



**Hong Wei (Asia) Holdings Company Limited**  
**鴻偉(亞洲)控股有限公司**

(Incorporated in Hong Kong with limited liability)  
Stock code: 8191

**FIRST  
QUARTERLY  
REPORT  
2021**



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



The board of Directors of the Company (the “Board”) is pleased to announce the unaudited condensed consolidated financial results of the Group for the three months ended 31 March 2021 together with the comparative unaudited figures of the corresponding period in 2020.

## UNAUDITED CONDENSED CONSOLIDATED STATEMENT OF PROFIT OR LOSS AND OTHER COMPREHENSIVE INCOME

	Notes	For the three months ended 31 March	
		2021 HK\$'000 (unaudited)	2020 HK\$'000 (unaudited)
Revenue	2	67,899	29,303
Cost of sales		(58,281)	(22,695)
Gross profit		9,618	6,608
Other income		1,594	1,148
Other gains, net		359	90
Selling and distribution expenses		(5,717)	(3,017)
Administration expenses		(5,675)	(4,453)
Finance costs	4	(6,404)	(6,747)
Loss before tax		(6,225)	(6,371)
Income tax expense	5	—	—
Loss for the period attributable to owners of the Company	6	(6,225)	(6,371)
Other comprehensive loss which will not be reclassified subsequently to profit or loss: Exchange differences arising on translation to presentation currency		(3,022)	(9,304)
Other comprehensive loss for the period		(3,022)	(9,304)
Total comprehensive loss for the period		(9,247)	(15,675)
Total comprehensive loss attributable to owners of the Company		(9,247)	(15,675)
Basic losses per share, in HK cents	7	0.75	0.77

## UNAUDITED CONDENSED CONSOLIDATED STATEMENT OF CHANGES IN EQUITY

	Share capital HK\$'000	Capital reserve HK\$'000	Statutory reserve HK\$'000	Foreign currency translation reserve HK\$'000	Retained profits HK\$'000	Total HK\$'000
Balance at 1 January 2020 (audited)	253,928	(16,968)	30,325	(34,625)	100,486	333,146
Loss for the period	-	-	-	-	(6,371)	(6,371)
Other comprehensive loss for the period	-	-	-	(9,304)	-	(9,304)
Total comprehensive loss for the period	-	-	-	(9,304)	(6,371)	(15,675)
Balance at 31 March 2020 (unaudited)	<u>253,928</u>	<u>(16,968)</u>	<u>30,325</u>	<u>(43,929)</u>	<u>94,115</u>	<u>317,471</u>
Balance at 1 January 2021 (audited)	253,928	(16,968)	31,328	(11,337)	29,271	286,222
Loss for the period	-	-	-	-	(6,225)	(6,225)
Other comprehensive loss for the period	-	-	-	(3,022)	-	(3,022)
Total comprehensive loss for the period	-	-	-	(3,022)	(6,225)	(9,247)
Balance at 31 March 2021 (unaudited)	<u>253,928</u>	<u>(16,968)</u>	<u>31,328</u>	<u>(14,359)</u>	<u>23,046</u>	<u>276,975</u>

## 1. BASIS OF PRESENTATION

The Directors have given careful consideration to the Group's financial performance, working capital, liquidity position, available facilities from its principal bankers, financial institutions and the stability of the Group's business, operations and relationships with its suppliers, bankers and financial institution, the Directors have prepared and assessed working capital forecast for a period of 12 months ending on 31 December 2021. In addition, Mr. Wong Cheung Lok ("**Mr. Wong**"), the chairman of the Board and an executive Director, who is also the ultimate beneficial controlling shareholder of the Company, and his family members have agreed to provide financial support to the Group and will not demand the Group to repay the amounts due to them unless the Group could be able to do so. In view of this, 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.

The unaudited condensed consolidated financial results for the three months ended 31 March 2021 have not been audited by the Company's auditor, but have been reviewed by the Company's audit committee.

The accounting policies and basis of preparation used in the preparation of the unaudited consolidated results are consistent with those used in the Company's annual financial statements for the year ended 31 December 2020, except for the adoption of the following new and revised Hong Kong Financial Reporting Standard ("**HKFRS**") and Hong Kong Accounting Standards ("**HKAS**").

