



HUAXI HOLDINGS COMPANY LIMITED

華禧控股有限公司

(Incorporated in the Cayman Islands with limited liability)

Stock Code: 1689

INTERIM REPORT
2019



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This Interim Report is printed on environmentally friendly paper

CORPORATION INFORMATION

BOARD OF DIRECTORS

Executive Directors

Mr. Zheng Andy Yi Sheng (*Chairman*)
Mr. Zheng Minsheng

Non-executive Director

Hao Jiming

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

On Hong Kong law
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

The board of directors (the “**Board**”) of Huaxi Holdings Company Limited (the “**Company**”) announces the unaudited condensed consolidated interim results of the Company and its subsidiaries (collectively, the “**Group**”) for the six months ended 30 September 2019, together with the comparative figures for the corresponding period in 2018.

CONDENSED CONSOLIDATED STATEMENT OF COMPREHENSIVE INCOME

		Six months ended 30 September	
	<i>Note</i>	2019 HK\$'000 (Unaudited)	2018 HK\$'000 (Unaudited)
Revenue	7	211,184	111,383
Cost of sales	8	(125,819)	(70,369)
Gross profit		85,365	41,014
Distribution costs	8	(958)	(986)
Administrative expenses	8	(28,416)	(12,575)
Other gains/(losses) — net	9	4,801	(3,202)
Operating profit		60,792	24,251
Finance income		4,682	4,148
Finance cost		(77)	—
Finance income — net		4,605	4,148
Profit before income tax		65,397	28,399
Income tax expense	10	(12,526)	(6,529)
Profit for the period		52,871	21,870
Profit attributable to:			
— Owners of the Company		52,963	23,060
— Non-controlling interests		(92)	(1,190)
		52,871	21,870

CONDENSED CONSOLIDATED STATEMENT OF COMPREHENSIVE INCOME

		Six months ended 30 September	
	<i>Note</i>	2019 HK\$'000 (Unaudited)	2018 HK\$'000 (Unaudited)
Other comprehensive income			
<i>Items that will not be reclassified to profit or loss:</i>			
Currency translation difference		(19,866)	(31,042)
Other comprehensive income for the period, net of tax		(19,866)	(31,042)
Total comprehensive income for the period		33,005	(9,172)
Total comprehensive income attributable to:			
— Owners of the Company		32,865	(8,404)
— Non-controlling interests		140	(768)
		33,005	(9,172)
Earnings per share attributable to owners of the Company (expressed in HK cent per share)			
— Basic earnings per share	11	HK7.63 cents	HK3.38 cents
— Diluted earnings per share	11	HK7.45 cents	HK3.28 cents

The above condensed consolidated statement of comprehensive income should be read in conjunction with the accompanying notes.

CONDENSED CONSOLIDATED STATEMENT OF FINANCIAL POSITION

	Note	30 September 2019 HK\$'000 (Unaudited)	31 March 2019 HK\$'000 (Audited)
ASSETS			
Non-current assets			
Property, plant and equipment	13	36,176	40,035
Right-of-use assets		7,533	–
Intangible assets	14	7,980	10,717
Prepaid operating lease		–	5,648
Deferred tax assets		3,260	3,609
Prepaid expenses		286	359
Prepayments for non-current assets		17,738	16,321
		72,973	76,689
Current assets			
Inventories		28,965	33,355
Trade and notes receivable	15	78,112	76,746
Contract assets	16	41,776	990
Prepayments and other receivables	17	10,941	1,703
Financial assets at fair value through profit or loss	18	14,691	28,593
Restricted cash at banks	19	39,037	42,284
Cash and cash equivalents	20	220,874	224,523
		434,396	408,194
Total assets		507,369	484,883
EQUITY			
Equity attributable to owners of the Company			
Share capital	21	3,471	3,471
Other reserves		197,403	217,501
Retained earnings		183,305	151,164
		384,179	372,136

CONDENSED CONSOLIDATED STATEMENT OF FINANCIAL POSITION

	Note	30 September 2019 HK\$'000 (Unaudited)	31 March 2019 HK\$'000 (Audited)
Non-controlling interests		(4,584)	(4,724)
Total equity		379,595	367,412
LIABILITIES			
Non-current liabilities			
Lease liabilities		1,704	–
Other payables	24	887	933
Deferred tax liabilities		8,889	8,999
		11,480	9,932
Current liabilities			
Trade and notes payable	23	85,142	71,380
Contract liabilities	16	160	2,904
Other payables and accruals	24	14,426	21,332
Current income tax liabilities		16,232	11,923
Lease liabilities		334	–
		116,294	107,539
Total liabilities		127,774	117,471
Total equity and liabilities		507,369	484,883

The above condensed consolidated statement of financial position should be read in conjunction with the accompanying notes.

The Interim Financial Information on pages 10 to 42 were approved by the Board of the Company on 15 November 2019.

CONDENSED CONSOLIDATED STATEMENT OF CHANGES IN EQUITY

	Attributable to owners of the Company				Non-controlling interests HK\$'000	Total HK\$'000
	Share capital HK\$'000 (Note 21)	Other reserves HK\$'000	Retained earnings HK\$'000	Total HK\$'000		
Six months ended 30 September 2019 (Unaudited)						
Balance at 1 April 2019	3,471	217,501	151,164	372,136	(4,724)	367,412
Comprehensive income						
— Profit for the period	—	—	52,963	52,963	(92)	52,871
— Other comprehensive income	—	(20,098)	—	(20,098)	232	(19,866)
Total comprehensive income	—	(20,098)	52,963	32,865	140	33,005
Transactions with owners:						
— Dividends	—	—	(20,822)	(20,822)	—	(20,822)
Balance at 30 September 2019	3,471	197,403	183,305	384,179	(4,584)	379,595
Six months ended 30 September 2018 (Unaudited)						
Balance at 1 April 2018	3,393	208,637	126,102	338,132	(4,155)	333,977
Comprehensive income						
— Profit for the period	—	—	23,060	23,060	(1,190)	21,870
— Other comprehensive income	—	(31,464)	—	(31,464)	422	(31,042)
Total comprehensive income	—	(31,464)	23,060	(8,404)	(768)	(9,172)
Transactions with owners:						
— Issue of Consideration Shares	78	31,082	—	31,160	—	31,160
— Value of employee services under share option scheme	—	146	—	146	—	146
— Dividends	—	—	(15,964)	(15,964)	—	(15,964)
Balance at 30 September 2018	3,471	208,401	133,198	345,070	(4,923)	340,147

The above condensed consolidated statement of changes in equity should be read in conjunction with the accompanying notes.

