



HONG WEI (ASIA) HOLDINGS COMPANY LIMITED

鴻偉(亞洲)控股有限公司

(Incorporated in Hong Kong with limited liability)

Stock code : 8191



Interim Report 2016

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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 4, 17/F, Winning Centre
29 Tai Yau Street, San Po King
Kowloon, Hong Kong

Head office in Hong Kong

Unit 4, 17/F, Winning Centre
29 Tai Yau Street, San Po King
Kowloon, 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

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 Directors

Mr. Ong Chor Wei
Mr. Lai Ming Wai

Independent non-executive Directors

Dr. Xu Jianmin
Ms. Qian Xiaoyu
Dr. Chow Ho Wan, Owen

Compliance officer

Ms. Huang Xiuyan

Audit committee

Dr. Chow Ho Wan, Owen (*chairman*)
Dr. Xu Jianmin
Ms. Qian Xiaoyu

Remuneration committee

Dr. Xu Jianmin (*chairman*)
Mr. Wong Cheung Lok
Dr. Chow Ho Wan, Owen

Nomination committee

Mr. Wong Cheung Lok (*chairman*)
Dr. Xu Jianmin
Dr. Chow Ho Wan, Owen

Company secretary

Ms. Leung Wai Ling Wylie, HKICPA

Compliance adviser

VBG Capital 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

Graham H.Y. Chan & Co.
Certified Public Accountants (Practising)

Legal advisers to the Company

as to Hong Kong law:
Reed Smith Richards Butler

GEM stock code

8191

FINANCIAL HIGHLIGHTS

For the six months ended 30 June 2016, operating results of the Group were as follows:

- Revenue for the six months ended 30 June 2016 amounted to approximately HK\$206.9 million, representing an increase of 10.6% from approximately HK\$187.1 million recorded in the same period in 2015.
- Gross Profit for the six months ended 30 June 2016 amounted to approximately HK\$53.3 million, representing an increase of 13.0% from approximately HK\$47.2 million recorded in the same period in 2015.
- Profit attributable to owners of the Company for the six months ended 30 June 2016 kept at same level of approximately HK\$18.3 million comparing to the same period in 2015.
- The Board does not recommend the payment of an interim dividend for the six months period ended 30 June 2016 (2015: 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 2016 ("2016 Interim Period") together with the comparative figures of the corresponding period as appropriate.

CONDENSED CONSOLIDATED STATEMENT OF PROFIT OR LOSS AND OTHER COMPREHENSIVE INCOME

	Notes	Three months ended 30 June		Six months ended 30 June	
		2016 HK\$'000 (Unaudited)	2015 HK\$'000 (Unaudited)	2016 HK\$'000 (Unaudited)	2015 HK\$'000 (Unaudited)
Revenue	4	110,099	103,044	206,916	187,056
Cost of sales		(82,487)	(78,378)	(153,606)	(139,890)
Gross profit		27,612	24,666	53,310	47,166
Other income		5,752	12,304	9,434	15,830
Other gains/(losses)		13	–	(108)	–
Net gain arising on initial recognition of the Group's biological assets at fair value less costs to sell		2,131	–	2,131	–
Selling and distribution expenses		(7,674)	(7,740)	(17,008)	(15,433)
Administration expenses		(7,200)	(6,399)	(16,635)	(12,904)
Other expenses		(324)	354	(356)	(129)
Finance costs	6	(6,309)	(7,821)	(11,941)	(15,140)
Profit before tax		14,001	15,364	18,827	19,390
Income tax credit/(expense)	7	98	(556)	(533)	(1,081)
Profit for the period attributable to owners of the Company	8	14,099	14,808	18,294	18,309
Other comprehensive loss which will not be reclassified subsequently to profit or loss: Exchange differences arising on translation to presentation currency		(10,398)	(7,218)	(8,191)	(5,567)
Other comprehensive loss for the period		(10,398)	(7,218)	(8,191)	(5,567)
Total comprehensive income for the period		3,701	7,590	10,103	12,742
Total comprehensive income attributable to owners of the Company		3,701	7,590	10,103	12,742
Basic and diluted earnings per share, in HK cents	9	1.69	1.98	2.20	2.51

CONDENSED CONSOLIDATED STATEMENT OF FINANCIAL POSITION

	Notes	30 June 2016 HK\$'000 (Unaudited)	31 December 2015 HK\$'000 (Audited)
NON-CURRENT ASSETS			
Property, plant and equipment		349,222	353,334
Biological assets	10	24,337	–
Prepayments for acquisition of property, plant and equipment		2,883	11,218
Prepayments for acquisition of forest rights	12	67,277	–
Prepaid lease payments	11	26,390	20,403
Intangible assets		9,209	9,825
Deferred tax assets		2,476	2,526
		481,794	397,306
CURRENT ASSETS			
Inventories	13	106,486	47,819
Trade and bills receivables	14	67,339	77,577
Deposits, prepayments and other receivables	12	78,576	184,374
Bank balances and cash		19,294	68,442
Pledged deposits		12,859	15,524
		284,554	393,736
CURRENT LIABILITIES			
Trade payables	15	41,624	45,950
Other payables and accruals		40,911	49,746
Bank borrowings, due within one year	16	205,696	191,919
Deferred income		2,629	1,857
Puttable notes and guaranteed bonds		23,845	39,635
		314,705	329,107
NET CURRENT (LIABILITIES)/ASSETS		(30,151)	64,629
TOTAL ASSETS LESS CURRENT LIABILITIES		451,643	461,935
NON-CURRENT LIABILITIES			
Deferred tax liabilities		1,099	585
Bank borrowings, due after one year	16	84,821	113,548
Deferred income		29,949	22,131
		115,869	136,264
NET ASSETS		335,774	325,671
CAPITAL AND RESERVES			
Share capital	17	253,928	253,928
Reserves		81,846	71,743
EQUITY ATTRIBUTABLE TO OWNERS OF THE COMPANY AND TOTAL EQUITY		335,774	325,671

CONDENSED CONSOLIDATED STATEMENT OF CHANGES IN EQUITY

For the six months ended 30 June 2016

	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 2016 (audited)	253,928	(16,968)	13,251	(5,676)	81,136	325,671
Profit for the period	–	–	–	–	18,294	18,294
Other comprehensive loss for the period:						
Exchange differences arising on translation to presentation currency	–	–	–	(8,191)	–	(8,191)
Total comprehensive (loss)/income for the period	–	–	–	(8,191)	18,294	10,103
Balance at 30 June 2016 (unaudited)	253,928	(16,968)	13,251	(13,867)	99,430	335,774
Balance at 1 January 2015 (audited)	189,015	(16,968)	9,715	13,038	60,017	254,817
Profit for the period	–	–	–	–	18,309	18,309
Other comprehensive loss for the period:						
Exchange differences arising on translation to presentation currency	–	–	–	(5,567)	–	(5,567)
Total comprehensive (loss)/income for the period	–	–	–	(5,567)	18,309	12,742
Issue of new shares	64,972	–	–	–	–	64,972
Balance at 30 June 2015 (unaudited)	253,987	(16,968)	9,715	7,471	78,326	332,531

