

FIRST QUARTERLY REPORT 2016



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

CHARACTERISTICS OF THE GROWTH ENTERPRISE MARKET ("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.

Hong Kong Exchanges and Clearing Limited and The Stock Exchange of Hong Kong Limited take no responsibility for the contents of this report, make no representation as to its accuracy or completeness and expressly disclaim any liability whatsoever for any loss howsoever arising from or in reliance upon the whole or any part of the contents of this report.

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

RESULTS

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 2016 together with the comparative unaudited figures of the corresponding period in 2015.

UNAUDITED CONSOLIDATED STATEMENTS OF PROFIT OR LOSS AND OTHER COMPREHENSIVE INCOME

For the three months ended 31 March

	Notes	2016 HK\$'000	2015 HK\$'000
Revenue	2	96,817	84,012
Cost of sales		(71,119)	(61,512)
Gross profit		25,698	22,500
Other income		3,682	3,526
Other gain/(losses)		(121)	–
Selling and distribution expenses		(9,334)	(7,693)
Administration expenses		(9,435)	(6,505)
Other expenses		(32)	(483)
Finance costs	3	(5,632)	(7,319)
Profit before tax		4,826	4,026
Income tax expense	4	(631)	(525)
Profit for the period attributable to owners of the Company	5	4,195	3,501
Other comprehensive income which will not be reclassified subsequently to profit or loss:			
Exchange differences arising on translation to presentation currency		2,207	1,651
Other comprehensive income for the period		2,207	1,651
Total comprehensive income for the period		6,402	5,152
Total comprehensive income attributable to owners of the Company		6,402	5,152
Basic earnings per share, in HK cents	6	0.51	0.49



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 2015	189,015	(16,968)	9,715	13,038	60,017	254,817
Profit for the period	–	–	–	–	3,501	3,501
Other comprehensive income for the period	–	–	–	1,651	–	1,651
Total comprehensive income for the period	–	–	–	1,651	3,501	5,152
Balance at 31 March 2015	189,015	(16,968)	9,715	14,689	63,518	259,969
Balance at 1 January 2016	253,928	(16,968)	13,251	(5,676)	81,136	325,671
Profit for the period	–	–	–	–	4,195	4,195
Other comprehensive income for the period	–	–	–	2,207	–	2,207
Total comprehensive income for the period	–	–	–	2,207	4,195	6,402
Balance at 31 March 2016	253,928	(16,968)	13,251	(3,469)	85,331	332,073

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 2016 have not been audited by the Company's auditors, 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 2015, except for the adoption of the following new and revised Hong Kong Financial Reporting Standards ("**HKFRS**") and Hong Kong Accounting Standards ("**HKAS**").

Amendments to HKFRS 11	Accounting for Acquisitions of Interests in Joint Operations
Amendments to HKAS 1	Disclosure Initiative
Amendments to HKAS 16 and HKAS 38	Clarification of Acceptable Methods of Depreciation and Amortisation
Amendments to HKFRSs	Annual Improvements to HKFRSs 2012-2014 Cycle
Amendments to HKAS 16 and HKAS 41	Agriculture: Bearer Plants
Amendments to HKAS 27	Equity Method in Separate Financial Statements
Amendments to HKFRS 10, HKFRS 12 and HKAS 28	Investment Entities: Applying the Consolidation Exception



2. REVENUE

Revenue represents revenue arising on sales of particleboards as follows:

	For the three months ended	
	31 March 2016 HK\$'000 (Unaudited)	31 March 2015 HK\$'000 (Unaudited)
Sales of particleboards	96,817	84,012

3. FINANCE COSTS

	For the three months ended	
	31 March 2016 HK\$'000 (Unaudited)	31 March 2015 HK\$'000 (Unaudited)
Interest on bank loans	4,819	6,621
Interest on puttable notes and guaranteed bonds	813	698
	5,632	7,319

4. INCOME TAX EXPENSE

	For the three months ended	
	31 March 2016 HK\$'000 (Unaudited)	31 March 2015 HK\$'000 (Unaudited)
Deferred tax:		
Current year charge	631	525
	631	525

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 2016 and 2015 respectively.

