



HUAXI HOLDINGS COMPANY LIMITED

華禧控股有限公司

(Incorporated in the Cayman Islands with limited liability)
Stock Code: 1689

2017

Interim Report



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CORPORATION INFORMATION

BOARD OF DIRECTORS

Executive Directors

Mr. Zheng Andy Yi Sheng (*Chairman*)

Mr. Zheng Minsheng

Independent non-executive Directors

Mr. Lau Kwok Hung

Mr. Ma Wenming

Mr. Fok Po Tin

AUDIT COMMITTEE

Mr. Lau Kwok Hung (*Chairman*)

Mr. Ma Wenming

Mr. Fok Po Tin

REMUNERATION COMMITTEE

Mr. Lau Kwok Hung (*Chairman*)

Mr. Ma Wenming

Mr. Fok Po Tin

NOMINATION COMMITTEE

Mr. Zheng Andy Yi Sheng (*Chairman*)

Mr. Lau Kwok Hung

Mr. Fok Po Tin

CORPORATE GOVERNANCE COMMITTEE

Mr. Zheng Andy Yi Sheng (*Chairman*)

Mr. Zheng Minsheng

Mr. Lau Kwok Hung

COMPANY SECRETARY

Mr. Yu Wing Cheung

AUTHORISED REPRESENTATIVES

Mr. Zheng Andy Yi Sheng

Mr. Yu Wing Cheung

AUDITOR

PricewaterhouseCoopers

LEGAL ADVISER

Peter K.S. Chan & Co

PRINCIPAL PLACE OF BUSINESS IN HONG KONG

Unit 1906-07 Cosco Tower

183 Queen's Road Central

Central

Hong Kong

REGISTERED OFFICE

Clifton House, 75 Fort Street

P. O. Box 1350

Grand Cayman, KY1-1108

Cayman Islands

PRINCIPAL SHARE REGISTRAR AND TRANSFER OFFICE

Estera Trust (Cayman) Limited

Clifton House, 75 Fort Street

P O Box 1350

Grand Cayman, KY1-1108

Cayman Islands

HONG KONG BRANCH SHARE REGISTRAR AND TRANSFER OFFICE

Computershare Hong Kong Investor Services Limited

Shop 1712-16, 17th Floor, Hopewell Centre

183 Queen's Road East, Wanchai

Hong Kong

PRINCIPAL BANKERS

The Hongkong & Shanghai Banking Corporation Limited

Bank of China Limited

China Minsheng Banking Corporation Limited

Industrial & Commercial Bank of China Limited

WEBSITE

<http://www.huaxihds.com.hk>

STOCK CODE

01689

MANAGEMENT DISCUSSION AND ANALYSIS

RESULTS

The principal activities of the Group were manufacturing and sales of cigarette package materials and environment treatment business in The People's Republic of China (the "PRC"). For the six months ended 30 September 2017 ("the Reporting Period"), the Group's total revenue reduced from HK\$111.89 million to HK\$89.26 million, representing a decrease of approximately HK\$22.63 million or 20.2%. The decrease in revenue was primarily from change of products mix and the construction stage of project in Chaonan completed in last financial year.

Profit attributable to owner of the Company during the Reporting Period was approximately HK\$18.52 million, representing an decrease of approximately HK\$2.80 million or 13.1% as compared to approximately HK\$21.32 million in the corresponding period in 2016.

BUSINESS REVIEW

In 2017, sales of the PRC tobacco industry recorded a slight growth after turbulence and uncertainty in the past few years. However, the business environment was still tough. The prices of our products were under pressure because of the keen competition. During the Reporting Period, the Group revenue from manufacturing and sales of cigarette package materials was approximately HK\$89.07 million (30 September 2016: HK\$92.47 million), representing a decrease of approximately HK\$3.40 million or 3.7%.

During the Reporting Period, revenue from environment treatment business was approximately HK\$0.18 million which was decreased by approximately HK\$17.74 million from HK\$17.92 million in the corresponding period in 2016. The decrease was due to the completion of the construction project in March 2017 and the revenue from maintenance work just commenced in late September 2017.

Gross Profit

The overall gross profit of the Group during the Reporting Period was approximately HK\$34.46 million, decreased by HK\$9.16 million or 21.0% as compared with approximately HK\$43.62 million for the corresponding period in 2016.

During the Reporting Period, the Group's gross profit margin for sales of cigarette package materials was approximately 39.1% (30 September 2016: 41.8%). Decrease in profit margin was mainly resulted from change of products mix.

BUSINESS REVIEW *(continued)*

Distribution Costs

Distribution costs primarily consist of transportation expenses for the delivery of products to customers. The total distribution costs during the Reporting Period was approximately HK\$0.90 million decreased by approximately HK\$0.22 million or 19.6% compared with the corresponding period in 2016 for HK\$1.12 million. Distribution costs, including travelling expenses of our staff incurred for the sales and distribution activities, decreased which was resulted from costs saved from Shanghai and Heilongjiang office.

Administrative Expenses

Administrative expenses during the Reporting Period was decreased by approximately HK\$2.14 million or 14.4% from approximately HK\$14.83 million for the six months ended 30 September 2016 to approximately HK\$12.69 million in the Reporting Period. It was mainly resulted from the administrative expenses saved from downsizing the operations in Shanghai and Heilongjiang office and material consumed in research.

Finance Income

Finance income of the Group during the Reporting Period was approximately HK\$2.21 million which was increased by approximately HK\$0.62 million compared with approximately HK\$1.59 million for the corresponding period in 2016. Increase in finance income was mainly resulted from the short-term bond lending business following the uptrend of the securities market in Hong Kong and the PRC.

Income Tax Expense

The Group's income tax expense of the Group for the Reporting Period was approximately HK\$4.89 million which was decreased by approximately HK\$1.75 million from approximately HK\$6.64 million for the corresponding period in 2016. The effective tax rate of the Group was approximately 21.6% for the Reporting Period, which slightly decreased by 1.9% when compared with approximately 23.5% for the same period in 2016. The Group's main operating subsidiary in the PRC is awarded the High and New Technology Enterprises Certificate enjoying a lower enterprise income tax rate at 15%.

BUSINESS REVIEW *(continued)*

Financial Assets at Fair Value Through Profit or Loss

As at 31 March and 30 September 2017, the financial assets held were as follows:

	30 September 2017 HK\$'000	31 March 2017 HK\$'000
Equity securities listed in Hong Kong stock market	11,340	18,458
Equity securities listed in Shenzhen stock market	10,600	9,394
	21,940	28,852

The fair values of the listed securities are determined with reference to the quoted market prices available on the relevant stock exchanges. During the Reporting Period, the Group recorded a gain from disposal and dividend income from financial assets for approximately HK\$1.25 million (30 September 2016: HK\$0.83 million) and an unrealized loss on changes on fair value of financial assets of approximately HK\$0.84 million (30 September 2016: HK\$2.13 million).

As at 30 September 2017, the equity securities listed in Hong Kong stock market held by the Group including CNG Power (01816), the value of which was HK\$11.34 million (31 March 2017: HK\$12.60 million). CNG Power has recorded an increase of the net profit by 38.27% annually to RMB8.634 billion for the nine months ended 30 September 2017. The management of the Company expects that the share price and the return will hence increase in line with its results.

As at 30 September 2017, the equity securities listed in Shenzhen stock market held by the Group consists of Western Securities (西部證券 002673), Guoyuan Securities (國元證券 000728) and Nationz Technologies (國民技術 300077). The management of the Company expects that the share price of these stocks will steadily increase as a result of the growth of the PRC's stock market and economy.

BUSINESS REVIEW *(continued)*

Capital structure, liquidity and financial resources

As at 30 September 2017, the Group's total cash and cash equivalents, including restricted cash at banks, amounted to HK\$153.99 million, compared to HK\$162.33 million as at 31 March 2017. Most of the Group's liquid fund is placed as deposits at various banks.

At 30 September 2017, the Group had current assets of approximately HK\$351.89 million, (31 March 2017 HK\$359.95 million) and current liabilities of approximately HK\$79.42 million (31 March 2017 HK\$99.82 million). The current ratio (calculated as current assets to current liabilities) increased from 3.61 at 31 March 2017 to 4.43 as at 30 September 2017.

For the six months ended 30 September 2017, the Group's net cash generated from investing activities and net cash used in operating activities and financing activities amounted to approximately HK\$27.63 million, approximately HK\$8.60 million and approximately HK\$20.36 million respectively. The Group primarily uses cash inflow of operating activities and banking facilities to satisfy the requirement of working capital.

Borrowings and gearing ratio

The Group did not have any borrowing as at 30 September 2017 and 31 March 2017.

