



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

2014

Interim Report



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

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CORPORATE INFORMATION

Registered office

Unit 204, 2/F, Malaysia Building
50 Gloucester Road
Wanchai, Hong Kong

Head office in Hong Kong

Unit 204, 2/F, Malaysia Building
50 Gloucester Road, Wanchai, Hong Kong

Principal place of business in the PRC

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

Company's website address

www.hongweiasia.com

Company secretary

Ms. Leung Wai Ling Wylie, HKICPA

Authorised representatives

Mr. Wong Cheung Lok
Ms. Huang Xiuyan

Executive directors

Mr. Wong Cheung Lok
Ms. Cheung Ngar Kwan
Ms. Huang Xiuyan
Mr. Liu Jiayong

Non-executive director

Mr. Ong Chor Wei

Independent non-executive directors

Dr. Xu Jianmin
Ms. Qian Xiaoyu
Mr. Wong Hei Chiu

Compliance officer

Ms. Huang Xiuyan

Audit committee

Mr. Wong Hei Chiu (*chairman*)
Dr. Xu Jianmin
Ms. Qian Xiaoyu

Remuneration committee

Dr. Xu Jianmin (*chairman*)
Mr. Wong Cheung Lok
Mr. Wong Hei Chiu

Nomination committee

Mr. Wong Cheung Lok (*chairman*)
Dr. Xu Jianmin
Mr. Wong Hei Chiu

Compliance adviser

Baron Global Financial Services Limited

Share registrar and transfer office

Tricor Investor Services Limited
Level 22
Hopewell Centre
183 Queen's Road East
Hong Kong

Principal bankers

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

Auditor

Deloitte Touche Tohmatsu
Certified Public Accountants

Legal advisers to the Company

as to Hong Kong law:
Chen & Associates
(in association with Wilson Sonsini Goodrich & Rosati, P.C.)

GEM stock code

8191

FINANCIAL HIGHLIGHTS

For the six months ended 30 June 2014, operating results of the Group were as follows:

- Revenue for the six months ended 30 June 2014 amounted to approximately HK\$175.0 million, representing an increase of 152.5% from approximately HK\$69.3 million recorded in the same period in 2013.
- Gross Profit for the six months ended 30 June 2014 amounted to approximately HK\$50.8 million, representing an increase of 188.7% from approximately HK\$17.6 million recorded in the same period in 2013.
- Profit attributable to owners of the Company for the six months ended 30 June 2014 amounted to approximately HK\$13.3 million, representing an increase of 12 times from approximately HK\$1 million recorded in the same period in 2013.
- The Board does not recommend the payment of an interim dividend for the six months period ended 30 June 2014 (2013: 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 2014 ("Interim Period 2014") together with the comparative figures of the corresponding period as appropriate.

Unless otherwise stated, the capitalised terms in this report shall have the same meaning as in prospectus of the Company dated 27 December 2013 ("Prospectus").

CONDENSED CONSOLIDATED STATEMENT OF PROFIT OR LOSS AND OTHER COMPREHENSIVE INCOME

	Notes	Three months ended 30 June		Six months ended 30 June	
		2014 HK\$'000 (Unaudited)	2013 HK\$'000 (Unaudited)	2014 HK\$'000 (Unaudited)	2013 HK\$'000 (Audited)
Revenue	3	103,899	41,412	174,991	69,313
Cost of sales		(72,178)	(30,621)	(124,144)	(51,698)
Gross profit		31,721	10,791	50,847	17,615
Other income		(3,189)	45	443	3,320
Other gains/(losses)		(188)	1,145	(126)	870
Distribution expenses		(8,227)	(3,916)	(13,818)	(6,350)
Administrative expenses		(5,593)	(3,049)	(10,782)	(6,428)
Other expenses		(874)	(2,374)	(1,414)	(4,759)
Finance costs	5	(5,593)	(1,964)	(11,030)	(3,418)
Profit before tax		8,057	678	14,120	850
Income tax expense	6	6	(41)	(787)	174
Profit for the period attributable to owners of the Company	7	8,063	637	13,333	1,024
Other comprehensive income which will not be reclassified subsequently to profit or loss:					
Exchange differences arising on translation to presentation currency		(358)	287	(1,973)	1,284
Other comprehensive income for the period		(358)	287	(1,973)	1,284
Total comprehensive income for the period		7,705	924	11,360	1,284
Total comprehensive income attributable to owners of the Company		7,705	924	11,360	2,308
Basic earnings per share, in HK cents	8	1.16	0.13	1.89	0.20