Amendments to HKFRS 3	Definition of a Business
Amendments to HKAS 1 and HKAS 8	Definition of Material
Amendments to HKFRS 9, HKAS 39 and HKFRS 7	Interest Rate Benchmark Reform

## 2. REVENUE

Revenue represents the amounts received and receivable for sales of particleboards, which are conducted in the People's Republic of China (the "PRC") by the Group. A breakdown of revenue is as follows:

	For the three months ended 31 March	
	2021 HK\$'000 (Unaudited)	2020 HK\$'000 (Unaudited)
Sales of particleboards	<u>67,899</u>	<u>29,303</u>

Sales of particleboards are recognised at point of time when particleboards are delivered to customers.

There was no income generated from sales of timber woods for the three months ended 31 March 2020 and 2021.

### 3. OPERATING SEGMENTS

The following table represents segment information for the three months ended 31 March 2021:

	Particleboards segment HK\$'000 (Unaudited)	Forestry segment HK\$'000 (Unaudited)	Total HK\$'000 (Unaudited)
<i>Segment revenue:</i>			
Revenue from external customers	<u>67,899</u>	<u>-</u>	<u>67,899</u>
<i>Segment results:</i>			
Reportable segment results	<u>4,886</u>	<u>(1,579)</u>	3,307
Interest income			7
Finance costs			(6,404)
Unallocated corporate staff costs			(1,196)
Unallocated corporate expenses			<u>(1,939)</u>
Consolidated loss before tax			<u>(6,225)</u>
<i>Other Segment information:</i>			
Capital expenditures – allocated <sup>#</sup>	-	-	-
Depreciation – allocated	8,298	199	8,497
Depreciation – unallocated			<u>164</u>
			<u>8,661</u>
Amortisation	<u>114</u>	<u>-</u>	<u>114</u>



The following table represents segment information for the three months ended 31 March 2020:

	Particleboards segment HK\$'000 (Unaudited)	Forestry segment HK\$'000 (Unaudited)	Total HK\$'000 (Unaudited)
<i>Segment revenue:</i>			
Revenue from external customers	<u>29,303</u>	<u>-</u>	<u>29,303</u>
<i>Segment results:</i>			
Reportable segment results	<u>2,595</u>	<u>(533)</u>	2,062
Interest income			178
Finance costs			(6,747)
Unallocated corporate staff costs			(820)
Unallocated corporate expenses			<u>(1,044)</u>
Consolidated loss before tax			<u>(6,371)</u>
<i>Other Segment information:</i>			
Capital expenditures <sup>#</sup>	7,442	-	2,764
Depreciation – allocated	7,035	261	7,296
Depreciation – unallocated			<u>163</u>
			<u>7,459</u>
Amortisation	<u>107</u>	<u>-</u>	<u>107</u>

<sup>#</sup> Capital expenditures of particleboards segment mainly represent the addition of property, plant and equipment during the period.



#### 4. FINANCE COSTS

	For the three months ended 31 March	
	2021 HK\$'000 (Unaudited)	2020 HK\$'000 (Unaudited)
Interests on bank and other borrowings	2,510	3,314
Interests on bonds and notes payable	2,686	2,643
Interests on lease liabilities	5	7
Other finance costs	<u>1,203</u>	<u>783</u>
	<u><u>6,404</u></u>	<u><u>6,747</u></u>

## 5. INCOME TAX

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

Under the Law of the People's Republic of China on Enterprise Income Tax (the "EIT Law") and Implementation Regulation of the EIT Law, the tax rate of Hongwei Wooden Products (Renhua) Company Limited ("Hongwei Renhua") is 25% during the three months ended 31 March 2021 and 2020 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 2021 and 2020 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.

According to the EIT Law and Implementation Regulation of the EIT Law, enterprises that engage in qualified agricultural business are eligible for exemption from payment of enterprise income tax. During the year ended 31 December 2020 and 2019, the Group's two subsidiaries are engaged in qualified agricultural business and therefore, the profit of them are entitled to exemption from payment of enterprise income tax.

