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HONG WEI (ASIA) HOLDINGS COMPANY LIMITED

鴻偉(亞洲)控股有限公司

(Incorporated in Hong Kong with limited liability)

(Stock code: 8191)

FIRST QUARTERLY RESULTS ANNOUNCEMENT FOR THE THREE MONTHS ENDED 31 MARCH 2018

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

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

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

This announcement, for which the directors (the “Directors”) of Hong Wei (Asia) Holdings Company Limited (the “Company”, together with its subsidiary, the “Group”) 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.

RESULTS

The board of Directors (the “Board”) of Hong Wei (Asia) Holdings Company Limited (the “Company”) is pleased to announce the unaudited consolidated results of the Company and its subsidiaries (collectively, the “Group”) for the three months ended 31 March 2018 together with the comparative unaudited figures of the corresponding period in 2017.

UNAUDITED CONSOLIDATED STATEMENTS OF PROFIT OR LOSS AND OTHER COMPREHENSIVE INCOME

		For the three months ended 31 March	
	Notes	2018 HK\$'000	2017 HK\$'000
Revenue	2	101,172	92,862
Cost of sales		<u>(76,614)</u>	<u>(71,847)</u>
Gross profit		24,558	21,015
Other income		3,936	4,556
Other gains		14	22
Gain arising from agricultural produce at fair value less costs to sell at the point of harvest		1,583	–
Net gain arising from changes in fair values less costs to sell of biological assets		2,830	6,641
Selling and distribution expenses		(8,327)	(8,387)
Administration expenses		(7,068)	(6,900)
Finance costs	4	<u>(7,834)</u>	<u>(5,053)</u>
Profit before tax		9,692	11,894
Income tax expense	5	<u>–</u>	<u>–</u>
Profit for the period attributable to owners of the Company	6	<u>9,692</u>	<u>11,894</u>
Other comprehensive income which will not be reclassified subsequently to profit or loss:			
Exchange differences arising on translation to presentation currency		<u>22,341</u>	<u>3,176</u>
Other comprehensive income for the period		<u>22,341</u>	<u>3,176</u>
Total comprehensive income for the period		<u>32,033</u>	<u>15,070</u>
Total comprehensive income attributable to owners of the Company		<u>32,033</u>	<u>15,070</u>
Basic earnings per share, in HK cents	7	<u>1.16</u>	<u>1.43</u>

UNAUDITED CONSOLIDATED STATEMENT OF CHANGES IN EQUITY

	Share capital <i>HK\$'000</i>	Capital reserve <i>HK\$'000</i>	Statutory reserve <i>HK\$'000</i>	Foreign Currency Translation Reserve <i>HK\$'000</i>	Accumulated profits <i>HK\$'000</i>	Total <i>HK\$'000</i>
Balance at 1 January 2017	253,928	(16,968)	18,011	(28,712)	116,829	343,088
Profit for the period	-	-	-	-	11,894	11,894
Other comprehensive income for the period	-	-	-	3,176	-	3,176
Total comprehensive income for the period	-	-	-	3,176	11,894	15,070
Balance at 31 March 2017	<u>253,928</u>	<u>(16,968)</u>	<u>18,011</u>	<u>(25,536)</u>	<u>128,723</u>	<u>358,158</u>
Balance at 1 January 2018	253,928	(16,968)	22,841	(1,833)	142,294	400,262
Profit for the period	-	-	-	-	9,692	9,692
Other comprehensive income for the period	-	-	-	22,341	-	22,341
Total comprehensive income for the period	-	-	-	22,341	9,692	32,033
Balance at 31 March 2018	<u>253,928</u>	<u>(16,968)</u>	<u>22,841</u>	<u>20,508</u>	<u>151,986</u>	<u>432,295</u>

1. BASIS OF PRESENTATION

The Directors have given careful consideration to the Group's financial performance, working capital, liquidity position and available banking facilities from its principal bankers. On the basis that the Group's business, operations and relationships with its suppliers remain stable and given 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.

The unaudited consolidated results for the three months ended 31 March 2018 have not been audited by the Company's auditors, but have been reviewed by the Company's audit committee.

The accounting policies and basis of preparation used in the preparation of the unaudited consolidated results are consistent with those used in the Company's annual financial statements for the year ended 31 December 2017. The Group has applied the following HKFRSs issued by the Hong Kong Institute of Certified Public Accountants for the first time in the current period.

