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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 2019

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

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

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

This announcement, for which the directors (the “Directors”) 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.

FINANCIAL HIGHLIGHTS

For the six months ended 30 June 2019, operating results of the Group were as follows:

- Revenue for the six months ended 30 June 2019 amounted to approximately HK\$161.9 million, representing a decrease of 23.3% from approximately HK\$211.2 million recorded in the same period in 2018.
- Gross Profit for the six months ended 30 June 2019 amounted to approximately HK\$27.8 million, representing a decrease of 44.0% from approximately HK\$49.6 million recorded in the same period in 2018.
- Profit attributable to owners of the Company for the six months ended 30 June 2019 amounted to HK\$0.2 million representing a decrease of 98.6% from approximately HK\$14.8 million profit recorded in the same period in 2018.
- The Board does not recommend the payment of an interim dividend for the six months period ended 30 June 2019 (2018: 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 2019 (“2019 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	
		2019 HK\$'000 (Unaudited)	2018 HK\$'000 (Unaudited)	2019 HK\$'000 (Unaudited)	2018 HK\$'000 (Unaudited)
Revenue	3	90,958	110,036	161,870	211,208
Cost of sales		<u>(74,666)</u>	<u>(85,037)</u>	<u>(134,044)</u>	<u>(161,651)</u>
Gross profit		16,292	24,999	27,826	49,557
Other income	5	3,373	4,822	7,565	8,758
Other losses, net	6	(36)	(26)	(39)	(12)
Net gains arising from agricultural produce at fair values less costs to sell at the point of harvest		-	-	-	1,583
Net gains arising from changes in fair values less costs to sell of biological assets		-	447	-	3,277
Selling and distribution expenses		(6,446)	(8,152)	(11,547)	(16,479)
Administration expenses		(5,243)	(10,038)	(11,028)	(17,106)
Finance costs	7	<u>(6,269)</u>	<u>(6,900)</u>	<u>(12,534)</u>	<u>(14,734)</u>
Profit before tax		1,671	5,152	243	14,844
Income tax expenses	8	-	-	-	-
Profit for the period attributable to owners of the Company	9	<u>1,671</u>	<u>5,152</u>	<u>243</u>	<u>14,844</u>
Other comprehensive (loss) which will not be reclassified subsequently to profit or loss:					
Exchange differences arising on translation to presentation currency		<u>(10,726)</u>	<u>(26,959)</u>	<u>(1,834)</u>	<u>(4,618)</u>
Other comprehensive (loss) for the period		<u>(10,726)</u>	<u>(26,959)</u>	<u>(1,834)</u>	<u>(4,618)</u>
Total comprehensive (loss)/income for the period		<u>(9,055)</u>	<u>(21,807)</u>	<u>(1,591)</u>	<u>10,226</u>
Total comprehensive (loss)/income attributable to owners of the Company		<u>(9,055)</u>	<u>(21,807)</u>	<u>(1,591)</u>	<u>10,226</u>
Basic and diluted earnings per share, in HK cents	10	<u>0.20</u>	<u>0.62</u>	<u>0.03</u>	<u>1.78</u>

CONDENSED CONSOLIDATED STATEMENT OF FINANCIAL POSITION

		30 June 2019 <i>HK\$'000</i> (Unaudited)	31 December 2018 <i>HK\$'000</i> (Audited)
NON-CURRENT ASSETS			
Property, plant and equipment		149,969	339,042
Right-of-use assets	11	218,484	–
Prepaid lease payments		–	42,567
Biological assets	12	102,194	102,602
Intangible assets		2,327	2,559
Deferred tax assets		349	350
Prepayments for acquisition of property, plant and equipment	15	3,441	3,455
Security deposit		–	1,712
		476,764	492,287
CURRENT ASSETS			
Inventories	13	131,747	126,626
Trade and bills receivables	14	50,682	49,139
Deposits, prepayments and other receivables	15	39,786	42,357
Bank balances and cash		5,251	6,204
Pledged bank deposits		6,252	6,277
		233,718	230,603
CURRENT LIABILITIES			
Trade payables	16	30,785	34,058
Other payables and accrued expenses		27,406	25,721
Contract Liabilities		1,377	4,502
Bank and other borrowings, due within one year	17	200,143	202,514
Deferred income		3,723	3,738
		263,434	270,533
NET CURRENT LIABILITIES		(29,716)	(39,930)
TOTAL ASSETS LESS CURRENT LIABILITIES		447,048	452,357
NON-CURRENT LIABILITIES			
Deferred tax liabilities		558	560
Bank and other borrowings, due after one year	17	770	3,184
Deferred income		32,116	34,113
Notes payable, secured and guaranteed	18	97,426	96,731
		130,870	134,588
NET ASSETS		316,178	317,769
CAPITAL AND RESERVES			
Share capital	19	253,928	253,928
Reserves		62,250	63,841
EQUITY ATTRIBUTABLE TO OWNERS OF THE COMPANY AND TOTAL EQUITY		316,178	317,769

