

A large, stylized barcode graphic is positioned diagonally across the upper right portion of the cover. The background of the entire cover is a collage of various wood textures and patterns, including vertical planks, horizontal planks, and cross-sections of wood, all in shades of light to medium brown.

2022

INTERIM REPORT



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

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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, 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.*

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REGISTERED OFFICE

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HEAD OFFICE IN HONG KONG

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Well Tech Centre,
No.9 Pat Tat Street,
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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
Dr. Kaneko Hiroshi

NON-EXECUTIVE DIRECTOR

Mr. Yanase Kenichi

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
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AUDITOR

McMillan Woods (Hong Kong) CPA Limited
Certified Public Accountants (Practising)
and Registered PIE Auditor

GEM STOCK CODE

8191

COMPANY'S WEBSITE ADDRESS

www.hongweiasia.com

FINANCIAL HIGHLIGHTS

For the six months ended 30 June 2022, operating results of the Group were as follows:

- Revenue for the six months ended 30 June 2022 amounted to approximately HK\$165.4 million, representing a decrease of approximately 11.4% from approximately HK\$186.6 million recorded in the same period in 2021.
- Gross profit for the six months ended 30 June 2022 amounted to approximately HK\$36.5 million, representing an increase of approximately 29.8% from approximately HK\$28.1 million recorded in the same period in 2021.
- Profit attributable to owners of the Company for the six months ended 30 June 2022 amounted to approximately HK\$7.2 million as compared to loss attributable to owners of the Company of approximately HK\$4.4 million recorded in the same period in 2021.
- The Board does not recommend the payment of an interim dividend for the six months period ended 30 June 2022 (30 June 2021: 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 2022 (“**Current Period**” or “**2022 Interim Period**”) together with the comparative figures of the six months 30 June 2021 (“**Previous Period**” or “**Corresponding period**”) as appropriate.

UNAUDITED CONSOLIDATED STATEMENT OF PROFIT OR LOSS AND OTHER COMPREHENSIVE INCOME

	Notes	Three months ended 30 June		Six months ended 30 June	
		2022 HK\$'000 (Unaudited)	2021 HK\$'000 (Unaudited)	2022 HK\$'000 (Unaudited)	2021 HK\$'000 (Unaudited)
Revenue	3	97,440	118,697	165,396	186,596
Cost of sales		79,878	(100,191)	(128,881)	(158,472)
Gross profit		17,562	18,506	36,515	28,124
Other income	5	2,489	5,256	4,251	6,850
Other losses, net		(27)	(359)	–	–
Net loss arising from change in fair values less costs to sell biological assets		(98)	–	(98)	–
Gain on disposal of biological assets and right-of-use assets-forestland		5,849	168	1,708	168
Selling and distribution expenses		(7,198)	(9,050)	(12,118)	(14,767)
Administration expenses		(6,493)	(4,820)	(13,692)	(10,495)
Finance costs	6	(4,926)	(7,836)	(10,614)	(14,240)
Profit/(loss) before tax		7,158	1,865	5,952	(4,360)
Income tax credit	7	1,270	–	1,270	–
Profit/(loss) for the period attributable to owners of the Company	8	8,428	1,865	7,222	(4,360)
Other comprehensive (expenses)/income which will not be reclassified subsequently to profit or loss:					
Exchange differences arising on translation to presentation currency		(19,577)	3,919	(16,594)	897
Other comprehensive (expenses)/income for the period		(19,577)	3,919	(16,594)	897
Total comprehensive (expenses)/income for the period		(11,149)	5,784	(9,372)	(3,463)
Total comprehensive (expenses)/income attributable to owners of the Company		(11,149)	5,784	(9,372)	(3,463)
Basic and diluted earnings/(loss) per share, in HK cents	9	16.29	Restated 4.48	13.96	Restated (10.47)

UNAUDITED CONSOLIDATED STATEMENT OF FINANCIAL POSITION

	Notes	30 June 2022 HK\$'000 (Unaudited)	31 December 2021 HK\$'000 (Audited)
NON-CURRENT ASSETS			
Property, plant and equipment		398,980	352,454
Right-of-use assets		24,858	26,893
Biological assets	11	24,088	25,073
Intangible assets		1,020	1,306
Investment properties under construction		15,892	15,892
Deferred tax assets		1,697	1,875
Prepayments for acquisition of property, plant and equipment	14	41	50,354
		466,576	473,847
CURRENT ASSETS			
Inventories	12	169,705	137,578
Trade and bills receivables	13	72,106	90,166
Deposits, prepayments and other receivables	14	46,981	59,944
Bank balances and cash		15,538	11,431
Restricted deposit		–	126
		304,330	299,245
CURRENT LIABILITIES			
Trade payables	15	24,735	27,346
Other payables and accrued expenses		72,600	56,323
Tax payables		129	129
Contract liabilities		6,068	6,125
Bank and other borrowings, due within one year	16	201,418	219,799
Due to a director		5	5
Deferred income		4,466	4,224
Lease liabilities		159	353
Notes payable, secured and guaranteed	17	55,221	56,721
		364,801	371,025
NET CURRENT LIABILITIES		(60,471)	(71,780)
TOTAL ASSETS LESS CURRENT LIABILITIES		406,105	402,067

