. Subsequently, the Group has commenced harvesting process in December 2017 after the approval has been granted. Hence, the Group aims to have better control over the supply of raw materials and the costs of sales which strengthen competitiveness of the Group and its business sustainability when there is pressure on the gross profit margin due to rising costs.

FINANCIAL REVIEW

Revenue

During the year ended 31 December 2017, the Group's revenue for Particleboards Segment increased to approximately HK$490.9 million from approximately HK$457.9 million, representing an increase of approximately 7.2% as compared to the year ended 31 December 2016. The increase was mainly due to increase in the average unit selling price and sales volume of particleboard by approximately 4.9% and 2.3% respectively during the year.

During the year ended 31 December 2017, the Group generated revenue of approximately HK$0.5 million for the Forestry Segment. There was no income generating activity took place during the year ended 31 December 2016 and no revenue was recognised during the last reporting period.

Cost of Sales

During the year ended 31 December 2017, the Group's costs of sales increased to approximately HK$383.7 million from approximately HK$345.8 million, representing an increase of approximately 11.0% as compared to the year ended 31 December 2016. The increase was mainly attributed to the increase in average unit costs of raw materials particularly in residual wood from external suppliers by approximately 13.9% and costs of extra raw materials consumed on product improvement during the year.

Gross profit and margin

During the year ended 31 December 2017, the Group's gross profit decreased to approximately HK$107.7 million from approximately HK$112.1 million, representing a decrease of approximately 3.9% as compared to the year ended 31 December 2016. The Group's gross profit margin decreased to approximately 21.9% for the year ended 31 December 2017 from approximately 24.5% for the year ended 31 December 2016. The decrease was mainly attributable to the increase in average unit price of raw materials particularly in residual wood which offset the increase in average unit selling price of particleboards during the year.

Other income, other losses/gains net

During the year ended 31 December 2017, the Group's other income increased to approximately HK$21.4 million from approximately HK$20.5 million, representing an increase of approximately 4.5% as compared to the year ended 31 December 2016. The increase was mainly due to the increase in financial subsidy released from deferred income and other government grants to the Group during the year.

During the year ended 31 December 2017, there was other losses of net amounts incurred for approximately HK$2,263,000 (2016: gain HK$2,167,000) as detailed in note 7 to this announcement. Such losses was primarily due to the loss of approximately HK$2.0 million resulting from the disposal of forestry rights of the forestlands in Ninhua County of Fujian Province in 2017. Subsequent to such disposal, the Group purchased forestry rights of forestlands with larger size in Qingliu County of Fujian Province as the Group was given to understand that the forestlands in Qingliu County were in a better condition and can produce more trees on a per Mu basis.

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

During the year ended 31 December 2017, net gain arising from changes in fair value less costs to sell of biological assets amounting to approximately HK$5.5 million (2016: HK$5.2 million) has been recognised, representing an increase by approximately HK$0.3 million or 5.1% as compared to that for the year ended 31 December 2016

Selling and distribution expenses

During the year ended 31 December 2017, the Group's selling and distribution expenses increased to approximately HK$41.3 million from approximately HK$40.2 million, representing an increase of approximately 2.8% as compared to the year ended 31 December 2016.

Meanwhile, there was approximately HK$0.5 million incurred mainly for the subcontracting fee for harvesting activities performed by subcontractors applicable to the Forestry Segment during the year ended 31 December 2017 whereas none was incurred in the same period for 2016.

Administration expenses

During the year ended 31 December 2017, the Group's administration expenses increased to approximately HK$36.8 million from approximately HK$34.1 million, representing an increase of approximately 7.7% as compared to the year ended 31 December 2016. The increase was mainly attributed to the net effect of the increase in the recognition of legal and professional fee incurred in respect of the proposed major and connected acquisition of a target company controlled by Mr. Wong Kin Ching, son of Mr. and Mrs. Wong, first announced in January 2016 which terminated on 26 April 2017.

Meanwhile, there was approximately HK$3.2 million incurred mainly for the fertilizer fee, replantation cost and other maintenance expenses of forestland applicable to the Forestry Segment during the year ended 31 December 2017 whereas none was incurred in the same period for 2016.

