



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

2023

THIRD QUARTERLY REPORT



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

UNAUDITED THIRD QUARTERLY RESULTS

The board of Directors (the “**Board**”) of the Company is pleased to announce the unaudited consolidated results of the Group for the nine months ended 30 September 2023, together with the comparative figures of the corresponding period as appropriate. The financial information contained herein has not been audited by the Company’s auditor but has been reviewed by the Company’s audit committee.

Unless otherwise stated, the capitalised terms in this report shall have the same meaning as in the annual report of the Company for the financial year ended 31 December 2022.

UNAUDITED CONSOLIDATED STATEMENTS OF PROFIT OR LOSS AND OTHER COMPREHENSIVE INCOME

	Notes	Three months ended 30 September		Nine months ended 30 September	
		2023	2022	2023	2022
		HK\$'000	HK\$'000	HK\$'000	HK\$'000
		(Unaudited)	(Unaudited)	(Unaudited)	(Unaudited)
Revenue	2	127,428	105,211	335,281	270,607
Cost of sales		(106,883)	(90,534)	(274,830)	(219,415)
Gross profit		20,545	14,677	60,451	51,192
Other income	4	4,872	1,222	20,791	5,473
Other losses, net		–	–	–	–
Impairment loss on right-of-use assets - forestlands		–	–	(20)	–
Net (loss)/gain arising from changes in fair values less costs to sell of biological assets		–	58	–	(40)
Impairment of trade receivables		–	(1,676)	–	(1,676)
Gain on disposal of biological assets and right-of-use assets-forestland		–	56	112	1,764
Selling and distribution expenses		(6,401)	(7,344)	(20,891)	(19,462)
Administration expenses		(9,833)	(7,703)	(27,404)	(21,395)
Finance costs	5	(5,151)	(9,158)	(17,501)	(19,772)
Profit/ (Loss) before tax		4,032	(9,868)	15,538	(3,916)
Income tax credit/(expenses)	6	–	(728)	–	542

	Notes	Three months ended 30 September		Nine months ended 30 September	
		2023	2022	2023	2022
		HK\$'000 (Unaudited)	HK\$'000 (Unaudited)	HK\$'000 (Unaudited)	HK\$'000 (Unaudited)
Profit/ (Loss) for the period attributable to owners of the Company	7	4,032	(10,596)	15,538	(3,374)
Other comprehensive (expenses)/income which will not be reclassified subsequently to profit or loss: Exchange differences arising on translation to presentation currency		(17,559)	(19,475)	(10,742)	(36,069)
Other comprehensive (expenses)/income for the period		(17,559)	(19,475)	(10,742)	(36,069)
Total comprehensive (expenses)/income for the period		(13,527)	(30,071)	4,796	(39,443)
Total comprehensive (expenses)/income for the period, attributable to owners of the Company		(13,527)	(30,071)	4,796	(39,443)
Basic and diluted (loss)/earnings per share, in HK cents	8	7.66	(57.78)	29.51	(75.79)

UNAUDITED CONSOLIDATED STATEMENT OF CHANGES IN EQUITY

	Share capital	Capital reserve	Statutory reserve	Foreign currency translation reserve	Accumulated Retained profits	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
Loss for the period	-	-	-	-	(3,374)	(3,374)
Issuance of shares upon placing	1,971	-	-	-	-	1,971
Other comprehensive expenses for the period						
Exchange differences arising on translation to presentation currency	-	-	-	(36,069)	-	(36,069)
Total comprehensive income/(expenses) for the period	1,971	-	-	(36,069)	(3,374)	(37,472)
Transfer to statutory reserve	-	-	950	-	(950)	-
Balance at 30 September 2022 (unaudited)	270,896	(16,968)	35,856	(36,818)	(13,412)	239,554
Balance at 1 January 2023 (audited)	270,886	(16,968)	37,262	(33,597)	(3,099)	254,484
Loss for the period	-	-	-	-	15,538	15,538
Issuance of shares upon placing	-	-	-	-	-	-
Other comprehensive expenses for the period						
Exchange differences arising on translation to presentation currency	-	-	-	(10,738)	-	(10,738)
Total comprehensive income/(expenses) for the period	-	-	-	(10,738)	15,538	4,800
Transfer to statutory reserve	-	-	2,421	-	(2,421)	-
Balance at 30 September 2023 (unaudited)	270,886	(16,968)	39,683	(44,335)	10,018	259,284

