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 2018

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

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

Given 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 2018, operating results of the Group were as follows:

- Revenue for the year ended 31 December 2018 amounted to approximately HK$406.9 million, representing a decrease of 17.2% from approximately HK$491.4 million recorded in 2017.

- Gross profit for the year ended 31 December 2018 amounted to approximately HK$85.7 million, representing a decrease of 20.4% from approximately HK$107.7 million recorded in 2017.

- Loss attributable to owners of the Company for the year ended 31 December 2018 amounted to approximately HK$59.6 million, representing a decrease of approximately of HK$89.9 million from profit attributable to owners of the Company for approximately HK$30.3 million recorded in 2017.

- Total comprehensive loss attributable to owners of the Company for the year ended 31 December 2018 amounted to approximately HK$82.5 million, representing an decrease of approximately HK$139.7 million from total comprehensive income attributable to owners of the Company for approximately HK$57.2 million recorded in 2017.

- The Board does not recommend the payment of a final dividend for the year ended 31 December 2018 (2017: 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 2018 together with the comparative audited figures for the financial year ended 31 December 2017.

CONSOLIDATED STATEMENT OF PROFIT OR LOSS AND OTHER COMPREHENSIVE INCOME

For the year ended 31 December 2018

	Notes	**2018** **HK$'000**	2017 HK$'000
Revenue	4	**406,879**	491,428
Cost of sales		**(321,136)**	(383,710)
Gross profit		**85,743**	107,718
Other income	6	**17,661**	21,380
Other losses, net	7	**(775)**	(2,263)
Impairment loss on property, plant and equipment	13	**(2,203)**	–
Impairment loss on prepaid forestlands lease payments	14	**(5,366)**	–
Gain arising from agricultural produce at fair values less costs to sell at the point of harvest	15	**1,583**	1,421
Net (loss)/gain arising from changes in fair values less costs to sell of biological assets	15	**(64,516)**	5,477
Selling and distribution expenses		**(31,737)**	(41,342)
Administration expenses		**(30,079)**	(36,771)
Finance costs	8	**(27,787)**	(25,325)
(Loss)/profit before tax		**(57,476)**	30,295
Income tax expense	9	**(2,138)**	–
(Loss)/profit for the year attributable to owners of the Company	10	**(59,614)**	30,295
Other comprehensive (loss)/income which will not be reclassified subsequently to profit or loss:			
Exchange differences arising on translation to presentation currency		**(22,879)**	26,879
Other comprehensive (loss)/income for the year		**(22,879)**	26,879
Total comprehensive (loss)/income for the year		**(82,493)**	57,174
Total comprehensive (loss)/income attributable to owners of the Company		**(82,493)**	57,174
Basic and diluted (loss)/earnings per share, in HK cents	11	**(7.16)**	3.64

CONSOLIDATED STATEMENT OF FINANCIAL POSITION

As at 31 December 2018

	Notes	2018 HK$'000	2017 HK$'000
NON-CURRENT ASSETS			
Property, plant and equipment	13	**339,042**	364,375
Prepaid lease payments	14	**42,567**	48,558
Biological assets	15	**102,602**	127,855
Intangible assets		**2,559**	3,150
Deferred tax assets		**350**	2,532
Prepayments for acquisition of property, plant and equipment	18	**3,455**	8,168
Prepayments for acquisition of forestry rights of the forestlands	18	**–**	28,233
Security deposit	18	**1,712**	–
Pledged bank deposit		**–**	9,472
		492,287	592,343
CURRENT ASSETS			
Inventories	16	**126,626**	105,121
Trade and bills receivables	17	**49,139**	62,633
Deposits, prepayments and other receivables	18	**42,357**	42,783
Biological assets	15	**–**	22,402
Bank balances and cash		**6,204**	27,494
Pledged bank deposit		**6,277**	–
		230,603	260,433
CURRENT LIABILITIES			
Trade payables	19	**34,058**	28,523
Other payables and accrued expenses	20	**25,721**	27,966
Contract liabilities		**4,502**	–
Bank and other borrowings, due within one year	21	**202,514**	208,971
Deferred income		**3,738**	4,382
Bonds, secured and guaranteed	22	**–**	92,385
		270,533	362,227
NET CURRENT LIABILITIES		**(39,930)**	(101,794)
TOTAL ASSETS LESS CURRENT LIABILITIES		**452,357**	490,549

	Notes	**2018** *HK$'000*	2017 *HK$'000*
NON-CURRENT LIABILITIES			
Deferred tax liabilities		**560**	587
Bank and other borrowings, due after one year	21	**3,184**	53,909
Deferred income		**34,113**	35,791
Notes payable, secured and guaranteed	22	**96,731**	–
		134,588	90,287
NET ASSETS		**317,769**	400,262
CAPITAL AND RESERVES			
Share capital	23	**253,928**	253,928
Reserves		**63,841**	146,334
EQUITY ATTRIBUTABLE TO OWNERS OF THE COMPANY AND TOTAL EQUITY		**317,769**	400,262

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 2018. 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 (the "PRC").

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

The financial information relating to each of the years ended 31 December 2018 ("FY2018") and 2017 ("FY2017") included in this preliminary announcement of annual results 2018 do not constitute the Company's statutory annual consolidated financial statements for FY2018 and FY2017 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 2017 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 2018 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 2018, the Group's current liabilities exceeded its current assets by approximately HK$39,930,000 (2017: HK$101,794,000). Its current liabilities, including bank and other borrowings of approximately HK$202,514,000 (2017: HK$208,971,000) due within one year (note 21), exceeded its cash and cash equivalents of approximately HK$6,204,000 (2017: HK$23,832,000).

The directors of the Company prepared a working capital forecast for a period of 12 months ending on 31 December 2019, 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. 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 new standards, interpretation and 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 HKFRS 2	Classification and Measurement of Share-based Payment Transactions
Amendments to HKFRS 4	Applying HKFRS 9 Financial Instruments with HKFRS 4 Insurance Contracts
HKFRS 9	Financial Instruments
HKFRS 15	Revenue from Contracts with Customers
Amendments to HKFRS 15	Clarification to HKFRS 15 Revenue from Contracts with Customers
Annual Improvements 2014 – 2016 Cycle	Amendments to HKFRS 1 and HKAS 28
Amendments to HKAS 40	Transfer of Investment Properties
HK(IFRIC) – Int 22	Foreign Currency Transactions and Advance Consideration

Except for the adoption of HKFRS 9 and HKFRS 15, the adoption of the interpretation and amendments to HKFRSs has no material effect on the Group's financial position and financial performance for the current and prior years. The impacts on HKFRS 9 and HKFRS 15 are described as follows:

HKFRS 9 Financial Instruments

The Group has adopted HKFRS 9 on 1 January 2018. HKFRS 9 introduces new requirements for classification and measurement of financial assets and financial liabilities, expected credit losses ("ECL") for financial assets and other items (for example, contract assets and lease receivables) and general hedge accounting, which have resulted in the following significant changes in accounting policies.