Finance costs

During the year ended 31 December 2017, the Group's finance costs increased to approximately HK$25.3 million from approximately HK$25.1 million, representing an increase of approximately 0.8% as compared to the year ended 31 December 2016.

Profit attributable to owners of the Company

During the year ended 31 December 2017, the Group's profit attributable to owners of the Company decreased to approximately HK$30.3 million from approximately HK$40.5 million, representing a decrease of approximately 25.1% as compared to the year ended 31 December 2016. The decrease was mainly attributable to the decrease in gross profit, increase in administration expenses and the loss on disposal of forestry rights of the forestland in the current year.

Total comprehensive income attributable to owners of the Company

During the year ended 31 December 2017, the total comprehensive income attributable to owners of the Company increased to approximately HK$57.2 million from approximately HK$17.4 million, representing an increase of approximately 228.3% as compared to the year ended 31 December 2016. The increase was attributable to the increase in exchange gain arising from translation of RMB to HKD which is the presentation currency of the consolidated financial statements due to the appreciation of RMB, which set off with the decrease in operating profit during the year ended 31 December 2017.

FUTURE PLANS AND PROSPECT

Chinese economy outperformed market expectations in 2017. The economic recovery is confronted with numerous opportunities and challenges. The Group will continue to leverage on its business know-how and continue to strengthen its brand recognition and solidify its market position within the PRC; beginning from Renhua County in Guangdong Province, to the other regions of the PRC and even to overseas, ultimately making "Hongwei" the brand with a global reach in the particleboard industry. The group will continue to modify sales strategy and optimize its customer base and to maintain its market position as well as strengthening its brand building efforts. We intend to further enhance and grow our market share in the particleboard industry, in particular the premium quality particleboard segment.

The furniture industry and the building decoration industry are the two largest markets for particleboards. We expect that the particleboard industry will continue to benefit from PRC's growing furniture manufacturing industry and building decoration industry.

We will continue to place strong emphasis on environmental protection and social responsibility. The Group has established environmental protection procedures in order to reduce emissions, waste gases and wastewater. In 2017, the Group has established Safety and Environmental Control Committee to strengthen control of safety, environmental protection and fire services system. We will strive to improve the social and environmental performance and promote sustainable development and social responsibility.

LIQUIDITY, FINANCIAL RESOURCES AND CAPITAL STRUCTURE

As at 31 December 2017 and 2016, the Group had bank borrowings of approximately HK$206.5 million and HK$253.6 million respectively. Except for bank borrowings of approximately HK$12.0 million which is denominated in USD, other bank borrowings are dominated in RMB. Other than certain bank borrowings obtained which bear fixed interest rate ranging from 5.09% to 7.18% per annum, other bank borrowings bear floating interest rates ranging from 2.62% to 6.88% per annum as at 31 December 2017.

As at 31 December 2017 and 2016, the Group had other borrowings represents a sales and leaseback operating lease arrangement with a financial institution, which provides a loan to the Group with principal amounts of approximately HK$63.7 million with tenure of three years from the date of advancement. The carrying amount of such borrowings amounted to approximately HK$54.3 million as at 31 December 2017 (2016: HK$59.6 million), taking into account the effect of discounting.

During the year ended 31 December 2017, the Group has entered into a finance lease arrangement with a bank for the purchase of a motor vehicle. The lease period is for five years. The carrying amount of such finance lease amounted to approximately HK$2.1 million as at 31 December 2017 (2016: nil). Maturity profile of the bank and other borrowings is set out in note 23 to this announcement.

As at 31 December 2017 and 2016, the Group had net current liabilities of approximately HK$101.8 million and HK$49.7 million respectively. The current ratio of the Group, being its current assets over its current liabilities, decreased to 0.72x as at 31 December 2017 (2016: 0.81x). Such decrease was mainly due to the utilisation of the Group's working capital to acquire of forestry rights of the forestlands during the year ended 31 December 2017.