Exposure to fluctuations in exchange rate

The Group's exposure to foreign currency risk related primarily to certain bank balances and cash, other receivables and other payables maintained in Hong Kong Dollars. Presently, the Group has no hedging policy with respect to the foreign exchange exposure.

The Group's transactions for our subsidiaries in the PRC were mainly conducted in Renminbi ("RMB"), the functional currency of the subsidiaries, and the major receivables and payables are denominated in RMB. Accordingly, the Group's exposure to RMB currency risk is insignificant.

Capital expenditure

During the period under review, the Group's total capital expenditure amounted to approximately HK\$0.37 million, (for the six months ended 30 September 2016: HK\$3.72 million) which was used in the acquisition of property, plant and equipment.

BUSINESS REVIEW *(continued)*

Charge on assets

As at 30 September 2017, the Group had pledged bank deposits amounting to HK\$27.47 million (31 March 2017: HK\$45.82 million) as collateral for the Group's notes payable.

Saved as above, no other assets of the Group was pledged.

Contingent liability

The Group has no significant contingent liabilities as at 30 September 2017 and 31 March 2017.

Capital commitments

As at 30 September 2017, the Group had capital commitments for the amount of approximately HK\$0.06 million (31 March 2017: HK\$0.06 million) for acquisition of property, plant and equipment.

FUTURE OUTLOOK

Further destocking from customers has been stabilized during the Reporting Period. However, the competition in cigarette package materials business remained intensive. The Group will exercise cautions in the market to ensure reasonable returns. We will dedicate more efforts to strengthen our relations with existing customers and explore new customers to expand our market share. Besides, we will keep on tight control of its operations in order to maintain the quality of our products and streamline our operations to improve efficiencies and hence the control of costs.

The development stage of the project in Chaonan has been completed in last financial year and the maintenance work just commenced in late September 2017 which will bring us a steady income for the coming three years. Meanwhile, the Company is seeking to bid for other environmental rehabilitation projects in Guangdong province primarily in Chaoshan District.

Manufacturing and sales of cigarette packaging materials is still our core business. The Group will seek for new customers to widen our market share and enhance our operational capabilities and standards. Looking forward, we will explore possible opportunities to expand in investment projects relating not only to cigarette package materials business but also to environmental rehabilitation business with the aim to provide a stable income and growth to the Group's long term performance and also widen the returns to the shareholders of the Company.

SIGNIFICANT INVESTMENTS AND ACQUISITIONS

The Group did not have any material investment, acquisition or disposal of subsidiaries, associates or joint ventures during the period under review.

INTERIM DIVIDEND

The directors have resolved to pay an interim dividend of HK4.00 cents (2016: HK4.00 cents) per share. The interim dividend will be paid on 29 January 2018 to shareholders whose names appear on the Register of Members of the Company on 12 January 2018.

CLOSURE OF REGISTERED MEMBERS

The register of members of the Company will be closed from 10 January 2018 to 12 January 2018 (both days inclusive) for the purpose of determining the entitlement to the interim dividend in respect of the six months ended 30 September 2017. In order to be qualified for the interim dividend, unregistered holders of shares of the Company should ensure that all share transfer documents accompanied by the corresponding share certificates are lodged with the Company's branch share registrar and transfer office Computershare Hong Kong Investor Services Limited at Shops 1712–1716, 17th Floor, Hopewell Centre, 183 Queen's Road East, Wanchai, Hong Kong for registration not later than 4:30 p.m. on 9 January 2018.

OTHER INFORMATION

PURCHASE, SALE OR REDEMPTION OF THE COMPANY'S SECURITIES

During the six months ended 30 September 2017, neither the Company nor any of its subsidiaries purchased, sold or redeemed any of the Company's listed securities.

SUFFICIENCY OF PUBLIC FLOAT

Based on the information that is publicly available to the Company and within the knowledge of the Directors as at the date of this report, the Company has maintained the prescribed public float of not less than 25% of the Company's issued shares as required under the Listing Rules during the period under review.

DIRECTORS' INTERESTS IN THE SHARES AND UNDERLYING SHARES OF THE COMPANY

As at 30 September 2017, the interests and short positions of the directors and chief executives of the Company in the shares underlying shares or debentures of the Company or its associated corporations which were required (a) to be notified to the Company and The Stock Exchange of Hong Kong Limited (the "Stock Exchange") pursuant to Divisions 7 and 8 of Part XV of the Securities and Futures Ordinance ("SFO"); or (b) pursuant to Section 352 of the SFO, to be entered in the register referred to therein; or (c) to be notified to the Company and the Stock Exchange pursuant to the Model Code for Securities Transactions by Directors of Listed Issuers (the "Model Code") set out in Appendix 10 to the Rules Governing the Listing of Securities on the Stock Exchanges (the "Listing Rules") (collectively "Disclosure Interests") were as follows:

Long positions of Directors' interests in securities of the Company

Name of Director	Nature of interest	Number of ordinary shares held	Number of Share options held ⁽³⁾	Percentage of interest ⁽²⁾
Mr. Zheng Andy Yi Sheng	Interests held by a controlled corporation ⁽¹⁾	225,000,000	–	66.32%
Mr. Zheng Minsheng	Beneficial owner		600,000	0.18%
Mr. Lau Kwok Hung	Beneficial owner		200,000	0.06%
Mr. Ma Wenming	Beneficial owner		200,000	0.06%
Mr. Fok Po Tin	Beneficial owner		200,000	0.06%

OTHER INFORMATION

DIRECTORS' INTERESTS IN THE SHARES AND UNDERLYING SHARES OF THE COMPANY *(continued)*

Note:

- (1) These shares were held by SXD Limited, a controlled corporation of Mr. Zheng Andy Yi Sheng.
- (2) The percentage represents the number of ordinary shares interested divided by the number of the Company's issued shares as at 30 September 2017.
- (3) Further details of the share options are set out in the section headed "Share Option Scheme".

Save as disclosed above, as at 30 September 2017, none of the directors or chief executives of the Company had any other Disclosure Interests as required.

SUBSTANTIAL SHAREHOLDERS' AND OTHER PERSONS' INTERESTS AND SHORT POSITIONS IN SHARES AND UNDERLYING SHARES

As at 30 September 2017, the interests and short positions of each person, other than Directors or chief executive of the Company, in the shares and underlying shares of the Company as recorded in the register kept by the Company pursuant to Section 336 of the SFO were as follows:

Long position in the Shares of the Company

Name of Shareholders	Nature of interest	Number of ordinary shares held <i>(Note (i))</i>	Approximate percentage of the total issued share capital
SXD Limited	Beneficial interest	225,000,000 (L)	66.32%
Mr. Zheng Andy Yi Sheng <i>(Note ii)</i>	Interest held by a controlled corporation	225,000,000 (L)	66.32%

SUBSTANTIAL SHAREHOLDERS' AND OTHER PERSONS' INTERESTS AND SHORT POSITIONS IN SHARES AND UNDERLYING SHARES *(continued)*

Notes:

- (i) The letter "L" denotes a long position in the shareholder's interest in the share capital of the Company.
- (ii) Mr. Zheng Andy Yi Sheng is the beneficial owner of the entire issued share capital of SXD Limited and is deemed to be interested in the 225,000,000 shares held by SXD Limited under the SFO.

Save as disclosed above, as at 30 September 2017, no other person, so far known to our Directors or chief executives of the Company, had an interest or short position in the shares or underlying shares of the Company or its associated corporations of 5% or more which were required to be disclosed by the Company under Part XV of the SFO or which were recorded in the register kept by the Company pursuant to Section 336 of the SFO.

SHARE OPTION SCHEME

The Company's share option scheme (the "Scheme") was adopted pursuant to a resolution passed on 14 November 2013 for the purpose of providing incentives and rewards attracting and retaining the best available personnel, providing additional incentive to employees (full-time and part time), directors, consultants, advisers, distributors, contractors, suppliers, agents, customers, business partners or service providers ("Eligible Participants") of the Group and promoting the Success of the business of the Group and will remain on force for a period of ten years commencing on the adoption date and shall expire at 13 November 2023 subject to early termination provisions contained in the Scheme. The Board may grant options To Eligible Participants to subscribe for shares in the Company subject to the terms of the Scheme.

OTHER INFORMATION

SHARE OPTION SCHEME *(continued)*

On 15 January 2015, the Board granted a total of 30,000,000 share options under the Share Option Scheme adopted by the Company on 14 November 2013 to certain eligible persons to subscribe, in aggregate, for up to 30,000,000 ordinary shares of HK\$0.01 each in the share capital of the Company subject to acceptance of the eligible persons. The exercise price is HK\$2.58 per ordinary share. The validity period of option period is 5 years commencing from 15 January 2015 and expiring on 14 January 2020 (both days inclusive).