1. BASIS OF PRESENTATION

As at 30 September 2023, the Group had net current liabilities of approximately HK\$91.9 million and the Group might have financial uncertainties which may cast significant doubt on the Group's ability to continue as a going concern. The Directors have given careful consideration to the Group's financial performance, working capital, liquidity position and available banking facilities from its principal bankers and financial institutions, and the stability of the Group's business, operations and relationships with its suppliers, bankers and financial institutions. In addition, Mr. Wong Cheung Lok, an executive director and ultimate controlling party of the Company, and his family members have agreed to provide financial support to the Group and will not demand the Group to repay the amounts due to him unless the Group could be able to do so. The Group has also been taking various cost control measures to tighten the costs of operations and implementing various strategies to enhance the revenue, negotiating with note subscriber (the "Note Subscriber") of the secured and guaranteed notes of approximately HK\$55.5 million (the "Note") to extend the repayment terms of note payables and continuing to obtain alternative debts or loans facilities to meet cash flow requirements. Provided that the above-mentioned plans and measures can be successfully achieved and improve the liquidity position of the Group, the Directors are satisfied that the Group will be able to meet its financial obligations as and when they fall due for the foreseeable future. Accordingly, the third quarterly financial statements have been prepared on a going concern basis.

The unaudited condensed consolidated financial results for the nine months ended 30 September 2023 have not been audited by the Company's auditor, but have been reviewed by the Company's audit committee.

The accounting policies and basis of preparation used in the preparation of the unaudited consolidated results are consistent with those used in the Company's annual financial statements for the year ended 31 December 2022, except for the adoption of the following new and revised Hong Kong Financial Reporting Standard ("HKFRS") and Hong Kong Accounting Standards ("HKAS").

Amendments to HKFRS 1 and HKFRS Practice Statement 2	Disclosure of Accounting Policies
Amendments to HKAS 8	Definition of Accounting Estimates
Amendments to HKFRS 12	Deferred Tax Related to Assets and Liabilities Arising from a Single Transaction

2. REVENUE

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

	For the nine months ended 30 September	
	2023	2022
	HK\$'000	HK\$'000
	(Unaudited)	(Unaudited)
Sales of particleboards	335,281	270,607

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

3. OPERATING SEGMENTS

The following tables represent segment information for the period.

For the nine months ended 30 September 2023

	Particleboards segment HK\$'000 (Unaudited)	Forestry segment HK\$'000 (Unaudited)	Total HK\$'000 (Unaudited)
<i>Segment revenue:</i>			
Revenue from external customers	335,281	–	335,281
<i>Segment results:</i>			
Reportable segment results	38,868	(1,679)	37,189
Interest income			33
Finance costs			(17,501)
Unallocated corporate staff costs			(2,221)
Unallocated corporate expenses			(1,958)
Consolidated loss before tax			15,542
<i>Other segment information:</i>			
Capital expenditures – allocated [#]	–	–	–
Depreciation – allocated	31,645	835	32,480
Depreciation – unallocated			130
Total depreciation			32,610
Amortisation	224	–	224

For the nine months ended 30 September 2022

	Particleboards		
	segment	Forestry segment	Total
	HK\$'000	HK\$'000	HK\$'000
	(Unaudited)	(Unaudited)	(Unaudited)
<i>Segment revenue:</i>			
Reportable segment revenue	270,607	–	270,607
<i>Segment results:</i>			
Reportable segment results	21,323	1,022	22,345
Interest income			12
Finance costs			(19,772)
Unallocated corporate staff costs			(2,706)
Unallocated corporate expenses			(3,795)
Consolidated loss before tax			(3,916)
<i>Other segment information:</i>			
Capital expenditures – allocated [#]	37,631	–	37,631
Depreciation – allocated	29,183	985	30,168
Depreciation – unallocated			380
Total depreciation			30,548
Amortisation	346	–	346

[#] 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.

4. OTHER INCOME

	For the nine months ended 30 September	
	2023	2022
	HK\$'000	HK\$'000
	(Unaudited)	(Unaudited)
Value added tax (“VAT”) refund	8,966	628
Government grants	11,652	4,809
Bank interest income	33	12
Others	140	24
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	20,791	5,473
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5. FINANCE COSTS

	For the nine months ended 30 September	
	2023	2022
	HK\$'000	HK\$'000
	(Unaudited)	(Unaudited)
Interest on bank and other borrowings	14,664	12,408
Interest on notes payable	–	5,010
Interest on finance lease liabilities	1	5
Interests on loans from Mr. Wong and his associate	2,240	1,738
Others	596	611
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	17,501	19,772
	<hr/> <hr/>	

6. INCOME TAX EXPENSE

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

Under the Law of the People's Republic of China on Enterprise Income Tax (the "EIT Law") and Implementation Regulation of the EIT Law, the tax rate of Hongwei Wooden Products (Renhua) Company Limited ("Hongwei Renhua") is 25% during the nine months ended 30 September 2023 and 2022 respectively.

