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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)

INTERIM RESULTS ANNOUNCEMENT FOR THE SIX MONTHS ENDED 30 JUNE 2020

The board (the “**Board**”) of directors (the “**Directors**”) of Hong Wei (Asia) Holdings Company Limited (the “**Company**”) is pleased to announce the unaudited interim results of the Company and its subsidiaries for the six months ended 30 June 2020.

This announcement, containing the financial highlights and the full text of the 2020 Interim Report of the Company, complies with the relevant requirements of the Rules Governing the Listing of Securities on GEM of The Stock Exchange of Hong Kong Limited (the “**GEM Listing Rules**”) in relation to the information to accompany preliminary announcements of interim results. Printed version of the 2020 Interim Report of the Company containing the information required by the GEM Listing Rules will be despatched to the shareholders of the Company and available for viewing on the GEM website at www.hkgem.com and on the Company’s website at www.hongweiasia.com.

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

Hong Kong, 14 August 2020

At the date of this announcement, the executive Directors are Mr. Wong Cheung Lok, Ms. Cheung Ngar Kwan, Mr. Liu Jiayong, Mr. Wong Kin Ching and Mr. Lai Weifeng; and the independent non-executive Directors are Dr. Xu Jianmin, Ms. Qian Xiaoyu and Dr. Chow Ho Wan, Owen.

This announcement, for which the Directors collectively and individually accept full responsibility, includes particulars given in compliance with the Rules Governing the Listing of Securities on the GEM of The Stock Exchange of Hong Kong Limited for the purpose of giving information with regard to the Company. The Directors, having made all reasonable enquires, 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.

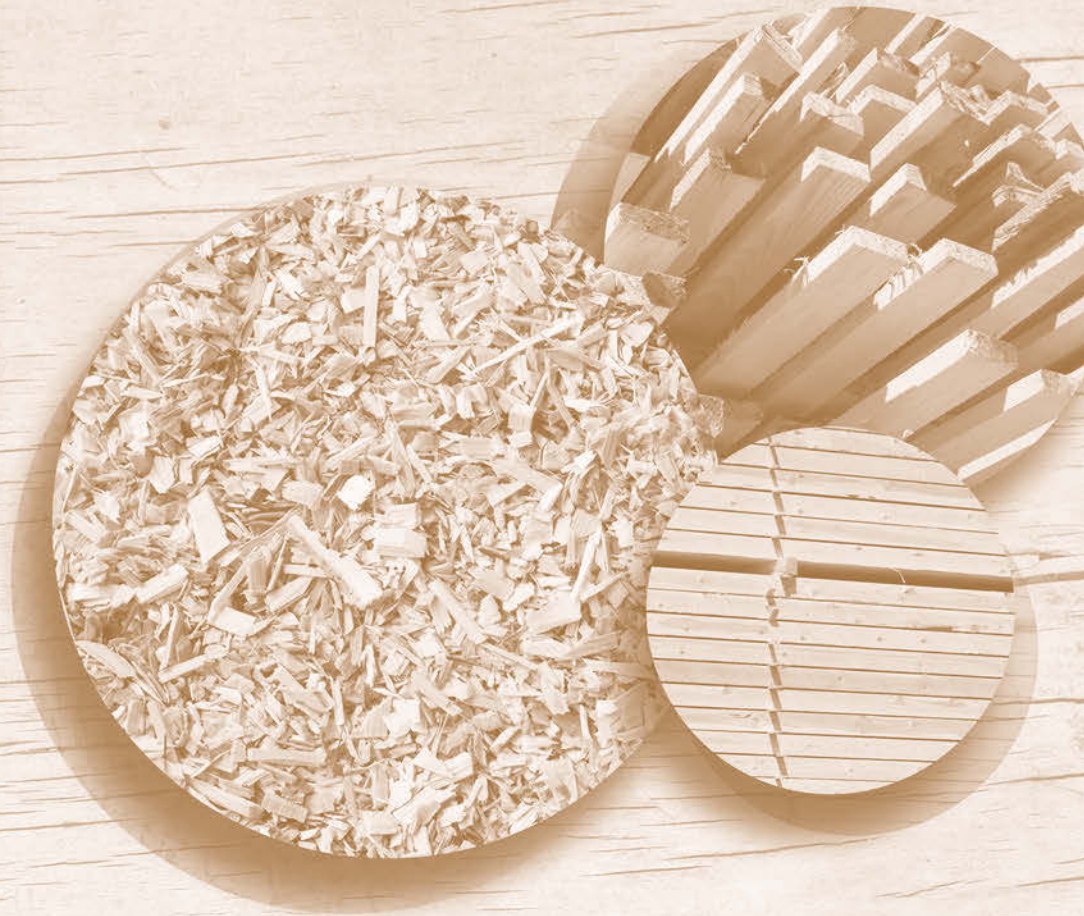
This announcement will remain on the GEM website (www.hkgem.com) for at least seven days from the day of its posting. This announcement will also be published on the Company's website at www.hongweiasia.com.

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

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

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

*This report, 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 report 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 report misleading.*



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CORPORATE INFORMATION

REGISTERED OFFICE

Unit No.5, 10/F,
Well Tech Centre,
No.9 Pat Tat Street,
San Po Kong,
Kowloon, Hong Kong

HEAD OFFICE IN HONG KONG

Unit No.5, 10/F,
Well Tech Centre,
No.9 Pat Tat Street,
San Po Kong,
Kowloon, Hong Kong

PRINCIPAL PLACE OF BUSINESS IN THE PRC

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

AUTHORISED REPRESENTATIVES

Mr. Wong Cheung Lok
Mr. Chen Kun

EXECUTIVE DIRECTORS

Mr. Wong Cheung Lok
Ms. Cheung Ngar Kwan
Mr. Liu Jiayong
Mr. Wong Kin Ching
Mr. Lai Weifeng

INDEPENDENT NON-EXECUTIVE DIRECTORS

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

COMPLIANCE OFFICER

Mr. Wong Kin Ching

PRINCIPAL BANKERS

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

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

Mr. Chen Kun (*Solicitor of HKSAR*)