CONDENSED CONSOLIDATED STATEMENT OF CHANGES IN EQUITY

For the six months ended 30 June 2019

	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>	Retained profits <i>HK\$'000</i>	Total <i>HK\$'000</i>
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 loss for the period:						
Exchange differences arising on translation to presentation currency	-	-	-	(1,834)	-	(1,834)
Total comprehensive (loss)/income for the period	-	-	-	(1,834)	243	(1,591)
Balance at 30 June 2019 (unaudited)	<u>253,928</u>	<u>(16,968)</u>	<u>25,835</u>	<u>(26,546)</u>	<u>79,929</u>	<u>316,178</u>
Balance at 1 January 2018 (audited)	253,928	(16,968)	22,841	(1,833)	142,294	400,262
Profit for the period	-	-	-	-	14,844	14,844
Other comprehensive loss for the period:						
Exchange differences arising on translation to presentation currency	-	-	-	(4,618)	-	(4,618)
Total comprehensive (loss)/income for the period	-	-	-	(4,618)	14,844	10,226
Balance at 30 June 2018 (unaudited)	<u>253,928</u>	<u>(16,968)</u>	<u>22,841</u>	<u>(6,451)</u>	<u>157,138</u>	<u>410,488</u>

CONDENSED CONSOLIDATED STATEMENT OF CASH FLOWS

For the six months ended 30 June 2019

	Six months ended 30 June	
	2019	2018
	HK\$'000	HK\$'000
	(Unaudited)	(Unaudited)
Net cash generated from operating activities	<u>18,398</u>	<u>20,935</u>
Net cash used in investing activities	<u>(3,290)</u>	<u>(5,184)</u>
Net cash used in financing activities	<u>(14,316)</u>	<u>(34,782)</u>
Net increase/(decrease) in cash and cash equivalents	792	(19,031)
Cash and cash equivalents at the beginning of the period	6,204	23,832
Effect of foreign exchange rate changes	<u>(1,745)</u>	<u>(2,923)</u>
Cash and cash equivalents at the end of the period, represented by bank balances and cash	<u><u>5,251</u></u>	<u><u>1,878</u></u>

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 12 August 2019 (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 2018.

As at 30 June 2019, the Group’s current liabilities exceeded its current assets by approximately HK\$29,716,000 (31 December 2018: HK\$39,930,000). Its current liabilities, including current bank and other borrowings of approximately HK\$200,143,000 (31 December 2018: HK\$202,514,000), exceeded its cash and cash equivalents of approximately HK\$5,251,000 (31 December 2018: HK\$6,204,000).

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 2018, 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 2018 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 2018 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.

2. ADOPTION OF NEW AND REVISED HKFRSs

(a) New and revised HKFRSs adopted by the Group

During the current interim period, the Group has adopted the following new and amended HKFRSs 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 HKFRSs	Annual Improvements to HKFRSs 2015 – 2017 Cycle

Except as described the impacts on adoption of HKFRS 16 below, the application of the above new or revised standards, amendments and interpretations in the current period has had no material effect on the amounts reported in these consolidated financial statements and/or disclosures set out in these consolidated financial statements.

HKFRS 16 Leases

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

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.

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

The Group apply HKFRS 16 to contracts that were previously identified as lessee applying HKAS 17. Further, the Group elected the modified retrospective approach for the application of HKFRS 16 as lease without restating comparative information. The Group has elected not to recognise right-of-use assets and lease liabilities for low-value assets and leases for which at the commencement date have a lease term less than 12 months. The Group's non-cancellable operating lease has remaining terms of less than 12 months from 1 January 2019 (date of initial application of HKFRS 16) and payments associated with such lease has been expensed on straight-line basis over the remaining lease term.

(b) New Standards, interpretations and amendments to HKFRSs have been issued but not yet effective in the current interim period

The Group has not applied the following new and revised HKFRSs, that have been issued but are not yet effective, in these consolidated financial statements.

Amendments to HKFRS 3	Definition of a Business ²
Amendments to HKFRS 9	Prepayment Features with Negative Compensation ¹
Amendments to HKFRS 10 and HKAS 28 (2011)	Sale or Contribution of Assets between an Investor and its Associate or Joint Venture ⁴
HKFRS 17	Insurance Contracts ³
Amendments to HKFRS 1 and HKAS 8	Definition of Material ²
Amendments to HKAS 19	Plan Amendment, Curtailment or Settlement ¹
Amendments to HKAS 28	Long-term Interests in Associate and Joint Ventures ¹
HK(IFRIC)-Int 23	Uncertainty over Income Tax Treatments ¹
Annual Improvements 2015-2017 Cycle	Amendments to HKFRS 3, HKFRS 11, HKAS 12 and HKAS 23 ¹

¹ Effective for annual periods beginning on or after 1 January 2019

² Effective for annual periods beginning on or after 1 January 2020

³ Effective for annual periods beginning on or after 1 January 2021

⁴ No mandatory effective date yet determined but available for adoption

The Directors do not anticipate that the application of these new standards, interpretation and amendments to HKFRSs will have a material impact on the financial position and the financial results of the Group.

3. REVENUE

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

	For the six months ended 30 June	
	2019	2018
	<i>HK\$'000</i>	<i>HK\$'000</i>
	(Unaudited)	(Unaudited)
Revenue:		
Sales of particleboards	161,870	210,698
Sales of timber woods	–	510
	<hr/>	<hr/>
	161,870	211,208
	<hr/> <hr/>	<hr/> <hr/>

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 2019 and 2018 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 2018. 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.

