HUAXI HOLDINGS COMPANY LIMITED
華禧控股有限公司

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

2019
Annual Report

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This Annual Report is printed on environmentally friendly paper

CORPORATE INFORMATION

BOARD OF DIRECTORS

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

Non-executive Director
Mr. 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
Certified Public Accountants
Registered Public Interest Entity Auditor

LEGAL ADVISER

On Hong Kong law
Peter K.S. Chan & C0

PRINCIPAL PLACE OF BUSINESS IN HONG KONG

Unit 1906–07 Cosco Tower
183 Queen's Road Central
Central
Hong Kong

PRINCIPAL PLACE OF BUSINESS IN CHINA

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Wanji Industrial District
Shantou City, Guangdong Province
People's Republic of China

REGISTERED OFFICE

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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
Shops 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

CHAIRMAN'S STATEMENT

Dear Shareholders,

On behalf of the board of directors (the "**Board**") of Huaxi Holdings Company Limited (the "**Company**") and its subsidiaries (collectively the "**Group**"), I hereby present the results of the Group for the nine months ended 31 December 2019.

GROUP PERFORMANCE

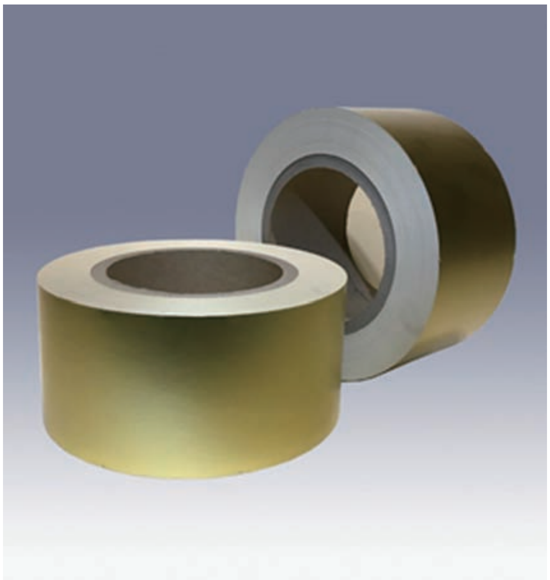
The company has changed its financial year end date from 31 March to 31 December in order to be aligned with its subsidiaries in the People's Republic of China. This annual report will cover the results for the nine-month period from 1 April 2019 to 31 December 2019.

Pondering 2019, every employee of the Group demonstrated the exemplar spirit of "quality first" and customer-orientation, continued to epitomize our corporate culture of "integrity, coherence, and excellence"; developed existing projects and committed to the ongoing diversification of the Group's business, of which we have achieved remarkable results. The performance of cigarette packaging business remained stable and had achieved single-digit percentage point growth. The environmental treatment business, however, had made outstanding breakthrough, symbolizing a colossal success in the Group's attempt to reshape its business structure and secure a sustainable future.

For the nine months ended 31 December 2019, the Group's revenue is HK$313,466,000 and the profit attributable to owners of the Company is HK$81,442,000 representing an increase of 20% and 45% compared with twelve months ended 31 March 2019.

BUSINESS REVIEW

2019 was a period that oversaw the Chinese domestic cigarette industry stabilizing and began to pick up; major brands continued to innovate on new products and experimented new ways of marketing, unequivocally implementing mandates by the Chinese National Tobacco Corporation: "control total cigarette production, maintaining tenable supply and demand relations, maintaining a well-steered growth rate, and pre-empt large volatility." Based on our assessments of the domestic tobacco market trends, the Group's core management strategy for the packaging and materials business was to "strive for growth momentum while exercising proper risk-control and maintain stability", we remained steadfast in our mission to refine our production processes, reduce waste and losses, and upgrading our facilities. We stayed optimistic and steadily responded to all sorts of uncertain challenges, including fierce market competitions.



As for the environmental restoration water treatment industry, 2019 was also a crucial year; solving the pressing issue of "black polluted" water treatment was a major component of China's 13th Five-Year Plan. The Group rallied to the call-for-action by the Chinese government and environmental protection departments, clearly focused on our work goal of repairing the ecological system using environmental protection and treatment apparatus. The Hongdong Treatment Design and Engineering

teams have cooperated candidly and were successful in the treatment of the four urban streams in Shantou City and passed government project acceptance review conducted by relevant departments. We have begun early-stage exploration on other black-water treatment projects in Huizhou Guangdong, including river prospecting, prevention of pollutants entering the waterways, riverbed mud cleaning, ecological restoration and maintenance. We offer a complete range of environmental treatment services and have conducted fruitful experimentations on all sorts of water treatment techniques to improve water quality, and upgraded our enterprise qualifications in order to better service our clients.

LOOKING INTO THE FUTURE

2020 (the Year of Gengzi (庚子年)) is destined to be extraordinary; the sudden arrival of a global pandemic, a black swan that "rose" out in the eve of the traditional Chinese New Year, caused tremendous shock to the entire world. The Chinese New Year period is known for recording the largest sales volume of cigarette products in the year. The disruption caused by the outbreak has certain repercussions to the cigarette industry. I believe, in the rollout of every large scale "crisis" there are always hidden opportunities to be uncovered. Proactively face-down challenges is the only way to ensure the "blossoming" of the Huaxi brand.

Since the introduction of the Chinese Water Pollution Prevention and Control Action Plan in 2015, the Central Government, local municipal people's government and relevant departments had stepped up efforts to implement water treatment projects. Environmental treatment, especially water treatment had been elevated to groundbreaking importance in national politics. The year 2020 is first major milestone in the Action Plan, that all regional level cities have to rein in the total area of urban black polluted waters to below 10%, this directive will necessarily stimulate further urgency for local governments to accelerate demand for water treatment services. Gauging the long-term plans and goals stipulated in the Action Plan, the size of market for environmental treatment will continue to be substantial at least for the next decade. This spells both opportunities and challenges for the entire industry, of which Hongdong should take advantage of. We empower our staff to develop a practical and dependable work spirit, and together with effective management, we ensure that our projects are completed in timely manner and qualities assured. At the same time, we are seeking new projects, cultivating medium to long-term growth for the Group.

Finally, I would like to extend my most sincere gratitude to shareholders, Board members, managers, all employees of the Group, the government, all our customers and suppliers. I shall emphasize that in light of the recent uncertainty, my colleagues in Hong Kong and Mainland China have all kept to their posts, demonstrating admirable professional spirit and vehement will. The glory of Huaxi Group stems from your loyal efforts and support!

Zheng Andy Yi Sheng
Chairman
27 March 2020

BUSINESS AND OPERATIONS REVIEW

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**").

For the nine months ended 31 December 2019 (the "**Reporting Period**"), the total revenue of the Group was approximately HK$313.47 million, representing an increase of approximately HK$51.28 million or 20% as compared with HK$262.19 million for the year ended 31 March 2019 (the "**FY2018/19**"). Revenue from the Cigarette Packaging Business was approximately HK$163.33 million (FY2018/19: HK$216.53 million) and the Environmental Treatment Business was approximately HK$150.14 million (FY2018/19: HK$45.66 million) contributing approximately 52% (FY2018/19: 83%) and 48% (FY2018/19: 17%) respectively to the Group's revenue.

Cigarette Packaging Business

In spite of the cigarette control policies and regulations to restrict indoor smoking and reduce the number of young smokers, the cigarette production in China increased slightly in 2019. According to the National Bureau of Statistics, from January to October 2019, cigarette production in the PRC recorded 2,034.09 billion sticks. An increase of 2.8% compared with the corresponding period in 2018. During the Reporting Period, the revenue from the Cigarette Packaging Business was approximately HK$163.33 million, representing a decrease of HK$53.20 million or 25% as compared with approximately HK$216.53 million in FY2018/19. The decrease in sales was due to the change of financial year end. As compared with the period from April to December in 2018, the revenue from the Cigarette Packaging Business was recorded an increase of approximately 4%. The following tables sets forth the breakdown of the Group's revenue from sales of cigarette packaging materials in the Reporting Period and FY2018/19:

	Nine months ended 31 December 2019		Year ended 31 March 2019	
	HK$ '000	**%**	HK$ '000	%
Inner Frame paper	**89,414**	**54.8**	117,734	54.4
Tipping paper	**51,749**	**31.7**	56,537	26.1
Cigarette box frame paper	**17,274**	**10.6**	30,721	14.2
Cigarette trademark label	**3,015**	**1.8**	10,093	4.7
Cigarette paper box	**1,840**	**1.1**	805	0.4
Others	**37**	**0.0**	640	0.2
Total	**163,329**	**100.0**	216,530	100.0

Environmental Treatment Business

During the Reporting Period, the total revenue from the Environmental Treatment Business was approximately HK$150.14 million, representing an increase of approximately HK$104.48 million or 229% as compared with approximately HK$45.66 million in FY2018/19. The Group won the bid for the exploration, design and construction projects in respect of the ecological restoration for the water environment at Daniulei and Zhonggang floodgate section of the central drainage system in Shiwan Town, Boluo County. In December 2019, the main construction of these projects entered into the final stage and the water quality were improved significantly. The black and odorous water were basically eliminated. The ecological restoration for the water environment at Liboshui floodgate section of the central drainage system of Shiwan Town became a demonstration site for water environment treatment in Huizhou. In addition, the Company is also actively conducting preliminary surveys and research in Dongguan and Huizhou and providing technical advisory services to these regions. The ecological restoration project, Sigou project in Shantou City has been completed in 2019 and commenced a three-year maintenance phase.

Gross Profit and Gross Profit Margin

During the Reporting Period, the overall gross profit of the Group was approximately HK$126.36 million (FY2018/19: HK$92.17 million) which comprised approximately HK$66.89 million (FY2018/19: HK$78.08 million) from the Cigarette Packaging Business and HK$59.47 million (FY2018/19: HK$14.09 million) from Environmental Treatment Business.

During the Reporting Period, the overall gross profit margin was 40% which increased by 5% as compared with 35% in FY2018/19. The gross profit margin of the Cigarette Packaging Business was approximately 41%, representing an increase of 5% as compared with FY2018/19. The increase in gross profit margin is due to reduction of costs and minimization of in wastage in raw materials. The gross profit margin for the Environment Treatment Business was approximately 40%, representing an increase of 9% as compared with 31% in FY2018/19. The increase of gross margin was resulted from effective cost control to the projects in Liboshui and Daniulei floodgate. The Group will strive to reduce the construction costs so as to increase the operational efficiency.

Distribution Costs

The distribution costs of the Group in the Reporting Period amounted to approximately HK$1.76 million, represented a decrease of approximately 26% as compared with FY2018/19 of approximately HK$2.38 million.

Administrative Expenses

The Group's administrative expenses for the Reporting Period was approximately HK$37.08 million (FY2018/19: HK$31.85 million), represented an increase of approximately HK$5.23 million. The increase of administrative expenses was mainly due to the expenses in administration, research and development relating to the Environmental Treatment Business.

Other Gains — Net

During the Reporting Period, the total other gains — net were approximately HK$5.67 million (FY2018/19: HK$2.05 million). The Group recorded a gain of approximately HK$5.06 million in disposal and changes in fair value in financial assets at fair value through profit and loss (FY2018/19: HK$0.86 million). The Group also recorded a gain of approximately HK$0.61 million from foreign exchanges (FY2018/19: gains of HK$1.19 million) which were resulted from the fluctuation of Renminbi against Hong Kong dollars.

Finance Income — Net

During the Reporting Period, the finance income primarily consisted of interest income on certain non-derivative wealth management products and of loans to independent third parties. Net financial income was approximately HK$7.07 million (FY2018/19: HK$9.08 million).

Taxation

During the Reporting Period, income tax expense was approximately HK$18.78 million, representing an increase of approximately HK$5.16 million as compared to HK$13.62 million for FY2018/19. The Group's indirect wholly owned subsidiaries, Shantou Xinda Colour Printing & Packaging Material Company Limited and Shantou Hongdong Environmental Treatment Company Limited, are granted preferential tax rate at 15%.

Profit attributable to owners of the Company

During the Reporting Period, the profit attributable to owners of the Company was approximately HK$81.44 million, representing an increase of approximately HK$25.14 million or approximately 45%, as compared with approximately HK$56.30 million in FY2018/19. The increase was mainly attributable to an increase in revenue and gross profit from the Environmental Treatment Business and an increase in other gains.

Dividends

The Board has recommended to declare a final dividend of HK4.0 cents per ordinary share for the nine months ended 31 December 2019 (the "**Final Dividend**") (FY2018/19: HK3.0 cents per ordinary share) whose names appear on the Register of Members of the Company on 15 June 2020. During the Reporting Period, the Board declared and paid an interim dividend of HK3.0 cents per share and a special dividend of HK1.0 cent per share (total HK4.0 cents) for the six months ended 30 September 2019. The Final Dividend is subject to the approval of the shareholders of the Company (the "**Shareholders**") at the forthcoming annual general meeting (the "**AGM**") of the Company and will be paid on 24 June 2020.

Trade and notes receivable

As at 31 December 2019, the total trade and notes receivable were approximately HK$156.08 million, represented an increase of by approximately HK$79.33 million as compared with HK$76.75 million as at 31 March 2019. The increase was mainly resulted from the receivables of the projects of Environmental Treatment Business.

Details of Trade and Notes Receivable are set out in note 21 to the consolidated financial statements.

Prepayments and Other Receivables

	31 December 2019 HK$'000	31 March 2019 HK$'000
Others receivables	**22,396**	1,657
Prepayments	**5,534**	343
Interest receivables from loans to third parties	**3,825**	–
Less: allowance for impairment of other receivables	**(285)**	(297)
	31,470	1,703

Note: As at 31 December 2019, other receivables mainly included deposits and amounts due from independent third parties which were unsecured, interest free, receivable on demand and denominated in RMB. HK$18,246,000 of it was repaid to the Group in January 2020.

Financial Assets at Fair Value through Profit or Loss ("FVPL")

The Group adopted a prudent attitude in its securities investments. 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 value 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$5.06 million (FY2018/19: HK$0.86 million) including the unrealised gains on changes in fair value of HK$2.43 million (FY2018/19: gains of HK$1.22 million). The management invests in these shares expecting the price will be stable and gradually increase in line with the upward trend of the global financial market.

As at 31 December 2019 and 31 March 2019, the Group held the following financial assets at FVPL:

	Number of shares	31 December 2019 HK$'000	31 March 2019 HK$'000
Equity securities listed in Hong Kong			
CNG Power (01816)	5,250,000	**10,920**	11,498
Equity securities listed in the PRC			
Guangdong Liantai (聯泰環保 603797)	660,000	**8,289**	11,420
Other equity securities *(Note)*		**5,537**	5,675
		24,746	28,593

Note: Other listed equity securities comprised 4 equity securities listed in Hong Kong and the PRC.

Capital structure, liquidity and financial resources

As at 31 December 2019, the Group's total cash and restricted cash balances amounted to approximately HK$200.70 million (31 March 2019: HK$266.81 million) including restricted cash of HK$40.76 million (31 March 2019: HK$42.28 million) and cash and cash equivalent HK$159.94 million (31 March 2019: 224.52 million).

During the Reporting Period, the Group's net cash used in investing activities and financing activities amounted to approximately HK$15.19 million and HK$49.41 million respectively, and net cash generated from operating activities amounted to HK$14.54 million. The Group primarily uses cash inflows of operating activities to satisfy the requirement of working capital.

Borrowings and gearing ratio

The Group did not have any borrowings as at 31 December and 31 March 2019 and thus no gearing ratio was presented.

Exposure to fluctuation in exchange rate

The Group's transactions for our principal subsidiaries in the PRC were mainly conducted in Renminbi ("**RMB**"), the functional currency of the subsidiaries, and the major receivables and payables are also denominated in RMB.

The Group's exposure to foreign currency risk primarily related to certain cash and bank balances, financial assets at FVPL, trade receivables, other receivables and other payables and accruals denominated in HK$ and US dollar. Presently, the Group has no hedging policy with respect to the foreign exchange exposure.

Capital expenditure

During the Reporting Period, the Group's total capital expenditure amounted to approximately HK$11.67 million (FY2018/19: HK$19.64 million), which was used in the acquisition of property, plant and equipment, intangible assets and prepayments for non-current assets and right-of-use assets.

Charge on assets

As at 31 December 2019, the Group placed cash deposits of approximately HK$40.76 million with designated banks as collateral for Group's notes payable (31 March 2019: HK$42.28 million).

Contingent liabilities

The Group had no contingent liabilities as at 31 December 2019 (31 March 2019: Nil).

Capital commitments

As at 31 December 2019, the Group had capital commitments for the amount of approximately HK$14.26 million (31 March 2019: HK$1.51 million) for acquisition of property, plant and equipment.

HUMAN RESOURCES

As at 31 December 2019, the Group employed a total of 341 (31 March 2019: 351) permanent employees in the PRC and Hong Kong. Total employee remuneration (including directors' emoluments and benefits) in the Reporting Period amounted to HK$27.82 million (2018/19: HK$29.14 million). The Group provided its employees with competitive remuneration packages which were determined by their performance, qualification, experience and continued to review with reference to the level and composition of pay and general market condition. In addition to basic salary, employees are entitled to other benefits including social insurance contributions, employee provident fund schemes, and discretionary incentive and share option schemes.

FUTURE OUTLOOK AND PROSPECTS

Coupled with the plight brought about by the outbreak of COVID-19 brought challenges to all industries including the cigarette packaging material business. The Company's operating results for 2020 will inevitably be affected to a certain extent. The main problem encountered is the logistic of raw materials and finished goods. On the whole, cigarettes are a necessity for smokers. The management of the Company believes that the impact of the epidemic is temporary. After the epidemic, we expects the overall cigarette business will gradually recover to normal level. The Company will continue to follow closely to these extraordinary circumstances, stay cautious on the market. In the meanwhile, we will continue to improve our operational efficiency and internal control system, reinforce market knowledge and solid our relation with existing customers and also explore potential customers to strengthen our position in the market.

The progress of the environmental project has been affected to a certain extent because of the outbreak of COVID-19. The Group will take necessary steps to ensure minimal disruption to our operation, whilst safeguarding the health and wellbeing of our employees. In the future, we will actively participate in research and investigation of water ecological environment governance in the Guangdong Province especially in the Lianjiang and Shahe river basins to develop comprehensive water management and ecological restoration projects in the province. The company hopes that, with the support of strong technical background our Environmental Treatment Business will steadily move forward.

Looking forward, the epidemic has brought about additional uncertainties and risks in the Group's operating environment in China. The Group will put in place contingency measures to lower the impact from this outbreak. Management will take a decisive and positive approach to create more value for our Shareholders.

MATERIAL ACQUISITION AND DISPOSALS OF SUBSIDIARIES AND ASSOCIATED COMPANIES

The Group has no material acquisitions or disposals of subsidiaries and associated companies in the Reporting Period.

BIOGRAPHICAL DETAILS OF DIRECTORS AND SENIOR MANAGEMENT

EXECUTIVE DIRECTORS

Mr. ZHENG Andy Yi Sheng, aged 59, was appointed as a Director on 29 April 2013 and re-designated as an executive Director, chairman of the Board and chief executive officer and chairman on 24 July 2013. He is also the chairman of the nomination committee and corporate governance committee of the Company. Mr. Zheng is the founder of the Company and has over 20 years of experience in the packaging material industry. Since 1992, he has been the director of Shantou Xinda Packing Colour Printing & Packaging Material Company Limited ("**Shantou Xinda**") and became our chairman since 1997. Mr. Zheng was awarded a fellowship of Asian College of Knowledge Management in 2013. Mr. Zheng is the elder brother of Mr. Zheng Minsheng, an executive director of the Company.