On 13 September 2017, the Company issued a 10% secured and guaranteed bond in the principal amount of HK$100,000,000 ("**2017 Sep Bond**") at a term of 364 days to an independent subscriber. The 2017 Sep Bond is guaranteed by personal guarantees provided by Mr. Wong and Mrs. Wong. Under the subscription agreement (as amended and supplemented from time to time), Mr. Wong and Mrs. Wong, among other things, undertake to the subscriber that as long as any bonds is outstanding, he or she shall not
(i) provide any guarantee in any form to anyone which will result in the aggregate amount of indebtedness (secured or unsecured) guaranteed by them exceeding HK$530,000,000; and (ii) pledge any of his or her existing specified properties and assets in Hong Kong to anyone. Details of which are set out in the announcement of the Company dated 13 September 2017.

The net proceeds from the 2017 Sep Bond amounted to approximately HK$89,161,000. Up to 31 December 2017, the net proceeds had been applied for the repayment of guaranteed bonds of HK$14,000,000 issued by the Company in 2015, repayment of bank and other borrowings of approximately HK$68,430,000 and general working capital of approximately HK$6,731,000.

During the year ended 31 December 2017, no new shares were issued by the Company.

Gearing Ratio

As at 31 December 2017, the gearing ratio stood at 0.89x (2016: 0.96x) based on total borrowings over shareholders' equity. The improved gearing ratio was due to the increase in shareholders' equity at the end of 2017.

FOREIGN EXCHANGE EXPOSURE

As at 31 December 2017 and 2016, functional currency of the Company and its major operating subsidiary is RMB. The Group's bank balances were mainly denominated in RMB and HKD. The Group manages its foreign currency risk by closely monitoring the movement of the foreign currency rate. As at 31 December 2017, there were finance lease denominated in HKD, bank borrowings of approximately HK$12.0 million denominated in USD and guaranteed bonds denominated in HKD with contractual interest rate of 10% per annum.

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

TREASURY POLICIES

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

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

The Group had no significant investment held as at 31 December 2017. Save as capital commitment contracted for the acquisition of property, plant and equipment for approximately HK$4,982,000 as detailed under the section 'Commitment and Contingent Liabilities', the Group has no plan for material investments or capital assets as at the date of this announcement.

PLEDGE OF ASSETS

As at 31 December 2017, the Group's secured bank and other borrowings are secured by the following assets of the Group:

(a) the pledge of the Group's property, plant and equipment with an aggregate carrying amount of approximately HK$276,495,000 (2016: HK$277,833,000);

(b) the pledge of the Group's prepaid lease payments with an aggregate carrying amount of approximately HK$20,000,000 (2016: HK$19,109,000);

(c) the pledge of the Group's bank deposits with an aggregate carrying amount of approximately HK$9,472,000 (2016: HK$17,328,000);

(d) the pledge of the Group's inventories with an aggregate carrying amount HK$18,526,000 (2016: HK$13,350,000); and

(e) the pledge of the Company's fully paid up portion of the capital in Hongwei Renhua to secure the 2017 Sep Bond. As at 31 December 2016, there was no such pledge.

COMMITMENTS AND CONTINGENT LIABILITIES

The Group leases its office premise under an operating lease arrangement for a term of 24 months. As at 31 December 2017, the remaining lease term of the arrangement is 18 months and the total future minimum lease payments under non-cancellable operating lease due within one year and in the second year amounted to approximately HK$610,000 and HK$319,000, respectively (2016: HK$44,000 and HK$nil). The increase in such future minimum lease payments under non-cancellable operating leases was mainly a result of the relocation of office premises during the year ended 31 December 2017.

As at 31 December 2017, the Group has capital commitments of approximately HK$4,982,000 (2016: HK$8,934,000) for acquisition of property, plant and equipment which are contracted but not provided in the consolidated financial statements. As at 31 December 2016, the Group also had capital commitments of approximately HK$183,000,000 for proposed acquisition of a target company controlled by Mr. Wong Kin Ching which has been terminated during the year ended 31 December 2017.

Saved as disclosed above, the Group did not have any significant capital commitment nor contingent liabilities as at 31 December 2017.