SHARE REGISTRAR AND TRANSFER OFFICE

Tricor Investors Services Limited
Level 54
Hopewell Centre
183 Queen's Road East
Hong Kong

AUDITOR

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

LEGAL ADVISERS TO THE COMPANY

as to Hong Kong law:
Jimmie K. S. Wong & Partners

GEM STOCK CODE

8191

COMPANY'S WEBSITE ADDRESS

www.hongweiasia.com

FINANCIAL HIGHLIGHTS

For the six months ended 30 June 2020, operating results of the Group were as follows:

- Revenue for the six months ended 30 June 2020 amounted to approximately HK\$116.7 million, representing a decrease of 27.9% from approximately HK\$161.9 million recorded in the same period in 2019.
- Gross Profit for the six months ended 30 June 2020 amounted to approximately HK\$22.3 million, representing a decrease of 19.9% from approximately HK\$27.8 million recorded in the same period in 2019.
- Loss attributable to owners of the Company for the six months ended 30 June 2020 amounted to HK\$2.8 million representing a decrease of 1,271.2% from approximately HK\$0.2 million profit attributable to owners of the Company recorded in the same period in 2019.
- The Board does not recommend the payment of an interim dividend for the six months period ended 30 June 2020 (2019: 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 2020 (“2020 Interim Period”) together with the comparative figures of the corresponding period as appropriate.

CONDENSED CONSOLIDATED STATEMENT OF PROFIT OR LOSS AND OTHER COMPREHENSIVE INCOME

	Notes	Three months ended 30 June		Six months ended 30 June	
		2020 HK\$'000 (Unaudited)	2019 HK\$'000 (Unaudited)	2020 HK\$'000 (Unaudited)	2019 HK\$'000 (Unaudited)
Revenue	3	87,420	90,958	116,723	161,870
Cost of sales		(71,727)	(74,666)	(94,422)	(134,044)
Gross profit		15,693	16,292	22,301	27,826
Other income	5	5,043	3,373	6,191	7,565
Other gains/(losses), net		–	(36)	90	(39)
Selling and distribution expenses		(6,972)	(6,446)	(9,989)	(11,547)
Administration expenses		(4,775)	(5,243)	(9,228)	(11,028)
Finance costs	6	(5,464)	(6,269)	(12,211)	(12,534)
(Loss)/Profit before tax		3,525	1,671	(2,846)	243
Income tax	7	–	–	–	–
(Loss)/Profit for the period attributable to owners of the Company	8	3,525	1,671	(2,846)	243
Other comprehensive (expenses)/income which will not be reclassified subsequently to profit or loss:					
Exchange differences arising on translation to presentation currency		127	(10,726)	(9,177)	(1,834)
Other comprehensive (expenses)/income for the period		127	(10,726)	(9,177)	(1,834)
Total comprehensive (expenses)/income for the period		3,652	(9,055)	(12,023)	(1,591)
Total comprehensive (expenses)/income attributable to owners of the Company		3,652	(9,055)	(12,023)	(1,591)
Basic and diluted earnings/(loss) per share, in HK cents	9	0.42	0.20	(0.34)	0.03

CONDENSED CONSOLIDATED STATEMENT OF FINANCIAL POSITION

	Notes	30 June 2020 HK\$'000 (Unaudited)	31 December 2019 HK\$'000 (Audited)
NON-CURRENT ASSETS			
Property, plant and equipment		304,012	309,455
Right-of use assets		41,326	43,110
Biological assets	10	100,547	102,255
Intangible assets		1,946	2,066
Deferred tax assets		311	317
Prepayments for acquisition of property, plant and equipment	13	577	588
		448,719	457,791
CURRENT ASSETS			
Inventories	11	157,862	105,840
Trade and bills receivables	12	46,263	83,868
Deposits, prepayments and other receivables	13	39,664	40,107
Loan receivable		7,000	–
Bank balances and cash		9,159	69,689
Restricted and pledged bank deposits		–	5,000
		259,948	304,504
CURRENT LIABILITIES			
Trade payables	14	19,203	19,407
Other payables and accrued expenses		15,890	34,880
Contract Liabilities		1,088	613
Bank and other borrowings, due within one year	15	163,519	171,445
Deferred income		3,709	3,732
Lease liabilities		730	723
Notes payable, secured and guaranteed	16	97,892	97,532
		302,031	328,332
NET CURRENT LIABILITIES		(42,083)	(23,828)
TOTAL ASSETS LESS CURRENT LIABILITIES		406,636	433,963

CONDENSED CONSOLIDATED STATEMENT OF FINANCIAL POSITION

	Notes	30 June 2020 HK\$'000 (Unaudited)	31 December 2019 HK\$'000 (Audited)
NON-CURRENT LIABILITIES			
Deferred tax liabilities		1,689	1,723
Bank and other borrowings, due after one year	15	54,934	67,832
Deferred income		28,665	30,671
Lease liabilities		225	591
		85,513	100,817
NET ASSETS			
		321,123	333,146
CAPITAL AND RESERVES			
Share capital	17	253,928	253,928
Reserves		67,195	79,218
EQUITY ATTRIBUTABLE TO OWNERS OF THE COMPANY AND TOTAL EQUITY			
		321,123	333,146

CONDENSED CONSOLIDATED STATEMENT OF CHANGES IN EQUITY

For the six months ended 30 June 2020

	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 2020 (audited)	253,928	(16,968)	30,325	(34,625)	100,486	333,146
Loss for the period	-	-	-	-	(2,846)	(2,846)
Other comprehensive expenses for the period:						
Exchange differences arising on translation to presentation currency	-	-	-	(9,177)	-	(9,177)
Total comprehensive (expenses) for the period	-	-	-	(9,177)	(2,846)	(12,023)
Balance at 30 June 2020 (unaudited)	253,928	(16,968)	30,325	(43,802)	97,640	321,123
Balance at 1 January 2019 (audited)	253,928	(16,968)	25,835	(24,712)	79,686	317,769
Profit for the period	-	-	-	-	243	243
Other comprehensive expenses for the period:						
Exchange differences arising on translation to presentation currency	-	-	-	(1,834)	-	(1,834)
Total comprehensive (expenses)/income for the period	-	-	-	(1,834)	243	(1,591)
Balance at 30 June 2019 (unaudited)	253,928	(16,968)	25,835	(26,546)	79,929	316,178