UNAUDITED CONSOLIDATED STATEMENT OF FINANCIAL POSITION

	Notes	30 June 2022 HK\$'000 (Unaudited)	31 December 2021 HK\$'000 (Audited)
NON-CURRENT LIABILITIES			
Deferred tax liabilities		3,492	5,043
Bank and other borrowings, due after one year	16	91,175	77,297
Deferred income		25,450	26,654
Lease liabilities		27	107
Note payable, secured and guaranteed	17	16,336	15,940
		136,480	125,041
NET ASSETS			
		269,625	277,026
CAPITAL AND RESERVES			
Share capital	18	270,896	268,925
Reserves		(1,271)	8,101
EQUITY ATTRIBUTABLE TO OWNERS OF THE COMPANY AND TOTAL EQUITY			
		269,625	277,026

UNAUDITED CONSOLIDATED STATEMENT OF CHANGES IN EQUITY

For the six months ended 30 June 2022

	Share capital	Capital reserve	Statutory reserve	Foreign currency translation reserve	Retained profits/ (Accumulated losses)	Total
	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000
Balance at 1 January 2022 (audited)	268,925	(16,968)	34,906	(749)	(9,088)	277,026
Profit for the period	-	-	-	-	7,222	7,222
Issuance of shares upon placing	1,971	-	-	-	-	1,971
Other comprehensive expenses for the period:						
Exchange differences arising on translation to presentation currency	-	-	-	(16,594)	-	(16,594)
Total comprehensive income/(expenses) for the period	1,971	-	-	(16,594)	7,222	(7,401)
Transfer to statutory reserve	-	-	1,239	-	(1,239)	-
Balance at 30 June 2022 (unaudited)	270,896	(16,968)	36,145	(17,343)	(3,105)	269,625
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

UNAUDITED CONSOLIDATED STATEMENT OF CASH FLOWS

For the six months ended 30 June 2022

	Six months ended 30 June	
	2022 HK\$'000 (Unaudited)	2021 HK\$'000 (Unaudited)
Net cash generated from/(used in) operating activities	35,819	(3,467)
Net cash used in investing activities	(28,227)	(20,958)
Net cash generated from/(used in) financing activities	8,668	(19,626)
Net increase/(decrease) in cash and cash equivalents	16,060	(5,596)
Cash and cash equivalents at the beginning of the period	11,431	17,517
Effect of foreign exchange rate changes	(12,153)	(4,431)
Cash and cash equivalents at the end of the period, represented by bank balances and cash	15,538	7,490

NOTES TO THE UNAUDITED 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 12 August 2022 (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 2021.

As at 30 June 2022, the Group’s current liabilities exceeded its current assets by approximately HK\$60,471,000 (31 December 2021: HK\$71,780,000). Its current liabilities, including current bank and other borrowings of approximately HK\$201,418,000 (31 December 2021: HK\$219,799,000), exceeded its cash and cash equivalents of approximately HK\$15,538,000 (31 December 2021: HK\$11,431,000).

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 2023. 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 2021, 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 2021 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 2021 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 UNAUDITED CONSOLIDATED FINANCIAL STATEMENTS

2. ADOPTION OF NEW AND REVISED HKFRSs

(a) Amendments to HKFRSs adopted by the Group

The HKICPA has issued the following new amendments to HKFRSs which are effective for the first time in the current year:

Amendments to HKAS 16, Property, plant and equipment	Proceeds before intended use
Amendments to HKAS 37, Provisions, contingent liabilities and contingent assets	Onerous contracts — cost of fulfilling a contract

The application of the amendments to HKFRSs in the current year had no material impact on the Group's financial positions and performance for the current and prior years and/or on the disclosures set out in these consolidated financial statements.

3. REVENUE

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

	For the six months ended 30 June	
	2022 HK\$'000 (Unaudited)	2021 HK\$'000 (Unaudited)
Timing of revenue recognition – at a point in time:		
Sales of particleboards	165,396	186,596
Revenue from contracts with customers	165,396	186,596

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 2022, the Group has two reportable operating segments. Details are as follows:

- Particleboards segment, principally engaged in manufacturing and selling of particleboards in the PRC; and
- 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 report for the year ended 31 December 2021. Segment revenue represents the revenue generated by each operating segment.