Operating segments

The following tables represent segment information of the Group provided to the Group's CODM for the six months ended 30 June 2019.

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>			
Revenue from external customers	161,870	–	161,870
<i>Segment results:</i>			
Reportable segment results	17,816	(437)	17,379
Bank interest income (<i>note 5</i>)			7
Finance costs (<i>note 6</i>)			(12,534)
Unallocated corporate staff costs			(1,651)
Unallocated corporate expenses			(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 (<i>note 8</i>)			15,155
Amortisation (<i>note 8</i>)	226	–	226

For the six months ended 30 June 2018

	Particleboards segment HK\$'000 (Unaudited)	Forestry segment HK\$'000 (Unaudited)	Total HK\$'000 (Unaudited)
<i>Segment revenue:</i>			
Reportable segment revenue	210,698	2,093	212,791
Elimination of inter-segment revenue	–	(1,583)	(1,583)
Revenue from external customers	<u>210,698</u>	<u>510</u>	<u>211,208</u>
<i>Segment results:</i>			
Reportable segment results	33,770	2,649	36,419
Bank interest income (note 5)			85
Finance costs (note 6)			(14,734)
Unallocated corporate staff costs			(1,585)
Allocated corporate expenses			<u>(5,341)</u>
Consolidated profit before tax			<u>14,844</u>
<i>Other segment information</i>			
Capital expenditures – allocated [#]	10,984	–	10,984
Depreciation – allocated	14,308	–	14,308
Depreciation – unallocated			<u>320</u>
Total depreciation (note 8)			<u>14,628</u>
Amortisation (note 8)	470	704	1,174
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>–</u>	<u>3,277</u>	<u>3,277</u>

[#] 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 2019 from the amount disclosed in 2018 annual financial statements. Accordingly, no segment assets and liabilities is disclosed.

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	
	2019 HK\$'000 (Unaudited)	2018 HK\$'000 (Unaudited)
Revenue from PRC	161,870	210,652
Revenue from other Asian countries	—	556
	<u>161,870</u>	<u>211,208</u>

The Group's non-current assets other than deferred tax assets are located in the PRC by location of assets in case of property, plant and equipment, right-of-use assets, biological assets and prepaid lease payments or by location of operation to which they are allocated, in case of 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	
	2019 HK\$'000 (Unaudited)	2018 HK\$'000 (Unaudited)
Customer A	<u>71,475</u>	<u>118,286</u>

5. OTHER INCOME

	For the six months ended 30 June	
	2019 HK\$'000 (Unaudited)	2018 HK\$'000 (Unaudited)
Value added tax ("VAT") refund	4,928	6,575
Government grants	2,624	1,799
Bank interest income	7	85
Others	6	299
	<u>7,565</u>	<u>8,758</u>

6. OTHER LOSSES, NET

	For the six months ended 30 June	
	2019	2018
	HK\$'000	HK\$'000
	(Unaudited)	(Unaudited)
Net foreign exchange losses	3	12
Loss allowance for trade and bills receivables	36	—
	<u>39</u>	<u>12</u>

7. FINANCE COSTS

	For the six months ended 30 June	
	2019	2018
	HK\$'000	HK\$'000
	(Unaudited)	(Unaudited)
Interests on bank and other borrowings	7,431	9,302
Interests on bonds and notes payable	4,780	5,403
Interests on unsecured revolving loan	302	—
Interests on finance lease liabilities	21	29
	<u>12,534</u>	<u>14,734</u>

8. INCOME TAX EXPENSES

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

Under the Law of the People's Republic of China on Enterprise Income Tax (the "EIT Law") and Implementation Regulation of the EIT Law, the tax rate of Hongwei (Renhua) is 25% during the six months ended 30 June 2019 and 2018.

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 2019 and 2018, 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 2019, 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.

9. PROFIT FOR THE PERIOD

Profit for the period has been arrived at after charging:

	For the six months ended 30 June	
	2019	2018
	<i>HK\$'000</i>	<i>HK\$'000</i>
	(Unaudited)	(Unaudited)
Employee benefits expenses (included directors' emoluments)		
Salaries and other benefits	6,585	7,592
Contribution to retirement benefit schemes	880	811
	<hr/>	<hr/>
Total employee benefit expenses	7,465	8,403
	<hr/>	<hr/>
Depreciation:		
– Property, plant and machinery	5,651	14,628
– Right-of-use assets	9,504	–
	<hr/>	<hr/>
	15,155	14,628
	<hr/>	<hr/>
Amortisation:		
– Intangible assets (i)	226	240
– Prepaid lease payments (i)	–	934
	<hr/>	<hr/>
	15,381	15,802
	<hr/>	<hr/>
Cost of inventories recognised as an expense	134,044	161,651
	<hr/>	<hr/>

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

10. EARNINGS PER SHARE

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

Earnings

	Six months ended 30 June	
	2019	2018
	HK\$'000	HK\$'000
	(Unaudited)	(Unaudited)
Profit for the period attributable to owners of the Company for the purpose of basic earnings per share	243	14,844

Number of shares

	Six months ended 30 June	
	2019	2018
	'000	'000
	(Unaudited)	(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 2019 (2018: nil).