CONDENSED CONSOLIDATED STATEMENT OF CASH FLOWS

For the six months ended 30 June 2020

	Six months ended 30 June	
	2020 HK\$'000 (Unaudited)	2019 HK\$'000 (Unaudited)
Net cash (used in)/generated from operating activities	(11,412)	18,398
Net cash used in investing activities	(9,068)	(3,290)
Net cash used in financing activities	(22,629)	(14,316)
Net (decrease)/increase in cash and cash equivalents	(43,109)	792
Cash and cash equivalents at the beginning of the period	69,689	6,204
Effect of foreign exchange rate changes	(17,421)	(1,745)
Cash and cash equivalents at the end of the period, represented by bank balances and cash	9,159	5,251

NOTES TO THE CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

1. GENERAL INFORMATION AND BASIS OF PRESENTATION

The unaudited interim condensed consolidated financial statements have been prepared in accordance with the applicable disclosure provisions of the Rules Governing the Listing of Securities on the GEM of the Stock Exchange of Hong Kong Limited (the “**GEM Listing Rules**”), including compliance with Hong Kong Accounting Standard (“**HKAS**”) 34 “Interim Financial Reporting”, issued by the Hong Kong Institute of Certified Public Accountants (the “**HKICPA**”). The unaudited interim condensed consolidated financial statements have been reviewed by the Company’s Audit Committee and were authorised for issue on 14 August 2020 (the “**Approval Date**”).

The unaudited interim condensed consolidated financial statements do not include all the information and disclosures required in the annual financial statements, and should be read in conjunction with the Group’s annual report for the year ended 31 December 2019.

As at 30 June 2020, the Group’s current liabilities exceeded its current assets by approximately HK\$42,083,000 (31 December 2019: HK\$23,828,000). Its current liabilities, including current bank and other borrowings of approximately HK\$163,519,000 (31 December 2019: HK\$171,445,000), exceeded its cash and cash equivalents of approximately HK\$9,159,000 (31 December 2019: HK\$69,689,000).

The Directors have given careful consideration to the Group’s financial performance, working capital, liquidity position and available banking facilities from its principal bankers and financial institutions, and the stability of the Group’s business, operations and relationships with its suppliers, bankers and financial institutions. On 22 March 2018 and 22 March 2019, Mr. Wong Cheung Lok (“**Mr. Wong**”), ultimate controlling shareholder and chairman of the Company, and the Company entered into facility letters (the “**Facility Letters**”), pursuant to which Mr. Wong agreed to provide a revolving facility of HK\$55,000,000 to the Company (note 15). In view of this, the Directors are of the view that the Group will be able to meet in full its financial obligations as they fall due for the foreseeable future.

The 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 2019, except for the adoption of new and amended Hong Kong Financial Reporting Standards (“**HKFRSs**”) in the current period as disclosed in note 2.

The financial statements relating to the financial year ended 31 December 2019 that are included in these condensed consolidated interim financial statements as comparative information does not constitute the Company’s statutory annual consolidated financials 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 2019 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.

NOTES TO THE CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

2. ADOPTION OF NEW AND AMENDED HKFRSS

(a) New and amended HKFRSSs adopted by the Group

During the current interim period, the Group has adopted the following new and amended HKFRSSs issued by the HKICPA for the first time:

HKFRS 16	Leases
HK(IFRIC) – Int 23	Uncertainty over income Tax Treatments
Amendments to HKFRS 9	Prepayment Features with Negative Compensation
Amendments to HKAS 19	Plan Amendment, Curtailment or Settlement
Amendments to HKAS 28	Long-term Interest in Associates and Joint Ventures
Amendments to HKFRSSs	Annual Improvements to HKFRSSs 2015 – 2017 Cycle

Except as set out below, the Directors consider that the adoption of other new and amended HKFRSSs did not have any material impact on the financial position and the financial results of the Group.

HKFRS 16 “Lease”

In the current period, the Group has applied HKFRS 16 “Lease” and the related consequential amendments to other HKFRSSs.

HKFRS 16 introduces a comprehensive model for the identification of lease arrangements and accounting treatments for both lessors and lessees. HKFRS 16 supersedes HKAS 17 Leases and the related interpretations.

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

The right-of-use assets is initially measured at cost and subsequently measured at cost (subject to certain exceptions) less accumulated depreciation and impairment losses, adjusted for any remeasurements of the lease liability. The lease liability is initially measured at the present value of the lease payments that are not paid at that date. Subsequently, the lease liability is adjusted for interest and lease payments, as well as the impact of lease modifications, amongst others.

NOTES TO THE CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

3. REVENUE

Revenue represents revenue arising on sales of particleboards as follows:

	For the six months ended 30 June	
	2020 HK\$'000 (Unaudited)	2019 HK\$'000 (Unaudited)
Revenue:		
Sales of particleboards	116,723	161,870
Revenue from contracts with customers	116,123	161,870

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

4. 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 2020, the Group has two reportable operating segments. Details are as follows:

- a. Particleboards segment, principally engaged in manufacturing and selling of particleboards in the PRC; and
- b. Forestry segment, principally engaged in timber logging, plantation and sales of wood and agricultural products in the PRC.

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 2019. 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, secured and guaranteed notes payable, deferred tax liabilities and unallocated corporate liabilities.

NOTES TO THE CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

4. SEGMENT INFORMATION *(Continued)*

Operating segments

The following tables represent segment information of the Group provided to the Group's CODM for the six months ended 30 June 2020.

