

# **Annual Report 2010**



Hongwei Technologies Limited (“Hongwei” or “The Group”) is principally engaged in the manufacture and sale of polyester differential fibres primarily to yarn and textile manufacturers located in the southern parts of China, mainly in Fujian Province. The Group’s manufacturing facilities are located at No.2 Factory, Xianhou Shuangli Industrial Park, Huli District, Xiamen City, Fujian Province, the PRC and Zhao Gang Xiang Bei Industrial Centre, Nei Cuo Town, Xiang’an District, Xiamen City, Fujian Province, PRC.

Hongwei currently has a customer base of more than 600 customers. It also provides customised services to its customers such as product testing, elasticity tuning and thickness fitting.

## OUR PRINCIPAL PRODUCTS

- Synthetic Cotton (“SC”):  
Can be used as a cost-competitive substitute for natural cotton in a wide range of applications from home use products to industrial packaging.
- Polyester differential Pre-Oriented Yarn (“POY”):  
Can be used for manufacturing products such as DTY and air translated yarn (“ATY”), that are made into a variety of regenerated fabrics
- Drawn and Textured Yarn (“DTY”):  
Can be used for weaving and knitting, and is suitable for producing clothing fabrics, bedding articles and accoutrement (such as sofa cloth and interior decoration lining for automobile)

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# CHAIRMAN'S STATEMENT

## *Dear Shareholders,*

This report on the FY2010 financial accounts of Hongwei Technologies Limited ("Hongwei" or the "Company") and its subsidiaries include a qualification by the Company's auditors, Messrs Ernst & Young LLP ("EY").

EY has expressed a Disclaimer of Opinion on the accompanying balance sheet of the Company and the accompanying financial statements of the Group in the independent auditors' report (Pages 18 of Annual Report 2010)

Hongwei shares were suspended from trade in Singapore as of 28 February 2011 in order to allow the Group to fully address its audit issues.

To safeguard shareholders interest and facilitate speedy resumption of trading in Hongwei shares, the Board appointed myself as Interim Chairman for three months from 15 March 2011 to manage the Company's assets and oversee the audit issues we face. Stamford Law Corporation was also appointed as legal advisor in relation to these issues.

On 24 March, 2011, Mr Koo Ah Seang was appointed Contract Chief Executive Officer to assist me in the following areas: resolve the Group's auditing issues, secure assets of the Group, improve internal audit and enhance corporate governance.

Mr Lin Jimiao, who was Executive Chairman and CEO last year, has been re-designated as an Executive Director for this interim period.

Under the directive of the Singapore Exchange, the Board appointed on 29 March 2011 KPMG Services Pte Ltd ("KPMG Forensic") as Special Auditors to perform an independent review of the Company and its subsidiaries. KPMG Forensic commenced its fieldwork of the independent review on 12 April 2011. To ensure a smooth and expeditious independent review of its financial affairs, the Company has undertaken to provide KPMG Forensic with full and unrestricted access to its management and staff, all accounting records, documents, computer systems and programmes of the Company and its subsidiaries.

As at the date of this report, the special auditors' investigation has not been completed. The outcome of the investigation might uncover other information which might require adjustments to be made to the financial statements.

As a result of the uncertainty surrounding the audit and notwithstanding that the business environment has recovered, the Group was negatively affected by various sources. For instance, a financial institution negotiated for accelerated installment repayments. Suppliers pressed for payment and some new service providers asked for upfront payment. We expect the adverse impact of the trading suspension on Hongwei shares to be reflected in our financial performance even as we try our best to minimize the effects.

## **Appreciation**

On behalf of the board, I thank our management and staff for their hard work, dedication, and loyalty to the Group. In addition, I would also like to thank all our customers, bankers, independent directors, business associates, suppliers and shareholders for continuing to support us in this unexpected turn of events.

Yours faithfully,

**Gui Kim Young @ Gui Kim Gan**  
Interim Chairperson and Independent Director



# BOARD OF DIRECTORS

**Zhuang Xinxin****Non-independent and Non-Executive Director**

Madam Zhuang Xinxin, 41, is the co-founder of the Company. Madam Zhuang, who has over 14 years of experience in the polyester fibre industry, is responsible for the Group's overall business strategy and major corporate decisions. Madam Zhuang devotes most of her time in the PRC and the remaining time in Hong Kong according to her workload in managing the business.