The Group has applied HKFRS 9 in accordance with the transition provisions set out in HKFRS 9. i.e. applied the classification and measurement requirements (including impairment) retrospectively to instruments that have not been derecognised as at 1 January 2018 (date of initial application) and has not applied the requirements to instruments that have already been derecognised as at 1 January 2018. The difference between carrying amounts as at 31 December 2017 and the carrying amounts as at 1 January 2018, if any, are recognised in the opening retained profits and other components of equity, without restating comparative information. Accordingly, certain comparative information may not be comparable as comparative information was prepared under HKAS 39 "Financial Instruments: Recognition and Measurement".

The Group's financial assets consist of trade and bills receivables, cash and bank balances, pledged fixed deposit and security deposit that are subsequently measured at amortised costs. The Group applies the HKFRS 9 simplified approach to measuring expected credit losses, using a lifetime expected loss allowance for all trade and bills receivables. Cash and bank balances, pledged fixed deposit and security deposit are also subject to the impairment requirements of HKFRS 9 and, due to their nature, the ECLs on these balances are immaterial.

To measure the expected credit losses, all trade and bills receivables have been grouped based on shared credit risk characteristics and days past due. The loss allowance for trade and bills receivables applying lifetime expected credit loss as compared to incurred loss model of HKAS 39 did not result in a material difference and hence did not result in an adjustment of opening retained earnings as of 1 January 2018. As at 31 December 2018, the loss allowance for trade and bills receivables applying lifetime expected credit loss amounted to approximately HK$752,000.

HKFRS 15 Revenue from Contracts with Customers

HKFRS 15 supersedes HKAS 11 Construction Contracts, HKAS 18 Revenue and related Interpretations and it applies to all revenue arising from contracts with customers, unless those contracts are in the scope of other standards. The new standard establishes a five-step model to account for revenue arising from contracts with customers. Under HKFRS 15, revenue is recognised at an amount that reflects the consideration to which an entity expects to be entitled in exchange for transferring goods or services to a customer.

The standard requires entities to exercise judgement, taking into consideration all of the relevant facts and circumstances when applying each step of the model to contracts with their customers. The standard also specifies the accounting for the incremental costs of obtaining a contract and the costs directly related to fulfilling a contract. The adoption of HKFRS 15 does not have any material impact on the Group's consolidated financial statements as of 1 January 2018. As a result of adopting HKFRS 15, the Group has recognised contract liabilities with balance of approximately HK$4,502,000 as at 31 December 2018. Such balance is related to the Group's obligation to delivery of goods to customers for which the Group has received consideration from customers in advance.

The Group has not early applied the following new standards, interpretation and amendments to HKFRSs that have been issued but are not yet effective:

HKFRS 16	Leases[1]
HKFRS 17	Insurance Contracts[4]
HK(IFRIC) – Int 23	Uncertainty over Income Tax Treatments[1]
Amendments to HKFRS 3	Definition of a Business[3]
Amendments to HKFRS 9	Prepayment Features with Negative Compensation[1]
Amendments to HKFRS 10 and HKAS 28 (2011)	Sale or Contribution of Assets between an Investor and its Associate or Joint Venture[5]
Amendments to HKAS 1 and HKAS 8	Amendments to Definition of Material[2]
Amendments to HKAS 19	Plan Amendment, Curtailment or Settlement[1]
Amendments to HKAS 28	Long-term Interests in Associates and Joint Ventures[1]
Amendments to HKFRSs	Annual Improvements to HKFRSs 2015 – 2017 Cycle[1]

[1] Effective for annual periods beginning on or after 1 January 2019
[2] Effective for annual periods beginning on or after 1 January 2020
[3] Effective for business combinations for which the acquisition date is on or after the beginning of the first annual reporting period beginning on or after 1 January 2020 and to asset acquisitions that occur on or after the beginning of that period
[4] Effective for annual periods beginning on or after 1 January 2021
[5] Effective for annual periods beginning on or after a date to be determined

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

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.

Under HKAS 17, the Group has already recognised prepaid lease payments for leasehold lands and forestlands where the Group is a lessee.

Lessor accounting remains largely unchanged under the new standard.

The Group intends to elect the practical expedient to apply HKFRS 16 to contracts that were previously identified as leases applying HKAS 17 and not apply this standard to contracts that were not previously identified as containing a lease applying HKAS 17. Therefore, the Group will not reassess whether the contracts are, or contain a lease which already existed prior to the date of initial application. Further, the Group elected the modified retrospective approach for the application of HKFRS 16 as lessee without restating comparative information. The directors of the Company estimates that the adoption of HKFRS 16 has no material impact on the Group's consolidated statement of financial position as at 1 January 2019 (date of initial application of HKFRS 16) and the Group's future financial performance as the Group's non-cancellable operating lease has remaining terms of less than 12 months from 1 January 2019 and HKFRS 16 permits the Group to apply the practical expedient on such lease by recognising the lease payments as expenses on a straight-line basis over the remaining lease terms.

4. REVENUE

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

	2018	2017
	HK$'000	*HK$'000*
Timing of revenue recognition – a point in time:		
Sales of particleboards	**406,369**	490,923
Sales of timber woods	**510**	505
Revenue from contracts with customers	**406,879**	491,428

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

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 2018 and 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.

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 deposit, security deposit, deferred tax assets and unallocated corporate assets; and

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

Operating segments

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

For the year ended 31 December 2018

	Particleboards segment *HK$'000*	**Forestry segment** *HK$'000*	**Total** *HK$'000*
Segment revenue:			
Reportable segment revenue	**406,369**	**2,093**	**408,462**
Elimination of inter-segment revenue	**–**	**(1,583)**	**(1,583)**
Consolidated revenue	**406,369**	**510**	**406,879**
Segment results:			
Reportable segment results	**53,258**	**(71,847)**	**(18,589)**
Interest income *(note 6)*			**101**
Finance costs *(note 8))*			**(27,787)**
Unallocated corporate staff costs			**(3,278)**
Unallocated corporate expenses			**(7,923)**
Consolidated loss before tax			**(57,476)**
Other segment information:			
Capital expenditures – allocated	**17,692**	**–**	**17,692**
Depreciation – allocated	**27,857**	**–**	**27,857**
Depreciation – unallocated			**630**
			28,487
Amortisation	**906**	**1,372**	**2,278**
Gain arising from agricultural produce at fair values less costs to sell at the point of harvest	**–**	**1,583**	**1,583**
Impairment loss on property, plant and equipment *(note 13)*	**2,203**	**–**	**2,203**
Impairment loss on prepaid forestlands lease payments *(note 14)*	**–**	**5,366**	**5,366**
Net loss arising from changes in fair values less costs to sell of biological assets	**–**	**64,516**	**64,516**
Loss allowance for trade and bills receivables *(note 7)*	**709**	**–**	**709**

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	29,513	42,287	71,800
Capital expenditures – unallocated			3,266
			75,066
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 2018

	Particleboards segment *HK$'000*	**Forestry segment** *HK$'000*	**Total** *HK$'000*
Segment assets:			
Reportable segment assets	**582,935**	**128,312**	**711,247**
Deferred tax assets			**350**
Pledged bank deposit			**6,277**
Security deposit			**1,712**
Unallocated corporate assets			**3,304**
Consolidated total assets			**722,890**
Segment liabilities:			
Reportable segment liabilities	**98,301**	**1,801**	**100,102**
Deferred tax liabilities			**560**
Bank and other borrowings			**205,698**
Notes payable			**96,731**
Unallocated corporate liabilities			**2,030**
Consolidated total liabilities			**405,121**

