



# 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

## Interim Report 2017



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# CONTENTS

Corporate Information	3
Financial Highlights	4
Condensed Consolidated Statement of Profit or Loss and Other Comprehensive Income	5
Condensed Consolidated Statement of Financial Position	6
Condensed Consolidated Statement of Changes in Equity	7
Condensed Consolidated Statement of Cash Flows	8
Notes to the Condensed Consolidated Financial Statements	9
Management Discussions and Analysis	31





## CORPORATE INFORMATION

### **Registered office**

Unit 504, 5/F, Admiralty Centre, Tower 2  
No. 18 Harcourt Road,  
Admiralty, Hong Kong

### **Head office in Hong Kong**

Unit 504, 5/F, Admiralty Centre, Tower 2  
No. 18 Harcourt Road  
Admiralty, Hong Kong

### **Principal place of business In the PRC**

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

### **Company's website address**

[www.hongweiasia.com](http://www.hongweiasia.com)

### **Authorised representatives**

Mr. Wong Cheung Lok  
Ms. Huang Xiuyan

### **Executive Directors**

Mr. Wong Cheung Lok  
Ms. Cheung Ngar Kwan  
Ms. Huang Xiuyan  
Mr. Liu Jiayong

### **Non-executive Director**

Mr. Lai Ming Wai

### **Independent non-executive Directors**

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

### **Compliance officer**

Ms. Huang Xiuyan

### **Audit committee**

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

### **Remuneration committee**

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

### **Nomination committee**

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

### **Company secretary**

Ms. Tang Yuen Ching Irene HKICPA FCCA

### **Share registrar and transfer office**

Tricor Investor Services Limited  
Level 22  
Hopewell Centre  
183 Queen's Road East  
Hong Kong

### **Principal bankers**

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

### **Auditor**

Graham H.Y. Chan & Co.  
*Certified Public Accountants (Practising)*

### **Legal advisers to the Company**

as to Hong Kong law:  
Reed Smith Richards Butler

### **GEM stock code**

8191

## FINANCIAL HIGHLIGHTS

For the six months ended 30 June 2017, operating results of the Group were as follows:

- Revenue for the six months ended 30 June 2017 amounted to approximately HK\$218.8 million, representing an increase of 5.8% from approximately HK\$206.9 million recorded in the same period in 2016.
- Gross Profit for the six months ended 30 June 2017 amounted to approximately HK\$45.4 million, representing a decrease of 14.8% from approximately HK\$53.3 million recorded in the same period in 2016.
- Profit attributable to owners of the Company for the six months ended 30 June 2017 amounted to HK\$6.5 million representing a decrease of 64.3% from approximately HK\$18.3 million profit recorded in the same period in 2016.
- The Board does not recommend the payment of an interim dividend for the six months period ended 30 June 2017 (2016: nil).

## INTERIM RESULTS

The board of Directors (the "Board") of the Company is pleased to announce the unaudited consolidated results of the Company and its subsidiaries (the "Group") for the six months ended 30 June 2017 ("2017 Interim Period") together with the comparative figures of the corresponding period as appropriate.

### CONDENSED CONSOLIDATED STATEMENT OF PROFIT OR LOSS AND OTHER COMPREHENSIVE INCOME

		Three months ended 30 June		Six months ended 30 June	
	Notes	2017 HK\$'000 (Unaudited)	2016 HK\$'000 (Unaudited)	2017 HK\$'000 (Unaudited)	2016 HK\$'000 (Unaudited)
Revenue	4	125,964	110,099	218,826	206,916
Cost of sales		(101,557)	(82,487)	(173,404)	(153,606)
Gross profit		24,407	27,612	45,422	53,310
Other income	4	4,347	5,752	8,903	9,434
Other gains/(losses)		(1,787)	13	(1,765)	(108)
Net (losses)/gains arising from changes in fair values less costs to sell of biological assets		(2,025)	2,131	4,616	2,131
Selling and distribution expenses		(11,709)	(7,674)	(20,096)	(17,008)
Administration expenses		(11,842)	(7,200)	(18,742)	(16,635)
Other expenses		–	(324)	–	(356)
Finance costs	6	(6,752)	(6,309)	(11,805)	(11,941)
<b>(Loss)/profit before tax</b>		<b>(5,361)</b>	<b>14,001</b>	<b>6,533</b>	<b>18,827</b>
Income tax credit/(expense)	7	–	98	–	(533)
<b>(Loss)/profit for the period attributable to owners of the Company</b>	8	<b>(5,361)</b>	<b>14,099</b>	<b>6,533</b>	<b>18,294</b>
<b>Other comprehensive income/(expenses) which will not be reclassified subsequently to profit or loss:</b>					
Exchange differences arising on translation to presentation currency		9,438	(10,398)	12,614	(8,191)
<b>Other comprehensive income/(expense) for the period</b>		<b>9,438</b>	<b>(10,398)</b>	<b>12,614</b>	<b>(8,191)</b>
<b>Total comprehensive income for the period</b>		<b>4,077</b>	<b>3,701</b>	<b>19,147</b>	<b>10,103</b>
<b>Total comprehensive income attributable to owners of the Company</b>		<b>4,077</b>	<b>3,701</b>	<b>19,147</b>	<b>10,103</b>
<b>Basic and diluted (loss)/earnings per share, in HK cents</b>	9	<b>(0.64)</b>	<b>1.69</b>	<b>0.78</b>	<b>2.20</b>

## CONDENSED CONSOLIDATED STATEMENT OF FINANCIAL POSITION

	Notes	30 June 2017 HK\$'000 (Unaudited)	31 December 2016 HK\$'000 (Audited)
<b>NON-CURRENT ASSETS</b>			
Property, plant and equipment		350,212	339,308
Prepaid lease payments	10	43,178	40,607
Biological assets	10	125,652	90,559
Intangible assets		3,299	3,458
Deferred tax assets		2,438	2,366
Prepayments for acquisition of forestry rights of the forestlands	13	14,518	46,679
Pledged bank deposits		17,859	17,328
		<b>557,156</b>	<b>540,305</b>
<b>CURRENT ASSETS</b>			
Inventories	11	127,264	96,689
Trade and bills receivables	12	45,906	49,730
Deposits, prepayments and other receivables	13	28,878	52,317
Biological assets	10	8,692	3,011
Bank balances and cash		10,424	11,955
		<b>221,164</b>	<b>213,702</b>
<b>CURRENT LIABILITIES</b>			
Trade payables	14	27,415	16,891
Other payables and accruals		24,608	28,375
Bank and other borrowings, due within one year	15	198,976	198,783
Deferred income		3,371	2,977
Unsecured loans and guaranteed bonds	16	31,033	16,384
		<b>285,403</b>	<b>263,410</b>
<b>NET CURRENT LIABILITIES</b>		<b>(64,239)</b>	<b>(49,708)</b>
<b>TOTAL ASSETS LESS CURRENT LIABILITIES</b>		<b>492,917</b>	<b>490,597</b>
<b>NON-CURRENT LIABILITIES</b>			
Deferred tax liabilities		565	548
Bank and other borrowings, due after one year	15	94,855	114,428
Deferred income		35,262	32,533
		<b>130,682</b>	<b>147,509</b>
<b>NET ASSETS</b>		<b>362,235</b>	<b>343,088</b>
<b>CAPITAL AND RESERVES</b>			
Share capital	17	253,928	253,928
Reserves		108,307	89,160
<b>EQUITY ATTRIBUTABLE TO OWNERS OF THE COMPANY AND TOTAL EQUITY</b>		<b>362,235</b>	<b>343,088</b>