CONDENSED CONSOLIDATED STATEMENT OF FINANCIAL POSITION

	Notes	Unaudited 30 June 2014 HK\$'000	Audited 31 December 2013 HK\$'000
NON-CURRENT ASSETS			
Property, plant and equipment		403,256	415,515
Prepayment for acquisition of property, plant and equipment		21,553	21,837
Prepaid lease payments		22,325	22,697
Deferred tax assets		5,046	5,887
		452,180	465,936
CURRENT ASSETS			
Inventories	9	82,121	52,808
Trade and bills receivable	10	103,003	31,535
Prepayments and other receivables		26,206	37,997
Bank balances and cash		11,328	6,900
Pledged deposits		—	5,458
		222,658	134,698
CURRENT LIABILITIES			
Trade payables	11	40,091	35,754
Other payables		42,584	99,283
Tax payable		2,681	2,707
Borrowings	12	220,903	111,799
Deferred income		284	44
		306,543	249,587
NET CURRENT LIABILITIES			
		(83,885)	(114,889)
TOTAL ASSETS LESS CURRENT LIABILITIES			
		368,295	351,047
CAPITAL AND RESERVES			
Share capital	13	188,759	53,333
Share premium and reserves		52,954	113,852
EQUITY ATTRIBUTABLE TO OWNERS OF THE COMPANY AND TOTAL EQUITY			
		241,713	167,185
NON-CURRENT LIABILITIES			
Deferred tax liabilities		618	624
Borrowings	12	122,462	182,621
Deferred income		3,502	617
		126,582	183,862
		368,295	351,047

CONDENSED CONSOLIDATED STATEMENT OF CHANGES IN EQUITY

For the six months ended 30 June 2014

	Share capital HK\$'000	Share premium HK\$'000	Capital reserve HK\$'000	Statutory reserve HK\$'000	Other reserve HK\$'000	Foreign currency translation reserve HK\$'000	Retained profits HK\$'000	Total HK\$'000
Balance at 1 January 2014	53,333	72,258	(16,968)	6,414	–	15,023	37,125	167,185
Profit for the period	–	–	–	–	–	–	13,333	13,333
Other comprehensive income for the period	–	–	–	–	–	(1,973)	–	(1,973)
Total comprehensive income for the period	–	–	–	–	–	(1,973)	13,333	11,360
Issue of new shares	17,778	51,556	–	–	–	–	–	69,334
Professional expenses incurred in connection with the Company's listing	–	(6,166)	–	–	–	–	–	(6,166)
Effect of the new Hong Kong Companies Ordinance	117,648	(117,648)	–	–	–	–	–	–
Balance at 30 June 2014	188,759	–	(16,968)	6,414	–	13,050	50,458	241,713
Balance at 1 January 2013	51,333	4,875	(17,460)	4,087	(6,208)	12,053	31,585	80,265
Profit for the period	–	–	–	–	–	–	1,024	1,024
Other comprehensive income for the period	–	–	–	–	–	1,284	–	1,284
Total comprehensive income for the period	–	–	–	–	–	1,284	1,024	2,308
Issue of redeemable ordinary shares to Golden Win	2,000	7,383	–	–	(9,383)	–	–	–
Removal of Redemption Right of ordinary shares issued to Golden Win and payment of interests by a shareholder on behalf of the Company	–	–	492	–	15,591	–	–	16,083
Balance at 30 June 2013 (audited)	53,333	12,258	(16,968)	4,087	–	13,337	32,609	98,656

CONDENSED CONSOLIDATED STATEMENT OF CASH FLOWS

For the six months ended 30 June 2014

	Unaudited Six months ended 30 June 2014 HK\$'000	Audited Six months ended 30 June 2013 HK\$'000
Cash flows from operating activities		
Profit before tax	14,120	850
Adjustments for:		
Interest income	(31)	(23)
Net foreign exchange losses/(gains)	137	(630)
Finance costs	11,030	3,418
Depreciation and amortisation	13,865	2,799
Gains on fair value changes of derivative financial instruments	–	(296)
Net loss/(gain) on disposal of property, plant and equipment	–	56
	39,121	6,174
Movements in working capital:		
Increase in trade and bills receivables	(71,927)	(8,539)
Increase in prepayments and other receivables	(3,939)	(9,120)
Decrease/(Increase) in inventories	(29,881)	2,031
Increase in trade and bills payables	4,686	8,076
(Decrease)/increase in other payable	(29,761)	5,941
Decrease in amounts due from related parties	–	250
Cash (used in)/generated from operations	(91,701)	4,813
Income taxes paid	–	–
Net cash (used in)/generated from operating activities	(91,701)	4,813
Cash flows from investing activities		
Amounts advanced to related parties	–	(91,099)
Amounts repaid from related parties	–	62,738
Amounts repaid from third parties	–	2,644
Payments for property, plant and equipment	(14,269)	(209,004)
Payments for prepaid lease payments	–	(249)
Placement of pledged deposits	(1,313)	(54,101)
Withdrawal of pledged deposits	6,733	42,676
Interest received	31	23
Government grants received	3,561	–
Net cash used in investing activities	(5,257)	(246,372)