For the six months ended 30 June 2020

	Particleboards segment HK\$'000 (Unaudited)	Forestry segment HK\$'000 (Unaudited)	Total HK\$'000 (Unaudited)
<i>Segment revenue:</i>			
Revenue from external customers	116,723	–	116,723
<i>Segment results:</i>			
Reportable segment results	13,007	–	13,007
Bank interest income (note 5)			431
Finance costs (note 6)			(12,211)
Unallocated corporate staff costs			(3,764)
Unallocated corporate expense			(309)
Consolidated profit before tax			(2,846)
<i>Other segment information</i>			
Capital expenditures – allocated*	3,111	–	3,111
Depreciation – allocated	14,286	–	14,286
Depreciation – unallocated			218
Total depreciation (note 8)			14,504
Amortisation (note 8)	212	–	212

NOTES TO THE CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

4. SEGMENT INFORMATION (Continued)

Operating segments (Continued)

For the six months ended 30 June 2019

	Particleboards segment HK\$'000 (Unaudited)	Forestry segment HK\$'000 (Unaudited)	Total HK\$'000 (Unaudited)
<i>Segment revenue:</i>			
Reportable segment revenue	161,870	–	161,870
<i>Segment results:</i>			
Reportable segment results	17,816	(437)	17,379
Bank interest income (note 5)			7
Finance costs (note 6)			(12,534)
Unallocated corporate staff costs			(1,651)
allocated corporate expense			(2,958)
Consolidated profit before tax			243
<i>Other segment information</i>			
Capital expenditures – allocated*	21,774	–	21,774
Depreciation – allocated	14,299	545	14,844
Depreciation – unallocated			311
Total depreciation (note 8)			15,155
Amortisation (note 8)	226	–	226

* Capital expenditures of particleboards segment mainly represent the addition of property, plant and equipment.

There has been no material change for the amounts of segment assets and liabilities as at 30 June 2020 from the amount disclosed in 2019 annual financial statements. Accordingly, no segment assets and liabilities is disclosed.

NOTES TO THE CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

4. SEGMENT INFORMATION *(Continued)*

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	
	2020	2019
	HK\$'000	HK\$'000
	(Unaudited)	(Unaudited)
Revenue from PRC	116,723	161,870

The Group's non-current assets other than deferred tax assets and loan receivable 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 right-of-use assets, prepayments for acquisition of 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	
	2020	2019
	HK\$'000	HK\$'000
	(Unaudited)	(Unaudited)
Customer A	56,430	71,475

5. OTHER INCOME

	For the six months ended 30 June	
	2020	2019
	HK\$'000	HK\$'000
	(Unaudited)	(Unaudited)
Value added tax ("VAT") refund	4,660	4,928
Government grants	1,031	2,624
Bank interest income	431	7
Others	69	6
	6,191	7,565

NOTES TO THE CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

6. FINANCE COSTS

	For the six months ended 30 June	
	2020 HK\$'000 (Unaudited)	2019 HK\$'000 (Unaudited)
Interests on bank and other borrowings	7,756	7,431
Interests on bonds and notes payable	4,405	4,780
Interests on unsecured revolving loan	37	302
Interests on finance lease liabilities	13	21
	12,211	12,534

7. 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 Wooden Products (Renhua) Co. Ltd. ("Hongwei Renhua") is 25% during the six months ended 30 June 2020 and 2019.

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 2020 and 2019, 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 months ended 30 June 2020, 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.

NOTES TO THE CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

8. (LOSS)/PROFIT FOR THE PERIOD

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

	Notes	For the six months ended 30 June	
		2020 HK\$'000 (Unaudited)	2019 HK\$'000 (Unaudited)
Depreciation and amortisation expenses			
Depreciation of property, plant and machinery	(i)	14,504	14,393
Amortisation of intangible assets		212	226
Amortisation of prepaid lease payments		–	762
Total depreciation and amortisation expenses		14,716	15,381
Employee benefits expenses (included directors' emoluments)			
Salaries and other benefits		6,167	6,585
Contribution to retirement benefit schemes		288	880
Total employee benefit expenses		6,455	7,465
Cost of inventories recognised as an expense		94,422	134,044

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

NOTES TO THE CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

9. (LOSS)/EARNINGS PER SHARE

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

(Loss)/Earnings

	Six months ended 30 June	
	2020 HK\$'000 (Unaudited)	2019 HK\$'000 (Unaudited)
(Loss)/Profit for the period attributable to owners of the Company for the purpose of basic earnings per share	(2,846)	243

Number of shares

	Six months ended 30 June	
	2020 '000 (Unaudited)	2019 '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.

No interim dividend was paid or proposed for the six months ended 30 June 2020 (2019: nil).

10. 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, were used as raw materials of the Group to produce particleboards for sale and the remaining timber woods harvested, being the larger-sized timber woods, were sold to external customers.

NOTES TO THE CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

10. BIOLOGICAL ASSETS (Continued)

(b) Valuation of biological assets

Biological assets are measured at fair value less costs to sell at the end of each reporting period, by reference to the work performed by LCH (Asia-Pacific) Surveyors Limited (the “**Independent Valuers**”). Any changes in fair value less costs to sell are recognised in profit or loss.

In or about the end of 2018, the Group noted that the grant by the relevant government department of timber wood harvesting quotas had been materially curtailed as part of the PRC government’s strengthening in the drive of environmental protections. Such tightened control is expected to last for a certain period which is unknown to and uncontrolled by the Group. The Group engaged the Independent Valuers to perform the valuation as at 31 December 2019. The Independent Valuers used sales comparison approach, with reference to latest listing prices of forestlands situated in Guangdong Province and Fujian Province which are adjusted by various factors including the remaining land use terms and accessibility of each of the forestlands held by the Group, to determine the overall fair values less costs to sell of the Group’s forestlands as at 31 December 2019. Fair values less costs to sell of “raw lands” are deducted from the overall value to arrive at the fair values less costs to sell of the Group’s biological assets as at 31 December 2019.

As at 30 June 2020 and the date of this report, the Group was not aware of any update on the tightened control of the grant of timber wood harvesting quotas which is still expected to last for a certain period unknown to and uncontrolled by the Group. In addition, there were no additions or disposal of prepaid lease payments and biological assets during the 2020 Interim Period. The Directors are of the view that there are no material changes in the fair value of biological assets and valuation of the prepaid forestlands lease payments, which have been re-classified as part of the right-of-use assets with effect from 1 January 2020 (date of initial application of HKFRS 16). Accordingly, no gain or loss in fair value of the biological assets are expected.