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 deposit			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 all of its revenue is generated from the PRC and other Asian countries for both years. The Group's revenue for the year ended 31 December 2017 was also generated from the Middle East. The analysis is as follows:

	2018	2017
	HK$'000	*HK$'000*
Revenue from the PRC	**406,323**	479,638
Revenue from other Asian countries	**556**	11,619
Revenue from the Middle East	**–**	171
	406,879	491,428

The Group's non-current assets other than deferred tax assets, security deposit and pledged bank deposit 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:

	2018	2017
	HK$'000	*HK$'000*
Customer A	**229,512**	267,460

6. OTHER INCOME

	2018	2017
	HK$'000	*HK$'000*
Value added tax ("VAT") refund	**12,440**	16,735
Government grants*	**4,738**	4,467
Bank interest income	**101**	129
Others	**382**	49
	17,661	21,380

* The amount of HK$3,749,000 (2017: HK$3,210,000) represented financial subsidy released from deferred income for interest expenses incurred by the Group for its bank borrowings. The amount of HK$989,000 (2017: HK$1,257,000) have been received to provide immediate financial support to the Group with no unfulfilled conditions related to the subsidy.

7. OTHER LOSSES, NET

	2018	2017
	HK$'000	*HK$'000*
Loss on disposal of forestry rights of the forestlands *(note)*	**–**	2,005
Net foreign exchange losses	**66**	258
Loss allowance for trade and bills receivables	**709**	–
	775	2,263

Note: During the year ended 31 December 2018, the Group did not dispose any forestry rights of the forestlands. 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 the aggregate consideration of approximately HK$10,795,000. As a result, standing trees of the forestlands included in biological assets of approximately HK$11,300,000 and prepaid forestlands lease payment of approximately HK$1,500,000 had been disposed of and a loss on disposal of forestry rights of the forestlands of approximately HK$2,005,000 was recognised. Details are set out in notes 14 and 15 below.

8. FINANCE COSTS

	2018	2017
	HK$'000	*HK$'000*
Interests on bank and other borrowings	**15,872**	18,286
Interests on bonds and notes payable	**10,452**	5,212
Interests on unsecured loans	**–**	821
Interests on finance lease liabilities	**55**	84
Other finance costs	**1,408**	922
	27,787	25,325

9. INCOME TAX EXPENSE

Income tax recognised in profit or loss

	2018	2017
	HK$'000	*HK$'000*
Current tax	**–**	–
Deferred tax charged/(credited):		
– origination and reversal of temporary difference	**1,608**	–
– write-down of previously recognised deferred tax assets	**2,070**	–
– recognition of deferred tax assets previously not recognised	**(1,540)**	–
	2,138	–
Income tax expenses	**2,138**	–

No provision for Hong Kong Profits Tax has been made for the year ended 31 December 2018 as the Group did not have assessable profits in Hong Kong for the year. No provision for Hong Kong Profits Tax had 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 or 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 2018 and 2017, 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 2018 and 2017, the Group's two subsidiaries are engaged in qualified agricultural business and therefore, the profit of them is entitled to exemption from payment of enterprise income tax (the "Tax Exemption").

10. (LOSS)/PROFIT FOR THE YEAR

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

	Note	**2018** *HK$'000*	2017 *HK$'000*
Employee benefits expenses (include directors' emoluments)			
Salaries and other benefits		**15,602**	15,393
Contribution to retirement benefit schemes		**1,017**	1,005
Total employee benefit expenses		**16,619**	16,398
Depreciation of property, plant and equipment		**28,487**	26,144
Amortisation:			
– intangible assets	(i)	**463**	532
– release of prepaid land lease payments	(i)	**443**	434
– release of prepaid forestland lease payments	(i)	**1,372**	1,097
Cost of goods sold recognised as expenses		**321,136**	383,710
Auditor's remuneration			
– Provision in respect of current year		**1,380**	1,658
– Non-audit services		**200**	1,460
Operating lease payments		**610**	347
Donation		**178**	2,444
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. and 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. (LOSS)/EARNINGS PER SHARE

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

(Loss)/earnings

	2018	2017
	HK$'000	*HK$'000*
(Loss)/profit for the year attributable to owners of the Company for the purpose of basic and diluted earnings per share	**(59,614)**	30,295

Number of shares

	2018	2017
	'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 2018 (2017: 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 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 and 1 January 2018	153,846	301,606	6,402	3,586	3,176	468,616
Additions	1,077	16,485	425	443	3,344	21,774
Transfer	197	4,134	–	–	(4,331)	–
Exchange differences	(7,116)	(14,643)	(159)	(108)	(112)	(22,138)
Balance at 31 December 2018	**148,004**	**307,582**	**6,668**	**3,921**	**2,077**	**468,252**
Accumulated depreciation and impairment						
Balance at 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 and 1 January 2018	(25,061)	(74,664)	(3,215)	(1,301)	–	(104,241)
Depreciation charge for the year	(7,316)	(20,199)	(745)	(227)	–	(28,487)
Impairment loss for the year	–	(2,203)	–	–	–	(2,203)
Exchange differences	1,402	4,119	132	68	–	5,721
Balance at 31 December 2018	**(30,975)**	**(92,947)**	**(3,828)**	**(1,460)**	**–**	**(129,210)**
Carrying amount						
Balance at 31 December 2018	**117,029**	**214,635**	**2,840**	**2,461**	**2,077**	**339,042**
Balance at 31 December 2017	128,785	226,942	3,187	2,285	3,176	364,375

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 2018, buildings with carrying amount of approximately HK$70,306,000 (2017: HK$78,060,000), plant and machinery with carrying amount of approximately HK$214,635,000 (2017: HK$220,818,000) and motor vehicle with carrying amount of approximately HK$1,733,000 (2017: HK$2,239,000) have been pledged to secure bank and other borrowings granted to the Group (note 21).

Impairment loss – plant and machinery

During the year ended 31 December 2018, the Group suffered a decline in sales volume and average unit selling price of particleboards due to the impact of adverse market condition. As a result, sign of impairment regarding plant and machinery arises. Having determined that the value in use and fair value less costs to sell of plant and machinery with reference to the work performed by the independent valuers (the "Independent Valuers"), the Group considered that the recoverable amount of plant and machinery is fair value less costs to sell. The Independent Valuers used market approach to determine the fair values of plant and machinery with reference to prices of similar equipment, which have taken into consideration the type of equipment, age, condition, attached auxiliary equipment, manufacturer, location of sale, installation and other associated costs. This is a Level 3 fair value hierarchy. The key assumption is the adjusted prices of plant and machinery. Accordingly, an impairment loss of approximately HK$2,203,000 (2017: HK$nil) was made for the year ended 31 December 2018.