CONDENSED CONSOLIDATED STATEMENT OF CASH FLOWS

For the six months ended 30 June 2016

	Six months ended 30 June	
	2016 HK\$'000 (Unaudited)	2015 HK\$'000 (Unaudited)
Net cash generated from/(used in) operating activities	82,243	(38,724)
Net cash used in investing activities	(91,436)	(14,569)
Net cash (used in)/generated from financing activities	(36,818)	52,685
Net decrease in cash and cash equivalents	(46,011)	(608)
Cash and cash equivalents at the beginning of the period	68,442	8,531
Effect of foreign exchange rate changes	(3,137)	(2,094)
Cash and cash equivalents at the end of the period, represented by bank balances and cash	19,294	5,829

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

1. CORPORATE INFORMATION

Hong Wei (Asia) Holdings Company Limited (the “Company”) was incorporated with limited liability in Hong Kong on 28 May 2012. Its ultimate controlling party and chairman of the Company is Mr. Wong Cheung Lok (“Mr. Wong”), who owned 51.65% direct interest of the Company as at 30 June 2016. The address of the Company’s registered office and its principal place of business is Unit 4, 17/F, Winning Centre, 29 Tai Yau Street, San Po Kong, Kowloon, Hong Kong.

The principal activity of the Company is investment holding. Its principal subsidiary, Hongwei Wooden Products (Renhua) Company Limited (“Hongwei Renhua”), established in the PRC is principally engaged in manufacturing and selling of particle boards.

2. BASIS OF PREPARATION

These unaudited interim condensed consolidated financial statements, which comprises the condensed consolidated statement of financial position as at 30 June 2016, and the related condensed consolidated statements of profit or loss and other comprehensive income, condensed consolidated statement of changes in equity and condensed consolidated statements of cash flows for the six months period then ended, and explanatory information, have been prepared in accordance with Hong Kong Accounting Standard (“HKAS”) 34 “Interim Financial Reporting” issued by the Hong Kong Institute of Certified Public Accountants (the “HKICPA”) and the applicable disclosure provisions of the Rules Governing the Listing of Securities on the Growth Enterprise Market of the Stock Exchange of Hong Kong Limited (the “GEM Listing Rules”).

These unaudited interim condensed consolidated financial statements do not include all the information and disclosures required in annual financial statements, and should be read in conjunction with the Group’s annual report for the year ended 31 December 2015.

These unaudited interim condensed consolidated financial statements have been prepared in accordance with the same accounting policies adopted in the Group’s annual report for the year ended 31 December 2015 except for the changes in accounting policies and adoption of new accounting policy arising from acquisition of several forests rights, details of which are set out in note 3 below.

The preparation of an interim financial report in conformity with HKAS 34 requires management to make judgement on estimates and assumptions that affect the application of accounting policies and the reported amounts of assets and liabilities and income and expenses. Actual results may differ from these estimates.

The financial statements relating to the financial year ended 31 December 2015 that are included in these condensed consolidated interim financial statements as comparative information does not constitute the Company’s statutory annual consolidated financial statements for that financial year but is derived from those financial statements. Further information relating to these statutory financial statements required to be disclosed in accordance with section 436 of the Companies Ordinance is as follows:

The Company has delivered the financial statements for the year ended 31 December 2015 to the Registrar of the Companies as required by section 662(3) of, and Part 3 of Schedule 6 to, the Companies Ordinance. The Company’s auditor has reported on those financial statements. The auditor’s report was unqualified; did not include a reference to any matters to which the auditor drew attention by way of emphasis without qualifying its report; and did not contain a statement under sections 406(2), 407(2) or (3) of the Companies Ordinance.

3. SIGNIFICANT ACCOUNTING POLICIES, JUDGEMENTS AND ESTIMATES

(a) Application of new and revised Hong Kong Financial Reporting Standards ("HKFRSs")

The HKICPA has issued a number of new and revised Hong Kong Financial Reporting Standards ("HKFRSs"), which are generally effective for accounting periods beginning on or after 1 January 2016. The Group has adopted the following new standard and amendments for the first time for the current period's interim financial statements.

Amendments to HKFRS 10, HKFRS 12 and HKAS 28	Investment Entities: Applying the Consolidation Exception
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 Method of Depreciation and Amortisation
Amendments to HKAS 16 and HKAS 41	Agriculture: Bearer Plants
Amendments to HKAS 27	Equity Method in Separate Financial Statements
Amendments to HKFRSs	Annual Improvements to 2012-2014 Cycle
HKFRS 14	Regulatory Deferral Accounts

The application of the above new standard and amendments do not have any material impact on the Group's financial statements for the current and prior periods.

The Group has not applied the following new standards and amendments, that have been issued but are not yet effective, in these unaudited interim condensed consolidated financial statements.

Amendments to HKAS 7	Statement of Cash Flows ²
Amendments to HKAS 12	Income Taxes ²
Amendments to HKFRS 10 and HKAS 28	Sale or Contribution of Assets between an Investor and its Associate or Joint Venture ⁴
HKFRS 9	Financial Instrument ¹
HKFRS 15	Revenue from Contracts with Customers ¹
HKFRS 16	Leases ³

¹ Effective for annual periods beginning on or after 1 January 2018, with earlier application permitted.

² Effective from 1 January 2017, with earlier application permitted.

³ Effective for annual periods beginning on or after 1 January 2019, with limited exceptions. Earlier application is permitted provided HKFRS 15 Revenue from Contracts with Customers is also applied.

⁴ No mandatory effective date yet determined but is available for adoption.

Amendments to HKAS 7 "Statement of Cash Flows"

Amendments to HKAS 7 requires entities to provide disclosures that enable users of financial statements to evaluate changes in liabilities arising from financing activities, including both changes arising from cash flows and non-cash changes. The directors of the Company anticipate that the adoption of amendments to HKAS 7 in the future may only extend the disclosures in the Group's annual consolidated financial statements.

HKFRS 9 “Financial Instruments”

HKFRS 9 issued in 2009 introduced new requirements for the classification and measurement of financial assets. HKFRS 9 was subsequently amended in 2010 to include requirements for the classification and measurement of financial liabilities and for derecognition, and further amended in 2013 to include the new requirements for general hedge accounting. Another revised version of HKFRS 9 was issued in 2014 mainly to include a) impairment requirements for financial assets and b) limited amendments to the classification and measurement requirements by introducing a ‘fair value through other comprehensive income’ (FVTOCI) measurement category for certain simple debt instruments.