11. INVENTORIES

	As at 30 June 2020 HK\$’000 (Unaudited)	As at 31 December 2019 HK\$’000 (Audited)
Raw materials	115,952	91,534
Work in progress	1,038	2,750
Finished goods	40,872	11,556
Total	157,862	105,840

NOTES TO THE CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

12. TRADE AND BILLS RECEIVABLES

	As at 30 June 2020 HK\$'000 (Unaudited)	As at 31 December 2019 HK\$'000 (Audited)
Trade receivables	37,867	77,060
Bills receivables	9,580	8,016
	47,447	85,076
Less: Loss allowances	(1,184)	(1,208)
Total	46,263	83,868

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 2019: 90 days). The Group seeks to maintain strict control over its outstanding receivables to minimise its credit risk. Overdue balances are regularly reviewed by senior management. Trade receivables are non-interest bearing and their carrying amounts approximately to their fair values.

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

	As at 30 June 2020 HK\$'000 (Unaudited)	As at 31 December 2019 HK\$'000 (Audited)
Within three months	36,021	76,536
Over three months but within six months	1,392	79
Over six months	454	445
Total	37,867	77,060

NOTES TO THE CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

12. TRADE AND BILLS RECEIVABLES *(Continued)*

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

	As at 30 June 2020 HK\$'000 (Unaudited)	As at 31 December 2019 HK\$'000 (Audited)
Within three months	8,268	5,132
Over three months but within six months	1,312	2,884
Total	9,580	8,016

13. DEPOSITS, PREPAYMENTS AND OTHER RECEIVABLES

	As at 30 June 2020 HK\$'000 (Unaudited)	As at 31 December 2019 HK\$'000 (Audited)
VAT recoverable	18,204	13,098
VAT refund receivable	2,065	1,726
Payments in advance to suppliers	12,451	23,632
Prepayments paid for acquisition of property, plant and equipment	577	588
Others	6,944	1,651
	40,241	40,695
Analyses for reporting purpose		
Current assets	39,664	40,107
Non-current assets	577	588
	40,241	40,695

NOTES TO THE CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

14. TRADE PAYABLES

	As at 30 June 2020 HK\$'000 (Unaudited)	As at 31 December 2019 HK\$'000 (Audited)
Trade payables	19,203	19,407

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 2020 HK\$'000 (Unaudited)	As at 31 December 2019 HK\$'000 (Audited)
Within three months	15,739	13,229
Over three months but within six months	1,555	4,489
Over six months	1,909	1,689
Total	19,203	19,407

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

15. BANK AND OTHER BORROWINGS

	Notes	As at 30 June 2020 HK\$'000 (Unaudited)	As at 31 December 2019 HK\$'000 (Audited)
Bank borrowings	(i)	133,239	134,739
Other borrowings	(ii)	85,214	90,338
Unsecured loans from Mr. Wong and his associate	(iii)	–	14,200
		218,453	239,277
Less: amount included in current liabilities		(163,519)	(171,445)
Non-current portion		54,934	67,832
Analysed as:			
Secured but unguaranteed	(v)	145,429	62,799
Secured and guaranteed	(v)	53,317	142,184
Unsecured and unguaranteed		19,707	34,294
		218,453	239,277

NOTES TO THE CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

15. BANK AND OTHER BORROWINGS (Continued)

Notes:

- (i) Other than bank borrowings with an aggregate carrying amount of HK\$60,215,000 (31 December 2019: HK\$72,560,000) as at 30 June 2020, other bank borrowings with an aggregate carrying amount of HK\$65,689,000 (31 December 2019: HK\$62,179,000) as at 30 June 2020. All bank borrowings are denominated in RMB.
- (ii) As at 30 June 2020, the Group's other borrowings represents sales and leaseback operating lease arrangements with financial institutions, pursuant to which the Group transfers certain of its equipments to the financial institutions for loans to the Group with tenure of one to three years (2019: one to three years) from the date of advancements. At the end of the terms, the Group could pay a minimal amount of consideration to re-acquire the leased equipments. Other borrowings of approximately HK\$30,907,000 (31 December 2019: HK\$31,696,000) as at 30 June 2020 and other borrowings of approximately HK\$54,307,000 (31 December 2019: HK\$58,642,000) as at 30 June 2020. Other borrowings are denominated in RMB.

The maturity analysis of bank borrowings is as follows:

	As at 30 June 2020 HK\$'000 (Unaudited)	As at 31 December 2019 HK\$'000 (Audited)
Within one year	30,280	22,506
More than one year, but not exceeding two years	34,042	33,131
More than two year, but not exceeding five years	20,892	34,701
	85,214	90,338

- (iii) On 22 March 2018 and 22 March 2019, Mr. Wong and the Company entered into short term unsecured revolving loan agreements (as supplemented by a supplemental agreement), pursuant to which Mr. Wong agreed to provide revolving facility of HK\$55,000,000 to the Company. On 14 August 2019, Mr. Wong's associate and daughter, Ms. Wong Wan Yu, and the Company entered into a short term unsecured revolving loan agreement (as supplemented by a supplemental agreement), pursuant to which Ms. Wong Wan Yu agreed to provide revolving facility of HK\$10,000,000 to the Company. As at 31 December 2019, the Company has utilised HK\$7,500,000 and HK\$6,700,000 in respect of revolving facilities provided by Mr. Wong and Ms. Wong Wan Yu, respectively. These loans are due in the year 2020, carry interest at 7% per annum and are unsecured and unguaranteed.
- (iv) As at 30 June 2020 and 31 December 2019, the Group had no other unsecured loan.