	Unaudited Six months ended 30 June 2014 HK\$'000	Audited Six months ended 30 June 2013 HK\$'000
Cash flows from financing activities		
Net proceeds from capital contributions	60,640	–
Issue of redeemable ordinary shares to Golden Win	–	9,383
Amounts repaid to related parties	–	(33,757)
Amounts advanced from related parties	–	144,701
Proceeds from borrowings	143,393	178,516
Repayment of borrowings	(91,542)	(50,531)
Interest paid	(11,030)	(3,143)
Net cash generated from financing activities	101,461	245,169
Net increase in cash and cash equivalents	4,503	3,610
Cash and cash equivalents at the beginning of the year	6,900	2,505
Effect of exchange rate changes on bank balances	(75)	72
Cash and cash equivalents at the end of the period, represented by bank balances and cash	11,328	6,187

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

1. BASIS OF PRESENTATION

The directors of the Company 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 six months ended 30 June 2014 have not been audited by the Company's auditors, but have been reviewed by the Company's audit committee.

The unaudited consolidated interim financial statements have been prepared in accordance with the Hong Kong Accounting Standards ("HKAS") 34 "Interim Financial Reporting" issued by the Hong Kong Institute of Certified Public Accountants, and applicable disclosure requirements of the GEM Listing Rules and the Hong Kong Companies Ordinance.

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 2013, except for the adoption of certain new and revised Hong Kong Financial Reporting Standards ("HKFRS") and Hong Kong Accounting Standards ("HKAS") as disclosed in note 2 below.

2. APPLICATION OF NEW AND REVISED HONG KONG FINANCIAL REPORTING STANDARDS ("HKFRSs")

The Group has applied the following new and revised HKFRSs issued by the Hong Kong Institute of Certified Public Accountants ("HKICPA") in the current period:

Amendments to HKFRS 10, HKFRS 12 and HKAS 27	Investment Entities
Amendments to HKAS 32	Offsetting Financial Assets and Financial Liabilities
Amendments to HKAS 36	Recoverable Amount Disclosures for Non-Financial Assets
Amendments to HKAS 39	Novation of Derivatives and Continuation of Hedge Accounting
HK(IFRIC)-Int 21	Leases

The directors of the Company anticipate that the application of the above new standard, amendments to standards and interpretation will have no material impact on these consolidated financial statements of the Group.

3. REVENUE

Revenue represents revenue arising on sales of particleboards as follows:

	Six months ended 30 June	
	2014 HK\$'000	2013 HK\$'000
Sales of particleboards	174,991	69,313

4. SEGMENT INFORMATION

HKFRS 8 requires operating segments to be identified on the basis of internal reports about components of the Group that are regularly reviewed by the executive directors, being the chief operating decision makers ("CODM"), in order to allocate resources to segments and to assess their performance. The CODM reviews the Group's revenue and profit as a whole, which is generated solely from the manufacture and sales of particleboards and is determined in accordance with the Group's accounting policies, for resources allocation and performance assessment. Therefore no segment information other than entity-wide disclosure is presented.

The Group's operation is located in the PRC and all revenue is generated from the PRC.

The Group's non-current assets are located in the PRC.

Revenue from customers arising from sales of particleboard for the period contributing over 10% of the total sales of the Group are as follows:

Six months ended 30 June		
	2014 HK\$'000	2013 HK\$'000
Customer A	53,995	—
Customer B	24,552	—
Customer C	16,716	—
Customer D	N/A*	7,935

* The corresponding revenue did not contribute over 10% of the total sales of the Group.

5. FINANCE COSTS

Six months ended 30 June		
	2014 HK\$'000	2013 HK\$'000
Interest on bank loans		
– wholly repayable within five years	11,030	3,143
Interest on redeemable ordinary shares issued to Golden Win	—	492
Less: amounts capitalised in construction in progress	—	(217)
	11,030	3,418

The borrowing cost was capitalised based on the terms of the specific bank borrowings.

6. INCOME TAX EXPENSE

Six months ended 30 June		
	2014 HK\$'000	2013 HK\$'000
Current tax:		
PRC Enterprise Income Tax	—	—
Deferred tax:		
Current year charge/(credit)	787	(174)
	787	(174)

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 years ended 31 December 2013 and 2014.

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 2014 and 2013, 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.