## CONDENSED CONSOLIDATED STATEMENT OF CHANGES IN EQUITY

For the six months ended 30 June 2017

	Share capital HK\$'000	Capital reserve HK\$'000	Statutory reserve HK\$'000	Foreign currency translation reserve HK\$'000	Retained profits HK\$'000	Total HK\$'000
Balance at 1 January 2017 (audited)	253,928	(16,968)	18,011	(28,712)	116,829	343,088
Profit for the period	–	–	–	–	6,533	6,533
Other comprehensive income for the period:						
Exchange differences arising on translation to presentation currency	–	–	–	12,614	–	12,614
Total comprehensive income for the period	–	–	–	12,614	6,533	19,147
Balance at 30 June 2017 (unaudited)	253,928	(16,968)	18,011	(16,098)	123,362	362,235
Balance at 1 January 2016 (audited)	253,928	(16,968)	13,251	(5,676)	81,136	325,671
Profit for the period	–	–	–	–	18,294	18,294
Other comprehensive loss for the period:						
Exchange differences arising on translation to presentation currency	–	–	–	(8,191)	–	(8,191)
Total comprehensive (loss)/income for the period	–	–	–	(8,191)	18,294	10,103
Balance at 30 June 2016 (unaudited)	253,928	(16,968)	13,251	(13,867)	99,430	335,774



## CONDENSED CONSOLIDATED STATEMENT OF CASH FLOWS

For the six months ended 30 June 2017

	Six months ended 30 June	
	2017 HK\$'000 (Unaudited)	2016 HK\$'000 (Unaudited)
Net cash generated from operating activities	34,756	82,243
Net cash used in investing activities	(13,494)	(91,436)
Net cash used in financing activities	(26,644)	(36,818)
Net decrease in cash and cash equivalents	(5,382)	(46,011)
Cash and cash equivalents at the beginning of the period	11,955	68,442
Effect of foreign exchange rate changes	3,851	(3,137)
Cash and cash equivalents at the end of the period, represented by bank balances and cash	10,424	19,294

## NOTES TO THE CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

### 1. CORPORATE 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 30 June 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.

The principal activity of the Company is investment holding. Its principal subsidiary, Hongwei Wooden Products (Renhua) Company Limited (“Hongwei Renhua”), established in the People’s Republic of China (“PRC”) is principally engaged in manufacturing and selling of particleboards. Since the current interim period ended 30 June 2017, the Group through its subsidiaries has engaged in a new operating segment, namely forestry segment, as set out in more details in note 5 below.

### 2. BASIS OF PREPARATION

These unaudited interim condensed consolidated financial statements, which comprises the condensed consolidated statement of financial position as at 30 June 2017, and the related condensed consolidated statements of profit or loss and other comprehensive income, condensed consolidated statement of changes in equity and condensed consolidated statements of cash flows for the six months period then ended, and explanatory information, have been prepared in accordance with Hong Kong Accounting Standard (“HKAS”) 34 “Interim Financial Reporting” issued by the Hong Kong Institute of Certified Public Accountants (the “HKICPA”) and the applicable disclosure provisions of the Rules Governing the Listing of Securities on the Growth Enterprise Market of the Stock Exchange of Hong Kong Limited (the “GEM Listing Rules”).

The directors of the Company have given careful consideration to the Group’s financial performance, working capital, liquidity position and available banking facilities from its principal bankers and lenders. On the basis that the Group’s business, operations and relationships with its suppliers remained stable and taking into account the banking facilities available to the Group, 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. Accordingly, these consolidated financial statements have been prepared on a going concern basis.

These unaudited interim condensed consolidated financial statements do not include all the information and disclosures required in annual financial statements, and should be read in conjunction with the Group’s annual report for the year ended 31 December 2016.

These unaudited interim condensed consolidated financial statements have been prepared in accordance with the same accounting policies adopted in the Group's annual report for the year ended 31 December 2016 except for the application of new and amended Hong Kong Financial Reporting Standards ("HKFRSs"), details of which are set out in note 3 below.

The preparation of an interim financial report in conformity with HKAS 34 requires management to make judgement on estimates and assumptions that affect the application of accounting policies and the reported amounts of assets and liabilities and income and expenses. Actual results may differ from these estimates.

The financial statements relating to the financial year ended 31 December 2016 that are included in these condensed consolidated interim financial statements as comparative information does not constitute the Company's statutory annual consolidated financial statements for that financial year 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 Companies Ordinance is as follows:

The Company has delivered the financial statements for the year ended 31 December 2016 to the Registrar of the Companies as required by section 662(3) of, and Part 3 of Schedule 6 to, the Companies Ordinance. The Company's auditor has reported on those financial statements. 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 sections 406(2), 407(2) or (3) of the Companies Ordinance.

### 3. APPLICATION OF NEW AND REVISED HKFRSs

The Group has applied the following amendments to HKFRSs issued by the HKICPA for the first time which are effective for accounting periods beginning on or after 1 January 2017.

Amendments to HKAS 7  
Amendments to HKAS 12

Disclosure Initiative  
Recognition of Deferred Tax Assets for Unrealised Losses

Amendments to HKAS 7 requires entities to provide disclosures that enable users of financial statements to evaluate changes in liabilities arising from financing activities, including both changes arising from cash flows and non-cash changes. Application of amendments to HKAS 7 only extends the disclosures in the annual financial statements for the year ending 31 December 2017.

The application of amendments to HKAS 12 in the current year has had no material impact on the Group's financial performance and financial positions for the current and prior periods and/or on the disclosures set out in these unaudited interim condensed consolidated financial statements.

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

Amendments to HKAS 28	Investments in associate and joint ventures as part of Annual Improvements to HKFRSs 2014–2016 Cycle <sup>1</sup>
Amendments to HKAS 40	Transfers of Investment Property <sup>1</sup>
HKFRS 9	Financial Instruments <sup>1</sup>
HKFRS 15	Revenue from Contracts with Customers <sup>1</sup>
HKFRS 16	Leases <sup>2</sup>
Amendments to HKFRS 2	Classification and Measurement of Share-based Payment Transactions <sup>1</sup>
Amendments to HKFRS 4	Applying HKFRS 9 Financial Instruments with HKFRS 4 Insurance Contracts <sup>1</sup>
Amendments to HKFRS 15	Clarification to HKFRS 15 Revenue from Contracts with Customers <sup>1</sup>
Amendments to HKFRS 10 and HKAS 28	Sale or Contribution of Assets between an Investor and its Associate or Joint Venture <sup>3</sup>
HK (IFRIC)-Int 22	Foreign Currency Transactions and Advance Consideration <sup>1</sup>
HK (IFRIC)-Int 23	Uncertainty over Income Tax Treatments <sup>2</sup>

<sup>1</sup> Effective for annual periods beginning on or after 1 January 2018

<sup>2</sup> Effective for annual periods beginning on or after 1 January 2019

<sup>3</sup> Effective for annual periods beginning on or after a date to be determined

Except for the 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 issued in 2009 introduced new requirements for the classification and measurement of financial assets. HKFRS 9 was subsequently amended in 2010 to include requirements for the classification and measurement of financial liabilities and for derecognition, and further amended in 2013 to include the new requirements for general hedge accounting. Another revised version of HKFRS 9 was issued in 2014 mainly to include a) impairment requirements for financial assets and b) limited amendments to the classification and measurement requirements by introducing a 'fair value through other comprehensive income' (FVTOCI) measurement category for certain simple debt instruments.