HKFRS 9	Financial Instruments
HKFRS 15	Revenue from Contracts with Customers
HK(IFRIC) – Int 22	Foreign Currency Transactions and Advance Considerations
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
Amendments to HKFRS 15	Clarification to HKFRS 15 Revenue from Contracts with Customers
Amendments to HKFRS 1 and HKAS 28	As part of the Annual Improvements to HKFRS 2014 – 2016 Cycle
Amendments to HKAS 40	Transfers of Investment Property

2. REVENUE

Revenue represents revenue arising on sales of particleboards and timber woods as follows:

	For the three months ended 31 March	
	2018	2017
	HK\$'000	HK\$'000
	(Unaudited)	(Unaudited)
Sales of particleboards	100,662	92,862
Sales of timber woods	510	–
	<u>101,172</u>	<u>92,862</u>

3. OPERATING SEGMENTS

The following table represents segment information for the three months ended 31 March 2018:

	Particleboards segment	Forestry segment	Total
	<i>HK\$'000</i>	<i>HK\$'000</i>	<i>HK\$'000</i>
<i>Segment revenue:</i>			
Reportable segment revenue	100,662	2,093	102,755
Elimination of inter-segment revenue	<u>–</u>	<u>(1,583)</u>	<u>(1,583)</u>
Consolidated revenue	<u>100,662</u>	<u>510</u>	<u>101,172</u>
<i>Segment results:</i>			
Reportable segment results	16,828	3,328	20,156
Interest income			128
Finance costs			(7,834)
Unallocated corporate staff costs			(778)
Unallocated corporate expenses			<u>(1,980)</u>
Consolidated profit before tax			<u>9,692</u>
<i>Other Segment information:</i>			
Capital expenditures [#]	6,270	–	6,270
Depreciation	7,295	–	7,295
Amortisation	237	347	584
Gain arising from agricultural produce at fair values less costs to sell at the point of harvest		1,583	1,583
Net gain arising from changes in fair values less costs to sell of biological assets		<u>2,830</u>	<u>2,830</u>

[#] Capital expenditures of particleboards segment mainly represent the addition of property, plant and equipment during the period. Capital expenditures of forestry segment mainly represent the consideration paid for acquisition of forestry rights of the forestland during the reporting period.

4. FINANCE COSTS

	For the three months ended 31 March	
	2018 HK\$'000 (Unaudited)	2017 HK\$'000 (Unaudited)
Interests on bank and other borrowings	4,618	4,556
Interests on guaranteed bonds	2,687	497
Interests on finance lease liabilities	15	–
Other finance costs	514	–
	<u>7,834</u>	<u>5,053</u>

5. INCOME TAX

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 three months ended 31 March 2018 and 2017 respectively.

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 three months ended 31 March 2018 and 2017 respectively, 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.

6. PROFIT FOR THE PERIOD

Profit has been arrived at after charging:

	For the three months ended 31 March	
	2018	2017
	HK\$'000	HK\$'000
	(Unaudited)	(Unaudited)
Depreciation and amortisation expenses		
Depreciation of property, plant and equipment	7,295	6,327
Amortisation:		
– intangible Asset	121	130
– release of prepaid land lease payments	116	106
– release of prepaid forestland lease payments	347	251
	<hr/>	<hr/>
Total depreciation and amortisation expenses	7,879	6,814
	<hr/> <hr/>	<hr/> <hr/>
Employee benefits expenses		
(include Directors' emoluments)		
Salaries and other benefits	3,805	3,365
Contribution to retirement benefit schemes	508	470
	<hr/>	<hr/>
Total employee benefit expenses	4,313	3,835
	<hr/> <hr/>	<hr/> <hr/>
Cost of inventories recognised as an expense	76,614	71,847
Auditor's remuneration		
– Provision in respect of current period	405	375
Operating lease payments	152	23
Donation	62	72
	<hr/> <hr/>	<hr/> <hr/>

7. EARNINGS PER SHARE

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

Earnings

	For the three months ended 31 March	
	2018	2017
	<i>HK\$'000</i>	<i>HK\$'000</i>
	(Unaudited)	(Unaudited)
Profit for the period attributable to owners of the Company for the purpose of basic earnings per share	9,692	11,894

Number of shares

	For the three months ended 31 March	
	2018	2017
	'000	'000
Weighted average number of ordinary shares for the purpose of basic earnings per share	832,603	832,603

MANAGEMENT DISCUSSIONS AND ANALYSIS BUSINESS REVIEW

During the three months ended 31 March 2018 (“Current Period”), the Group continued to be engaged in the manufacturing and selling of particleboards (“Particleboards Segment”) and the timber logging, plantation and sales of wood and agricultural products in the PRC (“Forestry Segment”). For the three months ended 31 March 2017 (“Previous Period”), the Group was only engaged in the Particleboards Segment.

Particleboards Segment

During the three month ended 31 March 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. Due to the strengthened environmental protection measures in Mainland China, furniture manufacturers are increasingly sourcing the high-ended and environmentally friendly produced particleboards. There has been a change in the market demand structure and the market for low-graded particleboards has shrunk, which can indirectly increase the demand for the high quality particleboard in the foreseeable future.