14. PREPAID LEASE PAYMENTS

	Prepaid land lease payments	Prepaid forestlands lease payments	Total
	HK$'000	*HK$'000*	*HK$'000*
At 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 *(note 7)*	–	(1,500)	(1,500)
Exchange realignment	1,325	1,905	3,230
At 31 December 2017 and 1 January 2018	20,000	30,207	50,207
Additions for the year	–	3,448	3,448
Amortisation during the year	(443)	(1,372)	(1,815)
Impairment for the year	–	(5,366)	(5,366)
Exchange realignment	(905)	(1,500)	(2,405)
At 31 December 2018	**18,652**	**25,417**	**44,069**

	2018	2017
	HK$'000	*HK$'000*
Analysed for reporting purposes:		
Current assets, including in deposits, prepayments and other receivables *(note 18)*	**1,502**	1,649
Non-current assets	**42,567**	48,558
	44,069	50,207

Forestlands

As at 31 December 2018 and 2017, 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 2018, the forestlands have leasehold land base of approximately 46,502 (2017: 40,400) Chinese Mu ("mu") and have remaining lease terms ranging from 11 to 43 years (2017: 12 to 44 years). Usage of the forestlands is regulated by the implementation regulations of the PRC Forest Law promulgated by the State Council of the PRC.

Due to the enactment of the real estate title registration policy in the year 2016, all real estate titleship must be registered with the Real Estate Registration Center ("不動產登記中心") 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 Forestry Right Certificates have been obtained while the registration of the title of forestry rights of the forestlands in Renhua County are still pending, nevertheless, the Group had obtained ownership confirmations from 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 Real Estate Registration Center is yet to complete.

As at 31 December 2018, the carrying amount of prepaid forestlands lease payments of approximately HK$13,055,000 (2017: HK$14,973,000) had been successfully registered while the carrying amount of prepaid forestlands lease payments of approximately HK$12,362,000 (2017: HK$15,234,000) are still pending for completion of the registration.

During the year ended 31 December 2018, the Group completed the acquisition of forestry rights of forestlands with aggregate consideration of approximately HK$28,233,000 (2017: HK$61,204,000). The cost of prepaid forestlands lease payments amounting to approximately HK$3,448,000 (2017: HK$8,010,000) represented the allocated consideration in 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 the forestry consultants (the "Forestry Consultants") and 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 sales comparison approach at initial recognition.

Impairment loss

In or about the end of 2018, the Group noted that the grant by the relevant government department of timber wood harvesting quotas had been materially curtailed as part of the PRC government's strengthening in the drive of environmental protection. Such tightened control is expected to last for a certain period which is unknown to and uncontrolled by the Group as of the date of this announcement. As a result, signs of impairment regarding the prepaid forestlands lease payments arise. The Group engaged the Independent Valuers to determine the recoverable amounts of prepaid forestlands lease payments, being fair values less costs to sell. The Independent Valuers used sales comparison approach to determine the fair values with reference to latest listing prices of "raw lands" situated in Guangdong Province and Fujian Province which are adjusted by various factors including the remaining land use terms and accessibility of each of the forestlands held by the Group. This is a Level 3 fair value measurement. The key assumption is adjusted listing price per mu of "raw lands". An impairment loss on prepaid forestlands lease payments of approximately HK$5,366,000 (2017: HK$ nil) was recognised during the year ended 31 December 2018.

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 2018, prepaid leasehold land lease payments with a carrying amount of approximately HK$18,652,000 (2017: HK$20,000,000) have been pledged to secure the banking facilities granted to the Group (note 21).

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 2018, the Forestry Consultants estimate that the Group's forestlands comprise standing timber trees with approximately 398,275 cubic meters (2017: 332,004 cubic meters).

As at 31 December 2018, the carrying amount of biological assets of approximately HK$73,956,000 (2017: HK$119,034,000) are attached to the forestlands which the corresponding forestry rights had been successfully registered while the carrying amount of biological assets of approximately HK$28,646,000 (2017: HK$31,223,000) are attached to the forestlands which the corresponding forestry rights are still pending for completion of the 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 is exposed to risks arising from fluctuations in price and sales volume of log. The Group's forestlands are maintained for the purpose of providing stable source of raw materials to the Group to produce particleboards for sale. Where possible the Group will align harvest volume to its production schedule so as to ensure continuous production of particleboards.

(iii) Climate and other natural risks

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

(b) Value of biological assets

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

	2018	2017
	HK$'000	*HK$'000*
Balance at beginning of the year	**150,257**	93,570
Additions during the year	**24,785**	53,194
Disposal during the year *(note 7)*	**–**	(11,300)
Transfer to cost at the point of harvest	**(1,583)**	(1,421)
Net gain arising on initial recognition of biological assets at fair value less costs to sell	**–**	11,349
Net loss arising from changes in fair values less costs to sell of biological assets after initial recognition	**(62,933)**	(4,451)
Exchange realignment	**(7,924)**	9,316
Balance at end of the year	**102,602**	150,257
Analysed for reporting purposes:		
Current assets	**–**	22,402
Non-current assets	**102,602**	127,855
	102,602	150,257

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 listed companies in Hong Kong. Accordingly, the directors are of the view that the Independent Valuers are competent to determine the fair values less costs to sell of the Group's biological assets. The Group's management has discussion with the Independent Valuers on the valuation assumptions and valuation results when the valuation is performed at the end of each reporting period.

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

Valuation at initial recognition

The approach to value for newly acquired biological assets is set out as follows:

	2018	2017
	HK$'000	*HK$'000*
Income approach	**24,785**	10,051
Sales comparison approach	**–**	43,143
	24,785	53,194
Gain on initial recognition recognised in profit or loss	**–**	11,349

Income approach was adopted for valuation at initial recognition of biological assets as they were incorporated into the revised harvesting plan when the Group was finalising the plan. Market approach was adopted for valuation at initial recognition of biological assets as the Group's harvesting plan at the time being did not include the logging activities on those newly acquired forestlands.

(c) Fair value measurements

Valuation at 31 December 2018

Owing to the circumstances mentioned in note 14 above, having discussed with the Independent Valuers, the directors of the Company considered that the valuation methodology used in previous year, i.e. income approach, is no longer suitable for the valuation of biological assets at 31 December 2018. Therefore, the Independent Valuers used sales comparison approach, with reference to latest listing prices of forestlands situated in Guangdong Province and Fujian Province which are adjusted by various factors including the remaining land use terms and accessibility of each of the forestlands held by the Group, to determine the overall fair values less costs to sell of the Group's forestlands. Fair values less costs to sell of "raw lands" are deducted from the overall value to arrive at the fair values less costs to sell of the Group's biological assets as at 31 December 2018. Details of fair values less costs to sell of the Group's "raw land" are set out in note 14 above.

Valuation at 31 December 2017

As at 31 December 2017, the Group included all biological assets that existed as at that day in its revised harvesting plan. Based on the revised harvesting plan, the Independent Valuers adopted income approach, which is based on the discounted future cash flows to be generated by logging timber trees, as the valuation methodology as at 31 December 2017 to determine combined values of the Group's biological assets and the forestlands. Fair values less costs to sell 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.