NOTES TO THE UNAUDITED CONSOLIDATED FINANCIAL STATEMENTS

4. SEGMENT INFORMATION (Continued)

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.

Operating segments

The following tables represent segment information of the Group provided to the Group's CODM.

For the six months ended 30 June 2022

	Particleboards segment HK\$'000 (Unaudited)	Forestry segment HK\$'000 (Unaudited)	Total HK\$'000 (Unaudited)
<i>Segment revenue:</i>			
Reportable segment revenue	165,396	–	165,396
<i>Segment results:</i>			
Reportable segment results	20,160	1,220	21,380
Interest income (note 5)			6
Finance costs (note 6)			(10,614)
Unallocated corporate staff costs			(1,746)
Unallocated corporate expense			(3,074)
Consolidated profit before tax			5,952
<i>Other segment information</i>			
Capital expenditures – allocated*	30,067	–	30,067
Depreciation – allocated	19,069	412	19,481
Depreciation – unallocated			312
Total depreciation (note 8)			19,793
Amortisation (note 8)	235	–	235

NOTES TO THE UNAUDITED CONSOLIDATED FINANCIAL STATEMENTS

4. SEGMENT INFORMATION (Continued)

Operating segments (Continued)

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>			
Reportable segment revenue	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*	20,538	–	20,358
Depreciation – allocated	16,574	266	16,840
Depreciation – unallocated			164
Total depreciation (note 8)			17,004
Amortisation (note 8)	231	–	231

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

NOTES TO THE UNAUDITED 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 for both period. The analysis is as follows:

	For the six months ended 30 June	
	2022 HK\$'000 (Unaudited)	2021 HK\$'000 (Unaudited)
Revenue from the PRC	165,396	186,596

The Group's non-current assets other than deferred tax assets are located in the PRC by location of assets in case of property, plant and equipment 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	
	2022 HK\$'000 (Unaudited)	2021 HK\$'000 (Unaudited)
Customer A	22,789	47,916

5. OTHER INCOME

	For the six months ended 30 June	
	2022 HK\$'000 (Unaudited)	2021 HK\$'000 (Unaudited)
Value added tax ("VAT") refund	640	6,025
Government grants	3,591	452
Interest income	6	9
Others	14	364
	4,251	6,850

NOTES TO THE UNAUDITED CONSOLIDATED FINANCIAL STATEMENTS

6. FINANCE COSTS

	For the six months ended 30 June	
	2022 HK\$'000 (Unaudited)	2021 HK\$'000 (Unaudited)
Interests on bank and other borrowings	9,058	10,448
Interests on notes payable	–	3,783
Interests on lease liabilities	4	9
Interests on loans from Mr. Wong and his associate	1,141	–
Others	411	–
	10,614	14,240

7. INCOME TAX CREDIT

	For the six months ended 30 June	
	2022 HK\$'000 (Unaudited)	2021 HK\$'000 (Unaudited)
Current tax	–	–
Deferred tax credited:		
– Origination of temporary difference	(1,270)	–
Income tax credit	(1,270)	–

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 2022 and 2021.

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 (the "Tax Concessions"). During the six months ended 30 June 2022 and 2021, 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.

NOTES TO THE UNAUDITED CONSOLIDATED FINANCIAL STATEMENTS

7. INCOME TAX CREDIT (Continued)

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 2022 and 2021, the Group's two subsidiaries are principally engaged in qualifying agricultural business and therefore, the profit of them are entitled to exemption from payment of enterprise income tax (the "Tax Exemption").

8. PROFIT/(LOSS) FOR THE PERIOD

Profit/(Loss) for the period has been arrived at after charging:

	Notes	For the six months ended 30 June	
		2022 HK\$'000 (Unaudited)	2021 HK\$'000 (Unaudited)
Depreciation and amortisation expenses			
Depreciation of:	(i)		
– property, plant and equipment		18,902	16,037
– right-of-use assets		891	967
Amortisation of intangible assets		235	231
Total depreciation and amortisation expenses		20,028	17,235
Employee benefits expenses (including directors' emoluments)			
Salaries and other benefits		8,856	7,073
Contribution to retirement benefit schemes		2,405	981
Total employee benefit expenses		11,261	8,054
Cost of inventories recognised as an expense		128,881	158,472

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

NOTES TO THE UNAUDITED CONSOLIDATED FINANCIAL STATEMENTS

9. EARNINGS/(LOSS) PER SHARE

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

Earnings/(Loss)

	Six months ended 30 June	
	2022 HK\$'000 (Unaudited)	2021 HK\$'000 (Unaudited)
Profit/(loss) for the period attributable to owners of the Company for the purpose of basic and diluted profit/(loss) per share	7,222	(4,360)