CONDENSED CONSOLIDATED STATEMENT OF CASH FLOWS

		Six months ended 30 September	
	<i>Note</i>	2019 HK\$'000 (Unaudited)	2018 HK\$'000 (Unaudited)
Cash flows from operating activities			
Cash generated from operations	25	22,364	11,701
PRC enterprise income tax paid		(8,398)	(6,701)
Net cash generated from operating activities		13,966	5,000
Cash flows from investing activities			
Net cash acquired from acquisition		–	5,790
Purchases of property, plant and equipment		(2,098)	(392)
Purchase of intangible assets		(40)	–
Prepayments for non-current assets		(2,274)	–
Decrease in restricted cash at banks		3,247	6,167
Loans to third parties		(29,556)	–
Repayments of loans from third parties		29,556	–
Purchase of financial assets at fair value through profit or loss		(97)	(35)
Net proceed from disposal of financial assets at fair value through profit or loss		17,464	926
Interest income from bank deposits		440	1,078
Interest income from other financial assets		2,109	1,679
Net cash generated from investing activities		18,751	15,213
Cash flows from financing activities			
Lease payments		(620)	–
Dividends paid	12	(20,822)	–
Net cash used in financing activities		(21,442)	–

CONDENSED CONSOLIDATED STATEMENT OF CASH FLOWS

	<i>Note</i>	Six months ended 30 September	
		2019 HK\$'000 (Unaudited)	2018 HK\$'000 (Unaudited)
Net increase in cash and cash equivalents		11,275	20,213
Cash and cash equivalents at beginning of the period		224,523	165,608
Effect of change in exchange rate		(14,924)	(24,584)
Cash and cash equivalents at end of the period	<i>20</i>	220,874	161,237

The above condensed consolidated statement of cash flows should be read in conjunction with the accompanying notes.

NOTES TO THE CONDENSED CONSOLIDATED INTERIM FINANCIAL INFORMATION

1 GENERAL INFORMATION

Huaxi Holdings Company Limited 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 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 are principally engaged in (i) manufacturing and sales of cigarette packaging materials; and (ii) environmental treatment business in the People's Republic of China (the "**PRC**") for the six months ended 30 September 2019.

The Company's shares have been listed on the Main Board of The Stock Exchange of Hong Kong Limited (the "**Stock Exchange**") since 6 December 2013.

This condensed consolidated interim financial information for the six months ended 30 September 2019 ("**Interim Financial Information**") is presented in thousands of Hong Kong dollar ("**HK\$**"), unless otherwise stated.

This Interim Financial Information has not been audited and has been approved for issue by the Board of the Company on 15 November 2019.

2 BASIS OF PREPARATION AND ACCOUNTING POLICIES

The Interim Financial Information has been prepared in accordance with Hong Kong Accounting Standard 34 "Interim financial reporting". The Interim Financial Information does not include all the notes of the type normally included in an annual financial report. Accordingly, the Interim Financial Information is to be read in conjunction with the annual report for the year ended 31 March 2019 and any public announcements made by the Company during the interim reporting period.

The accounting policies applied are consistent with those of the previous financial year and corresponding interim reporting period, except for the estimation of income tax using the tax rate that would be applicable to expected total annual earnings and the adoption of Hong Kong Financial Reporting Standards ("**HKFRS**") as set out below.

3 CHANGES IN ACCOUNTING POLICIES

This note explains the impact of the adoption of HKFRS 16 “Lease” on the Group’s financial statements and also discloses the new accounting policies that have been applied from 1 April 2019, where it is different to that applied in prior periods.

The Group has adopted the simplified transition approach of HKFRS 16 from 1 April 2019, and has not restated comparatives for the 2018 reporting period. Right-of-use assets were measured at the amount of the lease liabilities on adoption. There was no impact on the opening retained earnings. The reclassifications and the adjustments arising from the new leasing rules are therefore recognised in the opening balance sheet on 1 April 2019.

3.1 Adjustments recognised on adoption of HKFRS 16

On adoption of HKFRS 16, the Group recognised lease liabilities in relation to leases which had previously been classified as ‘operating leases’ under the principles of IAS 17 Leases. These liabilities were measured at the present value of the remaining lease payments, discounted using the lessee’s estimated borrowing rate as of 1 April 2019.

	2019 HK\$’000
Operating lease commitments disclosed as at 31 March 2019	1,364
Discounted using the lessee’s estimated borrowing rate at the date of initial application	1,294
Less: short-term leases and low-value leases recognised on a straight-line basis as expense	(992)
Lease liability recognised as at 1 April 2019	302
Of which are:	
Current lease liabilities	158
Non-current lease liabilities	144
	302

3 CHANGES IN ACCOUNTING POLICIES *(continued)*

3.1 Adjustments recognised on adoption of HKFRS 16 *(continued)*

Under the simplified transition approach, the associated right-of-use assets were measured at the amount equal to the lease liability, adjusted by the amount of prepaid or accrued lease payments, if any, relating to that lease recognised in the consolidated balance sheet as at 31 March 2019. There were no onerous lease contracts that would have required an adjustment to the right-of-use assets at the date of initial application.

There was no impact on the Group's retained earnings on 1 April 2019 as a result of adoption of HKFRS 16.

The prepaid operating lease (land-use rights) are reclassified to right-of-use assets as of 30 September 2019 and 31 March 2019, respectively.

The recognised right-of-use assets mainly relate to properties and prepaid operating lease.

The change in accounting policy affected the following items in the balance sheet on 1 April 2019:

Consolidated balance sheet (extract)	31 March 2019		
	As originally presented	Impact of HKFRS 16	1 April 2019 Restated
	HK\$'000	HK\$'000	HK\$'000
Right-of-use assets	–	5,950	5,950
Lease liabilities	–	302	302
Prepaid operating lease	5,648	(5,648)	–

3 CHANGES IN ACCOUNTING POLICIES *(continued)*

3.1 Adjustments recognised on adoption of HKFRS 16 *(continued)*

Practical expedients applied

In applying HKFRS 16 for the first time, the Group has used the following practical expedients permitted by the standard:

- the use of a single discount rate to a portfolio of leases with reasonably similar characteristics
- reliance on previous assessments on whether leases are onerous
- the accounting for operating leases with a remaining lease term of less than 12 months as at 1 January 2019 as short-term leases
- the exclusion of initial direct costs for the measurement of the right-of-use asset at the date of initial application, and
- the use of hindsight in determining the lease term where the contract contains options to extend or terminate the lease.

The Group has also selected not to reassess whether a contract is, or contains a lease at the date of initial application. Instead, for contracts entered into before the transition date the Group relied on its assessment made applying HKAS 17 and HKFRIC 4 Determining whether an arrangement contains a Lease.

3.2 The Group's leasing activities and how these are accounted for

The Group leases offices. Rental contracts are typically made for fixed periods of 1 to 5 years with no extension options. Lease terms are negotiated on an individual basis and contain a wide range of different terms and conditions. The lease agreements do not impose any covenants, but leased assets may not be used as security for borrowing purposes.

Until the financial year ended 31 March 2019, leases of property, plant and equipment were classified as operating leases. Payments made under operating leases (net of any incentives received from the lessor) were charged to profit or loss on a straight-line basis over the period of the lease.

3 CHANGES IN ACCOUNTING POLICIES *(continued)*

3.2 The Group's leasing activities and how these are accounted for *(continued)*

From 1 April 2019, leases are recognised as a right-of-use asset and a corresponding liability at the date at which the leased asset is available for use by the Group. Each lease payment is allocated between the liability and finance cost. The finance cost is charged to profit or loss over the lease period so as to produce a constant periodic rate of interest on the remaining balance of the liability for each period. The right-of-use asset is depreciated over the shorter of the asset's useful life and the lease term on a straight-line basis.