The income tax expenses for the reporting periods can be reconciled to the profit before tax per the consolidated statement of profit or loss and other comprehensive income as follows:

Six months ended 30 June		
	2014 HK\$'000	2013 HK\$'000
Profit before tax	14,120	850
Tax at applicable income tax rate	3,877	551
Tax effect of expenses not deductible for tax purpose	1,285	1,008
Tax effect of additional deduction based on 10% of revenue	(4,375)	(1,733)
Income tax expense recognised in profit or loss	787	(174)

7. PROFIT FOR THE PERIOD

Profit for the period has been arrived at after charging:

Six months ended 30 June		
	2014 HK\$'000	2013 HK\$'000
Depreciation and amortisation expenses		
Depreciation of property, plant and equipment	13,621	2,566
Amortisation of prepaid lease payments	244	233
Total depreciation and amortisation expenses	13,865	2,799
Employee benefits expenses (include directors' emoluments)		
Salaries and other benefits	6,405	4,372
Contribution to retirement benefit schemes	555	376
Total employee benefit expenses	6,960	4,748
Cost of inventories recognised as an expense	124,144	51,698
Operating lease expenses	—	37
Auditor's remuneration	600	—
Expenses in relation to the listing process	—	4,082

8. 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		
	2014 HK\$'000	2013 HK\$'000
Profit for the period attributable to owners of the Company for the purpose of basic earnings per share	13,333	1,024

8. EARNINGS PER SHARE (CONTINUED)

Number of shares

	Six months ended 30 June	
	2014 '000	2013 '000
Weighted average number of ordinary shares for the purpose of basic earnings per share	704,240	501,842

Notes:

- (i) The redeemable ordinary shares of 3,333,500 held by Golden Win had not been included as outstanding ordinary shares in the calculation of basic earnings per share until 21 June 2013 when the shares became no longer subject to redemption.
- (ii) There was no diluted earnings per share for both periods as there has been no potential ordinary shares outstanding during the periods presented.

9. INVENTORIES

	30 June 2014 HK\$'000	31 December 2013 HK\$'000
Raw materials	42,388	29,756
Work in progress	808	3,598
Finished goods	38,925	19,454
Total	82,121	52,808

10. TRADE AND BILLS RECEIVABLES

	30 June 2014 HK\$'000	31 December 2013 HK\$'000
Trade receivables	99,170	27,033
Bills receivables	3,833	4,502
	103,003	31,535

10. TRADE AND BILLS RECEIVABLE (CONTINUED)

Trade receivables are non-interest bearing and are generally on 30-90 days' credit terms. The following is an aged analysis of trade receivables presented based on the date of delivery of goods which approximated the respective dates on which revenue was recognised.

	30 June 2014 HK\$'000	31 December 2013 HK\$'000
Within 3 months	67,637	27,033
3 months to 1 year	31,533	–
Total	99,170	27,033

The maturity period of bills receivable are within 6 months.

11. TRADE PAYABLES

	Notes	30 June 2014 HK\$'000	31 December 2013 HK\$'000
Trade payables	(i)	40,091	35,754
		40,091	35,754

Notes:

- (i) 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:

	30 June 2014 HK\$'000	31 December 2013 HK\$'000
Within 3 months	22,448	29,382
4 to 6 months	4,163	4,131
7 to 12 months	11,535	1,154
Over 1 year	1,945	1,087
	40,091	35,754

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

12. BORROWINGS

	Notes	30 June 2014 HK\$'000	31 December 2013 HK\$'000
Bank loans	(i)(ii)(iii)	343,365	294,420
Secured		221,665	192,796
Unsecured		121,700	101,624
		343,365	294,420
Carrying amount repayable			
Repayable within one year		220,903	111,799
More than one year, but not exceeding two years		40,008	36,320
More than two years, but not exceeding five years		82,454	126,500
More than five years		–	19,801
		343,365	294,420
Less: amount included in current liabilities		(220,903)	(111,799)
Non-current portion		122,462	182,621

Notes:

- (i) Other than bank loans with an aggregate carrying amount of HK\$50,852,000 (2013: HK\$87,997,000) which bear fixed interest rate of 3.386% to 6.55% per annum as at 30 June 2014 (2013: 6% to 6.90%), other bank loans with an aggregate carrying amount of HK\$292,513,000 (2013: HK\$206,423,000) bear floating interest rates ranging from 6.44% to 8.515% (2013: 6.16% to 6.88%) per annum as at 30 June 2014.
- (ii) As at 30 June 2014, the Group's bank loans are secured/guaranteed by:
 - (a) the pledge of the Group's buildings, plant and equipment with an aggregate carrying amount of HK\$259,373,000 (31 December 2013: HK\$285,389,000);
 - (b) the pledge of the Group's prepaid lease payments with an aggregate carrying amount of HK\$19,414,000 (31 December 2013: 19,804,000); and
 - (c) the pledge of the Group's trade receivable with an aggregate carrying amount of HK\$50,923,541.
- (iii) As at 30 June 2014, borrowings of HK\$8,018,000 were denominated in Euro.