Key requirement of HKFRS 9 in relation to the impairment of financial assets is:

- HKFRS 9 requires an expected credits loss model, as opposed to an incurred credit loss model under HKAS 39. The expected credit loss model requires an entity to account for expected credit losses and changes in those expected credit losses at each reporting date to reflect changes in credit risk since initial recognition. In other words, it is no longer necessary for a credit event to have occurred before credit losses are recognized.

Except for the potential early recognition of credit losses based on the expected loss model in relation to the Group’s financial assets measured at amortised costs, the directors of the Company anticipate that the adoption of HKFRS 9 in the future may not have other significant impact on amounts reported in respect of the Group’s financial assets and financial liabilities based on an analysis of the Group’s financial instruments as at 30 June 2016.

HKFRS 15 “Revenue from Contracts with Customers”

HKFRS 15 was issued which establishes a single comprehensive model for entities to use in accounting for revenue arising from contracts with customers; HKFRS 15 will supersede the current revenue recognition guidance including HKAS 18 Revenue, HKAS 11 Construction Contracts and the related Interpretations when it becomes effective.

The core principle of HKFRS 15 is that an entity should recognise revenue to depict the transfer of promised goods or services to customers in an amount that reflects the consideration to which the entity expects to be entitled in exchange for those goods or services. Specially, the Standard introduces a 5-step approach to revenue recognition.

- Step 1: Identify the contract(s) with a customer
- Step 2: Identify the performance obligations in the contract
- Step 3: Determine the transaction price
- Step 4: Allocate the transaction price to the performance obligations in the contract
- Step 5: Recognise revenue when (or as) the entity satisfies a performance obligation

Under HKFRS 15, an entity recognises revenue when (or as) a performance obligation is satisfied, i.e., when ‘control’ of the goods or services underlying the particular performance obligation is transferred to the customer. Far more prescriptive guidance has been added in HKFRS 15 to deal with specific scenarios. Furthermore, extensive disclosures are required by HKFRS 15.

The directors of the Company anticipate that the application of HKFRS 15 in the future may have an impact on the amounts reported and disclosures made in the Group's consolidated financial statements. However, it is not practicable to provide a reasonable estimate of the effect of HKFRS 15 until the Group performs a detailed review.

HKFRS 16 "Leases"

HKFRS 16, which upon the effective date will supersede HKAS "17 Leases", introduces a single lessee accounting model and requires a lessee to recognise assets and liabilities for all leases with a term of more than 12 months, unless the underlying asset is of low value. Specifically, under HKFRS 16, a lessee is required to recognise a right-of-use asset representing its right to use the underlying leased asset and a lease liability representing its obligation to make lease payments. Accordingly, a lessee should recognize depreciation of the right-of-use asset and interest on the lease liability, and also classifies cash repayments of the lease liability into a principal portion and an interest portion and presents them in the statement of cash flows. Also, the right-of-use asset and the lease liability are initially measured on a present value basis. The measurement includes non-cancellable lease payments and also includes payments to be made in optional periods if the lessee is reasonably certain to exercise an option to extend the lease, or not to exercise an option to terminate the lease. This accounting treatment is significantly different from the lessee accounting for leases that are classified as operating leases under HKAS 17, in terms of which no right-of-use asset or lease liability is required to be recognised for operating leases by the lessee but for which the details of lease commitments are disclosed.

In respect of the lessor accounting, HKFRS 16 substantially carries forward the lessor accounting requirements in HKAS 17. Accordingly, a lessor continues to classify its leases as operating leases or finance leases, and to account for those two types of leases differently.

The directors of the Company anticipate that the application of HKFRS 16 in the future may have an impact on the amounts reported and disclosures made in the Group's consolidated financial statements. However, it is not practicable to provide a reasonable estimate of the effect of HKFRS 16 until the Group performs a detailed review.

(b) Adoption of new accounting policy arising from acquisition of forests rights

After the completion of acquisition of forests rights during the current interim period, the Group has adopted additional accounting policy for biological assets as described below:

Biological assets

Biological assets predominately consist of various standing trees in natural and plantation forests. Forest establishment and maintenance expenses are charged to profit or loss in the period in which they are incurred.

Biological assets are measured at fair value less costs to sell at the date of initial recognition and at the end of each reporting period and the gain or loss arising from changes in fair value less costs to sell of biological assets is recognised in profit or loss in which it arises.

Agricultural produce represents logged timbers and residual woods. The agricultural produce is recognised at the point of harvest at its fair value less costs to sell. A gain or loss arising from agricultural produce at the point of harvest measuring at its fair value less costs to sell is included in profit or loss for the period in which it arises.

(c) Significant judgements and estimates

Following the acquisition of forests rights during the period, in addition to the significant judgements and estimates as detailed in the annual financial statements for the year ended 31 December 2015, the directors of the Company have made the following additional key assumptions and key sources of estimate uncertainty at the end of the current interim period that have significant risk of causing a material adjustment to the carrying amount of the Group's biological assets and prepaid lease payments within the current and the next financial years. Details are as follows:

Valuation of biological assets

The Group's biological assets are stated at fair value less costs to sell at initial recognition and at the end of each reporting period. The determination of the fair value involves the use of assumptions and estimates. Any changes in the estimates may affect the fair value of the Group's biological assets significantly. The Group has appointed LCH (Asia - Pacific) Surveyors Limited ("LCH") as an independent qualified professional valuer to estimate the fair value less costs to sell of the Group's biological assets and the management of the Group reviews the assumptions and estimates to identify any significant change in carrying amounts of the Group's biological assets. The carrying amounts of the Group's biological assets as at 30 June 2016 are approximately HK\$24,337,000 (31 December 2015: nil). Details are set out in note 10 below.

Amortisation of prepaid lease payments of land portion of the forests rights

Prepaid lease payments of land portion of the forests rights are amortised on a straight-line basis over the estimated remaining lease periods of the Forest Right Certificates issued by the relevant Forest Bureau in the PRC. Management of the Group reviews the estimated useful lives of the assets regularly in order to determine the amount of amortisation expenses to be recorded during the period. The amortisation expenses for future periods would be adjusted if there are significant changes from previous estimates. The carrying amounts of prepaid lease payments as at 30 June 2016 are approximately HK\$27,202,000 (31 December 2015: HK\$20,851,000). Further details are set out in note 11 below.