**Mr Lin Jimiao****Executive Chairman and Chief Executive Officer**

Mr Lin Jimiao, 44, is the co-founder, Executive Chairman and Chief Executive Officer of the Company. Mr Lin who has over 24 years of experience in the polyester fibre industry assisted Madam Zhuang in formulating the overall business strategy, sales and marketing as well as major corporate decisions. Mr Lin is also the honorary president of both the Xiamen Huli District Overseas Chinese Hometown Promotion Association and the Fujian Chamber of Commerce of Macau. Mr Lin devotes most of his time in the PRC and the remaining time in Hong Kong according to his workload in managing the business.

**Mr Wu Guoxin****Executive Director and Chief Operating Officer**

Mr Wu Guoxin, 45, is the Chief Operating Officer of the Company. Mr Wu joined the Group in 2002 and was appointed to the Board on 12 September 2005. He has over 6 years of experience in banking and auditing sectors, and over 11 years of experience in management and operations in the manufacturing industry. He is responsible for the overall production planning, resource allocation and overseeing the implementation of the entire operations of the Group. He obtained the Medium Financial Economist Qualification issued by the Ministry of Personnel of the PRC in December 1994. Mr Wu Guoxin graduated from Xiamen University with a Bachelor of Economics in 1987.

**Mr Koo Ah Seang****Executive Director and Chief Executive Officer**

Mr Koo, 54, was appointed to the Board on 20 June 2011. He first joined the Group as Contract CEO on 24 March 2011 to assist the Interim Chairman to resolve audit issues, secure assets of company, improve internal control and corporate governance. He has more than 15 years of experience in financial and general management. Mr Koo also has extensive experience in China operations and working with Chinese partners. Mr Koo graduated from the University of Auckland (New Zealand) with a Bachelor of Commerce degree. He is an FCPA member of the Institute of Certified Public Accountants of Singapore.

**Mr Lam Tin Faat, Tony****Executive Director and Chief Financial Officer**

Mr Lam Tin Faat Tony, 35, is the Chief Financial Officer and Company Secretary and is responsible for the financial and secretarial matters of the Company. Mr Lam, who has over 8 years of experience in accounting and auditing, joined the Group on 27 November 2006 and was appointed to the board on 23 February 2008. Before joining the Company, he worked with local Hong Kong audit firm and consulting firms in managerial positions. He obtained Bachelor degree in business administration from The Chinese University of Hong Kong in 1999. Mr Lam is also a member of the the Institute of Chartered Accountants in England and Wales, Association of Chartered Certified Accountants and Hong Kong Institute of Certified Public Accountants.



**Mr Tay Wee Kwang**  
**Lead Independent Director**

Mr Tay Wee Kwang, 55, was appointed as the Independent Director on 12 September 2005. He has more than 20 years of experience in engineering, manufacturing, investments and business development. Mr Tay is a Independent Director of Sino Techfibre Limited, a listed company on Singapore Stock Exchange. He is a member of the Chartered Institute of Building Services Engineer, Chartered Engineer of United Kingdom, Institute of Engineers Singapore and Singapore Institute of Directors. Mr Tay obtained his Master of Business Administration from the University of Hull, United Kingdom in 1992 and Bachelor of Science in Electrical & Electronic Engineering from Robert Gordon's University, Scotland, United Kingdom in 1982. He also obtained his post-graduate Diploma in Building Science in 1985 and postgraduate Diploma in Knowledge Engineering in 2004 from Institute of System Science of the National University of Singapore.

**Mr Gui Kim Young @ Gui Kim Gan**  
**Independent Director**

Mr Gui Kim Young @ Gui Kim Gan, 71, Independent Director, is a public accountant of a public accounting corporation. Mr Gui currently also acts as Independent Director of three other listed companies. Mr Gui has more than 30 years of experience in accounting, audit and tax. He graduated from the then Nanyang University with a Bachelor of Commerce in 1973. He is a Fellow of the Institute of Certified Public Accountants of Singapore and a member of the Singapore Institute of Directors. Mr Gui is the Chairman of the Audit Committee and a member of the Nominating Committee and Remuneration Committee.

**Mr Teo Choon Kow @ William Teo**  
**Independent Director**

Mr Teo Choon Kow @ William Teo, 64, Independent Director, was appointed to the Board on 20 June 2011. He is currently the Chairman of the Nominating Committee and a member of the Audit and Remuneration Committees. A Certified Public Accountant and MBA holder, Mr Teo was a venture capitalist at Walden Investment International Group up to 2004. Prior to that, he worked as a consultant at one of the Big Four accounting firms in the areas of corporate finance and merger & acquisitions. Mr Teo is also an independent director of See Hup Seng Ltd, Sim Siang Choon Limited and Wee Hur Holdings Ltd.