Mr. ZHENG Minsheng, aged 56, was appointed as an executive Director on 24 July 2013 and is the deputy general manager of our Group. He is also a member of the corporate governance committee Mr. Zheng has over 20 years of experience in the packaging material industry. Since 1992, he has been a director and deputy general manager of Shantou Xinda and is responsible for procurement of raw materials, production management and quality control. Mr. Zheng is the younger brother of Mr. Zheng Andy Yi Sheng, an executive Director, chairman of the Board and chief executive officer of the Company.

NON-EXECUTIVE DIRECTOR

Mr. HAO Jiming, aged 74, was appointed as a non-executive Director on 15 April 2019. Mr. Hao graduated from Civil Engineering Department of Tsinghua University in 1970, majoring in water supply and sewage engineering. He obtained a master degree in engineering from Tsinghua University in 1981. In 1984, Mr. Hao obtained a doctorate degree in Civil and Environmental Engineering Department from the University of Cincinnati, the United States of America. Mr. Hao was elected as a member of the Chinese Academy of Engineering in 2005 and a foreign member of National Academy of Engineering of the United States America in 2018. Since 1970, Mr. Hao had been working at Tsinghua University as lecturer, professor and the dean of the Environment Science and Engineering Department in 1999. Mr. Hao has been an independent director of Keda Clean Energy Co., Ltd. (廣東科達潔能股份有限公司) (a company listed on the Shanghai Stock Exchange, stock code: 600499) since August 2015.

INDEPENDENT NON-EXECUTIVE DIRECTORS

Mr. LAU Kwok Hung, aged 73, was appointed as an independent non-executive Director on 24 July 2013. He is the chairman of the audit committee and remuneration committee of the Company and a member of the nomination committee and corporate governance committee of the Company. Mr. Lau is a fellow member of the Hong Kong Institute of Certified Public Accountants and formerly, was a fellow of the Association of Chartered Certified Accountants and an associate member of the Chartered Institute of Management Accountants. Mr. Lau holds a Senior Executive Master Degree in Business Administration from Charles Darwin University. He also obtained a Diploma in Insolvency issued by the Hong Kong Institute of Certified Public Accountants and an Executive Diploma in International Business Valuation issued by the School of Professional and Continuing Education of the University of Hong Kong He has extensive experience in financial accounting, auditing, taxation, company secretarial matter and corporate finance, especially in mergers, acquisitions and corporate restructuring. Mr. Lau is currently an independent non-executive director of Mayer Holdings Limited (stock code: 1116).

Mr. MA Wenming, aged 77, was appointed as an independent non-executive Director on 24 July 2013. He is the member of the audit committee and remuneration committee of the Company. Mr. Ma was the factory manager of Anyang Cigarette Factory (安陽捲煙廠) and was the division head (司長) of development and planning division (發展計劃司) of STMA. Mr. Ma was an independent director of Shenzhen Jinjia Color Printing Group Co., Ltd. (深圳勁嘉彩印集團股份有限公司), a company listed on the Shenzhen Stock Exchange with stock code 002191, from November 2006 to April 2008.

Mr. FOK Po Tin, aged 60, was appointed as an independent non-executive director on 24 July 2013. He is the member of the audit committee, remuneration committee and nomination committee of the Company. He holds a Bachelor's degree in Business Administration with houours from the Chinese University of Hong Kong and a Bachelor's degree in Laws from the Peiking University. He also completed the Common Professional Examination in HKU School of Professional and Continuing Education in 1992. He is a practicing solicitor of the High Court of Hong Kong and is the principal of Henry Fok & Company, Solicitors. Mr. Fok has over twenty years of extensive experience as a solicitor of general practice and is very familiar with commercial law.

SENIOR MANAGEMENT

Mr. HUANG Bongde, aged 57, joined the Group in December 2013, as the general manager of the Group. Mr. Huang holds a degree in Bachelor of Business Administration from University of Management & Technology (Virginia) and Executive Master of Business Administration (EMBA) from Sun Yat-sen University, Guangzhou. He has over twenty years in business management experience in several various well-known hotel management groups companies in the PRC.

Mr. LI Zhiyong, aged 58, is the deputy general manager of Shantou Xinda. Mr. Li has worked in the Group since September 1995 and is responsible for all marketing activities. Mr. Li graduated from Shantou Commercial Bureau Staff Amateur Secondary School.

Mr. LI Cancheng, aged 39, joined the Group in August 2006. He is the factory manager of Shantou Xinda. He is responsible for tipping paper processing, printing and packaging manufactory. Mr. Li has been a drawing designer in Shantou Zhaohua Electric Company Limited during the period between 1999 and 2006. Mr. Li completed a course in economic management in South China University of Technology in July 2005. Mr. Li has been awarded the qualification of intermediate economist in human resources by Ministry of Human Resources and Social Security of the People's Republic of China in January 2010.

Mr. TANG Jinhai, aged 46, joined the Group in July 2013 as the financial controller of Shantou Xinda. Mr. Tang was graduated from Huazhong Polytechnic University (now known as Huazhong University of Science & Technology) in 1996. Mr. Tang is a CICPA registered under Guangdong Provincial Institute of Certified Public Accountants and has over ten years of experience in assurance works and more than seven years in financial management.

Mr. YU Wing Cheung, aged 62, joined the Group in November 2013 as the company secretary, financial controller and authorized representative of the Company. Mr. Yu holds a Bachelor of Business Administration degree in Accountancy. He is a member of the Hong Kong Institute of Certified Public Accountants and has over 20 years of experience in accounting, financial management and company secretarial practice.

DIRECTORS' REPORT

The directors (the "**Directors**") of the Company submit herewith their report together with the audited consolidated financial statements of the Company and its subsidiaries for the nine months ended 31 December 2019.

PRINCIPAL ACTIVITIES

The principal business activity of the Company is investment holding. The principal activities and other particulars of the Company's subsidiaries are set out in note 14 to the consolidated financial statements.

RESULTS

The results of the Group for the nine months ended 31 December 2019 are set out in the consolidated statement of comprehensive income on pages 53 of this report.

DIVIDENDS

The Board has recommended to declare the Final Dividend of HK4.0 cents per ordinary share for the nine months ended 31 December 2019 (for the year ended 31 March 2019: HK3.0 cents per ordinary share) whose names appear on the Register of Members of the Company on 15 June 2020. The Final Dividend is subject to the approval of the Shareholders at the AGM of the Company and will be paid on 24 June 2020.

ANNUAL GENERAL MEETING AND CLOSURE OF REGISTER OF MEMBERS

The AGM is scheduled to be held on Friday, 29 May 2020. The register of members of the Company will be closed from Tuesday, 26 May 2020 to Friday, 29 May 2020, both days inclusive, for the purpose of identifying Shareholders who are entitled to attend the AGM, during which no transfer of Shares will be registered. In order to qualify for attending the AGM, all transfers of Shares accompanied by the relevant share certificates and transfer forms must be lodged with the Company's branch share registrar in Hong Kong, Computershare Hong Kong Investor Services Limited, at Shops 1712–1716, 17/F Hopewell Centre, 183 Queen's Road East, Wanchai, Hong Kong before 4:30 p.m. on Monday, 25 May 2020.

The record date for entitlement to the proposed Final Dividend is on Monday, 15 June 2020. In order to ascertain the entitlement to the proposed Final Dividend, the register of members of the Company will be closed from Thursday, 11 June 2020 to Monday, 15 June 2020 (both days inclusive) during which no transfer of shares will be registered. The last day for dealing in Shares cum entitlements to the proposed final dividend will be Monday, 8 June 2020. In order to qualify for the proposed Final Dividend, all transfers of shares accompanied by the relevant share certificates and transfer forms must be lodged with the Company's branch share registrar in Hong Kong, Computershare Hong Kong Investor Services Limited, at Shops 1712–1716, 17th Floor, Hopewell Centre, 183 Queen's Road East, Wan Chai, Hong Kong for registration no later than 4:30 p.m. on Wednesday, 10 June 2020.

BUSINESS REVIEW

A review of the business of the Group for the period and a discussion on the Group's future business development are set out in the Chairman's Statement as well as the Management Discussion and Analysis on pages 3 to 4 and pages 5 to 9 of this annual report.

MAJOR RISKS AND RISK MANAGEMENT

The following are the key risks that the Group considers to be of great significance to the Group in its current status. These risks may have adverse effect on the Group's business. The impact of risk relating to the business of the Group will change over time. The size, complexity and coverage of our business and the changing environment in which the Group operates also mean that the list cannot be an exhaustive list of all material risks that could affect the Group. The Group has been focusing on the control of risks and uncertainties with the aim of understanding and addressing the concerns of stakeholders.

Business Risk

The Group's business relies heavily in the PRC and faces business risks include economic and political risks, social environment, corporate responsibility and sustainability risks. The Board meets regularly and reviews the investment and expansion strategies, business plan, financial results, and key performance indicators of the Group to ensure that the business risks are controlled and managed, and potential risks can be identified.

Financial Risk

The Group has adopted financial risk management policies to control the Group's financial risk exposure, such as taxation risks, currency risks and financial reporting risks. Also, the Board monitors the financial results and key operating statistics with the assistance of the Group's finance department on a regular periodic basis.

Compliance Risk

The Group has adopted internal procedures to monitor the Group's compliance risk to ensure that the Group's compliance with the laws and regulations in regions which the Group conducts business. In addition, the Group from time to time engages consulting firms and professional advisers to keep the Group updated with the latest development in the regulatory environments.

Operational Risk

The Group has adopted procedures to manage its operational risk exposures, such as human resources risks and IT governance risks. The Group monitors the overall employee turnover rate, degree of satisfaction, and IT system status on a monthly basis, and adopts countermeasures if any risk indicators arise.

The Group also faces other financial risk in the ordinary course of business, such as market risk, foreign exchange risk, cash flow and fair value interest rate rick, price risk, credit risk and liquidity risk. Details of financial risk management are set out in note 3.1 to the consolidated financial statements.

COMPLIANCE WITH LAWS AND REGULATIONS

As an entity incorporated in the Cayman Islands and listed in Hong Kong, the Company is mainly governed by the Companies Law (2016 revision) of the Cayman Islands, the Companies Ordinance (Cap. 622), the Securities and Futures Ordinance (Cap. 571), the Rules Governing the Listing of Securities on The Stock Exchange of Hong Kong Limited (the "**Listing Rules**") on the corporate level. The Board has adopted the Model Code for Securities Transactions by Directors of Listed Issuers (the "**Model Code**") as set out in Appendix 10 of the Listing Rules, and each of its committee has its own term of reference defining their respective rights, duties and obligation. During the year under review, to the best of the Directors' knowledge, there is no material breach of or non-compliance with applicable laws and regulations by the Group.

FIVE-YEARS FINANCIAL SUMMARY

A summary of the results and assets and liabilities of the Group for the last five financial years/period is set out on page 114 of this report. This summary does not form part of the consolidated financial statements.

PROPERTY, PLANT AND EQUIPMENT

Details of movements in property, plant and equipment of the Group during the period are set out in note 15 to the consolidated financial statements.

BANK BORROWINGS

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

SUBSIDIARIES

The details of the Company's principal subsidiaries as at 31 December 2019 are set out in note 14 to the consolidated financial statements.

SHARE CAPITAL

The details of movements in the Company's share capital during the period are set out in note 26 to the consolidated financial statements.

PRE-EMPTIVE RIGHTS

There are no provisions for pre-emptive rights under the Company's articles of association or the laws of Cayman Islands.

PURCHASE, REDEMPTION OR SALE OF LISTED SECURITIES OF THE COMPANY

Neither the Company, nor any of its subsidiaries purchased, redeemed or sold any of the Company's listed securities during the Period.

RESERVES

As at 31 December 2019, profit attributable to owners of the Company before dividends amounted to approximately HK$177.07 million (31 March 2019: approximately HK$175.76 million). The details of the movements during the Period in the reserves of the Company are set out in note 34 to the consolidated financial statements.

MAJOR CUSTOMERS AND SUPPLIERS

For the nine months ended 31 December 2019, the aggregate revenue attributable to the Group's five largest customers accounted for approximately 97% (FY2018/19: 95%) and the largest customer accounted for approximately 46% (FY2018/19: 56%) of the Group's total revenue. The aggregate purchases attributable to the Group's five largest suppliers accounted for approximately 53% (FY2018/19: 58%) and the largest suppliers accounted for approximately 18% (FY2018/19: 15%) of the Group's total purchases.

At no time during the Period have the Directors, their associates or any shareholders who to the knowledge of the Directors own more than 5% of the issued share capital of the Company, had any interest in these major customers and suppliers.

CONNECTED AND RELATED PARTY TRANSACTIONS

Material related party transactions entered into by the Group during the nine months ended 31 December 2019, which do not constitute connected transactions under the Rules Governing the Listing of Securities on The Stock Exchange of Hong Kong Limited (the "**Listing Rules**") are disclosed in the note 32 to the consolidated financial statements.

DIRECTORS

Composition

The Directors during the nine months ended 31 December 2019 and up to the date of this report were/are:

Executive Directors

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

Non-executive Director

Mr. Hao Jiming

Independent non-executive Directors

Mr. Lau Kwok Hung
Mr. Fok Po Tin
Mr. Ma Wenming

Biographical details of the Directors are set out on pages 10 to 11 of this annual report.

Pursuant to Article 108(a) of the Articles of the Association of the Company, Mr. Zheng Andy Yi Sheng and Mr. Fok Po Tin shall retire by rotation at the AGM and, being eligible, offer themselves for re-election.

DIRECTORS' SERVICE CONTRACTS

Each of our executive Director has entered into a service agreement with our Company for an initial term of three years commencing from the 6 December 2019 subject to the early termination provisions contained therein.

Our non-executive Director has signed an appointment letter with our Company for an initial term of three years commencing from 15 April 2019 subject to the early termination provisions contained therein.

Each of our independent non-executive Directors has signed an appointment letter with our Company for an initial term of three years commencing from 6 December 2019 subject to the early termination provisions contained therein.

DIRECTORS' INTEREST IN CONTRACTS

No director had a significant beneficial interest, either directly or indirectly, in any contract of significance to the business of the Group to which the Company or any of its subsidiaries was a party during the Period.

MANAGEMENT CONTRACTS

No contracts concerning the management and administration of the whole or any substantial part of the business of the Company were entered into or existing during the Period.

DIRECTORS' INTEREST IN COMPETING BUSINESS

During the Period, to the best knowledge of the Directors, none of the Directors and their respective associates was considered to have any interest in any business that competes with or is likely compete with the business of the Group, as defined in the Listing Rules.

The controlling shareholders (as defined in the Listing Rules) have confirmed to the Company of their compliance with the non-competition undertakings provided to the Company under a deed of non-competition dated 14 November 2013 (the "**Deed of Non-competition**").

The independent non-executive Directors have reviewed the compliance with the Deed of Non-competition by the controlling shareholders and confirmed that up to the date of this report, the Deed of Non-competition is fully complied with and duly enforced.

REMUNERATION OF DIRECTORS AND FIVE INDIVIDUALS WITH HIGHEST EMOLUMENTS

Particulars of the Directors' remuneration and five individuals with highest emoluments are set out in note 8 to the consolidated financial statements.

RETIREMENT SCHEME

The Group participates in a state-managed retirement scheme operated by the PRC Government which covers the Group eligible employees in the PRC and operates a Mandatory Provident Fund under the Hong Kong Mandatory Provident Fund Schemes Ordinance for the employees under the jurisdiction of the Hong Kong Employment Ordinance.

CONFIRMATION OF INDEPENDENCE BY INDEPENDENT NON-EXECUTIVE DIRECTORS

The Company has received, from each of the independent non-executive directors, an annual confirmation of his independence to Rules 3.13 of the Listing Rules. The Company considers that all of the independent non-executive directors are independent.

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 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.

Set out below are the outstanding share options under the Scheme as at 31 December 2019

Category of grantees	Outstanding at 1 April 2018	Number of options granted	Number of options exercised	Number of options lapsed	Outstanding at 31 December 2019	Date of grant	Exercise period	Exercise price HK$ per share
Directors								
Mr. Zheng Minsheng	1,200,000	–	–	–	1,200,000	15 January 2015	15 January 2016 to 14 January 2020	1.29
Mr. Lau Kwok Hung	400,000	–	–	–	400,000	15 January 2015	15 January 2016 to 14 January 2020	1.29
Mr. Ma Wenming	400,000	–	–	–	400,000	15 January 2015	15 January 2016 to 14 January 2020	1.29
Mr. Fok Po Tin	400,000	–	–	–	400,000	15 January 2015	15 January 2016 to 14 January 2020	1.29
Total — Directors	2,400,000	–	–	–	2,400,000			
Employees	33,340,000	–	–	560,000	32,780,000	15 January 2015	15 January 2016 to 14 January 2020	1.29
Consultants	8,000,000	–	–	–	8,000,000	15 January 2015	15 January 2016 to 14 January 2020	1.29
Total	43,740,000	–	–	560,000	43,180,000			

DIRECTORS' AND CHIEF EXECUTIVE'S INTERESTS AND SHORT POSITIONS IN THE SHARES, UNDERLYING SHARES AND DEBENTURES

As at 31 December 2019, the interests and short positions of the Directors and chief executive of the Company in the shares, underlying shares and debentures of the Company or any of its associated corporations (within the meaning of Part XV of the Securities and Futures Ordinance ("**SFO**")), required to be kept and recorded in the register maintained by the Company pursuant to Section 352 of the SFO or as otherwise notified to the Company and the Stock Exchange pursuant to the Model Code were as follows:

Long positions in ordinary shares and underlying shares of the Company

Name of Directors	Capacity/ Nature of interest *(Note (i))*	Number of ordinary shares held *(Note (i))*	Number of underlying shares held *(Note (ii))*	Total	Issued share capital *(Note (iii))*
Mr. Zheng Andy Yi Sheng	Interest in a controlled corporation	450,000,000	–	450,000,000	64.83%
Mr. Zheng Minsheng	Beneficial owner	–	1,200,000	1,200,000	0.17%
Mr. Lau Kwok Hung	Beneficial owner	–	400,000	400,000	0.06%
Mr. Ma Wenming	Beneficial owner	–	400,000	400,000	0.06%
Mr. Fok Po Tin	Beneficial owner	–	400,000	400,000	0.06%

Notes:

(i) These 450,000,000 Shares are beneficially owned by SXD Limited and the entire issued share capital of SXD Limited was legally and beneficially owned by Mr. Zheng Andy Yi Sheng.

(ii) All Directors' interest in the underlying shares of the Company were the share options granted by the Company on 25 January 2015. Details of which are set out under the section headed "Share Option Scheme" above.

(iii) The approximate percentage of interests held was calculated on the basis of 694,080,000 ordinary shares of the Company in issue.

Save as disclosed above, as at 31 December 2019, none of the Directors or chief executive or their associates had any interests or short position in any shares, underlying shares or debentures of the Company, subsidiaries or any of its associated corporations (within the meaning of Part XV of the SFO), as recorded in the register required to be kept by the Company under Section 352 of the SFO or as otherwise notified to the Company and the Stock Exchange pursuant to the Model Code.