11. RIGHT-OF-USE ASSETS

	Notes	As at	As at
		30 June	31 December
		2019	2018
		HK\$'000	HK\$'000
		(Unaudited)	(Audited)
Equipment under sales and lease operating lease arrangements	(i)	175,556	–
Motor vehicle under a finance lease arrangement	(ii)	1,278	–
Prepaid least payments		41,650	–
		218,484	–

Notes:

The Group has adopted HKFRS16 “Leases” from 1 January 2019, but has not restated comparatives for the 2018 reporting period, as permitted under the simplified transition approach in the standard.

- (i) As at 30 June 2019, equipment under sales and lease operating lease arrangements represented equipment being transferred to financial institutions for loans to the Group under sales and lease operating lease arrangements with tenure of two to three years from the date of advancement (note 17(ii)). The Group considered the transfer of equipment did not satisfy the requirements of HKFRS 15 to be accounted for as a sale of the equipment.
- (ii) As at 30 June 2019, motor vehicle under a finance lease represented motor vehicle purchased under a finance lease with a lease period of 5 years (note 17(iii)). The reclassifications and adjustments of approximately HK\$181,000 arising from the new leasing standard are recognised in the opening balance sheet as right-of-use assets on 1 January 2019.

12. BIOLOGICAL ASSETS AND PREPAID LEASE PAYMENTS

(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.

(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 2018. Owing to the circumstances mentioned above, the Independent Valuers changed the valuation methodology from income approach to sales comparison approach to determine the overall fair values less costs to sell of the forestlands. Fair values less costs to sell of “raw lands” are deducted from the overall values to arrive at fair values less costs to sell of biological assets. An impairment loss on prepaid forestlands lease payments of approximately HK\$5,366,000 was recognised in profit or loss for the year ended 31 December 2018.

As at 30 June 2019 and the date of this announcement, the Company 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 2019 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 2019 (date of initial application of HKFRS 16). Accordingly, no gain or loss in fair value of the biological assets are expected.

13. INVENTORIES

	As at 30 June 2019 <i>HK\$'000</i> (Unaudited)	As at 31 December 2018 <i>HK\$'000</i> (Audited)
Raw materials	106,585	89,321
Work in progress	1,095	3,956
Finished goods	24,067	33,349
	<u>131,747</u>	<u>126,626</u>

14. TRADE AND BILLS RECEIVABLES

	As at 30 June 2019 <i>HK\$'000</i> (Unaudited)	As at 31 December 2018 <i>HK\$'000</i> (Audited)
Trade receivables	40,948	32,554
Allowance for doubtful debts	(784)	(752)
	<u>40,164</u>	<u>31,802</u>
Bills receivables	10,518	17,337
	<u>50,682</u>	<u>49,139</u>

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 2018: 90 days). The Group seeks to maintain strict control over its outstanding receivables to minimise its credit risk. Overdue balances are regularly reviewed by senior management.

Trade receivables are non-interest bearing. The following is an aged analysis of trade receivables, after allowance for doubtful debts, presented based on the date of invoice date, at end of the reporting period.

	As at 30 June 2019 HK\$'000 (Unaudited)	As at 31 December 2018 HK\$'000 (Audited)
Within 3 months	38,325	31,950
Over 3 months but within six months	2,018	–
Over six months	605	604
	<u>40,948</u>	<u>32,554</u>

The maturity period of bills receivable are within 12 months for the date the Group received the notes as an extended period to the original credit term. The following is an aged analysis of bills receivables presented based on maturity date.

	As at 30 June 2019 HK\$'000 (Unaudited)	As at 31 December 2018 HK\$'000 (Audited)
Within 3 months	5,711	11,286
Over 3 months but within six months	4,580	6,051
Over six months	227	–
	<u>10,518</u>	<u>17,337</u>

15. DEPOSITS, PREPAYMENTS AND OTHER RECEIVABLES

	As at 30 June 2019 <i>HK\$'000</i> (Unaudited)	As at 31 December 2018 <i>HK\$'000</i> (Audited)
VAT recoverable	15,017	17,186
VAT refund	2,002	1,808
Payments in advance to suppliers	17,544	20,551
Right-of-use assets	1,496	–
Prepaid lease payments	–	1,502
Prepayments paid for acquisition of property, plant and equipment	3,441	3,455
Security deposit placed to a financial institution to secure a sales-and-leaseback operating lease arrangement	1,705	1,712
Others	2,022	1,310
	<u>43,227</u>	<u>47,524</u>
Analysed for reporting purpose as:		
Current assets	39,786	42,357
Non-current assets	3,441	5,167
	<u>43,227</u>	<u>47,524</u>

16. TRADE PAYABLES

	As at 30 June 2019 <i>HK\$'000</i> (Unaudited)	As at 31 December 2018 <i>HK\$'000</i> (Audited)
Trade payables	<u>30,785</u>	<u>34,058</u>