Pursuant to the EIT Law and its implementation regulations, where an enterprise utilises the resources as listed in the Catalogue of Resources for Comprehensive Utilisation Entitling Enterprises to Income Tax Preferences (資源綜合利用企業所得稅優惠目錄) as its major raw materials to make products which are not restricted or prohibited by the state and are consistent with the relevant state or industrial standards, only 90% of the income derived therefrom shall be accounted for as taxable income of the enterprise in that year. During the nine months ended 30 September 2023 and 2022 respectively, Hongwei Renhua is entitled to such preferential policy and only 90% of the income of Hongwei Renhua from the sale of particleboard was regarded as taxable income.

According to the EIT Law and Implementation Regulation of the EIT Law, enterprises that engage in qualified agricultural business are eligible for exemption from payment of enterprise income tax. During the nine months ended 30 September 2023 and 2022, 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.

7. PROFIT/(LOSS) FOR THE PERIOD

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

	For the nine months ended 30 September	
	2023 HK\$'000 (Unaudited)	2022 HK\$'000 (Unaudited)
Depreciation:		
– Property, plant and equipment	31,228	29,302
– Right-of-use assets	1,382	1,246
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Total depreciation expenses	32,610	30,548
	<hr/> <hr/>	<hr/> <hr/>
Amortisation:		
– Intangible assets	–	346
	<hr/>	<hr/>
Total amortisation expenses	–	346
	<hr/> <hr/>	<hr/> <hr/>
Employee benefits expenses (include directors' emoluments)		
Salaries and other benefits	4,198	13,619
Contribution to retirement benefit schemes	1,585	3,407
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Total employee benefit expenses	5,783	17,026
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Cost of goods recognised as an expense	60,288	49,003
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Auditor's remuneration		
Provision in respect of current period	–	1,193
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8. PROFIT/(LOSS) PER SHARE

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

Profit/(loss)

For the nine months ended 30 September	
2023	2022
HK\$'000	HK\$'000
(Unaudited)	(Unaudited)

Loss for the period attributable to owners of the Company for the purpose of basic loss per share	<u>15,538</u>	<u>(3,374)</u>
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Number of shares

For the nine months ended 30 September	
2023	2022
'000	'000
(Unaudited)	(Unaudited)
	(Restated)

Weighted average number of ordinary shares for the purpose of basic earnings per share	<u>52,656</u>	<u>52,043</u>
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MANAGEMENT DISCUSSION AND ANALYSIS

BUSINESS REVIEW

During the nine months ended 30 September 2023 (“**Current 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 nine months of 2023.

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.

During the periods ended 30 September 2023 and 2022, no income generating activity took place for the Forestry Segment and hence no revenue was recognized for such segment.

FINANCIAL REVIEW

Revenue

During the Current Period, the Group's revenue for the Particleboards Segment increased to approximately HK\$335.3 million from approximately HK\$270.6 million, representing an increase of approximately 23.9% as compared to the period for the nine months ended 30 September 2022 ("Previous Period"). The increase is mainly due to the increase in sales of particleboard in this period compared to the previous period.

During the Current Period, no income generating activity took place for the Forestry Segment and hence no revenue was recognized for such segment.

Cost of sales

During the Current Period, the Group's costs of sales increased to approximately HK\$274.8 million from approximately HK\$219.4 million, representing an increase of approximately 25.3% as compared to the Previous Period. The increase is mainly attributed to the increase in product sales volume.

Gross profit and margin

During the Current Period, the Group's gross profit increased to approximately HK\$60.5 million from approximately HK\$51.2 million, representing an increase of approximately 9.2% as compared to that of the Previous Period. The Group's gross profit margin remained stable at approximately 18% for the Current Period and approximately 18.9% in the Previous Period.

Other income, other losses (net)

During the Current Period, the Group's other income increased to approximately HK\$5.5 million from approximately HK\$20.8 million, representing an increase of approximately 279.9% as compared to the Previous Period. The increase is mainly attributed to the increase in value-added tax refunds and government subsidies.

Selling and distribution expenses

During the Current Period, the Group's selling and distribution expenses increased to approximately HK\$20.9 million from approximately HK\$19.5 million in the Previous Period, representing an increase of approximately 7.3%. The increase in sales and distribution expenses is mainly attributed to the increase in sales of particleboard, which led to an increase in transportation and packaging costs incurred during this period.

Administration expenses

During the Current Period, the Group's administration expenses increased to approximately HK\$27.4 million from approximately HK\$21.4 million, representing an increase of approximately 28.1% as compared to the Previous Period. The increase in administrative expenses is mainly due to the increase in research and development expenses.

Finance costs

During the Current Period, the Group's finance costs decreased to approximately HK\$17.5 million from approximately HK\$19.8 million in the Previous Period, representing a decrease of approximately 11.5%. The decrease is mainly attributed to the decrease in interest generated by bank and other borrowings as well as unsecured loans during this period.