SUBSTANTIAL SHAREHOLDERS' INTERESTS AND SHORT POSITIONS IN SHARES, UNDERLYING SHARES AND DEBENTURE

At 31 December 2019, to the best knowledge of the Directors, the following persons had interests or short positions in the shares or underlying shares of the Company which fall to be disclosed to the Company under the provisions of Divisions 2 and 3 of Part XV of the SFO as recorded in the register of the Company required to be kept under section 336 of the SFO:

Long positions:

Name of shareholders	*Notes*	Capacity/Nature of interests	Number of ordinary shares held	Issued share capital *(Note (iii))*
SXD Limited	*(i)*	Beneficially owned	450,000,000	64.83%
Mr. Zheng Andy Yi Sheng	*(i)*	Interest in a controlled corporation	450,000,000	64.83%
Ms. Chan Annie Ni	*(ii)*	Interest of spouse	450,000,000	64.83%

Notes:

(i) The entire issued share capital of SXD Limited was legally and beneficially owned by Mr. Zheng Andy Yi Sheng.

(ii) Ms. Chen Annie Ni is the spouse of Mr. Zheng Andy Yi Sheng and was accordingly deemed to have an interest in the shares of SXD Limited.

(iii) The approximate percentage of interests held was calculated on the basis of 694,080,000 ordinary shares of the Company in issue.

Save as disclosed above, the Company had not been notified by any other persons (other than Directors or chief executives of the Company) who had interests or short positions in the shares or underlying shares of the Company which are required to be disclosed to the Company under the provisions of Divisions 2 and 3 of Part XV of the SFO, or which were entered in the register kept by the Company pursuant to section 336 of the SFO as at 31 December 2019.

SUFFICIENCY OF PUBLIC FLOAT

Based on the information that is publicly available to the Company and as far as the Directors are aware, the Company has maintained at least 25% of public float as at the latest practicable date prior to the issue of this annual report.

MATERIAL LITIGATION

The Company was not involved in any material litigation or arbitration during nine months ended 31 December 2019. The Directors are also not aware of any material litigation or claims that are pending or threatened against the Group during the nine months ended 31 December 2019.

CORPORATE GOVERNANCE PRACTICES

The Company has complied with the Code on Corporate Governance Practices (the "**Code**") contained in Appendix 14 of the Listing Rules throughout the year except under the Code Provision A.2.1, A.6.7 and C.1.2 The full details of corporate governance practices adopted by the Company during the nine months ended 31 December 2019, or where applicable, up to the date of this report, are set out on pages 21 to 28 of this report.

AUDITOR

The consolidated financial statements for the nine months ended 31 December 2019 were audited by PricewaterhouseCoopers who retire and, being eligible, shall offer themselves for reappointment at the forthcoming AGM.

On Behalf of the Board
Zheng Andy Yi Sheng
Chairman and Executive Director

Hong Kong, 27 March 2020

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 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 Board of Directors

The Board currently comprises two executive Directors, namely Mr. Zheng Andy Yi Sheng and Mr. Zheng Minsheng; one non-executive Director, namely Mr. Hao Jiming; and three independent non-executive Directors, namely, Mr. Lau Kwok Hung, Mr. Fok Po Tin and Mr. Ma Wenming.

The Directors have bought a balance of valuable and diversified business and professional expertise, experiences and independent judgement to the Board for its sufficient and effective management of the Company's business.

The biographical details of the Directors are set out in the section headed "Biographical details of directors and senior management" in this report which demonstrate a diversity of skills, experience and qualification.

Roles and Responsibilities of the Board

The Board is responsible for the leadership and control of the Company and oversees the Group's businesses, strategic decisions and performances and is collectively responsible for promoting the success of the Company by directing and supervising its affairs. In practice, the Board takes responsibility for decision making in all major matters of the Company including: the approval and monitoring of all policy matters, the setting of objectives, annual budgets and overall strategies, material transactions (in particular those which may involve conflict of interests), appointment of directors and other significant financial and operational matters. The day-to-day management, administration and operation of the Company are delegated to the senior executives. These responsibilities include the implementation of decisions of the Board, the co-ordination and direction of day-to-day operation and management of the Company in accordance with the management strategies and plans approved by the Board. Approval has to be obtained from the Board prior to any significant transactions entered into by these senior executives and the Board has the full support of them to discharge its responsibilities.

All directors have full and timely access to all relevant information as well as the advice and services of the professional advisers, as and when required, with a view to ensuring that Board procedures and all applicable rules and regulations are followed.

The Company has arranged appropriate liability insurance for the Directors and the senior management of the Group to indemnify their liabilities arising out of corporate activities. The insurance coverage is reviewed on an annual basis.

The Chairman and Chief Executive Officer, Zheng Andy Yi Sheng, is responsible for setting the overall business strategies and management and ensuring the Board is functioning properly. He is also responsible for managing the Group's business, including implementing the Group's strategies, making day-to-day decisions.

The deputy general manager, Mr. Zheng Minsheng, is responsible for managing business operation, including procurement, production management, quality control. The independent non-executive directors are independent of the management of the Group's business. They are professionals with substantial experience in accounting, banking, financial management, legal and business. The mix of skills and business experience is a major contribution to the future development of the Company. They ensure the Company maintains a high standard of financial and legal reporting and provide checks and balances to safeguard the interests of the shareholders.

Board Diversity

During the Period, the Company adopted a Board Diversity Policy (the "**Policy**") which sets out the approach to diversify the Board. The Company seeks to achieve Board diversity through the consideration of a number of factors, including but not limited to gender, age, cultural and educational background, professional and industry experience, skills, knowledge, and any other factors that the Board might consider relevant and applicable.

The Nomination Committee has set the measurable objectives based on gender, age, cultural and educational background, professional experience and skills and knowledge for the implementation of Board diversity of the Company. The Nomination Committee and the Board will review the Policy, as appropriate, to ensure its continued effectiveness from time to time.

Having reviewed the Policy and taken into account the measurable objectives, the Nomination Committee and the Board considered that the Board's composition has complied with the requirement of the Policy during the Period.

Relationship amongst Directors

Mr. Zheng Minsheng is the younger brother of Mr. Zheng Andy Yi Sheng.

Save as aforesaid, the Board members do not have any financial, business, family or other material and/or relevant relationship with each other.

Non-executive Directors and Independent Non-executive Directors

The Company has received from each of the independent non-executive Directors an annual confirmation of independence pursuant to Rule 3.13 of the Listing Rules and considered all the independent non-executive Directors to be independent. One of the independent non-executive directors possesses appropriate professional qualifications or accounting or related financial management expertise as required under the Listing Rules.

Professional Development of the Directors

In compliance with the code provision A.6.5 of the CG Code, all Directors should participate in continuous professional development (the "**CPD**") to develop and refresh their knowledge and skills. Upon appointment to the Board, Directors receive an induction package covering the general understanding of the Group and its businesses and operations. Meetings are also arranged with the Company's external legal adviser on directors' legal role and responsibilities. The Directors were kept informed on a timely basis of major changes on the relevant laws, rules and regulations.

The Directors are encouraged to participate in CPD to develop and refresh their knowledge and skills for discharging their duties and responsibilities as Directors. The records of the Directors participated in the continuous professional development programs during the Period are as follows:

Name of Director	Attending training courses, seminars of conference	Reading materials or updates
Mr. Zheng Andy Yi Sheng		✓
Mr. Zheng Minsheng		✓
Mr. Hao Jiming	✓	✓
Mr. Lau Kwok Hung	✓	✓
Mr. Fok Po Tin	✓	✓
Mr. Ma Wenming		✓

BOARD MEETINGS

The Board normally has four regular meetings a year and meets as and when required to discuss the overall business, development strategy, operations and financial reporting of the Company. The Directors can attend meetings in person or through other means of electronic communication in accordance with the Company's articles of association. During the nine months ended 31 December 2019, eight Board meetings and one general meeting were held.

The attendance of each Director at the Company's general meetings and regular Board meetings held during the nine months ended 31 December 2019 was as follows:

	Meeting attended/held	
Name of Director	**Regular Board Meeting**	**Annual General Meeting**
Mr. Zheng Andy Yi Sheng	8/8	1/1
Mr. Zheng Minsheng	7/8	1/1
Mr. Ha Jiming (Appointed on 15 April 2019)	1/7	0/1
Mr. Lau Kwok Hung	8/8	1/1
Mr. Ma Wenming	2/7	0/1
Mr. Fok Po Tin	4/8	1/1

BOARD COMMITTEES

The Board has delegated various responsibilities to the Board committees including the audit committee (the "**Audit Committee**"), the remuneration committee (the "**Remuneration Committee**"), and the nomination committee (the "**Nomination Committee**") and the corporate governance committee (the "**CG Committee**") (collectively, the "**Board Committees**") to oversee particular aspects of the Company's affairs. All committees are established with defined written terms of reference setting out their respective authorities and duties, which are available on the Company's website. The committees are provided with sufficient resources to discharge their duties and, upon reasonable request, are able to seek independent professional advice in appropriate circumstances, at the Company's expenses.

Audit Committee

The Audit Committee is currently chaired by Mr. Lau Kwok Hung, with Mr. Ma Wenming and Mr. Fok Po Tin as members. All of them are independent non-executive directors who possess the relevant qualifications, experiences and skills to contribute to the financial, governance, internal controls and risk management of the Company.

The main duties of the Audit Committee include reviewing the financial statements and reports and considering any significant or unusual financial items; overseeing the relationship between the Company and the external auditors; and reviewing the adequacy and effectiveness of the Company's internal control. Details of the authority and duties of the Audit Committee are on the Company's website.

During the nine months ended 31 December 2019, the Audit Committee held two meetings, inter alia, to review the annual results for the financial year ended 31 March 2019 and the interim results for the six months ended 30 September 2019 of the Group and to review the Group's internal control system including the adequacy of resources, qualifications and experience of staff of the Company's accounting and financial reporting function. During nine months ended 31 December 2019, the Audit Committee met the external auditor once without the presence of the management to discuss any areas of concerns.

Members and their attendance are as follows:

Name of Directors	Meeting Attendance/held
Mr. Lau Kwok Hung *(Chairman)*	2/2
Mr. Ma Wenming	1/2
Mr. Fok Po Tin	2/2

Remuneration Committee

The Remuneration Committee is currently chaired by Mr. Lau Kwok Hung, with Mr. Ma Wenming and Mr. Fok Po Tin as members. All of them are independent non-executive Directors. The Remuneration Committee is mainly responsible for making recommendations on and approving the remuneration policy and structure and remuneration packages of the Executive Directors and the senior management of the Group. Details of the authority and duties of the Remuneration Committee are available on the Company's website.

During the nine months ended 31 December 2019, the Remuneration Committee convened one meeting to review the remuneration package of the Directors and senior management.

Members and their attendance are as follows:

Name of Directors	Meeting Attendance/held
Mr. Lau Kwok Hung *(Chairman)*	1/1
Mr. Ma Wenming	0/1
Mr. Fok Po Tin	1/1

Nomination Committee

The Nomination Committee is currently chaired by Mr. Zheng Andy Yi Sheng, the chairman of the Board, with two independent non-executive Directors, Mr. Lau Kwok Hung and Mr. Fok Po Tin as members.

The Nomination Committee is responsible for, amongst other things, identifying individuals suitably qualified to become Board members, considering the re-appointment of Directors, reviewing the Board's diversity policy and relevant implementation of the diversity policy, and making recommendations to the Board in respect of the aforesaid matters. Details of the authority and duties of the Nomination Committee are available on the Company's website.

During the nine months ended 31 December 2019, the Nomination Committee convened one meeting to review the structure, size, composition and diversity of the Board and to consider, nominate and recommend re-appointment of Directors.

Members and their attendance are as follows:

Name of Directors	Meeting Attendance/held
Mr. Zheng Andy Yi Sheng *(Chairman)*	1/1
Mr. Lau Kwok Hung	1/1
Mr. Fok Po Tin	1/1

Corporate Governance Committee

The CG Committee is currently chaired by Mr. Zheng Andy Yi Sheng, the chairman of the Board, with the executive Director Mr. Zheng Minsheng and the independent non-executive Director, Mr. Lau Kwok Hung as members.

The CG Committee is responsible for, amongst other things, to evaluate and review the Company's policies and practices on corporate governance and make recommendation to the Board; review and monitor the training and continuous professional development of Directors and senior management; and monitor the Company's policies and practices on compliance with legal and regulatory requirement on corporate governance matters of our Group. Details of the authority and duties of the CG Committee are available on the Company's website.

During the nine months ended 31 December 2019, the CG Committee convened one meeting to review the structure, size, composition and diversity of the Board and to consider, nominate and recommend re-appointment of Directors.

Members and their attendance are as follows:

Name of Directors	Meeting Attendance/held
Mr. Zheng Andy Yi Sheng *(Chairman)*	1/1
Mr. Zheng Minsheng	1/1
Mr. Lau Kwok Hung	1/1

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 nine months ended 31 December 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.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, a non-executive director and an independent non-executive director were unable general meetings of the Company as he was out of town for other engagement.

Code Provision C.1.2

Pursuant to 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 periodically 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, in a timely manner, 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.

MODEL CODE FOR SECURITIES TRANSACTIONS

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 nine months ended 31 December 2019.

ACCOUNTABILITY AND AUDIT

Directors' responsibility for the financial statements

The Directors acknowledge their responsibilities to prepare consolidated financial statements for each half and full financial year/period which give a true and fair view of the state of affairs of the Group and that of the results and cash flows in the relevant financial year/period. In preparing the financial statements for the nine months ended 31 December 2019, the Directors have selected appropriate accounting policies, applied them consistently in accordance with appropriate Hong Kong Financial Reporting Standards, Hong Kong Accounting Standards and the related interpretations, and made adjustments and estimates are prudent and reasonable. The Directors' responsibilities for preparing consolidated financial statements are set out in the Independent Auditor's Report on pages 48 to 52. The Directors, having made appropriate enquiries, consider that the Group has adequate resources to continue its operational existence for the foreseeable future and thus it is appropriate to adopt the going concern basis in preparing the consolidated financial statements.

Auditor's remuneration

The Audit Committee has been notified of the nature and service charges of the non-audit services performed by PricewaterhouseCoopers and considered that such services have no adverse effect on the independence of their audit works. A summary of audit and non-audit services provided by PricewaterhouseCoopers for the Reporting Period and their corresponding remuneration is as follows:

Nature of services	Amount HK$ '000
Audit service for the nine months ended 31 December 2019	1,582
Others (including services related to interim results, review of preliminary announcement of annual results and other non-audit services)	203

RISK MANAGEMENT AND INTERNAL CONTROL

The Board, recognising its overall responsibility in ensuring the risk management and internal control systems of the Group and reviewing its effectiveness, is committed to implementing an effective and sound risk management and internal control systems to safeguard the interests of the shareholders and the assets of the Group.

The Group has an established internal control structure and is committed to evaluating, enhancing and maintaining the structure to ensure effective control over the Group's business operations and to safeguard the value and security of the Group's assets. There is a clearly defined operating structure with lines of responsibilities and delegated authority in place to assist the Board to maintain a proper control environment. An organisation structure with clearly defined lines of responsibility, authority and accountability. Procedures have been designed to (i) safeguard assets from inappropriate use; (ii) maintain proper accounting records; (iii) ensure compliance with applicable laws, rules and regulations; and (iv) manage the risk of failure to achieve business objectives.

The risk management and internal control systems of the Group provide a reasonable, but not absolute, assurance that material misstatement of the financial statements are prevented, potential interruption of the Group's management system is detected, and risks existing in the course of arriving at the Group's objectives are properly managed. It could only manage, rather than eliminate, all risks of material misstatement, errors, loss or fraud.

Apart from the regular reviews by the Compliance and Risk Management Department, there is an annual compliance review conducted over the Group's internal control systems in order to assist the Board in reviewing the effectiveness of the internal control systems. The reviews, normally performs once a year, have covered all material controls, including financial, operational and compliance controls and risk management functions of the Group. Relevant reports were presented to and reviewed by the Board and the Audit Committee. Based on the results of internal audit reviews and the assessment thereon, no significant irregularities or deficiency in the risk management and internal control systems were drawn to the attention of the Audit Committee and the Board, but appropriate recommendations for further enhancing the internal control systems have been taken. The Board therefore considers that the Company has maintained appropriate and effective risk management and internal control systems.

DIVIDEND POLICY

The Company's dividend policy enunciated at the time of initial public offering in 2013 is that it will pay not less than 35% of any net consolidated distributable profit to the Shareholders as dividend. The Board has no present intention to change the policy. However, the declaration, payment and amount of dividends will be subject to the Board's discretion and will consider a number of factors, including but not limited to:

(i) the actual and expected financial performance of the Group;

(ii) the retained earnings and distributable reserves of the Company;

(iii) the liquidity positions of the Group;

(iv) the future cash requirements and availability of the Group, including its expected working capital requirements, capital expenditure requirements and future expansion plans; and

(v) any other factor that the Board may consider appropriate.

The Board will review the dividend policy on a regular basis.

SIGNIFICANT CHANGES IN CONSTITUTIONAL DOCUMENTS

There had been no significant changes in the constitutional documents of the Company during the nine months ended 31 December 2019.

COMPANY SECRETARY

The company secretary of the Company is Mr. Yu Wing Cheung who is a full time employee of the Company. He reports to the Chairman of the Board and the Chief Executive Officer and is responsible for advising the Board on compliance matters directly reports to the Board. Minutes of all meetings of the Board and the Committees, recording sufficient details of matters considered and decisions reached, are kept by the company secretary, and are open for inspection by the Directors upon request. For the nine months ended 31 December 2019, Mr. Yu confirmed that he has taken no less than 15 hours of relevant professional training.

SHAREHOLDERS

Communications with Shareholders

The Board recognizes the importance of continuing communications with the Shareholders and investors, and maintains ongoing dialogues with them through various channels. The formal communication channels between the Company and the Shareholders are announcements, circulars, press releases and interim and annual reports. All Shareholders' communications are available on the Company's website. An up-to-date consolidated version of the Articles of Association is available on the websites of the Company and the Stock Exchange.

Shareholders are encouraged to participate in annual general meetings and other general meetings of the Company which provide a useful forum for the Shareholders to exchange views with the Board. The Board members and management of the Company are available to answer Shareholders' questions and explain the procedures for demanding and conducting a poll, if necessary.

Shareholders' rights

To safeguard shareholders' interests and rights, separate resolutions are proposed at shareholders' meetings on each substantial issue, including the election of individual Directors, for shareholders' consideration and voting. Besides, pursuant to the Company's Articles of Association, shareholder(s) holding not less than 10% of the paid-up capital of the Company carrying the right of voting at general meetings may request the Company to convene an extraordinary general meeting by sending a written requisition to the Board or the Company Secretary. The objects of the meeting must be stated in the written requisition.

For the avoidance of doubt, shareholders must deposit and send the original duly signed written requisition, notice or statement, or enquiry (as the case may be) to the above address and provide their full name, contact details and identification in order to give effect thereto. Shareholders' information may be disclosed as required by law.

An up to date version of the Articles of Association is available on the Company's website and the Stock Exchange's website. Shareholders may refer to the Company's Articles of Association for further details of their rights.

