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HONG WEI (ASIA) HOLDINGS COMPANY LIMITED

鴻偉(亞洲)控股有限公司

(Incorporated in Hong Kong with limited liability)

(Stock code: 8191)

FIRST QUARTERLY RESULTS ANNOUNCEMENT FOR THE THREE MONTHS ENDED 31 MARCH 2020

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 subsidiaries, the “**Group**”) collectively and individually accept full responsibility, includes particulars given in compliance with the Rules Governing the Listing of Securities on GEM of the Stock Exchange (the “**GEM Listing Rules**”) for the purpose of giving information with regard to the Company. The Directors, having made all reasonable enquiries, confirm that to the best of their knowledge and belief the information contained in this announcement is accurate and complete in all material respects and not misleading or deceptive, and there are no other matters the omission of which would make any statement herein or this announcement misleading.*

RESULTS

The board of Directors (the “**Board**”) of Hong Wei (Asia) Holdings Company Limited (the “**Company**”) is pleased to announce the unaudited condensed consolidated results of the Company and its subsidiaries (collectively, the “**Group**”) for the three months ended 31 March 2020 together with the comparative unaudited figures of the corresponding period in 2019.

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

	<i>Notes</i>	For the three months ended 31 March	
		2020 <i>HK\$'000</i>	2019 <i>HK\$'000</i>
Revenue	2	29,303	70,912
Cost of sales		<u>(22,695)</u>	<u>(59,378)</u>
Gross profit		6,608	11,534
Other income		1,148	4,192
Other gains/(losses)		90	(3)
Selling and distribution expenses		(3,017)	(5,101)
Administration expenses		(4,453)	(5,785)
Finance costs	4	<u>(6,747)</u>	<u>(6,265)</u>
Loss before tax		(6,371)	(1,428)
Income tax expense	5	<u>—</u>	<u>—</u>
Loss for the period attributable to owners of the Company	6	<u>(6,371)</u>	<u>(1,428)</u>
Other comprehensive (loss)/income which will not be reclassified subsequently to profit or loss:			
Exchange differences arising on translation to presentation currency		<u>(9,304)</u>	<u>8,892</u>
Other comprehensive (loss)/income for the period		<u>(9,304)</u>	<u>8,892</u>
Total comprehensive (loss)/income for the period		<u>(15,675)</u>	<u>7,464</u>
Total comprehensive (loss)/income attributable to owners of the Company		<u>(15,675)</u>	<u>7,464</u>
Basic losses per share, in HK cents	7	<u><u>(0.77)</u></u>	<u><u>(0.17)</u></u>

UNAUDITED CONDENSED CONSOLIDATED STATEMENT OF CHANGES IN EQUITY

	Share capital	Capital reserve	Statutory reserve	Foreign currency translation reserve	Accumulated profits	Total
	<i>HK\$'000</i>	<i>HK\$'000</i>	<i>HK\$'000</i>	<i>HK\$'000</i>	<i>HK\$'000</i>	<i>HK\$'000</i>
Balance at 1 January 2019	253,928	(16,968)	25,835	(24,712)	79,686	317,769
Loss for the period	–	–	–	–	(1,428)	(1,428)
Other comprehensive income for the period	–	–	–	8,892	–	8,892
Total comprehensive income/(loss) for the period	–	–	–	8,892	(1,428)	7,464
Balance at 31 March 2019	<u>253,928</u>	<u>(16,968)</u>	<u>25,835</u>	<u>(15,820)</u>	<u>78,258</u>	<u>325,233</u>
Balance at 1 January 2020	253,928	(16,968)	30,325	(34,625)	100,486	333,146
Loss for the period	–	–	–	–	(6,371)	(6,371)
Other comprehensive loss for the period	–	–	–	(9,304)	–	(9,304)
Total comprehensive loss for the period	–	–	–	(9,304)	(6,371)	(15,675)
Balance at 31 March 2020	<u>253,928</u>	<u>(16,968)</u>	<u>30,325</u>	<u>(43,929)</u>	<u>94,115</u>	<u>317,471</u>

1. BASIS OF PRESENTATION

The Directors have given careful consideration to the Group's financial performance, working capital, liquidity position and available banking facilities from its principal bankers. On the basis that the Group's business, operations and relationships with its suppliers remained stable and the banking facilities available to the Group, the Directors are of the view that the Group will be able to meet in full its financial obligations as they fall due for the foreseeable future. Accordingly, these condensed consolidated financial statements have been prepared on a going concern basis.