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 2019 HK\$'000 (Unaudited)	As at 31 December 2018 HK\$'000 (Audited)
Within 3 months	18,951	25,823
Over 3 months but within 6 months	7,999	6,834
Over 6 months	3,835	1,401
	30,785	34,058

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

17. BANK AND OTHER BORROWINGS

	<i>Notes</i>	As at 30 June 2019 HK\$'000 (Unaudited)	As at 31 December 2018 HK\$'000 (Audited)
Bank borrowings	<i>(i)</i>	159,600	158,618
Other borrowings	<i>(ii)</i>	33,484	43,195
Finance lease liabilities	<i>(iii)</i>	1,329	1,602
Revolving loan from Mr. Wong	<i>(iv)</i>	6,500	–
Unsecured loan		–	2,283
		200,913	205,698
Less: amount included in current liabilities		(200,143)	(202,514)
Non-current portion		770	3,184
Analysed as:			
Secured but unguaranteed	<i>(v)</i>	118,591	110,877
Secured and guaranteed	<i>(v), (vi)</i>	55,360	65,603
Unsecured and unguaranteed		26,962	29,218
		200,913	205,698

Notes:

- (i) Other than bank borrowings with an aggregate carrying amount of HK\$78,322,000 (31 December 2018: HK\$79,775,000) which bear fixed interest rate ranging from 5.42% to 5.87% (31 December 2018: 4.35% to 5.87%) per annum as at 30 June 2019, other bank borrowings with an aggregate carrying amount of HK\$81,278,000 (31 December 2018: HK\$78,843,000) bear floating interest rates ranging from 4.35% to 6.54% (31 December 2018: 4.75% to 6.88%) per annum as at 30 June 2019. All bank borrowings are denominated in RMB.

The maturity analysis of bank borrowings is as follows:

	As at 30 June 2019 HK\$'000 (Unaudited)	As at 31 December 2018 HK\$'000 (Audited)
Within one year	159,600	158,618

- (ii) As at 30 June 2019, the Group's other borrowings represents sales and leaseback operating lease arrangements with financial institutions, pursuant to which the Group transfers certain of its equipments to the financial institutions for loans to the Group with tenure of two to three years (2018: two 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\$26,507,000 (31 December 2018: HK\$31,569,000) carry fixed interest with interest rates of 9.68% per annum as at 30 June 2019 (31 December 2018: 9.68%) and other borrowings of approximately HK\$6,977,000 (31 December 2018: HK\$11,626,000) carry floating interest with interest rate of 12.21%. Other borrowings are denominated in RMB.

The maturity analysis of other borrowings is as follows:

	As at 30 June 2019 HK\$'000 (Unaudited)	As at 31 December 2018 HK\$'000 (Audited)
Within one year	33,484	41,061
More than one year, but not exceeding two years	-	2,133
	33,484	43,194

- (iii) As at 30 June 2019, the Group's finance leases liabilities represents a finance lease arrangement for the purchase of a motor vehicle. The lease period is for 5 years. At the end of lease term, the Group had an option to purchase the leased motor vehicle at a price that was expected to be sufficiently lower than the fair value of the leased motor vehicle at the end of the lease. None of the lease included contingent rentals. The finance lease liabilities are denominated in Hong Kong Dollar ("HKD").

Analysis of finance lease liabilities is as follows:

	As at 30 June 2019 HK\$'000 (Unaudited)	As at 31 December 2018 HK\$'000 (Audited)
Total minimum lease payments:		
Within one year	589	589
More than one year, but not exceeding two years	589	589
More than two years, but not more than five years	196	491
	1,374	1,669
Future finance charges on finance leases	(45)	(67)
	1,329	1,602
Present value of minimum lease payments:		
Within one year under current liabilities	559	551
More than one year but not exceeding than two years	575	567
More than two years but not exceeding than five years	195	484
	1,329	1,602

- (iv) On 22 March 2018, Mr. Wong and the Company entered into a facility letter (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 12% 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.

- (v) As at 30 June 2019, the Group’s secured bank and other borrowings are secured by the following assets of the Group:
- (a) the pledge of the Group’s buildings, plant and equipment and right-of use assets with an aggregate carrying amount of approximately HK\$291,379,000 (31 December 2018: HK\$305,326,000);
 - (b) the pledge of the Group’s bank deposits with an aggregate carrying amount of approximately HK\$6,252,000 (31 December 2018: HK\$6,277,000);
 - (c) the pledge of the Group’s security deposit with carrying amount of HK\$1,705,000 (31 December 2018: HK\$1,712,000); and
 - (d) the pledge of the Group’s inventories with an aggregate carrying amount of approximately HK\$24,067,000 (31 December 2018: HK\$33,349,000).
- (vi) As at 30 June 2019 and 31 December 2018, the Group’s secured and guaranteed bank borrowings are secured by a personal guarantee executed by Mr. Wong and Mr. Wong Kin Ching, son of Mr. Wong and Mrs. Wong, for the maximum amount of up to approximately HK\$225,077,000 (31 December 2018: HK\$225,976,000)

18. NOTES PAYABLE

		As at 30 June 2019	As at 31 December 2018
	<i>Notes</i>	<i>HK\$'000</i>	<i>HK\$'000</i>
		(Unaudited)	(Audited)
Notes payable, secured and guaranteed	(i)	<u>97,426</u>	<u>96,731</u>

- (i) 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, extendable 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”).