13. SHARE CAPITAL

	Numbers of shares		Share capital	
	30 June 2014 '000	30 June 2013 '000	30 June 2014 HK\$'000	30 June 2013 HK\$'000
<i>Ordinary shares of HK\$1.00 each subdivided to HK\$0.10 each on 24 July 2013</i>				
Authorised				
At beginning of year/period	2,000,000	53,333	200,000	53,333
At end of period (note (iii))	N/A	53,333	N/A	53,333
Issued and fully paid				
At beginning of year/period	533,335	51,333	53,333	51,333
Issue of redeemable ordinary shares to Golden Win	–	2,000	–	2,000
Issuance and allotment of Shares pursuant to the Placing (note (ii))	177,780	–	17,778	–
Effect of the new Hong Kong Companies Ordinance	–	–	117,648	–
At end of period	711,115	53,333	188,759	53,333

Notes:

- (i) On 24 July 2013, each share of HK\$1.00 each in the Company's authorised share capital was sub-divided into 10 share of HK\$0.10 each, thereby resulting in the increase in the number of the authorised ordinary shares from 53,333,500 shares of HK\$1.00 each to 533,335,000 shares of HK\$0.10 each and increase of the number of the total issued shares from 53,333,500 shares of HK\$1.00 each to 533,335,000 shares of HK\$0.10 each.
- (ii) Upon completion of the Placing, a total of 177,780,000 Shares were issued and allotted to certain professional, institutional and other investors pursuant to the Prospectus.
- (iii) Under the Hong Kong Companies Ordinance (Cap. 622), with effect from 3 March 2014, the concept of authorised share capital no longer exists and the Company's shares no longer have a par value. There is no impact on the number of shares in issue or the relative entitlement of any of the shareholders as a result of this transition.

All the issued shares rank pari passu in all respects with other shares in issue.

MANAGEMENT DISCUSSIONS AND ANALYSIS

BUSINESS REVIEW

For the Interim Period 2014, the Group continues to be primarily engaged in the manufacturing and sales of particleboards, which are used primarily by the customers of the Group in the manufacturing of furniture, flooring panels, decoration and construction materials. The Group's production base is strategically located in Renhua County, Shaoguan City, Guangdong Province, PRC, comprising production workshops, office building, warehouses, and various buildings and structures under construction. Renhua County, is located in the northern mountain region of the Guangdong Province with rich forest resources, which provides the Group with abundant wood resources.

In the first half of 2014, with the operation of the new production line which already commenced full production in December 2013, the sales orders and average selling price of the particleboards increased slightly in the first half of 2014 primarily due to the better quality particleboards produced by the new production line, as compared to the corresponding period in 2013. The Directors believe that the implementation of the new production line will continue to provide the Group, amongst others, with the following benefits: (i) the Group is able to produce particleboards with better and more stable quality; (ii) the Group's production is more efficient in energy and raw material savings, thus lowering our production cost; (iii) the Group's products are more environmentally friendly and would comply with all the Particleboard PRC GB Standards and Particleboard International Standards; (iv) the Group is able to produce customised particleboards and particleboards of various dimensions and specifications; and (v) allow the Group to expand its market share and solidify its market position in the particleboard industry due to the wider product offering. In July 2014, we were granted the 3G Material Greening Certification for our formaldehyde-free particleboard by the Green Furniture Environment & Technology Committee of China National Interior Decoration Association. In addition, the Company has incorporated a wholly-owned subsidiary for general corporate purpose during the Interim Period 2014.

Currently, our customers include home or office furniture and sport equipment manufacturers principally engaged in the manufacture of home or office furniture and sport equipment for sale in the China market or export to overseas markets, we shall continue to actively explore and broaden the sales channels in both the PRC market and the overseas market.

During the first half of 2014, we have or are in the course of implementing the implementation plans for achieving the business objectives as set out in the Prospectus. The following is a comparison between the Group's business objectives as set out in the Prospectus and the actual business progress for the six months ended 30 June 2014:

Business plans for the six months ended 30 June 2014

Expanding our product range

- full launch of our Premium Quality Particleboards to the market
- full launch of customised particleboard products to the market

Actual business progress up to 30 June 2014

- Commenced sales of new types of Premium Quality Particleboards such as fire-proof particleboard and formaldehyde-free particleboard and moisture-proof particleboard
- Commenced sales of new types of customised particleboard such as particleboard with individually-customised size and particleboard with specific physical features

**Business plans for the six months ended
30 June 2014**

**Strengthening and expanding our sales network
across the PRC**

- employ additional 5 personnel to the sales and marketing team focusing on the Pearl River Delta economic region
- establish a branch for sales in Yangtze River Delta economic region
- employ additional 3 personnel to the sales and marketing team focusing on the Yangtze River Delta economic region
- employ 5 personnel to the sales and marketing team focusing on direct sales channel

**Expanding our supplier base for the supply of the
Residual Wood**

- provide tree sprouts to selected Residual Wood suppliers

Enhancing our product research and development

- employ additional 3 personnel to the research and development team
- establish a R&D centre and install newer and more advanced laboratory equipment and machinery
- research and development on high concentration formaldehyde, adhesive chemical, glueing technique and production technology

