



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 REPORT 2019



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This report, 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 report is accurate and complete in all material respects and not misleading or deceptive, and there are no other matters the omission of which would make any statement herein or this report misleading.

The board of Directors (the “Board”) of Hong Wei (Asia) Holdings Company Limited (the “Company”) is pleased to announce the unaudited consolidated results of the Company and its subsidiaries (collectively, the “Group”) for the three months ended 31 March 2019 together with the comparative unaudited figures of the corresponding period in 2018.

UNAUDITED CONSOLIDATED STATEMENTS OF PROFIT OR LOSS AND OTHER COMPREHENSIVE INCOME

	Notes	For the three months ended 31 March	
		2019 HK\$'000	2018 HK\$'000
Revenue	2	70,912	101,172
Cost of sales		(59,378)	(76,614)
Gross profit		11,534	24,558
Other income		4,192	3,936
Other (losses)/gains		(3)	14
Gain arising from agricultural produce at fair value less costs to sell at the point of harvest		–	1,583
Net gain arising from changes in fair values less costs to sell of biological assets		–	2,830
Selling and distribution expenses		(5,101)	(8,327)
Administration expenses		(5,785)	(7,068)
Finance costs	4	(6,265)	(7,834)
(Loss)/profit before tax		(1,428)	9,692
Income tax expense	5	–	–
(Loss)/profit for the period attributable to owners of the Company	6	(1,428)	9,692
Other comprehensive income which will not be reclassified subsequently to profit or loss:			
Exchange differences arising on translation to presentation currency		8,892	22,341
Other comprehensive income for the period		8,892	22,341
Total comprehensive income for the period		7,464	32,033
Total comprehensive income attributable to owners of the Company		7,464	32,033
Basic (losses)/earnings per share, in HK cents	7	(0.17)	1.16

UNAUDITED CONSOLIDATED STATEMENT OF CHANGES IN EQUITY

	Share capital HK\$'000	Capital reserve HK\$'000	Statutory reserve HK\$'000	Foreign Currency Translation Reserve HK\$'000	Accumulated profits HK\$'000	Total HK\$'000
Balance at 1 January 2018	253,928	(16,968)	22,841	(1,833)	142,294	400,262
Profit for the period	-	-	-	-	9,692	9,692
Other comprehensive income for the period	-	-	-	22,341	-	22,341
Total comprehensive income for the period	-	-	-	22,341	9,692	32,033
Balance at 31 March 2018	<u>253,928</u>	<u>(16,968)</u>	<u>22,841</u>	<u>(20,508)</u>	<u>151,986</u>	<u>432,295</u>
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>

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 consolidated financial statements have been prepared on a going concern basis.

The unaudited consolidated results for the three months ended 31 March 2019 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 2018, except for the adoption of the following new and revised Hong Kong Financial Reporting Standard ("HKFRS") and Hong Kong Accounting Standards ("HKAS").

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 Interests in Associates and Joint Ventures
Amendments to HKFRSs	Annual Improvements to HKFRSs 2015 – 2017 Cycle

2. REVENUE

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

	For the three months ended 31 March	
	2019 HK\$'000 (Unaudited)	2018 HK\$'000 (Unaudited)
Sales of particleboards	70,912	100,662
Sales of timber woods	—	510
	<u>70,912</u>	<u>101,172</u>

3. OPERATING SEGMENTS

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

	Particleboards segment HK\$'000	Forestry segment HK\$'000	Total HK\$'000
<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

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

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

[#] 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	
	2019 HK\$'000 (Unaudited)	2018 HK\$'000 (Unaudited)
Interests on bank and other borrowings	3,052	4,618
Interests on bonds and notes payable	2,369	2,687
Interests on short term unsecured revolving loan*	103	–
Interests on finance lease liabilities	11	15
Other finance costs	730	514
	<u>6,265</u>	<u>7,834</u>

- * Mr. Wong Cheung Lok, the Chairman and executive director of the Company, agreed to provide a revolving facility of HK\$55,000,000 to the Company to meet its financial obligation pursuant to a facility letter dated 22 March 2018. Such revolving loan facility carries fixed interest rate of 12% per annum.

5. INCOME TAX

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

Under the Law of the People's Republic of China on Enterprise Income Tax (the "EIT Law") and Implementation Regulation of the EIT Law, the tax rate of Hongwei (Renhua) is 25% during the three months ended 31 March 2019 and 2018 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 2019 and 2018 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)/PROFIT FOR THE PERIOD

Loss/profit has been arrived at after charging:

	For the three months ended 31 March	
	2019 HK\$'000 (Unaudited)	2018 HK\$'000 (Unaudited)
Depreciation and amortisation expenses		
Depreciation of property, plant and equipment	7,265	7,295
Amortisation:		
– intangible assets	114	121
– release of prepaid land lease payments	110	116
– release of prepaid forestland lease payments	275	347
	<u>7,764</u>	<u>7,879</u>
Employee benefits expenses (include Directors' emoluments)		
Salaries and other benefits	3,208	3,805
Contribution to retirement benefit schemes	459	508
	<u>3,667</u>	<u>4,313</u>
Total depreciation and amortisation expenses		
Total employee benefit expenses		
Cost of inventories recognised as an expense	59,378	76,614
Auditor's remuneration		
– Provision in respect of current period	338	405
– Non-audit service	90	–
Operating lease payments	152	152
Donation	702	62