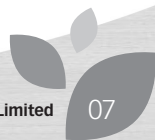
Pursuant to the EIT Law and its implementation regulations, where an enterprise utilises the resources as listed in the Catalogue of Resources for Comprehensive Utilisation Entitling Enterprises to Income Tax Preferences (資源綜合利用企業所得稅優惠目錄) as its major raw materials to make products which are not restricted 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 2016 and 2015 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.



5. PROFIT FOR THE PERIOD

Profit has been arrived at after charging:

	For the three months ended	
	31 March 2016 HK\$'000 (Unaudited)	31 March 2015 HK\$'000 (Unaudited)
Depreciation and amortisation expenses		
Depreciation of property, plant and equipment	6,009	6,639
Amortization of Intangible Asset	138	—
Amortisation of prepaid lease payments	116	125
Total depreciation and amortisation expenses	6,263	6,764
Employee benefits expenses (include Directors' emoluments)		
Salaries and other benefits	3,344	3,145
Contribution to retirement benefit schemes	412	484
Total employee benefit expenses	3,756	3,629
Cost of inventories recognised as an expense	71,119	61,512



6. 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 2016 HK\$'000 (Unaudited)	31 March 2015 HK\$'000 (Unaudited)
Profit for the period attributable to owners of the Company for the purpose of basic earnings per share	4,195	3,501

Number of shares

	For the three months ended	
	31 March 2016 '000	31 March 2015 '000
Weighted average number of ordinary shares for the purpose of basic earnings per share	832,603	711,115



MANAGEMENT DISCUSSIONS AND ANALYSIS

BUSINESS REVIEW

The Group continues to engage in the manufacturing and sales of particleboards in 2016. The products of the Group were well received by the customers and as a result, new customers were acquired and sale were increased. Meanwhile, we are seeking to expand our supplier base for the supply of the residual wood materials which is a key raw material for the Group's production of particleboards. We have noted increase in the unit costs of wood materials purchased over the years. Given the continued expansion of our operations and the planned expansion of our production capacity, it would be in the best interests of the Company to consider upstream acquisitions of forestry rights in order to give us greater assurance on the supply of wood materials and better ability to control the costs of such raw materials.

Since the beginning of 2016, the Group has entered into acquisition agreements with different independent third parties for the purchases of forest rights at different locations within a 500-mile diameter from the Group's production base. These acquisitions are subject to downward adjustment on a dollar for dollar basis, should the market value of those forest rights determined by an independent valuer be less than the initial consideration. For further details, please refer to the announcement of the Company dated 21 May 2016 and the annual results announcement of the Company dated 31 May 2016. The acquisitions are still in progress up to the date of this report.

FINANCIAL REVIEW

Revenue

During the three months ended 31 March 2016, the Group's revenue increased to approximately HK\$96.8 million from approximately HK\$84.0 million for the three months ended 31 March 2015, representing an increase of approximately 15.2%. The increase was mainly due to the increase in sales volume as a result of wider product offerings and increase in number of new customers.

Cost of sales

During the three months ended 31 March 2016, the Group's costs of sales increased to approximately HK\$71.1 million from approximately HK\$61.5 million for the three months ended 31 March 2015, representing an increase of approximately 15.6%. The increase was mainly attributed to increase in the quantity of goods sold.

Gross profit and margin

During the three months ended 31 March 2016, the Group's gross profit increased to approximately HK\$25.7 million from approximately HK\$22.5 million for the three months ended 31 March 2015, representing an increase of approximately 14.2% which in line with increase in revenue and the Group's gross profit margin decreased slightly to approximately 26.5% as compared to that of approximately 26.8% for the three months ended 31 March 2015.