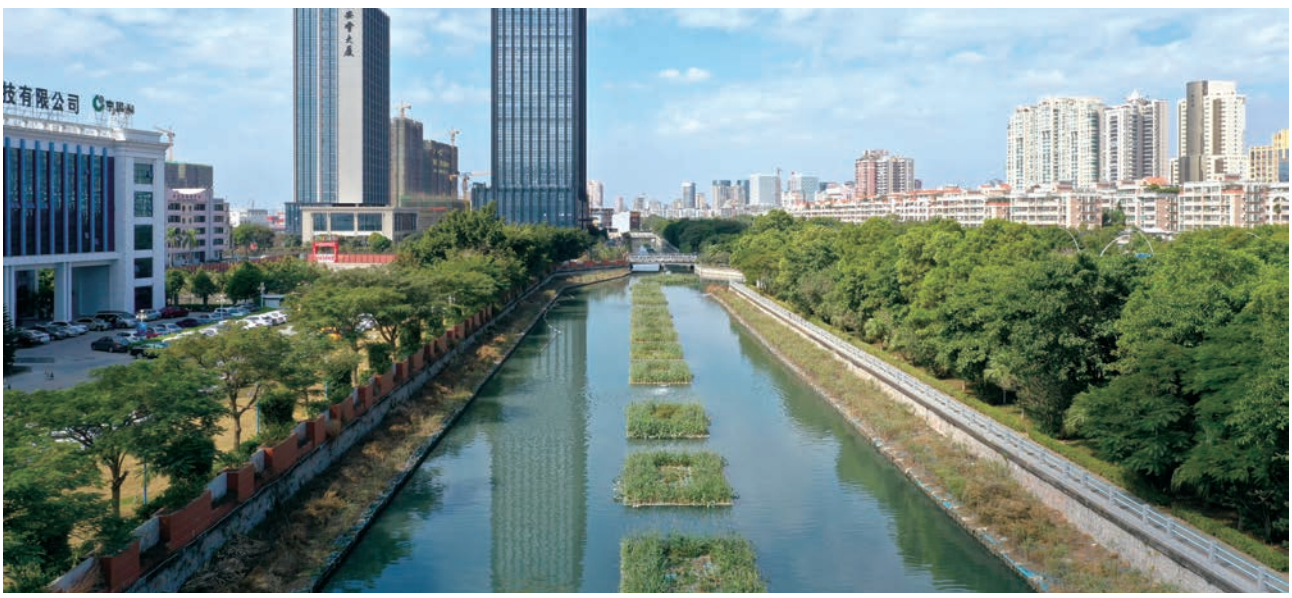
All resolutions put forward at shareholders' meetings will be voted by poll pursuant to the Listing Rules and the poll voting results will be posted on the websites of the Stock Exchange (www.hkexnews.hk) and the Company (www.huaxihds.com.hk) immediately after the relevant general meetings.

OUR COMMITMENTS AND POLICIES ON ENVIRONMENTAL PROTECTION, SOCIAL RESPONSIBILITY AND INTERNAL CONTROL

Huaxi Holdings Company Limited (the "**Company**") and its subsidiaries (collectively referred to as the "**Group**" or "**we**") are well aware of the importance of effective environmental, social and governance ("**ESG**") initiatives at the operational level. The direction of the Company's ESG work is regulated by the board of directors of the Company (the "**Board**") to ensure that the environmental, social and governance strategies reflect the Company's core values. While the Board and the management work together to improve the value and performance of the Company, they also assume responsibility for assessing and identifying risks associated with environmental, social and governance matters, and ensuring that relevant risk management and internal control systems operate properly and effectively.

MISSION

Being committed to our business development, the Group places an emphasis on the level of environmental protection to our business operations, while striving to meet the sustainability requirements over the course of pursuing premium quality in both our products and services. By incorporating the standards and requirements of the environmental philosophy, environmental management, and community contribution to our operation and development, the Group strives to strengthen and apply environmental technologies to our actual production activities, and focuses on collaboration with professional organizations and institutions at home and abroad, all of which ensure our business development is in compliance with the regulations and requirements of the jurisdiction where our business operates with regard to environmental and sustainable development.



ABOUT THIS REPORT

This report contains information in relation to the Company's management policies and strategies of environmental, social and governance during the nine-month period from 1 April 2019 to 31 December 2019 (the "**Reporting Period**"), details of which are set out in the relevant sections of this report.

This report is prepared in accordance with the Environmental, Social and Governance Reporting Guide set out in Appendix 27 of the Rules Governing the Listing of Securities on the Stock Exchange of Hong Kong Limited, among which, the section with regard to corporate governance is included in the Corporate Governance Report on Pages 21 to 28 of this report. Data as disclosed in this report is derived from the in-house statistics and analysis of the Group.

Internal control and formal review procedures had been laid down by the Group to maximise the accuracy and reliability of information presented in this report. The Board of the Company is fully responsible for the development and disclosure of relevant measures and key performance indicators. The Board has reviewed and approved this report in 27 March 2020 to ensure that this report covers the environmental and social issues that are significant to the Group.

CORPORATE OVERVIEW

The Company's principal business is carried out through the two wholly-owned subsidiaries in Shantou City, Guangdong Province: Shantou Xinda Colour Printing & Packaging Material Co. Ltd. ("**Xinda Colour Printing**"), which engages in manufacturing and sales of cigarette-related packaging materials, and Shantou Hongdong Environmental Treatment Company ("**Hongdong Treatment**"), which engages in environmental and river course treatment business.

STAKEHOLDERS AND MATERIALITY ASSESSMENT

The Group continues to establish a diversified communication channel with stakeholders (including shareholders, customers, employees, suppliers, regulators and the public) to safeguard their interests and ensure the achievement of long-term corporate development objectives by maintaining a close relationship.

The stakeholder groups, their expectations and their communication channels with the Company are as follows:

Stakeholder	Expectation	Contact and Communication
Shareholder	Effective management and operational model	General meeting
	Sound internal financial management procedures	Appointment of international-branded audit firms as the auditors of the Group
	Efficient operating cost and risk control capability	Results briefing
	Timely and accurate disclosure of important corporate information	Investor conference
	Sustainable and steady growth of corporate business	Regular and timely announcement and report
	Sustainable and steady growth of stock price and dividend	Disclosure of major investment (project)
		Publication and communication via corporate website
Employee	Stable work cycle	Employee representative meeting and conference
	Competitive salary	Signing labour contracts and purchasing social insurance and commercial insurance
	Ambitious development platform	Paying housing provident fund for employees
	High standard working environment	Targeted capacity training and development mechanism
	Harmonious working atmosphere	Provision of a safe and certified working environment
	Comprehensive employee benefits	Festival care and activities for employees
	Occupational health protection	Regular employee medical examination
		Work clothes and protective measures
Customer	Quality products and services	Entering into agreements with customers
	Clear service standards	Maintaining good communication with customers
	Strict compliance with terms of contracts with customer	Building a strict quality traceability mechanism
	Stringent customer rights protection	Establishing corporate brand guarantee

Stakeholder	Expectation	Contact and Communication
Government and Regulatory Authorities	Local laws and regulations compliance	Compliance with laws and supervision
	Obliging supervision and inspection measures Timely reporting Paying taxes levied as required Corruption-free business behaviour Bearing the social responsibility of a Hong Kong listed company	Proactive payment of tax payable Participating relevant meetings and seminars
Supplier	Long-term stable partnership	Supplier periodic assessment and data enhancement
	Guaranteed stable payment	Purchasing price inquiry and comparison system
	Promoting industry development and communication	Code of integrity cooperation
		Participating industry association related activities Collaboration with universities and advanced research institutions
Community and Public	Organizing and participating in community improvement activities Promoting long-term social development Charity	Tree-planting and emission reduction

After communicating with stakeholders and based on an overall assessment of the relevance/importance to the Company, we have identified the following issues as significant to the Group:

A. ENVIRONMENT

A1: Emissions

The Company is in strict compliance with laws and regulations in relation to environmental protection and pollution control:

"Emission Standard of Volatile Organic Compounds for Printing Industry" (印刷行業揮發性有機化合物排放標準) (DB44/815-2010) in Guangdong Province — Table 2 limit of average emission from printing in the second time period.

Corporate wastewater discharge standards

— "Integrated Wastewater Discharge Standards (污水綜合排放標準) GB8978-1996)" in the PRC and "Water Pollutant Discharge Standards (水污染物排放標準) DB44/26)" in Guangdong Province

Corporate exhaust gas emission standards

— "Integrated Emission Standards of Air Pollutants (大氣污染物綜合排放標準GB16297-1996)" in the PRC and "Emission Standards of Air Pollutants (大氣污染物排放標準) DB44/27" in Guangdong Province
— "Emission Standard of Volatile Organic Compounds for Printing Industry" (印刷行業揮發性有機化合物排放標準) (DB44/815-2010) in Guangdong Province — Table 2 limit of average emission from printing in the second time period

Corporate noise emission standards

— Class III regional standards applicable to industrial areas under the "Standard of Noise at Boundary of Industrial Enterprises (工業企業廠界噪音標準) GB12348-90" in the PRC
— Class IV regional standards applicable to the areas on both sides of the inland waterway flowing through cities under the "Standard of Environmental Noise of Urban Area (城市區域環境噪聲標準) GB3096-1993" in the PRC

Wastewater discharge policy

Xinda Colour Printing

1. During production, wastewater pipes and rainwater pipes are strictly separated, and discharge of wastewater into rainwater pipes is prohibited.

2. Waste oil, waste chemicals and other items that will cause material harm to the environment are not allowed to be poured into the sewer; instead, they must be properly stored in special containers and be collected by the designated cooperative unit of the office.

3. Supervisors of all departments shall strengthen the training of employees, and prohibit the discharge of waste and residue into the sewer (such as various wastes and garbage).

4. The equipment department shall clean the wastewater pipes and rainwater pipes once a year.

Exhaust gas emission policy

Xinda Colour Printing

1. For the equipment with a larger amount of exhaust gas discharged in each workshop and has greater impact on the environment, an exhaust gas treatment device must be installed on the site to ensure compliance of exhaust gas emissions with regulatory requirements.

2. The office shall be responsible for the annual review of all corporate vehicles to ensure compliance of exhaust gas emissions with regulatory requirements.

3. The office shall be responsible for conducting measurement with indicators of exhaust gas emissions once a year.

Noise policy

Xinda Colour Printing

1. Equipment that generate a louder noise in workshops shall be sound-proofed and shock-proofed in line with standards of noise at boundary.

2. When the noise in the workshop exceeds the level prescribed for the purpose of labour protection, the supervisor of the workshop shall get labour protection appliance from the office to provide necessary auditory protection measures to the employees, and be responsible for supervising the implementation.

3. The office shall be responsible for conducting measurement with indicators of noise emissions once a year.

Hongdong Treatment

Hongdong Control does not operate large-scale industrial equipment; small equipment such as aerators are equipped with silencers. Measures for noise reduction are adopted for certain all-in-one wastewater treatment equipment that generate a louder noise.

A1.1 Types of exhaust emissions:

Greenhouse gas emissions

Xinda Colour Printing

The production activities of Xinda Colour Printing did not directly generate exhaust gas emissions, but some of the production materials such as solvent will volatilize to produce benzene and total volatile organic compounds (TVOCS). At present, all the production workshops and production facilities of the Group are equipped with exhaust gas collection devices for instantaneous exhaust gas collection to deal with source of pollution. The collected exhaust gas will go through the activated carbon adsorption and ultraviolet photolysis purification treatment and only be discharged when relevant environmental protection standards are met. The “Emergency Response Plan for Environmental Emergencies (突發環境事件應急預案)” formulated by Xinda Colour Printing has passed expert's review and filed with relevant government departments.

Exhaust Emission	Total amount of Xinda Colour Printing from 1 April to 31 December 2019 (Unit: tonne)	Total amount of Xinda Colour Printing from 1 April 2018 to 31 March 2019 (Unit: tonne)
TVOCs	6.09	7.3
Benzene	0.44	0.01

Exhaust Emission mainly includes carbon dioxide emissions from equipment and transportation in the production and business processes of enterprises, as well as carbon dioxide emissions generated in the daily living of corporate staff (such as kitchens and staff dormitory water heaters).

Hongdong Treatment

Hongdong Treatment did not generate exhaust emissions during operation and production.

Carbon Dioxide Emission

Carbon Dioxide Emission	Xinda Colour Printing 1 April to 31 December 2019 (Unit: tonne)	Hongdong Treatment 1 April to 31 December 2019 (Unit: tonne)	Total (tonne)	Total 1 April 2018 to 31 March 2019 (Unit: tonne)
Gas	23.00	–	23.00	23.00
Electricity	3,152.00	491.32	3,643.32	3,968.16
Gasoline	24.40	42.14	66.54	56.04
Diesel	3.30	–	3.30	4.20
Total	3,202.70	533.46	3,736.16	4,051.40

Hongdong Treatment

Hongdong encourages employees to use shared bicycles in the daily operations of project surveys and inspections of drainage points, etc., to reduce the use of motor vehicles, electric vehicles and other means of transport that generate emissions.

Nitrogen oxide and sulfur oxide emissions

Nitrogen Oxide:

Nitrogen Oxide Emission	Xinda Colour Printing 1 April to 31 December 2019 (Unit: tonne)	Hongdong Treatment 1 April to 31 December 2019 (Unit: tonne)	Total (tonne)	Total 1 April 2018 to 31 March 2019 (Unit: tonne)
Gasoline	0.2239	–	0.2239	0.3095
Diesel	0.0114	–	0.0114	0.0144
Total	0.2353	–	0.2353	0.3239

Sulphur Oxide:

Sulphur Oxide Emission	Xinda Colour Printing from 1 April to 31 December 2019 (Unit: tonne)	Hongdong Treatment from 1 April to 31 December 2019 (Unit: tonne)	Total (tonne)	Total amount from 1 April 2018 to 31 March 2019 (Unit: tonne)
Gasoline	0.0031	–	0.0031	0.0043
Diesel	0.0099	–	0.0099	0.0125
Total	0.013	–		0.0168

The Company plants trees in the factory area every year to promote greening and reduce emissions. Employees are encouraged to share a ride whenever possible to reduce the total amount of vehicles used.

A1.2 Hazardous waste discharge

Hazardous and non-hazardous waste generation

Xinda Color Printing generated solid wastes such as waste empty drums, waste rags, waste lamps and waste activated carbon in the production process. Hongdong Treatment did not generate any solid waste during its daily operation, only domestic wastes generated in daily life. Xinda Color Printing and Hongdong Treatment conduct statistics and the quantities of waste were recorded as follows.

Name of Solid Waste	Xinda Colour Printing 1 April to 31 December 2019 (Unit: tonne)	Hongdong Treatment 1 April to 31 December 2019 (Unit: tonne)	Total (tonne)	Total 1 April 2018 to 31 March 2019 (Unit: tonne)
Empty Bucket	0.860	–	0.860	0.500
Rag	–	–	0.000	0.050
Lamp	0.020	–	0.020	0.200
Activated Carbon	0.000	–	0.000	0.500
Waste Ink	0.600	–	0.600	
Non-hazardous domestic waste	6.573	7.005	13.578	15.049
Other Non-Hazardous Waste	6.200	–	6.200	0.350
Total	14.253	7.005	21.258	16.099

The non-hazardous solid waste collected by Hongdong Treatment are mainly domestic waste, which are kitchen waste, and office waste. The waste are first sorted by its employees and then collected and disposed of by property cleaning company.

Wastewater management

Wastewater is roughly divided into production wastewater and domestic sewage. The wastewater generated by Xinda Color Printing may include waste ink, machine oil, etc., and domestic sewage is kitchen sewage. Xinda Color Printing's daily processing capacity is 8 tonnes, and the emission standard is categorised as the first-class standard discharge of the second type of pollutants in the second period of the "Discharge Limit Values of Water Pollutants of Guangdong Province (廣東省水污染物排放限值)" (DB44/26-2001). Basically no wastewater was produced during the operation process of Hongdong Treatment. During the period, total amount of wastewater of Xinda Colour Printing represents its wastewater discharge and treatment volume, amounting to approximately 2,200 tonnes (8 tonnes per day * from 1 April to 31 December).

A2: Use of resources

Resources (including energy, water and other raw materials) policy

— During machine overhaul, electric heat source, power source and air source are shut off.

— During non-production period, power supply, air source and power of exhaust system of machine are cut off.

— Do not turn on the air conditioners when the forecasted maximum temperature is below 30 degrees. Turn off air conditioners for 1 hour during office hours each day. Do not turn on the air conditioners when there is no one, and do not open the window when turning on the air conditioners.

— The central air conditioning operation regulations are strictly implemented in the workshop. In summer, air-conditioning temperature shall be set above 26 degrees Celsius. The air conditioning system are turned off 30 minutes before going off duty in the evening.

— When the weather is sunny and there are adequate light, indoor lighting are turned off to make full use of natural light. Do not turn on the lighting when there is no one, and turn off the lighting when going off duty. If there is no staff working during lunch break, the indoor lighting are turned off.

— Energy saving system is installed for elevators. Except when the corporate leaders are inviting guests to visit, the elevators in the factory area are not used to carry passengers. When there is no production in the workshop at night or holiday, the power of elevators will be shut down by the security guard.

— Energy saving system is installed for office equipment. Power management of office equipment, such as computers, printers, copiers, fax machines and shredders, are strengthened by reducing standby power consumption, turning on while using and turning off after using and before going off duty.

— The use of electricity for aerators, all-in-one machines and other equipment must comply with the timetable issued by the project department. After the water quality has been improved and restored, the amount of input equipment are reduced. The electricity equipment are switched on or off as planned to reduce power consumption.

Consumption reduction measures

— Production materials are reviewed annually based on various indicators to reduce consumption.

— The use of water-saving appliances are promoted. During washing, water flow are properly controlled and taps are turned off readily. Leakage are timely reported for repairing.

— For greening and irrigation, rainwater and recycled water are used, and the use of tap water are avoided.

Environmental protection policy

— Waste material management

  o Recyclable or reusable waste material are collected by designated personnel, stored in designated place, and disposed of and sold in a centralized manner.

  o Non-recyclable waste material: those that will pollute the environment are placed in designated place, and disposed of in a centralized manner.

— Other

  o When purchasing materials, apparatus and office equipment, priority is given to energy-saving equipment or products with national certification, and high-energy equipment or products that are prohibited nationally are eliminated.

  o Digitalized office is encouraged. Whenever possible, documents are revised on electronic media and information are transmitted via Internet, so as to reduce consumption of paper and enable paperless office. Paper for the document should be used on both sides. Used envelopes and copy paper are reused. Ink and toners of printers, copies and all-in-one machines should be refilled after being used up, to improve reuse rate.

  o Leaders at all levels should pay close attention to energy conservation and consumption reduction and environmental protection, formulate the implementation plan of energy conservation and consumption reduction in the department, and delegate duties of energy conservation and consumption reduction throughout departments, workshops and various positions. Statistician of the branch factory shall conduct assessment on conservation and consumption of the workshop or machine on a monthly or order-by-order basis, and also a general assessment on an annual basis.

  o Various means are used to spread knowledge of energy conservation and consumption reduction, cultivate all employees' awareness of resource concerns and good habits of diligence and thrifty, and create a sound atmosphere of "conservation by everyone for everything everywhere".

A2.1 Direct and/or indirect energy consumption by type (e.g. electricity, gas or oil) in total (kWh in ’000s) and intensity (e.g. per unit of production volume, per facility).