Assets and liabilities arising from a lease are initially measured on a present value basis. Lease liabilities include the net present value of the following lease payments:

- fixed payments (including in-substance fixed payments), less any lease incentives receivable
- variable lease payment that are based on an index or a rate
- amounts expected to be payable by the lessee under residual value guarantees
- the exercise price of a purchase option if the lessee is reasonably certain to exercise that option, and
- payments of penalties for terminating the lease, if the lease term reflects the lessee exercising that option.

The lease payments are discounted using the interest rate implicit in the lease. If that rate cannot be determined, the lessee's incremental borrowing rate is used, being the rate that the lessee would have to pay to borrow the funds necessary to obtain an asset of similar value in a similar economic environment with similar terms and conditions.

Right-of-use assets are measured at cost comprising the following:

- the amount of the initial measurement of lease liability

3 CHANGES IN ACCOUNTING POLICIES *(continued)*

3.2 The Group's leasing activities and how these are accounted for *(continued)*

- any lease payments made at or before the commencement date less any lease incentives received
- any initial direct costs, and
- restoration costs.

Payments associated with short-term leases and leases of low-value assets are recognised on a straight-line basis as an expense in profit or loss. Short-term leases are leases with a lease term of 12 months or less.

4 CRITICAL ACCOUNTING ESTIMATES AND JUDGMENTS

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 consolidated financial statements for the year ended 31 March 2019.

5 FINANCIAL RISK MANAGEMENT AND FINANCIAL INSTRUMENTS

5.1 Financial risk factors

The Group's activities expose it to a variety of financial risks: market risk (including foreign exchange risk, 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 2019.

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

5 FINANCIAL RISK MANAGEMENT AND FINANCIAL INSTRUMENTS

(continued)

5.2 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 and notes receivable, contract assets and other receivables.

As at 30 September 2019, substantially all (31 March 2019: 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 2019: same).

As at 30 September 2019, approximately 89.2% (31 March 2019: 98.1%) of the Group's trade and notes receivable were due from the five largest customers, while approximately 26.5% (31 March 2019: 56.0%) of the Group's trade and notes receivable were due from the largest customer, which are prominent cigarette manufacturers in the PRC.

None of the Group's trade and notes receivable and other receivables has any 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 collection experience and other factors. Credit limits 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 15 and Note 17.

5 FINANCIAL RISK MANAGEMENT AND FINANCIAL INSTRUMENTS

(continued)

5.3 Fair value estimation

This section explains the judgements and estimates made in determining the fair values of the financial instruments that are recognised and measured at fair value in the financial statements. To provide an indication about the reliability of the inputs used in determining fair value, the Group has classified its financial instruments into Level 1 prescribed under the accounting standards. An explanation of Level 1 to 3 follows underneath the table.

	Level 1 HK\$'000
Financial assets at fair value through profit or loss	
at 30 September 2019	14,691
at 31 March 2019	28,593

Level 1: The fair value of financial instruments traded in active markets (such as publicly traded derivatives, and trading and available-for-sale securities) is based on quoted market prices at the end of the reporting period. The quoted market price used for financial assets held by the Group is the current bid price. These instruments are included in level 1.

Level 2: The fair value of financial instruments that are not traded in an active market (for example, over-the-counter derivatives) is determined using valuation techniques which maximise the use of observable market data and rely as little as possible on entity-specific estimates. If all significant inputs required to fair value an instrument are observable, the instrument is included in level 2.

Level 3: If one or more of the significant inputs is not based on observable market data, the instrument is included in level 3. This is the case for unlisted equity securities.

5 FINANCIAL RISK MANAGEMENT AND FINANCIAL INSTRUMENTS

(continued)

5.3 Fair value estimation *(continued)*

Specific valuation techniques used to value financial instruments include:

- the use of quoted market prices or dealer quotes for similar instruments
- the fair value of interest rate swaps is calculated as the present value of the estimated future cash flows based on observable yield curves
- the fair value of forward foreign exchange contracts is determined using forward exchange rates at the balance sheet date
- the fair value of the remaining financial instruments is determined using discounted cash flow analysis.

For the six months ended 30 September 2019, there were no significant changes in the business or economic circumstances that affect the fair value of the Group's financial assets and financial liabilities.

The carrying amounts of trade and notes receivable, contract assets, other receivables, trade and notes payable and other payables and accruals approximate their fair values due to their short maturities.

6 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 2019, the Group was principally engaged in the manufacturing and sales of packaging materials for cigarette in the PRC (the "**Cigarette Packaging Business**") and environmental treatment business in the PRC (the "**Environmental Treatment Business**"), which are both identified as reportable segments.

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 ("**FVPL**").

NOTES TO THE CONDENSED CONSOLIDATED INTERIM FINANCIAL INFORMATION

6 SEGMENT INFORMATION *(continued)*

Segment assets exclude financial assets at FVPL and deferred tax assets. Segment liabilities exclude current income tax liabilities and deferred tax liabilities.

Capital expenditures represent additions to property, plant and equipment, intangible assets and prepayments for non-current assets.

The segment results and other segment items of the Group for the six months ended 30 September 2019 are as follows:

	Cigarette Packaging Business HK\$'000	Environmental Treatment Business HK\$'000	Group HK\$'000
Revenue			
— At a point in time	107,892	–	107,892
— Over time	–	103,292	103,292
	107,892	103,292	211,184
Segment results	33,461	23,447	56,908
Other gains arising from financial assets at FVPL			3,884
Operating profit			60,792
Finance income			4,682
Finance cost			(77)
Profit before income tax			65,397
Income tax expense			(12,526)
Profit for the period			52,871
Other segment item			
Depreciation and amortisation	2,213	3,632	5,845

NOTES TO THE CONDENSED CONSOLIDATED INTERIM FINANCIAL INFORMATION

6 SEGMENT INFORMATION *(continued)*

The segment results and other segment items of the Group for the six months ended 30 September 2018 are as follows:

	Cigarette Packaging Business HK\$'000	Environmental Treatment Business HK\$'000	Group HK\$'000
Revenue			
— At a point in time	105,423	—	105,423
— Over time	—	5,960	5,960
	105,423	5,960	111,383
Segment results	28,850	(247)	28,603
Other gains arising from financial assets at FVPL			(4,352)
Operating profit			24,251
Finance income			4,148
Profit before income tax			28,399
Income tax expense			(6,529)
Profit for the period			21,870
Other segment item			
Depreciation and amortisation	2,352	344	2,696

NOTES TO THE CONDENSED CONSOLIDATED INTERIM FINANCIAL INFORMATION

6 SEGMENT INFORMATION *(continued)*

The segment assets and liabilities at 30 September 2019 are as follows:

	Cigarette Packaging Business HK\$'000	Environmental Treatment Business HK\$'000	Inter-segment elimination HK\$'000	Group HK\$'000
Segment assets	441,092	135,109	(86,783)	489,418
Financial assets at FVPL				14,691
Deferred tax assets				3,260
Total assets				507,369
Segment liabilities	71,675	117,761	(86,783)	102,653
Current income tax liabilities				16,232
Deferred tax liabilities				8,889
Total liabilities				127,774
Capital expenditures	177	4,545	-	4,722

NOTES TO THE CONDENSED CONSOLIDATED INTERIM FINANCIAL INFORMATION

6 SEGMENT INFORMATION *(continued)*

The segment assets and liabilities at 31 March 2019 are as follows:

	Cigarette Packaging Business HK\$'000	Environmental Treatment Business HK\$'000	Inter-segment elimination HK\$'000	Group HK\$'000
Segment assets	439,928	75,281	(62,528)	452,681
Financial assets at FVPL				28,593
Deferred tax assets				3,609
Total assets				484,883
Segment liabilities	80,071	79,006	(62,528)	96,549
Current income tax liabilities				11,923
Deferred tax liabilities				8,999
Total liabilities				117,471
Capital expenditures	1,031	18,607	–	19,638

NOTES TO THE CONDENSED CONSOLIDATED INTERIM FINANCIAL INFORMATION

7 REVENUE

	Six months ended 30 September	
	2019 HK\$'000	2018 HK\$'000
Sales of cigarette packaging products	107,892	105,423
Revenue from construction and maintenance contracts		
— Construction services	101,278	3,853
— Maintenance services	2,014	2,107
	211,184	111,383

Except for the three customers below, no other customers individually accounted for more than 10% of the Group's revenue for the six months ended 30 September 2019 (six months ended 30 September 2018: two):

	Six months ended 30 September	
	2019 HK\$'000	2018 HK\$'000
Customer A	47.4%	–
Customer B	34.0%	65.0%
Customer C	12.4%	24.8%
	93.8%	89.8%

For the six months ended 30 September 2019, majority of the Group's revenue was generated from its subsidiaries in the PRC (six months ended 30 September 2018: all of the Group's revenue).

NOTES TO THE CONDENSED CONSOLIDATED INTERIM FINANCIAL INFORMATION

8 EXPENSES BY NATURE

	Six months ended 30 September	
	2019 HK\$'000	2018 HK\$'000
Raw materials consumed and subcontracting cost for construction contract	58,892	2,346
Cost of inventories sold	56,882	59,066
Staff costs (including directors' emoluments)	18,613	11,108
Depreciation and amortisation	5,845	2,696
Consulting fee	5,444	–
Utilities	2,107	2,469
Transportation expenses	1,251	940
Other taxes and surcharge	987	1,139
Operating lease expenses	980	718
Travelling expenses	266	165
Office expenses	228	220
Auditor's remuneration	182	190
Other expenses	3,516	2,873
Total cost of sales, distribution costs and administrative expenses	155,193	83,930

9 OTHER GAINS/(LOSSES) — NET

	Six months ended 30 September	
	2019 HK\$'000	2018 HK\$'000
Foreign exchange gains	917	1,150
Dividend income from financial assets at FVPL	573	573
Gain/(loss) on disposal of financial assets at FVPL	1,824	(970)
Unrealised gain/(loss) on changes in fair value of financial assets at FVPL	1,487	(3,955)
	4,801	(3,202)

10 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 six months ended 30 September 2019 (six months ended 30 September 2018: same). The profit of the group entities in Hong Kong is mainly derived from dividend income from subsidiaries and interest income from banks, 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 November 2017, one of the Group's major operating subsidiary in the PRC successfully renewed the High and New Technology Enterprise Certificate ("the Certificate") which was effective for three years commencing on 1 January 2017. The applicable income tax rate of this subsidiary was 15% for the six months ended 30 September 2019 (six months ended 30 September 2018: 15%).

NOTES TO THE CONDENSED CONSOLIDATED INTERIM FINANCIAL INFORMATION

10 INCOME TAX EXPENSE *(continued)*

According to the announcement No. 60 [2019] issued by various government departments, companies engaged in pollution prevention and control can enjoy a preferential income tax rate of 15%. One of the Group's subsidiary engaged in the Environmental Treatment Business in the PRC was assessed by the management to meet all the relevant criteria. Therefore, the applicable income tax rate of this subsidiary was 15% for the six months ended 30 September 2019 (six months ended 30 September 2018: 25%).

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 dividends 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	
	2019 HK\$'000	2018 HK\$'000
Current income tax		
— PRC enterprise income tax	10,696	3,983
Deferred income tax		
— PRC enterprise income tax	(131)	1,193
— Withholding income tax for profit to be distributed from the PRC	1,961	1,353
	12,526	6,529

No income tax charges relating to components of other comprehensive income existed for the six months ended 30 September 2019 (six months ended 30 September 2018: nil).

11 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	
	2019	2018
Profit attributable to owners of the Company (HK\$'000)	52,963	23,060
Weighted average number of ordinary shares in issue	694,080,000	681,991,000
Basic earnings per share	HK7.63 cents	HK3.38 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

11 EARNINGS PER SHARE *(continued)*

(b) Diluted *(continued)*

	Six months ended 30 September	
	2019	2018
Profit attributable to owners of the Company (HK\$'000)	52,963	23,060
Weighted average number of ordinary shares in issue	694,080,000	681,991,000
Adjustments for share options	16,840,000	20,294,000
Weighted average number of ordinary shares for diluted earnings per share	710,920,000	702,285,000
Diluted earnings per share	HK7.45 cents	HK3.28 cents

12 DIVIDENDS

A final dividend of HK3.00 cents per ordinary share for the year ended 31 March 2019 (2018: HK2.30 cents per ordinary share), totalling approximately HK\$20,822,000 (2018: HK\$15,964,000), was paid during the period ended 30 September 2019.

On 15 November 2019, the Board has resolved to declare an interim dividend of HK3.00 cents per share (30 September 2018: HK2.20 cents per ordinary share) and a special dividend of HK1.00 cent per share, amounting to a total of HK4.00 cents per share (30 September 2018: Nil), which is payable on 13 December 2019 to shareholders who are on the register at 4 December 2019. This interim dividend and special dividend, amounting to approximately HK\$27,763,000 (2018: HK\$15,270,000), has not been recognised as a liability in this interim financial information. It will be recognised in the financial statements for the period ended 31 December 2019.

NOTES TO THE CONDENSED CONSOLIDATED INTERIM FINANCIAL INFORMATION

13 PROPERTY, PLANT AND EQUIPMENT

	Plant and buildings HK\$'000	Leasehold improvements HK\$'000	Machinery HK\$'000	Office equipment HK\$'000	Construction in progress HK\$'000	Total HK\$'000
At 1 April 2018						
Cost	38,361	-	53,388	3,018	1,062	95,829
Accumulated depreciation	(20,641)	-	(31,833)	(2,462)	-	(54,936)
Net book amount	17,720	-	21,555	556	1,062	40,893
Six months ended 30 September 2018						
Opening net book amount	17,720	-	21,555	556	1,062	40,893
Exchange differences	(1,556)	-	(858)	(182)	(134)	(2,730)
Additions	-	-	222	-	170	392
Acquisition of subsidiary	-	-	337	1,078	260	1,675
Transfer	572	-	-	-	(572)	-
Disposal	-	-	(123)	-	-	(123)
Depreciation and amortisation	(681)	-	(1,547)	(146)	-	(2,374)
Closing net book amount	16,055	-	19,586	1,306	786	37,733
At 30 September 2018						
Cost	37,377	-	52,805	3,914	786	94,882
Accumulated depreciation	(21,322)	-	(33,219)	(2,608)	-	(57,149)
Net book amount	16,055	-	19,586	1,306	786	37,733
At 1 April 2019						
Cost	36,932	3,285	52,052	4,370	-	96,639
Accumulated depreciation	(20,689)	(110)	(32,910)	(2,895)	-	(56,604)
Net book amount	16,243	3,175	19,142	1,475	-	40,035
Six months ended 30 September 2019						
Opening net book amount	16,243	3,175	19,142	1,475	-	40,035
Exchange differences	(779)	(147)	(885)	(72)	-	(1,883)
Additions	-	-	852	254	-	1,106
Depreciation and amortisation	(679)	(321)	(1,806)	(276)	-	(3,082)
Closing net book amount	14,785	2,707	17,303	1,381	-	36,176
At 30 September 2019						
Cost	36,153	3,138	52,020	4,551	-	95,862
Accumulated depreciation	(21,368)	(431)	(34,717)	(3,170)	-	(59,686)
Net book amount	14,785	2,707	17,303	1,381	-	36,176

As at 30 September 2019, majority of the Group's property, plant and equipment was located in the PRC (31 March 2019: same).