Details of outstanding options over new shares of the Company at the beginning and at the end of the reporting period which have been granted under the Scheme are as follows:

Category of grantees	Date of grant of share options	Exercisable period (Note 1)	Exercise price (HK\$)	Number of options				
				Balance at beginning of the period	Granted during the period	Exercised during the period	Lapsed during the period	Balance at the end of the period
Directors								
Mr. Zheng Minsheng	15.1.2015	15.1.2016–14.1.2020	2.58	600,000	–	–	–	600,000
Mr. Lau Kwok Hung	15.1.2015	15.1.2016–14.1.2020	2.58	200,000	–	–	–	200,000
Mr. Ma Wenming	15.1.2015	15.1.2016–14.1.2020	2.58	200,000	–	–	–	200,000
Mr. Fok Po Tin	15.1.2015	15.1.2016–14.1.2020	2.58	200,000	–	–	–	200,000
Total – Directors				1,200,000	–	–	–	1,200,000
Employees in aggregate	15.1.2015	15.1.2016–14.1.2020	2.58	21,290,000	–	–	700,000	20,590,000
Other participants in aggregate	15.1.2015	15.1.2016–14.1.2020	2.58	4,000,000	–	–	–	4,000,000
Total				26,490,000	–	–	700,000	25,790,000

Note:

- (1) The option period of the options granted on 15 January 2015 is 5 years whereas the vesting period is 1 year. The options vest in 4 installments: (i) 25% after 1 year from the date of grant; (ii) 25% after 2 years from the date of grant; (iii) 25% after 3 years from the date of grant; and (iv) 25% after 4 years from the date of grant.

COMPLIANCE WITH THE CORPORATE GOVERNANCE CODE

The Group strives to attain and maintain high standards of corporate governance best suited to the needs of its businesses and the best interests of its stakeholders as the board (the “Board”) of directors (the “Directors”) of the Company believes that effective governance is essential to the maintenance of the Group’s competitiveness and to its healthy growth. The Company has adopted and applied the principles of the code provisions of the Corporate Governance Code (the “CG Code”) as set out in Appendix 14 of the Rules Governing the Listing of Securities on The Stock Exchange of Hong Kong Limited (the “Listing Rules”).

The Company periodically reviews its corporate governance practices to ensure its continuous compliance with the CG Code. In the opinion of the Directors, the Company was in compliance with the applicable code provisions of the CG Code for the six months ended 30 September 2017 and, where appropriate, the applicable recommended best practices of the CG Code, save and except for the following deviations:

Code Provision A.2.1

Code Provision A.2.1 stipulates that the roles of chairman and chief executive officer should be separate and should not be performed by the same individual. The division of responsibilities between the chairman and chief executive should be clearly established and set out in writing.

Mr. Zheng Andy Yi Sheng is the chairman and chief executive officer of the Company. In view of the scale of operations of the Company and the fact that daily operations of the Group’s business is delegated to the senior executives and departments heads, the Board considers that vesting the roles of both chairman and chief executive officer in the same person will not impair the balance of power and authority between the Board and the management of the Company.

Code Provision A.4.1

Code Provision A.4.1 stipulates that non-executive directors should be appointed for a specific term, subject to re-election. Independent Non-Executive Directors of the Company are not appointed for a specific term but are subject to retirement by rotation and re-election at the annual general meeting in accordance with the Articles of Association of the Company.

COMPLIANCE WITH THE CORPORATE GOVERNANCE CODE *(continued)*

Code Provision A.6.7

Under Code Provision A.6.7, independent non-executive directors and other non-executive directors, as equal board members, should attend general meetings. During the period under review, an Independent Non-executive Director was unable to attend the general meetings of the Company as he was out of town or had other engagements.

Code Provision C.1.2

Under Code Provision C.1.2, management should provide all members of the board with monthly updates giving a balanced and understandable assessment of the Company's performance, position and prospects in sufficient detail to enable the board as a whole and each director to discharge their duties under Rule 3.08 and Chapter 13. During the period under review, the management of the Company did not provide monthly updates to all members of the Board as required by the code provision C.1.2, as all the executive Directors were involved in the daily operation of the Group and were fully aware of the performance, position and prospects of the Company, and the management has provided to all Directors (including Independent Non-executive Directors) of the Board updates giving a balanced and understandable assessment of the Company's performance, position and prospects in sufficient detail prior to the regular board meetings of the Company. In addition, the management has provided all members of the Board updates on any material changes to the performance, position and prospects of the Company and sufficient background or explanatory information for matters brought before the Board.

COMPLIANCE WITH THE MODEL CODE FOR SECURITIES TRANSACTIONS BY DIRECTORS

The Company has adopted the Model Code for Securities Transactions by Directors of Listed Issuers (the "Model Code") as set out in Appendix 10 to the Listing Rules. Specific enquiry has been made of all the Directors and the Directors have confirmed that they have complied with the Model Code throughout the six months ended 30 September 2017.

CHANGES TO INFORMATION IN RESPECT OF DIRECTORS

In accordance with Rule 13.51B(1) of the Listing Rules, there was no change to information required to be disclosed by Directors pursuant to paragraphs (a) to (e) and (g) of Rule 13.51(2) of the Listing Rules during the Reporting Period.

OTHER INFORMATION

DIRECTORS' INTERESTS IN COMPETING BUSINESS

None of the Directors is or was interested in any business apart from the Group's business, which competes or competed or is or was likely to compete, either directly or indirectly, with the Group's business at any time during the six months ended 30 September 2017.

REVIEW OF FINANCIAL STATEMENTS BY THE AUDIT COMMITTEE

The Audit Committee comprises three members, namely Mr. Lau Kwok Hung (Chairman), Mr. Ma Wenming and Mr. Fok Po Tin, had reviewed the interim results of the Group for the six months ended 30 September 2017. During the period, one regular meeting of the Audit Committee has been held.

By order of the Board of Directors
HUAXI HOLDINGS COMPANY LIMITED
Zheng Andy Yi Sheng
Chairman and Executive Director

Hong Kong, 27 November 2017

CONDENSED CONSOLIDATED STATEMENT OF COMPREHENSIVE INCOME

		Six months ended 30 September	
	<i>Note</i>	2017 HK\$'000 (Unaudited)	2016 HK\$'000 (Unaudited)
Revenue	6	89,260	111,890
Cost of sales	7	(54,805)	(68,271)
Gross profit		34,455	43,619
Distribution costs	7	(902)	(1,116)
Administrative expenses	7	(12,692)	(14,827)
Other losses — net	8	(391)	(961)
Operating profit		20,470	26,715
Finance income		2,209	1,588
Profit before income tax		22,679	28,303
Income tax expense	9	(4,892)	(6,638)
Profit for the period		17,787	21,665
Other comprehensive income/(loss) <i>Items that will not be reclassified to profit or loss:</i>			
Currency translation difference		13,602	(10,024)
Other comprehensive income/(loss) for the period		13,602	(10,024)
Total comprehensive income for the period		31,389	11,641

CONDENSED CONSOLIDATED STATEMENT OF COMPREHENSIVE INCOME

		Six months ended 30 September	
	<i>Note</i>	2017 HK\$'000 (Unaudited)	2016 HK\$'000 (Unaudited)
Profit attributable to:			
Owners of the Company		18,515	21,319
Non-controlling interests		(728)	346
		17,787	21,665
Total comprehensive income attributable to:			
Owners of the Company		31,820	11,442
Non-controlling interests		(431)	199
		31,389	11,641
Earnings per share			
— Basic	10	HK5.46 cents	HK6.28 cents
— Diluted	10	HK5.37 cents	HK6.19 cents

The notes on pages 22 to 56 form an integral part of this unaudited condensed consolidated interim financial information.