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 recognized.



Except for the potential early recognition of credit losses based on the expected loss model in relation to the Group's financial assets measured at amortised costs, the directors of the Company anticipate that the adoption of HKFRS 9 in the future may not have other significant impact on amounts reported in respect of the Group's financial assets and financial liabilities based on an analysis of the Group's financial instruments as at 30 June 2017.

### ***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 have an impact on the amounts reported and disclosures made in the Group's consolidated financial statements. However, it is not practicable to provide a reasonable estimate of the effect of HKFRS 15 until the Group performs a detailed review.

### ***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 recognized for all leases by lessees, except for short-term leases and leases of low value assets.

The right-of-use asset is 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, among 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 used while other operating lease payments are presents as operating cash flows. Under 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 recognized prepaid lease payments 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 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 AND OTHER INCOME

	For the six months ended 30 June	
	2017 HK\$'000 (Unaudited)	2016 HK\$'000 (Unaudited)
<b>Revenue:</b>		
Sales of particleboards	218,826	206,916
<b>Other income:</b>		
Value added tax ("VAT") refund	7,251	8,132
Government grants	1,568	1,061
Bank interest income	79	236
Others	5	5
	<b>8,903</b>	<b>9,434</b>

## 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 six months ended 30 June 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 wood and agricultural products in the PRC.

For the six months ended 30 June 2016 and 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 six months ended 30 June 2016.

The accounting policies of the reportable segments are the same as the Group's accounting policies as set out in the annual reports for the year ended 31 December 2016. Segment revenue represents the revenue generated by each operating segment.

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 resources 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, unsecured loans and guaranteed 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 six months ended 30 June 2017.

### For the six months ended 30 June 2017

	Particleboards segment HK\$'000 (Unaudited)	Forestry segment HK\$'000 (Unaudited)	Total HK\$'000 (Unaudited)
Segment revenue:			
Revenue from external customers	218,826	–	218,826
Segment results	24,590	1,689	26,279
Capital expenditures*	13,079	44,680	57,759
Depreciation	12,186	–	12,186
Amortisation	261	739	1,000
Net gain arising from changes in fair values less costs to sell of biological assets	–	4,616	4,616
Loss on disposal of forestry right of the forestlands	–	1,806	1,806

\* Capital expenditures of particleboards segment mainly represent the addition of property, plant and equipment. Capital expenditures of forestry segment mainly represent the acquisition of forestry rights of the forestlands.

### As at 30 June 2017

	Particleboards segment HK\$'000	Forestry segment HK\$'000	Total HK\$'000
Segment assets	578,524	174,624	753,148
Segment liabilities	89,180	51	89,231



### Reconciliation of segment results, segment assets and segment liabilities

	HK\$'000 (Unaudited)
Segment results	26,279
Interest income	79
Corporate staff cost	(1,392)
Corporate overhead	(6,628)
Unallocated finance costs	(11,805)
Income tax expenses	–

<b>Profit for the period</b>	<b>6,533</b>
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	HK\$'000 (Unaudited)
Segment assets	753,148
Deferred tax asset	2,438
Pledged bank deposits	17,859
Unallocated corporate assets	4,875

<b>Total assets</b>	<b>778,320</b>
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	HK\$'000 (Unaudited)
Segment liabilities	89,231
Deferred tax liabilities	565
Bank and other borrowings	293,831
Unsecured loans and guaranteed bonds	31,033
Unallocated corporate liabilities	1,425

<b>Total liabilities</b>	<b>416,085</b>
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## Entity-wide disclosures

### Geographical information

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

	For the six months ended 30 June	
	2017 HK\$'000 (Unaudited)	2016 HK\$'000 (Unaudited)
Revenue from PRC	216,457	204,892
Revenue from other Asian countries	2,369	2,024
	218,826	206,916

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, biological assets and prepaid lease payments or by location of operation to which they are allocated, in case of prepayments for acquisition of forest rights and property, plant and equipment, and intangible assets.

### Information about major customers

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

	For the six months ended 30 June	
	2017 HK\$'000 (Unaudited)	2016 HK\$'000 (Unaudited)
Customer A	111,096	71,369

## 6. FINANCE COSTS

	For the six months ended 30 June	
	2017 HK\$'000 (Unaudited)	2016 HK\$'000 (Unaudited)
Interest on bank and other borrowings	9,988	9,549
Interests on puttable notes and guaranteed bonds	1,398	2,392
Interest on unsecured loans	368	—
Interest on finance lease liabilities	51	—
	11,805	11,941

## 7. INCOME TAX CREDIT/(EXPENSE)

	For the six months ended 30 June	
	2017 HK\$'000 (Unaudited)	2016 HK\$'000 (Unaudited)
Deferred tax:		
Current year charge	—	533
	—	533

No provision for Hong Kong Profits Tax has been made as the Group's income neither arises in, nor is derived from Hong Kong.

Under the Law of the People's Republic of China on Enterprise Income Tax (the "EIT Law") and Implementation Regulation of the EIT Law, the tax rate of Hongwei (Renhua) is 25% during the six months ended 30 June 2017 and 2016.

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. During the six months ended 30 June 2017 and 2016, Hongwei Renhua is entitled to such preferential policy and only 90% of the income of Hongwei Renhua from the sale of particleboard 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 six month ended 30 June 2017, the Group's two subsidiaries which are principally engaged in qualifying agricultural business and therefore, the profit of them are entitled to exemption from payment of enterprise income tax.

## 8. (LOSS)/PROFIT FOR THE PERIOD

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

	For the six months ended 30 June	
	2017 HK\$'000 (Unaudited)	2016 HK\$'000 (Unaudited)
<b>Depreciation and amortisation expenses</b>		
Depreciation of property, plant and machinery	12,186	12,138
Amortisation of intangible assets	261	513
Amortisation of prepaid lease payments	739	254
Total depreciation and amortisation expenses	13,186	12,905
<b>Employee benefits expenses (included directors' emoluments)</b>		
Salaries and other benefit	6,913	6,726
Contribution to retirement benefit schemes	924	922
Total employee benefit expenses	7,837	7,648
Cost of inventories recognised as an expense	173,404	153,606
Auditor's remuneration:		
Provision in respect of current period	750	900
Underprovision in respect of prior period	–	300
Non-audit services	370	308
	1,120	1,508
Professional fee for proposed major and connected acquisition*	2,234	–
Loss on disposal of forestry rights of the forestlands	1,806	–

\* The proposed major and connected acquisition has been terminated during the six months ended 30 June 2017. Details are set out in note 18(c).