Strengthening our brand recognition

- participate at least 2 PRC national furniture expositions
- launch our advertising campaigns on magazine and internet of home furniture and particleboard industries

**Actual business progress up to
30 June 2014**

- Completed external employment and/or internal allocation of additional personnel responsible for sales and marketing according to the stated business plan

- Deployed a sales and marketing team to be based in Shanghai for sales in Yangtze River Delta economic region

- Provided 100,000 tree sprouts to selected Residual Wood suppliers

- Employed additional 3 personnel to the research and development team

- Improved the PMDI (4-苯基異氰酸酯) adhesive implementation system for particleboard manufacturing, and signed a research cooperation framework agreement with Research Institute of Wood Industry of the Chinese Academy of Forestry for cooperation in setting up laboratory for technology advancement

- Deployed new technology to produce formaldehyde with higher concentration for manufacturing moisture-proof particleboard with higher quality

- Deployed new technology to manufacture formaldehyde-free particleboard with higher quality, as for which the Green Furniture Environment & Technology Committee of China National Interior Decoration Association has granted the 3G Material Greening Certification

- Participated in China International Furniture Fair (Guang Zhou), China (Guang Zhou) International Building Decoration Fair, the First China (Gan Zhou) Furniture Industry Fair

- Advertised and/or published articles in Panels & Furniture Asia and China Wood-based Panels Magazine

Looking forward, the Group believes that the particleboard market will grow in a steady and healthy way, and intends to further enhance its presence in the particleboard industry and capture market share in the Premium Quality Particleboard segment, while there are certain risks that the Group will face in further development such as (i) the principal raw materials used in our production process are Residual Wood and that there might be shortage of supplies of Residual Wood caused by, amongst others, bad weather; (ii) the Group will face competition from existing and new players in the particleboard industry in the PRC; and (iii) there might be potential changes in trade policies and legislation which might adversely affect the Group's sales and profitability. The Group will continue to adhere to the implementation plans as set out in the section headed "Future Plans and Prospectus – Implementation Plans" as it considers appropriate in the then prevailing circumstances.

FINANCIAL REVIEW

Revenue

During the Interim Period 2014, the Group's revenue was HK\$175.0 million, an increase of 152.5% as comparing with the corresponding period (2013: HK\$69.3 million). The increase was mainly due to increase in selling price and sales volume of particleboards as a result of the new production line launched in the last quarter of 2013.

Cost of Sales

During the Interim Period 2014, the Group's costs of sales was HK\$124.1 million, an increase of 140.1% as comparing with the corresponding period (2013: HK\$51.7 million). The increase was mainly attributed to increase in the quantity sold.

Gross profit and margin

During the Interim Period 2014, the Group's gross profit was HK\$50.8 million, an increase of approximately 188.7% comparing with the corresponding period (2013: HK\$17.6 million). The Group's gross profit margin increased to approximately 29.1% from approximately 25.4%. The increase in gross profit was mainly due to increase in quantity sold and improvement in gross profit margin. The improvement in gross profit margin was mainly due to increase in unit selling price, decrease in material cost and higher efficiency of the new production line.

Distribution expenses

During the Interim Period 2014, the Group's distribution expenses increased to approximately HK\$13.8 million from approximately HK\$6.4 million, an increase of approximately 117.6%. Transportation cost increased in line with the increase in sales.

Administrative expenses

During the Interim Period 2014, the Group's administrative expenses increased to approximately HK\$10.8 million from approximately HK\$6.4 million, an increase of approximately 67.7%. The increase was mainly attributed to increase in staff salaries, staff benefits and other overheads as a result of increase in number of staffs and related costs to support the new production line.

Finance costs

During the Interim Period 2014, the Group's finance costs increased to approximately HK\$11.0 million from approximately HK\$3.4 million, an increase of approximately 222.7%. The increase was mainly attributed to increase in the level of working capital request to cope with the new production line and the capitalisation of interest in previous corresponding periods.

Profit attributable to owners of the Company

The Group records an increase of approximately 12 times in the profit attributable to owners of the Company for the six months ended 30 June 2014 (being approximately HK\$13.3 million) as compared to the same period in 2013 (being approximately HK\$1 million). Such improvement is mainly due to (1) the increase in sales volume and gross profit margin as a result of the Full Production (as defined in the Prospectus) of the new production line as from December 2013, and (2) the amount of listing expenses incurred in the six months ended 30 June 2014 are significantly less than the amount incurred for the same period in 2013.

LIQUIDITY, FINANCIAL RESOURCES AND CAPITAL STRUCTURE

The Company's shares were successfully listed on GEM of the Stock Exchange on 8 January 2014. There has been no change in the capital structure of the Company since that date. The capital of the Company only comprises ordinary shares.

During the Interim Period 2014, the Group mainly financed its operations with the Group's working capital and bank loans.