CONDENSED CONSOLIDATED STATEMENT OF FINANCIAL POSITION

	Note	30 September 2017 HK\$'000 (Unaudited)	31 March 2017 HK\$'000 (Audited)
ASSETS			
Non-current assets			
Property, plant and equipment	12	40,022	40,383
Prepaid operating lease		5,936	5,756
Deferred tax assets		2,461	2,442
Prepayments for non-current assets	13	124	118
		48,543	48,699
Current assets			
Inventories		35,970	29,760
Trade and notes receivable	14	127,397	115,546
Amounts due from customer for contract work	15	10,880	22,098
Prepayments and other receivables	16	1,717	1,369
Financial assets at fair value through profit or loss	17	21,940	28,852
Restricted cash at banks	18	27,467	45,819
Cash and cash equivalents	19	126,520	116,507
		351,891	359,951
Total assets		400,434	408,650

CONDENSED CONSOLIDATED STATEMENT OF FINANCIAL POSITION

	Note	30 September 2017 HK\$'000 (Unaudited)	31 March 2017 HK\$'000 (Audited)
EQUITY			
Equity attributable to owners of the Company			
Share capital	20	3,393	3,393
Other reserves		188,220	174,254
Retained earnings		125,973	127,812
		317,586	305,459
Non-controlling interests		(3,274)	(2,842)
Total equity		314,312	302,617
LIABILITIES			
Non-current liabilities			
Deferred tax liabilities		6,701	6,212
Current liabilities			
Trade and notes payable	22	53,803	71,196
Other payables and accruals	23	15,914	19,889
Current income tax liabilities		9,704	8,736
		79,421	99,821
Total liabilities		86,122	106,033
Total equity and liabilities		400,434	408,650

The notes on pages 22 to 56 form an integral part of this unaudited condensed consolidated interim financial information.

CONDENSED CONSOLIDATED STATEMENT OF CHANGES IN EQUITY

	Attributable to owners of the Company					Total HK\$'000
	Share capital	Other reserves	Retained earnings	Total	Non- controlling interests	
	HK\$'000 (Note 20)	HK\$'000	HK\$'000	HK\$'000	HK\$'000	
Six months ended 30 September 2017 (Unaudited)						
Balance at 1 April 2017	3,393	174,254	127,812	305,459	(2,842)	302,617
Comprehensive income						
— Profit for the period	—	—	18,515	18,515	(728)	17,787
— Other comprehensive income	—	13,306	—	13,305	296	13,602
Total comprehensive income	—	13,306	18,515	31,821	(432)	31,389
Value of employee services under share option scheme	—	661	—	661	—	661
Dividends	—	—	(20,355)	(20,355)	—	(20,355)
Balance at 30 September 2017	3,393	188,221	125,972	317,586	(3,274)	314,312
Six months ended 30 September 2016 (Unaudited)						
Balance at 1 April 2016	3,393	191,600	113,630	308,623	4,451	313,074
Comprehensive income						
— Profit for the period	—	—	21,319	21,319	346	21,665
— Other comprehensive income	—	(9,877)	—	(9,877)	(147)	(10,024)
Total comprehensive income	—	(9,877)	21,319	11,442	199	11,641
Value of employee services under share option scheme	—	911	—	911	—	911
Dividends	—	—	(20,355)	(20,355)	—	(20,355)
Balance at 30 September 2016	3,393	182,634	114,594	300,621	4,650	305,271

The notes on pages 22 to 56 form an integral part of this unaudited condensed consolidated interim financial information.

CONDENSED CONSOLIDATED STATEMENT OF CASH FLOWS

		Six months ended 30 September	
	<i>Note</i>	2017 HK\$'000 (Unaudited)	2016 HK\$'000 (Unaudited)
Cash flows from operating activities			
Cash (used in)/generated from operations	24	(5,293)	7,140
PRC enterprise income tax paid		(3,302)	(6,476)
Net cash (used in)/generated from operating activities		(8,595)	664
Cash flows from investing activities			
Purchases of property, plant and equipment		(372)	(2,357)
Decrease in restricted cash at banks		18,352	21,366
Purchase of financial assets at fair value through profit or loss		(20,752)	(7,685)
Net proceed from disposal of financial assets at fair value through profit or loss		28,188	14,709
Interest income from bank deposits		1,198	334
Interest income from other financial assets		1,011	1,254
Net cash generated from investing activities		27,625	27,621
Cash flows from financing activities			
Dividends paid	11	(20,355)	(20,355)
Decrease in amounts due to a related party		–	(2,000)
Net cash used in financing activities		(20,355)	(22,355)
Net (decrease)/increase in cash and cash equivalents			
Cash and cash equivalents at beginning of the period		(1,325)	5,930
Effect of change in exchange rate		116,507	140,625
		11,338	(6,813)
Cash and cash equivalents at end of the period		126,520	139,742

The notes on pages 22 to 56 form an integral part of this unaudited condensed consolidated interim financial information.

NOTES TO THE CONDENSED CONSOLIDATED INTERIM FINANCIAL INFORMATION

1 GENERAL INFORMATION

Huaxi Holdings Company Limited (the “Company”) was incorporated in the Cayman Islands on 29 April 2013 as an exempted company with limited liability under the Companies Law of the Cayman Islands. The address of its registered office is the offices of Appleby Trust (Cayman) Ltd., Clifton House, P.O. Box 1350, 75 Fort Street, Grand Cayman, KY1-1108, Cayman Islands. The Company is an investment holding company. The Company and its subsidiaries (together, the “Group”) are principally engaged in (i) manufacturing and sales of cigarette packing materials and (ii) environmental treatment business in the People’s Republic of China (the “PRC”) for the six months ended 30 September 2017.

The Company has its primary listing on the Main Board of The Stock Exchange of Hong Kong Limited (the “Stock Exchange”) on 6 December 2013.

This condensed consolidated interim financial information for the six months ended 30 September 2017 (“Interim Financial Information”) is presented in thousands of Hong Kong dollar (“HK\$”), unless otherwise stated.

This Interim Financial Information has not been audited and was approved by the Board of Directors (the “Board”) of the Company for issue on 27 November 2017.

2 BASIS OF PREPARATION AND ACCOUNTING POLICIES

The Interim Financial Information has been prepared in accordance with Hong Kong Accounting Standard (“HKAS”) 34 “Interim Financial Reporting” issued by the Hong Kong Institute of Certified Public Accountants (“HKICPA”). The Interim Financial Information should be read in conjunction with the annual financial statements for the year ended 31 March 2017, which have been prepared in accordance with Hong Kong Financial Reporting Standards (“HKFRSs”).

2 BASIS OF PREPARATION AND ACCOUNTING POLICIES *(continued)*

Except as described below, the accounting policies applied are consistent with those described in the annual financial statements for the year ended 31 March 2017.

- (a) The following amendments to standards are mandatory for the first time for the financial year beginning on or after 1 April 2017. The Group has adopted these amendments to standards which are relevant to its operations, but these amendments have no material impact in the Group's financial statement as at and for the period ended 30 September 2017.

Amendments to HKAS 12	Income taxes
Amendments to HKAS 7	Statement of cash flows

- (b) The following new and amended standards have been issued but are not effective for the financial year beginning 1 April 2017 and have not been early adopted by the Group:

		Effective for annual periods beginning on or after
HKFRS 15 "Revenue from Contracts with Customers"	HKFRS 15 establishes a comprehensive framework for determining when to recognize revenue and how much revenue to recognize through a 5-step approach:	1 January 2018
	(1) Identify the contract(s) with customer;	
	(2) Identify separate performance obligations in a contract;	
	(3) Determine the transaction price;	
	(4) Allocate transaction price to performance obligations;	
	(5) Recognize revenue when performance obligation is satisfied.	

NOTES TO THE CONDENSED CONSOLIDATED INTERIM FINANCIAL INFORMATION

2 BASIS OF PREPARATION AND ACCOUNTING POLICIES *(continued)*

(b) *(continued)*

**Effective for
annual periods
beginning on
or after**

HKFRS 15
"Revenue from
Contracts with
Customers"
(continued)

The core principle is that a company should recognize revenue to depict the transfer of promised goods or services to the customer in an amount that reflects the consideration to which the company expects to be entitled in exchange for those goods or services. It moves away from a revenue recognition model based on an 'earnings processes' to an 'asset-liability' approach based on transfer of control.

1 January 2018

HKFRS 15 provides specific guidance on capitalization of contract cost and license arrangements. It also includes a cohesive set of disclosure requirements about the nature, amount, timing and uncertainty of revenue and cash flows arising from the entity's contracts with customers.

Management is currently assessing the impact of applying HKFRS 15 on the Group's financial statements by identifying the separate performance obligations in the contracts with customers and allocating the transactions price, which could affect the timing of the revenue recognition.