NOTES TO THE CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

15. BANK AND OTHER BORROWINGS (Continued)

Notes: (Continued)

- (v) As at 30 June 2020, the Group's secured bank and other borrowings are secured by the following assets of the Group:
- (a) the pledge of the Group's property, plant and equipment with an aggregate carrying amount of approximately HK\$246,757,000 (31 December 2019: HK\$252,125,000);
 - (b) the pledge of the Group's right-of-use assets with an aggregate carrying amount of approximately HK\$17,399,160 (31 December 2019: prepaid lease payments of approximately HK\$17,825,000);
 - (c) the pledge of the Group's inventories with an aggregate carrying amount of approximately HK\$40,872,000 (31 December 2019: HK\$11,556,000) and;
- (vi) As at 30 June 2020, the Group's secured and guaranteed bank borrowings of approximately HK\$32,844,000 (31 December 2019: HK\$52,467,000) are secured by personal guarantees executed by Mr. Wong and Mr. Wong Kin Ching for the maximum amount of guarantee up to approximately HK\$221,031,000 (31 December 2019: HK\$221,031,000). As at 30 June 2020, the Group's secured and guaranteed other borrowings of approximately HK\$89,717,000 (31 December 2019: HK\$ 89,717,000) are secured by personal guarantees executed by Mr. Wong and Mrs. Wong/Mr. Wong, Mrs. Wong and Mr. Wong Kin Ching.

16. NOTES PAYABLE

	As at 30 June 2020 HK\$'000 (Unaudited)	As at 31 December 2019 HK\$'000 (Audited)
Notes payable, secured and guaranteed (note)	97,892	97,532

Note: On 13 August 2018, pursuant to the subscription agreement dated 10 August 2018 (the "**Note Subscription Agreement**") between the Company and Haitong Global Investment SPC III acting on behalf of and for a segregated portfolio ("**Note Subscriber**"), the Company issued secured and guaranteed notes in the principal amount of HK\$100,000,000 (the "**Note**") due on 12 August 2020 or be extended to 12 August 2021 (subject to the approval of the noteholder) to the Note Subscriber. The Note carry an interest rate of 8% per annum for the first six months from the date of issue and prime rate (as per HSBC's then current Hong Kong Dollar best lending rate in effect) plus 3% per annum for the rest of its term, and is secured, among other things, by personal guarantee executed by Mr. Wong and Mrs. Wong (together, "**Guarantors**").

NOTES TO THE CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

16. NOTES PAYABLE (Continued)

Notes: (Continued)

The Note Subscription Agreement and the instrument constituting the Notes (“**Instrument**”) contain covenants that require Mr. Wong to remain as the single largest shareholder of the Company, the chairman of the Board and executive director of the Company and restrict the creation by either of the Guarantors of any additional encumbrances over real properties owned by them in Hong Kong as at the date of the Note Subscription Agreement and the Instrument, the breach of which will constitute an event of default. In addition, the bankruptcy or inability to pay debts when due of the Guarantors or any change of control (within the meaning of the Code on Takeovers and Mergers) of the Company will also constitute an event of default. Upon the occurrence of a continuing event of default, the holder(s) of the Note is(are) entitled to request immediate redemption of the Note at a higher interest rate and such amount which would give a 20% internal rate of return (inclusive of all interest and fee payable by the Company) to the Note Subscriber as stipulated in the Instrument. Please refer to the announcement of the Company date 10 August 2018 for more details.

As disclosed in the announcement of the Company dated 13 July 2020, the Company, the Guarantors and the Subscriber entered into a deed of amendment dated on 13 July 2020, pursuant to which the Subscriber agreed to amend the terms and conditions of the Bonds, having effect that, among others, the maturity date of the Bonds will be extended from 12 August 2020 to 12 August 2021.

17. SHARE CAPITAL

	Numbers of shares		Share capital	
	30 June 2020 '000 (Unaudited)	31 December 2019 '000 (Audited)	30 June 2020 HK\$'000 (Unaudited)	31 December 2019 HK\$'000 (Audited)
Issued and fully paid	832,603	832,603	253,928	253,928

There was no movement in share capital between years.

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	
	2020 HK\$'000 (Unaudited)	2019 HK\$'000 (Unaudited)
Unsecured loan advanced from Mr. Wong	–	–
Repayment of unsecured loan to Mr. Wong	–	–

NOTES TO THE CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

18. RELATED PARTY TRANSACTIONS (Continued)

(b) Personal guarantee executed by directors

	For the six months ended 30 June	
	2020 HK\$'000 (Unaudited)	2019 HK\$'000 (Unaudited)
Personal guarantees executive by Mr. Wong and Mrs. Wong in respect of the following balances: – notes payable	97,892	97,426
Personal guarantees executive by Mr. Wong Kin Ching and Mr. Wong (2019: Mr. Wong) respect of the following balances: – bank borrowings*	–	78,322

* Maximum amount of guarantee provided by Mr. Wong and Mr. Wong Kin Ching (2019: Mr. Wong) are each approximately HK\$225,077,000 (2019: HK\$225,077,000)

(c) Facility letter entered with a director

On 22 March 2018, Mr. Wong and the Company entered into the Facility Letter, pursuant to which Mr. Wong agreed to provide a revolving facility of HK\$55,000,000 to the Company. The Company could make any drawings of the total facility amount at any date falling not less than one month before 31 March 2019. Maturity date of the loans is 12 months after the first drawing and interest is calculated at 7% per annum on outstanding principal amounts. The Facility Letter was renewed on 22 March 2019 to enable the Company to make any drawings of the total facility amount of HK\$55,000,000 at any date falling not less than one month before 31 March 2020. Other terms and conditions of the revolving facility remained unchanged. The outstanding carrying amount of the facility was nil (2019: HK\$6,500,000)

Upon the expiry of the Facility Letter, Mr. Wong and the Company entered into a new facility letter on the same terms and conditions on 22 March 2019.

NOTES TO THE CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

18. RELATED PARTY TRANSACTIONS *(Continued)*

(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 2020 is as follows:

	For the six months ended 30 June	
	2020 HK\$'000 (Unaudited)	2019 HK\$'000 (Unaudited)
Short-term employee benefits	1,200	1,294
Post-employment benefits	28	25
Total compensation paid to key management personnel	1,228	1,319

During the six months ended 30 June 2020, short-term benefits and post-employment benefits for Miss Wong Wan Yu, daughter of Mr. Wong and Mrs. Wong, paid and contributed by the Group were HK\$288,000 (2019: HK\$173,000) and HK\$9,000 (2019: HK\$8,650), respectively and short-term benefits and post-employment benefits for Mr. Wong Kin Keung, son of Mr. Wong and Mrs. Wong, paid and contributed by the Group were nil (2019: HK\$120,000) and nil (2019: HK\$6,000), respectively

MANAGEMENT DISCUSSIONS AND ANALYSIS

BUSINESS REVIEW

During the six months ended 30 June 2020 (“**Current Period**”), the Group continued to be engaged in the manufacturing and selling of particleboards (“**Particleboards Segment**”) and the plantation, timber logging and sales of wood and agricultural products in the People’s Republic of China (the “**PRC**”) (“**Forestry Segment**”).