16. INVENTORIES

	2018	2017
	HK$'000	*HK$'000*
Raw materials	**89,321**	83,106
Work in progress	**3,956**	3,489
Finished goods	**33,349**	18,526
Total	**126,626**	105,121

As at 31 December 2018, all finished goods with carrying amount of approximately HK$33,349,000 (2017: HK$18,526,000) were pledged to a bank to secure the banking facilities granted by the bank. (notes 21)

17. TRADE AND BILLS RECEIVABLES

	2018	2017
	HK$'000	*HK$'000*
Trade receivables	**32,554**	39,448
Bills receivables	**17,337**	23,603
	49,891	63,051
Less: loss allowances	**(752)**	(418)
	49,139	62,633

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 (2017: 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, presented based on invoice date, at the end of the reporting period.

	2018	2017
	HK$'000	*HK$'000*
Within three months	**31,950**	39,009
Over three months but within six months	**–**	39
Over six months	**604**	400
Total	**32,554**	39,448

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.

	2018	2017
	HK$'000	*HK$'000*
Within three months	**11,286**	13,011
Over three months but within six months	**6,051**	10,592
Total	**17,337**	23,603

18. DEPOSITS, PREPAYMENTS AND OTHER RECEIVABLES

	2018	2017
	HK$'000	*HK$'000*
VAT recoverable	**17,186**	16,191
VAT refund	**1,808**	2,427
Payments in advance to suppliers *(note (i))*	**20,551**	21,205
Prepaid lease payments *(note 14)*	**1,502**	1,649
Prepayments paid for acquisition of property, plant and equipment	**3,455**	8,168
Prepayments paid for acquisition of forestry rights of the forestlands *(note (ii))*	**–**	28,233
Security deposit placed to a financial institute to secure a sales-and-leaseback operating lease arrangement	**1,712**	–
Others	**1,310**	1,311
	47,524	79,184
Analyses for reporting purposes:		
Current assets	**42,357**	42,783
Non-current assets	**5,167**	36,401
	47,524	79,184

Notes:

(i) As at 31 December 2018, included in payments in advance to suppliers are prepayments of approximately HK$18,982,000 (2017: HK$17,346,000) made to suppliers for securing wood supplies. Subsequent to the end of the reporting period and up to the date of the report, substantial amounts have been settled with delivery of raw materials.

(ii) During the year ended 31 December 2018, the Group did not pay for acquisition of forestlands. During the year ended 31 December 2017, the Group had paid a total consideration of approximately RMB36,200,000 or equivalent to HK$42,287,000 for the acquisition of forestry rights of the forestlands, of which approximately RMB12,600,000 or equivalent to HK$14,517,000 had been completed during that year. The remaining balance of RMB23,600,000 or equivalent to HK$28,233,000 has been completed during the year ended 31 December 2018.

19. TRADE PAYABLES

	Note	2018 HK$'000	2017 HK$'000
Trade payables	(i)	**34,058**	28,523

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:

	2018 HK$'000	2017 HK$'000
Within 3 months	**25,823**	21,231
Over 3 months but within 6 months	**6,834**	6,478
Over 6 months	**1,401**	814
	34,058	28,523

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

20. OTHER PAYABLES AND ACCRUED EXPENSES

	2018 HK$'000	2017 HK$'000
Payables for acquisition of property, plant and equipment	**764**	1,687
Payroll payable	**6,365**	5,340
Accrued expenses	**13,938**	14,791
Receipts in advance from customers	**–**	374
Other tax payables	**3,039**	4,983
Others	**1,615**	791
	25,721	27,966

21. BANK AND OTHER BORROWINGS

	Notes	2018 HK$'000	2017 HK$'000
Bank borrowings	(i)	**158,618**	206,466
Other borrowings	(ii)	**43,195**	54,278
Finance lease liability	(iii)	**1,602**	2,136
Unsecured loan	(iv)	**2,283**	–
		205,698	262,880
Less: amount included in current liabilities		**(202,514)**	(208,971)
Non-current portion		**3,184**	53,909
Analysed as:			
Secured but unguaranteed	(v)	**110,877**	132,068
Secured and guaranteed	(v)(vi)	**65,603**	108,804
Unsecured and unguaranteed		**29,218**	22,008
		205,698	262,880

Notes:

(i) Other than bank borrowings with an aggregate carrying amount of approximately HK$79,775,000 (2017: HK$83,376,000) which bear fixed interest rate ranging from 4.35% to 5.87% (2017: 5.09% to 7.18%) per annum as at 31 December 2018, other bank borrowings with an aggregate carrying amount of approximately HK$78,843,000 (2017: HK$123,090,000) bear floating interest rates ranging from 4.75% to 6.88% (2017: 2.62% to 6.88%) per annum as at 31 December 2018.

The maturity analysis of bank borrowings is as follows:

	2018 HK$'000	2017 HK$'000
Within one year	**158,618**	184,329
More than one year, but not exceeding two years	**–**	22,137
	158,618	206,466

As at 31 December 2018, all bank borrowings were denominated in RMB. As at 31 December 2017, other than a bank borrowing with carrying amount of approximately HK$11,959,000 which is denominated in United State Dollars ("USD"), other bank borrowings with aggregate carrying amounts of approximately HK$194,507,000 are denominated in RMB.

(ii) As at 31 December 2018, the Group's other borrowings represents sales and leaseback operating lease arrangements with financial institutions, pursuant to which the Group transfers certain of its equipments to the financial institutions for loans to the Group with tenure of two to three years (2017: three years) from the date of advancements. At the end of the terms, the Group could pay a minimal amount of consideration to re-acquire the leased equipments. Other borrowings of approximately HK$31,569,000 (2017: HK$54,278,000) carry fixed interest with interest rate of 9.68% per annum as at 31 December 2018 (2017: 9.68%) and other borrowings of approximately HK$11,626,000 (2017: HK$nil) carry floating interest with interest rate of 12.21%. Other borrowings are denominated in RMB in both years.

The maturity analysis of other borrowings is as follows:

	2018	2017
	HK$'000	*HK$'000*
Within one year	**41,061**	24,108
More than one year, but not exceeding two years	**2,133**	30,170
	43,194	54,278

(iii) As at 31 December 2018, the Group's financial leases liability represents 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 rentals. The finance lease liability is denominated in HKD.

Analysis of the finance lease liability is as follows:

	2018	2017
	HK$'000	*HK$'000*
Total minimum lease payments:		
Within one year	**589**	589
More than one year, but not exceeding two years	**589**	589
More than two years, but not exceeding five years	**491**	1,080
	1,669	2,258
Future finance charges on finance leases	**(67)**	(122)
	1,602	2,136
Present value of minimum lease payments:		
Within one year under current liabilities	**551**	534
More than one year but not exceeding than two years	**567**	551
More than two years but not exceeding than five years	**484**	1,051
	1,602	2,136

(iv) As at 31 December 2018, the unsecured loan is interest-free, unsecured and repayable within 1.5 months after advancement. As at 31 December 2017, the Group had no unsecured loan.

(v) As at 31 December 2018, 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$286,674,000 (2017: HK$301,117,000) (note 13);

(b) the pledge of the Group's prepaid lease payments with an aggregate carrying amount of approximately HK$18,652,000 (2017: HK$20,000,000) (note 14);

(c) the pledge of the Group's inventories with an aggregate carrying amount of approximately HK$33,349,000 (2017: HK$18,526,000) (note 16);

(d) the pledge of the Group's security deposit with carrying amount of HK$1,712,000 (2017: HK$nil) (note 18); and

(e) the pledge of the Group's bank deposits with an aggregate carrying amount of approximately HK$6,277,000 (2017: HK$9,472,000).