**Ms Emily Goh Hoon Nee**  
**Non-Independent and Non-Executive Director**

Ms Emily Goh Hoon Nee, 34, Non-Independent and Non-Executive Director, was appointed to the Board on 18 June 2010. Ms Goh has more than 12 years of field experience with regional start up and growth companies in service sectors such as foreign exchange and education, and has actively engaged in business advisory activities covering strategic alliances, cross border M&A and fund raising. She currently sits on the Board of Directors for Catalyst-listed Artivision Technologies. She graduated from the University of Singapore with a Bachelor of Arts & Social Science in 1998. She is also a member of the Singapore Institute of Directors, the CFA Institute of Singapore and was previously Honorary Secretary of the New Zealand Chamber of Commerce for 3 consecutive terms.

**Dr Ji Yi Cheng**  
**Independent Director**

Dr Ji Yi Cheng, 53, was appointed as the Independent Director on 12 September 2005 and had since resigned on 22 March 2011. Dr Ji is a professor and the tutor of PhD graduates of the College of Economics in Xiamen University. He is also the vice-director of the Valuation Research Centre of Xiamen University. Dr Ji is a member of Fujian Province State-owned Assets Management Research Institute, Fujian Province Assets Valuation Association and Fujian Province Taxation Research Institute. He is also a consultant of Liaoning Province Assets Valuation Association, a director of China Appraisal Society and an expert consultant of Shanxi Province Certified Assets Appraiser Association. He graduated with a Bachelor of Economics in 1985 from Xiamen University (where he also obtained his Master of Laws in 1992 and his PhD of Economics in 1996). Dr Ji is a certified public valuator conferred by the Personnel Bureau of Fujian Province in the PRC.



# KEY MANAGEMENT

## **Mr Xing Chaodong** Production Manager

Mr Xing Chaodong, age 46, is the Production Manager of the Company and is responsible for the research and development activities and assists the Directors in overall strategic planning, administration and public relations functions. Mr Xing, who has over 21 years of experience in the polyester fibre industry, joined the Group in April 2001. He is an engineer certified by the Personnel Bureau of Anhui Province. Mr Xing majored in chemical fibre technology and graduated with a Bachelor of Engineering from East China Textile College in 1984.

## **Mr. Lin Chunrong** Sales Manager

Mr. Lin Chunrong, age 41, is the sales manager of the Company. Mr. Lin, who has 12 years experience in sale, joined the Company in March 2005. Mr. Lin graduated with a diploma in Business administration from Yang En University.

## **Mr. Chang Jieming** Project Manager

Mr. Chang Jieming, age 58, is the project manager of the Company and is responsible for the corporate management and project management. Mr. Zhang who has over 15 years experience in the management, joined the company in April 2006. Mr. Zhang Graduated with a diploma in corporate management from Jiangxi Jixie Management College.

## **Mr. Cai Mingxing** Production Supervisor

Mr. Cai Mingxing, age 48, is the production supervisor of the Company and is responsible for the management of the production lines. Mr. Cai, who has over 10 years experience in management, joined the company in March 2006. Mr. Cai graduated with a diploma in Management from Sanming University.

## **Ms. Ye Minghua** Accounting Manager

Ms. Ye Minghua , aged 32, is the accounting manager of the Company and is responsible for preparing ledger, financial reports of the subsidiaries in PRC and submission of the reports for statutory purpose. Ms Yeg, who has over 10 years accounting experience,. Ms Fang majored in accounting and graduated with a Bachelor of accountancy from Fuzhou University.



# CORPORATE INFORMATION

**BOARD OF DIRECTORS****Lin Jimiao**

(Executive Director)

**Zhuang Xinxin**

(Non-Independent and Non-Executive Chairman)

**Wu Guoxin**

(Executive Director and Chief Operating Officer)

**Koo Ah Seang**

(Executive Director and Chief Executive Officer) (appointed on 20 June 2011)

**Lam Tin Faat, Tony**

(Executive Director and Chief Financial Officer)

**Gui Kim Young @ Gui Kim Gan**

(Interim Chairman and Independent Director)

**Tay Wee Kwang**

(Lead Independent Director)

**Teo Choo Kow @ William Teo**

(Independent Director) (appointed 20 June 2011)