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.

19. SHARE CAPITAL

	Numbers of shares		Share capital	
	As at 30 June 2019 '000 (Unaudited)	As at 31 December 2018 '000 (Audited)	As at 30 June 2019 HK\$'000 (Unaudited)	As at 31 December 2018 HK\$'000 (Audited)
Issued and fully paid	832,603	832,603	253,928	253,928

There is no movement in share capital between years.

20. 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	
	2019 HK\$'000 (Unaudited)	2018 HK\$'000 (Unaudited)
Unsecured loan advanced from Mr. Wong	–	6,524
Repayment to Mr. Wong	–	6,333

(b) Personal guarantee executed by directors

	For the six months ended 30 June	
	2019 HK\$'000 (Unaudited)	2018 HK\$'000 (Unaudited)
Personal guarantees executed by Mr. Wong and Mrs. Wong in respect of the following balances:		
– bonds	–	97,788
– notes payable (Note 16)	97,426	–
Personal guarantees executed by Mr. Wong Kin Ching and Mr. Wong (2018: Mr. Wong) in respect of the following balances:		
– bank borrowings*	78,322	62,501

* Maximum amount of guarantee provided by each of Mr. Wong and Mr. Wong Kin Ching (2018: Mr. Wong) was approximately HK\$225,077,000 (2018: HK\$234,848,000)

(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 12% 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 as at 30 June 2019 was HK\$6,500,000 (31 December 2018: HK\$ Nil).

(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 year is as follows:

	For the six months ended 30 June	
	2019	2018
	HK\$'000	HK\$'000
	(Unaudited)	(Unaudited)
Short-term employee benefits	1,294	1,434
Post-employment benefits	25	27
Total compensation paid to key management personnel	1,319	1,461

During the six months ended 30 June 2019, 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\$173,000 (2018: HK\$138,000) and HK\$8,650 (2018: HK\$7,000), 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 HK\$120,000 (2018: HK\$120,000) and HK\$6,000(2018: HK\$6,000), respectively.

(e) **Applicability of the GEM Listing Rules relating to connected transaction**

The transactions set out in notes (a), (b) and (c) above are exempted continuing connected transactions as they are conducted on normal commercial terms or better, and the loans and guarantee are not secured by the assets of the Group.

MANAGEMENT DISCUSSIONS AND ANALYSIS

BUSINESS REVIEW

During the six months ended 31 June 2019 (“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 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. Meanwhile, the Chinese economy continued to face uncertainties under the pressure of the ongoing trade war with the U.S. and greater fluctuation in the exchange rate of RMB in the first half year of 2019. The negative impacts on the export market have indirectly affected the domestic consumer industry. The domestic demand for consumer products such as household furniture and fixtures, sport equipment as well as construction materials had remained at a weak level whereas our financing costs are rising given the tightening credit policy environment in China. Under such challenging environments, despite suffering from a reduction in sales, the Company managed to minimize the decrease in sales for the three months ended 30 June 2019 as compared to the three months ended 31 March 2019 by its effective marketing measures such as adjusting our pricing scheme. In order to tackle the challenging business environment currently facing China market, we are still determined to try exploring further diversifications in our supply chain operations in order to mitigate our business risks by tightening cost control amidst weakening sales to strengthen our sustainability and competitiveness.

Forestry Segment

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 drive of environmental protection. Such tightened control is expected to last for a certain period which is unknown to and uncontrolled by the Group as of the date of this announcement. Nevertheless, the Group is still trying to further to explore diversification in better utilising its forestry resource.

FINANCIAL REVIEW

Revenue

During 2019 Interim Period, the Group's revenue for Particleboards Segment decreased to approximately HK\$161.9 million from approximately HK\$210.7 million, representing a decrease of approximately 23.2% as compared to that for the Previous Period. The decrease was mainly due to the decrease in the average unit selling price and sales volume of particleboards by approximately 6.8% and 12.6% respectively, and 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 2019 Interim Period as compared with the Previous Period.

During the 2019 Interim Period, no income generating activity took place for the Forestry Segment and hence no revenue was recognised for such segment. The Group generated revenue of approximately HK\$0.5 million for the Forestry Segment during the Previous Period.

Cost of sales

During the 2019 Interim Period, the Group's costs of sales decreased to approximately HK\$134.0 million from approximately HK\$161.7 million, representing a decrease of approximately 17.1% as compared to that of 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 2019 Interim Period, the Group's gross profit decreased to approximately HK\$27.8 million from approximately HK\$49.6 million, representing a decrease of approximately 44.0% as compared to the Previous Period. The Group's gross profit margin decreased to approximately 17.2% in the 2019 Interim Period from approximately 23.5% in the Previous Period.

The decrease in gross profit was mainly due to the decrease in revenue during the 2019 Interim Period while the scale of reduction in the cost of sales was less than that of the decrease in revenue. In connection with the decrease in sales, production during the Current Period fell by approximately 27.8% over the same period last year, resulting in an increase in average unit cost and a decline in gross profit margin.