2 BASIS OF PREPARATION AND ACCOUNTING POLICIES *(continued)*
(b) *(continued)*

		Effective for annual periods beginning on or after
HKFRS 9 "Financial Instruments"	HKFRS 9 (2014), "Financial instruments" replaces the whole of HKAS 39.	1 January 2018
	<p>HKFRS 9 has three financial asset classification categories for investments in debt instruments: amortized cost, fair value through other comprehensive income ("OCI") and fair value through profit or loss. Classification is driven by the entity's business model for managing the debt instruments and their contractual cash flow characteristics. Investments in equity instruments are always measured at fair value. However, management can make an irrevocable election to present changes in fair value in OCI, provided the instrument is not held for trading. If the equity instrument is held for trading, changes in fair value are presented in profit or loss. For financial liabilities there are two classification categories: amortized cost and fair value through profit or loss. Where non-derivative financial liabilities are designated at fair value through profit or loss, the changes in the fair value due to changes in the liability's own credit risk are recognized in OCI, unless such changes in fair value would create an accounting mismatch in profit or loss, in which case, all fair value movements are recognized in profit or loss. There is no subsequent recycling of the amounts in OCI to profit or loss. For financial liabilities held for trading (including derivative financial liabilities), all changes in fair value are presented in profit or loss.</p>	

NOTES TO THE CONDENSED CONSOLIDATED INTERIM FINANCIAL INFORMATION

2 BASIS OF PREPARATION AND ACCOUNTING POLICIES *(continued)* (b) *(continued)*

		Effective for annual periods beginning on or after
HKFRS 9 "Financial Instruments" <i>(continued)</i>	<p>HKFRS 9 introduces a new model for the recognition of impairment losses — the expected credit losses ("ECL") model, which constitutes a change from the incurred loss model in HKAS 39. HKFRS 9 contains a 'three stage' approach, which is based on the change in credit quality of financial assets since initial recognition. Assets move through the three stages as credit quality changes and the stages dictate how an entity measures impairment losses and applies the effective interest rate method. The new rules mean that on initial recognition of a non-credit impaired financial asset carried at amortized cost a day-1 loss equal to the 12-month ECL is recognized in profit or loss. In the case of accounts receivables this day-1 loss will be equal to their lifetime ECL. Where there is a significant increase in credit risk, impairment is measured using lifetime ECL rather than 12-month ECL.</p> <p>HKFRS 9 applies to all hedging relationships, with the exception of portfolio fair value hedges of interest rate risk. The new guidance better aligns hedge accounting with the risk management activities of an entity and provides relief from the more "rule-based" approach of HKAS39.</p> <p>The new standard also introduces expanded disclosure requirements and changes in presentation. These are expected to change the nature and extent of the Group's disclosures about its financial instruments particularly in the year of the adoption of the new standard.</p>	1 January 2018

2 BASIS OF PREPARATION AND ACCOUNTING POLICIES *(continued)*

(b) *(continued)*

**Effective for
annual periods
beginning on
or after**

Amendments to HKFRS 2 “Classification and Measurement of Share-based Payment Transactions”

The HKICPA has issued amendments to HKFRS 2. “Classification and Measurement of Share-based Payment Transactions”. These amendments clarify the measurement basis for cash-settled share-based payments and the accounting for modification from cash-settled awards to equity-settled awards. It also introduces an exception to the principles in HKFRS 2 that requires an award to be treated as if it is wholly equity-settled, where an employer is obliged to withhold an amount for the employee’s tax obligation associated with a share-based payment and pay that amount to the tax authority.

1 January 2018

The directors do not foresee any material impact on the Group since the Group has insignificant cash-settled share-based payment transactions.

2 BASIS OF PREPARATION AND ACCOUNTING POLICIES *(continued)*

(b) *(continued)*

**Effective for
annual periods
beginning on
or after**

HKFRS 16 “Leases” HKFRS 16, “Leases” addresses the definition of a lease, recognition and measurement of leases and establishes principles for reporting useful information to users of financial statements about the leasing activities of both lessees and lessors. A key change arising from HKFRS 16 is that most operating leases will be accounted for on balance sheet for lessees. The standard replaces HKAS 17 “Leases”, and related interpretations.

1 January 2019

Under the new standard, an asset (the right to use the leased item) and a financial liability to pay rentals are recognized. The only exceptions are short-term and low-value leases. The accounting for lessors will not significantly change.

The standard will affect primarily the accounting for Group’s operating leases. As at the reporting date, the Group only has non-cancellable operating lease commitments of HK\$342,000 (Note 25). Management does not consider the adoption of this standard will have material impact on the financial position of the Group.

2 BASIS OF PREPARATION AND ACCOUNTING POLICIES *(continued)*
(b) *(continued)*

**Effective for
annual periods
beginning on
or after**

<p>Amendments to HKFRS 10 and HKAS 28 “Sale or contribution of assets between an investor and its associate or joint venture”</p>	<p>The amendments address an inconsistency between HKFRS 10 and HKAS 28 in the sale and contribution of assets between an investor and its associate or joint venture.</p> <p>A full gain or loss is recognised when a transaction involves a business. A partial gain or loss is recognised when a transaction involves assets that do not constitute a business, even if those assets are in a subsidiary.</p>	<p>To be determined</p>
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(c) Taxes on income in the interim periods are accrued using the tax rate that would be applicable to expected total annual earnings.

3 ESTIMATES

The preparation of the Interim Financial Information requires management to make judgements, estimates and assumptions that affect the application of accounting policies and the reported amounts of assets and liabilities, income and expense. Actual results may differ from these estimates.

In preparing the Interim Financial Information, the significant judgements made by management in applying the Group’s accounting policies and the key sources of estimation uncertainty were the same as those that applied to the annual financial statements for the year ended 31 March 2017.

4 FINANCIAL RISK MANAGEMENT AND FINANCIAL INSTRUMENTS

4.1 Financial risk factors

The Group's activities expose it to a variety of financial risks: market risk (including foreign exchange risk, fair value interest rate risk, cash flow interest rate risk and price risk), credit risk and liquidity risk. The Group's overall risk management programme focuses on the unpredictability of financial markets and seeks to minimise potential adverse effects on the Group's financial performance. Risk management is carried out by the financial department under policies approved by the Board.

The Interim Financial Information has not included all financial risk management information and disclosures required in the annual financial statements, and should be read in conjunction with the annual financial statements for the year ended 31 March 2017.

There have been no changes in the risk management policies since year end.

4.2 Credit risk

The Group's maximum exposure to credit risk in relation to financial assets is the carrying amounts of cash and cash equivalents, restricted cash at banks, trade receivables and other receivables.

As at 30 September 2017, substantially all (31 March 2017: same) the Group's bank deposits are deposited with major financial institutions incorporated in the PRC and Hong Kong, which management believes are of high credit quality without significant credit risk (31 March 2017: same).

As at 30 September 2017, approximately 95.1% (31 March 2017: 97.3%) of the Group's trade receivables were due from the top five largest customers, while approximately 76.7% (31 March 2017: 84.6%) of the Group's trade receivables were due from the largest customer, which are prominent cigarette manufacturers in the PRC.

4 FINANCIAL RISK MANAGEMENT AND FINANCIAL INSTRUMENTS

(continued)

4.2 Credit risk (continued)

All of the Group's trade receivables and other receivables have no collateral. However, the Group has policies in place to ensure that sales are made to customers with appropriate credit history and the Group performs periodic credit evaluations of its customers. The Group assesses the credit quality of each customer by taking into account its financial position, past experience and other factors. Credit limit are reviewed on periodic basis, and the finance department is responsible for such monitoring procedures. In determining whether provision for impairment of receivables is required, the Group takes into consideration the future cash flows, ageing status and the likelihood of collection. In this regards, the directors of the Company are satisfied that the risks are minimal and adequate provision, if any, has been made in the Interim Financial Information after assessing the collectability of individual debts. Further quantitative disclosures in respect of trade and notes receivable and other receivables are set out in Note 14 and 16.

4.3 Liquidity risk

To manage the liquidity risk, the Group monitors and maintains a level of cash and cash equivalents deemed adequate by the management to finance the Group's operations and mitigate the effects of fluctuations in cash flows. The Group expects to fund its future cash flow needs through internally generated cash flows from operations.

The table below set out the Group's financial liabilities by relevant maturity grouping at each balance sheet date. Trade and notes payable and other payables and accruals due within 12 months equal their carrying balances, as the impact of discounting is not significant. The amounts disclosed in the table are the contractual undiscounted cash flows.

	30 September 2017 HK\$'000	31 March 2017 HK\$'000
Within one year:		
Trade and notes payable	53,803	71,196
Other payables and accruals	5,992	9,833
Amounts due to a related party	–	–
	59,795	81,029

4 FINANCIAL RISK MANAGEMENT AND FINANCIAL INSTRUMENTS

(continued)

4.4 Fair value estimation

The table below analyses financial instruments carried at fair value, by valuation method. The difference levels have been defined as follows:

- Quoted prices (unadjusted) in active markets for identical assets or liabilities (level 1).
- Inputs other than quoted prices included within level 1 that are observable for the asset or liability, either directly (that is, as prices) or indirectly (that is, derived from prices) (level 2).
- Inputs for the asset or liability that are not based on observable market data (that is, unobservable inputs) (level 3).