The unaudited condensed consolidated results for the three months ended 31 March 2020 have not been audited by the Company's auditor, but have been reviewed by the Company's audit committee.

The accounting policies and basis of preparation used in the preparation of the unaudited consolidated results are consistent with those used in the Company's annual financial statements for the year ended 31 December 2019, except for the adoption of the following new and revised Hong Kong Financial Reporting Standard ("HKFRS") and Hong Kong Accounting Standards ("HKAS").

Amendments to HKFRS 3	Definition of a Business
Amendments to HKAS 1 and HKAS 8	Amendments to Definition of Material
Amendments to HKAS 39, HKFRS 7 and HKFRS 9	Interest Rate Benchmark Reform

2. REVENUE

Revenue represents revenue arising on sales of particleboards as follows:

	For the three months ended 31 March	
	2020	2019
	HK\$'000	HK\$'000
	(Unaudited)	(Unaudited)
Sales of particleboards	<u>29,303</u>	<u>70,912</u>

There was no income generated from the sales of timber woods for the three months ended 31 March 2019 and 2020.

3. OPERATING SEGMENTS

The following table represents segment information for the three months ended 31 March 2020:

	Particleboards segment HK\$'000 (Unaudited)	Forestry segment HK\$'000 (Unaudited)	Total HK\$'000 (Unaudited)
<i>Segment revenue:</i>			
Revenue from external customers	<u>29,303</u>	<u>–</u>	<u>29,303</u>
<i>Segment results:</i>			
Reportable segment results	<u>2,595</u>	<u>(533)</u>	<u>2,062</u>
Interest income			178
Finance costs			(6,747)
Unallocated corporate staff costs			(820)
Unallocated corporate expenses			<u>(1,044)</u>
Consolidated loss before tax			<u>(6,371)</u>
<i>Other Segment information:</i>			
Capital expenditures – allocated [#]	7,442	–	7,442
Depreciation – allocated	7,035	261	7,296
Depreciation – unallocated			<u>163</u>
			<u>7,459</u>
Amortisation	<u>107</u>	<u>–</u>	<u>107</u>

The following table represents segment information for the three months ended 31 March 2019:

	Particleboards segment HK\$'000 (Unaudited)	Forestry segment HK\$'000 (Unaudited)	Total HK\$'000 (Unaudited)
<i>Segment revenue:</i>			
Revenue from external customers	70,912	–	70,912
<i>Segment results:</i>			
Reportable segment results	7,091	(163)	6,928
Interest income			5
Finance costs			(6,265)
Unallocated corporate staff costs			(822)
Unallocated corporate expenses			(1,274)
Consolidated loss before tax			(1,428)
<i>Other Segment information:</i>			
Capital expenditures [#]	2,764	–	2,764
Depreciation	7,265	–	7,265
Amortisation	224	275	499

[#] Capital expenditures of particleboards segment mainly represent the addition of property, plant and equipment during the period.

4. FINANCE COSTS

	For the three months ended 31 March	
	2020 HK\$'000 (Unaudited)	2019 HK\$'000 (Unaudited)
Interests on bank and other borrowings	3,276	3,052
Interests on notes payable	2,643	2,369
Interests on short term unsecured revolving loan*	38	103
Interests on lease liabilities	7	11
Other finance costs	783	730
	<u>6,747</u>	<u>6,265</u>

* On 22 March 2018 and 22 March 2019, Mr. Wong Cheung Lok, the Chairman and executive director of the Company, 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 ("Ms. Wong") and the Company entered into short term unsecured revolving loan agreement (as supplemented by a supplemental agreement), pursuant to which Ms. Wong agreed to provide revolving facility of HK\$10,000,000 to the Company. These loans carry interest at 7% per annum and are unsecured and unguaranteed.

5. INCOME TAX

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

Under the Law of the People's Republic of China on Enterprise Income Tax (the "EIT Law") and Implementation Regulation of the EIT Law, the tax rate of Hongwei Wooden Products (Renhua) Company Limited ("Hongwei Renhua") is 25% during the three months ended 31 March 2020 and 2019 respectively.