(vi) As at 31 December 2018 and 2017, the Group's secured and guaranteed bank borrowings are secured by a personal guarantee executed by Mr. Wong for the maximum amount of guarantee up to approximately HK$225,976,000 (2017: HK$236,868,000). As at 31 December 2018, the Group's secured and guaranteed bank borrowings are also secured by a personal guarantee executed by Mr. Wong Kin Ching, son of Mr. and Mrs. Wong, for the maximum amount of guarantee up to approximately HK$225,976,000 (2017: HK$nil).

(vii) As at 31 December 2018, certain of the Group's bank borrowings are attached with financial covenants which require that at any time, total liabilities over total assets and contingent liabilities of Hongwei Renhua are not more than, and current assets over current liabilities and net profits of Hongwei Renhua are not less than certain required levels. During the year ended 31 December 2018, all these covenants have been complied with by Hongwei Renhua. As at 31 December 2017, the Group's bank borrowings were not attached with financial covenants.

22. BONDS AND NOTES PAYABLE

		2018	2017
	Notes	***HK$'000***	*HK$'000*
Bonds, secured and guaranteed	(i)	**–**	92,385
Notes payable, secured and guaranteed	(ii)	**96,731**	–
		96,731	92,385

Notes:

(i) On 13 September 2017, the Company issued 10% secured and guaranteed bonds in the aggregate principal amount of HK$100,000,000 at a term of 364 days to an independent subscriber (the "Bonds Subscriber"). The guaranteed bonds are secured by personal guarantees executed by Mr. Wong and Mrs. Wong. Under the subscription agreement and several supplemental agreements (collectively referred to as the "Bonds Subscription Agreements"), Mr. Wong and Mrs. Wong, among other things, undertakes to the Bonds 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 Bonds 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 bonds 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 bonds.

The Company and the Bonds 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 bonds. The share pledge registration has been completed subsequently on 22 January 2018.

The secured and guaranteed bonds are denominated in HKD. The bonds have been fully settled during the year ended 31 December 2018.

(ii) On 10 August 2018, the Company entered into a subscription agreement (the "Notes Subscription Agreement") with a subscriber (the "Notes Subscriber") for the issuance of secured and guaranteed notes (the "Notes") in the principal amount of HK$100,000,000 for an initial term of 2 years from the date of issuance, which could be extendable for another year as agreed by the Company and the Notes Subscriber. The Notes carry floating interest at Hong Kong Prime Rate ("Prime Rate") plus 3% per annum, being 8.125% per annum as at 31 December 2018. The Notes are secured by the Company's fully paid up capital in Hongwei Renhua and personal guarantees executed by the Company's chairman and executive directors, Mr. Wong and Mrs. Wong (the "Guarantors").

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

On 31 December 2018, the Company and the Notes Subscriber entered into an amended and restated note instrument (the "Amended Instrument"), among other things, for the amendment of the terms of certain financial covenants.

The Notes are attached with financial covenants which require that at the end of March, June, September and December during the terms of the Notes, the adjusted consolidated net assets and the adjusted interest coverage ratio as defined in the Amended Instrument are not less than, and the consolidated total liabilities to the adjusted consolidated total assets and the consolidated total liabilities are not more than certain required levels of the Group. During the year, all these covenants have been complied with by the Group.

23. SHARE CAPITAL

Issued and fully paid shares

	Number of shares		**Share capital**	
	2018	2017	**2018**	2017
	'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.

MANAGEMENT DISCUSSIONS AND ANALYSIS

BUSINESS REVIEW

During the year ended 31 December 2018, the Group continued to be engaged in the manufacturing and selling of particleboards ("Particleboards Segment") and the plantation, timber logging and sales of wood and agricultural products in the PRC ("Forestry Segment").

Particleboards Segment

During the year ended 31 December 2018, 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. During the year ended 31 December 2018, the Group's revenue for Particleboards Segment decreased to approximately HK$406.4 million from approximately HK$490.9 million, representing a decrease of approximately 17.2% as compared to the year ended 31 December 2017. In 2018, the Chinese economy continued to face with uncertainties under the pressure of the trade war with the U.S. and greater fluctuation in the exchange rate of RMB. The negative impacts on the export market have indirectly affected the domestic consumer industry. The domestic demand for consumer products such as household furniture and fixtures, leisure sport equipment as well as construction materials had remained at a weak level whereas our financing costs are rising given the tightening credit policy environment in China. Therefore, there is a sharp decrease in the average unit selling price and sales volume of particleboard of the Group in the last quarter. Looking forward, in order to cope with the business downturns, we aim to improve the business by doing more frequent market research, adjusting our pricing scheme and trying to explore new customers by providing more kinds of specifications in size and thickness to meet the needs of different market segments.

Forestry Segment

During the year ended 31 December 2018, the Group generated revenue of approximately HK$0.5 million for the Forestry Segment by selling large-sized timber wood to external customers. During the last quarter of 2018, it has come to the attention of the Group that the grant by the relevant government department of timber wood harvesting quotas (which is typically granted on an annual basis) have been materially curtailed in 2018 as part of the PRC government's strengthening environmental protection drive, and such enhanced control is expected to last for a period which is unknown to the Group at the moment. Hence, the Group is assessing the feasibility of different business strategy that seeks to better utilize its forestry resources.

FINANCIAL REVIEW

Revenue

During the year ended 31 December 2018, the Group's revenue for Particleboards Segment decreased to approximately HK$406.4 million from approximately HK$490.9 million, representing a decrease of approximately 17.2% as compared to the year ended 31 December 2017. The decrease was mainly due to decrease in the average unit selling price and sales volume of particleboard by approximately 3.3% and 16.1% respectively during the year.

During the year ended 31 December 2018, the Group generated revenue of approximately HK$0.5 million for the Forestry Segment. (2017: HK$0.5 million)

Cost of Sales

During the year ended 31 December 2018, the Group's costs of sales decreased to approximately HK$321.1 million from approximately HK$383.7 million, representing a decrease of approximately 16.3% as compared to the year ended 31 December 2017. The decrease was mainly attributed to the decrease in sales and the decrease in average unit costs of raw materials particularly the residual wood purchased from external suppliers as a result of more supply in the market during the year ended 31 December 2018.

Gross profit and margin

During the year ended 31 December 2018, the Group's gross profit decreased to approximately HK$85.7 million from approximately HK$107.7 million, representing a decrease of approximately 20.4% as compared to the year ended 31 December 2017. The Group's gross profit margin decreased to approximately 21.1% for the year ended 31 December 2018 from approximately 21.9% for the year ended 31 December 2017. The decrease in gross profit was mainly attributable to the decrease in revenue during the year.

Other income, other losses net

During the year ended 31 December 2018, the Group's other income decreased to approximately HK$17.7 million from approximately HK$21.4 million, representing a decrease of approximately 17.4% as compared to the year ended 31 December 2017. The decrease was mainly attributable to the decrease of value added tax refund due to the decrease in revenue and the value added tax rate, which was partly off-set by the increase in subsidy released to the Group from deferred income during the year.