Other income

During the 2019 Interim Period, the Group's other income decreased to approximately HK\$7.6 million from approximately HK\$8.8 million, representing a decrease of approximately 13.6% as compared to that for the Previous Period. The decrease was mainly attributable to the decrease of value added tax refund which was partly off-set by the increase in subsidy released from deferred income.

Selling and distribution expenses

During the 2019 Interim Period, the Group's selling and distribution expenses decreased to approximately HK\$11.6 million from approximately HK\$16.5 million in the Previous Period, representing a decrease of approximately 29.7%. The decrease in selling and distribution expenses were mainly attributable to the decrease in transportation and packaging cost incurred during the Current Period due to the decrease in sales of particleboards.

For the Forestry Segment, there was approximately HK\$0.5 million subcontracting fee for harvesting activities performed by subcontractors in the Previous Period whereas no such fee was incurred in the Current Period.

Administration expenses

During the 2019 Interim Period, the Group's administration expenses decreased to approximately HK\$11.0 million from approximately HK\$17.1 million, representing a decrease of approximately 35.7% as compared to that for 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 and 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.

For the Forestry Segment, the administration expenses was approximately HK\$0.5 million during the current reporting period as compared to HK\$2.2 million in the same period for 2018. The decrease was mainly attributable to the decrease in fertilizer fee, replantation cost and other maintenance expenses of forestlands.

Finance costs

During the 2019 Interim Period, the Group's finance costs decreased to approximately HK\$12.5 million from approximately HK\$14.7 million in the Previous Period, representing a decrease of approximately 15.0%. The decrease in finance costs was mainly attributable to the decrease in bank and other borrowings and the decrease in the overall interest rate as a result of the redemption of the secured and guaranteed bonds in the principal amount of HK\$100,000,000 issued in 2017 and the issuance of the secured and guaranteed notes in the same principal amount at a lower interest rate in August 2018.

Profit attributable to owners of the Company

During the 2019 Interim Period, the profit attributable to owners of the Company amounted to HK\$0.2 million, representing a significant decrease of approximately 98.6% as compared to that of HK\$14.8 million for the Previous Period. Such decrease was mainly due to the decrease in gross profit of approximately HK\$21.7 million. The decrease in gross profit was partly set-off by the decrease in selling and distribution expenses, administration expenses and finance costs as discussed above.

Total comprehensive loss/income attributable to owners of the Company

During the six months ended 30 June 2019, the Group's total comprehensive loss attributable to owners of the Company amounting to approximately HK\$1.6 million, while the Group's total comprehensive income attributable to owners of the Company during the same period last year amounting to approximately HK\$10.2 million. The decrease was mainly attributable to the decrease in profit for the Current Period as compared to the Previous Period, which was partly set-off by the decrease in the exchange loss arising from translation of Renminbi ("RMB") to Hong Kong Dollar ("HKD") which is the presentation currency of the consolidated financial statements due to the depreciation of RMB during the Current Period.

LIQUIDITY, FINANCIAL RESOURCES AND CAPITAL STRUCTURE

As at 30 June 2019, there has been no change in the capital structure of the Company compared to that as at year ended 31 December 2018. The capital of the Company only comprises ordinary shares.

During the six months ended 30 June 2019, the Group mainly financed its operations with its working capital, bank and other borrowings, including the secured and guaranteed notes.

As at 30 June 2019 and 31 December 2018, the Group had bank and other borrowings of approximately HK\$200.9 million and HK\$205.7 million respectively. Other than certain bank and other borrowings which bear fixed interest with interest rates ranging from 5.42% to 5.87% per annum, other bank borrowings bear floating interest with interest rates ranging from 4.35% to 6.54% per annum as at 30 June 2019. The maturity profile of the Group's bank and other borrowings are set out in note 15 to this announcement.

As at 30 June 2019, the Group has finance lease liabilities for acquisition of a motor vehicle with outstanding carrying amount of approximately HK\$1.3 million (31 December 2018: HK\$1.6 million), of which, approximately HK\$0.5 million is repayable within one year and HK\$0.8 million is repayable more than one year from 30 June 2019. Please refer to note 15 of this announcement.

As at 30 June 2019, the Group has a revolving loan from Mr. Wong with outstanding carrying amount of approximately HK\$6.5 million (31 December 2018: Nil). The revolving loan facility carries fixed interest rate of 12% per annum. Please refer to note 15 of this announcement.

As at 30 June 2019, the Group has HK\$100.0 million (face value) 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 16 of this announcement. (31 December 2018: HK\$100.0 million (face value)).

As at 30 June 2019 and 31 December 2018, the Group had net current liabilities of approximately HK\$29.7 million and HK\$39.9 million respectively. The current ratio of the Group, calculated by current assets over current liabilities, was 0.89 as at 30 June 2019 (31 December 2018: 0.85x).

Gearing Ratio

As at 30 June 2019, the gearing ratio stood at 0.94x (31 December 2018: 0.95x) calculated by total borrowings over shareholders' equity.