4. REVENUE

Revenue represents revenue arising on sales of particleboards as follows:

	Six months ended 30 June	
	2016 HK\$'000 (Unaudited)	2015 HK\$'000 (Unaudited)
Sales of particleboards	206,916	187,056

5. SEGMENT INFORMATION

The Group determines its operating segments based on the reports that are used to make strategic decisions reviewed by the executive directors, being the chief operating decision makers ("CODM"). The Group had only one reportable segment, being manufacture and sales of particleboards. Accordingly, no segment information was presented for the six months period ended 30 June 2016 and 2015.

Geographical information

The Group's operation is located in the PRC and most of the revenue is generated from the PRC and other Asian countries as follows:

	2016 HK\$'000 (Unaudited)	2015 HK\$'000 (Unaudited)
Revenue from PRC	204,892	179,916
Revenue from other Asian countries	2,024	7,140
	206,916	187,056

The Group's non-current assets other than deferred tax assets are located in the PRC by location of assets in case of property, plant and equipment, biological assets and prepaid lease payments or by location of operation to which they are allocated, in case of prepayments for acquisition of forest rights and property, plant and equipment, and intangible assets.

Revenue from a customer arising from sales of particle board for the period individually contributing over 10% of the total sales of the Group is as follows:

	2016 HK\$'000 (Unaudited)	2015 HK\$'000 (Unaudited)
Customer A	71,369	27,472
Customer B	N/A*	18,152

* The corresponding revenue did not contribute over 10% of the total revenue of the Group for that period.

6. FINANCE COSTS

	Six months ended 30 June	
	2016 HK\$'000 (Unaudited)	2015 HK\$'000 (Unaudited)
Interest on bank loans	9,549	13,732
Interests on puttable notes and guaranteed bonds	2,392	1,408
	11,941	15,140

7. INCOME TAX CREDIT/(EXPENSE)

	Six months ended 30 June	
	2016 HK\$'000 (Unaudited)	2015 HK\$'000 (Unaudited)
Current tax:		
PRC Enterprise Income Tax	–	1,081
Deferred tax:		
Current year charge	533	–
	533	1,081

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

Under the Law of the People's Republic of China on Enterprise Income Tax (the "EIT Law") and Implementation Regulation of the EIT Law, the tax rate of Hongwei (Renhua) is 25% during the six months ended 30 June 2016 and 2015.

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 2016 and 2015, 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 unaudited condensed consolidated statement of profit or loss and other comprehensive income as follows:

	Six months ended 30 June	
	2016 HK\$'000 (Unaudited)	2015 HK\$'000 (Unaudited)
Profit before tax	18,827	19,390
Tax at the statutory tax rate of 25%	4,707	4,848
Effect of different tax rates	731	336
Tax effect of expenses not deductible for tax purpose	1,419	573
Utilization of tax losses previously not recognized	(1,151)	–
Tax effect of additional deduction based on 10% of revenue	(5,173)	(4,676)
Income tax expense recognised in profit or loss	533	1,081

8. PROFIT FOR THE PERIOD

Profit for the period has been arrived at after charging:

	Six months ended 30 June	
	2016 HK\$'000 (Unaudited)	2015 HK\$'000 (Unaudited)
Depreciation and amortisation expenses		
Depreciation of property, plant and machinery	12,138	13,077
Amortisation of intangible assets	513	–
Amortisation of prepaid lease payments	254	240
Total depreciation and amortisation expenses	12,905	13,317
Employee benefits expenses (included directors' emoluments)		
Salaries and other benefit	6,726	5,843
Contribution to retirement benefit schemes	922	757
Total employee benefit expenses	7,648	6,600
Cost of inventories recognised as an expense	153,606	139,890
Auditor's remuneration:		
Provision in respect of current year	900	650
Underprovision in respect of prior year	300	–
Non-audit services	308	–
	1,508	650

9. 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	
	2016 HK\$'000 (Unaudited)	2015 HK\$'000 (Unaudited)
Profit for the period attributable to owners of the Company for the purpose of basic earnings per share	18,294	18,309

Number of shares

	Six months ended 30 June	
	2016 '000 (Unaudited)	2015 '000 (Unaudited)
Weighted average number of ordinary shares for the purpose of basic earnings per share	832,603	729,909

Notes: There was no diluted earnings per share for both periods as there has been no potential ordinary shares outstanding during the periods presented.

10. BIOLOGICAL ASSETS

	HK\$'000 (Unaudited)
Carrying amount at 1 January 2016 (audited)	–
Additions for the period arising from acquisition of forest rights	22,602
Net gain arising on initial recognition of the Group's biological assets at fair value less costs to sell	2,131
Effect of foreign currency exchange differences	(396)
Carrying amount at 30 June 2016 (unaudited)	<u>24,337</u>

During the period, the Group acquired forest rights in relation to forests with aggregate sizes of approximately 7,390 mu.

The Group's biological assets predominately consist of various standing trees in the natural and plantation forests and are measured at fair value less cost to sell at the date of initial recognition and at the end of the reporting period in accordance with HKAS 41 "Agriculture". The fair value less costs to sell of the Group's biological assets are determined with reference to the work performed by LCH. LCH adopts market approach to value the fair value less costs to sell of the Group's biological assets with reference to average prices per square meter of forest land area or average mill gate round log prices, as appropriate, taking into consideration tree species, age, average number of trees planted per square meter of forest land area and location.

The Group has only recognised net gain arising on initial recognition of the Group's biological assets at fair value less costs to sell in the condensed consolidated statement of profit or loss and other comprehensive income for the six months period ended 30 June 2016. No change in fair value less costs to sell of the Group's biological assets between the date of completion of acquisition of forest rights and 30 June 2016 was recognised as the Group's biological assets have no significant physical change.

11. PREPAID LEASE PAYMENTS

	HK\$'000 (Unaudited)
Carrying amount at 1 January 2016 (audited)	20,851
Additions for the period	7,128
Released during the period	(254)
Effect of foreign currency exchange differences	(523)
	<hr/>
Carrying amount at 30 June 2016 (unaudited)	27,202
	<hr/>
Analysed for reporting purpose as:	
Current asset (included in prepayments and other receivables in note 12)	812
Non-current assets	26,390
	<hr/>
	27,202
	<hr/>

As at 30 June 2016, the Group's prepaid lease payments regarding the land lease of factory building of approximately HK\$20,220,000 (31 December 2015: HK\$20,851,000) are amortised on a straight-line basis over the remaining terms of the land lease.