NOTES TO THE CONDENSED CONSOLIDATED INTERIM FINANCIAL INFORMATION

14 INTANGIBLE ASSETS

	Computer software HK\$'000	Patent and technology HK\$'000	Total HK\$'000
At 1 April 2018			
Net book amount	–	–	–
Six months ended 30 September 2018			
Opening net book amount	–	–	–
Business combination	280	10,971	11,251
Amortisation	(5)	(131)	(136)
Exchange differences	(3)	(95)	(98)
Closing net book amount	272	10,745	11,017
At 30 September 2018			
Cost	622	10,857	11,479
Accumulated amortisation	(350)	(112)	(462)
Net book amount	272	10,745	11,017
At 1 April 2019			
Cost	651	12,887	13,538
Accumulated amortisation and impairment	(574)	(2,247)	(2,821)
Net book amount	77	10,640	10,717
Six months ended 30 September 2019			
Opening net book amount	77	10,640	10,717
Additions	40	–	40
Amortisation	(34)	(2,274)	(2,308)
Exchange differences	(4)	(465)	(469)
Closing net book amount	79	7,901	7,980
At 30 September 2019			
Cost	659	12,255	12,914
Accumulated amortisation	(580)	(4,354)	(4,934)
Net book amount	79	7,901	7,980

Amortisation of HK\$2,308,000 has been charged to administrative expenses in the consolidated income statement for the six months ended 30 September 2019 (six months ended 30 September 2018: HK\$136,000).

15 TRADE AND NOTES RECEIVABLE

	30 September 2019 HK\$'000	31 March 2019 HK\$'000
Trade receivables	77,852	76,473
Notes receivable	443	466
Less: allowance for impairment of trade receivables	(183)	(193)
	78,112	76,746

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

	30 September 2019 HK\$'000	31 March 2019 HK\$'000
Less than 30 days	33,726	73,463
31 days to 60 days	1,600	–
61 days to 90 days	603	–
91 days to 180 days	20,312	494
Over 180 days	21,611	2,516
	77,852	76,473

As at 30 September 2019, trade receivables of HK\$21,665,000 (31 March 2019: HK\$2,817,000) were past due but not impaired.

NOTES TO THE CONDENSED CONSOLIDATED INTERIM FINANCIAL INFORMATION

15 TRADE AND NOTES RECEIVABLE *(continued)*

- (b) As at 30 September 2019, trade receivables of HK\$183,000 (31 March 2019: HK\$193,000) were past due and fully impaired. The ageing of these receivables is as follows:

	30 September 2019 HK\$'000	31 March 2019 HK\$'000
Over 180 days	183	193

- (c) The Group's trade receivables were mainly denominated in RMB as at 30 September 2019 (31 March 2019: same).

16 CONTRACT ASSETS AND CONTRACT LIABILITIES

	30 September 2019 HK\$'000	31 March 2019 HK\$'000
Aggregate costs incurred plus recognised profit	201,876	101,128
Exchange differences	(9,415)	(12,035)
Less: progress billings	(150,845)	(91,007)
	41,616	(1,914)

NOTES TO THE CONDENSED CONSOLIDATED INTERIM FINANCIAL INFORMATION

17 PREPAYMENTS AND OTHER RECEIVABLES

	30 September 2019 HK\$'000	31 March 2019 HK\$'000
Advance to suppliers and service providers	5,788	65
Other prepayments	496	278
Other receivables	4,934	1,657
Less: allowance for impairment of other receivables	(277)	(297)
	10,941	1,703

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

	30 September 2019 HK\$'000	31 March 2019 HK\$'000
Denominated in RMB	4,566	1,291
Denominated in HK\$	368	366
	4,934	1,657

NOTES TO THE CONDENSED CONSOLIDATED INTERIM FINANCIAL INFORMATION

18 FINANCIAL ASSETS AT FVPL

	30 September 2019 HK\$'000	31 March 2019 HK\$'000
Listed securities — held for trading		
— Equity securities — denominated in HK\$	10,395	11,498
— Equity securities — denominated in RMB	4,296	17,095
	14,691	28,593

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

19 RESTRICTED CASH AT BANKS

As at 30 September 2019, the Group placed cash deposits of approximately HK\$39,037,000 (31 March 2019: HK\$42,284,000) with designated banks as collateral for the Group's notes payable, which were all denominated in RMB.

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 regulations of foreign exchange control promulgated by the PRC government.

20 CASH AND CASH EQUIVALENTS

Cash and cash equivalents were denominated in the following currencies:

	30 September 2019 HK\$'000	31 March 2019 HK\$'000
Denominated in RMB	211,768	219,682
Denominated in HK\$	8,768	4,504
Denominated in US\$	338	337
	220,874	224,523

NOTES TO THE CONDENSED CONSOLIDATED INTERIM FINANCIAL INFORMATION

20 CASH AND CASH EQUIVALENTS *(continued)*

The Group's cash and bank balances of HK\$211,768,000 (31 March 2019: HK\$219,682,000) 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 regulations of foreign exchange control promulgated by the PRC government.

21 SHARE CAPITAL

Authorised share capital	Number of ordinary shares	Equivalent nominal value of ordinary shares HK\$
At 31 March 2019 and 30 September 2019	4,000,000,000	20,000,000

Ordinary shares, issued and fully paid:	Number of issued shares	Amount HK\$
At 31 March 2018	678,500,000	3,393,000
Issuance of Consideration Shares (a)	15,580,000	78,000
At 30 September 2018, 31 March 2019 and 30 September 2019	694,080,000	3,471,000

- (a) Pursuant to an acquisition of a subsidiaries which was completed on 21 August 2018, the company issued new shares for the acquisition. The consideration for the acquisition of HK\$31,160,000 was paid by issuance of the Company's ordinary shares of 15,580,000 shares at the price of HK\$2.00 per share to the then shareholder of the Acquiree (the "**Issuance of Consideration Shares**"), resulting in HK\$78,000 credited to share capital and HK\$31,082,000 credited to share premium.

22 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 an aggregate of 30,000,000 ordinary shares of the Company at an exercise price of HK\$2.58 each before a share subdivision.

Upon the share subdivision became effective, pro-rata adjustments were made to the exercise price and the number of share options outstanding, so as to give the participants of the Share Option Scheme the same proportion of the equity capital as that they were entitled to before the effect of the share subdivision.