Number of shares

	Six months ended 30 June	
	2022 '000 (Unaudited)	2021 '000 (Unaudited) (Restated)
Weighted average number of ordinary shares for the purpose of basic and diluted earnings/(loss) per share	51,731	41,630

Notes: Basic and diluted earnings/(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 2022 (for the six months ended 30 June 2021: 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 UNAUDITED 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 "Valuers"). The 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 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 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 2022 HK\$'000 (Unaudited)	As at 31 December 2021 HK\$'000 (Audited)
Raw materials	130,798	123,787
Work in progress	901	2,381
Finished goods	38,006	11,410
Total	169,705	137,578

NOTES TO THE UNAUDITED CONSOLIDATED FINANCIAL STATEMENTS

13. TRADE AND BILLS RECEIVABLES

	As at 30 June 2022 HK\$'000 (Unaudited)	As at 31 December 2021 HK\$'000 (Audited)
Trade receivables	45,070	52,853
Bills receivables	32,807	43,349
	77,877	96,202
Less: Loss allowances	(5,771)	(6,036)
Total	72,106	90,166

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 2021: 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 2022 HK\$'000 (Unaudited)	As at 31 December 2021 HK\$'000 (Audited)
Within three months	33,241	39,962
Over three months but within six months	2,593	5,615
Over six months	9,236	7,276
Total	45,070	52,853

NOTES TO THE UNAUDITED CONSOLIDATED FINANCIAL STATEMENTS

13. TRADE AND BILLS RECEIVABLES (Continued)

The maturity period of bills receivable are within 12 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 2022 HK\$'000 (Unaudited)	As at 31 December 2021 HK\$'000 (Audited)
Within three months	19,405	36,040
Over three months but within twelve months	13,402	7,309
Total	32,807	43,349

14. DEPOSITS, PREPAYMENTS AND OTHER RECEIVABLES

	As at 30 June 2022 HK\$'000 (Unaudited)	As at 31 December 2021 HK\$'000 (Audited)
VAT recoverable	18,688	16,713
VAT refund receivable	1,005	1,408
VAT creditable	507	1,583
Payments in advance to suppliers	20,015	35,730
Prepayments paid for acquisition of property, plant and equipment	41	50,354
Prepayments in advance to staff	2,423	2,730
Others	4,343	1,780
	47,022	110,298
Analyses for reporting purpose		
Current assets	46,981	59,944
Non-current assets	41	50,354
	47,022	110,298

NOTES TO THE UNAUDITED CONSOLIDATED FINANCIAL STATEMENTS

15. TRADE PAYABLES

	As at 30 June 2022 HK\$'000 (Unaudited)	As at 31 December 2021 HK\$'000 (Audited)
Trade payables	24,735	27,346

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 2022 HK\$'000 (Unaudited)	As at 31 December 2021 HK\$'000 (Audited)
Within three months	22,228	16,086
Over three months but within six months	625	5,193
Over six months	1,882	6,067
Total	24,735	27,346

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 2022 HK\$'000 (Unaudited)	As at 31 December 2021 HK\$'000 (Audited)
Bank borrowings	(i)		
– due within one year		127,458	110,262
– due after one year		75,012	57,975
Bank borrowings obtained in relation to discounted bill receivable	(i)	18,677	18,807
Other borrowings	(ii)	41,425	76,729
Unsecured loans from Mr. Wong and his associate – due within one year	(iii)	30,021	33,323
		292,593	297,096
Less: amount included in current liabilities		(201,418)	(219,799)
Non-current portion		91,175	77,297
Analysed as:			
Secured but unguaranteed	(iv)	106,265	113,963
Secured and guaranteed	(iv)	154,494	149,810
Unsecured and unguaranteed		31,834	33,323
		292,593	297,096

NOTES TO THE UNAUDITED CONSOLIDATED FINANCIAL STATEMENTS

16. BANK AND OTHER BORROWINGS (Continued)

Notes:

- (i) Save as the bank borrowings with an aggregate carrying amount of approximately HK\$72,233,000 (31 December 2021: approximately HK\$61,738,000) as at 30 June 2022 and bank borrowings with an aggregate carrying amount of approximately HK\$148,914,000 (31 December 2021: approximately HK\$125,306,000) as at 30 June 2022, all bank borrowings are denominated in RMB.
- (ii) As at 30 June 2022, 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 (2021: one to three years) from the date of advancements. At the end of the lease term, the Group could pay a minimal amount of consideration to re-acquire the leased equipments. Other borrowings of approximately HK\$41,425,000 (31 December 2021: approximately HK\$76,729,000) as at 30 June 2022. Other borrowings are denominated in RMB.