Pursuant to the EIT Law and its implementation regulations, where an enterprise utilises the resources as listed in the Catalogue of Resources for Comprehensive Utilisation Entitling Enterprises to Income Tax Preferences (資源綜合利用企業所得稅優惠目錄) as its major raw materials to make products which are not restricted or prohibited by the state and are consistent with the relevant state or industrial standards, only 90% of the income derived therefrom shall be accounted for as taxable income of the enterprise in that year. During the three months ended 31 March 2020 and 2019 respectively, Hongwei (Renhua) is entitled to such preferential policy and only 90% of the income of Hongwei (Renhua) from the sale of particleboard was regarded as taxable income.

6. LOSS FOR THE PERIOD

Loss has been arrived at after charging:

	For the three months ended 31 March	
	2020	2019
	HK\$'000	HK\$'000
	(Unaudited)	(Unaudited)
Depreciation and amortisation expenses		
Depreciation of:		
– property, plant and equipment	6,931	7,265
– right-of-use assets	528	–
Amortisation:		
– intangible asset	107	114
– release of prepaid land lease payments	–	110
– release of prepaid forestland lease payments	–	275
Total depreciation and amortisation expenses	<u>7,566</u>	<u>7,764</u>
Employee benefits expenses (include Directors' emoluments)		
Salaries and other benefits	2,835	3,208
Contribution to retirement benefit schemes	229	459
Total employee benefit expenses	<u>3,064</u>	<u>3,667</u>
Cost of inventories recognised as an expense	22,695	59,378
Auditor's remuneration		
– Provision in respect of current period	365	338
– Non-audit service	–	90
Operating lease payments	–	152
Donation	44	702

7. LOSSES PER SHARE

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

Losses

	For the three months ended 31 March	
	2020	2019
	HK\$'000	HK\$'000
	(Unaudited)	(Unaudited)
Loss for the period attributable to owners of the Company for the purpose of basic losses per share	<u>(6,371)</u>	<u>(1,428)</u>

Number of shares

	For the three months ended 31 March	
	2020	2019
	'000	'000
Weighted average number of ordinary shares for the purpose of basic earnings per share	<u>832,603</u>	<u>832,603</u>

MANAGEMENT DISCUSSIONS AND ANALYSIS

BUSINESS REVIEW

During the three months ended 31 March 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 also impacted the Group’s sales activities. There has already been a delay in the Group’s manufacturing operation after the Chinese New Year where 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. To cope with the impact, 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, we believe the epidemic should not cause a long-term damage to our business but there will inevitably be a short term impact to performance and prospects in the first half of 2020.

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 three months ended 31 March 2020, no income generating activity took place and no revenue was recognized under this segment (2019: Nil).

FINANCIAL REVIEW

Revenue

During the three months ended 31 March 2020, the Group's revenue for Particleboards Segment decreased to approximately HK\$29.3 million from approximately HK\$70.9 million, representing a decrease of approximately 58.7% as compared to the three months ended 31 March 2019. The decrease was mainly due to the decrease in the average unit selling price and sales volume of particleboard by approximately 1.5% and 55.7% respectively during the Current Period.

For the Forestry Segment, there was no income generating activity took place and no revenue was recognized during the Current Period (2019: Nil).

Cost of sales

During the three months ended 31 March 2020, the Group's costs of sales decreased to approximately HK\$22.7 million from approximately HK\$59.4 million for the three months ended 31 March 2019, representing a decrease of approximately 61.8%. The decrease was primarily due to the decrease in the volume of goods sold in the Current Period.

Gross profit and margin

During the three months ended 31 March 2020, the Group's gross profit decreased to approximately HK\$6.6 million from approximately HK\$11.5 million for the three months ended 31 March 2019, representing a decrease of approximately 42.7% and the Group's gross profit margin increased to approximately 22.6% for the three months ended 31 March 2020 from approximately 16.3%.

The decrease in gross profit was mainly due to the decrease in revenue during the period while the scale of reduction in the cost of sales was more than that of the decrease in revenue. In connection with the decrease in sales, production volume from January to March 2020 increased by approximately 19.0% over the same period last year, resulting in a decrease in average unit cost and an increase in gross profit margin.

Selling and distribution expenses

During the three months ended 31 March 2020, the Group's selling and distribution expenses decreased by 40.9% to approximately HK\$3.0 million as compared to that of approximately HK\$5.1 million for the three months ended 31 March 2019. The decrease in sales and distribution expenses was mainly attributable to the decrease in transportation and packaging costs incurred during the period due to the decrease in sales of particleboard.