At 30 June 2016, the Group's prepaid lease payments of approximately HK\$6,982,000 (31 December 2015: nil) represents amounts allocated to land lease portions of the forest rights obtained by the Group during the current period and are located in Renhua County of Guangdong Province and Qingliu County of Fujian Province. The forest rights will expire in the years 2029 to 2050. Usage of the forest is regulated by the implementation regulations of the PRC Forest Law promulgated by the State of Council of the PRC. Such prepaid lease payments are amortised on a straight-line basis over the remaining terms of the forest rights.

12. DEPOSITS, PREPAYMENTS AND OTHER RECEIVABLES

	As at 30 June 2016 HK\$'000 (Unaudited)	As at 31 December 2015 HK\$'000 (Audited)
VAT recoverable	17,394	7,024
VAT refund	7,809	8,834
Prepayment for acquisition of forest rights (note (i))	67,277	–
Payments in advance to suppliers (note (ii))	49,908	43,343
Deposits paid for securing a sourcing agreement	–	23,000
Prepayments to counterparties in bid of raw materials (note (iii))	–	92,370
Receivable from disposal of property, plant and equipment	–	7,290
Prepaid lease payments	812	448
Others	2,653	2,065
	145,853	184,374
Analysed for reporting purpose as:		
Current Assets	78,576	184,374
Non-current assets	67,277	–
	145,853	184,374

Notes:

- (i) Prepayments for acquisition of forest rights represent the initial considerations paid for the following acquisitions which were not yet completed at 30 June 2016:

- In May 2016, the Group entered into several acquisition agreements with independent third parties for acquisition of forest rights in relation to forests with aggregate size of 10,063.5 mu for aggregate initial considerations of RMB35,000,000 (or equivalent to approximately HK\$40,951,000 at 30 June 2016) ("May Acquisitions"), of which the details of acquisition of forest rights in relation to forests with aggregate sizes of 2,619.5 mu for an initial consideration of RMB9,000,000 (or equivalent to approximately HK\$10,530,000 at 30 June 2016) are set out in the Company's announcement dated 21 May 2016. Up to the date of this report, acquisition of forest rights in connection with May Acquisitions have been completed. Details are set out in note 19 below; and
- In June 2016, the Group entered into several acquisition agreements with independent third parties for acquisition of forest rights in relation to forests with aggregate size of 6,459 mu for aggregate initial considerations of RMB22,500,000 (or equivalent to approximately HK\$26,326,000 at 30 June 2016) ("June Acquisitions"). Up to the date of this report, acquisition of forest rights in connection with June Acquisitions is still in progress.

In July 2016, the Group has entered into several acquisition agreements with independent third parties for the acquisition of forest rights in relation to forests with aggregate size of 5,838 mu for an aggregate initial consideration of RMB22,300,000 (or equivalent to approximately HK\$26,006,000) ("July Acquisitions"). Up to the date of this report, acquisition of forest rights in connection with July Acquisitions are still in progress. Details are set out in note 19 below.

The initial consideration for May Acquisitions, June Acquisitions and July 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 to be appointed by the Group be less than the initial consideration.

- (ii) As at 30 June 2016, included in payments in advance to suppliers are prepayments of approximately HK\$44,052,000 (31 December 2015: HK\$38,040,000) made to suppliers for securing wood suppliers.
- (iii) As at 31 December 2015, included in prepayments to counterparties in bid of raw materials amounting to approximately HK\$87,827,000 were due from two suppliers who offered wood harvest through bidding/auction. Pursuant to bidding/auction agreements, the suppliers should refund in full without interest to the Group should there be no successful bidding/auction. The Group did not hold any collateral over these balances. The amounts have been refunded in full during the current period.

In January 2016, the Group further placed RMB50,000,000 to these suppliers. The entire balances have been refunded in full during the current period.

13. INVENTORIES

	As at 30 June 2016 HK\$'000 (Unaudited)	As at 31 December 2015 HK\$'000 (Audited)
Raw materials	90,527	26,697
Work in progress	1,633	2,885
Finished goods	14,326	18,237
Total	106,486	47,819

14. TRADE AND BILLS RECEIVABLES

	As at 30 June 2016 HK\$'000 (Unaudited)	As at 31 December 2015 HK\$'000 (Audited)
Trade receivables	37,814	41,895
Allowance for doubtful debts	(340)	(347)
	37,474	41,548
Bills receivables	29,865	36,029
	67,339	77,577

The Group's trading terms with its customers are mainly on open account terms, except for new customers, where payment in advance is normally required. The credit period is generally for a period up to 90 days (31 December 2015: 90 days). The Group seeks to maintain strict control over its outstanding receivables to minimise its credit risk. Overdue balances are regularly reviewed by senior management.

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

	As at 30 June 2016 HK\$'000 (Unaudited)	As at 31 December 2015 HK\$'000 (Audited)
Within 3 months	28,716	30,603
Over 3 months but within six months	8,688	8,124
Over six months	410	3,168
Total	37,814	41,895

The maturity period of bills receivable are within 6 months for the date the Group received the notes as an extended period to the original credit term. The following is an aged analysis of bills receivables presented based on maturity date.

	As at 30 June 2016 HK\$'000 (Unaudited)	As at 31 December 2015 HK\$'000 (Audited)
Within 3 months	15,969	12,931
Over 3 months but within six months	13,896	23,098
	29,865	36,029

15. TRADE PAYABLES

	As at 30 June 2016 HK\$'000 (Unaudited)	As at 31 December 2015 HK\$'000 (Audited)
Trade payables	41,624	45,950

An aged analysis of the trade payables of the Group as at the end of the reporting period, based on the invoice date, is as follows:

	As at 30 June 2016 HK\$'000 (Unaudited)	As at 31 December 2015 HK\$'000 (Audited)
Within 3 months	28,116	23,240
Over 3 months but within 6 months	10,765	17,400
Over 6 months but within 12 months	1,874	4,707
Over 1 year	869	603
	41,624	45,950

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

16. BANK BORROWINGS

	Notes	As at 30 June 2016 HK\$'000 (Unaudited)	As at 31 December 2015 HK\$'000 (Audited)
Bank borrowings	(i)(ii)(iii)	290,517	305,467
Secured		203,232	171,064
Unsecured but guaranteed		9,360	9,549
Unsecured and unguaranteed		77,925	124,854
		290,517	305,467
Carrying amount repayable			
Within one year		205,696	191,919
More than one year, but not exceeding two years		53,199	54,033
More than two years, but not exceeding five years		31,622	59,515
		290,517	305,467
Less: amount included in current liabilities		(205,696)	(191,919)
Non-current portion		84,821	113,548

Notes:

- (i) Other than bank loans with an aggregate carrying amount of HK\$95,768,000 (31 December 2015: HK\$106,890,000) which bear fixed interest rate ranging from 4.79% to 7.18% (31 December 2015: 4.79% to 9.27%) per annum as at 30 June 2016, other bank borrowings with an aggregate carrying amount of HK\$194,749,000 (31 December 2015: 198,577,000) bear floating interest rates ranging from 4.79% to 7.08% (31 December 2015: 4.85% to 7.80%) per annum as at 30 June 2016.
- (ii) As at 30 June 2016, the Group's secured bank borrowings are secured by the following assets of the Group:
 - (a) the pledge of the Group's buildings, plant and equipment with an aggregate carrying amount of approximately HK\$218,946,000 (31 December 2015: HK\$195,383,000);
 - (b) the pledge of the Group's prepaid lease payments with an aggregate carrying amount of approximately HK\$20,220,000 (31 December 2015: HK\$20,851,000);
 - (c) the pledge of the Group's bank deposits with an aggregate carrying amount of approximately HK\$12,859,000 (31 December 2015: HK\$15,524,000);
 - (d) the pledge of the Group's trade receivables with an aggregate carrying amount of approximately HK\$30,262,000 (31 December 2015: HK\$21,302,000); and
 - (e) the pledge of the Group's inventory with an aggregate carrying amount of approximately HK\$14,326,000 (31 December 2015: nil).
- (iii) As at 30 June 2016, the Group's unsecured but guaranteed bank borrowings is secured by a corporate guarantee executed by an independent third party. Such corporate guarantee is secured by the Group's plant and machinery with carrying amount of approximately HK\$21,690,000 and personal guarantee executed by Mr. Wong.

17. SHARE CAPITAL

	Numbers of shares		Share capital	
	30 June 2016 '000 (Unaudited)	31 December 2015 '000 (Audited)	30 June 2016 HK\$'000 (Unaudited)	31 December 2015 HK\$'000 (Audited)
Issued and fully paid	832,603	832,603	253,928	253,928

18. RELATED PARTY TRANSACTIONS

Compensation of key management personnel of the Group is as follows:

	For the six months period ended 30 June	
	2016 HK\$'000 (Unaudited)	2015 HK\$'000 (Unaudited)
Short-term employee benefits	1,580	1,558
Post-employment benefits	35	36
Total compensation paid to key management personnel	1,615	1,594

During the six months period ended 30 June 2016, short-term benefits and post-employment benefits for Ms. Wong Wan Yu, daughter of Mr. Wong and Ms. Cheung Ngar Kwan, paid and contributed by the Group were HK\$108,000 (2015:nil) and HK\$5,000 (2015: nil), respectively.

As at 30 June 2016, the Group's outstanding guaranteed bonds with aggregate principal amounts of approximately HK\$17,000,000 (31 December 2015: HK\$17,000,000) were secured by personal guarantee executed by Mr. Wong.

As at 30 June 2016, the Group's bank borrowings of approximately HK\$9,360,000 (31 December 2015: HK\$9,549,000) were secured by a corporate guarantee executed by an independent third party. Such corporate guarantee was secured by certain of the Group's plant and machineries and personal guarantee executed by Mr. Wong.

19. EVENTS AFTER THE END OF THE REPORTING PERIOD

Subsequent to the end of the reporting period, the Group has the following non-adjusting events after the end of the reporting period:

- (a) In July 2016, the Group has completed the acquisition of several forest rights in connection with May Acquisitions. Details are set out in note 12 above.
- (b) In July 2016, the Group has entered into several acquisition agreements for forest rights in connection with July Acquisitions for an aggregate initial considerations of RMB22,300,000 (or equivalent to approximately HK\$26,006,000). Details are set out in note 12 above.

MANAGEMENT DISCUSSIONS AND ANALYSIS

BUSINESS REVIEW

In the first half of 2016, the Group continues to engage 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 products of the Group were well received by the customers and as a result, new customers were won and sale increased and gross profit margin has remained steady.

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 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. The Acquisition Agreement announced by the Company on 12 January 2016 which constitutes a major and connected transaction of the Company has not completed as of the date of this report. Apart from that one, our Group has also acquired forest rights from independent third parties at different locations within a 500-mile diameter from the Group's production base since 2016. Some of these acquisitions have completed and some are still in progress up to the date of this report. For further details, please refer to the announcements of the Company dated 12 January 2016 and 21 May 2016 and the annual report of the Company dated 31 May 2016.

In addition, our Group is also working on the new business activity in relation to the distribution, marketing and service of sports car "Gumpert Apollo". We are in close contact with the car manufacturer and expect to receive the first order next year.

Looking forward, in order to cope with the competitive market conditions, we have strived to maintain our competitiveness by expanding into cities that our business has not yet covered and strengthening the quality of our products. We have been seeking to increase our sales with broadened basis of raw wood supplies. With better cost control, we seek for maximizing our profitability and creating more value for our Shareholders.

FINANCIAL REVIEW

Revenue

During the 2016 Interim Period, the Group's revenue was HK\$206.9 million, representing an increase of 10.6% as compared with the corresponding period in 2015 (2015: HK\$187.1 million). The increase was mainly due to the increase in the sales volume of particleboards.

Cost of sales

During the 2016 Interim Period, the Group's costs of sales was HK\$153.6 million, representing an increase of 9.8% as compared with the corresponding period in 2015 (2015: HK\$139.9 million). The increase was mainly attributed to the increased quantity sold and was corresponding to the increase in sales.

Gross profit and margin

During the 2016 Interim Period, the Group's gross profit was HK\$53.3 million, representing an increase of approximately 13.0% as compared with the corresponding period in 2015 (2015: HK\$47.2 million). The Group's gross profit margin maintained at a steady level for the two corresponding periods (2016: 25.8%; 2015: 25.2%).

Other income

During the 2016 Interim Period, the Group recorded other income of HK\$9.4 million, representing a significant decrease of approximately 40.4% as compared to the corresponding period in 2015 (2015: HK\$15.8 million). Such decrease was due to the lack of an one-off refund by the PRC government for transitional arrangement of change of VAT refund policy in the current period which was available in the corresponding period in 2015.

Selling and distribution expenses

During the 2016 Interim Period, the Group's distribution expenses increased to approximately HK\$17.0 million from approximately HK\$15.4 million for the corresponding period in 2015, representing an increase of approximately 10.2%. Such increase was in line with the increase in sales.

Administration expenses

During the 2016 Interim Period, the Group's administration expenses increased to approximately HK\$16.6 million from approximately HK\$12.9 million for the corresponding period in 2015, representing an increase of approximately 28.9%. Such increase was mainly attributed to increase in legal and other professional fees and other miscellaneous expenses due to the increase in revenue.

Finance costs

During the 2016 Interim Period, the Group's finance costs decreased to approximately HK\$11.9 million from approximately HK\$15.1 million for the corresponding period in 2015, representing a decrease of approximately 21.1%. The decrease was mainly attributed to repayment of several bank borrowings and puttable notes during the current interim period.

