

Hong Kong Exchanges and Clearing Limited and The Stock Exchange of Hong Kong Limited take no responsibility for the contents of this announcement, 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 announcement.



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 RESULTS ANNOUNCEMENT
FOR THE SIX MONTHS ENDED 30 JUNE 2021**

The board (the “**Board**”) of directors (the “**Directors**”) of Hong Wei (Asia) Holdings Company Limited (the “**Company**”) is pleased to announce the unaudited interim results of the Company and its subsidiaries for the six months ended 30 June 2021.

This announcement, containing the financial highlights and the full text of the 2021 Interim Report of the Company, complies with the relevant requirements of the Rules Governing the Listing of Securities on GEM of The Stock Exchange of Hong Kong Limited (the “**GEM Listing Rules**”) in relation to the information to accompany preliminary announcements of interim results. Printed version of the 2021 Interim Report of the Company containing the information required by the GEM Listing Rules will be despatched to the shareholders of the Company and available for viewing on the GEM website at www.hkgem.com and on the Company’s website at www.hongweiasia.com.

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

Hong Kong, 13 August 2021

At the date of this announcement, 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.

This announcement, for which the Directors collectively and individually accept full responsibility, includes particulars given in compliance with the Rules Governing the Listing of Securities on the GEM of The Stock Exchange of Hong Kong Limited for the purpose of giving information with regard to the Company. The Directors, having made all reasonable enquires, confirm that, to the best of their knowledge and belief, the information contained in this announcement 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 announcement misleading.

This announcement will remain on the GEM website (www.hkgem.com) for at least seven days from the day of its posting. This announcement will also be published on the Company's website at www.hongweiasia.com.

CHARACTERISTICS OF THE GEM OF THE STOCK EXCHANGE OF HONG KONG LIMITED (THE “STOCK EXCHANGE”)

GEM has been positioned as a market designed to accommodate small and mid-sized 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 that the companies listed on GEM are generally small and mid-sized companies, 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 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 however 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 subsidiaries, collectively, 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 aspects and not misleading or deceptive, and there are no other matters the omission of which would make any statement herein or this report misleading.*



CONTENTS

Corporate Information	3
Financial Highlights	4
Consolidated Statement of Profit or Loss and Other Comprehensive Income	5
Consolidated Statement of Financial Position	6
Consolidated Statement of Changes in Equity	8
Consolidated Statement of Cash Flows	9
Notes to the Consolidated Financial Statements	10
Management Discussions and Analysis	29

REGISTERED OFFICE

Unit No.5, 10/F,
Well Tech Centre,
No.9 Pat Tat Street,
San Po Kong,
Kowloon, Hong Kong

HEAD OFFICE IN HONG KONG

Unit No.5, 10/F,
Well Tech Centre,
No.9 Pat Tat Street,
San Po Kong,
Kowloon, Hong Kong

PRINCIPAL PLACE OF BUSINESS IN THE PEOPLE'S REPUBLIC OF CHINA ("PRC")

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

AUTHORISED REPRESENTATIVES

Mr. Wong Cheung Lok
Mr. Chen Kun

EXECUTIVE DIRECTORS

Mr. Wong Cheung Lok
Ms. Cheung Ngar Kwan
Mr. Liu Jiayong
Mr. Wong Kin Ching

INDEPENDENT NON-EXECUTIVE DIRECTORS

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

COMPLIANCE OFFICER

Mr. Wong Kin Ching

PRINCIPAL BANKERS

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

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

Mr. Chen Kun (*Solicitor of HKSAR*)

SHARE REGISTRAR AND TRANSFER OFFICE

Tricor Investors Services Limited
Level 54
Hopewell Centre
183 Queen's Road East
Hong Kong

AUDITOR

Graham H. Y. Chan & Co.
Certified Public Accountants (Practising)
and Registered PIE Auditor

LEGAL ADVISERS TO THE COMPANY

as to Hong Kong law:
Jimmie K. S. Wong & Partners

GEM STOCK CODE

8191

COMPANY'S WEBSITE ADDRESS

www.hongweiasia.com

FINANCIAL HIGHLIGHTS

For the six months ended 30 June 2021, operating results of the Group were as follows:

- Revenue for the six months ended 30 June 2021 amounted to approximately HK\$186.6 million, representing an increase of approximately 59.9% from approximately HK\$116.7 million recorded in the same period in 2020.
- Gross profit for the six months ended 30 June 2021 amounted to approximately HK\$28.1 million, representing an increase of approximately 26.1% from approximately HK\$22.3 million recorded in the same period in 2020.
- Loss attributable to owners of the Company for the six months ended 30 June 2021 amounted to approximately HK\$4.4 million representing an increase of approximately 53.2% from approximately HK\$2.8 million loss attributable to owners of the Company recorded in the same period in 2020.
- The Board does not recommend the payment of an interim dividend for the six months period ended 30 June 2021 (period ended 30 June 2020: 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 2021 (“**2021 Interim Period**”) together with the comparative figures of the corresponding period as appropriate.

