



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

2017

First Quarterly Report





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 2017 together with the comparative unaudited figures of the corresponding period in 2016.

UNAUDITED CONSOLIDATED STATEMENTS OF PROFIT OR LOSS AND OTHER COMPREHENSIVE INCOME

	Notes	For the three months ended 31 March	
		2017 HK\$'000	2016 HK\$'000
Revenue	2	92,862	96,817
Cost of sales		(71,847)	(71,119)
Gross profit		21,015	25,698
Other income		4,556	3,682
Other gain/(losses)		22	(121)
Net gain arising on initial recognition of the Group's biological assets at fair value less costs to sell		6,641	—
Selling and distribution expenses		(8,387)	(9,334)
Administration expenses		(6,900)	(9,435)
Other expenses		—	(32)
Finance costs	3	(5,053)	(5,632)
Profit before tax		11,894	4,826
Income tax expense	4	—	(631)
Profit for the period attributable to owners of the Company	5	11,894	4,195
Other comprehensive income which will not be reclassified subsequently to profit or loss:			
Exchange differences arising on translation to presentation currency		3,176	2,207
Other comprehensive income for the period		3,176	2,207
Total comprehensive income for the period		15,070	6,402
Total comprehensive income attributable to owners of the Company		15,070	6,402
Basic earnings per share, in HK cents	6	1.43	0.51

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 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
Balance at 1 January 2017	253,928	(16,968)	18,011	(28,712)	116,829	343,088
Profit for the period	–	–	–	–	11,894	11,894
Other comprehensive income for the period	–	–	–	3,176	–	3,176
Total comprehensive income for the period	–	–	–	3,176	11,894	15,070
Balance at 31 March 2017	253,928	(16,968)	18,011	(25,536)	128,723	358,158

A decorative header image featuring medical equipment and medicine boxes. On the left, there is a syringe and a box of '注射用兰索拉唑' (Injection of Lansoprazole). On the right, there is a box of '注射用头孢西酮钠' (Injection of Cefoxime Sodium).

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 2017 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 2016, except for the adoption of the following new and revised Hong Kong Financial Reporting Standards ("HKFRS") and Hong Kong Accounting Standards ("HKAS").

Amendments to HKAS 7
Amendments to HKAS 12

Disclosure Initiative
Recognition of Deferred Tax Assets for
Unrealised Losses

2. REVENUE

Revenue represents revenue arising on sales of particleboards as follows:

	For the three months ended 31 March	
	2017 HK\$'000 (Unaudited)	2016 HK\$'000 (Unaudited)
Sales of particleboards	92,862	96,817

3. FINANCE COSTS

	For the three months ended 31 March	
	2017 HK\$'000 (Unaudited)	2016 HK\$'000 (Unaudited)
Interest on bank loans	4,556	4,819
Interest on puttable notes and guaranteed bonds	497	813
	5,053	5,632

4. INCOME TAX EXPENSE

	For the three months ended 31 March	
	2017 HK\$'000 (Unaudited)	2016 HK\$'000 (Unaudited)
Deferred tax:		
Current period charge	–	631
	–	631

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 2017 and 2016 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 2017 and 2016 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	
	2017 HK\$'000 (Unaudited)	2016 HK\$'000 (Unaudited)
Depreciation and amortisation expenses		
Depreciation of property, plant and equipment	6,327	6,009
Amortization of Intangible Asset	130	138
Amortisation of prepaid lease payments	357	116
Total depreciation and amortisation expenses	6,814	6,263
Employee benefits expenses (include Directors' emoluments)		
Salaries and other benefits	3,365	3,344
Contribution to retirement benefit schemes	470	412
Total employee benefit expenses	3,835	3,756
Cost of inventories recognised as an expense	71,847	71,119

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	
	2017 HK\$'000 (Unaudited)	2016 HK\$'000 (Unaudited)
Profit for the period attributable to owners of the Company for the purpose of basic earnings per share	11,894	4,195

Number of shares

	For the three months ended 31 March	
	2017 '000	2016 '000
Weighted average number of ordinary shares for the purpose of basic earnings per share	832,603	832,603



MANAGEMENT DISCUSSIONS AND ANALYSIS

BUSINESS REVIEW

The Group continued to be primarily engaged in the manufacturing and sales of particleboards, which were mainly used by our customers in the manufacturing of furniture, flooring panels, decoration and construction materials.