The maturity analysis of other borrowings is as follows:

	As at 30 June 2022 HK\$'000 (Unaudited)	As at 31 December 2021 HK\$'000 (Audited)
Within one year	25,262	57,407
More than one year, but not exceeding two years	14,457	14,108
More than two year, but not exceeding five years	1,706	5,214
	41,425	76,729

- (iii) As at 30 June 2022, the balance represented the unsecured loans from Mr. Wong, Mrs. Wong & Ms. Wong Wan Yu ("**Ms. Wong**"), a daughter of Mr. and Mrs. Wong, which amounted to approximately HK\$10,000,000, HK\$13,559,000 and HK\$6,462,000. Both loans carry interest of 7% per annum, unsecured and are repayable in year 2022. As at 31 December 2021, the balance represented the unsecured loans from Mr. Wong, Mrs. Wong and Ms. Wong, which amounted to approximately HK\$10,000,000, HK\$13,537,000 and HK\$9,786,000. Both loans carry interest of 7% per annum, unsecured and are repayable in year 2022.

Details are set out in note 27(iii) to the consolidated financial statements in Annual Report 2021.

NOTES TO THE UNAUDITED CONSOLIDATED FINANCIAL STATEMENTS

16. BANK AND OTHER BORROWINGS (Continued)

Notes: (Continued)

- (iv) As at 30 June 2022, 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\$249,768,000 (31 December 2021: approximately HK\$249,768,000);
 - (b) the pledge of the Group's right-of-use assets with an aggregate carrying amount of approximately HK\$15,030,000 (31 December 2021: approximately HK\$18,612,000);
 - (c) the pledge of the Group's inventories with an aggregate carrying amount of approximately HK\$38,006,000 (31 December 2021: approximately HK\$11,410,000) and;
 - (d) the pledge of the Group's bills receivables with aggregate carrying amount of approximately HK\$18,677,000 (31 December 2021: approximately HK\$18,807,000).
- (v) As at 30 June 2022, the Group's secured and guaranteed bank borrowings of approximately HK\$73,081,000 (31 December 2021: approximately HK\$73,081,000) are secured by personal guarantees executed by Mr. Wong and Mr. Wong Kin Ching for the maximum amount of guarantee up to approximately HK\$122,309,000 (31 December 2021: approximately HK\$122,309,000). As at 30 June 2021, the Group's secured and guaranteed other borrowings of approximately HK\$41,425,000 (31 December 2021: approximately HK\$76,729,000) 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 2022 HK\$'000 (Unaudited)	As at 31 December 2021 HK\$'000 (Audited)
Current Liabilities:		
Notes payable, secured and guaranteed (noted i)	55,221	56,721
Non-current Liabilities:		
Notes payable, unsecured and unguaranteed (note ii)	16,336	15,940
	71,557	72,661

NOTES TO THE UNAUDITED CONSOLIDATED FINANCIAL STATEMENTS

17. NOTES PAYABLE (Continued)

Note: (i) 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.

On 17 August 2021, a waiver letter had been entered into between the Company and the Notes Subscriber, pursuant to which the Notes Subscriber agreed to, among others, waive the obligation of the Company to fully repay the amount repayable under the Notes up to 6 September 2021, pending negotiation to further extend the repayment date. Please refer to the announcement of the Company dated 17 August 2021 for more details.

On 20 September 2021, a deed of amendment had been executed to amend the terms and conditions of the Notes, having effect that, among others, the aggregate principal amount of the Notes shall be not more than HK\$78,000,000, and the final repayment date of the Notes has been extended to 12 November 2022. Please refer to the announcement of the Company dated 20 September 2021 for more details.

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, 11 December 2020, 17 August 2021 and 20 September 2021, 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.

(ii) The principal amount of promissory note of HK\$16,000,000 bears an interest of 5% per annum, payable on maturity and will be matured in 10 December 2024. The Company can early redeem the promissory note at 100% of their face value together with all interest accrued on the principal amount by giving not less than seven days’ prior written notice to the noteholder. The promissory note was issued by Hong Wei Pacific Limited, a wholly-owned subsidiary of the Company, for acquiring the issued share capital of Champion Commence Limited, a company incorporated in the British Virgin Islands with limited liability. Further details of the acquisition and the issue of the promissory note were set out in the Company’s announcements dated 19 November 2021.