CONSOLIDATED STATEMENT OF PROFIT OR LOSS AND OTHER COMPREHENSIVE INCOME

	Notes	Three months ended 30 June		Six months ended 30 June	
		2021 HK\$'000 (Unaudited)	2020 HK\$'000 (Unaudited)	2021 HK\$'000 (Unaudited)	2020 HK\$'000 (Unaudited)
Revenue	3	118,697	87,420	186,596	116,723
Cost of sales		(100,191)	(71,727)	(158,472)	(94,422)
Gross profit		18,506	15,693	28,124	22,301
Other income	5	5,256	5,043	6,850	6,191
Other (losses)/gains, net		(191)	–	168	90
Selling and distribution expenses		(9,050)	(6,972)	(14,767)	(9,989)
Administration expenses		(4,820)	(4,775)	(10,495)	(9,228)
Finance costs	6	(7,836)	(5,464)	(14,240)	(12,211)
Profit/(Loss) before tax		1,865	3,525	(4,360)	(2,846)
Income tax	7	–	–	–	–
Profit/(Loss) for the period attributable to owners of the Company	8	1,865	3,525	(4,360)	(2,846)
Other comprehensive income/(expenses) which will not be reclassified subsequently to profit or loss: Exchange differences arising on translation to presentation currency		3,919	127	897	(9,177)
Other comprehensive income/(expenses) for the period		3,919	127	897	(9,177)
Total comprehensive income/(expenses) for the period		5,784	3,652	(3,463)	(12,023)
Total comprehensive income/(expenses) attributable to owners of the Company		5,784	3,652	(3,463)	(12,023)
Basic and diluted earnings/(loss) per share, in HK cents	9	0.22	0.42	(0.52)	(0.34)

CONSOLIDATED STATEMENT OF FINANCIAL POSITION

	Notes	30 June 2021 HK\$'000 (Unaudited)	31 December 2020 HK\$'000 (Audited)
NON-CURRENT ASSETS			
Property, plant and equipment		342,917	334,135
Right-of-use assets		34,023	35,511
Biological assets	11	47,467	52,519
Intangible assets		2,112	1,734
Deferred tax assets		1,940	1,918
Prepayments for acquisition of property, plant and equipment	14	727	6,664
		429,186	432,481
CURRENT ASSETS			
Inventories	12	160,092	128,250
Trade and bills receivables	13	94,113	78,200
Deposits, prepayments and other receivables	14	61,298	52,692
Loan receivable		–	7,000
Bank balances and cash		7,490	17,517
		322,993	283,659
CURRENT LIABILITIES			
Trade payables	15	41,588	28,127
Other payables and accrued expenses		42,569	39,031
Tax payables		129	129
Contract Liabilities		1,886	1,261
Bank and other borrowings, due within one year	16	174,108	148,762
Deferred income		4,150	4,103
Lease liabilities		709	709
Notes payable, secured and guaranteed	17	76,777	87,789
		341,916	309,911
NET CURRENT LIABILITIES		(18,923)	(26,252)
TOTAL ASSETS LESS CURRENT LIABILITIES		410,263	406,229

CONSOLIDATED STATEMENT OF FINANCIAL POSITION

	Notes	30 June 2021 HK\$'000 (Unaudited)	31 December 2020 HK\$'000 (Audited)
NON-CURRENT LIABILITIES			
Deferred tax liabilities		685	678
Bank and other borrowings, due after one year	16	98,491	89,185
Deferred income		28,265	29,997
Lease liabilities		63	147
		127,504	120,007
NET ASSETS			
		282,759	286,222
CAPITAL AND RESERVES			
Share capital	18	253,928	253,928
Reserves		28,831	32,294
EQUITY ATTRIBUTABLE TO OWNERS OF THE COMPANY AND TOTAL EQUITY			
		282,759	286,222

CONSOLIDATED STATEMENT OF CHANGES IN EQUITY

For the six months ended 30 June 2021

	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 2021 (audited)	253,928	(16,968)	31,328	(11,337)	29,271	286,222
Loss for the period	–	–	–	–	(4,360)	(4,360)
Other comprehensive income for the period:						
Exchange differences arising on translation to presentation currency	–	–	–	897	–	897
Total comprehensive income/(expenses) for the period	–	–	–	897	(4,360)	(3,463)
Transfer to statutory reserve	–	–	2,650	–	(2,650)	–
Balance at 30 June 2021 (unaudited)	253,928	(16,968)	33,978	(10,440)	22,261	282,759
Balance at 1 January 2020 (audited)	253,928	(16,968)	30,325	(34,625)	100,486	333,146
Loss for the period	–	–	–	–	(2,846)	(2,846)
Other comprehensive expenses for the period:						
Exchange differences arising on translation to presentation currency	–	–	–	(9,177)	–	(9,177)
Total comprehensive (expenses) for the period	–	–	–	(9,177)	(2,846)	(12,023)
Balance at 30 June 2020 (unaudited)	253,928	(16,968)	30,325	(43,802)	97,640	321,123

CONSOLIDATED STATEMENT OF CASH FLOWS

For the six months ended 30 June 2021

	Six months ended 30 June	
	2021	2020
	HK\$'000	HK\$'000
	(Unaudited)	(Unaudited)
Net cash used in operating activities	(3,467)	(11,412)
Net cash used in investing activities	(20,958)	(9,068)
Net cash used in financing activities	(19,626)	(22,629)
Net decrease in cash and cash equivalents	(5,596)	(43,109)
Cash and cash equivalents at the beginning of the period	17,517	69,689
Effect of foreign exchange rate changes	(4,431)	(17,421)
Cash and cash equivalents at the end of the period, represented by bank balances and cash	7,490	9,159

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

1. GENERAL INFORMATION AND BASIS OF PRESENTATION

The unaudited interim consolidated financial statements have been prepared in accordance with the applicable disclosure provisions of the Rules Governing the Listing of Securities on the GEM of The Stock Exchange of Hong Kong Limited (the “**GEM Listing Rules**”), including compliance with Hong Kong Accounting Standard (“**HKAS**”) 34 “Interim Financial Reporting”, issued by the Hong Kong Institute of Certified Public Accountants (the “**HKICPA**”). The unaudited interim consolidated financial statements have been reviewed by the Company’s audit committee and were authorised for issue on 13 August 2021 (the “**Approval Date**”).