During the Current Period, the Particleboards Segment achieved better performance with increased revenue and gross profit margin. Such improvement was mainly attributable to the increase in sales volume during the Current Period because of the increase in demand for the products of the Group. As mentioned above, the increase in sales volume was mainly attributable to the strengthening environmental protection measures in the operating region of the Group by the local governing authority which leads to a greater demand for quality particleboards produced by the Group. As a result of the increasing demand for quality products that meet the relevant environmental requirements and the capability of the Group to supply such products to the market, the operating performance of the Group has been improved.

Apart from the increase in revenue resulting from enhancement in sales volume during the Current Period, the Group also recorded a decrease in unit costs of residual wood, which is one of the key components for the costs of manufacturing. Such decrease was mainly due to the increase in the supply of residual wood in the market during the Current Period as compared to the relative shortage of supply of residual wood in the Previous Period. The shortage in supply in the Previous Period was mainly due to the suppliers not being able to obtain the requisite permit and quota in time for harvesting the residual wood in the region where the Group mainly sourced residual wood and hence the unit costs of residual wood in the market was driven up as a result. In contrast, the supply of the residual wood in the market was relatively sufficient during the Current Period compared to that of the Previous Period. Consequently, the Group was benefitting from the decreased unit costs. In order to achieve a stable supply of raw materials in terms of quantity, quality and costs, the Group has commenced the implementation its forestry harvesting plan in certain of its forestlands in order to have greater assurance on the supply of the raw materials by reducing its dependence on external suppliers.

Forestry Segment

During the three months ended 31 March 2018, the Group generated revenue of approximately HK\$0.5 million from the Forestry Segment. During the three months ended 31 March 2017, the Group did not obtain harvesting approval from the relevant local authority to carry out its harvesting plan. Therefore, no income generating activity took place and no revenue was recognized during the Previous Period. The Group has commenced harvesting process in December 2017 after the approval has been granted. In addition, the Group continued to carry out the cultivation and maintenance work for the existing forestlands during the Current Period. On the other hand, the Group has completed further acquisition of forestry right of the forestlands with land size of approximately 6,102 mu during the Current Period, which leads to the aggregate size of forestlands acquired by the Group as at 31 March 2018 reaching approximately 40,400 mu (2017: 33,962 mu). The Group continues to aim at achieving better control over the supply of raw materials, which can strengthen its competitiveness and its business sustainability.

FINANCIAL REVIEW

Revenue

During the three months ended 31 March 2018, the Group's revenue for Particleboards Segment increased to approximately HK\$101.2 million from approximately HK\$92.9 million, representing an increase of approximately 9.0% as compared to the three months ended 31 March 2017. The increase was mainly due to the increase in sales volume of particleboard by approximately 2.1% and appreciation of Renminbi to Hong Kong Dollar, which is the presentation currency of the consolidation financial statements of the Group, as compared with Previous Period.

During the three months ended 31 March 2018, the Group generated revenue of approximately HK\$0.5 million from the Forestry Segment. During the three months ended 31 March 2017, the Group did not obtain the harvesting approval from the relevant local authority to carry out its harvesting plan. Therefore, no income generating activity took place and no revenue was recognized during the Previous Period.

Cost of sales

During the three months ended 31 March 2018, the Group's costs of sales increased to approximately HK\$76.6 million from approximately HK\$71.8 million for the three months ended 31 March 2017, representing an increase of approximately 6.6%. Such increase was largely in line with the increase in revenue and benefitted from a lower average unit costs of raw materials, particularly the residual wood, recorded in the Current Period.

Gross profit and margin

During the three months ended 31 March 2018, the Group's gross profit increased to approximately HK\$24.6 million from approximately HK\$21.0 million for the three months ended 31 March 2017, representing an increase of approximately 16.9%, and the Group's gross profit margin increased to approximately 24.3% from approximately 22.6% for the three months ended 31 March 2017.

The increase in gross profit and margin was mainly due to increase in revenue from Particleboards Segment and the decrease in average unit costs of raw materials particularly the residual wood from external suppliers as compared to the Previous Period.

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

During the three months ended 31 March 2018, net gain arising from changes in fair values less costs to sell of biological assets amounting to approximately HK\$2.8 million (2017: HK\$6.6 million) has been recognized, representing a decrease by approximately HK\$3.8 million or 57.4% as compared to that for the three months ended 31 March 2017.

The decrease was mainly attributable to the changes in the approach of valuation methodology of certain biological assets of the Group to the income approach during the Current Period, while the market approach was adopted as the valuation methodology at initial recognition of those biological assets.

Selling and distribution expenses

During the three months ended 31 March 2018, the Group's selling and distribution expenses decreased by 0.7% to approximately HK\$8.3 million as compared to that of approximately HK\$8.4 million for the three months ended 31 March 2017.