NOTES TO THE UNAUDITED CONSOLIDATED FINANCIAL STATEMENTS

18. SHARE CAPITAL

	Numbers of shares		Share capital	
	30 June 2022 '000	31 December 2021 '000	30 June 2022 HK\$'000	31 December 2021 HK\$'000
Ordinary shares, issued and fully paid At 1 January	999,124	832,603	268,925	253,928
Issue of new shares (note i & iii)	2,700	166,521	1,971	14,997
Share consolidation (note ii)	(949,168)	–	–	–
	52,656	999,124	270,896	268,925

- Note: (i) On 25 August 2021, the Company entered into the subscription agreement with Mutual Benefits Enterprise Limited in which Mutual Benefits Enterprise Limited agreed to subscribe 166,521,000 new shares of the Company at a subscription price of HK\$0.09 per subscription share. On 25 October 2021, a total of 166,521,000 subscription shares had been successfully issued and subscription was completed. For further details, please refer to the announcements of the Company dated 25 August 2021 and 25 October 2021.
- (ii) Pursuant to the ordinary resolution passed at the extraordinary general meeting of the Company held on 11 January 2022, the Company implemented the share consolidation of every twenty (20) existing shares into one (1) consolidation share. The share consolidation became effective on 13 January 2022.
- (iii) On 16 December 2021, the Company entered into the subscription agreement with Mr. Ho Ching Ngok (“**Mr. Ho**”) in which Mr. Ho agreed to subscribe for 2,700,000 new consolidation shares of the Company at the subscription price of HK\$0.73 per subscription share. On 4 March 2022, a total of 2,700,000 subscription shares has been successfully issued and subscription. For further details, please refer to the announcements of the Company dated 16 December 2021, the circular of the Company dated 23 December 2021 and announcement dated 4 March 2022.

19. RELATED PARTY TRANSACTIONS

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

Name of related party	Relationship
Ms. Wong	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 UNAUDITED CONSOLIDATED FINANCIAL STATEMENTS

19. RELATED PARTY TRANSACTIONS (Continued)

(a) Transactions with related parties

	As at 30 June 2022 HK\$'000 (Unaudited)	As at 31 December 2021 HK\$'000 (Audited)
Loan advanced from related parties:		
– Mr. Wong	–	20,000
– Mrs. Wong	42	11,838
– Ms. Wong	–	7,762
	42	39,600
Loan principal repayment to related parties:		
– Mr. Wong	–	10,000
– Mrs. Wong	20	–
– Ms. Wong	3,324	6,352
	3,344	16,352
Loan facilities provided by:		
– Mr. Wong	10,000	10,000
– Mrs. Wong	5,000	5,000
– Ms. Wong	10,000	10,000
	25,000	25,000

NOTES TO THE UNAUDITED CONSOLIDATED FINANCIAL STATEMENTS

19. RELATED PARTY TRANSACTIONS (Continued)

(b) Personal guarantee executed by Directors

	As at 30 June 2022 HK\$'000 (Unaudited)	As at 31 December 2021 HK\$'000 (Audited)
Personal guarantees executed by Mr. Wong and Mrs. Wong in respect of the following balances: – notes payable	55,221	56,721
Personal guarantees executed by Mr. Wong, Mrs. Wong and Mr. Wong Kin Ching in respect of the following balances: – other borrowings	41,425	76,729
Personal guarantees executed by Mr. Wong Kin Ching and Mr. Wong in respect of the following balances: – bank borrowings*	73,081	73,081

* Maximum amount of guarantee provided by Mr. Wong and Mr. Wong Kin Ching are each approximately HK\$122,309,000 (31 December 2021: approximately HK\$122,309,000)

(c) Compensation of key management personnel and related parties

The remuneration of Directors and other members of key management personnel during the six months ended 30 June 2022 is as follows:

	For the six months ended 30 June	
	2022 HK\$'000 (Unaudited)	2021 HK\$'000 (Unaudited)
Short-term employee benefits	1,717	825
Post-employment benefits	29	18
Total compensation paid to key management personnel	1,746	843

During the six months ended 30 June 2022, short-term benefits and post-employment benefits for Ms. Wong, paid and contributed by the Group were approximately HK\$414,000 (2021: approximately HK\$268,000) and approximately HK\$8,000 (2021: approximately HK\$8,900), 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\$40,000 (2021: approximately HK\$100,000) and approximately HK\$1,000 (2021: approximately HK\$5,000), respectively.

MANAGEMENT DISCUSSIONS AND ANALYSIS

BUSINESS REVIEW

During the six months ended 30 June 2022 (“**Current Period**” or “**2022 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, and 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 industry demand for construction materials had remained at a low level and they are looking for lower-cost substitute.

Under such challenging environment, we are determined to streamline 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 the first half of 2022.

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 2022 Interim Period, the Group’s revenue for Particleboards Segment decreased to approximately HK\$165.4 million from approximately HK\$186.6 million, representing a decrease of approximately 11.4% as compared to the six months ended 30 June 2021 (“**Previous Period**” or “**Corresponding Period**”). The decrease was mainly due to the decrease in the sales volume of particleboards by approximately 20.9%, after set off with the depreciation 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 2022 Interim Period as compared with the Previous Period.