The unaudited interim consolidated financial statements do not include all the information and disclosures required in the annual financial statements, and should be read in conjunction with the Group’s annual report for the year ended 31 December 2020.

As at 30 June 2021, the Group’s current liabilities exceeded its current assets by approximately HK\$18,923,000 (31 December 2020: HK\$26,252,000). Its current liabilities, including current bank and other borrowings of approximately HK\$174,108,000 (31 December 2020: HK\$148,762,000), exceeded its cash and cash equivalents of approximately HK\$7,490,000 (31 December 2020: HK\$17,517,000).

Taking into consideration of 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 30 June 2022. In addition, Mr. Wong and his family members (“**Wong’s family**”) 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 interim 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 2020, except for the adoption of new and amended Hong Kong Financial Reporting Standards (“**HKFRSs**”) in the current period as disclosed in note 2.

The annual consolidated financial statements relating to the financial year ended 31 December 2020 that are included in these interim consolidated financial statements as comparative information does not constitute the Company’s statutory annual consolidated financials 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 annual consolidated financial statements for the year ended 31 December 2020 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 annual consolidated 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.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

2. ADOPTION OF NEW AND REVISED HONG KONG FINANCIAL REPORTING STANDARDS (“HKFRSs”)

(a) Amendments to HKFRSs adopted by the Group

During the current interim period, the Group has adopted the following new amendments to HKFRSs issued by the HKICPA for the first time:

Amendments to HKFRS 3	Definition of a Business
Amendments to HKAS 1 and HKAS 8	Definition of Material
Amendments to HKAS 9, HKAS 39 and HKFRS 7	Interest Rate Benchmark Reform
Revised Conceptual Framework	Revised Conceptual Framework for Financial Reporting

The application of amendments to HKFRSs and revised conceptual framework had no material effect on the amounts reported in the consolidated financial statements and/or disclosures set out in the consolidated financial statements.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

3. REVENUE

Revenue represents the amounts received and receivable for sales of particle boards and timber woods, both of which are conducted in the PRC by the Group. An analysis of revenue is as follows:

	For the six months ended 30 June	
	2021	2020
	HK\$'000	HK\$'000
	(Unaudited)	(Unaudited)
Revenue:		
Sales of particleboards	186,596	116,723
Revenue from contracts with customers	186,596	116,723

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

4. 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's operating business are structured and managed separately according to the nature of their operations and the products and services they provide. Each of the Group's operating segments represents a strategic business unit that offers products and services which are subject to risks and returns that are different from those of other operating segments.

During the six months ended 30 June 2021, the Group has two reportable operating segments. Details are as follows:

- a. Particleboards segment, principally engaged in manufacturing and selling of particleboards in the PRC; and
- b. Forestry segment, principally engaged in timber logging, plantation and sales of timber woods and agricultural products in the PRC.

The accounting policies of the reportable segments are the same as the Group's accounting policies as set out in the annual reports for the year ended 31 December 2020. Segment revenue represents the revenue generated by each operating segment.

Segment results represent the profit earned or loss incurred by each operating segment without allocation of central administration expenses (unallocated corporate expenses), interest income, finance costs and income tax expenses. This is the measure reported to CODM for the purpose of resource allocation and assessment of segment performance.

For the purpose of monitoring segment performance and allocating resources between segments:

- All assets are allocated to reportable segments other than loan receivable, deferred tax assets and unallocated corporate assets; and
- All liabilities are allocated to reportable segments other than bank and other borrowings, notes payable, lease liabilities, tax payable, deferred tax liabilities and unallocated corporate liabilities.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

4. SEGMENT INFORMATION (Continued)

Operating segments

The following tables represent segment information of the Group provided to the Group's CODM for the six months ended 30 June 2021.

For the six months ended 30 June 2021

	Particleboards segment HK\$'000 (Unaudited)	Forestry segment HK\$'000 (Unaudited)	Total HK\$'000 (Unaudited)
<i>Segment revenue:</i>			
Revenue from external customers	186,596	–	186,596
<i>Segment results:</i>			
Reportable segment results	14,588	–	14,588
Bank interest income (note 5)			9
Finance costs (note 6)			(14,240)
Unallocated corporate staff costs			(1,224)
Unallocated corporate expense			(3,493)
Consolidated loss before tax			(4,360)
<i>Other segment information</i>			
Capital expenditures – allocated*	20,358	–	20,358
Depreciation – allocated	16,574	266	16,840
Depreciation – unallocated			164
Total depreciation (note 8)			17,004
Amortisation (note 8)	231	–	231

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

4. SEGMENT INFORMATION (Continued)

Operating segments (Continued)