**Emily Goh Hoon Nee**

(Non-Independent and Non-Executive Director) (appointed on 18 June 2010)

**Ji Yicheng**

(Independent Director) (resigned on 22 March 2011)

**Loo Cheng Guan**

(Non-Independent and Non-Executive Director) (resigned on 18 June 2010)

**AUDIT COMMITTEE**

Gui Kim Young @ Gui Kim Gan (Chairman)

Tay Wee Kwang

Teo Choon Kow@William Teo

**NOMINATING COMMITTEE**

Teo Choon Kow@William Teo (Chairman)

Tay Wee Kwang

Wu Guoxin

Gui Kim Young @ Gui Kim Gan

**REMUNERATION COMMITTEE**

Tay Wee Kwang (Chairman)

Gui Kim Young @ Gui Kim Gan

Teo Choon Kow@William Teo

**JOINT COMPANY SECRETARIES**

Mr Lam Tin Faat, Tony, ACA, CPA (Hong Kong), FCCA

Cho Form Po (resigned on 30 June 2010)

Low Siew Tian (appointed on 30 June 2010)

**ASSISTANT COMPANY SECRETARY**

Richard J. Evans (resigned on 20 January 2011)

Codan Services Limited (appointed on 20 January 2011)

**REGISTERED OFFICE**

Clarendon House

2 Church Street

Hamilton HM 11

Bermuda

**REGISTRATION NUMBER**

36568

**HEAD OFFICE AND PRINCIPAL PLACE OF BUSINESS**

No.2 Factory,

Xianhou Shuangli Industrial Park,

Huli District,

Xiamen City, Fujian Province, the PRC

Zhao Gang Xiang Bei Industrial Centre,

Nei Cuo Town,

Xiang'an District,

Xiamen City, Fujian Province, PRC

**AUDITOR**

Ernst & Young LLP

One Raffles Quay

North Tower, Level 18

Singapore 048583

Partner in charge: Tan Peck Yen

(since financial year ended 31 December 2006)

**SINGAPORE SHARE TRANSFER AGENT**

Tricor Barbinder Share Registration Services

(A division of Tricor Singapore Pte. Ltd.)

8 Cross Street

#11-00 PWC Building

Singapore 048424

**BERMUDA SHARE REGISTRAR**

Codan Services Limited

Clarendon House

2 Church Street

Hamilton HM 11

Bermuda

**PRINCIPAL BANKERS**

Citic Industrial Bank, Xiamen Branch

1-2/F Lake View Garden

No. 79 Hubin South Road

Xiamen, the PRC

Industrial and Commercial Bank of China

Jiangtuo Sub-branch

No 580, Jia He Road

Huli District, Xiamen, the PRC



# OPERATIONS & FINANCIAL REVIEW



## Revenues improve with economy

The Group is a manufacturer of polyester differential fibres to the world's largest textile industry hub - Southern China. We have over 600 customers, and these are mainly yarn and textile manufacturers in Fujian Province, with end users in China and around the world.

FY2010 group revenues increased 17.2% year-on-year to RMB 337.3 million, mainly due to economic recovery and increased consumer confidence, which led to an increase in demand for the Group's products.

Synthetic Cotton ("SC"), a cost-competitive substitute for natural cotton, continued to be the Group's largest revenue contributor, accounting for over half (51.9%) of consolidated revenues. Segment sales increased by 17.8% to RMB 174.9 million. Our SC has a wide range of applications, ranging from home-use products to industrial packaging.

Drawn and Textured Yarn ("DTY") accounted for 20.0% of group revenues, largely unchanged from the preceding year. Segment sales increased by 17.9% to RMB 67.4 million. DTY is yarn that is used for weaving and knitting, and is suitable for producing clothing fabrics, bedding articles and accoutrement (such as sofa cloth and interior decoration lining for automobiles).

Polyester differential Pre-Oriented Yarn ("POY") accounted for 28.2% of group revenues, largely unchanged from the preceding year. Segment sales increased by 15.7% to RMB 95.0 million. POY is yarn that is used as feedstock for DTY and air translated yarn. The later two are made into a variety of regenerated fabrics.

According to the China Textile Industry Association, China's large textile businesses realized profits of RMB 133.15 billion in the first 11 months of 2010, up by 25.4% year-on-year. The industry posted a total production value during the 11-month period of RMB 3.43 trillion, up 9.7%, as all major products saw production increases. In view of the robust demand for textiles, we expect the average selling prices of our traditional POY and DTY to continue to edge up in the current year.