EMPLOYEES AND REMUNERATION POLICIES

As at 31 December 2017, the Group employed a total of 188 employees (2016: 178). The remuneration payable to our employees included fees, salaries, retirement benefits scheme contributions and other benefits. For the years ended 31 December 2017 and 2016, the remuneration was approximately HK$16.4 million and HK$15.9 million, respectively. The Group determines the employee's remuneration based on factors such as qualifications, duty, contributions and years of experience. The key principles of the remuneration policy are to remunerate employees in a manner that is market competitive, consistent with best practice and supports the interests of the shareholders of the Company (the "**Shareholders**"). The Group aims to align the interests of the senior executives with those of Shareholders by remunerating senior executives through performance and long-term incentive plans in addition to their fixed remuneration.

The Company also adopted a share option scheme. As at 31 December 2017 and 2016, no share option was granted or outstanding.

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

During the year ended 31 December 2017, neither the Company nor its subsidiaries have purchased, sold or redeemed any securities of the Company.

CODE ON CORPORATE GOVERNANCE PRACTICES

The Company has complied with the code provisions as set out in the Code on Corporate Governance Practices (the "**Code**") contained in Appendix 15 to the GEM Listing Rules during the year ended 31 December 2017 except for the deviation from code provision A.2.1:

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

The Board is of the view that although Mr. Wong Cheung Lok is the Chairman and Chief Executive Officer, this structure will not impair the balance of power and authority between the Board and the management of the Group. The balance of power and authority is ensured by the operations of the Board, which comprises experienced and high caliber individuals and meets regularly to discuss issues affecting operations of the Group. The Board believes that this structure is conductive to strong and consistent leadership, enabling the Group to make and implement decisions promptly and efficiently. The Board has full confidence in Mr. Wong Cheung Lok and believes that his appointment to the posts of Chairman and Chief Executive Officer is beneficial to the business prospects of the Group.

MODEL CODE FOR DIRECTORS' SECURITIES TRANSACTIONS

The Company has adopted a code of conduct regarding securities transactions by Directors on terms no less exacting than the required standard of dealings as set out in Rules 5.48 to 5.67 of the GEM Listing Rules. Having made specific enquiries with the Directors, all the Directors confirmed that they have complied with the required standard of dealings concerning securities transactions by the Directors for the year ended 31 December 2017 and up to the date of this announcement.

SUFFICIENCY OF PUBLIC FLOAT

Based on the information that is publicly available to the Company and to the best knowledge of the Directors, the Directors confirm that the Company maintained the amount of public float as required under the GEM Listing Rules during the year ended 31 December 2017 and up to the date of this announcement.

REVIEW OF RESULTS BY AUDIT COMMITTEE AND AUDITORS

The Audit Committee of the Company has reviewed with the management of the Group regarding the accounting principles and practices adopted by the Group in respect of the Group's consolidated financial statements for the year ended 31 December 2017.

The figures in respect of this preliminary announcement of the Group's results for the year ended 31 December 2017 have been agreed by the Group's auditors, Messrs. Graham H.Y. Chan & Co., to the amounts set out in the Group's consolidated financial statements for the year ended 31 December 2017. The work performed by Messrs. Graham H.Y. Chan & Co. in this respect does not constitute an assurance engagement in accordance with Hong Kong Standards on Auditing, Hong Kong Standards on Review Engagements or Hong Kong Standards on Assurance Engagements issued by the HKICPA and consequently no assurance has been expressed by Messrs. Graham H.Y. Chan & Co. on this preliminary results announcement.

DIVIDEND

The Board does not recommend the payment of any final dividend for the year ended 31 December 2017 (2016: nil).

By order of the Board
Hong Wei (Asia) Holdings Company Limited
Wong Cheung Lok
Chairman

Hong Kong, 25 March 2018

As at the date of this announcement, the Board comprises Mr. Wong Cheung Lok, Ms. Cheung Ngar Kwan, Ms. Huang Xiuyan and Mr. Liu Jiayong as executive Directors; Mr. Lai Ming Wai the non-executive Director and Dr. Xu Jianmin, Ms. Qian Xiaoyu and Dr. Chow Ho Wan, Owen as independent non-executive Directors.

This announcement will remain on the GEM website (www.hkgem.com) for at least seven days from the day of its posting. This announcement will also be published on the Company's website at www.hongweiasia.com.