FOREIGN EXCHANGE EXPOSURE

As at 30 June 2019 and 31 December 2018, 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 2019, the carrying value of the secured and guaranteed notes was approximately HK\$97.4 million (31 December 2018: HK\$96.7 million) with contractual interest rate of prime rate plus 3% per annum, being 8.125% per annum (31 December 2018: 8% per annum) and finance lease liabilities of approximately HK\$1.3 million (31 December 2018: HK\$1.6 million), both 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 2019, except for investments in subsidiaries of the Group, there was no significant investments or capital assets held by the Group.

MATERIAL ACQUISITIONS AND DISPOSALS OF SUBSIDIARIES

During 2019 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 announcement.

COMMITMENTS AND CONTINGENT LIABILITIES

Saved as disclosed in note 20 to this announcement, the Group does not have other significant capital commitment nor contingent liabilities as at 30 June 2019.

EMPLOYEES AND REMUNERATION POLICIES

As at 30 June 2019, the Group employed a total of 170 employees (2018: 181). The remuneration payable to our employees included fees, salaries, retirement benefits scheme contributions and other benefits. For the 2019 Interim Period and the corresponding period in 2018, the remuneration paid to employees was approximately HK\$7.5 million and HK\$8.4 million, respectively. The Group determines the employee's remuneration based on factors such as qualifications, duty, contributions and years of experience. The key principles of the remuneration policy are to remunerate employees in a manner that is market competitive, consistent with best practice and in the interests of the shareholders of the Company (the "Shareholders") as a whole. The Group aims to align the interests of the senior executives with those of Shareholders by remunerating senior executives through performance and long-term incentive plans in addition to their fixed remuneration.

The Company also adopted a share option scheme, details of which are set out under the heading "Share Option Scheme" below.

SHARE OPTION SCHEME

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

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

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

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

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

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

The total number of Shares which may be issued upon exercise of all options to be granted under the Share Option Scheme and any other share option scheme of the Company shall not in aggregate exceed 71,111,510 shares, being 8.5% of the total number of Shares in issue as at 30 June 2019, 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 2019. Our Group did not have any outstanding share options, warrants, convertible instruments, or similar rights convertible into our Shares as at 30 June 2019.

DIRECTORS' INTERESTS IN COMPETING BUSINESSES

During the 2019 Interim Period, none of the Directors or any of their respective close associates, has engaged in any business that competes or may compete with the business of the Group, or has any other conflict of interest with the Group.

As at the date of this 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 forest lands located at Renhua County, Guangdong Province, PRC.

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.

Please refer to the announcements of the Company dated 10 August 2018 for more details.

COMPLIANCE WITH NON-COMPETITION DEED

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

Details of the undertaking has been set out in the section headed “Relationship with Controlling Shareholders” of the Prospectus.

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

So far as the Directors are aware, as at 30 June 2019, the interests and short positions of the Directors and chief executive of the Company in the shares, underlying shares and debentures of the Company or its associated corporations (within the meaning of Part XV of the Securities and Futures Ordinance (Chapter 571. Laws of Hong Kong) (the “SFO”) which will have to be notified to the Company and the Stock Exchange under Divisions 7 and 8 of Part XV of the SFO (including interests or short positions which they are taken or deemed to have under such provisions of the SFO) or which will be required, pursuant to section 352 of the SFO, to be entered in the register as referred to therein, or pursuant to Rules 5.46 to 5.67 of the GEM Listing Rules required to be notified to the Company and the Stock Exchange, are as follows:

Long position in the Shares

Name	Capacity/ Nature of interest	Aggregate number of Shares or underlying Shares (Note 1)	Approximate percentage of interest in our Company
Mr. Wong Cheung Lok (“Mr. Wong”)	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. 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 2019, 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 2019 Interim Period, neither the Company nor its subsidiary have purchased, sold or redeemed any listed securities of the Company.

CODE ON CORPORATE GOVERNANCE PRACTICES

The Company has complied with the code provisions as set out in the Code on Corporate Governance Practices (the "CG Code") contained in Appendix 15 to the GEM Listing Rules during the 2019 Interim Period except otherwise stated below.

Code provision A.2.1

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

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

MODEL CODE FOR DIRECTORS' SECURITIES TRANSACTIONS

The Company has adopted a code of conduct regarding securities transactions by directors on terms no less exacting than the required standard of dealings as set out in Rules 5.48 to 5.67 of the GEM Listing Rules. Having made specific enquiry with the Directors, all the Directors confirmed that they have complied with the required standard of dealings concerning securities transactions by the directors during the 2019 Interim Period.

DIRECTORS' INTERESTS IN CONTRACTS

Save as disclosed in this announcement, none of the Director had any 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 2019 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 2019 Interim Period.

EVENT AFTER REPORTING PERIOD

As of the date of this announcement, the Directors are not aware of any important events affecting the Group which have occurred since 30 June 2019.

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 2019 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 2019 Interim Period.

UPDATE OF DIRECTOR'S INFORMATION

There has been no update in the biographical details of the Directors further to those disclosed in the 2018 Annual Report of the Company except that Dr. Chow Ho Wan, Owen, an independent non-executive Director of the Company, has resigned as an independent non-executive director of Wan Leader International Limited (stock code: 8482), a company listed on the GEM of the Stock Exchange, with effect from 30 June 2019.

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

Hong Kong, 12 August 2019

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

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.