During the periods ended 30 June 2022 and 2021, 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 2022 Interim Period, the Group's costs of sales decreased to approximately HK\$128.9 million from approximately HK\$158.5 million, representing a decrease of approximately 18.7% as compared to the Previous Period. The decrease was primarily due to the decrease in the volume of goods sold and also as a result of decrease in average unit costs of raw material, particularly the chemical, recorded in the Current Period.

Gross profit and margin

During the 2022 Interim Period, the Group's gross profit increased to approximately HK\$36.5 million from approximately HK\$28.1 million, representing an increase of approximately 29.8% as compared to the Previous Period. The Group's gross profit margin increased to approximately 22.1% in the 2022 Interim Period from approximately 15.1% in the Previous Period.

The increase in gross profit and the increase in gross profit margin was mainly due to the decrease in average unit cost of the raw material.

Other income

During the 2022 Interim Period, the Group's other income decreased to approximately HK\$4.3 million from approximately HK\$6.9 million, representing a decrease of approximately 37.9% as compared to that for the Previous Period. The decrease was mainly attributable to the decrease in value added tax refund which was partly off-set by the increase in government grants.

Selling and distribution expenses

During the 2022 Interim Period, the Group's selling and distribution expenses decreased to approximately HK\$12.1 million from approximately HK\$14.8 million in the Previous Period, representing a decrease of approximately 17.9%. The decrease in selling and distribution expenses was mainly attributable to the decrease in transportation and packaging cost incurred during the Current Period due to the decrease in sales of particleboard.

Administration expenses

During the 2022 Interim Period, the Group's administration expenses increased to approximately HK\$13.7 million from approximately HK\$10.5 million, representing an increase of approximately 30.5% as compared to the Previous Period. The increase in administration expenses was mainly due to the increase in the social insurance, staff welfare, entertainment and valuation fee incurred during the Current Period.

MANAGEMENT DISCUSSIONS AND ANALYSIS

Finance costs

During the 2022 Interim Period, the Group's finance costs decreased to approximately HK\$10.6 million from approximately HK\$14.2 million in the Previous Period, representing a decrease of approximately 25.5%. The decrease in finance costs was mainly attributable to the decrease in note payable.

Profit/(loss) attributable to owners of the Company

During the 2022 Interim Period, the profit attributable to owners of the Company amounted to approximately HK\$7.2 million, as compared to the loss attributable to owners of the Company amounted to approximately HK\$4.4 million for the Previous Period. Such increase was mainly due to the decrease in cost of sales, selling expenses and finance costs as discussed above.

Total comprehensive expenses attributable to owners of the Company

During the six months ended 30 June 2022, the Group's total comprehensive expenses attributable to owners of the Company amounted to approximately HK\$9.4 million, while the Group's total comprehensive expenses attributable to owners of the Company during the same period last year amounted to approximately HK\$3.5 million. Such increase was mainly attributable to the exchange loss arising from translation.

LIQUIDITY, FINANCIAL RESOURCES AND CAPITAL STRUCTURE

As at 30 June 2022, there has been no change in the capital structure of the Company compared to that as at 31 December 2021. The capital of the Company only comprises ordinary shares.

During the six months ended 30 June 2022, the Group mainly financed its operations with its working capital, bank and other borrowings, including the secured and guaranteed notes.

As at 30 June 2022 and 31 December 2021, the Group had bank and other borrowings of approximately HK\$292.6 million and HK\$297.1 million respectively. As at 30 June 2022, all bank borrowings are denominated in RMB save as those disclosed in note 16(i). 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 2022 and 31 December 2021, the Group had net current liabilities of approximately HK\$60.5 million and HK\$71.8 million respectively. The current ratio of the Group, calculated by current assets over current liabilities, was 0.83x as at 30 June 2022 (31 December 2021: 0.81x).

Gearing Ratio

As at 30 June 2022, the gearing ratio stood at 1.35x (31 December 2021: 1.34x) calculated by total borrowings (including lease liabilities, bank and other borrowings and notes payable) over shareholders' equity.

FOREIGN EXCHANGE EXPOSURE

As at 30 June 2022 and 31 December 2021, 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 2022, 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 its sales receipts and payments for purchases are 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 2022. 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 2021.

MATERIAL ACQUISITIONS AND DISPOSALS OF SUBSIDIARIES

During 2022 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 2022.

MANAGEMENT DISCUSSIONS AND ANALYSIS

EMPLOYEES AND REMUNERATION POLICIES

As at 30 June 2022, the Group employed a total of 177 employees (30 June 2021: 174). The remuneration payable to our employees included fees, salaries, retirement benefits scheme contributions and other benefits. For the 2022 Interim Period and the corresponding period in 2021, the remuneration paid to employees was approximately HK\$11.3 million and HK\$8.1 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 2022, 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.