Use of resources

Total Energy Consumption and Density

Xinda Color Printing installed a thermal energy recovery device for its equipment, which saved about 2,940 degrees of electricity by recycling the thermal energy generated by machines. In order to reduce energy consumption, the company uses LEDs to save daily electricity consumption, adjusts the timing of automatic factory lighting according to the sunshine duration, and controls the air conditioner’s temperature at 25°C during summer. The water quality of Hongdong Treatment’s projects is in a good state and therefore requires less equipment. Hongdong Treatment has reduced its investment in electricity consumption by optimizing the layout of electricity in consideration of local landscape.

Type of Energy	Unit	Xinda Colour Printing 1 April to 31 December 2019	Hongdong Treatment 1 April to 31 December 2019	Total	Total 1 April 2018 to 31 March 2019
Electricity	Degree/Kw	3,161,775	492,802	3,654,577	3,979,663
Liquefied Petroleum Gas	Kilogram	7,490	–	7,490	7,348
Gasoline	Litre	10,610	–	10,610	14,666
Diesel	Litre	1,267	–	1,267	1,600

The electricity consumption of Hongdong Treatment increased compared to last year due to the newly awarded project.

A2.2 Water Consumption

Xinda Color Printing has been targeting to conserving water use and enhance water use efficiency, and put the concept of water conservation into practice by collecting rainwater to irrigate plants. According to the company’s circulating water consumption for the Reporting Period, about 662,136,000 tonnes of water was saved. Hongdong Treatment does not require a lot of water in its core business, and its water resources are mainly consumed by employees at the worksite.

	Unit	Xinda Colour Printing 1 April to 31 December 2019	Hongdong Treatment 1 April to 31 December 2019	Total	Total 1 April 2018 to 31 March 2019
Total Water Consumption	Tonne	20,200	413	20,613	39,327

Hongdong Treatment did not generate wastewater during operation and production. It mainly generate wastewater from office use.

A3: Environment and natural resources

A3.1 Environment and natural resources management

While we are committed to our business development, the Group places an emphasis on the level of environmental protection to our business operations. The Group encourages employees to eliminate disposable tableware and reuse cups and cutlery with disinfection measures in place. Double-sided printing should be adopted whenever possible. Paper, plastic bottles and food residues are separated from the garbage and recycled. Some of the reusable shipping containers and packaging will be recycled and reused by employees. Traditional glues are replaced with benzene-free glues which are more environmentally friendly.

Xinda Color Printing takes advantage of the rainy characteristic in the Southern region where its factory located to collect rainwater through the park's landscape pool. The collected rainwater is filtered and used for circulating cooling water, fire-protection water and daily irrigation water.

B. SOCIAL

The Group understands that employees are the cornerstone of the Group's brand and an important asset of the Group, as well as a key element in building a sustainable business model and creating long-term returns. Therefore, the Group attaches great importance to and safeguards the legitimate rights of employees, provides employees with promising career development opportunities, pays attention to the health and safety of employees, and expresses care and concern to employees, striving to create a comfortable and satisfactory working environment for its employees to grow together with the company.

B1: Employment

Recruitment and training

a. Policy

The Group conducts recruitment in an open and fair manner, pursuant to which, regardless of their gender, professional talents are recruited with reference to their qualifications, skills and the requirements of the Group to achieve our objective of continuous innovation and evolution. In addition, the Group is in strict compliance with local laws and regulations governing employee recruitment.

The Group is committed to developing a fair working environment. In order to provide equal opportunities of promotion to each employee, the Group has a series of assessment procedures in place to assess the performance of each employee in a more comprehensive and objective manner before determining the employee to be promoted. We oppose any form of discrimination, and hiring and promotion opportunities will not be affected by candidates' physical disability. Therefore, disabled people will also have the opportunity to work and become self-reliant.

The Group has been in compliance with the requirements under the Labor Contract Law of the People's Republic of China and the Employment Ordinance of Hong Kong. Where any employee fails to perform his/her current position, such employee will receive training or be transferred to another position. In case that such employee continues to fail the position, the Group will terminate the employment relationship in accordance with relevant laws and regulations.

The Group arranges various social insurances, such as pension insurance, unemployment insurance, work injury insurance and medical insurance, for employees in accordance with government regulations.

— The office is responsible for the recruitment, training, management and organization of all employees.

— According to the needs of various departments, the office identifies the competencies required by all employees to complete their jobs, and provide training or other measures for them to obtain and maintain such competencies.

— Technicians will receive quality education or professional theoretical training from time to time outside or inside the company.

Remuneration

The employees of the Group come from various cities in provinces across China. Under the principle of equal pay for men and women at the same position, there is no geographical or gender discrimination. The Group is committed to providing opportunities and platforms for employees to tap into their potential, while their salary will be based on their professional knowledge, occupational skills and actual job performance.

The Group adjusts its remuneration package with reference to the overall performance of the Group and market conditions to ensure that the remuneration given to employees is similar to the market, which can motivate employees to continue to forge ahead.

Employees benefits:
In accordance with the laws and regulations of China and Hong Kong, the Group formulates fringe benefits for all employees based on the actual conditions of the Group, including:

- Insurance package that comprises five insurance and the housing fund for employees;
- Work-related injury insurance for probationary employees and employees engaged in relatively dangerous operation;
- Monthly birthday party to celebrate employee birthdays;
- Corresponding bonuses and prizes based on production performance;
- Free cooling medicines and drinks for employees;
- Holiday gifts and year-end prizes for employees;
- Festival gifts for employees during Mid-Autumn Festival, Chinese New Year, etc.;
- Unscheduled employee group activities (such as tourism, catering, community charity activities);
- Regular medical examination for employees;
- Free summer and winter work clothes for employees;
- Accommodation and food or corresponding allowances for resident and foreign employees;
- Travelling allowance for employees from other provinces to visit their relatives during Spring Festival or for expatriates to return to their hometown;
- The Group improves the accommodation and working conditions and benefits of employees according to the actual situation of society and employees.

B1.1 Total number of employees

Employee

During the Reporting Period, the majority of the employees of the Group are stationed in China. As of 31 December 2019, the Group employed a total of 315 full-time employees at Shantou Xinda and Hongdong Treatment, details of which are set out as follows:

By age	Percentage	By gender	Percentage
> 26	6.0	Male	73.7
26–35	35.2	Female	26.3
36–45	27.0		
46–55	23.2		
> 55	8.6		

B1.2 Employee turnover rate

Departed personnel (by gender)	Unit	Xinda Colour Printing	Hongdong Treatment	Total
Male	Number of individuals	7	29	36
Female	Number of individuals	0	11	11
		7	40	47

The Group attaches great importance to the physical and mental health of its employees and production safety and has been committed to improving the relevant standards and management level in this regard. The Group strengthened its investment in this area and set up a comprehensive occupational health and safety management system covering policy formulation, program planning, implementation and operation, inspection, correction and rectification, implementation results review and continuous improvement. Specific measures include:

- Continuously improve the working and production environment, and increase funds allocated for protective equipment for safe production;
- Provide employees with hygienic supplies such as masks and disinfectants during the period of epidemic prevention of COVID-19;
- Hold safety production training every quarter to enhance employees' occupational health and safety mindset;
- Strengthen the regular inspection and maintenance of mechanical equipment to ensure the safe operation of mechanical facilities;
- Strictly control the employment of special operations personnel by checking the corresponding skills certificate and qualification certificate, and ensure that special operations are conducted in accordance with relevant operational practices implemented by local governments;
- Put up a healthcare cabinet to supply prescription drugs and cooling products for bringing down temperature, and protect employees' health as much as possible;
- Regularly arrange employees for occupational medical examinations to ensure the health of employees and prevent occupational diseases.

All subsidiaries of the Group have passed the GB/T28001-2011 IDT OHSAS18001: 2007 Occupational Health and Safety Management System Certification.

The Group strictly abides by national and local laws, regulations and practices, including but not limited to: the "Occupational Disease Prevention Law of the People's Republic of China (中華人民共和國職業病防治法)", " Occupational Disease Prevention Plan of Guangdong Province (2017-2020) (廣東省職業病防治規劃(2017–2020年))", "Environmental and Occupational Health and Safe Operation Control Procedures (環境和職業健康安全運行控制程序)", "Environmental and occupational health and safety monitoring and measurement procedures (環境和職業健康安全監視和測量程序)" and "Environmental and occupational health and safety measurement and control procedures (環境和職業健康安全測量控制程序)"

Employees' health

— The Company continuously takes stringent measures to prevent and control the spread of COVID-19, and ensure that employees are provided with a safe and hygienic working environment during their work.

— A compliance team has been set up to take charge of occupational safety monitoring and measurement. Each department is responsible for assisting the monitoring and measurement work of the compliance team.

— For special operations personnel and those exposed to toxic and hazardous substances, the Company conducts medical examination once a year, and arranges for transfers if adverse health conditions are found in examinations. Employees found to have occupational diseases will be immediately reported to the government administration department (generally, health Bureau or professional institution for occupational disease prevention and treatment) as required by the Occupational Disease Management Ordinance, and the patients will receive special treatment until recovery (or stability).

— The compliance team monitors and measures occupational health and safety parameters based on relevant documents. Measurement include: motor vehicle noise measurement and production equipment noise measurement, and the results are archived in the prescribed form.

— In respect of monitoring of compliance of occupational health and safe operation control, each department takes random inspection on its respective occupational health and safe operation control to ensure that the operation of the department conforms to the requirements of relevant procedures and basic documents. The compliance team conducts random supervision and inspection of the operation control of each department, and conducts a overall inspection once a quarter. The results of inspection are recorded in the "Occupational Health and Safe Operation Inspection Record Form".

— The compliance team analyses the historical evidence of accidents, diseases, incidents and other adverse occupational health and safety performance, and takes corrective and preventive measures based on the conclusions of analysis.

Employees' safety

— The production workshops are of a rational layout and kept clean and tidy. Protective equipment are provided for employees that involved in operations that may cause harm to body. In dangerous working places such as those under high temperature or humidity or involve electric wires, effective protective measures must be taken correspondingly.

— All kinds of equipment shall not be overloaded and abnormally operated, and shall be used correctly, maintained frequently, and overhauled regularly. Obsolete equipment that does not meet safety requirements should be replaced on a planned basis.

— Electrical equipment and circuits should conform to relevant safety requirements. Electric equipment should have fusible insurance and leakage protection, with excellent insulation performance and reliable protection measures.

— The transportation, storage, use, and disposal of flammable and explosive materials must be equipped with fireproof and explosion-proof facilities, and strict safety operation regulations must be implemented.

— Employees should undergo training before taking up their jobs, and strengthen their work skills and quality and awareness of environment, occupational health and safety through on-the-job training. For those involved in special types of work must possess required work permits, and must undergo regular safety training and education.

— The compliance team regularly arranges environmental and safety inspections in accordance with the Environmental and Occupational Health and Safety Measurement and Control Procedures (環境和職業健康安全測量控制程序).

— Employees monitor and supervise each other, identify problems and risks in time, and put forward suggestions for improvement.

During the Reporting Period, there was no work-related deaths or injuries of employees of the Group.

B3: Development and training

Xinda Colour Printing

— The company has formulated the responsibilities and requirements of each position and regard these as the criteria for evaluation of employees.

— When training is conducted, the training department fills in and submits the Training Implementation Record Form to the office in time.

— After going out for training, participants are required to write a journal for the training experience, together with relevant training materials (such as certificates and books to be filed with the office).

Training for new employees

— New employees shall be trained (collectively or individually as entourage) before duty commence.

— Employees who have moved to different positions shall undergo new job training and pass the examination before duty commence. Scope of the examination shall generally cover quality safety, production safety and professional skills training.

Training for management and technical staff

— Quality education or professional theoretical training shall be received from time to time outside or inside the company.

B3.1 During the Reporting Period, Xinda Color Printing and Hongdong Treatment established a series of high-quality skills training courses for employees at all levels to ensure that the company is at the forefront of the industry in all aspects of management, production, safe operation and quality control.

Xinda Color Printing

Date	Training Program	Duration	Number of Participant
17 May 2019	Material Factory Machine Safety Operation Training	2 hours	54
5 June 2019	Material Factory Key Job Professional Skills Training	2 hours	34
15 June 2019	Fire Safety Emergency Drill	2 hours	147
26 July 2019	Tipping Paper Factory Key Job Professional Skills Training	2 hours	40
23 August 2019	Budget Management System Training	2 hours	6
25 September 2019	Quality Management Job Training	4 hours	12
11 October 2019	Emergency Plan Training	2 hours	5
26 November 2019	Equipment Management Training	2 hours	5
16 December 2019	Internal Auditor Training	4 hours	6

Hongdong Treatment

Date	Training Program	Duration	Number of participant
3 June 2019	Safety Production Training of Project Department of Sigou, Shantou City	4	8
5 June 2019	Safety Production Training of Project Department of Shiwan	4	20
6-7 July 2019	The 4th Beautiful Rural Quality Life — Rural Domestic Sewage Treatment Forum	12	2
21 November 2019	Pre-test Training for Safety Officers	12	12
	Rural Revitalization Strategy	18	4
1 April to 31 December 2019	Chairman Xi Jinping's Socialist Ideology with Chinese Characteristics in the New Era	18	4
	Opportunities and challenges of the construction of the Guangdong-Hong Kong-Macao Greater Bay Area	18	4
	Reform and opening up and innovative development	18	4

During the current period, Hongdong provided employees' training covering no less than 58 participants and with training hours of no less than 320 hours.

During the current period, Foxin provided employees' training covering no less than 14 participants and with training hours of no less than 136 hours.

B4: Labour standards — prevention of child labour and forced labour

The Group strictly complies with Prohibition of Child Labour Provisions (禁止使用童工規定) and other laws and regulations on labour standards. Background check was conducted for every new employee during the recruitment process to ensure compliance with any applicable labour laws in Mainland China. During the Reporting Period, there are no major violations of laws and regulations in relation to child labour and forced labour.

B5: Supply chain management

The Group stresses the importance to the mutually beneficial partnership with suppliers in the long term. By designing a survey and assessment system for suppliers' admission, we have established a list of qualified suppliers. We perform regular assessments on our suppliers in terms of their supply capacity, product quality, service, integrity, and many other areas, to ensure product quality. Suppliers are selected based on criteria such as product quality, pricing and delivery turnaround time. Suppliers who can fulfill their environmental responsibility are prioritized. Furthermore, a pool of second-choice suppliers is selected from qualified suppliers to prepare for comparison of price, product quality and other aspects and alternative options for emergency procurement and supply.

B5.1 Number of suppliers

Suppliers — by geographical region	Xinda Colour Printing 1 April to 31 December 2019	Hongdong Treatment 1 April to 31 December 2019	Total
Guangdong Province	109	9	118
Other regions	57	5	61

B5.2 Management and Supervision of Suppliers

— Assessment will be made as to whether the quality characteristics of raw materials meet our requirements;

— Assessment will be made as to whether the raw material products meet our standards;

— Assessment will be made as to suppliers' product quality evaluation, and product inspection report or verification report will be verified;

— Assessment will be made as to supplier's production qualification and verify their "business license";

— Requirements on safety and hygiene of the suppliers: a. Suppliers' products meet the specified safety requirements, and the suppliers of hazardous chemicals shall possess a safety production license and a dangerous chemicals business license;

— For the suppliers that have been included in the "Qualified Supplier List", a qualification review will be conducted once every three years. The content of the review includes basic enterprise information, financial information, human resource information, product information and production technology equipment information;

— When an existing supplier fails to comply with the requirements in one of the above steps, our business team will notify such supplier in writing, and the supplier will be deemed as unqualified if there is any problem after improvement.

B6: Product social responsibility

Being an enterprise with a strong sense of brand honour and corporate social responsibility, Xinda Colour Printing and the Group obtained the GB/T19001-2008 and ISO9001: 2008 certification for our quality management system. The products delivered by the Company are all formulated with internal control standards in line with national standards, and are regularly tested by qualified testing institutions. Subject to a well-established system designed for product batches traceability, every product can be traced back to every stage of the whole production process to ensure the quality of the delivered goods. By reference to the "Product Quality Law of the People's Republic of China (中華人民共和國產品質量法)", our product quality is fully guaranteed from purchase of raw materials to production process, final product inspection and warehousing logistics. With regard to product quality assurance, the Company is always in pursuit of better, more comprehensive and more advanced technologies and methods and advancement. QR code technique for traceability management of some of our products had been adopted, which further improved our quality monitoring system. At the same time, the Company is updating its online monitoring system to better control the quality of its products during the production process.

B6.1 Observing and protecting intellectual property rights

In order to protect the intellectual property rights of the Group and its subsidiaries, the Group has built various internal management systems for transformation of scientific and technological achievements and rewards for intellectual property rights, which has improved employees' awareness of innovation and provided a platform and guarantee for employees' R&D and intellectual achievements. In accordance with relevant laws and regulations of intellectual property rights, the Group actively applies for patents for the established intellectual achievements to ensure that the core technologies of the Group and its subsidiaries are protected by law and enhance the it competitiveness in the market.

B6.2 Production quality verification process and product return

Xinda Colour Printing

— The quality management department is responsible for investigating into the complaints regarding quality problems, analysing the cause, formulating rectification plans, and tracking and giving feedback on the effectiveness of prevention. The quality control department will first investigate the cause of the complaint and traces the customer's goods, and fill in the "Customer Complaint Handling Report" after the incident is properly handled.

— The marketing department is responsible for investigating and handling customer complaints regarding after-sale services and product delivery and giving feedback on the rectification measures. The marketing department is responsible for replying customers with the "Customer Complaint Handling Report" and forwarding the report to the relevant departments.

— The technical centre is responsible for handling customer complaints regarding quality in collaboration with the quality management department, making improvement to technical issues, and giving feedback on the causes.

— Products that have been approved to be returned are temporarily placed in a designated area, marked and isolated by the production workshop, which will notify the quality control department for re-inspection.

B7: Anti-corruption (prevention of bribery, extortion, fraud and money laundering)

Policy

All employees of the Group must have an in-depth understanding of bribery, extortion, fraud, corruption and related behavior. In order to address and reduce the risk of corruption, the Group has formulated a set of guidelines in connection with offer and receipt of gifts, provision of meals, accommodation and entertainment, and engagement with government officials, whereby stating permitted and prohibited actions to be taken by our employees in their daily business activities. This ensures that every employee is required to make ethical business decisions in compliance with applicable laws and regulations. To ensure that all business transactions with government officials are conducted without any form of corruption, the Group pays closer attention and enters into the honesty and law compliance agreement with each employee.

B7.1 During the Reporting Period, there were no lawsuits against the Group or its employees in relation to corruption and no outcome was reached for any lawsuits in relation to corruption.

B7.2 The Group enters into the honesty and law compliance agreement with newly recruited employees. Under the reporting procedure which is in the form of report, all employees have the right and obligation to report to their superior any corruption within the Group. The senior management of the Group is responsible for the execution and supervision of the matter.

B8: Community Investment

The Group values communication and interaction with the community, cares about related charitable activities, and establishes good community relations. During the Reporting Period, Shantou Hongdong Environmental Treatment Company, a subsidiary of the Group, donated a total of RMB800,000 to charity organizations in Boluo County, Huizhou City, Guangdong Province for local civilization construction in the new era, including the construction of volunteer teams and the organization of civilization practice activities, as well as building a favourable platform for cultural, educational and sports services, in order to effectively improve the civilization of the public and better promote the overall development and progress of the local area.