As at 30 June 2014 and 31 December 2013, the Group had bank loans of approximately HK\$343.4 million and HK\$294.4 million respectively. Other than certain bank loans obtained which bear fixed interest rate ranging from 3.386% to 6.55% per annum, other bank loans bear floating interest rates ranging from 6.44 % to 8.515% per annum as at 30 June 2014.

As at 30 June 2014 and 31 December 2013, the Group had net current liabilities of approximately HK\$83.9 million and HK\$114.9 million respectively. The current ratio of the Group increased to 0.73x as at 30 June 2014 (2013: 0.54x). The decrease in net current liabilities was mainly attributed to increase in working capital following the proceed from listing.

Gearing Ratio

The gearing ratio stood at 1.42x (31 December 2013: 1.76x) based on total borrowings over shareholders' equity. The gearing ratio dropped on the Listing Date as a result of proceed from listing which increased the shareholders' equity.

FOREIGN EXCHANGE EXPOSURE

As at 30 June 2014, the Group has no significant exposure to foreign currency risk as it carries out its sales and purchases mainly in RMB, and certain of the Group's bank balances were denominated in HK\$ and insignificant amount of the Group's bank balances were denominated in Euro. The Directors consider that the foreign exchange risk exposure is minimum.

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

During the Interim Period 2014, there were no significant investments. There is no plan for material investments on capital assets as at the date of this report.

MATERIAL ACQUISITIONS AND DISPOSALS OF SUBSIDIARIES

On 20 May 2014, the Company incorporated a wholly-owned subsidiary, namely, Universal Success Enterprise Limited 環達企業有限公司 as a company limited by shares in Hong Kong for general corporate activity purpose. Save for the above, during the Interim Period 2014, the Group did not have any material acquisitions and disposals of subsidiary.

PLEDGE OF ASSETS

As at 30 June 2014, there was no bank deposit pledged to banks for issuing letters of credit (31 December 2013: HK\$5,458,000).

As at 30 June 2014, the Group's bank loans are secured/guaranteed by:

- (a) the pledge of the Group's buildings, plant and equipment with an aggregate carrying amount of HK\$259,373,000 (31 December 2013: HK\$285,389,000);
- (b) the pledge of the Group's prepaid lease payments with an aggregate carrying amount of HK\$19,414,000 (31 December 2013: HK\$19,804,000); and
- (c) the pledge of the Group's trade receivable with an aggregate carrying amount of HK\$50,923,541.

COMMITMENTS

The following table sets out the Group's contractual obligations as at the respective reporting date.

	30 June 2014 HK\$'000	31 December 2013 HK\$'000
Capital commitments	12,103	12,219
Letters of credit commitments	—	7,645

CONTINGENT LIABILITIES

The Group had no material contingent liabilities as at 30 June 2014 (31 December 2013: nil).

EVENT AFTER THE REPORTING PERIOD

On 7 July 2014, the Company has issued to certain investors the puttable note ("Puttable Notes") of US\$2,000,000 with an interest rate of 12% per annum due on 7 July 2016. The Puttable Notes does not require any security and does not carry any rights to convert into the Company's shares. The proceeds from issuance of the Puttable Notes will be utilised for the Group's general working capital purpose.

EMPLOYEES AND REMUNERATION POLICIES

As at 30 June 2014, the Group employed a total of 188 employees. The remuneration payable to our employees included fees, salaries, retirement benefits scheme contributions and other benefits. For the Interim Period 2014 and the same period in 2013, the remuneration was approximately HK\$7.0 million and HK\$4.7 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 supports the interests of Shareholders. 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.

SHARE OPTION SCHEME

Prior to the Listing, 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 the date on which the Share Option Scheme is conditionally adopted.

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 grant of any option 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.

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 10% of the total number of Shares in issue immediately following completion of the Placing, unless the Company obtains a fresh approval from the Shareholders.

DIRECTORS' INTERESTS IN COMPETING BUSINESSES

Except as disclosed in the Prospectus, since listing and up to 30 June 2014, none of the Directors or any of their respective 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.

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 2014, 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	Beneficial owner	500,000,100 (L)	70.31%
Ms. Cheung Ngar Kwan ("Mrs. Wong") ⁽²⁾	Interest of spouse	500,000,100 (L)	70.31%

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.

Mr. Ong Chor Wei, one of our Directors, is also a director of Singapore listed company, Net Pacific Financial Holdings Limited, which is in turn held 57.07% by Full Join Holdings Limited. Based on the annual report of Net Pacific Financial Holdings Limited dated 10 April 2014, Mr. Ong Chor Wei is deemed interested in the shares held by Full Join Holdings Limited by virtue of him owing 100% of the shareholding interest in Head Quator Limited which owns 50% of the shareholding interest of Quad Sky Limited, which in turn owns 17.9% of the shareholding interest of Full Join Holdings Limited. Mr. Ong Chor Wei also owns 50% of the shareholding interest in Net Pacific International Limited which in turn owns 2.1% of the shareholding in Full Join Holdings Limited. Net Pacific Financial Holdings Limited wholly owns Net Pacific Finance Group Limited.