For the six months ended 30 June 2020

	Particleboards segment HK\$'000 (Unaudited)	Forestry segment HK\$'000 (Unaudited)	Total HK\$'000 (Unaudited)
<i>Segment revenue:</i>			
Reportable segment revenue	116,723	–	116,723
<i>Segment results:</i>			
Reportable segment results	13,007	–	13,007
Bank interest income (note 5)			431
Finance costs (note 6)			(12,211)
Unallocated corporate staff costs			(3,764)
Unallocated corporate expense			(309)
Consolidated loss before tax			(2,846)
<i>Other segment information</i>			
Capital expenditures – allocated*	3,111	–	3,111
Depreciation – allocated	14,286	–	14,286
Depreciation – unallocated			218
Total depreciation (note 8)			14,504
Amortisation (note 8)	212	–	212

* Capital expenditures of particleboards segment mainly represent the addition of property, plant and equipment and repayments made for acquisition of property, plant and equipment.

There has been no material change for the amounts of segment assets and liabilities as at 30 June 2021 from the amount disclosed in 2020 annual financial statements. Accordingly, no segment assets and liabilities is disclosed.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

4. SEGMENT INFORMATION (Continued)

Entity-wide disclosures

Geographical information

The Group's operation is located in the PRC and all of its revenue is generated from the PRC and other Asian countries for both period. The analysis is as follows:

	For the six months ended 30 June	
	2021 HK\$'000 (Unaudited)	2020 HK\$'000 (Unaudited)
Revenue from the PRC	186,596	116,723

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

Information about major customers

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

	For the six months ended 30 June	
	2021 HK\$'000 (Unaudited)	2020 HK\$'000 (Unaudited)
Customer A	47,916	56,430

5. OTHER INCOME

	For the six months ended 30 June	
	2021 HK\$'000 (Unaudited)	2020 HK\$'000 (Unaudited)
Value added tax ("VAT") refund	6,025	4,660
Government grants	452	1,031
Bank interest income	9	431
Others	364	69
	6,850	6,191

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

6. FINANCE COSTS

	For the six months ended 30 June	
	2021	2020
	HK\$'000	HK\$'000
	(Unaudited)	(Unaudited)
Interests on bank and other borrowings	10,448	7,756
Interests on bonds and notes payable	3,783	4,405
Interests on unsecured revolving loan	–	37
Interests on finance lease liabilities	9	13
	14,240	12,211

7. 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) Co. Ltd. ("Hongwei Renhua") is 25% during the six months ended 30 June 2021 and 2020.

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 2021 and 2020, 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 six months ended 30 June 2021 and 2020, the Group's two subsidiaries which are principally engaged in qualifying agricultural business and therefore, the profit of them are entitled to exemption from payment of enterprise income tax.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

8. LOSS FOR THE PERIOD

Loss for the period has been arrived at after charging:

	Notes	For the six months ended 30 June	
		2021 HK\$'000 (Unaudited)	2020 HK\$'000 (Unaudited)
Depreciation and amortisation expenses			
Depreciation of property, plant and machinery	(i)	17,004	14,504
Amortisation of intangible assets		231	212
Total depreciation and amortisation expenses		17,235	14,716
Employee benefits expenses (included directors' emoluments)			
Salaries and other benefits		7,073	6,167
Contribution to retirement benefit schemes		981	288
Total employee benefit expenses		8,054	6,455
Cost of inventories recognised as an expense		158,472	94,422

- (i) The amount was included in administrative expenses in the consolidated statements of profit or loss and other comprehensive income.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

9. LOSS PER SHARE

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

Loss

	Six months ended 30 June	
	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 loss per share	(4,360)	(2,846)

Number of shares

	Six months ended 30 June	
	2021 '000 (Unaudited)	2020 '000 (Unaudited)
Weighted average number of ordinary shares for the purpose of basic and diluted loss per share	832,603	832,603

Notes: Basic and diluted loss per share were the same for both periods as there has been no potential dilutive ordinary shares outstanding during the periods.

10. DIVIDENDS

No interim dividend was paid or proposed for the six months ended 30 June 2021 (for the six months ended 30 June 2020: nil).

11. BIOLOGICAL ASSETS

(a) Nature of activities

Biological assets are standing timber trees attached to the forestlands which could be logged to produce timber woods as agricultural produce. Majority of timber woods harvested, being the small-sized timber woods, were used as raw materials of the Group to produce particleboards for sale and the remaining timber woods harvested, being the larger-sized timber woods, were sold to external customers.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

11. BIOLOGICAL ASSETS (Continued)

(b) Valuation of biological assets

The Group's biological assets are measured at fair values less costs to sell at initial recognition and at the end of each reporting period in accordance with HKAS 41 "Agriculture". The fair values less costs to sell of biological assets were determined with reference to the work performed by the Independent Valuers. The Independent Valuers have various professional qualifications and extensive experience in the valuation of agricultural and biological assets and its related businesses for the listed companies in Hong Kong. Accordingly, the directors are of the view that the Independent Valuers are competent to determine the fair values less costs to sell of the Group's biological assets. The Group's management has discussion with the Independent Valuers on the valuation assumptions and valuation results when the valuation is performed at the end of each reporting period.