The Directors believe that the existing competitive production lines provide the Group with the following benefits: (i) the Group is able to produce particleboards with better and more stable quality; (ii) the Group's production is expected to become more efficient in energy and raw material savings, (iii) the Group's production is more environmentally friendly and would comply with all the Particleboard PRC GB Standards and Particleboard International Standards; (iv) the Group is able to produce customized particleboards and particleboards of various dimensions and specifications, that most other particleboard manufacturers in the PRC may not be able to manufacture; and (v) allow the Group to expand its market share and solidify its market position in the particleboard industry due to the wider product offering.

The Board has determined that it would be in the best interests of the Company to continue upstream acquisitions of forestry rights in order to give it greater assurance on the supply. Since the beginning of 2016 and as part of the Group's efforts to broaden its sources for wood materials which constitute a key raw material for the Group's production activities, the Group had completed its acquisition of forestry rights in relation to forestlands with aggregate size of approximately 33,962 mu as at 31 March 2017. By carrying out the harvesting plan in coming years, the Group will have better control over the supply of raw materials for which in turn strengthening competitiveness of the Group and its business sustainability. Meanwhile, the Group will continue to optimize our customer base, enhance our product research and development and monitor the key performance indicators.



FINANCIAL REVIEW

Revenue

During the three months ended 31 March 2017, the Group's revenue decreased to approximately HK\$92.9 million from approximately HK\$96.8 million for the three months ended 31 March 2016, representing a decrease of approximately 4.1%. The decrease was mainly due to the decrease in sales volume of particleboards during the three months ended 31 March 2017 compared to the same period in 2016.

Cost of sales

During the three months ended 31 March 2017, the Group's costs of sales increased to approximately HK\$71.8 million from approximately HK\$71.1 million for the three months ended 31 March 2016, representing an increase of approximately 1.0%. The increase was mainly attributable to the increase in unit price of raw material, primarily residual woods purchased from independent third parties in the open market, during the three months ended 31 March 2017.

Gross profit and margin

During the three months ended 31 March 2017, the Group's gross profit decreased to approximately HK\$21.0 million from approximately HK\$25.7 million for the three months ended 31 March 2016, representing a decrease of approximately 18.2% and the Group's gross profit margin decreased to approximately 22.6% from approximately 26.5% for the three months ended 31 March 2016. The decrease in gross profit and margin was mainly due to the decrease in sales volume and the increase in cost of raw materials.

Selling and distribution expenses

During the three months ended 31 March 2017, the Group's distribution expenses decreased by 10.1% to approximately HK\$8.4 million as compared to that of approximately HK\$9.3 million for the three months ended 31 March 2016. The decrease was mainly attributable to the decrease in transportation costs corresponding to the decrease in sales volume and other ancillary expenses.



Administration expenses

During the three months ended 31 March 2017, the Group's administrative expenses decreased to approximately HK\$6.9 million from approximately HK\$9.4 million for the three months ended 31 March 2016, representing a decrease of approximately 26.9%. The decrease was mainly attributable to the decrease in legal and other professional fees which were incurred in relation to the transaction entered into by the Company for the proposed acquisition as detailed in the Company's announcements dated 12 January 2016, 2 February 2016 and 31 March 2016 respectively while there was no such costs incurred for the same period in 2017.

Finance costs

During the three months ended 31 March 2017, the Group's finance costs decreased to approximately HK\$5.1 million from approximately HK\$5.6 million for the three months ended 31 March 2016, representing a decrease of approximately 10.3%. The decrease was mainly attributable to the repayment of several bank borrowings and the decrease in interest rate for loans arranged within the territory of the People's Republic of China ("PRC") during the three months ended 31 March 2017.

Profit attributable to owners of the Company

During the three months ended 31 March 2017, the Group's profit attributable to owners of the Company increased to approximately HK\$11.9 million from approximately HK\$4.2 million for the three months ended 31 March 2016, representing an increase of approximately 183.5%. The increase was mainly attributable to the recognition of net gain arising from changes in fair value less costs to sell of the biological assets in the amount of approximately HK\$6.6 million in the current period. Such net gain did not appear in the profit and loss for the corresponding period in last year but in current reporting period as a result of the Group's recognition of biological assets only commenced after corresponding reporting period in last year upon the forestry rights acquired then. Please refer to note 18 of the audited financial statements of the Company for the financial year ended 31 December 2016.