7. (LOSSES)/EARNINGS PER SHARE

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

Earnings

	For the three months ended 31 March	
	2019	2018
	HK\$'000	HK\$'000
	(Unaudited)	(Unaudited)
(Loss)/profit for the period attributable to owners of the Company for the purpose of basic earnings per share	<u>(1,428)</u>	<u>9,692</u>

Number of shares

	For the three months ended 31 March	
	2019	2018
	'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 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 and the Group’s revenue for Particleboards Segment decreased to approximately HK\$70.9 million from approximately HK\$101.2 million, representing a decrease of approximately 29.9% as compared to the three months ended 31 March 2018 (“Previous Period”). The decrease was mainly due to the decrease in the average unit selling price and sales volume of particleboards by approximately 5.4% and 21% respectively during the Current Period due to weak market conditions since our 2018 annual report. 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 quarter 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. Looking forward, in order to cope with the business downturns, we are trying to improve the business by doing more frequent market research, adjusting our pricing scheme and trying to explore new customers by providing more kinds of specifications in size and thickness to meet the needs of different market segments.

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 report. Hence, the Group continues to assess the feasibility of different business strategy that seeks to better utilize its forestry resources.

During the three months ended 31 March 2019, no income generating activity took place and no revenue was recognized under this segment (2018: HK\$0.5 million).

FINANCIAL REVIEW

Revenue

During the three months ended 31 March 2019, the Group's revenue for Particleboards Segment decreased to approximately HK\$70.9 million from approximately HK\$101.2 million, representing a decrease of approximately 29.9% as compared to the three months ended 31 March 2018. The decrease was mainly due to the decrease in the average unit selling price and sales volume of particleboard by approximately 5.4% and 21.0% 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 (2018: HK\$0.5 million).

Cost of sales

During the three months ended 31 March 2019, the Group's costs of sales decreased to approximately HK\$59.4 million from approximately HK\$76.6 million for the three months ended 31 March 2018, representing a decrease of approximately 22.5%. 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 three months ended 31 March 2019, the Group's gross profit decreased to approximately HK\$11.5 million from approximately HK\$24.6 million for the three months ended 31 March 2018, representing a decrease of approximately 53.0% and the Group's gross profit margin decreased to approximately 16.3% from approximately 24.3% for the three months ended 31 March 2018.

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 less than that of the decrease in revenue. In connection with the decrease in sales, production from January to March 2019 fell by approximately 42.2% over the same period last year, resulting in an increase in average unit cost and a decline in gross profit margin.

Selling and distribution expenses

During the three months ended 31 March 2019, the Group's selling and distribution expenses decreased by 38.7% to approximately HK\$5.1 million as compared to that of approximately HK\$8.3 million for the three months ended 31 March 2018. 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 2019, the Group's administration expenses decreased to approximately HK\$5.8 million from approximately HK\$7.1 million for the three months ended 31 March 2018, representing a decrease of approximately 18.2%. The decrease in administrative 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 incurred during the period. The decrease in administrative expenses were partly set-off by the increase in donation fees during the Current Period.

Finance costs

During the three months ended 31 March 2019, the Group's finance costs decreased to approximately HK\$6.3 million from approximately HK\$7.8 million for the three months ended 31 March 2018, representing a decrease of approximately 20.0%. 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 2017 secured and guaranteed bonds in the principal amount of HK\$100,000,000 and the issuance of the secured and guaranteed notes in the same principal amount at a lower interest rate in August 2018.

Loss/profit attributable to owners of the Company

During the three months ended 31 March 2019, the Group's loss attributable to owners of the Company amounting to approximately HK\$1.4 million, while the Group's profit attributable to owners of the Company for the three months ended 31 March 2018 amounting to approximately HK\$9.7 million. The decrease was mainly attributable to the decrease in gross profit of approximately HK\$13.0 million. The loss was partly set-off by the decrease in selling and distribution expenses, advertising and promotion expenses and administration expenses as discussed above.

Total comprehensive income attributable to owners of the Company

During the three months ended 31 March 2019, the Group's total comprehensive income attributable to owners of the Company decreased to approximately HK\$7.5 million from approximately HK\$32.0 million for the three months ended 31 March 2018, representing a decrease of approximately 76.7%. The decrease was mainly attributable to loss for the period, and the decrease in exchange gain 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 2019, 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 2019, 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.

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

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

Save as disclosed below, so far as the Directors are aware, as at 31 March 2019, 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 ⁽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 31 March 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.

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 consolidated results of the Group for the three months ended 31 March 2019.

QUARTERLY DIVIDEND

The Board does not recommend the payment of any dividend for the three months ended 31 March 2019 (2018: Nil).

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

Hong Kong, 14 May 2019

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