Particulars of share options as at 30 September 2019 and 31 March 2019 are as follows:

Vesting period	Expiry dates	Exercise price	Number of outstanding options	
			30 September 2019	31 March 2019
1 year from 15 January 2015	14 January 2020	HK\$1.29	10,935,000	10,935,000
2 years from 15 January 2015	14 January 2020	HK\$1.29	10,935,000	10,935,000
3 years from 15 January 2015	14 January 2020	HK\$1.29	10,935,000	10,935,000
4 years from 15 January 2015	14 January 2020	HK\$1.29	10,935,000	10,935,000
			43,740,000	43,740,000

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

	Six month ended 30 September	
	2019	2018
At 1 April	43,740,000	50,060,000
Forfeited	–	(6,200,000)
At 30 September	43,740,000	43,860,000

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

22 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 2018: Nil).

No expense was recognised for employee services received in respect of the Share Option Scheme for the six months ended 30 September 2019 (six months ended 30 September 2018: an expense of HK\$146,000 was recognised).

23 TRADE AND NOTES PAYABLE

	30 September 2019 HK\$'000	31 March 2019 HK\$'000
Trade payables (a)	45,784	28,748
Notes payable — bank acceptance notes	39,358	42,632
	85,142	71,380

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

	30 September 2019 HK\$'000	31 March 2019 HK\$'000
Within 90 days	45,466	26,454
90 to 180 days	—	1,810
Over 180 days	318	484
	45,784	28,748

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

NOTES TO THE CONDENSED CONSOLIDATED INTERIM FINANCIAL INFORMATION

24 OTHER PAYABLES AND ACCRUALS

	30 September 2019 HK\$'000	31 March 2019 HK\$'000
Other tax payables	6,919	9,379
Accrual for staff costs and allowances	5,153	6,561
Other payables	3,241	6,325
	15,313	22,265
Less: non-current portion	(887)	(933)
	14,426	21,332

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

	30 September 2019 HK\$'000	31 March 2019 HK\$'000
Denominated in RMB	14,853	20,782
Denominated in HK\$	460	1,483
	15,313	22,265

The fair value of these balance approximated their carrying amounts at 30 September 2019 (31 March 2019: same).

NOTES TO THE CONDENSED CONSOLIDATED INTERIM FINANCIAL INFORMATION

25 CASH GENERATED FROM OPERATIONS

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

	Six months ended 30 September	
	2019 HK\$'000	2018 HK\$'000
Profit before income tax	65,397	28,399
Adjustments for:		
— Depreciation and amortisation	5,845	2,696
— Other (gains)/losses — net	(4,801)	3,202
— Finance income	(4,682)	(4,148)
— Finance cost	77	—
— Value of employee services costs under share option scheme	—	146
Changes in working capital:		
— Inventories	4,390	(3,397)
— Contract assets	(40,786)	(383)
— Contract liabilities	(2,744)	—
— Amounts due from customer for contract work	—	10,493
— Trade and notes receivable	(1,366)	23,344
— Prepayments and other receivables	(7,260)	(27,971)
— Trade and notes payable	14,909	(8,599)
— Other payables	(7,022)	(12,183)
— Lease liabilities	334	—
— Prepaid expenses	73	102
Cash generated from operations	22,364	11,701

NOTES TO THE CONDENSED CONSOLIDATED INTERIM FINANCIAL INFORMATION

26 COMMITMENTS

(a) Capital Commitments

As at 30 September 2019 and 31 March 2019, the Group had the following capital commitments:

	30 September 2019 HK\$'000	31 March 2019 HK\$'000
Capital expenditure in respect of the acquisition of property and equipment contracted for but not provided	1,226	1,513

(b) Operating lease commitments

As at 30 September 2019 and 31 March 2019, the Group had future aggregate minimum lease payments in respect of rented premises under non-cancellable operating leases as follows:

	30 September 2019 HK\$'000	31 March 2019 HK\$'000
Not later than one year	248	1,091
Later than one year and not later than two years	–	168
Over two years	–	105
	248	1,364

27 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

(b) Balances with related parties

	30 September 2019 HK\$'000	31 March 2019 HK\$'000
Lease liabilities		
— Mr. Zheng Andy Yi Sheng (i)		
— non-current portion	1,645	—
— current portion	181	—
	1,826	—

- (i) During the six months ended 30 September 2019, a lease contract was entered into between Mr. Zheng Andy Yi Sheng and one of the Company's subsidiary in the PRC. The liabilities were denominated in HK\$ and unsecured.

Other payables		
— Mr. Zheng Andy Yi Sheng	—	250
— Mr. Zheng Minsheng	—	200
	—	450

NOTES TO THE CONDENSED CONSOLIDATED INTERIM FINANCIAL INFORMATION

27 RELATED PARTY TRANSACTIONS *(continued)*

(c) Key management compensations

	Six months ended 30 September	
	2019 HK\$'000	2018 HK\$'000
Salaries and other employee benefits	1,979	1,745
Pension costs	66	100
Value of employee services under the Share Option Scheme	–	30
	2,045	1,875

(d) Transaction with related parties

	Six months ended 30 September	
	2019 HK\$'000	2018 HK\$'000
Interest expenses on lease liabilities <i>(Note (b)(i))</i>	264	–

MANAGEMENT DISCUSSION AND ANALYSIS

BUSINESS REVIEW

Revenue

The principal activities of the Group were manufacturing and sales of cigarette packaging materials (the “**Cigarette Packaging Business**”) and environmental treatment business (the “**Environmental Treatment Business**”) in the People’s Republic of China (the “**PRC**”). The revenue of the Group for the six months ended 30 September 2019 (the “**Reporting Period**”) recorded a total of approximately HK\$211.18 million (30 September 2018: HK\$111.38 million) representing an increase of 89.6%.

The performance of China tobacco and cigarette business continued to improve in 2019. According to the figures of the National Bureau of Statistics, from January to August 2019, the total cigarette production in China reached 1,632.79 billion sticks. Revenue from Cigarette Packaging Business of the Group during the Reporting Period was approximately HK\$107.89 million, representing an increase of 2.3% as compared with the corresponding period in 2018 (30 September 2018: HK\$105.42 million). The increase in revenue was attributable to the increase in orders not only from our existing customers but also from our new customers.

During the Reporting Period, Shantou Hongdong Environmental Treatment Company Limited (“**Shantou Hongdong**”), a wholly owned subsidiary of the Group in the PRC successfully won two tenders for environmental projects from the government. Revenue from the Environmental Treatment Business recorded approximately HK\$103.29 million representing an increase of HK\$97.33 million or 1,633.1% as compared with the corresponding period in 2018 (30 September 2018: HK\$5.96 million).

Gross Profit

The overall gross profit of the Group during the Reporting Period was approximately HK\$85.37 million, (30 September 2018: HK\$41.01 million) representing an increase of HK\$44.36 million or 108.2% as compared with the corresponding period in 2018.

The overall profit margin of the Group for the Reporting Period was approximately 40.4% (30 September 2018: 36.8%). During the Reporting Period, the gross profit margin for the Cigarette Packaging Business was approximately 42.8% (30 September 2018: 37.7%) representing an increase of 5.1 percentage points over that of the same period in 2018. Increase in profit margin was mainly resulted from changes of product mix. The gross profit margin for the Environmental Treatment Business was approximately 37.9% (30 September 2018: 22.4%) representing an increase of 15.5 percentage points over that of the same period of 2018. Increase in profit margin was mainly resulted from the effective cost control in new environmental treatment projects.