## 9. EARNINGS PER SHARE

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

### *Earnings*

	Six months ended 30 June	
	2017 HK\$'000 (Unaudited)	2016 HK\$'000 (Unaudited)
Profit for the period attributable to owners of the Company for the purpose of basic earnings per share	6,533	18,294

### *Number of shares*

	Six months ended 30 June	
	2017 '000 (Unaudited)	2016 '000 (Unaudited)
Weighted average number of ordinary shares for the purpose of basic earnings per share	832,603	832,603

Notes: Basic and diluted earnings per share were the same for both periods as there has been no potential ordinary shares outstanding during the periods presented.

## 10. PREPAID LEASE PAYMENTS AND BIOLOGICAL ASSETS

### *(a) Nature of biological assets*

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 small-sized timber woods, will be used as raw materials of the Group to produce particleboards for sale and the remaining timber woods harvested, being the larger-sized timber woods, will be sold to external customers. During the six months ended 30 June 2017, the Group had not conducted any harvesting work on its forestlands.

**(b) Valuation of biological assets**

Biological assets are measured at fair value less costs to sell at initial recognition and at the end of each reporting period, by reference to the work performed by the independent valuers. Any changes in fair value less costs to sell are recognised in profit or loss. During the six months ended 30 June 2017, net gain arising from changes in fair values less costs to sell of biological assets of approximately HK\$4,616,000 (six months ended 30 June 2016: HK\$2,131,000) has been recognised in the condensed consolidated statement of profit or loss and other comprehensive income.

**(c) Additions of prepaid lease payments and biological assets during the period**

During the six months ended 30 June 2017, the Group completed the acquisition of certain forestry rights of the forestlands. Among the total considerations of approximately HK\$44,680,000 (six months ended 30 June 2016: HK\$29,730,000), the Group recognised biological assets of approximately HK\$41,212,000 (six months ended 30 June 2016: HK\$22,602,000) and prepaid lease payments of approximately HK\$3,468,000 (six months ended 30 June 2016: HK\$7,128,000).

At initial recognition, the independent valuers used market approach to determine the fair values less costs to sell of the newly acquired biological assets as the Group's existing harvesting plan at the time being did not include the logging of these newly acquired biological assets. As at 30 June 2017, these biological assets have been valued by using income approach because the directors of the Company have formulated a harvesting plan for these newly acquired forestlands and accordingly, change of valuation approach is appropriate.

## 11. INVENTORIES

	As at 30 June 2017 HK\$'000 (Unaudited)	As at 31 December 2016 HK\$'000 (Audited)
Raw materials	88,784	81,428
Work in progress	3,612	1,911
Finished goods	34,868	13,350
<b>Total</b>	<b>127,264</b>	<b>96,689</b>

## 12. TRADE AND BILLS RECEIVABLES

	As at 30 June 2017 HK\$'000 (Unaudited)	As at 31 December 2016 HK\$'000 (Audited)
Trade receivables	24,788	41,596
Allowance for doubtful debts	(403)	(391)
	24,385	41,205
Bills receivables	21,521	8,525
	45,906	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 (31 December 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. The following is an aged analysis of trade receivables, after allowance for doubtful debts, presented based on the date of invoice date, at end of the reporting period.

	As at 30 June 2017 HK\$'000 (Unaudited)	As at 31 December 2016 HK\$'000 (Audited)
Within 3 months	24,056	32,631
Over 3 months but within six months	329	3,799
Over six months	–	4,775
<b>Total</b>	<b>24,385</b>	<b>41,205</b>

The maturity period of bills receivable are within 6 months for 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 maturity date.

	As at 30 June 2017 HK\$'000 (Unaudited)	As at 31 December 2016 HK\$'000 (Audited)
Within 3 months	8,376	3,520
Over 3 months but within six months	13,145	5,005
	<b>21,521</b>	<b>8,525</b>



### 13. DEPOSITS, PREPAYMENTS AND OTHER RECEIVABLES

	As at 30 June 2017 HK\$'000 (Unaudited)	As at 31 December 2016 HK\$'000 (Audited)
VAT recoverable	17,410	14,785
VAT refund	4,920	1,368
Payments in advance to suppliers	3,380	24,228
Prepaid lease payments	1,468	1,391
Prepayments for acquisition of forestry rights of the forestlands	14,518	46,679
Receivable from disposal of an intangible asset	–	7,150
Others	1,700	3,395
	<b>43,396</b>	<b>98,996</b>
Analysed for reporting purpose as:		
Current assets	28,878	52,317
Non-current assets	14,518	46,679
	<b>43,396</b>	<b>98,996</b>

## 14. TRADE PAYABLES

	As at 30 June 2017 HK\$'000 (Unaudited)	As at 31 December 2016 HK\$'000 (Audited)
Trade payables	27,415	16,891

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:

	As at 30 June 2017 HK\$'000 (Unaudited)	As at 31 December 2016 HK\$'000 (Audited)
Within 3 months	14,208	9,244
Over 3 months but within 6 months	11,352	4,594
Over 6 months	1,855	3,053
	27,415	16,891

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

## 15. BANK AND OTHER BORROWINGS

	Notes	As at 30 June 2017 HK\$'000 (Unaudited)	As at 31 December 2016 HK\$'000 (Audited)
Bank borrowings	(i)	234,745	253,572
Other borrowings	(ii)	56,689	59,639
Finance lease liabilities	(iii)	2,397	–
		293,831	313,211
Secured	(iv)	266,409	298,454
Unsecured and unguaranteed		27,422	14,757
		293,831	313,211
Less: amount included in current liabilities		(198,976)	(198,783)
Non-current portion		94,855	114,428

### Notes:

- (i) Other than bank borrowings with an aggregate carrying amount of HK\$81,460,000 (31 December 2016: HK\$81,273,000) which bear fixed interest rate ranging from 5.09% to 7.18% (31 December 2016: 5.09% to 7.18%) per annum as at 30 June 2017, other bank borrowings with an aggregate carrying amount of HK\$153,285,000 (31 December 2016: HK\$172,299,000) bear floating interest rates ranging from 4.51% to 6.41% (31 December 2016: 4.51% to 6.41%) per annum as at 30 June 2017. All bank borrowings are denominated in Renminbi ("RMB").

The maturity analysis of bank borrowings is as follows:

	As at 30 June 2017 HK\$'000 (Unaudited)	As at 31 December 2016 HK\$'000 (Audited)
Within one year	188,921	185,317
More than one year, but not exceeding two years	29,405	37,060
More than two years, but not more than five years	16,419	31,195
	234,745	253,572

- (ii) As at 30 June 2017, the Group's other borrowings represents a sales and leaseback operating lease arrangement with a financial institution, pursuant to which the Group transferred its equipments to the financial institution and the financial institution provided a loan to the Group with principal amount 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 repurchase the leased equipments. Such borrowing carries fixed interest rate of 9.68% per annum as at 30 June 2017 and 31 December 2016. Other borrowings are denominated in RMB.