Administration expenses

During the three months ended 31 March 2020, the Group's administration expenses decreased to approximately HK\$4.5 million from approximately HK\$5.8 million for the three months ended 31 March 2019, representing a decrease of approximately 23.0%. The decrease in administrative expenses was mainly attributable to the decrease in donation fees and sales tax and surcharges due to the decrease in sales of particleboard during the Current Period.

Finance costs

During the three months ended 31 March 2020, the Group's finance costs increased to approximately HK\$6.7 million from approximately HK\$6.3 million for the three months ended 31 March 2019, representing an increase of approximately 7.7%. The increase in finance costs was mainly attributable to the apportionment of the additional transaction cost incurred for the secured and guaranteed notes payable in the principal amount of HK\$100,000,000 and the increase in interest payment due to the increase in bank and other borrowings in the Current Period.

Loss attributable to owners of the Company

During the three months ended 31 March 2020, the Group's loss attributable to owners of the Company amounting to approximately HK\$6.4 million, representing a significant increase of approximately 346.1% as compared to that of approximately HK\$1.4 million in the Previous Period. The increase in loss attributable to owners of the Company was mainly attributable to the decrease in gross profit as a result of decrease in the revenue from Particleboard Segment. The loss was partly set-off by the decrease in selling and distribution expenses and administration expenses as discussed above.

Total comprehensive loss/profit attributable to owners of the Company

During the three months ended 31 March 2020, the Group's total comprehensive loss attributable to owners of the Company amounting to approximately HK\$15.6 million, while the Group's total comprehensive profit attributable to owners of the Company during the three months ended 31 March 2019 amounting to approximately HK\$7.5 million. The main reason for such increase in total comprehensive loss attributable to owners of the Company was mainly attributable to loss for the period as mentioned above and 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.

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

For the three months ended 31 March 2020, neither the Company nor any of its subsidiary have purchased, sold or redeemed any listed securities of the Company.

DIRECTORS' AND CONTROLLING SHAREHOLDER'S INTERESTS IN COMPETING BUSINESSES

During the three months period ended 31 March 2020, none of the Directors, including Mr. Wong Cheung Lok who is also the controlling shareholder of the Company, 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.

At the date of this announcement, Mr. Wong Kin Ching, appointed as the executive director of the Company on 16 August 2019, the son of Mr. Wong and Ms. Cheung Ngar Kwan (Mrs. Wong), directly or indirectly, owned the following companies of which he also serves as the sole director: Gifted Multitude Limited, Hung Tat Investment (Hong Kong) Company Limited and Shaoguan Hongwei Forestry Company Limited (韶關鴻偉林場有限公司). Gifted Multitude Limited and Hung Tat Investment (Hong Kong) Company Limited are investment holding companies which wholly own, directly or indirectly, Shaoguan Hongwei Forestry Company Limited (韶關鴻偉林場有限公司), which is the operating company incorporated in the PRC and engaged in the forestry plantation business, including forestry planting and development with respect to forestlands located at Renhua County, Guangdong Province, PRC.

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

Save as disclosed below, so far as the Directors are aware, as at 31 March 2020, none of the Directors and chief executive of the Company had any interests or short positions in the shares, underlying shares and debentures of the Company or its associated corporations (within the meaning of Part XV of the Securities and Futures Ordinance (Chapter 571, Laws of Hong Kong) (the "SFO") which will have to be notified to the Company and the Stock Exchange under Divisions 7 and 8 of Part XV of the SFO (including interests or short positions which they are taken or deemed to have under such provisions of the SFO) or which will be required, pursuant to section 352 of the SFO, to be entered in the register as referred to therein, or pursuant to Rules 5.46 to 5.67 of the GEM Listing Rules required to be notified to the Company and the Stock Exchange:

Name	Capacity/ Nature of interest	Aggregate number of Shares or underlying Shares (Note 1)	Approximate percentage of interest in our Company
Mr. Wong	Beneficial owner	430,000,000 (L)	51.65%
Mrs. Wong (Note 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 31 March 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.

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

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**”).

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 dated 10 August 2018 for more details.

AUDIT COMMITTEE

The audit committee of the Board of the Company has reviewed and discussed with the management of the Group the unaudited condensed consolidated results of the Group for the three months ended 31 March 2020.

QUARTERLY DIVIDEND

The Board does not recommend the payment of any dividend for the three months ended 31 March 2020 (2019: Nil).

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

Hong Kong, 15 May 2020

As 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.