INDEPENDENT AUDITOR'S REPORT

pwc 羅兵咸永道

To the Shareholders of Huaxi Holdings Company Limited
(incorporated in the Cayman Islands with limited liability)

OPINION

What we have audited

The consolidated financial statements of Huaxi Holdings Company Limited (the "**Company**") and its subsidiaries (the "**Group**") set out on pages 53 to 113, which comprise:

- The consolidated statement of financial position as at 31 December 2019;
- The consolidated statement of comprehensive income for the nine months ended 31 December 2019;
- The consolidated statement of changes in equity for the nine months ended 31 December 2019;
- The consolidated statement of cash flows for the nine months ended 31 December 2019; and
- The notes to the consolidated financial statements, which include a summary of significant accounting policies.

Our opinion

In our opinion, the consolidated financial statements give a true and fair view of the consolidated financial position of the Group as at 31 December 2019, and of its consolidated financial performance and its consolidated cash flows for the nine months ended 31 December 2019 in accordance with Hong Kong Financial Reporting Standards ("**HKFRSs**") issued by the Hong Kong Institute of Certified Public Accountants ("**HKICPA**") and have been properly prepared in compliance with the disclosure requirements of the Hong Kong Companies Ordinance.

BASIS FOR OPINION

We conducted our audit in accordance with Hong Kong Standards on Auditing ("**HKSAs**") issued by the HKICPA. Our responsibilities under those standards are further described in the Auditor's Responsibilities for the Audit of the Consolidated Financial Statements section of our report.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our opinion.

Independence

We are independent of the Group in accordance with the HKICPA's Code of Ethics for Professional Accountants ("the **Code**"), and we have fulfilled our other ethical responsibilities in accordance with the Code.

KEY AUDIT MATTERS

Key audit matters are those matters that, in our professional judgement, were of most significance in our audit of the consolidated financial statements of the current period. These matters were addressed in the context of our audit of the consolidated financial statements as a whole, and in forming our opinion thereon, and we do not provide a separate opinion on these matters.

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Key audit matters identified in our audit are summarized as follows:

- Revenue recognition from sales of cigarette packaging products
- Revenue recognition from construction services

Key Audit Matter	How our audit addressed the Key Audit Matter
Revenue recognition from sales of cigarette packaging products	
Refer to Notes 2.20(a) for the accounting policy and Note 6 to the consolidated financial statements. Revenue from sales of cigarette packaging products for the nine months ended 31 December 2019 amounted to HK$163,329,000, which represented 52% of the Group's total revenue. Revenue from sales of cigarette packaging products is recognised when the Group satisfies a performance obligation by transferring the control of promised goods to a customer in an amount that reflects the consideration to which the Group expects to be entitled in exchange of that good. We focused on this area due to the large volume of revenue transactions derived from sales to multiple customers in different geographical locations within China such that we have incurred significant time and resources in carrying out our work in this area.	We understood and evaluated management's key internal controls in the Group's sales process. We sent confirmations to selected customers to confirm the amounts of sales for the nine months ended 31 December 2019. Where responses were not received, we performed alternative procedures by agreeing the sales amount to sales orders, invoices, delivery notes and other supporting documents. We tested revenue on a sample basis by agreeing selected sales records to sales orders, invoices, delivery notes and other supporting documents. We also tested sales transactions that took place shortly before and after the balance sheet date to assess whether sales transactions were recognised in the correct reporting periods. Our work also included testing of a sample of revenue-related journal entries by inquiring management of their nature and inspecting the relevant supporting documents. We found management's recognition of revenue from sales of cigarette packaging products to be supported by the available evidence.

Key Audit Matter	How our audit addressed the Key Audit Matter
Revenue recognition from construction services	
Refer to Note 2.20(b) for the accounting policy, Note 4.1 for the critical accounting estimates and judgements involved and Note 6 to the consolidated financial statements. The Group recognised revenue from construction services of HK$147,133,000 for the nine months ended 31 December 2019, representing approximately 47% of the Group's total revenue. Revenue from construction services is recognised over contract period by reference to the stage of completion. The stage of completion is determined by the aggregated cost for the individual contract incurred at the end of the reporting period compared with the estimated budget cost. We focused on this area because the recognition of revenue from construction services involved judgements by management, which mainly included determination of the stage of completion and estimated budget cost.	We understood, evaluated and validated the design and operating effectiveness of the controls over revenue recognition of construction services. Those controls included management's review on the budget cost and the stage of completion for each contract, as well as controls over the aggregated cost incurred. We tested the aggregated cost incurred by examination of supporting documents, including purchase agreements, payment records, receipt notes of materials and labour cost records. With respect to the budget cost for the samples selected, we examined the detailed budget prepared by management. We tested the percentage of completion by performing recalculation, comparing the aggregated cost incurred for individual contract to the estimated budget cost with management's calculation. Based on our audit procedures, we found management's judgements and estimates used in the revenue recognition of construction services were supported by available evidence.

OTHER INFORMATION

The directors of the Company are responsible for the other information. The other information comprises all of the information included in the annual report other than the consolidated financial statements and our auditor's report thereon.

Our opinion on the consolidated financial statements does not cover the other information and we do not express any form of assurance conclusion thereon.

In connection with our audit of the consolidated financial statements, our responsibility is to read the other information and, in doing so, consider whether the other information is materially inconsistent with the consolidated financial statements or our knowledge obtained in the audit or otherwise appears to be materially misstated.

If, based on the work we have performed, we conclude that there is a material misstatement of this other information, we are required to report that fact. We have nothing to report in this regard.

RESPONSIBILITIES OF DIRECTORS AND THE AUDIT COMMITTEE FOR THE CONSOLIDATED FINANCIAL STATEMENTS

The directors of the Company are responsible for the preparation of the consolidated financial statements that give a true and fair view in accordance with HKFRSs issued by the HKICPA and the disclosure requirements of the Hong Kong Companies Ordinance, and for such internal control as the directors determine is necessary to enable the preparation of consolidated financial statements that are free from material misstatement, whether due to fraud or error.

In preparing the consolidated financial statements, the directors are responsible for assessing the Group's ability to continue as a going concern, disclosing, as applicable, matters related to going concern and using the going concern basis of accounting unless the directors either intend to liquidate the Group or to cease operations, or have no realistic alternative but to do so.

The Audit Committee is responsible for overseeing the Group's financial reporting process.

AUDITOR'S RESPONSIBILITIES FOR THE AUDIT OF THE CONSOLIDATED FINANCIAL STATEMENTS

Our objectives are to obtain reasonable assurance about whether the consolidated financial statements as a whole are free from material misstatement, whether due to fraud or error, and to issue an auditor's report that includes our opinion. We report our opinion solely to you, as a body, and for no other purpose. We do not assume responsibility towards or accept liability to any other person for the contents of this report. Reasonable assurance is a high level of assurance, but is not a guarantee that an audit conducted in accordance with HKSAs will always detect a material misstatement when it exists. Misstatements can arise from fraud or error and are considered material if, individually or in the aggregate, they could reasonably be expected to influence the economic decisions of users taken on the basis of these consolidated financial statements.

As part of an audit in accordance with HKSAs, we exercise professional judgement and maintain professional scepticism throughout the audit. We also:

- Identify and assess the risks of material misstatement of the consolidated financial statements, whether due to fraud or error, design and perform audit procedures responsive to those risks, and obtain audit evidence that is sufficient and appropriate to provide a basis for our opinion. The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control.

- Obtain an understanding of internal control relevant to the audit in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the Group's internal control.

- Evaluate the appropriateness of accounting policies used and the reasonableness of accounting estimates and related disclosures made by the directors.

- Conclude on the appropriateness of the directors' use of the going concern basis of accounting and, based on the audit evidence obtained, whether a material uncertainty exists related to events or conditions that may cast significant doubt on the Group's ability to continue as a going concern. If we conclude that a material uncertainty exists, we are required to draw attention in our auditor's report to the related disclosures in the consolidated financial statements or, if such disclosures are inadequate, to modify our opinion. Our conclusions are based on the audit evidence obtained up to the date of our auditor's report. However, future events or conditions may cause the Group to cease to continue as a going concern.

- Evaluate the overall presentation, structure and content of the consolidated financial statements, including the disclosures, and whether the consolidated financial statements represent the underlying transactions and events in a manner that achieves fair presentation.

- Obtain sufficient appropriate audit evidence regarding the financial information of the entities or business activities within the Group to express an opinion on the consolidated financial statements. We are responsible for the direction, supervision and performance of the group audit. We remain solely responsible for our audit opinion.

We communicate with the Audit Committee regarding, among other matters, the planned scope and timing of the audit and significant audit findings, including any significant deficiencies in internal control that we identify during our audit.

We also provide the Audit Committee with a statement that we have complied with relevant ethical requirements regarding independence, and to communicate with them all relationships and other matters that may reasonably be thought to bear on our independence, and where applicable, related safeguards.

From the matters communicated with the Audit Committee, we determine those matters that were of most significance in the audit of the consolidated financial statements of the current period and are therefore the key audit matters. We describe these matters in our auditor's report unless law or regulation precludes public disclosure about the matter or when, in extremely rare circumstances, we determine that a matter should not be communicated in our report because the adverse consequences of doing so would reasonably be expected to outweigh the public interest benefits of such communication.

The engagement partner on the audit resulting in this independent auditor's report is Ho Chiu Yin, Ivan.

PricewaterhouseCoopers
Certified Public Accountants

Hong Kong, 27 March 2020

CONSOLIDATED STATEMENT OF COMPREHENSIVE INCOME

	Note	Nine months ended 31 December 2019 HK$'000	Year ended 31 March 2019 HK$'000
Revenue	*6*	**313,466**	262,187
Cost of sales	*7*	**(187,108)**	(170,021)
Gross profit		**126,358**	92,166
Distribution costs	*7*	**(1,761)**	(2,376)
Administrative expenses	*7*	**(37,077)**	(31,849)
Other gains — net	*9*	**5,671**	2,050
Operating profit		**93,191**	59,991
Finance income — net	*10*	**7,068**	9,083
Profit before income tax		**100,259**	69,074
Income tax expense	*11*	**(18,777)**	(13,624)
Profit for the period/year		**81,482**	55,450
Profit/(Loss) attributable to:			
— Owners of the Company		**81,442**	56,296
— Non-controlling interests		**40**	(846)
		81,482	55,450
Other comprehensive income			
Item that will not be reclassified to profit or loss:			
Currency translation difference		**(17,204)**	(22,238)
Other comprehensive income for the period/year, net of tax		**(17,204)**	(22,238)
Total comprehensive income for the period/year		**64,278**	33,212
Total comprehensive income attributable to:			
— Owners of the Company		**64,040**	33,781
— Non-controlling interests		**238**	(569)
		64,278	33,212
Earnings per share attributable to owners of the Company for the period/year (expressed in HK cent per share)	*12*		
— Basic earnings per share		**HK 11.73 cents**	HK 8.18 cents
— Diluted earnings per share		**HK 11.46 cents**	HK 7.94 cents

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

CONSOLIDATED STATEMENT OF FINANCIAL POSITION

	Note	31 December 2019 HK$'000	31 March 2019 HK$'000
ASSETS			
Non-current assets			
Property, plant and equipment	15	**36,181**	40,035
Right-of-use assets	16	**10,129**	–
Prepaid operating lease		**–**	5,648
Intangible assets	17	**10,473**	10,717
Deferred tax assets	18	**2,727**	3,609
Prepaid expenses		**260**	359
Prepayments for non-current assets	19	**19,647**	16,321
		79,417	76,689
Current assets			
Inventories	20	**27,327**	33,355
Trade and notes receivable	21	**156,076**	76,746
Contract assets	6(a)	**10,115**	990
Financial assets at fair value through profit or loss	22	**24,746**	28,593
Prepayments and other receivables	23	**31,470**	1,703
Restricted cash at banks	24	**40,762**	42,284
Cash and cash equivalents	25	**159,942**	224,523
		450,438	408,194
Total assets		**529,855**	484,883

CONSOLIDATED STATEMENT OF FINANCIAL POSITION

	Note	31 December 2019 HK$'000	31 March 2019 HK$'000
EQUITY			
Equity attributable to owners of the Company			
Share capital	*26*	**3,471**	3,471
Other reserves	*27*	**204,060**	217,501
Retained earnings		**180,060**	151,164
		387,591	372,136
Non-controlling interests		**(4,486)**	(4,724)
Total equity		**383,105**	367,412
LIABILITIES			
Non-current liabilities			
Lease liabilities	*16*	**3,004**	–
Deferred tax liabilities	*18*	**8,309**	8,999
Other payables	*29*	**893**	933
		12,206	9,932
Current liabilities			
Trade and notes payable	*28*	**92,070**	71,380
Contract liabilities	*6(a)*	**–**	2,904
Lease liabilities	*16*	**1,776**	–
Other payables and accruals	*29*	**23,896**	21,332
Current income tax liabilities		**16,802**	11,923
		134,544	107,539
Total liabilities		**146,750**	117,471
Total equity and liabilities		**529,855**	484,883

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

The financial statements on pages 53 to 113 were approved by the board of directors on 27 March 2020 and were signed on its behalf.

Zheng Andy Yi Sheng
Director

Zheng Minsheng
Director

CONSOLIDATED STATEMENT OF CHANGES IN EQUITY

	Attributable to owners of the Company					
	Share capital HK$'000 *(Note 26)*	Other reserves HK$'000 *(Note 27)*	Retained earnings HK$'000	Total HK$'000	Non-controlling interests HK$'000	Total HK$'000
Year ended 31 March 2019						
Balance at 1 April 2018	3,393	208,637	126,102	338,132	(4,155)	333,977
Comprehensive income						
— Profit/(Loss) for the year	–	–	56,296	56,296	(846)	55,450
— Other comprehensive income	–	(22,515)	–	(22,515)	277	(22,238)
Total comprehensive income	–	(22,515)	56,296	33,781	(569)	33,212
Issuance of ordinary shares	78	31,082	–	31,160	–	31,160
Dividends paid	–	–	(31,234)	(31,234)	–	(31,234)
Value of employee services under share option scheme *(Note 27)*	–	297	–	297	–	297
Balance at 31 March 2019	3,471	217,501	151,164	372,136	(4,724)	367,412
Nine months ended 31 December 2019						
Balance at 1 April 2019	**3,471**	**217,501**	**151,164**	**372,136**	**(4,724)**	**367,412**
Comprehensive income						
— Profit for the period	**–**	**–**	**81,442**	**81,442**	**40**	**81,482**
— Other comprehensive income	**–**	**(17,402)**	**–**	**(17,402)**	**198**	**(17,204)**
Total comprehensive income	**–**	**(17,402)**	**81,442**	**64,040**	**238**	**64,278**
Dividends paid	**–**	**–**	**(48,585)**	**(48,585)**	**–**	**(48,585)**
Transfer to statutory reserves	**–**	**3,961**	**(3,961)**	**–**	**–**	**–**
Balance at 31 December 2019	**3,471**	**204,060**	**180,060**	**387,591**	**(4,486)**	**383,105**

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

CONSOLIDATED STATEMENT OF CASH FLOWS

	Note	Nine months ended 31 December 2019 HK$'000	Year ended 31 March 2019 HK$'000
Cash flows from operating activities			
Cash generated from operations	*30*	**28,020**	110,871
PRC enterprise income tax paid		**(13,476)**	(10,654)
Net cash generated from operating activities		**14,544**	100,217
Cash flows from investing activities			
Purchase of property and equipment		**(2,183)**	(3,288)
Prepayments for non-current assets		**(3,326)**	(16,321)
Disposal of property, plant and equipment		**–**	411
Purchase of intangible assets		**(5,338)**	(29)
Decrease in restricted cash at banks		**1,522**	10,316
Loans to third parties		**(77,926)**	(49,180)
Payments of loans from third parties		**59,591**	49,180
Interest received from loans to third parties		**–**	3,890
Purchase of financial assets at fair value through profit or loss		**(976)**	(58)
Net proceeds from disposal of financial assets at fair value through profit or loss		**9,887**	1,526
Interest income from other financial assets		**2,858**	4,193
Interest income from bank deposits		**699**	1,000
Net cash acquired from acquisition		**–**	5,790
Net cash (used in)/generated from investing activities		**(15,192)**	7,430
Cash flows from financing activities			
Repayments of lease liabilities		**(826)**	–
Dividends paid		**(48,585)**	(30,874)
Net cash used in financing activities		**(49,411)**	(30,874)
Net (decrease)/increase in cash and cash equivalents		**(50,059)**	76,773
Cash and cash equivalents at beginning of the period/year		**224,523**	165,608
Effect of change in exchange rate		**(14,522)**	(17,858)
Cash and cash equivalents at end of the period/year	*25*	**159,942**	224,523

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

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

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 Clifton House, 75 Fort Street, P.O. Box 1350, 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 packaging materials; and (ii) environmental treatment business in the People's Republic of China (the "**PRC**") for the nine months ended 31 December 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.

These consolidated financial statements are presented in thousands of Hong Kong dollars ("**HK$**") unless otherwise stated.

These consolidated financial statements have been approved for issue by the board of directors (the "**Board**") of the Company on 27 March 2020.

2 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

This note provides a list of the significant accounting policies adopted in the preparation of these consolidated financial statements. These policies have been consistently applied to all the period/year presented, unless otherwise stated.

2.1 Basis of preparation

(a) Financial period

The Group's operations are carried out through its operating subsidiaries in the PRC, which are required to prepare their statutory accounts with the financial year end date of 31 December. In order to effectively and efficiently facilitate the preparation of the consolidated financial statements, the Board determined to change the Company's financial year end date from 31 March to 31 December commencing from the financial period beginning on 1 April 2019.

Due to the change of the end of the financial period, this set of consolidated financial statements is for a period of nine months from 1 April 2019 to 31 December 2019. The comparative figures, however, are for twelve months from 1 April 2018 to 31 March 2019, and hence are not comparable.

(b) Compliance with Hong Kong Financial Reporting Standards ("HKFRS") and Hong Kong Companies Ordinance (Cap.622) ("HKCO")

The consolidated financial statements of the Group have been prepared in accordance with HKFRS and the disclosure requirements of HKCO.

(c) Historical cost convention

The consolidated financial statements have been prepared under the historical cost convention, as modified by the revaluation of financial assets at fair value through profit or loss ("**FVPL**"), which are carried at fair value.

2 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES *(continued)*

2.1 Basis of preparation *(continued)*

(d) New and amended standards adopted by the Group for the nine months ended 31 December 2019

The Group has applied the following standards and amendments for the first time for its reporting period commencing 1 April 2019:

- HKFRS 16 "Leases"
- Amendments to HKFRS 9 "Prepayment Features with Negative Compensation"
- Amendments to HKAS 28 "Long-term Interests in Associates and Joint Ventures"
- Annual Improvements to HKFRS Standards 2015–2017 Cycle
- Amendments to HKAS 19 "Plan Amendment, Curtailment or Settlement"
- Interpretation 23 "Uncertainty over Income Tax Treatments"

The Group had to change its accounting policies as a result of adopting HKFRS 16. The Group elected to apply the simplified transition approach and has not restated comparatives for the year ended 31 March 2019. This is disclosed in Note 2.2. The other amendments listed above did not have any impact on the amounts recognised in prior periods and are not expected to significantly affect the current or future periods.