The maturity analysis of other borrowings is as follows:

	As at 30 June 2017 HK\$'000 (Unaudited)	As at 31 December 2016 HK\$'000 (Audited)
Within one year	9,529	13,466
More than one year, but not exceeding two years	20,389	20,513
More than two years, but not more than five years	26,771	25,660
	56,689	59,639

- (iii) During the six months ended 30 June 2017, the Group has entered into finance leases for the purchase of a motor vehicle. The lease period is for 5 years. At the end of 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 liabilities are denominated in Hong Kong Dollar ("HKD").

Analysis of finance lease liabilities is as follows:

	As at 30 June 2017 HK\$'000 (Unaudited)	As at 31 December 2016 HK\$'000 (Audited)
Total minimum lease payments:		
Within one year	589	—
More than one year, but not exceeding two years	589	—
More than two years, but not more than five years	1,374	—
	2,552	—
Future finance charges on finance leases	(155)	—
	2,397	—
Present value of minimum lease payments:		
Within one year under current liabilities	526	—
More than one year but not more than five years, under non-current liabilities	1,871	—
	2,397	—



- (iv) As at 30 June 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 buildings, plant and equipment with an aggregate carrying amount of approximately HK\$243,790,000 (31 December 2016: HK\$277,833,000);
  - (b) the pledge of the Group's prepaid lease payments with an aggregate carrying amount of approximately HK\$19,478,000 (31 December 2016: HK\$19,109,000);
  - (c) the pledge of the Group's bank deposits with an aggregate carrying amount of approximately HK\$17,859,000 (31 December 2016: HK\$17,328,000);
  - (d) the pledge of the Group's inventories with an aggregate carrying amount of approximately HK\$34,868,000 (31 December 2016: HK\$13,350,000); and
  - (e) the pledge of the Group's motor vehicle under finance lease with carrying amount of approximately HK\$2,491,000 (31 December 2016: HK\$ nil).

## 16. UNSECURED LOANS AND GUARANTEED BONDS

	Notes	As at 30 June 2017 HK\$'000 (Unaudited)	As at 31 December 2016 HK\$'000 (Audited)
Guaranteed Bonds	(i)	13,460	16,384
Unsecured but guaranteed loans	(ii)	9,508	–
Unsecured loan from Mr. Wong	(iii)	8,065	–
		<b>31,033</b>	<b>16,384</b>

- (i) On 10 December 2015, the Company issued 15% coupon guaranteed bonds of HK\$17,000,000 which bears an effective interest of 18% per annum. The Company has repaid guaranteed bonds of HK\$3,000,000 during the six months ended 30 June 2017. The maturity date of the remaining balance of HK\$14,000,000 has been extended to 10 December 2017 pursuant to supplemental deeds executed during the period. The guaranteed bonds are secured by personal guarantee executed by Mr. Wong. The guaranteed bonds are denominated in HKD.

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.

- (ii) On 31 March 2017, the Company entered into short term unsecured loan agreements with three independent third parties for an aggregate amount of HK\$10,000,000 at an interest rate of 12% per annum with a term of one year until 31 March 2018. The loans were secured by personal guarantee executed by Mr. Wong. The unsecured but guaranteed loans are denominated in HKD.
- (iii) On 22 June 2017, the Group entered into a loan agreement with Mr. Wong for a short term unsecured loan of approximately HK\$9,217,000 for a period from 26 June 2017 to 25 July 2017. The loan was unsecured and interest free. During the six months ended 30 June 2017, the Company has repaid approximately HK\$1,152,000. The remaining balance of HK\$8,065,000 has been fully repaid in July 2017. The unsecured loan from Mr. Wong is denominated in RMB.

## 17. SHARE CAPITAL

	Numbers of shares		Share capital	
	30 June 2017 '000 (Unaudited)	31 December 2016 '000 (Audited)	30 June 2017 HK\$'000 (Unaudited)	31 December 2016 HK\$'000 (Audited)
Issued and fully paid	832,603	832,603	253,928	253,928

## 18. RELATED PARTY TRANSACTIONS

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

### (a) *Advancement and repayment from Mr. Wong*

	For the six months ended 30 June	
	2017 HK\$'000 (Unaudited)	2016 HK\$'000 (Unaudited)
Unsecured loan advanced from Mr. Wong	9,217	–
Repayment of unsecured loan to Mr. Wong	(1,152)	–

Details of the unsecured loan are set out in note 16 (iii) above.

**(b) Personal guarantee executed by Mr. Wong**

As at 30 June 2017 and 31 December 2016, the Group's outstanding guaranteed bonds were secured by personal guarantee executed by Mr. Wong. Details are set out in note 16(i) above.

In addition, as at 30 June 2017, the Group's unsecured but guaranteed loans were secured by personal guarantee executed by Mr. Wong. Details are set out in note 16(ii) above. (31 December 2016: nil).

**(c) Termination of a proposed acquisition**

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 acquisition agreements dated on 12 January 2016 and all the supplemental agreements in relation to the acquisition of a target company beneficially owned by Mr. Wong Kin Ching. The target company principally engaged in, through its subsidiary, forestry plantation business, including forestry planning and development. Details of the termination agreement are set out in the Company's announcement dated 26 April 2017.

**(d) Compensation of key management personnel of the Group and a related party**

The remuneration of directors and other members of key management personnel during the six months ended 30 June 2017 is as follows:

	For the six months ended 30 June	
	2017 HK\$'000 (Unaudited)	2016 HK\$'000 (Unaudited)
Short-term employee benefits	1,620	1,580
Post-employment benefits	30	35
Total compensation paid to key management personnel	1,650	1,615

During the six months ended 30 June 2017, short-term benefits and post-employment benefits for Ms. Wong Wan Yu, daughter of Mr. Wong and Mrs. Wong, paid and contributed by the Group were HK\$126,000 (2016: HK\$108,000) and HK\$6,000 (2016: HK\$5,000), respectively.

## MANAGEMENT DISCUSSIONS AND ANALYSIS

### BUSINESS REVIEW

#### *Particleboards Segment*

The Directors believe that the existing competitive production lines provide the Group with the following benefits: (i) the Group is able to produce particleboards with better and more stable quality; (ii) the Group's production is expected to become more efficient in energy and raw material savings, (iii) the Group's production is more environmentally friendly and would comply with all the Particleboard PRC GB Standards and Particleboard International Standards; (iv) the Group is able to produce customized particleboards and particleboards of various dimensions and specifications, that most other particleboard manufacturers in the PRC may not be able to manufacture; and (v) allow the Group to expand its market share and solidify its market position in the particleboard industry due to the wider product offering.

During the six months ended 30 June 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 six months ended 30 June 2017, the Group's revenue increased to approximately HK\$218.8 million, representing an increase of approximately 5.8% as compared to that for the six months ended 30 June 2016. However, the Group's gross profit margin was decreased to approximately 20.8% for the six months ended 30 June 2017, from approximately 25.8% for the six months ended 30 June 2016. The decrease was mainly attributable to the increase in average unit cost of raw materials particularly residual wood from external suppliers and the consumption of extra raw materials as a result of products modification during 2017 Interim Period.