## 6. LOSS FOR THE PERIOD

Loss has been arrived at after charging:

	For the three months ended 31 March	
	2021 HK\$'000 (Unaudited)	2020 HK\$'000 (Unaudited)
<b>Depreciation and amortisation expenses</b>		
Depreciation of:		
– property, plant and equipment	8,186	6,931
– right-of-use assets	475	528
Amortisation:		
– intangible asset	114	107
<b>Total depreciation and amortisation expenses</b>	<b>8,775</b>	<b>7,566</b>
<b>Employee benefits expenses (include Directors' emoluments)</b>		
Salaries and other benefits	3,453	2,835
Contribution to retirement benefit schemes	510	229
<b>Total employee benefit expenses</b>	<b>3,963</b>	<b>3,064</b>
<b>Cost of inventories recognised as an expense</b>	<b>58,281</b>	<b>22,695</b>
<b>Auditor's remuneration</b>		
– Provision in respect of current period	417	365
– Non-audit service	–	–
<b>Donation</b>	<b>–</b>	<b>44</b>

## 7. LOSSES PER SHARE

The calculation of basic and diluted losses per share attributable to the owners of the Company is based on the following data:

### Losses

	For the three months ended 31 March	
	2021 HK\$'000 (Unaudited)	2020 HK\$'000 (Unaudited)
Loss for the period attributable to owners of the Company for the purpose of basic and diluted losses per share	<u>(6,225)</u>	<u>(6,371)</u>

### Number of shares

	For the three months ended 31 March	
	2021 '000	2020 '000
Weighted average number of ordinary shares for the purpose of basic and diluted losses per share	<u>832,603</u>	<u>832,603</u>



## MANAGEMENT DISCUSSIONS AND ANALYSIS

### BUSINESS REVIEW

During the three months ended 31 March 2021 (the “**Current Period**”), the Group continued to be engaged in the manufacturing and selling of particleboards (the “**Particleboards Segment**”) and the plantation, timber logging and sales of wood and agricultural products in the PRC (the “**Forestry Segment**”).

#### Particleboards Segment

During the Current Period, our products were principally used by our customers in the manufacture of furniture and fixtures, sport equipment, decoration and construction materials. Meanwhile, the Chinese economy continued to face uncertainties under the pressure of the ongoing Sino-United States conflicts and the volatility of worldwide capital markets. The negative impacts on the export market have indirectly affected the domestic consumer demand for particleboards. And for the domestic demand for consumer products such as household furniture and fixtures, sport equipment as well as construction materials had remained at a low level and they are looking for lower-cost substitute. Under such challenging environment, we are determined to further our supply chain operations to mitigate our business risks and strengthen our sustainability and competitiveness by tightening cost control measures.

The unexpected outbreak of the COVID-19 in early 2020 affected many cities and provinces in the PRC domestically as well as the global market in general. Due to the outbreak of the pandemic, the global economy is still facing many uncertainties, and the operational environment of enterprises are becoming more dynamic and challenging, this will further tighten up customers' spending and lead to reduced demand for furniture and construction materials. Such adverse impact has continuously affected the Group's revenue in 2021.

### **Forestry Segment**

During the Current Period, the Group had not received any update on the measures regarding the grant by the relevant government department of timber wood harvesting quotas which have been materially curtailed as part of the PRC government's policy to strengthen environmental protection since the end of 2018. The Group highly recognises global climate change's risks and opportunities, and actively supports the PRC government's efforts to achieve the goal of carbon neutrality before 2060. To support the PRC government's environmental protection supervision as the main line, the Group will improve the environmental management system and control with our forestry asset and is going to contribute to the realisation of "carbon neutrality". Nevertheless, the Group will continue to further explore and assess other possible alternatives to utilize its forestry resources in order to benefit the Group as a whole.