BUSINESS REVIEW *(continued)*

Distribution Costs

Distribution costs was mainly arising from the Cigarette Packaging Business which primarily consist of transportation expenses for the delivery of products to customers. The total distribution costs during the Reporting Period was approximately HK\$0.96 million (30 September 2018: HK\$0.99 million) representing a decrease of approximately HK\$0.03 million as compared with the corresponding period in 2018. Decrease in distribution costs was resulted from more effective logistics in procurement and delivery of goods.

Administrative Expenses

The Group's administrative expenses for the Reporting Period was approximately HK\$28.42 million (30 September 2018: HK\$12.58 million) representing an increase of HK\$15.84 million or 125.9% as compared with the corresponding period in 2018. The increase in administration expenses was mainly attributable to the increase in staff costs and routine office expenses because of the rapid growth of Shantou Hongdong during the Reporting Period.

Finance Income

Finance income of the Group during the Reporting Period was approximately HK\$4.61 million (30 September 2018: HK\$4.15 million) representing an increase of HK\$0.46 million as compared with the corresponding period in 2018. The increase in finance income was mainly resulted from the interest received from the loans to independent third parties in the PRC.

Income Tax Expense

The Group's income tax expense for the Reporting Period was approximately HK\$12.53 million (30 September 2018: HK\$6.53 million), representing an increase of approximately HK\$6.00 million as compared with the corresponding period in 2018. During the Reporting Period, the effective tax rate of the Group was approximately 19.2%, which decreased by 3.8% when compared with approximately 23.0% for the corresponding period in 2018. The decrease was attributable to Shantou Hongdong, being an enterprise engaged in pollution prevention and control business, enjoying a preferential corporate income tax rate of 15%.

Results

The profit attributable to owners of the Company for the Reporting Period amounted approximately HK\$52.96 million (30 September 2018: HK\$23.06 million) and the basic earnings per share of HK7.63 cents (30 September 2018: HK3.38 cents).

BUSINESS REVIEW *(continued)*

Capital Structure, Liquidity and Financial Resources

As at 30 September 2019, the Group's total cash and cash equivalents amounted to HK\$259.91 million, (31 March 2019: HK\$266.81 million), including restricted cash at banks HK\$39.04 million, (31 March 2019: HK\$42.29 million). Most of the Group's liquid fund was placed as deposits at various banks.

At 30 September 2019, the Group had current assets of approximately HK\$434.40 million, (31 March 2019: HK\$408.19 million) and current liabilities of approximately HK\$116.29 million (31 March 2019: HK\$107.54 million). The current ratio (calculated as current assets to current liabilities) was 3.74 (31 March 2019: 3.80).

For the six months ended 30 September 2019, the Group's net cash generated from operating activities and investing activities amounted to approximately HK\$13.97 million and HK\$18.75 million respectively and the net cash used in financing activities was approximately HK\$21.44 million. The Group primarily uses cash inflow from operating activities to satisfy the requirement of working capital.

Borrowings and Gearing Ratio

The Group did not have any borrowing as at 30 September 2019 and 31 March 2019.

Financial Assets at Fair Value through Profit or Loss

The Group adopted a prudent attitude in its securities investment. The management takes into account of risk exposure in comparison with the Group's risk tolerance level at the prevailing time and the potential for return on investment in terms of capital appreciation and dividend payment when determining whether to take up an investment opportunity for the cash held by the Group. 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 gains from listed securities was approximately HK\$3.88 million (30 September 2018: losses of HK\$4.35 million) including the unrealised gains on changes in fair value for HK\$1.49 million (30 September 2018: loss of HK\$3.96 million). The Group invested in these shares expecting the price will be stable and gradually increase in line with the upward trend of the global financial market.

BUSINESS REVIEW *(continued)*

Financial Assets at Fair Value through Profit or Loss *(continued)*

As at 30 September 2019 and 31 March 2019, the Group held the following financial assets:

	Number of shares	30 September 2019 HK\$'000	31 March 2019 HK\$'000
Equity securities listed in Hong Kong			
CNG Power (01816)	5,250,000	10,395	11,498
Equity securities listed in the PRC			
Guangdong Liantai (聯泰環保 603797)	–	–	11,420
Other listed equity securities <i>(Note)</i>		4,296	5,675
		14,691	28,593

Note: Other listed equity securities comprised 6 equity securities in the PRC (31 March 2019: 6)

Exposure to Fluctuations in Exchange Rate

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

The Group's transactions for our subsidiary in the PRC was mainly conducted in Renminbi ("RMB"), the functional currency of the subsidiary, 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\$4.72 million, (30 September 2018: HK\$0.39 million) which was used in the acquisition of property, plant and equipment, intangible assets and prepayments for non-current assets.

BUSINESS REVIEW *(continued)*

Charge on assets

As at 30 September 2019, the Group had pledged bank deposits amounting to HK\$39.04 million (31 March 2019: HK\$42.29 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 2019 and 31 March 2019.

Capital commitments

As at 30 September 2019, the Group had capital commitments at an amount of approximately HK\$1.23 million (31 March 2019: HK\$1.51 million) for acquisition of property, plant and equipment.

FUTURE OUTLOOK

While we remain cautious of the long-term trajectory of the manufacturing and sales of cigarette packaging materials industry, we are optimistic of its long-term future. Accordingly, we remain steadfast in our research and development towards meeting the needs of our customers and improve our operational efficiency, lower the operating cost to enhance our profitability. Furthermore, we will seek more business opportunities under the Clean Water Action Plan (水十條). Our technical experts will seize to seek for new sewage treatment projects to widen our revenue stream. We believe that both the Cigarette Packaging Business and the Environmental Treatment Business segments are anticipated to deliver steady revenue growth in the future.

EMPLOYEES AND REMUNERATION POLICIES

As at 30 September 2019, the Group employed a total of approximately 353 employees including the directors of the Company (31 March 2019: approximately 351). During the Reporting Period, the total staff costs (including directors' emoluments) was approximately HK\$18.61 million (30 September 2018: HK\$11.11 million). The employees including the Directors were remunerated based on their working performance, professional experiences and prevailing industry practices. The emoluments of the Directors were reviewed by the remuneration committee, with regard to the Company's operating results, individual performance and comparable market statistics.

SIGNIFICANT INVESTMENTS AND ACQUISITIONS

During the Reporting Period, the Group had no significant investment acquired, nor was there any other material acquisitions or disposals of subsidiaries.

INTERIM DIVIDEND AND SPECIAL DIVIDEND

The directors have resolved to pay an interim dividend of HK3.00 cents per share (the “**Interim Dividend**”) (30 September 2018: HK2.20 cents per share) and an one-off special dividend of HK1.00 cent per share (the “**Special Dividend**”), amounting to a total dividend of HK4.00 cents per share. The Interim Dividend and Special Dividend will be paid on 13 December 2019 to the shareholders whose names appear on the Register of Members of the Company on 4 December 2019.

CLOSURE OF REGISTERED MEMBERS

The register of members of the Company will be closed from 2 December 2019 to 4 December 2019 (both days inclusive) for the purpose of determining the entitlement to the Interim Dividend and Special Dividend. In order to be qualified for the Interim Dividend and Special Dividend, all transfer documents accompanied by the corresponding share certificates should be lodged for registration 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 29 November 2019.