With the view of the increasing cost of sales mainly due to the increased average unit cost of residual wood purchased from external suppliers, the Group has commenced to identify appropriate subcontractors to carry out the forestry harvesting plan in certain forestry acquired in order to obtain adequate supply of residual wood to meet the production need so as to reduce the average unit costs of raw materials production costs and hence to improve the profitability. Meanwhile, the Group will continue to optimize our customer base, enhance our product research and development and monitor the key performance indicators in order to strengthen our competitiveness.

#### *Forestry Segment*

The Board has determined that it would be in the best interests of the Company and its shareholders as a whole to continue upstream acquisitions of forestry rights in order to give it greater assurance on the supply of raw materials.

On 26 April 2017, Mr. Wong Kin Ching, the son of Mr. Wong Cheung Lok and Ms. Cheung Ngar Kwan, and the Company entered into a termination agreement ("Termination Agreement") to terminate the acquisition agreement dated 12 January 2016 (as supplemented from time to time) ("Acquisition Agreement"), in order to allow both parties to better deploy their resources in elsewhere instead of continuing to pursue the transaction contemplated under the Acquisition Agreement in view of the approval from the Stock Exchange was yet to be received as at date of the Termination Agreement. In view of this, the Board still considered that the termination of the Acquisition Agreement and its supplemental agreements does not have any material adverse effect on the existing operation, business and financial position of the Group with reference to other resources currently available to the Group.



As at 30 June 2017, the Group has completed acquisition of forestry rights of the forestlands with land size of approximately 36,800 mu to give us greater assurance on the supply of the residual wood materials to meet our production demand from time to time. During the 2017 Interim Period, the Company has also commenced the process of identifying appropriate subcontractors to assist the Company in implementing the harvesting plan on certain lot of forestlands acquired. It is expected that application to the relevant municipal regulatory bodies for the approval of forestry harvesting as well as the transporting of those harvested wood will be submitted in the second half year of 2017 after suitable harvesting subcontractor is identified so that the Company can utilise such wood materials to meet the expected peak production season approaching the last quarter of 2017.

As at 30 June 2017 and up to the date of this report, the Company has not harvested any of the acquired forestlands for wood materials for production use yet. However, as mentioned, such process is expected to commence in coming months during the rest of the financial year 2017 when suitable subcontractor is engaged and relevant governmental approval is granted for the harvesting plan.

## FINANCIAL REVIEW

### Revenue

During the six months ended 30 June 2017, the Group's revenue for Particleboards Segment increased to approximately HK\$218.8 million from approximately HK\$206.9 million, representing an increase of approximately 5.8% as compared to that for the six months ended 30 June 2016. The increase was mainly due to the increase in the average unit selling price of particleboard by approximately 12.7% during the period.

Meanwhile, there was no income generating activity took place during the six months ended 30 June 2017 for the Forestry Segment while the Group was in the process of identifying appropriate subcontractors to carry out the harvesting plan for the Group and application will be made to the relevant municipal regulatory bodies for necessary approval on harvesting and related wood transportation in due course. Thus, no revenue was recognised for Forestry Segment during the current reporting period.

### Cost of sales

During the six months ended 30 June 2017, the Group's costs of sales increased to approximately HK\$173.4 million from approximately HK\$153.6 million, representing an increase of approximately 12.9% as compared to that of the six months ended 30 June 2016. The increase was mainly attributable to the increase in unit costs of raw materials particularly in residual wood from external suppliers and costs of extra raw materials consumed on product improvement by approximately 20.7% during the period.

Since there was no income generating activity commenced during the current reporting period for the Forestry Segment, there was no costs of sales incurred accordingly.

### ***Gross profit and margin***

During the six months ended 30 June 2017, the Group's gross profit decreased to approximately HK\$45.4 million from approximately HK\$53.3 million, representing a decrease of approximately 14.8% as compared to the six months ended 30 June 2016. The group's gross profit margin decreased to approximately 20.8% in the six months ended 30 June 2017 from approximately 25.8% in the six months ended 30 June 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 current reporting period.

### ***Other income***

During the six months ended 30 June 2017, the Group's other income decreased to approximately HK\$8.9 million from approximately HK\$9.4 million, representing a decrease of approximately 5.6% as compared to that for the six months ended 30 June 2016.

### ***Selling and distribution expenses***

During the six months ended 30 June 2017, the Group's selling and distribution expenses increased to approximately HK\$20.1 million from approximately HK\$17.0 million, representing an increase of approximately 18.2% as compared to the six months ended 30 June 2016. The increase was mainly attributable to the increase in products packaging costs at a result of change in products packaging method in order to secure products from damage during transportation. No selling expense was incurred for the Forestry Segment for the current reporting period.

### ***Administration expenses***

During the six months ended 30 June 2017, the Group's administration expenses increased to approximately HK\$18.7 million from approximately HK\$16.6 million, representing an increase of approximately 12.7% as compared to that for the six months ended 30 June 2016. Such increase was mainly attributable to the increase in the recognition of legal and professional fee incurred in respect of the proposed major and connected acquisition firstly announced in January 2016 which was terminated on 26 April 2017.

Meanwhile, there was approximately HK\$1.1 million incurred mainly for the pre-operation and maintenance expenses of forestlands applicable to the Forestry Segment during the current reporting period whereas none was incurred in the same period for 2016.

### ***Changes in fair values less costs to sell of biological assets***

During the six months ended 30 June 2017, net gains arising from changes in fair values less costs to sell of biological assets amounting to approximately HK\$4.6 million has been recognised, representing an increase by approximately HK\$2.5 million or 116.6% as compared to that for the six months ended 30 June 2016.

Meanwhile, the extent of increase in net gains recognised during the current period was substantially offset by the impact caused by the change in valuation approach adopted. As at 30 June 2017, the income approach was adopted as the more appropriate valuation methodology because the Group has more comprehensive harvesting plans on its overall acquired biological assets. Previously, market approach was considered appropriate on such assets in the same period 2016 because the Group did not have any harvesting plan at initial recognition then. As a result of change in the valuation methodology, the change in fair values in biological assets during the second quarter of 2017 recorded a net loss of approximately HK\$2.0 million.

### ***Finance costs***

During the six months ended 30 June 2017, the Group's finance costs decreased to approximately HK\$11.8 million from approximately HK\$11.9 million, representing a decrease of approximately 1.1% as compared to the six months ended 30 June 2016.

### ***Profit attributable to owners of the Company***

During the six months ended 30 June 2017, the Group's profit attributable to owners of the Company amounted to HK\$6.5 million, representing a significant decrease of approximately 65.3% as compared to the Group's profit of HK\$18.8 million for the six months ended 30 June 2016. The significant decrease was mainly attributable to the decrease in gross profit due to the increase in average unit price of raw materials, the increase in selling and distribution expenses due to the changes in packing methods and the increase in administration expenses.

### ***Total comprehensive income attributable to owners of the Company***

During the six months ended 30 June 2017, the total comprehensive income attributable to the owners of the Company increased to approximately HK\$19.1 million from approximately HK\$10.1 million, representing an increase of approximately 89.5% as compared to the six months ended 30 June 2016. The increase was attributable to the increase in exchange gain arising from the translation of RMB to HKD which is the presentation currency of the consolidated financial statements which offset the decrease in operating profit.