The following table presents the Group's financial assets that are measured at fair value at 30 September 2017:

	Level 1 HK\$'000
Assets	
— Financial assets at fair value through profit or loss	21,940

The following table presents the Group's financial assets that are measured at fair value at 31 March 2017:

	Level 1 HK\$'000
Assets	
— Financial assets at fair value through profit or loss	28,852

There were no transfers between level 1, 2 and 3 during the period.

4 FINANCIAL RISK MANAGEMENT AND FINANCIAL INSTRUMENTS

(continued)

4.4 Fair value estimation *(continued)*

The fair value of financial instruments traded in active markets is based on quoted market prices at the reporting date. A market is regarded as active if quoted prices are readily and regularly available from an exchange, dealer, broker, industry group, pricing service, or regulatory agency, and those prices represent actual and regularly occurring market transactions on an arm's length basis. These instruments are included in level 1.

The carrying values less impairment provision of trade and other receivables and payables are a reasonable approximation of their fair values. The fair value of financial liabilities for disclosure purposes is estimated by discounting the future contractual cash flows at the current market interest rate that is available to the Group for similar financial instruments.

5 SEGMENT INFORMATION

Management has determined the operating segments based on the reports reviewed by the chief operation decision-maker ("CODM"). The CODM, who is responsible for allocating resources and assessing performance of the operating segments, has been identified as the executive directors of the Company.

For the six months ended 30 September 2016, the Group diversified its business to three main streams (i) cigarette packaging business, (ii) manufacturing and sales of biotechnology products (the "Biotechnology Business") and (iii) environmental treatment business. The environmental treatment business contributed to more than 15% of the Group's revenue, while the Biotechnology Business contributed to less than 10% of the Group's key financial indicators as it is in preliminary stage of development.

For the six months ended 30 September 2017, the Group diversified its business to two main streams (i) cigarette packaging business and (ii) environmental treatment business.

NOTES TO THE CONDENSED CONSOLIDATED INTERIM FINANCIAL INFORMATION

5 SEGMENT INFORMATION *(continued)*

The CODM assesses the performance of the operating segments based on a measure of operating profit excluding other gains or losses arising from financial assets at fair value through profit or loss.

Segment assets exclude financial assets at fair value through profit or loss and deferred tax assets. Segment liabilities exclude current income tax liabilities and deferred tax liabilities.

Capital expenditures comprise additions to property, plant and equipment.

The segment results and other segment items of the Group for the six months ended 30 September 2017 are as follows:

	Cigarette Packaging Business HK\$'000	Environmental Treatment Business HK\$'000	Others HK\$'000	Group HK\$'000
Revenue	89,068	176	16	89,260
Segment results	21,203	(1,233)	90	20,060
Other losses — net				410
Operating profit				20,470
Finance income				2,209
Profit before income tax				22,679
Income tax expense				(4,892)
Profit for the period				17,787
Other segment item Depreciation and amortisation	(2,268)	(149)	(36)	(2,453)

NOTES TO THE CONDENSED CONSOLIDATED INTERIM FINANCIAL INFORMATION

5 SEGMENT INFORMATION *(continued)*

The segment results and other segment items of the Group for the six months ended 30 September 2016 are as follows:

	Cigarette Packaging Business HK\$'000	Environmental Treatment Business HK\$'000	Others HK\$'000	Group HK\$'000
Revenue	92,466	17,920	1,504	111,890
Segment results	26,033	4,750	(2,769)	28,014
Other losses — net				(1,299)
Operating profit				26,715
Finance income				1,588
Profit before tax				28,303
Income tax expense				(6,638)
Profit for the period				21,665
Other segment item				
Depreciation and amortisation	(2,446)	(35)	(42)	(2,523)

NOTES TO THE CONDENSED CONSOLIDATED INTERIM FINANCIAL INFORMATION

5 SEGMENT INFORMATION *(continued)*

The segment assets and liabilities at 30 September 2017 are as follows:

	Cigarette Packaging Business HK\$'000	Environmental Treatment Business HK\$'000	Others HK\$'000	Inter-segment elimination HK\$'000	Group HK\$'000
Segment assets	446,839	30,169	2,615	(103,590)	376,033
Financial assets at fair value through profit or loss					21,940
Deferred tax assets					2,461
Total assets					400,434
Segment liabilities	132,730	24,921	15,656	(103,590)	69,717
Current income tax liabilities					9,704
Deferred tax liabilities					6,701
Total liabilities					86,122
Capital expenditures	61	311	-	-	372

NOTES TO THE CONDENSED CONSOLIDATED INTERIM FINANCIAL INFORMATION

5 SEGMENT INFORMATION *(continued)*

The segment assets and liabilities at 31 March 2017 are as follows:

	Cigarette Packaging Business HK\$'000	Environmental Treatment Business HK\$'000	Others HK\$'000	Inter-segment elimination HK\$'000	Group HK\$'000
Segment assets	379,801	27,602	2,716	(32,763)	377,356
Financial assets at fair value through profit or loss					28,852
Deferred tax assets					2,442
Total assets					408,650
Segment liabilities	87,996	20,698	15,154	(32,763)	91,085
Current income tax liabilities					8,736
Deferred tax liabilities					6,212
Total liabilities					106,033
Capital expenditures	3,136	810	–	–	3,946

NOTES TO THE CONDENSED CONSOLIDATED INTERIM FINANCIAL INFORMATION

6 REVENUE

	Six months ended 30 September	
	2017 HK\$'000	2016 HK\$'000
Sales of cigarette packaging products	89,050	92,358
Revenue from construction contract	176	17,920
Sales of biotechnology products	–	1,504
Sales of other products	34	108
	89,260	111,890

Except for the two customers below, no other customers individually accounted for more than 10% of the Group's revenue for the six months ended 30 September 2017 (six months ended 30 September 2016: three):

	Six months ended 30 September	
	2017 HK\$'000	2016 HK\$'000
Customer A	66.0%	58.0%
Customer B	23.1%	17.8%
Customer C	N/A*	15.9%
	89.1%	91.7%

For the six months ended 30 September 2017, all of the Group's revenue were generated from its subsidiaries in the PRC (six months ended 30 September 2016: same).

Note *: The revenue of the particular customer was less than 10% of the Group's revenue for the particular period.

NOTES TO THE CONDENSED CONSOLIDATED INTERIM FINANCIAL INFORMATION

7 EXPENSES BY NATURE

	Six months ended 30 September	
	2017 HK\$'000	2016 HK\$'000
Cost of inventories sold	48,169	50,087
Staff costs (including directors' emoluments)	10,460	11,369
Depreciation and amortisation	2,453	2,523
Utilities	1,358	1,923
Business tax and other taxes	1,214	1,464
Transportation expenses	759	748
Operating lease expenses	716	998
Office expenses	404	768
Auditors' remuneration	200	200
Travelling expenses	190	319
Raw materials consumed and subcontracting cost for construction contract	–	11,253
Other expenses	2,476	2,562
Total cost of sales, distribution costs and administrative expenses	68,399	84,214

NOTES TO THE CONDENSED CONSOLIDATED INTERIM FINANCIAL INFORMATION

8 OTHER LOSSES — NET

	Six months ended 30 September	
	2017 HK\$'000	2016 HK\$'000
Foreign exchange (loss)/gain	(801)	338
Dividend income from financial assets at fair value through profit or loss	586	368
Gain on disposal of financial assets at fair value through profit or loss	664	462
Unrealised loss on changes in fair value of financial assets at fair value through profit or loss	(840)	(2,129)
	(391)	(961)

9 INCOME TAX EXPENSE

The Company was incorporated in the Cayman Islands as an exempted company with limited liability under the Companies Law of Cayman Islands and accordingly, is exempted from Cayman Islands income tax. The Company's direct subsidiary in the British Virgin Islands was incorporated under the International Business Companies Act of the British Virgin Islands and, accordingly, is exempted from British Virgin Islands income tax.

No provision for Hong Kong profits tax was provided as the Company and the Group did not have assessable profit in Hong Kong for the period. The profit of the group entities in Hong Kong is mainly derived from dividend income from subsidiaries, which is not subject to Hong Kong profits tax.

Pursuant to the Enterprise Income Tax Law of the PRC (the "EIT Law") and the Implementation Rules of the EIT Law, the EIT is unified at 25% for all types of entities, effective from 1 January 2008.

On 9 October 2014, the Group's major operating subsidiary in the PRC was awarded High and New Technology Enterprise Certificate ("Certificate") which is effective for three years commencing on 1 January 2014. The subsidiary is in the process of applying for the Certificate in the next three years, commencing on 1 January 2017.