On 17 August 2021, a waiver letter had been entered into between the Company and the Notes Subscriber, pursuant to which the Notes Subscriber agreed to, among others, waive the obligation of the Company to fully repay the amount repayable under the Notes up to 6 September 2021, pending negotiation to further extend the repayment date. Please refer to the announcement of the Company dated 17 August 2021 for more details.

On 20 September 2021, a deed of amendment had been executed to amend the terms and conditions of the Notes, having effect that, among others, the aggregate principal amount of the Notes shall be not more than HK\$78,000,000, and the final repayment date of the Notes has been extended to 12 November 2022. Please refer to the announcement of the Company dated 20 September 2021 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 2022 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 2022, 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	21,500,000 (L)	40.83%
Ms. Cheung Ngar Kwan (“ Mrs. Wong ”) ^(Note 2)	Interest of spouse	21,500,000 (L)	40.83%
Mr. Wong Kin Ching	Beneficial owner	18,600 (L)	0.04%
Dr. Kaneko Hiroshi (“ Dr. Kaneko ”) ^(Note 3)	Interest in a controlled corporation	6,326,031 (L)	12.01%

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.
- (3) Dr. Kaneko is the sole legal and beneficial owner of City East Investments Limited, which in turn owns 70% of the entire issued share capital of Mutual Benefit Enterprise Limited.

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 2022, 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.

SHARE CONSOLIDATION

As approved at the extraordinary general meeting (the "EGM") held on 11 January 2022, the Share Consolidation became effective on 13 January 2022. For details, please refer to the circular dated 23 December 2021 and announcement dated 11 January 2022.

CHANGE OF AUDITOR

Crowe (HK) CPA Limited resigned as auditor of the Company with effect from 23 March 2022. McMillan Woods (Hong Kong) CPA Limited has been appointed as the new auditors of the Group with effect from 23 March 2022. For details, please refer to the announcement dated 23 March 2022.

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

During the 2022 Interim Period, save as disclosed in "Placing of Shares" below, neither the Company nor its subsidiary have purchased, sold or redeemed any listed securities of the Company.

PLACING OF SHARES

Completion Of Subscription I

Completion of Subscription I took place on 4 March 2022. 2,700,000 new Consolidated Shares, representing (i) approximately 5.40% of the total issued Shares of the Company immediately before completion of Subscription I; and (ii) approximately 5.13% of the total issued Shares of the Company immediately after completion of Subscription I as at 4 March 2022, were allotted and issued to Subscriber I at the Subscription Price of HK\$0.73 per Subscription Share in accordance with the terms of Subscription Agreement I. To the best of the Directors' knowledge, information and belief and having made all reasonable enquiries, Subscriber I is an Independent Third Party. The net proceeds from Subscription I, after deduction of the professional fee and other related expenses, amounted to approximately HK\$1,471,000 and are intended to be fully used for early repayment of part of the outstanding amount of the Notes. For details and definition of defined terms, please refer to the announcement dated 16 December 2021, the circular of the Company dated 23 December 2021 and announcement dated 4 March 2022.

Termination Of Subscription II

Due to the COVID-19 pandemic and recent market conditions, Subscriber II has difficulty to arrange for sufficient funding for the Subscription II and the Company and Subscriber II entered into a termination deed on 31 March 2022 (the "Termination Deed") to terminate the Subscription Agreement II. Pursuant to the Termination Deed, the parties agreed to release and discharge each other from their respective duties, obligations and liabilities under the Subscription Agreement II and no party shall have any claim against each other in connection with the Subscription II. Accordingly, Subscription II will not proceed. For details and definition of defined terms, please refer to the announcement dated 16 December 2021, the circular dated 23 December 2021, and the announcement dated 31 March 2022.

MANAGEMENT DISCUSSIONS AND ANALYSIS

DIRECTORS' AND CONTROLLING SHAREHOLDER'S INTERESTS IN COMPETING BUSINESSES

During the six months ended 30 June 2022, 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 six months ended 30 June 2022, 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.

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 2022 Interim Period except otherwise stated below.

Code provision C.2.1

In accordance with the code provision C.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 who meet 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 2022 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 2022 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 2022 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 2022.

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 2022 Interim Period, which has not been audited nor reviewed by the Company's auditors, McMillan Woods (Hong Kong) CPA Limited.

INTERIM DIVIDEND

The Board does not recommend the payment of any interim dividend for the 2022 Interim Period (30 June 2021: nil).

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

Hong Kong, 12 August 2022

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