Profit attributable to owners of the Company

During the Current Period, the profit attributable to owners of the Company amounted to approximately HK\$15.5 million, representing an increase of approximately 560.6% as compared to loss of approximately HK\$3.4 million for the Previous Period. The profit is mainly attributed to an increase in revenue and a decrease in administrative expenses.

Total comprehensive profit attributable to owners of the Company

During the Current Period, the Company recorded that the owner of our company should account for approximately HK\$4.8 million in total comprehensive income, an increase of approximately 112.2% from the total comprehensive loss of approximately HK\$39.4 million in the previous period. The increase is mainly attributed to the increase in revenue.

EVENTS AFTER THE REPORTING PERIOD

Save as disclosed above, there were no significant events subsequent to the Current Period and up to the date of this report.

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

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

DIRECTORS' INTERESTS IN COMPETING BUSINESSES

During the Current Period, save for detailed below, none of the Directors or any of their respective close associates, has engaged in any business that competes or may compete with the business of the Group, or has any other conflict of interest with the Group.

As at 30 September 2023, Mr. Wong Kin Ching, the son of Mr. Wong Cheung Lok and Ms. Cheung Ngar Kwan, through companies wholly-owned by him, is interested in the forestry plantation business, including forestry planting and development with respect to forest lands located at Renhua County, Guangdong Province, PRC.

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

So far as the Directors are aware, as at 30 September 2023, 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 of the Company

Name	Capacity/ Nature of interest	Aggregate number of shares or underlying shares (Note 1)	Approximate percentage of interest in the Company
Mr. Wong Cheung Lok ("Mr. Wong")	Beneficial owner	21,500,000 (L)	40.83%
Ms. Cheung Ngar Kwan ("Mrs. Wong") ⁽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") ⁽³⁾	Interest of a controlled corporation	7,326,131 (L)	13.91%

Notes:

- (1) The letter "L" denotes the person's long positions in the shares of the Company.
- (2) Mrs. Wong is the spouse of Mr. Wong. Under the SFO, Mrs. Wong is deemed to be interested in the same number of the shares of the Company 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 Benefits Enterprise Limited.

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 September 2023, the following persons (not being a Director or chief executive) had, or were deemed to have, interests or short positions in the shares or underlying shares of the Company which were required to be disclosed to the Company and the Stock Exchange under the provisions of Divisions 2 and 3 of Part XV of the SFO or which were recorded in the register kept by the Company pursuant to Section 336 of the SFO:

Name	Capacity/Nature of interest	Aggregate number of shares or underlying shares	Approximate percentage of interest in the Company
City East Investments Limited	Interest of a controlled corporation	7,326,131 (附註1)	13.91%
Mutual Benefits Enterprise Limited	Beneficial owner	7,326,131 (附註1)	13.91%

Note:

1. The 7,326,131 shares of the Company held by Mutual Benefits Enterprise Limited were indirectly owned by City East Investments Limited by virtue of its ownership of 70% of the entire issued share capital of Mutual Benefits Enterprise Limited. City East Investments Limited is in turn wholly-owned by Dr. Kaneko.

Save as disclosed above, as at 30 September 2023, the Directors were not aware of any other person (other than the Directors or the chief executive of the Company) who had, or was deemed to have, interest or short position in the shares and underlying shares of the Company which were required to be disclosed to the Company and the Stock Exchange under the provisions of Divisions 2 and 3 of Part XV of the SFO, or which were recorded in the register required to be kept by the Company under section 336 of the SFO.

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

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

As disclosed in the announcement of the Company dated 13 July 2020, on 13 July 2020, the Company, the Guarantors and the Note Subscriber entered into a deed of amendment, pursuant to which, among other things, the Note Subscriber agreed to amend the terms and conditions of the Notes, having effect that, among others, the maturity date of the Notes was extended from 12 August 2020 to 21 August 2021. As disclosed in the announcement of the Company dated 17 August 2021, the maturity date was extended from 21 August 2021 to 6 September 2021. As disclosed in the announcement of the Company dated 20 September 2021, the maturity date was further extended from 6 September 2021 to 12 November 2022. As of the date of this report, the Company has not repaid the Note in the total outstanding amount of approximately HK\$55.2 million and is under negotiation with the Note Subscriber to extend the repayment date of the Note.

AUDIT COMMITTEE

The audit committee of the Board has reviewed and discussed with the management of the Group the unaudited consolidated results of the Group for the nine months ended 30 September 2023.

QUARTERLY DIVIDEND

The Board does not recommend the payment of any dividend for the nine months ended 30 September 2023 (2022: Nil).

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

Hong Kong, 28 March 2024

As at the date of this report, the executive Directors are Mr. Wong Cheung Lok, Mr. Chu Hin Ming, Mr. Liu Jiayong, Mr. Wong Kin Ching; and the independent non-executive Directors are Ms. Qian Xiaoyu, Mr. Cheung Wai Yin Wilson and Mr. Guo Ensheng.