Because the fair values less costs to sell of the Group's biological assets are non-cash in nature, are derived from many assumptions and are affected by factors including different usage of the timbers harvested, presence of natural defects in the wood, growth and death rates of trees, calamities, market prices at the time of harvest and buyers' preference, any changes in assumptions and factors may affect the fair values less costs to sell of the Group's biological assets dramatically.

No gain on initial recognition has been recognised in profit or loss for both years.

12. INVENTORIES

	As at 30 June 2021 HK\$'000 (Unaudited)	As at 31 December 2020 HK\$'000 (Audited)
Raw materials	132,167	104,338
Work in progress	859	3,871
Finished goods	27,066	20,041
Total	160,092	128,250

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

13. TRADE AND BILLS RECEIVABLES

	As at 30 June 2021 HK\$'000 (Unaudited)	As at 31 December 2020 HK\$'000 (Audited)
Trade receivables	65,183	54,477
Bills receivables	34,772	26,500
	99,955	83,977
Less: Loss allowances	(5,842)	(5,777)
Total	94,113	78,200

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 2020: 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 and their carrying amounts approximately equal to their fair values.

The following is an aged analysis of trade receivables, presented based on the invoice date, at the end of the reporting period.

	As at 30 June 2021 HK\$'000 (Unaudited)	As at 31 December 2020 HK\$'000 (Audited)
Within three months	57,876	50,928
Over three months but within six months	5,087	6,361
Over six months	2,394	188
Total	65,357	57,477

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

13. TRADE AND BILLS RECEIVABLES *(Continued)*

The maturity period of bills receivable are within six months from 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 2021 HK\$'000 (Unaudited)	As at 31 December 2020 HK\$'000 (Audited)
Within three months	28,082	16,983
Over three months but within six months	5,934	9,517
Over six months	756	–
Total	34,772	26,500

14. DEPOSITS, PREPAYMENTS AND OTHER RECEIVABLES

	As at 30 June 2021 HK\$'000 (Unaudited)	As at 31 December 2020 HK\$'000 (Audited)
VAT recoverable	18,738	15,472
VAT refund receivable	2,061	1,257
Payments in advance to suppliers	40,806	32,333
Prepayments paid for acquisition of property, plant and equipment	727	6,664
Others	(307)	3,630
	62,025	59,356
Analyses for reporting purpose		
Current assets	61,298	59,692
Non-current assets	727	6,664
	62,025	59,356

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

15. TRADE PAYABLES

	As at 30 June 2021 HK\$'000 (Unaudited)	As at 31 December 2020 HK\$'000 (Audited)
Trade payables	41,588	28,127

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 2021 HK\$'000 (Unaudited)	As at 31 December 2020 HK\$'000 (Audited)
Within three months	37,772	19,334
Over three months but within six months	–	6,287
Over six months	3,816	2,506
Total	41,588	28,127

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

16. BANK AND OTHER BORROWINGS

	Notes	As at 30 June 2021 HK\$'000 (Unaudited)	As at 31 December 2020 HK\$'000 (Audited)
Bank borrowings	(i)		
– due within one year		116,697	93,810
– due after one year		49,995	30,596
Bank borrowings obtained in relation to discounted bill receivable		8,293	6,369
Other borrowings	(ii)	76,797	97,097
Unsecured loans from Mr. Wong and his associate	(iii)		
– due within one year		–	–
– due after one year		20,817	10,075
		272,599	237,947
Less: amount included in current liabilities		(174,108)	(148,762)
Non-current portion		98,491	89,185
Analysed as:			
Secured but unguaranteed	(iv)	106,842	52,353
Secured and guaranteed	(iv)	125,711	156,508
Unsecured and unguaranteed		40,046	29,086
		272,599	237,947

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

16. BANK AND OTHER BORROWINGS (Continued)

Notes:

- (i) Other than bank borrowings with an aggregate carrying amount of HK\$57,567,000 (31 December 2020: HK\$49,145,000) as at 30 June 2021, other bank borrowings with an aggregate carrying amount of HK\$117,418,000 (31 December 2020: HK\$81,630,000) as at 30 June 2021. All bank borrowings are denominated in RMB.
- (ii) As at 30 June 2021, the Group's other borrowings represents sales and leaseback operating lease arrangements with financial institutions, pursuant to which the Group transfers certain of its equipments to the financial institutions for loans to the Group with tenure of one to three years (2019: one to three years) from the date of advancements. At the end of the terms, the Group could pay a minimal amount of consideration to re-acquire the leased equipments. Other borrowings of approximately HK\$38,392,000 (31 December 2020: HK\$47,594,000) as at 30 June 2021 and other borrowings of approximately HK\$38,405,000 (31 December 2020: HK\$49,503,000) as at 30 June 2021. Other borrowings are denominated in RMB.

The maturity analysis of bank borrowings is as follows:

	As at 30 June 2021 HK\$'000 (Unaudited)	As at 31 December 2020 HK\$'000 (Audited)
Within one year	49,118	48,583
More than one year, but not exceeding two years	25,347	42,903
More than two year, but not exceeding five years	2,332	5,611
	76,797	97,097

- (iii) As at 30 June 2021, the balance represented the unsecured loans from Mrs. Wong & Ms. Wong Wan Yu ("**Ms. Wong**"), a daughter of Mr. and Mrs. Wong, which amounted to approximately HK\$1,986,000 and HK\$18,831,000. Both loans carry interest of 7% per annum, unsecured and will repay in year 2022. As at 31 December 2020, the balance represented the unsecured loans from Mrs. Wong and Ms. Wong, which amounted to approximately HK\$1,700,000 and HK\$8,375,000. Both loans carry interest of 7% per annum, unsecured and will repay in year 2022.