Profit attributable to owners of the Company

The Group recorded a same level of profit attributable to owners of the Company for the 2016 Interim Period being approximately HK\$18.3 million as compared to the same period in 2015.

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 2016 Interim Period, the Group mainly financed its operations with its working capital, bank borrowings and the proceeds from issuance of guaranteed bonds and placing of new shares.

As at 30 June 2016 and 31 December 2015, the Group had bank borrowings of approximately HK\$290.5 million and HK\$305.5 million respectively. Other than certain bank borrowings obtained which bear fixed interest rate ranging from 4.79% to 7.18% per annum, other bank borrowings bear floating interest rates ranging from 4.79% to 7.08% per annum as at 30 June 2016. The maturity profile of the Group's bank borrowings are set out in note 16 of this report.

As at 30 June 2016 and 31 December 2015, the Group had net current liabilities of approximately HK\$30.2 million and net current assets of approximately HK\$64.6 million respectively. The current ratio of the Group, being current assets over current liabilities, decreased to 0.9x as at 30 June 2016 (31 December 2015: 1.2x). The decrease in net current assets was mainly attributed to the use of working capital to acquire forest rights since the beginning of 2016.

Gearing Ratio

As at 30 June 2016, the gearing ratio stood at 0.94x (31 December 2015: 1.06x) based on total borrowings over shareholders' equity. The decrease was mainly due to the repayments of bank borrowings and puttable notes during the 2016 Interim Period.

FOREIGN EXCHANGE EXPOSURE

As at 30 June 2016 and 31 December 2015, functional currency of the Company and its major operating subsidiary is RMB. Certain of the Group's bank balances were denominated in Hong Kong Dollar and insignificant amount of the Group's bank balances were denominated in Euro. The Group manages its foreign currency risk by closely monitoring the movement of the foreign exchange rate. As at 30 June 2016, there were puttable notes and guaranteed bonds denominated in Hong Kong Dollar with effective interest rate ranging from 12% to 18% per annum.

Other than as described above, the Group has no significant exposure to foreign currency risk as it carries out its sales and purchases mainly in RMB.

TREASURY POLICIES

The Group adopts a conservative approach towards its treasury policies. The Group strives to reduce exposure to credit risk by performing ongoing credit evaluation of the financial conditions of its clients. To manage liquidity risk, the Board closely monitors the Group's liquidity position to ensure that the liquidity structure of the Group's assets, liabilities and commitments can meet its funding requirements.

SIGNIFICANT INVESTMENTS AND FUTURE PLANS FOR MATERIAL INVESTMENTS AND CAPITAL ASSETS

The Group entered into several acquisition agreements since 2016. Please refer to note 12(i) of this report. These were funded by the Group's general working capital.

MATERIAL ACQUISITIONS AND DISPOSALS OF SUBSIDIARIES

During the 2016 Interim Period, the Group did not have any material acquisitions and disposals of subsidiary.

PLEDGE OF ASSETS

Details of pledge of assets are set out in note 16(ii) of this report.

COMMITMENTS AND CONTINGENT LIABILITIES

As at 30 June 2016, saved as disclosed below, the Group does not have other significant capital commitment nor contingent liabilities:

	As at 30 June 2016 HK\$'000	As at 31 December 2015 HK\$'000
Acquisition of a subsidiary Contracted but not provided for (*)	150,000	—

- * On 12 January 2016, the Company entered into an acquisition agreement with Mr. Wong Kin Ching, the son of Mr. Wong Cheung Lok and Ms. Cheung Ngar Kwan, and conditionally agreed to acquire the entire issued share capital of Gifted Multitude Limited (the "Target Company"), which is, through its subsidiary, principally engaged in forestry plantation business, including forestry planning and development, for a consideration of HK\$150,000,000. The consideration will be satisfied by the allotment and issue of an aggregate of 348,837,209 shares at an issue price of HK\$0.43 each by the Company to Mr. Wong Kin Ching. Up to the date of this report, the acquisition is still in progress and is subject to a series of approvals.

EMPLOYEES AND REMUNERATION POLICIES

As at 30 June 2016, the Group employed a total of 171 employees (2015: 171). The remuneration payable to our employees included fees, salaries, retirement benefits scheme contributions and other benefits. For the 2016 Interim Period and the corresponding period in 2015, the remuneration paid to employees was approximately HK\$7.6 million and HK\$6.6 million, respectively. The Group determines the employee's remuneration based on factors such as qualifications, duty, contributions and years of experience. The key principles of the remuneration policy are to remunerate employees in a manner that is market competitive, consistent with best practice and in the interests of the shareholders of the Company (the "Shareholders") as a whole. The Group aims to align the interests of the senior executives with those of Shareholders by remunerating senior executives through performance and long-term incentive plans in addition to their fixed remuneration.

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

SHARE OPTION SCHEME

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

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

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

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

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

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

The total number of Shares which may be issued upon exercise of all options to be granted under the Share Option Scheme and any other share option scheme of the Company shall not in aggregate exceed 71,111,510 shares, being 8.5% of the total number of Shares in issue as at 30 June 2016, unless the Company obtains a fresh approval from the Shareholders. The maximum entitlement for any one Participant is that the total number of our Shares issued and to be issued upon exercise of the Options granted to each Participant (including both exercised and outstanding Options) in any 12-month period shall not exceed 1% of the total number of Shares in issue.

No option has lapsed, or has been granted, exercised or cancelled under the Share Option Scheme during the six months ended 30 June 2016. Our Group did not have any outstanding share options, warrants, convertible instruments, or similar rights convertible into our Shares as at 30 June 2016.

DIRECTORS' INTERESTS IN COMPETING BUSINESSES

During the 2016 Interim Period, saved as disclosed below, none of the Directors or any of their respective close associates, has engaged in any business that competes or may compete with the business of the Group, or has any other conflict of interest with the Group.

As at the date of this 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.

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.