## FINANCIAL REVIEW

### Revenue

During the three months ended 31 March 2021, the Group's revenue for Particleboards Segment increased to approximately HK\$67.9 million from approximately HK\$29.3 million, representing an increase of approximately 131.7% as compared to the three months ended 31 March 2020. The increase was mainly due to the increase in the sales volume of particleboards by approximately 124.5% during the Current Period.

During the three months ended 31 March 2021 and 2020, no income generating activity took place for the Forestry Segment and hence no revenue was recognised for such segment.

### Cost of sales

During the three months ended 31 March 2021, the Group's costs of sales increased to approximately HK\$58.3 million from approximately HK\$22.7 million for the three months ended 31 March 2020, representing an increase of approximately 156.8%. The increase was primarily due to the increase in the volume of goods sold in the Current Period.

### Gross profit and margin

During the three months ended 31 March 2021, the Group's gross profit increased to approximately HK\$9.6 million from approximately HK\$6.6 million for the three months ended 31 March 2020, representing an increase of approximately 45.6% and the Group's gross profit margin decreased to approximately 14.2% for the three months ended 31 March 2021 from approximately 22.6% for the three months ended 31 March 2020.

The increase in gross profit was mainly due to the increase in sales volumes during the Current Period. The decrease in gross profit margin was mainly due to the decrease in average selling price approximately 3.2% during the Current Period.

### Other income

During the three months ended 31 March 2021, the Group's other income increased to approximately HK\$1.6 million from approximately HK\$1.1 million, representing an increase of approximately 38.9% as compared to the three months ended 31 March 2020. The increase was mainly attributable to the increase in value added tax refund.

**Selling and distribution expenses**

During the three months ended 31 March 2021, the Group's selling and distribution expenses increased by approximately 89.5% to approximately HK\$5.7 million as compared to that of approximately HK\$3.0 million for the three months ended 31 March 2020. The increase in selling and distribution expenses was mainly attributable to the increase in transportation and packaging costs incurred during the period due to the increase in sales of particleboards.

**Administration expenses**

During the three months ended 31 March 2021, the Group's administration expenses increased to approximately HK\$5.7 million from approximately HK\$4.5 million for the three months ended 31 March 2020, representing an increase of approximately 27.4%. The increase in administrative expenses was mainly attributable to the increase in social insurance due to the increase in workers during the Current Period.

**Finance costs**

During the three months ended 31 March 2021, the Group's finance costs decreased to approximately HK\$6.4 million from approximately HK\$6.7 million for the three months ended 31 March 2020, representing a decrease of approximately 5.1%. The decrease in finance costs was mainly attributable to the repayment of long-term bank borrowings and other borrowings.

**Loss attributable to owners of the Company**

During the three months ended 31 March 2021, the Group's loss attributable to owners of the Company amounting to approximately HK\$6.2 million, representing a decrease of approximately 2.3% as compared to that of approximately HK\$6.4 million for the three months ended 31 March 2020. The decrease in loss attributable to owners of the Company was mainly attributable to the increase in gross profit as a result of increase in the revenue from Particleboards Segment. The increase in gross profit was partly set-off by the increase in selling and distribution expenses and administration expenses as discussed above.



### **Total comprehensive loss attributable to owners of the Company**

During the three months ended 31 March 2021, the Group's total comprehensive loss attributable to owners of the Company amounting to approximately HK\$9.2 million, while the Group's total comprehensive loss attributable to owners of the Company during the three months ended 31 March 2020 amounting to approximately HK\$15.7 million. The main reason for such decrease in total comprehensive loss attributable to owners of the Company was mainly attributable to decrease in loss for the period as mentioned above and the exchange loss drop from translation of Renminbi ("RMB") to Hong Kong Dollar ("HKD") which is the presentation currency of the consolidated financial statements due to the depreciation of RMB during the Current Period.

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

For the three months ended 31 March 2021, neither the Company nor any of its subsidiary have purchased, sold or redeemed any listed securities of the Company.

### **DIRECTORS' AND CONTROLLING SHAREHOLDER'S INTERESTS IN COMPETING BUSINESSES**

During the three months ended 31 March 2021, save as disclosed below, none of the Directors, the controlling shareholder of the Company or any of their respective close associates, has engaged in any business that competes or may compete with the business of the Group, or has or may have any other conflict of interest with the Group.