Selling and distribution expenses

During the three months ended 31 March 2016, the Group's distribution expenses increased by 21.3% to approximately HK\$9.3 million as compared to that of approximately HK\$7.7 million for the three months ended 31 March 2015. The increase was mainly attributable to the increase in transportation and other ancillary expenses.

Administration expenses

During the three months ended 31 March 2016, the Group's administrative expenses increased to approximately HK\$9.4 million from approximately HK\$6.5 million for the three months ended 31 March 2015, representing an increase of approximately 45.0%. The increase was mainly attributed to increase in ancillary expenses to promote sales.

Finance costs

During the three months ended 31 March 2016, the Group's finance costs decreased to approximately HK\$5.6 million from approximately HK\$7.3 million for the three months ended 31 March 2015, representing a decrease of approximately 23.0%. The decrease was mainly attributed to lower amount of outstanding bank loans and the decrease in interest rate for PRC loans as a result of a lower value of RMB against HKD as of 31 March 2016 as compared to that as at 31 March 2015.

Profit attributable to owners of the Company

During the three months ended 31 March 2016, the Group's profit attributable to owners of the Company increased to approximately HK\$4.2 million from approximately HK\$3.5 million for the three months ended 31 March 2015, representing an increase of approximately 19.8%. The increase was mainly attributable to the decrease in finance cost and increase in sales.

Total comprehensive income attributable to owners of the Company

During the three months ended 31 March 2016, the Group's total comprehensive income attributable to owners of the Company increased to approximately HK\$6.4 million from approximately HK\$5.2 million for the three months ended 31 March 2015, representing an increase of approximately 24.3%. The increase was mainly attributable to the increase in profit attributable to owners of the Company and the income from exchange difference arising from translation of RMB to HKD during the three months ended 31 March 2016.

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

For the three months ended 31 March 2016, neither the Company nor any of its subsidiaries has purchased, sold or redeemed any securities of the Company.



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

On 10 December 2015, the Company issued 15% coupon guaranteed bonds of HK\$17,000,000 due on 9 December 2016 which bear an effective interest rate of 18% per annum and are secured by personal guarantee executed by Mr. Wong Cheung Lok, an executive Director and controlling shareholder of the Company. Save for the following circumstances, the Company shall not redeem any of the bonds prior to the maturity date: 1) upon the occurrence of an event of default, and if so required by holder or holders of not less than 75% of the outstanding principal amount of the bonds in writing; 2) upon Mr. Wong Cheung Lok ceasing to be beneficially interested in less than 30% of the shareholding interest in the Company; or 3) the Company issues any equity after the date of the instrument.

Please refer to the announcement of the Company dated 10 December 2015 for more details.

DIRECTORS' INTERESTS IN COMPETING BUSINESSES

As disclosed in note 37 to the consolidated financial statements in the 2015 annual report of the Company, the Group acquired forest rights in relation to forests with an aggregate size of approximately 17,454 mu located at Renhua County, Guangdong Province and Sanming City, Fujian Province, PRC from independent third parties in January and May 2016, respectively, in order to broaden its suppliers base for raw materials. As at the date of this report, Mr. Wong Kin Ching, the son of Mr. Wong Cheung Lok and Ms. Cheung Ngar Kwan, through companies wholly owned by him is interested in forestry plantation business, including forestry planting and development with respect to an aggregate of approximately 41,147 mu forest lands located at Renhua County, Guangdong Province, PRC. On 12 January 2016, the Company as purchaser entered into a sale and purchase agreement ("Sale and Purchase Agreement") with Mr. Wong Kin Ching as vendor in relation to the sale and purchase of, among other things, the entire issued share capital in Gifted Multitude Limited through which Mr. Wong Kin Ching holds such interests. The transaction contemplated under the Sale and Purchase Agreement was not yet completed as at the date of this report. Details of the Sale and Purchase Agreement are set out in the announcement of the Company dated 12 January 2016.