## **LIQUIDITY, FINANCIAL RESOURCES AND CAPITAL STRUCTURE**

As at 30 June 2017, there has been no change in the capital structure of the Company compared to that as at year ended 31 December 2016. The capital of the Company only comprises ordinary shares.

During the six months ended 30 June 2017, the Group mainly financed its operations with its working capital, bank and other borrowings and the proceeds from unsecured short term loans and guaranteed bonds.

As at 30 June 2017 and 31 December 2016, the Group had bank and other borrowings of approximately HK\$293.8 million and HK\$313.2 million respectively. Other than certain bank and other borrowings obtained which bear fixed interest rate ranging from 5.09% to 9.68% per annum, other bank borrowings bear floating interest rates ranging from 4.51% to 6.41% per annum as at 30 June 2017. The maturity profile of the Group's bank and other borrowings are set out in notes 15(i) and (ii) of this report.

As at 30 June 2017, the Group has finance lease liabilities for acquisition of a motor vehicle with outstanding principal amount for approximately HK\$2.4 million (31 December 2016: Nil). Of which, approximately HK\$0.5 million is repayable within one year and HK\$1.9 million is repayable more than one year respectively from the date of this report. Please refer to note 15(iii) of this report.

As at 30 June 2017, the Group has outstanding guaranteed bonds in principal amounts of approximately HK\$14 million (31 December 2016: HK\$17 million). On 9 June 2017, each of the subscribers of the guaranteed bonds has entered into a supplemental deed with the Company to extend the maturity date of the guaranteed bonds for another six months ended 10 December 2017. The guaranteed bonds are secured by a personal guarantee executed by Mr. Wong Cheung Lok, the chairman and executive director of the Company. In addition, one of the subscribers has entered into a sale and purchase agreement with the Company for the repurchase of outstanding guaranteed bonds by the Company for a principle sum of HK\$3,000,000. Accordingly, the aggregate principal amount of outstanding guaranteed bonds due in December 2017 is HK\$14 million.

As at 30 June 2017 and 31 December 2016, the Group had net current liabilities of approximately HK\$64.2 million and HK\$49.7 million respectively. The current ratio of the Group, being current assets over current liabilities, decreased to 0.77x as at 30 June 2017 (31 December 2016: 0.81x).

### **Gearing Ratio**

As at 30 June 2017, the gearing ratio stood at 0.90x (31 December 2016: 0.96x) based on total borrowings over shareholders' equity. The decrease was mainly due to the appreciation of RMB during the current interim period which causes foreign currency reserve to increase by approximately HK\$12,614,000.

### **FOREIGN EXCHANGE EXPOSURE**

As at 30 June 2017 and 31 December 2016, functional currency of the Company and its major operating subsidiary is RMB. Certain of the Group's bank balances were denominated in Hong Kong Dollar and insignificant amount of the Group's bank balances were denominated in Euro. The Group manages its foreign currency risk by closely monitoring the movement of the foreign exchange rates. As at 30 June 2017, there were short term unsecured loan and guaranteed bonds amounting to approximately HK\$22,968,000 (31 December 2016: HK\$16,384,000) with effective interest rate ranging from 12% to 18% per annum (31 December 2016: 18% per annum) and finance lease liabilities of approximately HK\$2,397,000 (31 December 2016: nil) denominated in Hong Kong Dollar.

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. 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 AND FUTURE PLANS FOR MATERIAL INVESTMENTS AND CAPITAL ASSETS**

As at 30 June 2017, except for investments in subsidiaries of the Group, there was no significant investments or capital assets held by the Group.

## **MATERIAL ACQUISITIONS AND DISPOSALS OF SUBSIDIARIES**

During the 2017 Interim Period, the Group did not have any material acquisitions and disposals of subsidiary.

## **PLEDGE OF ASSETS**

Details of pledge of assets are set out in note 15(iv) of this report.

## **COMMITMENTS AND CONTINGENT LIABILITIES**

As at 30 June 2017, the Group does not have significant capital commitment or contingent liabilities.

## **EMPLOYEES AND REMUNERATION POLICIES**

As at 30 June 2017, the Group employed a total of 174 employees (2016: 171). The remuneration payable to our employees included fees, salaries, retirement benefits scheme contributions and other benefits. For the 2017 Interim Period and the corresponding period in 2016, the remuneration paid to employees was approximately HK\$7.8 million and HK\$7.6 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 in the interests of the shareholders of the Company (the "Shareholders") as a whole. 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, details of which are set out under the heading "Share Option Scheme" below.

## SHARE OPTION SCHEME

Prior to the listing of the Company in 2014, the Company had conditionally adopted a share option scheme (the "Share Option Scheme") on 19 December 2013 which became unconditional and effective upon the listing. The purpose of the Share Option Scheme is to enable the Group to grant options to eligible participants as incentives or awards for their contribution to the Group and/or to enable the Group to recruit and retain high calibre employees and attract human resources that are valuable to the Group and any entity which the Group holds any equity interest. The Share Option Scheme will remain in force for a period of 10 years commencing on 19 December 2013, being the date on which the Share Option Scheme is conditionally adopted, and will expire on 18 December 2023.

The Board may, at its discretion, invite any executive, non-executive or independent non-executive Directors or any employees (whether full-time or part-time) of the Company, or any of its subsidiary or associated companies or any other person whom the Board considers, in its sole discretion, has contributed or will contribute to the Group to take up the Options. The basis of eligibility of any of the class of the participants to the Share Option Scheme shall be determined by the Board from time to time on the basis of their contribution to the development and growth of the Group and any entity which the Group holds any equity interest.

Offer of an Option ("Offer") shall be deemed to have been accepted by any Participant who accepts an Offer in accordance with the terms of the Share Option Scheme ("Grantee") and the Option to which the Offer relates shall be deemed to have been granted and to have taken effect when the duplicate of the offer letter comprising acceptance of the Option duly signed by the Grantee together with a remittance in favour of our Company of HK\$1 by way of consideration for the granting thereof is received by our Company within such period as our Board may determine and specify in the letter of Offer. Such remittance shall in no circumstances be refundable.

An Option may be exercised in accordance with the terms of the Share Option Scheme at any time during the period to be determined by our Board at its absolute discretion and notified by our Board to each Grantee as being the period during which an Option may be exercised and in any event, such period shall not be longer than 10 years from the date upon which any particular Option is granted in accordance with the Share Option Scheme ("Option Period").

Unless otherwise determined by our Board and specified in the offer letter to be given to the Participant at the time of the offer of the Option, there is neither any performance target that needs to be achieved by the Grantee before an Option can be exercised nor any minimum period for which an Option must be held before the Option can be exercised.

The subscription price for our Shares under the Share Option Scheme will be at least the highest of (a) the closing price of our Shares as stated in the Hong Kong Stock Exchange's daily quotations sheet on the date on which an Offer is made by our Company to the Grantee (which date must be a Business Day, "Offer Date"); (b) a price being the average of the closing prices of our Shares as stated in the Hong Kong Stock Exchange's daily quotations sheets for the five (5) Business Days immediately preceding the Offer Date; and (c) the nominal value of a Share.