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 2016, the interests and short positions of the Directors and chief executive of the Company in the shares, underlying shares and debentures of the Company or its associated corporations (within the meaning of Part XV of the Securities and Futures Ordinance (Chapter 571. Laws of Hong Kong) (the “SFO”) which will have to be notified to the Company and the Stock Exchange under Divisions 7 and 8 of Part XV of the SFO (including interests or short positions which they are taken or deemed to have under such provisions of the SFO) or which will be required, pursuant to section 352 of the SFO, to be entered in the register as referred to therein, or pursuant to Rules 5.46 to 5.67 of the GEM Listing Rules required to be notified to the Company and the Stock Exchange, are as follows:

Long position in the Shares

Name	Capacity/ Nature of interest	Aggregate number of Shares or underlying Shares (Note 1)	Approximate percentage of interest in our Company
Mr. Wong Cheung Lok (“Mr. Wong”) ⁽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, were charged by Mr. Wong 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. 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

Our Directors confirm that as at 30 June 2016, the following persons (other than a Director or chief executive) had an interest or short position in the Shares or underlying Shares 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
China Strategic Holdings Limited ⁽²⁾	Person having a security interest in shares	400,000,000 (L)	48.04%
Mr. Wong Kin Ching ⁽³⁾	Beneficial owner	348,837,209	41.90%

Notes:

- (1) The letter "L" denotes the person's long positions in the Shares.
- (2) U Credit (HK) Limited, a company indirectly wholly-owned by China Strategic Holdings Limited through China Strategic Asset Holdings Limited and China Strategic Financial 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.
- (3) Please refer to the note under the section "Commitments and Contingent Liabilities" of this report and the announcement of the Company dated 12 January 2016 for more details on Mr. Wong Kin Ching's interests in these shares.

Save as disclosed herein, our Directors are not aware of any other person (other than a Director or chief executive) who, on 30 June 2016, 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 to be recorded in the register kept by the Company pursuant to Section 336 of the SFO.

INTERESTS OF THE COMPLIANCE ADVISER

As notified by the compliance adviser of the Company, VBG Capital Limited ("VBG"), as at 30 June 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.

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

During the 2016 Interim Period, neither the Company nor its subsidiary have purchased, sold or redeemed any listed securities of the Company.

CHANGES OF THE COMPANY'S DIRECTORS

Mr. Wong Hei Chiu resigned as an Independent Non-Executive Director with effect from 1 July 2016. Before his resignation, Mr. Wong was also the chairman of the Audit Committee, a member of the Remuneration Committee and a member of the Nomination Committee. Following his resignation, the Company had only two Independent Non-Executive Directors and failed to meet the requirements under Rule 5.05(1), 5.05(2), 5.05A, 5.28 and 5.34 of the GEM Listing Rules. The Company has since appointed Dr. Chow Ho Wan, Owen, who has appropriate professional qualifications and expertise in accounting and financial management, as an Independent Non-Executive Director, the chairman of the Audit Committee, a member of the Remuneration Committee and a member of the Nomination Committee with effect from 1 August 2016.

Please refer to the announcements of the Company dated 1 June 2016 and 1 August 2016 for details of the resignation of Mr. Wong and the appointment of Dr. Chow.

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 during the 2016 Interim Period except otherwise stated below.

Code provision A.2.1

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

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

Code provision A.5.1

Code provision A.5.1 of the CG Code stipulates, among other things, that the nomination committee of an issuer should comprise a majority of independent non-executive directors. Following Mr. Wong Hei Chiu's resignation on 1 July 2016, the Nomination Committee of the Company comprised only one Independent Non-Executive Director and one Executive Director. The Company has appointed Dr. Chow Ho Wan, Owen as an Independent Non-Executive Director with effect from 1 August 2016.

Code provision C.2.5

Code provision C.2.5 of the CG Code stipulates that the issuer should have an internal audit function. As of the date of this report, the Company did not have such internal audit function and is in the process of selecting an appropriate candidate for this role.

PROGRESS UPDATE ON THE REVIEW OF INTERNAL CONTROL

As disclosed in its annual report for the financial year ended 31 December 2015, the Company has commissioned a specific review by its auditors of internal control and risk management systems of the Group with respect to prepayments to the Group's raw materials suppliers (the "Specific Review"). Summarised below are the material findings under the Specific Review and the status update of the Group's implementation of the remedial measures as of the date of this report:

Findings from the Specific Review

Updates on implementation

Supplier selection process

Internal procedures in relation to supplier selection have not been consistently applied to all suppliers including wood suppliers and there had been inadequate procedure for, and documentary records of, verification undertaken regarding suppliers.

The Group has commenced implementing supplier selection procedures across all its suppliers. The Group has updated its procedures for, to require adequate documentary records of, verification undertaken regarding suppliers but is still in the process of fully documenting all necessary procedures relating to supplier selection and payment management.

Managing, processing, approval and monitoring recovery of payments in advance to suppliers and payments of security deposits for tendering activities

Incomplete procedures in relation to prepayments (including basis and limits for prepayment amounts, payment authorisation procedures, and documentary records) and monitoring supplier deliveries against prepayments or refund of security deposits for unsuccessful tenders.

The Group has commenced implementation of procedures in relation to prepayments (including security deposit payments) covering payment authorisations, for significant prepayments, more systematic monitoring and reporting of cash flow position and receivables collections. It is still in the process of fully documenting and implementing all necessary procedures in this regard.

Internal procedures in relation to prepayments have not been consistently applied to all Group companies and departments and to all prepayments (including security deposits).

Prepayments to counterparties in bids for raw materials

Lack of policy and procedures for tendering activities.

The Group has developed new policy and procedures for tendering activities and will require strict implementation by all Group members going forward. As the Group did not make further prepayments through tendering activities since the Specific Review, no review can be performed to test the new procedures.

The Company will update the status of its implementation of the remedial measures in its annual report for the financial year ending 31 December 2016.

MODEL CODE FOR DIRECTORS' SECURITIES TRANSACTIONS

The Company has adopted a code of conduct regarding securities transactions by directors on terms no less exacting than the required standard of dealings as set out in Rules 5.48 to 5.67 of the GEM Listing Rules. Having made specific enquiry with the Directors, all the Directors confirmed that they have complied with the required standard of dealings concerning securities transactions by the directors during the 2016 Interim Period.

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 2016 Interim Period.

SUFFICIENCY OF PUBLIC FLOAT

Based on the information that is publicly available to the Company and to the best knowledge of the Directors, the Directors confirm that the Company maintained the amount of public float as required under the GEM Listing Rules during the 2016 Interim Period.

REVIEW OF CONDENSED CONSOLIDATED INTERIM FINANCIAL STATEMENTS

The audit committee of the Board of the Company has discussed and reviewed with the management of the Group the condensed consolidated interim financial statements of the Group for the 2016 Interim Period, which has not been audited nor reviewed by the Company's auditors, Graham H.Y. Chan & Co..

INTERIM DIVIDEND

The Board does not recommend the payment of any interim dividend for the 2016 Interim Period.

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

Hong Kong, 13 August 2016

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 Directors are Mr. Ong Chor Wei and Mr. Lai Ming Wai; and the independent non-executive Directors are Dr. Chow Ho Wan, Owen, Ms. Qian Xiaoyu and Dr. Xu Jianmin.