9 INCOME TAX EXPENSE *(continued)*

According to the EIT Law and Implementation Rules, starting from 1 January 2008, a withholding income tax of 10% will be levied on the immediate holding companies outside the PRC when their PRC subsidiaries declare dividend out of profits earned after 1 January 2008. A lower 5% withholding income tax rate may be applied when the immediate holding companies of the PRC subsidiaries are established in Hong Kong and fulfil requirements under the tax treaty agreements between the relevant authorities of the PRC and Hong Kong.

	Six months ended 30 September	
	2017 HK\$'000	2016 HK\$'000
Current income tax		
— PRC enterprise income tax	3,897	6,008
Deferred income tax		
— PRC enterprise income tax	(19)	(272)
— Withholding income tax for profit to be distributed from the PRC	1,014	902
	4,892	6,638

No income tax charges relating to components of other comprehensive income existed for the six months ended 30 September 2017 (six months ended 30 September 2016: nil).

10 EARNINGS PER SHARE

(a) Basic

Basic earnings per share are calculated by dividing the profit attributable to owners of the Company by the weighted average numbers of ordinary shares in issue during the period.

	Six months ended 30 September	
	2017	2016
Profit attributable to owners of the Company (HK\$'000)	18,515	21,319
Weighted average number of ordinary shares in issue	339,250,000	339,250,000
Basic earnings per share	HK5.46 cents	HK6.28 cents

(b) Diluted

Diluted earnings per share is calculated by adjusting the weighted average number of ordinary shares outstanding to assume conversion of all dilutive potential ordinary shares. The Company has one category of dilutive potential ordinary shares being ordinary shares to be issued under the share option scheme. A calculation is done to determine the number of shares that could have been acquired at fair value (determined as the average annual market share price of the Company's shares) based on the monetary value of the subscription rights attached to outstanding share options under the share option scheme. The number of shares calculated as above is compared with the number of shares that would have been issued assuming the exercise of the share option scheme.

NOTES TO THE CONDENSED CONSOLIDATED INTERIM FINANCIAL INFORMATION

10 EARNINGS PER SHARE *(continued)* (b) Diluted *(continued)*

	Six months ended 30 September	
	2017	2016
Profit attributable to owners of the Company (HK\$'000)	18,515	21,319
Weighted average number of ordinary shares in issue	339,250,000	339,250,000
Adjustments for share options	5,454,000	5,163,000
Weighted average number of ordinary shares for diluted earnings per share	344,607,000	344,413,000
Diluted earnings per share	HK5.37 cents	HK6.19 cents

11 DIVIDENDS

A final dividend of HK6.00 cents per ordinary share in respect of the year ended 31 March 2017, totalling approximately HK\$20,355,000, were paid during the period.

On 27 November 2017, the Board has resolved to declare an interim dividend of HK4.00 cents per share (2016: HK4.00 cents per share), which is payable on or around 29 January 2018 to shareholders who are on the register at 12 January 2018. This interim dividend, amounting to HK\$13,570,000 (2016: HK\$13,570,000), has not been recognised as a liability in the interim financial information. It will be recognised in the financial statements for the year ending 31 March 2018.

NOTES TO THE CONDENSED CONSOLIDATED INTERIM FINANCIAL INFORMATION

12 PROPERTY, PLANT AND EQUIPMENT

	Plant and buildings HK\$'000	Machinery HK\$'000	Office equipment HK\$'000	Total HK\$'000
At 1 April 2017				
Cost	34,623	48,009	2,753	85,385
Accumulated depreciation	(17,341)	(25,652)	(2,009)	(45,002)
Net book amount	17,282	22,357	744	40,383
Six months ended 30 September 2017				
Opening net book amount	17,282	22,357	744	40,383
Exchange differences	575	696	449	1,720
Additions	41	311	20	372
Disposal	–	–	–	–
Depreciation	(661)	(1,655)	(137)	(2,453)
Closing net book amount	17,237	21,709	1,076	40,022
At 30 September 2017				
Cost	35,239	49,016	3,222	87,477
Accumulated depreciation	(18,002)	(27,307)	(2,146)	(47,455)
Net book amount	17,237	21,709	1,076	40,022

NOTES TO THE CONDENSED CONSOLIDATED INTERIM FINANCIAL INFORMATION

12 PROPERTY, PLANT AND EQUIPMENT *(continued)*

	Plant and buildings HK\$'000	Machinery HK\$'000	Office equipment HK\$'000	Total HK\$'000
At 1 April 2016				
Cost	36,965	47,126	2,791	86,882
Accumulated depreciation	(17,099)	(23,944)	(1,902)	(42,945)
Net book amount	19,866	23,182	889	43,937
Six months ended 30 September 2016				
Opening net book amount	19,866	23,182	889	43,937
Exchange differences	(638)	(1,012)	(29)	(1,679)
Additions	–	3,590	128	3,718
Depreciation	(310)	(1,814)	(308)	(2,432)
Closing net book amount	18,918	23,946	680	43,544
At 30 September 2016				
Cost	36,259	48,973	2,313	87,545
Accumulated depreciation	(17,341)	(25,027)	(1,633)	(44,001)
Net book amount	18,918	23,946	680	43,544

As at 30 September 2017, all plant and buildings were located in the PRC (31 March 2017: same).

NOTES TO THE CONDENSED CONSOLIDATED INTERIM FINANCIAL INFORMATION

13 PREPAYMENTS FOR NON-CURRENT ASSETS

	30 September 2017 HK\$'000	31 March 2017 HK\$'000
Prepayment for an intangible asset (<i>Note (a)</i>)	–	11,264
Prepayments for property, plant and equipment	124	118
	124	11,382
Less: provision for impairment of prepayment of an intangible asset (<i>Note (a)</i>)	–	(11,264)
	124	118

- (a) This represents provision of impairment for prepayments of certain patent and technologies relating to development of a high-resistant starch content product of the Group's biotechnology business, as the directors has decided to temporarily suspend the development of the project.

14 TRADE AND NOTES RECEIVABLE

	30 September 2017 HK\$'000	31 March 2017 HK\$'000
Trade receivables	127,397	115,953
Less: allowance for impairment of trade receivables	–	(407)
	127,397	115,546

NOTES TO THE CONDENSED CONSOLIDATED INTERIM FINANCIAL INFORMATION

14 TRADE AND NOTES RECEIVABLE *(continued)*

- (a) Ageing analysis of trade receivables at respective balance sheet dates is as follows:

	30 September 2017 HK\$'000	31 March 2017 HK\$'000
Less than 30 days	83,677	61,591
31 days to 60 days	17,667	35,587
61 days to 90 days	14,450	–
91 days to 180 days	11,509	18,438
Over 180 days	94	337
	127,397	115,953

As at 30 September 2017, trade receivables of HK\$11,603,000 (31 March 2017: HK\$18,438,000) were past due but not impaired. These relate to four (31 March 2017: three) independent customers for whom there are no financial difficulty and the directors, based on past experience, consider that those amounts can be recovered.

- (b) As at 30 September 2017, no trade receivables (31 March 2017: HK\$407,000) were past due and fully impaired. The impaired receivables were related to the Biotechnology Business. The ageing of these receivables is as follows:

	30 September 2017 HK\$'000	31 March 2017 HK\$'000
31 days to 60 days	–	70
Over 180 days	–	337
	–	407

- (c) The Group's trade receivables were denominated in RMB as at 30 September 2017 (31 March 2017: same).

NOTES TO THE CONDENSED CONSOLIDATED INTERIM FINANCIAL INFORMATION

15 CONSTRUCTION CONTRACT

	30 September 2017 HK\$'000	31 March 2017 HK\$'000
Aggregate costs incurred plus recognised profit	32,383	32,383
Exchange differences	1,202	(814)
Less: progress billings	(22,705)	(9,471)
	10,880	22,098

16 PREPAYMENTS AND OTHER RECEIVABLES

	30 September 2017 HK\$'000	31 March 2017 HK\$'000
Advance to suppliers and services providers	969	101
Other prepayments	79	243
Other receivables	669	1,278
Less: allowance for impairment of other receivables (<i>Note(b)</i>)	–	(253)
	1,717	1,369

- (a) The carrying amounts of the Group's prepayments and other receivables are denominated in the following currencies:

	30 September 2017 HK\$'000	31 March 2017 HK\$'000
Denominated in RMB	293	931
Denominated in HK\$	376	347
	667	1,278

- (b) As at 30 September 2017, no other receivables (31 March 2017: HK\$253,000) with age over 180 days were fully impaired.