During the three months ended 31 March 2021, Mr. Wong Kin Ching, an executive Director, directly or indirectly, owned the following companies of which he also serves as the sole director: Gifted Multitude Limited, Hung Tat Investment (Hong Kong) Company Limited and Shaoguan Hongwei Forestry Company Limited (韶關鴻偉林場有限公司). Gifted Multitude Limited and Hung Tat Investment (Hong Kong) Company Limited are investment holding companies which wholly own, directly or indirectly, Shaoguan Hongwei Forestry Company Limited (韶關鴻偉林場有限公司), which is the operating company incorporated in the PRC and engaged in the forestry plantation business, including forestry planting and development with respect to forestlands located at Renhua County, Guangdong Province, PRC.

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

Save as disclosed below, so far as the Directors are aware, as at 31 March 2021, 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:

### 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”)	Beneficial owner	430,000,000 (L)	51.65%
Ms. Cheung Ngar Kwan (“Mrs. Wong”) <sup>(Note 2)</sup>	Interest of spouse	430,000,000 (L)	51.65%
Mr. Wong Kin Ching	Beneficial owner	372,000 (L)	0.04%

Notes:

- (1) The letter “L” denotes the person’s long positions in the Shares.
- (2) Mrs. Wong is the spouse of Mr. Wong. Under the SFO, Mrs. Wong is deemed to be interested in the same number of Shares in which Mr. Wong is interested.

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

So far as the Directors are aware, as at 31 March 2021, 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 the Company which would fall to be disclosed to the Company and the Stock Exchange under the provisions of Divisions 2 and 3 of Part XV of the SFO or to be recorded in the register kept by the Company pursuant to Section 336 of the SFO.

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

On 13 August 2018, pursuant to the subscription agreement dated 10 August 2018 (the **"Note Subscription Agreement"**) between the Company and AI Global Investment SPC (formerly known as Haitong Global Investment SPC III) acting on behalf of and for a segregated portfolio (the **"Note Subscriber"**), the Company issued secured and guaranteed notes in the principal amount of HK\$100,000,000 (the **"Note"**) due on 12 August 2020 to the Note Subscriber. The Note carries an interest rate at Hong Kong prime rate plus 3% per annum, and is secured, among other things, by personal guarantee executed by Mr. Wong and Mrs. Wong (together, the **"Guarantors"**).

On 13 July 2020, the Company, the Guarantors and the Note Subscriber entered into a deed of amendment, pursuant to which, among other things, the Note Subscriber agreed to amend the terms and conditions of the Notes, having effect that, among others, the maturity date of the Notes was extended from 12 August 2020 to 21 August 2021. Please refer to announcement of the Company dated 13 July 2020 for more details.

The Note Subscription Agreement and the instrument constituting the Notes (the “Instrument”) contain covenants that require Mr. Wong to remain as the single largest shareholder of the Company, the chairman of the Board and executive Director and restrict the creation by either of the Guarantors of any additional encumbrances over real properties owned by them in Hong Kong as at the date of the Note Subscription Agreement and the Instrument, the breach of which will constitute an event of default. In addition, the bankruptcy or inability to pay debts when due of the Guarantors or any change of control (within the meaning of the Code on Takeovers and Mergers) of the Company will also constitute an event of default. Upon the occurrence of a continuing event of default, the holder(s) of the Note is(are) entitled to request immediate redemption of the Note at a higher interest rate and such amount which would give a 20% internal rate of return (inclusive of all interest and fee payable by the Company) to the Note Subscriber as stipulated in the Instrument. Please refer to the announcement of the Company dated 10 August 2018 for more details.

#### AUDIT COMMITTEE

The audit committee of the Board of the Company has reviewed and discussed with the management of the Group the unaudited condensed consolidated financial results of the Group for the three months ended 31 March 2021.



## QUARTERLY DIVIDEND

The Board does not recommend the payment of any dividend for the three months ended 31 March 2021 (for the three months ended 31 March 2020: Nil).

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

Hong Kong, 11 May 2021

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