During the year ended 31 December 2018, there was other losses of net amounts incurred for approximately HK$775,000 (2017: HK$2,263,000) as detailed in note 7 to this announcement. During the year ended 31 December 2017, the Group had disposed forestry rights of the forestlands in Ninhua County of Fujian Province which resulted in loss of approximately HK$2.0 million. There was no disposal of forestry rights of forestlands in 2018.

Impairment loss on property, plant and equipment

During the year ended 31 December 2018, there was impairment loss on property, plant and equipment amounting to approximately HK$2.2 million (2017: HK$ nil). During the year ended 31 December 2018, the Group suffered a decline in sales volume and average unit selling price of particleboards due to the impact of adverse market condition. As a result, this constitutes a sign of impairment regarding plant and machinery. To assess whether an impairment should be made, the Group engaged independent valuers ("Independent Valuers") to determine the value in use and fair value less costs to sell of individual items of the Group's plant and machinery. Please refer to note 13 to this announcement for more details.

Impairment loss on prepaid forestlands lease payments

During the year ended 31 December 2018, there was impairment loss on prepaid forestlands lease payments amounting to approximately HK$5.4 million (2017: HK$ nil). In or about the end of 2018, the Group noted that the grant by the relevant government department of timber wood harvesting quotas have been materially curtailed as part of the PRC government's strengthening in the drive of environmental protection. Such tightened control is expected to last for a certain period which is unknown to and uncontrolled by the Group as at the date of this announcement. As a result, this constitutes signs of impairment regarding the prepaid forestlands lease payments. The Group engaged the Independent Valuers to determine the recoverable amounts of prepaid forestlands lease payments, being fair values less costs to sell using sales comparison approach. Please refer to note 14 to this announcement for more details.

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

During the year ended 31 December 2018, net loss arising from changes in fair value less costs to sell of biological assets amounting to approximately HK$64.5 million (2017: net gain of HK$5.5 million) has been recognised, representing a decrease of approximately HK$70.0 million as compared to a net gain for the year ended 31 December 2017. The Group engaged Independent Valuers to perform the valuation of biological assets, which are measured at fair value less costs to sell as at 31 December 2018. Changes in fair values less costs to sell are recognised in the profit and loss. Owing to the circumstances as mentioned above, i.e. the difficulties in estimating when the harvesting quota is to be granted to the Group by the relevant local government, the Independent Valuers changed the valuation methodology from income approach (which involves projection by the Group of the income stream derived from harvesting and selling of the forestry assets in the future) to sales comparison approach (which considers prices recently paid or listing price for similar assets) to determine the overall fair values less costs to sell of the biological assets. Please refer to note 15(b) to this announcement for more details.

Selling and distribution expenses

During the year ended 31 December 2018, the Group's selling and distribution expenses decreased to approximately HK$31.7 million from approximately HK$41.3 million, representing a decrease of approximately 23.2%, which was mainly attributable to the decrease in selling expenses as a result of absence of additional consumption of packaging materials consumed in the year ended 31 December 2017 as a result of the packaging method modification trials carried out in that year as well as decrease in transportation costs due to the decrease in sales volume of particleboards and decrease in advertising and promotion expenses in the year ended 31 December 2018.

Meanwhile, there was approximately HK$0.5 million incurred mainly for the subcontracting fee for harvesting activities performed by subcontractors under the Forestry Segment during the year ended 31 December 2018 (2017: HK$0.5 million).

Administration expenses

During the year ended 31 December 2018, the Group's administration expenses decreased to approximately HK$30.1 million from approximately HK$36.8 million, representing a decrease of approximately 18.2% as compared to the year ended 31 December 2017. The decrease was mainly attributed to the absence of legal and professional fee in the year ended 31 December 2018 in respect of the proposed major and connected transaction first announced in January 2016 which was terminated in April 2017 but the related costs were recorded in the year ended 31 December 2017 and the decrease in donation of approximately HK$2.3 million for the year ended 31 December 2018.

Meanwhile, there was approximately HK$3.3 million incurred mainly for the fertilizer fee, replantation cost and other maintenance expenses of forestlands under the Forestry Segment during the year ended 31 December 2018 (2017: HK$3.2 million).

Finance costs

During the year ended 31 December 2018, the Group's finance costs increased to approximately HK$27.8 million from approximately HK$25.3 million, representing an increase of approximately 9.7% as compared to the year ended 31 December 2017. The increase was mainly attributable to interest expenses incurred for the secured and guaranteed bonds issued by the Company on 15 September 2017, which has been fully settled in the year 2018, and the secured and guaranteed notes payable issued by the Company on 13 August 2018, respectively. Please refer to note 22 to this announcement and the announcement of the Company dated 10 August 2018 for more details.

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

During the year ended 31 December 2018, the Group's loss attributable to owners of the Company amounting to approximately HK$59.6 million, while the Group's profit attributable to owners of the Company during the year ended 31 December 2017 amounting to approximately HK$30.3 million. The decrease was mainly attributable to the decrease in gross profit of approximately HK$22.0 million and the increase in net loss arising from changes in fair values less costs to sell of biological assets of approximately HK$70.0 million, impairment loss on prepaid forestlands lease payments of approximately HK$5.4 million and property, plant and equipment and finance costs of approximately HK$2.2 million. The loss was partly set-off by the decrease in selling and distribution expenses, advertising and promotion expenses and administration expenses as discussed above.

Total comprehensive loss/profit attributable to owners of the Company

During the year ended 31 December 2018, the Group's total comprehensive loss attributable to owners of the Company amounting to approximately HK$82.5 million, while the Group's total comprehensive profit attributable to owners of the Company during the year ended 31 December 2017 amounting to approximately 57.2 million. The decrease was mainly attributable to loss for the year ended 31 December 2018 as compared to profit for the year ended 31 December 2017, and the increase in the exchange loss arising from translation of Renminbi ("RMB") to Hong Kong Dollar ("HKD") which is the presentation currency of the consolidated financial statements due to the depreciation of RMB and the recognition of a loss attributable to owners of the Company during the year ended 31 December 2018.

FUTURE PLANS AND PROSPECT

The macroeconomic conditions in 2019 remain severe and complicated. Not only are major developed economies reporting weak economic growth, they also lack effective means to continue stimulating the economy. In China, the economy is still in its downward cycle, insufficient economic growth momentum, weak financing environment, and unfavorable corporate investment sentiment. The furniture industry and the building decoration industry are the two largest markets for particleboards. It remains uncertain as to whether additional tariffs will be imposed on furniture products exported from the Mainland China to the United States as a result of the ongoing trade war between China and the United States. The Group's particleboard business will be adversely affected if tariffs are imposed. The Group will closely monitor changes in the domestic policies and continue its efforts towards taking proactive production cost saving initiatives, negotiating with customers regarding product pricing and considering the feasibility of developing more kinds of specifications in size and thickness to meet different market segments.