OTHER INFORMATION

PURCHASE, SALE OR REDEMPTION OF THE COMPANY'S SECURITIES

During the Reporting Period, 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 announcement, 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.

RISK MANAGEMENT

The Group has established and maintained sufficient risk management procedures to identify and control various types of risk within the organization and the external environment with active management participation and effective internal control procedures in the best interests of the Group and its shareholders.

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

As at 30 September 2009, the interests and short positions of the directors and chief executives of the Company in the shares of the Company which (a) were required 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) were required under Section 352 of the SFO, to be entered in the register required to be kept by the Company referred to in that section; or (c) were required 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 the Rules (the "**Listing Rules**") Governing the Listing of Securities on the Stock Exchanges were as follows:

DIRECTORS' INTEREST IN THE SHARES AND UNDERLYING SHARES OF THE COMPANY *(continued)***Long positions of Directors' interests in securities of the Company**

Name of Director	Nature of interest	Number of ordinary shares held	Number of Underlying shares held ⁽³⁾	Percentage of Interest ⁽²⁾
Mr. Zheng Andy Yi Sheng	Interests held by a controlled corporation ⁽¹⁾	450,000,000	–	64.83%
Mr. Zheng Minsheng	Beneficial owner		1,200,000	0.17%
Mr. Lau Kwok Hung	Beneficial owner		400,000	0.06%
Mr. Ma Wenming	Beneficial owner		400,000	0.06%
Mr. Fok Po Tin	Beneficial owner		400,000	0.06%

Notes:

- (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 2019.
- (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 2019, none of the directors or chief executives of the Company had any interests or short positions in the shares, underlying shares or debentures of the Company or any associated corporations (within the meaning of Part XV of the SFO) which were required to be: (i) notified to the Company and the Stock Exchange pursuant to Divisions 7 and 8 of Part XV of the SFO (including interests and short positions which the directors and chief executives were taken or deemed to have under such provisions of the SFO); (ii) recorded in the register kept by the Company pursuant to Section 352 of the SFO; or (iii) notified to the Company and the Stock Exchange pursuant to the Model Code.

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

As at 30 September 2019, the interests and short positions of 5% or more of the issued share capital of the Company were recorded in the register of interests required to be 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	450,000,000 (L)	64.83%
Mr. Zheng Andy Yi Sheng <i>(Note ii)</i>	Interest held by a controlled corporation	450,000,000 (L)	64.83%

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 450,000,000 shares held by SXD Limited under the SFO.

Save as disclosed above, as at 30 September 2019 there was no other person so far known to our Directors or chief executives of the Company having an interest or short position in shares and underlying shares of the Company that was required to be recorded in the register required to be 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.

The total number of shares in respect of which options may be granted under the Scheme is not permitted to exceed 10% of the shares of the Company in issue at any point in time, without prior approval from the Company's shareholders. However the total maximum number of the shares which may be issued upon exercise of all outstanding share options granted and yet to be exercised under the Scheme and any other share option scheme of the Company must not exceed 30% of the issued share capital of the Company from time to time. Options granted to a substantial shareholder or an independent non-executive Director, or to any of their respective associates, in excess of 0.1% of the shares of the Company in issue at any time and with an aggregate value (based on the closing price of the Company's shares as stated in the daily quotation sheets issued by the Stock Exchange at the date of the grant) in excess of HK\$5 million, within any 12-month period up to and including the date of grant, are subject to shareholders approval in advance in a general meeting.

Options granted must be taken up within 7 days inclusive of the day on which offer was made upon payment of HK\$1 by the grantee. Options May be exercised at any time for a period determined by its directors which shall not be later than the day immediately preceding the tenth anniversary of the date of grant. The exercise price of the share options shall be a price solely determined by the Board and notified to an Eligible Participant and shall be at least the highest of (i) the closing price of the Company's shares as stated in the daily quotations sheet of the Stock Exchange on the date of the grant of the options; (ii) the average closing price of the Company's shares as stated in the daily quotations sheets of the Stock Exchange for the five trading days immediately preceding the date of the grant of the option; and (ii) the nominal value of a share of the Company on the date of grant.

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 was 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). (2) The number of share option was adjusted upon Share Subdivision (Note 22 to the consolidated financial statements) on 25 January 2018 and the exercise price is adjusted to HK\$1.29.

Details of outstanding options granted under the Scheme of the Company at the beginning and at the end of the period under review are as follows:

Category of grantees	Date of grant of share options	Exercisable period <i>(Note 1)</i>	Exercise price <i>(HK\$)</i>	Number of options				
				Outstanding at 1 April 2019	Number of options granted	Number of options exercised	Number of options lapsed	Outstanding at 30 September 2019
Directors								
Mr. Zheng Minsheng	15.1.2015	15.1.2016–14.1.2020	1.29	1,200,000	–	–	–	1,200,000
Mr. Lau Kwok Hung	15.1.2015	15.1.2016–14.1.2020	1.29	400,000	–	–	–	400,000
Mr. Ma Wenming	15.1.2015	15.1.2016–14.1.2020	1.29	400,000	–	–	–	400,000
Mr. Fok Po Tin	15.1.2015	15.1.2016–14.1.2020	1.29	400,000	–	–	–	400,000
Total – Directors				2,400,000	–	–	–	2,400,000
Employees in aggregate	15.1.2015	15.1.2016–14.1.2020	1.29	33,340,000	–	–	560,000	32,780,000
Other participants in aggregate	15.1.2015	15.1.2016–14.1.2020	1.29	8,000,000	–	–	–	8,000,000
Total				50,060,000	–	–	6,320,000	43,180,000

Notes:

- (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.
- (2) The number of share option was adjusted upon Share Subdivision (Note 22 to the consolidated financial statements) on 25 January 2018.

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 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 2019 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, a non-executive Director and an independent non-executive Director were unable to attend the general meetings of the Company as they were out of town and 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 Reporting Period, management did not provide the board with monthly updates required under Code Provision C.1.2 of the CG Code, 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. The management has also provided to all Directors (including non-executive Director and independent non-executive Directors) regularly the corporate activities and 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. As such, the management did not provide updates to the full Board on a monthly basis.

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 2019.

CHANGES IN INFORMATION OF DIRECTORS

Pursuant to Rule 13.51B(1) of the Listing Rules, there was no change in information of Directors subsequent to the date of Annual Report 2019.

DIRECTORS' INTERESTS IN COMPETING BUSINESS

As at 30 September 2019, in so far as the Directors were aware, none of the Directors or their respective associates had any interest in a business that competed or was likely to compete with the business of the Group.

REVIEW OF FINANCIAL STATEMENTS BY THE AUDIT COMMITTEE

The Audit Committee comprises three members, namely Mr. Lau Kwok Hung (Chairman), Mr. Fok Po Tin and Mr. Ma Wenming, had reviewed the unaudited condensed consolidated financial statements of the Group for the six months ended 30 September 2019. During the period, one regular meeting of the Audit Committee has been held.

By order of the Board
Huaxi Holdings Company Limited
Zheng Andy Yi Sheng
Chairman

Hong Kong, 15 November 2019