Details are set out in note 37(d) to the Annual Report 2020.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

16. BANK AND OTHER BORROWINGS (Continued)

Notes: (Continued)

- (iv) As at 30 June 2021, the Group's secured bank and other borrowings are secured by the following assets of the Group:
- (a) the pledge of the Group's property, plant and equipment with an aggregate carrying amount of approximately HK\$305,373,000 (31 December 2020: approximately HK\$260,569,000);
 - (b) the pledge of the Group's right-of-use assets with an aggregate carrying amount of approximately HK\$15,514,000 (31 December 2020: approximately HK\$18,527,000);
 - (c) the pledge of the Group's inventories with an aggregate carrying amount of approximately HK\$27,066,000 (31 December 2020: approximately HK\$20,041,000) and;
 - (d) the pledge of the Group's bills receivables with aggregate carrying amount of approximately HK\$8,293,000 (31 December 2020: approximately HK\$6,369,000).
- (v) As at 30 June 2021, the Group's secured and guaranteed bank borrowings of approximately HK\$59,411,000 (31 December 2020: approximately HK\$59,411,000) are secured by personal guarantees executed by Mr. Wong and Mr. Wong Kin Ching for the maximum amount of guarantee up to approximately HK\$118,821,000 (31 December 2020: approximately HK\$118,821,000). As at 30 June 2021, the Group's secured and guaranteed other borrowings of approximately HK\$76,797,000 (31 December 2020: approximately HK\$97,097,000) are secured by personal guarantees executed by Mr. Wong and Mrs. Wong/Mr. Wong, Mrs. Wong and Mr. Wong Kin Ching.

17. NOTES PAYABLE

	As at 30 June 2021 HK\$'000 (Unaudited)	As at 31 December 2020 HK\$'000 (Audited)
Notes payable, secured and guaranteed (note)	77,786	87,789

Note: On 10 August 2018, the Company entered into a subscription agreement (the "Notes Subscription Agreement") with a subscriber (the "Notes Subscriber") for the issuance of secured and guaranteed notes (the "Notes") in the principal amount of HK\$100,000,000 for an initial term of 2 years from the date of issuance, which could be extendable for another year as agreed by the Company and the Notes Subscriber. The Notes are secured by the Company's fully paid up capital in Hongwei Renhua and personal guarantees executed by the Company's chairman and executive directors, Mr. Wong and Mrs. Wong (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 12 August 2021. Please refer to the announcement of the Company dated 13 July 2020 for more details.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

17. NOTES PAYABLE (Continued)

Notes: (Continued)

The Note Subscription Agreement and the instrument constituting the Notes (together with the amended and restated note instrument dated on 31 December 2018, 13 July 2020 and 11 December 2020, collectively referred to as the “**Instrument**”) contain covenants that, among other things, require Mr. Wong to remain as the single largest shareholder of the Company, the chairman of the Board and executive Director of the Company 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 Notes 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 Notes is(are) entitled to request immediate redemption of the Notes 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 Notes Subscriber as stipulated in the Instrument.

As at 30 June 2021 and as at 31 December 2020, the Group does not place any restricted deposit at a financial institution.

18. SHARE CAPITAL

	Numbers of shares		Share capital	
	30 June 2021 '000 (Unaudited)	31 December 2020 '000 (Audited)	30 June 2021 HK\$'000 (Unaudited)	31 December 2020 HK\$'000 (Audited)
Issued and fully paid	832,603	832,603	253,928	253,928

There was no movement in share capital between years.

19. RELATED PARTY TRANSACTIONS

Information about related parties and their relationships with the Group are as follows:

Name of related party	Relationship
Ms. Wong Wan Yu	Daughter of Mr. Wong and Mrs. Wong
Mr. Wong Kin Ching	Director and son of Mr. and Mrs. Wong
Mr. Wong Kin Keung	Son of Mr. and Mrs. Wong

Details of transactions between the Group and its related parties are disclosed below.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

19. RELATED PARTY TRANSACTIONS (Continued)

(a) Transactions with related parties

	As at 30 June 2021 HK\$'000 (Unaudited)	As at 31 December 2020 HK\$'000 (Audited)
Loan advanced from related parties:		
– Mrs. Wong	207	1,900
– Ms. Wong Wan Yu	12,917	8,381
	13,124	10,281
Loan principal repayment to related parties:		
– Mr. Wong	–	7,500
– Mrs. Wong	–	200
– Ms. Wong Wan Yu	2,690	6,706
	2,690	14,406
Loan facilities provided by:		
– Mr. Wong	–	–
– Mrs. Wong	5,000	5,000
– Ms. Wong Wan Yu	10,000	10,000
	15,000	15,000

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

19. RELATED PARTY TRANSACTIONS (Continued)

(b) Personal guarantee executed by Directors

	As at 30 June 2021 HK\$'000 (Unaudited)	As at 31 December 2020 HK\$'000 (Audited)
Personal guarantees executive by Mr. Wong and Mrs. Wong in respect of the following balances:		
– notes payable	77,786	87,789
Personal guarantees executive by Mr. Wong, Mrs. Wong and Mr. Wong Kin Ching in respect of the following balances:		
– other borrowings	76,797	97,097
Personal guarantees executive by Mr. Wong Kin Ching and Mr. Wong in respect of the following balances:		
– bank borrowings*	59,411	59,411