17 FINANCIAL ASSETS AT FAIR VALUE THROUGH PROFIT OR LOSS

	30 September 2017 HK\$'000	31 March 2017 HK\$'000
Equity securities listed in Hong Kong Stock Market	11,340	19,458
Equity securities listed in Shenzhen Stock Market	10,600	9,394
	21,940	28,852

The fair values of the listed securities are determined with reference to the quoted market prices available on the relevant stock exchanges.

18 RESTRICTED CASH AT BANKS

	30 September 2017 HK\$'000	31 March 2017 HK\$'000
Denominated in RMB	27,467	45,819

As at 30 September 2017, the Group placed cash deposits of approximately HK\$27,467,000 (31 March 2017: HK\$45,819,000) with designated banks as collateral for the Group's notes payable.

The conversion of RMB denominated balances into foreign currencies and the remittance of such foreign currencies denominated bank balances and cash out of the PRC are subject to relevant rules and regulation of foreign exchange control promulgated by the PRC government.

NOTES TO THE CONDENSED CONSOLIDATED INTERIM FINANCIAL INFORMATION

19 CASH AND CASH EQUIVALENTS

	30 September 2017 HK\$'000	31 March 2017 HK\$'000
Cash at bank and on hand	126,520	116,507

Cash and cash equivalents are denominated in the following currencies:

	30 September 2017 HK\$'000	31 March 2017 HK\$'000
Denominated in RMB	122,578	96,348
Denominated in HK\$	3,614	19,831
Denominated in US\$	328	328
	126,520	116,507

The Group's cash and bank balances of HK\$122,578,000 (31 March 2017: HK\$96,348,000) denominated in RMB were deposited with banks in the PRC. The conversion of RMB denominated balances into foreign currencies and the remittance of such foreign currencies denominated bank balances and cash out of the PRC are subject to relevant rules and regulation of foreign exchange control promulgated by the PRC government.

20 SHARE CAPITAL

Authorised share capital	Number of ordinary shares	Nominal value of ordinary shares HK\$	Equivalent nominal value of ordinary shares HK\$
At 1 April 2016 and 2017, 30 September 2016 and 2017	2,000,000,000	0.01	20,000,000
Ordinary shares, issued and fully paid:		Number of issued shares	Amount HK\$
At 1 April 2016 and 2017, 30 September 2016 and 2017		339,250,000	3,392,500

21 SHARE-BASED COMPENSATION RESERVES

On 15 January 2015, the Company granted share options to certain directors, employees and consultants of the Group under a share option scheme (the "Share Option Scheme"). Under the Share Option Scheme, the option holders are entitled to acquire in aggregate of 30,000,000 ordinary shares of the Company at an exercise price of HK\$2.58 each. All the options under the Share Option Scheme will not be exercisable within the first 12 months after the grant date as of 15 January 2015.

Particulars of share options as at 30 September 2017 and 31 March 2017 are as follows:

Vesting period	Expiry dates	Exercise price	Number of outstanding shares option as at	
			30 September 2017	31 March 2017
1 year from 15 January 2015	14 January 2020	HK\$2.58	6,447,500	6,622,500
2 years from 15 January 2015	14 January 2020	HK\$2.58	6,447,500	6,622,500
3 years from 15 January 2015	14 January 2020	HK\$2.58	6,447,500	6,622,500
4 years from 15 January 2015	14 January 2020	HK\$2.58	6,447,500	6,622,500
			25,790,000	26,490,000

Movement in the number of share options outstanding is as follows:

	Six month ended 30 September	
	2017	2016
At 1 April	26,490,000	27,410,000
Forfeited	(700,000)	(740,000)
At 30 September	25,790,000	26,670,000

The Group has no legal or constructive obligation to repurchase or settle the options in cash.

NOTES TO THE CONDENSED CONSOLIDATED INTERIM FINANCIAL INFORMATION

21 SHARE-BASED COMPENSATION RESERVES *(continued)*

The fair value of options granted was HK\$0.33 per option, which was determined using the Binomial Option Pricing Model by an independent valuer as at date of grant. The significant inputs into the model were share price of HK\$2.55 at the grant date, exercise price shown above, expected volatility of 27.15%, expected dividend yield of 6.29%, an expected option life of five years, and an annual risk-free interest rate of 1.1% per year. No options were exercised during the period (six months ended 30 September 2016: Nil).

The total expense recognised for employee services received in respect of the Share Option Scheme for the six months ended 30 September 2017 was HK\$327,000 (six months ended 30 September 2016: HK\$911,000).

22 TRADE AND NOTES PAYABLE

	30 September 2017 HK\$'000	31 March 2017 HK\$'000
Trade payables <i>(Note (a))</i>	26,125	25,039
Notes payable — bank acceptance notes	27,678	46,157
	53,803	71,196

(a) The ageing analysis of trade payables of the Group is as follows:

	30 September 2017 HK\$'000	31 March 2017 HK\$'000
Within 90 days	25,378	24,835
90 to 180 days	455	204
Over 180 days	292	–
	26,125	25,039

(b) The Group's trade and notes payable are interest-free and denominated in RMB.

NOTES TO THE CONDENSED CONSOLIDATED INTERIM FINANCIAL INFORMATION

23 OTHER PAYABLES AND ACCRUALS

	30 September 2017 HK\$'000	31 March 2017 HK\$'000
Accrual for staff costs and allowances	3,767	4,733
Other tax payables	9,922	10,056
Other accruals	2,225	5,100
	15,914	19,889

The carrying amounts of the Group's other payables and accruals are denominated in the following currencies:

	30 September 2017 HK\$'000	31 March 2017 HK\$'000
Denominated in RMB	15,231	18,631
Denominated in HK\$	683	1,258
	15,914	19,889

The fair value of these balance approximate their carrying amounts at 30 September 2017 (31 March 2017: same).

NOTES TO THE CONDENSED CONSOLIDATED INTERIM FINANCIAL INFORMATION

24 CASH GENERATED FROM OPERATIONS

Reconciliation of profit for the period to net cash generated from operations.

	Six months ended 30 September	
	2017 HK\$'000	2016 HK\$'000
Profit before income tax	22,679	28,303
Adjustments for:		
— Depreciation	2,529	2,432
— Amortisation of prepaid operating lease	—	91
— Other losses — net	391	961
— Finance income	(2,209)	(1,588)
— Value of employee services costs under share option scheme	661	911
Changes in working capital:		
— Inventories	(6,210)	(353)
— Amounts due from customer for contract work	10,547	(8,155)
— Trade and notes receivable	(11,851)	(6,280)
— Prepayments and other receivables	(348)	4,423
— Trade and notes payable	(17,393)	(15,971)
— Other payables	(4,089)	2,366
Cash generated from operations	(5,293)	7,140

NOTES TO THE CONDENSED CONSOLIDATED INTERIM FINANCIAL INFORMATION

25 COMMITMENTS

(a) Capital Commitments

As at 30 September 2017 and 31 March 2017, the Group had the following capital commitments:

	30 September 2017 HK\$'000	31 March 2017 HK\$'000
Capital expenditure in respect of the acquisition of property and equipment contracted for but not provided	59	56

(b) Operating lease commitments

As at 30 September 2017 and 31 March 2017, the Group had future aggregate minimum lease payments in respect of rented premises under non-cancellable operating leases as follows:

	30 September 2017 HK\$'000	31 March 2017 HK\$'000
Not later than one year	342	1,004

26 RELATED PARTY TRANSACTIONS

(a) Name and relationship with related parties:

Name	Relationship
Mr. Zheng Andy Yi Sheng	Controlling shareholder
Mr. Zheng Minsheng	Executive director and the deputy general manager of the Group and the younger brother of Mr. Zheng Andy Yi Sheng
Shanghai Fo Xin Ai Jian River Management Co., Ltd	Company controlled by Mr. Zhang Yongtai, a director of a non-wholly owned subsidiary

NOTES TO THE CONDENSED CONSOLIDATED INTERIM FINANCIAL INFORMATION

26 RELATED PARTY TRANSACTIONS (continued)

(b) Balances with related parties

	30 September 2017 HK\$'000	31 March 2017 HK\$'000
Other payables		
— Mr. Zheng Andy Yi Sheng	450	250
— Mr. Zheng Minsheng	200	200
	650	450

(c) Transaction with a related party

	Six months ended 30 September 2017 HK\$'000	2016 HK\$'000
Purchase of products		
— Shanghai Fo Xin Ai Jian River Management Co. Ltd.	–	4,881

(d) Key management compensations

	Six months ended 30 September 2017 HK\$'000	2016 HK\$'000
Salaries and other employee benefits	1,687	1,231
Pension costs	89	63
Value of employee services costs under share option scheme	120	176
	1,896	1,470