Total comprehensive income attributable to owners of the Company

During the three months ended 31 March 2017, the Group's total comprehensive income attributable to owners of the Company increased to approximately HK\$15.1 million from approximately HK\$6.4 million for the three months ended 31 March 2016, representing an increase of approximately 135.4%. The increase was mainly attributable to the increase in profit attributable to owners of the Company from approximately HK\$4.2 million for the three months ended 31 March 2016 to HK\$11.9 million for the three months ended 31 March 2017 and the increase in income from exchange difference arising from translation of Renminbi to Hong Kong Dollar from approximately HK\$2.2 million for the three months ended 31 March 2016 to HK\$3.2 million for the three months ended 31 March 2017.



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

For the three months ended 31 March 2017, neither the Company nor any of its subsidiaries has purchased, sold or redeemed any listed securities of the Company.

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

On 10 December 2015, the Company issued to three subscribers 15% coupon guaranteed bonds ("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.

On 9 December 2016, pursuant to supplemental deeds entered into between the Company as issuer, Mr. Wong Cheung Lok as guarantor and each of the abovementioned three subscribers (i) the maturity date of the Bonds has been extended to the date falling on the one-and-a-half year anniversary from the date of the issuance of the Bonds (the "Extended Maturity Date"); and (ii) the Bonds shall bear simple interest from and including the date of issue up to and including the Extended Maturity Date, at the fixed rate of 15% per annum of the principal amount of the Bonds payable in advance on the date of issuance of Bonds and the date falling on 6 months, 12 months and 15 months immediately after the date of issuance of the Bonds.

Please refer to the announcements of the Company dated 10 December 2015 and 9 December 2016 for more details.



DIRECTORS' INTERESTS IN COMPETING BUSINESSES

As disclosed in notes 32 and note 35 to the consolidated financial statements in the 2016 annual report of the Company, during the year ended 31 December 2016, the Group acquired forestry rights in relation to forests with an aggregate size of approximately 28,462 mu (as at 31 March 2017, the aggregate size has increased to approximately 33,962 mu) located at Renhua County, Guangdong Province and Qingliu County and Ninghua County of Fujian Province, PRC from independent third parties, in order to broaden its suppliers base for raw materials. As at 31 March 2017, 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 forestlands located at Renhua County, Guangdong Province, PRC. On 12 January 2016, the Company as purchaser entered into a sale and purchase agreement (as supplemented from time to time) ("Acquisition 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.

On 26 April 2017, Mr. Wong Kin Ching and the Company entered into a termination agreement to terminate the Acquisition Agreement and transactions contemplated thereunder in view of the prolonged process for the clearance of the shareholders circular of the Company and taking into consideration the likelihood of the circular being despatched in the near future, Mr. Wong Kin Ching and the Company have determined that resources are better deployed elsewhere instead of continuing to pursue the transaction contemplated under the Acquisition Agreement. Please refer to the announcements of the Company dated 12 January 2016, 2 February 2016, 31 March 2016, 20 September 2016, 30 November 2016 and 26 April 2017 for more details of the Acquisition Agreement and its termination.

Since 27 April 2017 and as at the date of this report, 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.

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 2017, 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 2017, none of any other persons (other than a Director or chief executive) had any interest or short position in the shares or underlying shares of our Company which would fall to be disclosed to us and the Stock Exchange under the provisions of Divisions 2 and 3 of Part XV of the SFO or to be recorded in the register kept by the Company pursuant to Section 336 of the SFO:

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 ⁽³⁾	Beneficial owner	348,837,209	41.90%
China Strategic Holdings Limited ⁽²⁾	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. 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. On 12 January 2016, the Company entered into an acquisition agreement (as supplemented from time to time) ("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\$183,000,000. Part of the consideration was to 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. On 26 April 2017, Mr. Wong Kin Ching and the Company entered into a termination agreement to terminate the Acquisition Agreement. Please refer to the announcements of the Company dated 12 January 2016, 2 February 2016, 31 March 2016, 20 September 2016, 30 November 2016 and 26 April 2017 for more details of the Acquisition Agreement and its termination.



Save as disclosed herein, our Directors are not aware of any other person (other than a Director or chief executive) who, on 31 March 2017, 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.

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 2017.

QUARTERLY DIVIDEND

The Board does not recommend the payment of any dividend for the three months ended 31 March 2017 (2016: Nil).

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

Hong Kong, 12 May 2017

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