* Maximum amount of guarantee provided by Mr. Wong and Mr. Wong Kin Ching are each approximately HK\$118,821,000 (31 December 2020: approximately HK\$118,821,000)

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

19. RELATED PARTY TRANSACTIONS (Continued)

(c) Compensation of key management personnel and a related parties

The remuneration of Directors and other members of key management personnel during the six months ended 30 June 2021 is as follows:

	For the six months ended 30 June	
	2021	2020
	HK\$'000	HK\$'000
	(Unaudited)	(Unaudited)
Short-term employee benefits	825	1,200
Post-employment benefits	18	28
Total compensation paid to key management personnel	843	1,228

During the six months ended 30 June 2021, short-term benefits and post-employment benefits for Miss Wong Wan Yu, daughter of Mr. Wong and Mrs. Wong, paid and contributed by the Group were approximately HK\$268,000 (2020: HK\$288,000) and HK\$8,900 (2020: HK\$9,000), respectively and short-term benefits and post-employment benefits for Mr. Wong Kin Keung, son of Mr. Wong and Mrs. Wong, paid and contributed by the Group were approximately HK\$100,000 (2020: nil) and approximately HK\$5,000 (2020: nil), respectively

MANAGEMENT DISCUSSIONS AND ANALYSIS

BUSINESS REVIEW

During the six months ended 30 June 2021 (“**Current Period**” or “**2021 Interim Period**”), the Group continued to be engaged in the manufacturing and selling of particleboards (“**Particleboards Segment**”) and the plantation, timber logging and sales of wood and agricultural products in the People’s Republic of China (the “**PRC**”) (“**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. 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.

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 greatly 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 2021 Interim Period, the Group’s revenue for Particleboards Segment increased to approximately HK\$186.6 million from approximately HK\$116.7 million, representing an increase of approximately 59.9% as compared to the six months ended 30 June 2020 (“**Previous Period**”). The increase was mainly due to the increase in the average unit selling price and sales volume of particleboards by approximately 1.5% and 46.2% respectively, as well as the appreciation of the exchange rate of RMB to Hong Kong Dollar (“**HKD**”), which is the presentation currency of the financial statements of the Group, during the 2021 Interim Period as compared with the Previous Period.

During the period ended 30 June 2021 and 2020, no income generating activity took place for the Forestry Segment and hence no revenue was recognized for such segment.

MANAGEMENT DISCUSSIONS AND ANALYSIS

Cost of sales

During the 2021 Interim Period, the Group's costs of sales increased to approximately HK\$158.5 million from approximately HK\$94.4 million, representing an increase of approximately 67.8% as compared to the Previous Period. The increase was primarily due to the increase in the volume of goods sold and also as a result of increase in average unit costs of raw material, particularly the chemical, recorded in the Current Period.

Gross profit and margin

During the 2021 Interim Period, the Group's gross profit increased to approximately HK\$28.1 million from approximately HK\$22.3 million, representing an increase of approximately 26.1% as compared to the Previous Period. The Group's gross profit margin decreased to approximately 15.1% in the 2021 Interim Period from approximately 19.1% in the Previous Period.

The increase in gross profit and the decrease in gross profit margin was mainly due to the increase in revenue and the increase in average unit cost respectively.

Other income

During the 2021 Interim Period, the Group's other income increased to approximately HK\$6.9 million from approximately HK\$6.2 million, representing an increase of approximately 10.6% as compared to that for the Previous Period. The increase was mainly attributable to the increase in value added tax refund which was partly off-set by the decrease in subsidy released from deferred income.

Selling and distribution expenses

During the 2021 Interim Period, the Group's selling and distribution expenses increased to approximately HK\$14.8 million from approximately HK\$10.0 million in the Previous Period, representing an increase of approximately 47.8%. The increase in selling and distribution expenses was mainly attributable to the increase in transportation and packaging cost incurred during the Current Period due to the increase in sales of particleboard.

Administration expenses

During the 2021 Interim Period, the Group's administration expenses increased to approximately HK\$10.5 million from approximately HK\$9.2 million, representing an increase of approximately 13.7% as compared to the Previous Period. The increase in administration expenses was mainly due to the increase in the research and development cost incurred during the Current Period.

MANAGEMENT DISCUSSIONS AND ANALYSIS

Finance costs

During the 2021 Interim Period, the Group's finance costs increased to approximately HK\$14.2 million from approximately HK\$12.2 million in the Previous Period, representing an increase of approximately 16.6%. The increase in finance costs was mainly attributable to the increase in bank and other borrowings.

Loss attributable to owners of the Company

During the 2021 Interim Period, the loss attributable to owners of the Company amounted to approximately HK\$4.4 million, representing a significant increase of approximately 53.2% as compared to the loss attributable to owners of the Company amounted to approximately HK\$2.8 million for the Previous Period. Such increase was mainly due to the increase in selling and distribution expenses, administration expenses and finance costs as discussed above.