The total number of Shares which may be issued upon exercise of all options to be granted under the Share Option Scheme and any other share option scheme of the Company shall not in aggregate exceed 71,111,510 shares, being 8.5% of the total number of Shares in issue as at 30 June 2017, unless the Company obtains a fresh approval from the Shareholders. The maximum entitlement for any one Participant is that the total number of our Shares issued and to be issued upon exercise of the Options granted to each Participant (including both exercised and outstanding Options) in any 12-month period shall not exceed 1% of the total number of Shares in issue.

No Option has lapsed, or has been granted, exercised or cancelled under the Share Option Scheme during the six months ended 30 June 2017. Our Group did not have any outstanding share options, warrants, convertible instruments, or similar rights convertible into our Shares as at 30 June 2017.

## **DIRECTORS' INTERESTS IN COMPETING BUSINESSES**

During the 2017 Interim Period, saved as disclosed below, none of the Directors or any of their respective close associates, has engaged in any business that competes or may compete with the business of the Group, or has any other conflict of interest with the Group.

As at the date of this report, Mr. Wong Kin Ching, the son of Mr. Wong Cheung Lok and Ms. Cheung Ngar Kwan, through companies wholly owned by him is interested in forestry plantation business, including forestry planting and development with respect to forestlands located at Renhua County, Guangdong Province, PRC.

## **LOAN AGREEMENT WITH COVENANT RELATING TO SPECIFIC PERFORMANCE OF THE CONTROLLING SHAREHOLDER**

### ***Guaranteed bonds***

On 10 December 2015, the Company issued 15% coupon guaranteed bonds of HK\$17,000,000 due on 9 December 2016 which bear an effective interest rate of 18% per annum and are secured by personal guarantee executed by Mr. Wong Cheung Lok ("Mr. Wong"), an executive Director and controlling shareholder of the Company. 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 Mr. Wong Cheung Lok 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 has further 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 be further extended to two-year anniversary from the date of issuance of the bonds.

Please refer to the announcements of the Company dated 10 December 2015, 10 December 2016 and 9 June 2017 for more details.

## COMPLIANCE WITH NON-COMPETITION DEED

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

Details of the undertaking has been set out in the section headed “Relationship with Controlling Shareholders” of the prospectus of the Company issued on 27 December 2013.

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

So far as the Directors are aware, as at 30 June 2017, the interests and short positions of the Directors and chief executive of the Company in the shares, underlying shares and debentures of the Company or its associated corporations (within the meaning of Part XV of the Securities and Futures Ordinance (Chapter 571. Laws of Hong Kong) (the “SFO”) which will have to be notified to the Company and the Stock Exchange under Divisions 7 and 8 of Part XV of the SFO (including interests or short positions which they are taken or deemed to have under such provisions of the SFO) or which will be required, pursuant to section 352 of the SFO, to be entered in the register as referred to therein, or pursuant to Rules 5.46 to 5.67 of the GEM Listing Rules required to be notified to the Company and the Stock Exchange, are as follows:

### Long position in the Shares

Name	Capacity/ Nature of interest	Aggregate number of Shares or underlying Shares (Note 1)	Approximate percentage of interest in our Company
Mr. Wong Cheung Lok (“Mr. Wong”) <sup>(2)</sup>	Beneficial owner	430,000,000 (L)	51.65%
Ms. Cheung Ngar Kwan (“Mrs. Wong”) <sup>(3)</sup>	Interest of spouse	430,000,000 (L)	51.65%

Notes:

- (1) The letter “L” denotes the person’s long positions in the Shares.
- (2) The 400,000,000 Shares, out of the 430,000,000 Shares beneficially owned by Mr. Wong, were charged by Mr. Wong to U Credit (HK) Limited on 6 July 2015. According to the disclosure of interest form filed by China Strategic Holdings Limited and U Credit (HK) Limited on 8 July 2015, U Credit (HK) Limited was indirectly wholly-owned by China Strategic Holdings Limited.
- (3) Mrs. Wong is the spouse of Mr. Wong. Under the SFO, Mrs. Wong is deemed to be interested in the same number of Shares in which Mr. Wong is interested.



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

Our Directors confirm that as at 30 June 2017, the following persons (other than a Director or chief executive) had an interest or short position in the Shares or underlying Shares which would fall to be disclosed to us and the Hong Kong Stock Exchange under the provisions of Divisions 2 and 3 of Part XV of the SFO or to be recorded in the register kept by the Company pursuant to Section 336 of the SFO:

Name	Capacity/ Nature of interest	Aggregate number of Shares or underlying Shares (Note 1)	Approximate percentage of interest in our Company
China Strategic Holdings Limited <sup>(2)</sup>	Person having a security interest in shares	400,000,000 (L)	48.04%

Notes:

- (1) The letter "L" denotes the person's long positions in the Shares.
- (2) U Credit (HK) Limited, a company indirectly wholly-owned by China Strategic Holdings Limited through China Strategic Asset Holdings Limited and China Strategic Financial Holdings Limited, became interested in 400,000,000 Shares of the Company, representing approximately 48.04% of the issued share capital of the Company, in the capacity of "person having a security interest in shares" on 6 July 2015.

Save as disclosed herein, our Directors are not aware of any other person (other than a Director or chief executive) who, as at 30 June 2017, have an interest or short position in the Shares or underlying Shares which would fall to be disclosed to our Company under the provisions of Divisions 2 and 3 of Part XV of the SFO, or to be recorded in the register kept by the Company pursuant to Section 336 of the SFO.

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

During the 2017 Interim Period, neither the Company nor its subsidiary 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 "CG Code") contained in Appendix 15 to the GEM Listing Rules during the 2017 Interim Period except otherwise stated below.

### **Code provision A.2.1**

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

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

## **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 enquiry with the Directors, all the Directors confirmed that they have complied with the required standard of dealings concerning securities transactions by the directors during the 2017 Interim Period.

## **DIRECTORS' INTERESTS IN CONTRACTS**

No Director had a material interest in any contract of significance to the business of the Group to which the Company or its subsidiary was a party during the 2017 Interim Period.

## **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 2017 Interim Period.

## **REVIEW OF CONDENSED CONSOLIDATED INTERIM FINANCIAL STATEMENTS**

The audit committee of the Board of the Company has discussed and reviewed with the management of the Group the condensed consolidated interim financial statements of the Group for the 2017 Interim Period, which have not been audited nor reviewed by the Company's auditors, Graham H.Y. Chan & Co..

## INTERIM DIVIDEND

The Board does not recommend the payment of any interim dividend for the 2017 Interim Period.

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

Hong Kong, 11 August 2017

*As at the date of this report, the executive Directors are Mr. Wong Cheung Lok, Ms. Cheung Ngai Kwan, Ms. Huang Xiuyan and Mr. Liu Jiayong; the non-executive Director is Mr. Lai Ming Wai; and the independent non-executive Directors are Dr. Chow Ho Wan, Owen, Ms. Qian Xiaoyu and Dr. Xu Jianmin.*