(e) New standards and interpretations not yet adopted

The following standards and interpretations have been issued but are not effective for the financial period beginning on 1 April 2019 and have not been early adopted by the Group:

		Effective for reporting periods beginning on or after
Amendments to HKAS 1 and HKAS 8	Definition of Material	1 January 2020
Amendments to HKFRS 3	Definition of a Business	1 January 2020
Revised Conceptual Framework for Financial Reporting	Conceptual Framework for Financial Reporting	1 January 2020
HKFRS 17	Insurance Contracts	1 January 2023
HKFRS 10 and HKAS 28	Sale or Contribution of Assets Between an Investor and its Associate or Joint Venture	To be determined

These standards are not expected to have material impact on the Group in the current or future reporting periods.

2 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES *(continued)*

2.2 Changes in accounting policies

This note explains the impact of the adoption of HKFRS 16 "Leases" on the Group's consolidated financial statements.

As explained in Note 2.1 above, the Group has adopted HKFRS 16 "Leases" from 1 April 2019, applied the simplified transition approach and has not restated comparatives for the year ended 31 March 2019, as permitted under the specific transition provision in the standard. Right-of-use assets were measured at the amount of the lease liabilities on adoption. There was no impact to the opening retained earnings. The reclassifications and the adjustments arising from the new leasing rules are therefore recognised in the opening consolidated statement of financial position on 1 April 2019. The new accounting policies are disclosed in Note 2.22.

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 HKAS 17 "Leases". These liabilities were measured at the present value of the remaining lease payments, discounted using the lessee's incremental borrowing rate as of 1 April 2019.

2.2.1 Practical expedients applied

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

- applying a single discount rate to a portfolio of leases with reasonably similar characteristics
- relying on previous assessments on whether leases are onerous as an alternative to performing an impairment review — there were no onerous contracts as at 1 April 2019
- accounting for operating leases with a remaining lease term of less than 12 months as at 1 April 2019 as short-term leases
- excluding initial direct costs for the measurement of the right-of-use asset at the date of initial application, and
- using hindsight in determining the lease term where the contract contains options to extend or terminate the lease

The Group has also elected 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 "Leases" and Interpretation 4 "Determining whether an Arrangement contains a Lease".

2 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES *(continued)*

2.2 Changes in accounting policies *(continued)*

2.2.2 Measurement of lease liabilities

	2019 HK$'000
Operating lease commitments disclosed as at 31 March 2019	**1,364**
Discounted using the lessee's incremental borrowing rate at the date of initial application	**1,294**
Less: short-term leases and low-value leases not recognised as liabilities	**(992)**
Lease liabilities recognised as at 1 April 2019	**302**
Of which are:	
Current lease liabilities	**158**
Non-current lease liabilities	**144**
	302

2.2.3 Measurement of right-of-use assets

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

2.2.4 Adjustments recognised in the consolidated statement of financial position on 1 April 2019

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

2 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES *(continued)*

2.3 Principles of consolidation

(a) Subsidiaries

Subsidiaries are all entities (including structured entities) over which the Group has control. The Group controls an entity when the Group is exposed to, or has rights to, variable returns from its involvement with the entity and has the ability to affect those returns through its power over the entity. Subsidiaries are consolidated from the date on which control is transferred to the Group. They are deconsolidated from the date that control ceases.

Intercompany transactions, balances and unrealised gains on transactions between group companies are eliminated. Unrealised losses are also eliminated unless the transaction provides evidence of an impairment of the transferred asset. Accounting policies of subsidiaries have been changed where necessary to ensure consistency with the policies adopted by the Group.

Non-controlling interests in the results and equity of subsidiaries are shown separately in the consolidated statement of comprehensive income, consolidated statement of changes in equity and consolidated statement of financial position respectively.

(b) Changes in ownership interests

The Group treats transactions with non-controlling interests that do not result in a loss of control as transactions with equity owners of the Group. A change in ownership interest results in an adjustment between the carrying amounts of the controlling and non-controlling interests to reflect their relative interests in the subsidiary. Any difference between the amount of the adjustment to non-controlling interests and any consideration paid or received is recognised in a separate reserve within equity attributable to owners of the Company.

When the Group ceases to consolidate for an investment because of a loss of control, any retained interest in the entity is remeasured to its fair value with the change in carrying amount recognised in profit or loss. This fair value becomes the initial carrying amount for the purposes of subsequently accounting for the retained interest as an associate, joint venture or financial asset. In addition, any amounts previously recognised in other comprehensive income in respect of that entity are accounted for as if the Group had directly disposed of the related assets or liabilities. This may mean that amounts previously recognised in other comprehensive income are reclassified to profit or loss or transferred to another category of equity as specified/permitted by applicable HKFRSs.

(c) Business combinations

The acquisition method of accounting is used to account for all business combinations, regardless of whether equity instruments or other assets are acquired. The consideration transferred for the acquisition of a subsidiary comprises the:

- fair values of the assets transferred
- liabilities incurred to the former owners of the acquired business
- equity interests issued by the Group
- fair value of any asset or liability resulting from a contingent consideration arrangement, and
- fair value of any pre-existing equity interest in the subsidiary.

Identifiable assets acquired and liabilities and contingent liabilities assumed in a business combination are, with limited exceptions, measured initially at their fair values at the acquisition date. The Group recognises any non-controlling interest in the acquired entity on an acquisition-by-acquisition basis either at fair value or at the non-controlling interest's proportionate share of the acquired entity's net identifiable assets.

Acquisition-related costs are expensed as incurred.

2 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES *(continued)*

2.3 Principles of consolidation *(continued)*

(c) Business combinations *(continued)*

The excess of the

- consideration transferred,
- amount of any non-controlling interest in the acquired entity, and
- acquisition-date fair value of any previous equity interest in the acquired entity

over the fair value of the net identifiable assets acquired is recorded as goodwill. If those amounts are less than the fair value of the net identifiable assets of the business acquired, the difference is recognised directly in profit or loss as a bargain purchase.

Contingent consideration is classified either as equity or a financial liability. Amounts classified as a financial liability are subsequently remeasured to fair value with changes in fair value recognised in profit or loss.

If the business combination is achieved in stages, the acquisition date carrying value of the acquirer's previously held equity interest in the acquiree is remeasured to fair value at the acquisition date. Any gains or losses arising from such remeasurement are recognised in profit or loss.

2.4 Separate financial statements

Interests in subsidiaries are accounted for at cost less impairment. Cost includes direct attributable costs of investment. The results of subsidiaries are accounted for by the Company on the basis of dividend received and receivable.

Impairment testing of the interests in subsidiaries is required upon receiving a dividend from these investments if the dividend exceeds the total comprehensive income of the subsidiary in the period the dividend is declared or if the carrying amount of the investment in the separate financial statements exceeds the carrying amount in the consolidated financial statements of the investee's net assets including goodwill.

2.5 Segment reporting

Operating segments are reported in a manner consistent with the internal reporting provided to the chief operating 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 that make strategic decisions.

2.6 Foreign currency translation

(a) Functional and presentation currency

Items included in the financial statements of each of the Group's entities are measured using the currency of the primary economic environment in which the entity operates (the "**functional currency**"). These financial statements are presented in HK$, which is the Group's and the Company's presentation currency.

2 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES *(continued)*

2.6 Foreign currency translation *(continued)*

(b) Transactions and balances

Foreign currency transactions are translated into the functional currency using the exchange rates prevailing at the dates of the transactions or valuation when items are re-measured. Foreign exchange gains and losses resulting from the settlement of such transactions and from the translation of monetary assets and liabilities denominated in foreign currencies at year-end exchange rates are recognised in the consolidated statement of comprehensive income within “Other gains — net”.

(c) Group companies

The results and financial position of all the Group’s entities (none of which has the currency of a hyperinflationary economy) that have a functional currency different from the presentation currency are translated into the presentation currency as follows:

- assets and liabilities for each statement of financial position presented are translated at the closing rate at the date of that statement;

- income and expenses for each statement of comprehensive income are translated at average exchange rates (unless this average is not a reasonable approximation of the cumulative effect of the rates prevailing on the transaction dates, in which case income and expenses are translated at the rate on the dates of the transactions); and

- all resulting exchange differences are recognised in other comprehensive income.

Goodwill and fair value adjustments arising on the acquisition of a foreign entity are treated as assets and liabilities of the foreign entity and translated at closing rate. Exchange differences arising are recognised in other comprehensive income.

2.7 Property, plant and equipment

Property, plant and equipment are stated at historical cost less depreciation. Historical cost includes expenditure that is directly attributable to the acquisition of the items.

Subsequent costs are included in the asset’s carrying amount or recognised as a separate asset, as appropriate, only when it is probable that future economic benefits associated with the item will flow to the Group and the cost of the item can be measured reliably. The carrying amount of the replaced part is derecognised. All other repairs and maintenance are charged to profit or loss during the periods in which they are incurred. Depreciation on property, plant and equipment is calculated using the straight-line method to allocate their cost to their residual values over their estimated useful lives, as follows:

- Plant and buildings — 3-20 years
- Leasehold improvements — 5 years
- Machinery — 3-10 years
- Office equipment — 3-5 years

The assets’ residual values and useful lives are reviewed, and adjusted if appropriate, at the end of each reporting period.

2 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES *(continued)*

2.7 Property, plant and equipment *(continued)*

An asset's carrying amount is written down immediately to its recoverable amount if the asset's carrying amount is greater than its estimated recoverable amount.

Gains and losses on disposals are determined by comparing the proceeds with the carrying amount and are recognised within "Other gains — net" in the consolidated statement of comprehensive income.

Construction in progress represent decorations to buildings under construction, and are stated at cost. Costs include construction costs. No provision for depreciation is made on construction in progress until such time as the relevant assets are completed and ready for intended use. When the assets concerned are brought into use, the costs are transferred to property, plant and equipment and depreciated in accordance with the policy as stated above.

2.8 Intangible assets

(a) Patent and technology

Patent and technology that the Group acquired in a business combination are recognised at fair value at the acquisition date. They are subsequently carried at cost less accumulated amortisation. Amortisation is calculated using the straight-line method to allocate the cost of patent and technology over their estimated useful lives of 3 years.

(b) Computer software

Acquired computer software is capitalised on the basis of costs incurred to acquire and bring to use the specific software. These costs are amortised over their estimated useful lives of 2 years.

(c) License

Acquired license is capitalised on the basis of costs incurred to acquire and are amortised over its useful live.

2.9 Impairment of non-financial assets

Assets are tested for impairment whenever events or changes in circumstances indicate that the carrying amount may not be recoverable. An impairment loss is recognised for the amount by which the asset's carrying amount exceeds its recoverable amount. The recoverable amount is the higher of an asset's fair value less costs of disposal and value in use. For the purposes of assessing impairment, assets are grouped at the lowest levels for which there are separately identifiable cash inflows which are largely independent of the cash inflows from other assets or groups of assets (cash-generating units). Non-financial assets other than goodwill that suffered impairment are reviewed for possible reversal of the impairment at the end of each reporting period.

2 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES *(continued)*

2.10 Investments and other financial assets

(a) Classification

The Group classifies its financial assets in the following measurement categories:

- those to be measured subsequently at fair value (either through other comprehensive income, or through profit or loss), and

- those to be measured at amortised cost.

The classification depends on the Group's business model for managing the financial assets and the contractual terms of the cash flows.

For assets measured at fair value, gains and losses will either be recorded in profit or loss or other comprehensive income. For investments in equity instruments that are not held for trading, this will depend on whether the Group has made an irrevocable election at the time of initial recognition to account for the equity investment at fair value through other comprehensive income ("**FVOCI**").

The Group reclassifies debt investments when and only when its business model for managing those assets changes.

(b) Recognition and derecognition

Regular way purchases and sales of financial assets are recognised on trade-date, the date on which the Group commits to purchase or sell the asset. Financial assets are derecognised when the rights to receive cash flows from the financial assets have expired or have been transferred and the Group has transferred substantially all the risks and rewards of ownership.

(c) Measurement

At initial recognition, the Group measures a financial asset at its fair value plus, in the case of a financial asset not at FVPL, transaction costs that are directly attributable to the acquisition of the financial asset. Transaction costs of financial assets carried at FVPL are expensed in profit or loss.

Debt instruments

Subsequent measurement of debt instruments depends on the Group's business model for managing the asset and the cash flow characteristics of the asset.

Trade and notes receivable, contract assets and other receivables that are held for collection of contractual cash flows where those cash flows represent solely payments of principal and interest are measured at amortised cost. Interest income from these financial assets is included in finance income using the effective interest rate method. Any gain or loss arising on derecognition is recognised directly in profit or loss and presented in "Other gains — net" (if any), together with foreign exchange gains and losses. Impairment losses are presented as separate line item in the consolidated statement of comprehensive income.

2 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES *(continued)*

2.10 Investments and other financial assets *(continued)*

(c) Measurement *(continued)*

Equity instruments

The Group subsequently measures all equity investments at fair value. Where the Group's management has elected to present fair value gains and losses on equity investments in other comprehensive income, there is no subsequent reclassification of fair value gains and losses to profit or loss following the derecognition of the investment. Dividends from such investments continue to be recognised in profit or loss as other income when the Group's right to receive payments is established.

Changes in the fair value of financial assets at FVPL are recognised in "Other gains — net" in the consolidated statement of comprehensive income as applicable. Impairment losses (and reversal of impairment losses) on equity investments measured at FVOCI are not reported separately from other changes in fair value.

(d) Impairment

The Group assesses on a forward-looking basis the expected credit losses associated with its debt instruments carried at amortised cost. The impairment methodology applied depends on whether there has been a significant increase in credit risk.

For trade and notes receivable, the Group applies the simplified approach permitted by HKFRS 9, which requires expected lifetime losses to be recognised from initial recognition of the assets. Impairment on other receivables is measured as either 12-month expected losses or lifetime expected losses. If a significant increase in credit risk of a receivable occurred since initial recognition, then impairment is measured as lifetime expected credit losses.

2.11 Offsetting financial instruments

Financial assets and liabilities are offset and the net amount reported in the consolidated statement of financial position when there is a legally enforceable right to offset the recognised amounts and there is an intention to settle on a net basis or realise the asset and settle the liability simultaneously. The legally enforceable right must not be contingent on future events and must be enforceable in the normal course of business and in the event of default, insolvency or bankruptcy of the company or the counterparty.

2.12 Inventories

Inventories are stated at the lower of cost and net realisable value. Cost is determined using the weighted average method. The cost of finished goods comprises raw materials, direct labour, other direct costs and related production overheads (based on normal operating capacity). It excludes borrowing costs. Net realisable value is the estimated selling price in the ordinary course of business less the estimated costs of completion and the estimated costs necessary to make the sale.

2 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES *(continued)*

2.13 Trade and notes receivable

Trade and notes receivable are amounts due from customers for goods sold or services performed in the ordinary course of business. If collection of trade and notes receivable is expected in one year or less (or in the normal operating cycle of the business if longer), they are classified as current assets. If not, they are presented as non-current assets.

Trade and notes receivable are recognised initially at the amount of consideration that is unconditional unless they contain significant financing components, when they are recognised at fair value. The Group holds the trade and notes receivable with the objective to collect the contractual cash flows and therefore measures them subsequently at amortised cost using the effective interest method. See Note 2.10 for further information about the Group's accounting for trade and notes receivable and for a description of the Group's impairment policies.

2.14 Cash and cash equivalents

In the consolidated statements of cash flows, cash and cash equivalents includes cash on hand and deposits held at call with banks. Bank deposits which are restricted to use are included in "Restricted cash at banks". Restricted cash at banks are excluded from cash and cash equivalents.

2.15 Share capital

Ordinary shares are classified as equity. Incremental costs directly attributable to the issuance of new shares are shown in equity as a deduction, net of tax, from the proceeds.

2.16 Trade and other payables

Trade and other payables represent liabilities for goods and services provided to the Group prior to the end of financial year which are unpaid. Accounts payable are classified as current liabilities if payment is due within one year or less (or in the normal operating cycle of the business if longer). If not, they are presented as non-current liabilities.

Trade and other payables are recognised initially at fair value and subsequently measured at amortised cost using the effective interest method.

2.17 Current and deferred income tax

The income tax expense for the period is the tax payable on the current period's taxable income based on the applicable income tax rate for each jurisdiction adjusted by changes in deferred tax assets and liabilities attributable to temporary differences and to unused tax losses.

(a) Current income tax

The current income tax charge is calculated on the basis of the tax laws enacted or substantively enacted at the end of the reporting period in the countries where the Group's entities operate and generate taxable income. Management periodically evaluates positions taken in tax returns with respect to situations in which applicable tax regulation is subject to interpretation. It establishes provisions where appropriate on the basis of amounts expected to be paid to the tax authorities.

2 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES *(continued)*

2.17 Current and deferred income tax *(continued)*

(b) Deferred income tax

Deferred income tax is provided in full, using the liability method, on temporary differences arising between the tax bases of assets and liabilities and their carrying amounts in the consolidated financial statements. However, deferred tax liabilities are not recognised if they arise from the initial recognition of goodwill. Deferred income tax is also not accounted for if it arises from initial recognition of an asset or liability in a transaction other than a business combination that at the time of the transaction affects neither accounting nor taxable profit or loss. Deferred income tax is determined using tax rates (and laws) that have been enacted or substantially enacted by the end of the reporting period and are expected to apply when the related deferred income tax asset is realised or the deferred income tax liability is settled.

Deferred tax assets are recognised only if it is probable that future taxable amounts will be available to utilise those temporary differences and losses.

Deferred tax liabilities and assets are not recognised for temporary differences between the carrying amount and tax bases of investments in foreign operations where the company is able to control the timing of the reversal of the temporary differences and it is probable that the differences will not reverse in the foreseeable future.

Deferred tax assets and liabilities are offset when there is a legally enforceable right to offset current tax assets and liabilities and when the deferred tax balances relate to the same taxation authority. Current tax assets and tax liabilities are offset where the entity has a legally enforceable right to offset and intends either to settle on a net basis, or to realise the asset and settle the liability simultaneously.

Current and deferred tax is recognised in profit or loss, except to the extent that it relates to items recognised in other comprehensive income or directly in equity. In this case, the tax is also recognised in other comprehensive income or directly in equity, respectively.

2.18 Employee benefits

In accordance with the rules and regulations in the PRC, the PRC based employees of the Group participate in various defined contribution retirement benefit plans organised by the relevant municipal and provincial governments in the PRC under which the Group and the PRC based employees are required to make monthly contributions to these plans calculated as a percentage of the employees' salaries.

The municipal and provincial governments undertake to assume the retirement benefit obligations of all existing and future retired PRC based employees' payable under the plans described above. Other than the monthly contributions, the Group has no further obligation for the payment of retirement and other post-retirement benefits of its employees. The assets of these plans are held separately from those of the Group in independently administrated funds managed by the PRC government.

2 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES *(continued)*

2.18 Employee benefits *(continued)*

The Group also participates in a pension scheme under the rules and regulations of the Mandatory Provident Fund Scheme Ordinance ("**MPF Scheme**"), which is a defined contribution retirement scheme for all employees in Hong Kong. The contributions to the MPF Scheme are based on minimum statutory contribution requirement of 5% of eligible employees' relevant aggregate income. The monthly contributions of each of the group company and its employees are subject to a cap of HK$1,500 and thereafter contributions are voluntary. The assets of this pension scheme are held separately from those of the Group in independently administered funds.