Net Pacific Finance Group Limited has subscribed for 28 class A shares in Golden Win. Holders of class A shares in Net Pacific Finance Group Limited do not have voting rights at general meetings of Golden Win but all shareholders of Golden Win share the profits and risks of our Company according to their respective contribution to the issued share capital of Golden Win. As Net Pacific Finance Group Limited contributed RMB7 million out of the total share capital contribution received by Golden Win of RMB12.5 million, Net Pacific Finance Group Limited holds 56% of the economic interest in Golden Win. However, Net Pacific Finance Group Limited does not hold any voting rights in Golden Win and accordingly, Net Pacific Finance Group Limited is not the controlling shareholder of Golden Win. As at 30 June 2014, Golden Win held approximately 4.69% shareholding interest in the Company.

SUBSTANTIAL SHAREHOLDERS

So far as the Directors are aware, as at 30 June 2014, the following persons had an interest or short position in the shares or underlying shares of our Company which would fall to be disclosed to us and the Hong Kong Stock Exchange under the provisions of Divisions 2 and 3 of Part XV of the SFO or who are, directly or indirectly, interested in 5% or more of the nominal value of any class of share capital carrying rights to vote in all circumstances at general meetings of any of our subsidiary:

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	Beneficial owner	500,000,100 (L)	70.31%
Mrs. Wong ⁽²⁾	Interest of spouse	500,000,100 (L)	70.31%

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.

Save as disclosed herein, our Directors are not aware of any other person who, as at 30 June 2014, have an interest or short position in the Shares or underlying Shares which would fall to be disclosed to our Company under the provisions of Divisions 2 and 3 of Part XV of the SFO, or be, directly or indirectly, interested in 5% or more of the nominal value of any class of share capital carrying rights to vote in all circumstances at general meetings of any members of our Group.

INTERESTS OF THE COMPLIANCE ADVISER

As notified by the compliance adviser of the Company, Baron Global Financial Services Limited ("Baron"), as at 30 June 2014, except for the compliance adviser agreement entered into between the Company and Baron dated 23 December 2013, neither Baron or its directors, employees or associates had any interest in relation to the Group.

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

Since the Listing Date and up to 30 June 2014, neither the Company nor its subsidiary have purchased, sold or redeemed any 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 “Code”) contained in Appendix 15 to the GEM Listing Rules from the Listing Date and up to 30 June 2014 except otherwise stated herein.

CHAIRMAN AND CHIEF EXECUTIVE OFFICER

In accordance with the code provision A.2.1 of the Code, the roles of chairman and chief executive officer should be separated 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 Chief Executive Officer, 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 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 from the Listing Date and up to 30 June 2014.

DIRECTORS’ INTERESTS IN CONTRACTS

No Director had a material interest in any contract of significance to the business of the Group to which the Company or its subsidiary was a party during the Interim Period 2014.

USE OF NET PROCEEDS FROM THE PLACING

The net proceeds from the Company’s Placing amounted to approximately HK\$54 million. Such net proceeds are intended to be or have been applied in accordance with the proposed applications as set out in the section headed “Future Plans and Prospects” in the Prospectus.

Up to 30 June 2014, the net proceeds had been applied as follows:

1. Approximately HK\$30 million has been applied for partially repaying a RMB32 million bank loan provided from Agricultural Bank of China.
2. Approximately HK\$2.35 million has been applied for the expanding our product range.
3. Approximately HK\$1.45 million has been applied for strengthening and expanding of our sales network across the PRC.
4. Approximately HK\$0.55 million has been applied for expanding our supplier base for the supply of Residual Wood.
5. Approximately HK\$1.75 million has been applied for enhancing of our product research and development.
6. Approximately HK\$1.1 million has been applied for strengthening our brand recognition.
7. Approximately HK\$5 million has been applied for general working capital purpose.

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 since the Listing Date and up to 30 June 2014.

REVIEW OF CONSOLIDATED FINANCIAL STATEMENTS

The audit committee of the Board of the Company has discussed and reviewed with the management of the Group the consolidated financial statements of the Group for the Interim Period 2014.

INTERIM DIVIDEND

The Board does not recommend the payment of any interim dividend for the Interim Period 2014.

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

Hong Kong, 8 August 2014

As at the date of this report, the executive Directors are Mr. Wong Cheung Lok, Ms. Cheung Ngar Kwan, Ms. Huang Xiuyan and Mr. Liu Jiayong; the non-executive Director is Mr. Ong Chor Wei; and the independent non-executive Directors are Dr. Xu Jianmin, Ms. Qian Xiaoyu and Mr. Wong Hei Chiu.