Administration expenses

During the three months ended 31 March 2018, the Group's administration expenses increased to approximately HK\$7.1 million from approximately HK\$6.9 million for the three months ended 31 March 2017, representing an increase of approximately 2.4%.

Finance costs

During the three months ended 31 March 2018, the Group's finance costs increased to approximately HK\$7.8 million from approximately HK\$5.1 million for the three months ended 31 March 2017, representing an increase of approximately 55.0%. The increase was mainly attributable to the increase in interest expenses mainly resulting from the HK\$100,000,000 bonds issued by the Company on 15 September 2017.

Profit attributable to owners of the Company

During the three months ended 31 March 2018, the profit attributable to owners of the Company decreased to approximately HK\$9.7 million from approximately HK\$11.9 million for the three months ended 31 March 2017, representing a decrease of approximately 18.5%. The decrease was mainly attributable to the decrease in net gain arising from changes in fair value less costs to sell of the biological assets and the increase in finance costs, which were partially offset by the increase in gross profit during the three months ended 31 March 2018.

Total comprehensive income attributable to owners of the Company

During the three months ended 31 March 2018, the total comprehensive income attributable to owners of the Company increased to approximately HK\$32.0 million from approximately HK\$15.1 million for the three months ended 31 March 2017, representing an increase of approximately 112.6%. The increase was mainly attributable to the increase in exchange gain arising from translation of Renminbi (“RMB”) to Hong Kong Dollar (“HKD”) which is the presentation currency of the consolidated financial statements of the Group due to the appreciation of RMB. Such increase was partially offset by the decrease in operating profit during the three months ended 31 March 2018.

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

For the three months ended 31 March 2018, neither the Company nor any of its subsidiaries has purchased, sold or redeemed any listed securities of the Company.

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

On 15 September 2017, pursuant to the subscription agreement dated 13 September 2017 between the Company and the Subscriber (the “Subscription Agreement”), the Company issued 10% coupon guaranteed bonds of HK\$100,000,000 (the “Bonds”) due on 14 September 2018 which bear an effective interest rate of 10% per annum and are secured, amongst other things, by personal guarantee executed by Mr. Wong Cheung Lok, an executive Director and controlling shareholder of the Company and Ms. Cheung Ngar Kwan (“Mrs. Wong”), being the spouse of Mr. Wong and an executive Director of the Company (together, “Guarantors”), to Haitong International Investment Fund SPC acting on behalf of and for the account of Haitong International Investment Fund SPC — Fund I SP (“Subscriber”), an independent party of the Company. Under the Subscription Agreement, each of the Guarantors undertakes to the Subscriber that as long as any Bonds is outstanding, he or she shall not (i) provide any guarantee in any form to anyone which will result in the aggregate amount of indebtedness (secured or unsecured) guaranteed by the Guarantors exceeding HK\$530,000,000 and (ii) pledge any of his or her existing properties in Hong Kong to anyone.

Under the terms of the instrument constituting the Bonds (the “Instrument”), it will constitute an event of default if: (i) any of the Guarantors is (a) unable to pay for the payments due from the Company under their guarantee obligations and the terms and conditions of the Bonds, or (b) is declared bankrupt by a competent court and (ii) the Guarantors provide any other guarantee in any form to anyone which will result in the aggregate amount of indebtedness (secured or unsecured) guaranteed by the Guarantors exceeding HK\$530,000,000. Upon the occurrence of a continuing event of default, the holder(s) of the Bonds are entitled to request immediate redemption of the Bonds at a higher interest rate as stipulated in the Instrument.

Please refer to the announcement of the Company dated 13 September 2017 for more details.

DIRECTORS’ INTERESTS IN COMPETING BUSINESSES

During the three months ended 31 March 2018, 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.

However, as at the date of this announcement, 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.

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

Save as disclosed below, so far as the Directors are aware, as at 31 March 2018, none of the Directors and chief executive of the Company had any interests or short positions 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:

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

Notes:

- (1) The letter “L” denotes the person’s long positions in the Shares.
- (2) Mrs. Wong is the spouse of Mr. Wong Cheung Lok. Under the SFO, Mrs. Wong is deemed to be interested in those shares in which Mr. Wong Cheung Lok is interested.

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

So far as the Directors are aware, as at 31 March 2018, none of any other persons (other than a Director or chief executive) had any interest or short position in the shares or underlying shares of our Company which would fall to be disclosed to us and the 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.

AUDIT COMMITTEE

The audit committee of the Board of the Company has reviewed and discussed with the management of the Group the unaudited consolidated results of the Group for the three months ended 31 March 2018.

QUARTERLY DIVIDEND

The Board does not recommend the payment of any dividend for the three months ended 31 March 2018 (2017: Nil).

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

Hong Kong, 11 May 2018

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