Particleboards Segment

During the Current Period, our products were principally used by our customers in the manufacturing of furniture and fixtures, sport equipment, decoration and construction materials. The recent outbreak of the coronavirus has continuously impacted the Group’s sales activities. The Group is taking stringent precautionary measures to ensure the health and safety of its employees, and supporting the steps taken by the Chinese government to control the further spread of the virus. The Chinese economy continued to face with uncertainties, the domestic demand for consumer products such as household furniture and fixtures, sport equipment as well as construction materials had remained at a weak level recently. Although we were subject to the impact of COVID-19 disaster this year, the Group will continue to exercise vigilant cost control to improve productivity and uphold quality service to customers and with long-term good relationships with suppliers.

The Company will take necessary proactive steps to monitor its financial condition. Meanwhile, it will also maintain its focus on cost control with the attempt to expand to new market areas, so as to secure higher business volumes.

Forestry Segment

During the Current Period, the Group has not received any update on the measures regarding the grant by the relevant government department of timber wood harvesting quotas which have been materially curtailed as part of the PRC government’s policy to strengthen environmental protection since the end of 2018. As a result, the Group is unable to resume any of the harvesting activity since such curtailment is expected to continue to last for a certain period and which is unknown to and out of control of the Group. Nevertheless, the Group will continue to further explore and assess the other possible alternatives to utilize its forestry resources in order to benefit the Group as a whole.

During the six months ended 30 June 2020, no income generating activity took place and no revenue was recognized under this segment (2019: Nil).

FINANCIAL REVIEW

Revenue

During 2020 Interim Period, the Group’s revenue for Particleboards Segment decreased to approximately HK\$116.7 million from approximately HK\$161.9 million, representing a decrease of approximately 27.9% as compared to the Previous Period. The decrease was mainly due to the decrease in the average unit selling price and sales volume of particleboards by approximately 0.2% and 22.1% respectively, as well as the depreciation of the exchange rate of RMB to Hong Kong Dollar (“**HKD**”), which is the presentation currency of the financial statements of the Group, during the 2020 Interim Period as compared with the period during the six months ended 30 June 2019 (“**Previous Period**”).

Such significant decrease in sales volume is mainly caused by the impact of outbreak of COVID-19 hence no revenue was recognized for forestry segment (2019:nil)

MANAGEMENT DISCUSSIONS AND ANALYSIS

Cost of sales

During the 2020 Interim Period, the Group's costs of sales decreased to approximately HK\$94.4 million from approximately HK\$134.0 million, representing a decrease of approximately 29.6% as compared to the Previous Period. The decrease was primarily due to the decrease in the volume of goods sold and also as a result of lower average unit costs of raw material, particularly the residual wood, recorded in the Current Period.

Gross profit and margin

During the 2020 Interim Period, the Group's gross profit decreased to approximately HK\$22.3 million from approximately HK\$27.8 million, representing a decrease of approximately 19.9% as compared to the Previous Period. The Group's gross profit margin increased to approximately 19.1% in the 2020 Interim Period from approximately 17.2% in the Previous Period.

The decrease in gross profit was mainly due to the decrease in revenue during the period. In connection, the raw material price fell by approximately 3.9%, collagen material methanol fell by approximately 27.9% and urea fell approximately 10.3% during the Current Period as compared to the Previous Period, resulting in decrease in average unit cost and increase in gross profit margin.

Other income

During the 2020 Interim Period, the Group's other income decreased to approximately HK\$6.2 million from approximately HK\$7.6 million, representing a decrease of approximately 18.2% as compared to that for the Previous Period. The decrease was mainly attributable to the decrease in value added tax refund which was partly off-set by the increase in subsidy released from deferred income.

Selling and distribution expenses

During the 2020 Interim Period, the Group's selling and distribution expenses decreased to approximately HK\$10.0 million from approximately HK\$11.6 million in the Previous Period, representing a decrease of approximately 13.5%. The decrease in selling and distribution expenses was mainly attributable to the decrease in transportation and packaging cost incurred during the Current Period due to the decrease in sales of particleboard.

Administration expenses

During the 2020 Interim Period, the Group's administration expenses decreased to approximately HK\$9.2 million from approximately HK\$11.0 million, representing a decrease of approximately 16.3% as compared to the Previous Period. The decrease in administration expenses was mainly attributable to the decrease in fertilizer fee, replantation cost and other maintenance expenses of forestlands in the Forestry Segment legal fees and entertainment expenses incurred during the Current Period. The decrease in administration expenses were partly set-off by the increase in donation fees during the Current Period.

MANAGEMENT DISCUSSIONS AND ANALYSIS

Finance costs

During the 2020 Interim Period, the Group's finance costs decreased to approximately HK\$12.2 million from approximately HK\$12.5 million in the Previous Period, representing a decrease of approximately 2.6%. The decrease in finance costs was mainly attributable to the decrease in bank and other borrowings.

(Loss)/Profit attributable to owners of the Company

During the 2020 Interim Period, the loss attributable to owners of the Company amounted to HK\$2.8 million, representing a significant decrease of approximately 1,271.2% as compared to the profit attributable to owners of the Company amounted to HK\$0.2 million for the Previous Period. Such decrease was mainly due to the decrease in gross profit of approximately HK\$5.5 million as a result of decrease in the revenue. The loss was partly set-off by the decrease in selling and distribution expenses, administration expenses and finance costs as discussed above.