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 2016, 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 Cheung Lok ⁽²⁾	Beneficial owner	430,000,000 (L)	51.65%
Ms. Cheung Ngar Kwan ("Mrs. Wong") ⁽³⁾	Interest of spouse	430,000,000 (L)	51.65%

Notes:

- (1) The letter "L" denotes the person's long positions in the Shares.
- (2) The 400,000,000 Shares, out of the 430,000,000 Shares beneficially owned by Mr. Wong Cheung Lok, were charged by Mr. Wong Cheung Lok to U Credit (HK) Limited on 6 July 2015. According to the disclosure of interest form filed by China Strategic Holdings Limited and U Credit (HK) Limited on 8 July 2015, U Credit (HK) Limited was indirectly wholly-owned by China Strategic Holdings Limited.
- (3) Mrs. Wong is the spouse of Mr. Wong Cheung Lok. Under the SFO, Mrs. Wong is deemed to be interested in those shares in which Mr. Wong Cheung Lok is interested.



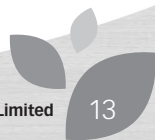
SUBSTANTIAL SHAREHOLDERS' AND OTHER PERSONS' INTERESTS AND/OR SHORT POSITIONS IN THE SHARES AND UNDERLYING SHARES

Save as disclosed below, so far as the Directors are aware, as at 31 March 2016, 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 Hong Kong 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:

Name	Capacity/ Nature of interest	Aggregate number of Shares or underlying Shares (Note 1)	Approximate percentage of interest in our Company
Mr. Wong Kin Ching ⁽²⁾	Beneficial owner	348,837,209	41.90%
China Strategic Holdings Limited ⁽³⁾	Person having a security interest in shares	400,000,000 (L)	48.04%

Notes:

- (1) The letter "L" denotes the person's long positions in the Shares.
- (2) As announced by the Company on 12 January 2016, the Company as purchaser entered into an acquisition agreement with Mr. Wong Kin Ching, the son of Mr. Wong Cheung Lok and Mrs. Wong, as vendor in relation to the sale and acquisition of the entire issued share capital in Gifted Multitude Limited and shareholder's loan for a consideration of HK\$150 million. The consideration is to be satisfied by the issue and allotment of 348,837,209 new Shares by the Company to Mr. Wong Kin Ching at the issue price of HK\$0.43 each upon completion. The transaction contemplated under the acquisition agreement was not yet completed as at the date of this report.
- (3) China Strategic Holdings Limited and U Credit (HK) Limited, a company indirectly wholly-owned by China Strategic Holdings Limited, became interested in 400,000,000 Shares of the Company, representing approximately 48.04% of the issued share capital of the Company, in the capacity of "person having a security interest in shares" on 6 July 2015.



INTERESTS OF THE COMPLIANCE ADVISER

As notified by the compliance adviser of the Company, VBG Capital Limited (“**VBG**”), as at 31 March 2016, except for the compliance adviser agreement entered into between the Company and VBG dated 23 December 2013, neither VBG or its directors, employees or close associates had any interest in relation to the Group.

CHANGE OF AUDITORS

Deloitte has resigned as an auditor of the Group with effect from 18 March 2016. Messrs. Graham H.Y. Chan & Co has been appointed as the auditor of the Group with effect from 22 March 2016 to fill the vacancy following the resignation of Deloitte, and to hold office until the conclusion of the next annual general meeting of the Company. Details of the change of auditors were set out in the announcement of the Company dated 22 March 2016.

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 2016.

QUARTERLY DIVIDEND

The Board does not recommend the payment of any dividend for the three months ended 31 March 2016 (2015: Nil).

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

Hong Kong, 31 May 2016

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; the non-executive Directors are Mr. Ong Chor Wei and Mr. Lai Ming Wai; and the independent non-executive Directors are Dr. Xu Jianmin, Ms. Qian Xiaoyu and Mr. Wong Hei Chiu.