Total comprehensive expenses attributable to owners of the Company

During the six months ended 30 June 2021, the Group's total comprehensive expenses attributable to owners of the Company amounting to approximately HK\$3.5 million, while the Group's total comprehensive expenses attributable to owners of the Company during the same period last year amounting to approximately HK\$12.0 million. The decrease was mainly attributable to the exchange gain arising from translation.

LIQUIDITY, FINANCIAL RESOURCES AND CAPITAL STRUCTURE

As at 30 June 2021, there has been no change in the capital structure of the Company compared to that as at 31 December 2020. The capital of the Company only comprises ordinary shares.

During the six months ended 30 June 2021, the Group mainly financed its operations with its working capital, bank and other borrowings, including the secured and guaranteed notes.

As at 30 June 2021 and 31 December 2020, the Group had bank and other borrowings of approximately HK\$175.0 million and HK\$130.8 million respectively. As at 30 June 2021, all bank borrowings are dominated in RMB. The maturity profile of the Group's bank and other borrowings are set out in note 16 to this report.

MANAGEMENT DISCUSSIONS AND ANALYSIS

As at 30 June 2021 and 31 December 2020, the Group had net current liabilities of approximately HK\$18.9 million and HK\$26.3 million respectively. The current ratio of the Group, calculated by current assets over current liabilities, was 0.94x as at 30 June 2021 (31 December 2020: 0.92x).

Gearing Ratio

As at 30 June 2021, the gearing ratio stood at 1.24x (31 December 2020: 1.14x) calculated by total borrowings (including lease liabilities, bank and other borrowings and note payable) over shareholders' equity.

FOREIGN EXCHANGE EXPOSURE

As at 30 June 2021 and 31 December 2020, the functional currency of the Company and its major operating subsidiary is RMB while the presentation currency of the Company is HKD. The Group's bank balances were mainly denominated in RMB and HKD. The Group manages its foreign currency risk by closely monitoring the movement of the foreign exchange rates. As at 30 June 2021, lease liabilities and secured and guaranteed notes payable were denominated in HKD.

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. In order 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 HELD AND FUTURE PLANS FOR MATERIAL INVESTMENTS OR CAPITAL ASSETS

The Group had no significant investment held as at 30 June 2021. The Group has no plan for material investments or capital assets except that the Group will acquire new machineries and continue the construction work as mentioned in note 14 to the consolidated financial statements in the annual report 2020 and the purchase of machinery as disclosed in the announcement dated 16 April 2021.

MATERIAL ACQUISITIONS AND DISPOSALS OF SUBSIDIARIES

During 2021 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(iv) of this report.

COMMITMENTS AND CONTINGENT LIABILITIES

The Group does not have other significant capital commitment nor contingent liabilities as at 30 June 2021.

MANAGEMENT DISCUSSIONS AND ANALYSIS

EMPLOYEES AND REMUNERATION POLICIES

As at 30 June 2021, the Group employed a total of 174 employees (30 June 2020: 161). The remuneration payable to our employees included fees, salaries, retirement benefits scheme contributions and other benefits. For the 2021 Interim Period and the corresponding period in 2020, the remuneration paid to employees was approximately HK\$8.1 million and HK\$6.5 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 ("**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. As at 30 June 2021, no share option was granted or outstanding.

SECURED AND GUARANTEED NOTES

On 13 August 2018, pursuant to the subscription agreement dated 10 August 2018 ("**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 ("**Note Subscriber**"), the Company issued secured and guaranteed notes in the principal amount of HK\$100,000,000 (the "**Notes**") originally due on 12 August 2020 to the Note Subscriber. The Notes 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, "**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 12 August 2021. Please refer to the announcement of the Company dated 13 July 2020 for more details.

The Note Subscription Agreement and the instrument constituting the Notes ("**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 of the Company 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 Notes is(are) entitled to request immediate redemption of the Notes 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.

MANAGEMENT DISCUSSIONS AND ANALYSIS

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. Mr. Wong has confirmed to the Company that the Non-competition Deed has been fully complied with during the period ended 30 June 2021 and up to the date of this report.

Details of the undertaking has been set out in the section headed “Relationship with Controlling Shareholders” of the prospectus of the Company dated 27 December 2013.

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 2021, 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 ”)	Beneficial owner	430,000,000 (L)	51.65%
Ms. Cheung Ngar Kwan (“ Mrs. Wong ”)(Note 2)	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.

MANAGEMENT DISCUSSIONS AND ANALYSIS

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 30 June 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 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.

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

During the 2021 Interim Period, neither the Company nor its subsidiary have purchased, sold or redeemed any listed securities of the Company.

CODE ON CORPORATE GOVERNANCE PRACTICES

The Company has complied with the code provisions as set out in the Corporate Governance Code (the "CG Code") contained in Appendix 15 to the GEM Listing Rules during the 2021 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.

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 2021 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 2021 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 2021 Interim Period.

MANAGEMENT DISCUSSIONS AND ANALYSIS

EVENT AFTER REPORTING PERIOD

As of the date of this report, the Directors are not aware of any important events affecting the Group which have occurred since 30 June 2021.

REVIEW OF CONSOLIDATED INTERIM FINANCIAL STATEMENTS

The audit committee of the Board of the Company has discussed and reviewed with the management of the Group the consolidated interim financial statements of the Group for the 2021 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 2021 Interim Period.

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

Hong Kong, 13 August 2021

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