Since the grant of timber wood harvesting quotas have been materially curtailed in 2018 as part of the PRC government's strengthening environmental protection drive, and such enhanced control is expected to last for a period which is unknown to the Group at the moment, the Group has commenced the feasibility study on new business strategy that seeks to better utilise its forestry resources. In this regard, the Company has noted that the PRC government is supportive of the development and promotion of a more diversified and ecologically friendly forestry economy, such as undergrowth planting, aquaculture, collection and forest tourism. The aim is to achieve ecological protection and economic development in a manner consistent with the State's strategy of developing a green economy, a low-carbon economy and a circular economy. The Group will closely keep track of changes in the relevant policies and regulations that implement such governmental approach and will taking proactive initiatives to maximize the value of its forestry assets.

LIQUIDITY, FINANCIAL RESOURCES AND CAPITAL STRUCTURE

As at 31 December 2018 and 2017, the Group had bank borrowings of approximately HK$158.6 million and HK$206.5 million respectively. As at 31 December 2018, all bank borrowings are dominated in RMB. Except for bank borrowings of approximately HK$12.0 million which is denominated in United State Dollars ("USD"), other bank borrowings are dominated in RMB as at 31 December 2017. Other than certain bank borrowings which bear fixed interest rate ranging from 4.35% to 5.87% per annum, other bank borrowings bear floating interest rates ranging from 4.75% to 6.88% per annum as at 31 December 2018.

As at 31 December 2018, the Group had other borrowings comprising sales and leaseback operating leases arrangement with financial institutions, which provides loans to the Group with tenure of two to three years (2017: three years) from the date of advancement. The carrying amount of such borrowings amounted to approximately HK$43.2 million as at 31 December 2018 (2017: HK$54.3 million), taking into account the effect of discounting. Other borrowings of approximately HK$31.6 million (2017: HK$54.3 million) carry fixed interest rates 9.68% (2017: 9.68%) per annum while other borrowings of approximately HK$11.6 million (2017: HK$nil) carry floating interest with interest rate of 12.21% per annum as at 31 December 2018.

As at 31 December 2018, the outstanding finance leases liability of the Group was in connection with 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$1.6 million as at 31 December 2018 (2017: HK$2.1 million). Maturity profile of the bank and other borrowings is set out in note 21 to this announcement.

As at 31 December 2018 and 2017, the Group had net current liabilities of approximately HK$39.9 million and HK$101.8 million respectively. The current ratio of the Group, being its current assets over its current liabilities, increase to 0.85x as at 31 December 2018 (2017: 0.72x). Such increase was mainly due to the strengthening of the Group's working capital by converting the short-term secured and guaranteed bonds to long-term secured and guaranteed notes payable during the year ended 31 December 2018.

On 13 August 2018, the Company issued secured and guaranteed redeemable notes in the principal amount of HK$100,000,000 for a term of two years (extendable for another one year) to Haitong Global Investment SPC III acting on behalf of and for a segregated portfolio. The notes bear interest on the outstanding principal amount of 8% per annum for the first six months and prime rate plus 3% for the remaining initial term and the extended term if applicable. The notes are guaranteed by Mr. Wong and Mrs. Wong ("Guarantors"). The Note Subscription Agreement and the instrument constituting the Notes ("Instrument") contain covenants that require Mr. Wong to remain as the single largest shareholder of the Company, the chairman of the Board and executive director of the Company and restrict the creation by either of the Guarantors of any additional encumbrances over real properties owned by them in Hong Kong as at the date of the Note Subscription Agreement and the Instrument, the breach of which will constitute an event of default. In addition, the bankruptcy or inability to pay debts when due of the Guarantors or any change of control (within the meaning of the Code on Takeovers and Mergers) of the Company will also constitute an event of default. Upon the occurrence of a continuing event of default, the holder(s) of the notes is(are) entitled to request immediate redemption of the notes at a higher interest rate and such amount which would give a 20% internal rate of return (inclusive of all interest and fee payable by the Company) to the Note Subscriber as stipulated in the Instrument.

During the years ended 31 December 2018 and 2017 respectively, no new shares were issued by the Company.

Gearing Ratio

As at 31 December 2018, the gearing ratio stood at 0.95x (2017: 0.89x) based on total borrowings over shareholders' equity. The worsened gearing ratio was due to the decrease in shareholders' equity at the end of 2018.

FOREIGN EXCHANGE EXPOSURE

As at 31 December 2018 and 2017, functional currency of the Company and its major operating subsidiary is RMB while the presentation currency of the Company is HKD. The Group's bank balances were mainly denominated in RMB and HKD. The Group manages its foreign currency risk by closely monitoring the movement of the foreign currency rate. As at 31 December 2018, there were finance lease denominated in HKD and secured and guaranteed notes payable denominated in HKD with contractual interest rate of 8% per annum for the first six months and prime rate plus 3% for the remaining initial term and the extended term if applicable.

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 2018. Save as capital commitment contracted for the acquisition of property, plant and equipment for approximately HK$3,424,000 as detailed under the section "Commitments and Contingent Liabilities" below, 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 2018, 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$286,674,000 (2017: HK$301,117,000);

(b) the pledge of the Group's prepaid lease payments with an aggregate carrying amount of approximately HK$18,652,000 (2017 HK$20,000,000);

(c) the pledge of the Group's inventories with an aggregate carrying amount HK$33,349,000. (2017: HK$18,526,000;

(d) the pledge of the Group's security deposit with carrying amount of HK$1,712,000 (2017: nil); and

(e) the pledge of the Group's bank deposits with an aggregate carrying amount of approximately HK$6,277,000 (2017: HK$9,472,000).

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 2018, the remaining lease term is 6 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$319,000 and nil, respectively (2017: HK$610,000 and HK$319,000).

As at 31 December 2018, the Group has capital commitments of approximately HK$3,424,000 (2017: HK$4,982,000) for acquisition of property, plant and equipment which are contracted but not yet completed and therefore not included in the consolidated financial statements.

Saved as disclosed above, the Group did not have any significant capital commitment nor contingent liabilities as at 31 December 2018.

EMPLOYEES AND REMUNERATION POLICIES

As at 31 December 2018, the Group employed a total of 183 employees (2017: 188). The remuneration payable to our employees included fees, salaries, retirement benefits scheme contributions and other benefits. For the years ended 31 December 2018 and 2017, the remuneration was approximately HK$16.6 million and HK$16.4 million, respectively. The Group determines the employee's remuneration based on factors such as qualifications, duty, contributions and years of experience. The key principles of the remuneration policy are to remunerate employees in a manner that is market competitive, consistent with best practice and supports the interests of the shareholders of the Company (the "Shareholders"). The Group aims to align the interests of the senior executives through performance and long-term incentive plans in addition to their fixed remuneration.

The Company also adopted a share option scheme. As at 31 December 2018 and 2017, no share option was granted or outstanding.

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

During the year ended 31 December 2018, neither the Company nor its subsidiaries have purchased, sold or redeemed any listed 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 2018 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 positions as both the 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 2018 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 2018 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 the accounting principles and practices adopted by the Group in respect of the Group's consolidated financial statements and this preliminary announcement of the results for the year ended 31 December 2018.

The figures in respect of this preliminary announcement of the Group's results for the year ended 31 December 2018 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 2018. 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 2018 (2017: nil).

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

Hong Kong, 25 March 2019

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; 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.