Total comprehensive (expenses)/income attributable to owners of the Company

During the six months ended 30 June 2020, the Group's total comprehensive expenses attributable to owners of the Company amounting to approximately HK\$12.0 million, while the Group's total comprehensive expenses attributable to owners of the Company during the same period last year amounting to approximately HK\$1.6 million. The decrease was mainly attributable to the decrease in revenue.

LIQUIDITY, FINANCIAL RESOURCES AND CAPITAL STRUCTURE

As at 30 June 2020, there has been no change in the capital structure of the Company compared to that as at year ended 31 December 2019. The capital of the Company only comprises ordinary shares.

During the six months ended 30 June 2020, the Group mainly financed its operations with its working capital, bank and other borrowings, including the secured and guaranteed notes.

As at 30 June 2020 and 31 December 2019, the Group had bank and other borrowings of approximately HK\$218.5 million and HK\$239.3 million respectively. Other than certain bank and other borrowings which bear fixed interest with interest rates ranging from 4.35% to 5.79% per annum, other bank borrowings bear floating interest with interest rates ranging from 4.57% to 6.31% per annum as at 30 June 2020. The maturity profile of the Group's bank and other borrowings are set out in note 15 to this report.

As at 30 June 2020, the Group has finance lease liabilities for acquisition of a motor vehicle with outstanding carrying amount of approximately HK\$1.0 million (31 December 2019: HK\$0.7 million), of which, approximately HK\$0.7 million is repayable within one year and HK\$0.2 million is repayable more than one year from 30 June 2020.

As at 30 June 2020, the Group has a revolving loan from Mr. Wong with outstanding carrying amount of nil (31 December 2019: approximately HK\$14.2 million). The revolving loan facility carries fixed interest rate of 7% per annum. Please refer to note 15 of this report.

MANAGEMENT DISCUSSIONS AND ANALYSIS

As at 30 June 2020, the Group has HK\$100.0 million secured and guaranteed notes outstanding with contractual interest rate of 8% per annum for the first six months from the date of issue on 13 August 2018 and prime rate plus 3% per annum for the rest of its term. Please refer to note 15 of this report. (31 December 2019: HK\$100.0 million).

As at 30 June 2020 and 31 December 2019, the Group had net current liabilities of approximately HK\$42.1 million and HK\$23.8 million respectively. The current ratio of the Group, calculated by current assets over current liabilities, was 0.86 as at 30 June 2020 (31 December 2019: 0.93x).

Gearing Ratio

As at 30 June 2020, the gearing ratio stood at 0.68x (31 December 2019: 0.72x) calculated by total borrowings over shareholders' equity.

FOREIGN EXCHANGE EXPOSURE

As at 30 June 2020 and 31 December 2019, the functional currency of the Company and its major operating subsidiary is RMB. Certain of the Group's bank balances were denominated in HKD and USD 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 2020, lease liabilities and secured and guaranteed notes payable were denominated in HKD.

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 2020, except for investments in subsidiaries of the Group, there was no significant investments or capital assets held by the Group. There is currently no future plan for such significant investments or capital assets by the Group.

MATERIAL ACQUISITIONS AND DISPOSALS OF SUBSIDIARIES

During 2020 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(v) of this report.

COMMITMENTS AND CONTINGENT LIABILITIES

The Group does not have other significant capital commitment nor contingent liabilities as at 30 June 2020.

MANAGEMENT DISCUSSIONS AND ANALYSIS

EMPLOYEES AND REMUNERATION POLICIES

As at 30 June 2020, the Group employed a total of 161 employees (2019: 170). The remuneration payable to our employees included fees, salaries, retirement benefits scheme contributions and other benefits. For the 2020 Interim Period and the corresponding period in 2019, the remuneration paid to employees was approximately HK\$6.5 million and HK\$7.5 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 ("**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**").

MANAGEMENT DISCUSSIONS AND ANALYSIS

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 2020, 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 2020. Our Group did not have any outstanding share options, warrants, convertible instruments, or similar rights convertible into our Shares as at 30 June 2020.

DIRECTORS' AND CONTROLLING SHAREHOLDER'S INTERESTS IN COMPETING BUSINESSES

During the 2020 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 30 June 2020, 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 forest lands located at Renhua County, Guangdong Province, PRC.

MANAGEMENT DISCUSSIONS AND ANALYSIS

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

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

As disclosed in the announcement of the Company dated 13 July 2020, the Company, the Guarantors and the Subscriber entered into a deed of amendment dated on 13 July 2020, pursuant to which the Subscriber agreed to amend the terms and conditions of the Bonds, having effect that, among others, the maturity date of the Bonds will be extended from 12 August 2020 to 12 August 2021.

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.

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

Saved as disclosed below, so far as the Directors are aware, as at 30 June 2020, 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:

MANAGEMENT DISCUSSIONS AND ANALYSIS

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 ”)	Beneficial owner	430,000,000 (L)	51.65%
Ms. Cheung Ngar Kwan (“ Mrs. Wong ”) ⁽²⁾	Interest of spouse	430,000,000 (L)	51.65%
Mr. Wong Kin Ching	Beneficial Owner	372,000	0.04%

Notes:

- (1) The letter “L” denotes the person’s long positions in the Shares.
- (2) 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

So far as the Directors are aware, as at 30 June 2020, 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.

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

During the 2020 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 Corporate Governance Code (the “**CG Code**”) contained in Appendix 15 to the GEM Listing Rules during the 2020 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.

MANAGEMENT DISCUSSIONS AND ANALYSIS

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 2020 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 2020 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 2020 Interim Period.

EVENT AFTER REPORTING PERIOD

As of the date of this report, the Directors are not aware of any important events affecting the Group which have occurred since 30 June 2020.

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 2020 Interim Period, which has 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 2020 Interim Period.

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

Hong Kong, 14 August 2020

As at the date of this report, the executive Directors are Mr. Wong Cheung Lok, Ms. Cheung Ngar Kwan, Mr. Liu Jiayong, Mr. Wong Kin Ching and Mr. Lai Weifeng; and the independent non-executive Directors are Dr. Chow Ho Wan, Owen, Ms. Qian Xiaoyu and Dr. Xu Jianmin.