The Group's contributions to the defined contribution retirement schemes are expensed as incurred.

2.19 Share-based payments

The Group operates an equity-settled, share-based compensation plan, under which the entity receives services from employees as consideration for equity instruments (options) of the Group. The fair value of the employee services received in exchange for the grant of the options is recognised as an expense. The total amount to be expensed is determined by reference to the fair value of the options granted:

- including any market performance conditions (for example, an entity's share price);
- excluding the impact of any service and non-market performance vesting conditions (for example, profitability, sales growth targets and remaining an employee of the entity over a specified time period); and
- including the impact of any non-vesting conditions (for example, the requirement for employees to save or holding shares for a specified period of time).

The total expense is recognised over the vesting period, which is the period over which all of the specified vesting conditions are to be satisfied. At the end of each reporting period, the Group revises its estimates of the number of options that are expected to vest based on non-marketing performance and service conditions. It recognises the impact of the revision to original estimates, if any, in profit or loss, with a corresponding adjustment to equity.

In addition, in some circumstances employees may provide services in advance of the grant date and therefore the grant date fair value is estimated for the purposes of recognising the expense during the period between service commencement period and grant date.

When the options are exercised, the Company issues new shares. The proceeds received net of any directly attributable transaction costs are credited to share capital (nominal value) and share premium.

2 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES *(continued)*

2.20 Revenue recognition

Revenue is measured at the fair value of the consideration received or receivable for the sales of cigarette packaging materials and rendering of environmental treatment services in the ordinary course of the Group's activities. Revenue is shown, net of discounts and after eliminating sales with the Group companies. The Group recognises revenue when specific criteria have been met for each of the Group's activities, as described below.

(a) Sales of goods

Sales of goods are recognised when a group entity has delivered products to the customer; the customer has accepted the products and collectability of the related receivables is reasonably assured.

(b) Rendering of construction services for environmental treatment business

Revenues are recognised when or as the control of the asset under construction is transferred to the customer. Depending on the terms of the contract and the laws that apply to the contract, control of the asset may transfer over time or at a point in time. Control of the asset is transferred over time if the Group's performance:

- provides all of the benefits received and consumed simultaneously by the customer; or
- creates and enhances an asset that the customer controls as the Group performs; or
- do not create an asset with an alternative use to the Group and the Group has an enforceable right to payment for performance completed to date.

If control of the asset transfers over time, revenue is recognised over the period of the contract by reference to the progress towards complete satisfaction of that performance obligation. Otherwise, revenue is recognised at a point in time when the customer obtains control of the asset.

The progress towards complete satisfaction of the performance obligation is measured based on the Group's efforts or inputs to the satisfaction of the performance obligation, by reference to the contract costs incurred up to the end of reporting period as a percentage of total estimated costs for each contract.

The excess of cumulative revenue recognised over the cumulative billings to customers is recognised as contract assets. The excess of cumulative billings to customers over the cumulative revenue recognised is recognised as contract liabilities.

(c) Rendering of other services

Revenue from maintenance service is recognised when the service is rendered.

2 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES *(continued)*

2.21 Earnings per share

(a) Basic earnings per share

Basic earnings per share is calculated by dividing:

- the profit attributable to owners of the Company, excluding any costs of servicing equity other than ordinary shares

- by the weighted average number of ordinary shares outstanding during the financial year, adjusted for bonus elements in ordinary shares issued during the year and excluding treasury shares.

(b) Diluted earnings per share

Diluted earnings per share adjusts the figures used in the determination of basic earnings per share to take into account:

- the after income tax effect of interest and other financing costs associated with dilutive potential ordinary shares, and

- the weighted average number of additional ordinary shares that would have been outstanding assuming the conversion of all dilutive potential ordinary shares.

2.22 Leases

As explained in Note 2.2 above, the Group has changed its accounting policy for leases where the Group is the lessee. The new policy is described below and the impact of the change is described in Note 2.2.

Until 31 March 2019, leases in which a significant portion of the risks and rewards of ownership were not transferred to the Group as lessee were classified as operating leases (Note 31(b)). Payments made under operating leases (net of any incentives received from the lessor) were recognised as expenses in consolidated statement of comprehensive income on a straight-line basis over the period of the lease.

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.

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

- payments of penalties for terminating the lease, if the lease term reflects the Group exercising that option.

Lease payments to be made under reasonably certain extension options are also included in the measurement of the liability.

2 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES *(continued)*

2.22 Leases *(continued)*

The lease payments are discounted using the interest rate implicit in the lease. If that rate cannot be readily determined, which is generally the case for leases in the Group, the lessee's incremental borrowing rate is used, being the rate that the individual lessee would have to pay to borrow the funds necessary to obtain an asset of similar value to the right-of-use asset in a similar economic environment with similar terms, security and conditions.

To determine the incremental borrowing rate, the Group:

- uses a build-up approach that starts with a risk-free interest rate adjusted for credit risk for leases held by the Group, which does not have recent third party financing, and

- makes adjustments specific to the lease, for example, term, country, currency and security.

Lease payments are allocated between principal 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.

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

- the amount of the initial measurement of lease liability

- any lease payments made at or before the commencement date less any lease incentives received

- any initial direct costs, and

- restoration costs.

Right-of-use assets are generally depreciated over the shorter of the asset's useful life and the lease term on a straight-line basis.

Payments associated with short-term leases and all 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. Low-value assets comprise office equipments.

Prepaid operating lease made for the land-use rights are recognised as right-of-use asset and is expenses in profit or loss on a straight-line basis over the period of the right of 50 years.

2.23 Interest Income

Interest income is presented as finance income where it is earned from financial assets that are held for cash management purposes. Any other interest income is included in other income.

Interest income is calculated by applying the effective interest rate to the gross carrying amount of a financial asset except for financial assets that subsequently become credit-impaired. For credit-impaired financial assets the effective interest rate is applied to the net carrying amount of the financial asset (after deduction of the loss allowance).

2 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES *(continued)*

2.24 Research and development

Research expenditures are recognised as an expense as incurred. Costs incurred on development projects (relating to the design and testing of new or improved products) are recognised as intangible assets when the following criteria are fulfilled:

- it is technically feasible to complete the intangible asset so that it will be available for use or sale;
- management intends to complete the intangible asset and use or sell it;
- there is an ability to use or sell the intangible asset;
- it can be demonstrated how the intangible asset will generate probable future economic benefits;
- adequate technical, financial and other resources to complete the development and to use or sell the intangible asset are available; and
- the expenditure attributable to the intangible asset during its development can be reliably measured.

Other development expenditures that do not meet these criteria are recognised as an expense as incurred. Development costs previously recognised as an expense are not recognised as an asset in a subsequent period. Capitalised development costs are recorded as intangible assets and amortised from the point at which the asset is ready for use on a straight-line basis over its useful life.

2.25 Dividend distribution

Dividend distribution to the Company's shareholders is recognised as a liability in the Group's and the Company's financial statements in the period in which the dividends are approved by the Company's shareholders or directors, where appropriate.

3 FINANCIAL RISK MANAGEMENT

3.1 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.

(a) Market risk

(i) Foreign exchange risk

The Group operates in the PRC with most transactions being settled in RMB, which is the functional currency of the Group's operating subsidiaries in the PRC. Certain transactions are settled in HK$ and US dollar ("**US$**"). The Group currently does not have a foreign currency hedging policy, and manages its foreign currency risk by closely monitoring the movement of the foreign currency rates.

3 FINANCIAL RISK MANAGEMENT *(continued)*

3.1 Financial risk factors *(continued)*

(a) Market risk *(continued)*

(i) Foreign exchange risk (continued)

The carrying amount of the Group's foreign currency denominated monetary assets and liabilities are as follows:

	31 December 2019 HK$'000	31 March 2019 HK$'000
Denominated in HK$		
— Cash and cash equivalents	**16,304**	4,504
— Trade receivables	**100**	–
— Financial assets at FVPL	**11,775**	11,498
— Other receivables	**396**	366
— Other payables and accruals	**(797)**	(1,483)
	27,778	14,885
Denominated in US$		
— Cash and cash equivalents	**338**	337

As at 31 December 2019, if RMB had strengthened/weakened by 5% (31 March 2019: 5%) against the relevant foreign currencies with all other variables held constant, post-tax profit for the year would have been approximately HK$1,174,000 (31 March 2019: HK$761,000) lower/higher.

(ii) Cash flow and fair value interest rate risk

The Group's interest rate risk mainly arises from loans to third parties and deposits and restricted cash held in banks which are interest bearing.

The annual interest rates of the Group's deposits and restricted cash held in banks throughout the nine months ended 31 December 2019 ranged from 0.001% to 1.56% (year ended 31 March 2019: 0.35% to 1.65%). As at 31 December 2019, if the market interest rates had been 50 basis points (31 March 2019: 50 basis points) higher/lower with all other variables held constant, post-tax profit for the nine months ended 31 December 2019 would have been HK$853,000 (year ended 31 March 2019: HK$1,140,000) higher/lower, mainly as a result of higher/lower interest income on deposits and restricted cash held in banks.

(iii) Price risk

The Group is not exposed to significant commodity price risk. Also, the Group has not entered into any long term contracts with suppliers and the Group can usually pass on any material fluctuations in the raw materials prices to its customers.

As at 31 December 2019, if the price of the listed securities has increased/decreased by 10% (31 March 2019: 10%) with all other variables being held constant, post-tax profit for the nine months ended 31 December 2019 would have increased/decreased by HK$2,086,000 (year ended 31 March 2019: HK$2,413,000).

3 FINANCIAL RISK MANAGEMENT *(continued)*

3.1 Financial risk factors *(continued)*

(b) 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, contract assets and other receivables.

As at 31 December 2019, substantially all (31 March 2019: same) of 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 31 December 2019, approximately 96.0% (31 March 2019: 98.1%) of the Group's trade receivables were due from the five largest customers, which are prominent cigarette manufacturers, government or public institutions in the PRC.

None of the Group's trade receivables 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 ageing status, future cash flows 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 consolidated financial statements after assessing the collectability of individual debts.

(c) 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 the end of the reporting period. Those 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.

3 FINANCIAL RISK MANAGEMENT *(continued)*

3.1 Financial risk factors *(continued)*

(c) Liquidity risk *(continued)*

	Within 1 year HK$'000	**1 to 2 years HK$'000**	**2 to 5 years HK$'000**	**Total HK$'000**
As at 31 December 2019				
Trade and notes payable	**92,070**	**–**	**–**	**92,070**
Lease liabilities	**2,062**	**1,992**	**1,190**	**5,244**
Other payables and accruals	**11,535**	**447**	**446**	**12,428**
	105,667	**2,439**	**1,636**	**109,742**

	Within 1 year HK$'000	1 to 2 years HK$'000	2 to 5 years HK$'000	Total HK$'000
As at 31 March 2019				
Trade and notes payable	71,380	–	–	71,380
Other payables and accruals	11,953	467	466	12,886
	83,333	467	466	84,266

3.2 Capital management

The Group's objectives when managing capital are to safeguard the Group's ability to continue as a going concern in order to provide returns for shareholders and benefits for other stakeholders and to maintain an optimal capital structure to reduce the cost of capital.

In order to maintain or adjust the capital structure, the Group may adjust the amount of dividends paid to shareholders, return capital to shareholders, issue new shares or sell assets to reduce debt.

The Group monitors capital on the basis of the gearing ratio. This ratio is calculated as net borrowings divided by total capital. Net borrowings are calculated as borrowings plus lease liabilities less cash and cash equivalents. Total capital is calculated as "total equity" as shown in the financial statements plus net borrowings.

No gearing ratio is presented as the Group had net cash surplus as at 31 December 2019 (31 March 2019: same).

3 FINANCIAL RISK MANAGEMENT *(continued)*

3.3 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 FVPL	
At 31 December 2019	**24,746**
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.

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 nine months ended 31 December 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 (year ended 31 March 2019: same).

3.4 Fair value of financial assets and liabilities measured at amortised cost

The carrying amounts of the Group's trade and notes receivable, other receivables, trade and notes payable and other payables and accruals approximate their fair values due to their short maturities.

4 CRITICAL ACCOUNTING ESTIMATES AND JUDGEMENTS

The preparation of financial statements requires the use of accounting estimates which, by definition, will seldom equal the actual results. Management also needs to exercise judgement in applying the Group's accounting policies.

Estimates and judgements are continually evaluated. They are based on historical experience and other factors, including expectations of future events that may have a financial impact on the entity and that are believed to be reasonable under the circumstances.

4.1 Recognition of revenue from construction services for environmental treatment business

The Group recognises the revenue over time based on the percentage of completion, using input methods in accordance with HKFRS 15. The percentage of completion is determined by the aggregated cost for the individual contract incurred at the end of the reporting period compared with the estimated budgeted cost. The Group reviews and revises the estimates of contract revenue, budget costs and variation orders, if any for each construction contract as the contract progresses and regularly reviews the progress of the contracts.

4.2 Income taxes and deferred taxation

The Group is primarily subject to income taxes in the PRC and Hong Kong. Significant judgement is required in determining the provision for income taxes. There are many transactions and calculations for which the ultimate determination is uncertain during the ordinary course of business. Where the final tax outcome of these matters is different from the amounts that were initially recorded, such difference will impact the income tax and deferred tax provision in the period in which such determination is made.

4.3 Estimated impairment of non-current assets

Non-current assets including property, plant and equipment, intangible assets, right-of-use assets and prepayments for non-current assets are reviewed for impairment whenever events or changes in circumstances indicate that the carrying amounts may not be recoverable. The recoverable amounts have been determined based on the higher of value-in-use calculations or fair value less costs to sell calculations. The calculations require the use of judgements and estimates. Management judgement is required in the area of asset impairment particularly in assessing:

- whether an event has occurred that may indicate that the related asset values may not be recoverable;

- whether the carrying value of an asset can be supported by the recoverable amount, being the higher of fair value less costs to sell and net present value of future cash flows which are estimated based upon the continued use of the asset in the business; and

- the appropriate key assumptions to be applied in preparing cash flow projections including whether these cash flow projections are discounted using an appropriate rate.

Changing the assumptions selected by management in assessing impairment, including the discount rates or the growth rate assumptions in the cash flow projections, could affect the net present value used in the impairment test and as a result affect the Group's financial position and results of operations.

4 CRITICAL ACCOUNTING ESTIMATES AND JUDGEMENTS *(continued)*

4.4 Estimated impairment of inventories

The Group estimates the net realisable value of inventories. Net realisable value is determined based on the estimated selling price in the ordinary course of business, less the estimated costs to completion and estimated costs necessary to make the sale and related taxes. Even if the Group has made stock provision for the expected impairment at its best estimate, there is a possibility that changes in market conditions will alter the result.

4.5 Estimated impairment of receivables and contract assets

The Group records impairment of receivables and contract assets with an assessment made by management on the expected credit losses of these assets. The Group uses judgement in making these assumptions and selecting the inputs to the impairment calculation, based on the Group's past history, existing market conditions as well as forward-looking estimates at the end of each reporting period.

Where the expectation is different from the original estimate, such difference will impact both the carrying value of these assets and the impairment charge in the period in which such estimate has been changed.

5 SEGMENT INFORMATION

Management has determined the operating segments based on the reports reviewed by the 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 nine months ended 31 December 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 arising from financial assets at FVPL.

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 payments for acquisition of property, plant and equipment, intangible assets, prepayments for non-current assets and right-of-use assets.

5 SEGMENT INFORMATION *(continued)*

(a) The segment results and other segment items of the Group for the nine months ended 31 December 2019 are as follows:

	Cigarette Packaging Business HK$'000	Environmental Treatment Business HK$'000	The Group HK$'000
Revenue	**163,329**	**150,137**	**313,466**
Segment results	**44,449**	**43,678**	**88,127**
Other gains arising from financial assets at FVPL			**5,064**
Operating profit			**93,191**
Finance income			**7,068**
Profit before income tax			**100,259**
Income tax expense			**(18,777)**
Profit for the period			**81,482**
Other segment item Depreciation and amortisation	**3,431**	**7,091**	**10,522**

The segment results and other segment items of the Group for the year ended 31 March 2019 are as follows:

	Cigarette Packaging Business HK$'000	Environmental Treatment Business HK$'000	The Group HK$'000
Revenue	216,530	45,657	262,187
Segment results	53,994	5,137	59,131
Other gains arising from financial assets at FVPL			860
Operating profit			59,991
Finance income			9,083
Profit before income tax			69,074
Income tax expense			(13,624)
Profit for the year			55,450
Other segment item Depreciation and amortisation	4,539	3,357	7,896

5 SEGMENT INFORMATION *(continued)*

(b) The segment assets and liabilities at 31 December 2019 are as follows:

	Cigarette Packaging Business HK$'000	Environmental Treatment Business HK$'000	Inter-segment elimination HK$'000	The Group HK$'000
Segment assets	**429,516**	**200,772**	**(127,906)**	**502,382**
Financial assets at FVPL				**24,746**
Deferred tax assets				**2,727**
Total assets				**529,855**
Segment liabilities	**84,443**	**165,102**	**(127,906)**	**121,639**
Current income tax liabilities				**16,802**
Deferred tax liabilities				**8,309**
Total liabilities				**146,750**
Capital expenditures	**2,702**	**8,971**	**–**	**11,673**

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$'000	The Group HK$'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

6 REVENUE

	Nine months ended 31 December 2019 HK$'000	Year ended 31 March 2019 HK$'000
Sales of cigarette packaging products	**163,329**	216,530
Revenue from construction and maintenance contracts		
— Construction services	**147,133**	41,506
— Maintenance services	**3,004**	4,151
	150,137	45,657
	313,466	262,187

Except for the customers listed below, no other customers individually accounted for more than 10% of the Group's revenue for the period/year:

	Nine months ended 31 December 2019	Year ended 31 March 2019
Customer A	**46.2%**	Not applicable*
Customer B	**33.2%**	55.9%
Customer C	**13.7%**	21.5%
Customer D	**Not applicable***	10.7%

Note:* The revenue of each customer was less than 10% of the Group's revenue for the respective period/year.

Majority of the Group's revenue derived from customers in the PRC for the nine months ended 31 December 2019 (year ended 31 March 2019: same).

6 REVENUE *(continued)*

(a) Assets and liabilities related to contracts with customers

The Group has recognised the following assets and liabilities related to contracts with customers:

	31 December 2019 HK$'000	31 March 2019 HK$'000
Contract assets relating to construction contracts	10,115	990
Contract liabilities relating to construction contracts	–	2,904

(i) Significant changes in contract assets and liabilities

Contract assets have increased as the Group has engaged in more construction projects with higher contractual amount in current period.

Contract liabilities have decreased along with the progress of the construction.

(ii) Revenue recognised in relation to contract liabilities

The following table shows how much of the revenue recognised in the current reporting period relates to carried-forward contract liabilities:

	Nine months ended 31 December 2019 HK$'000	Year ended 31 March 2019 HK$'000
Revenue recognised that was included in the contract liabilities balance at the beginning of the period/year	2,904	–

(iii) Unsatisfied contracts

All contracts were for periods of one year or less or were billed based on time incurred. As permitted under HKFRS 15, the transaction price allocated to these unsatisfied contracts is not disclosed.

7 EXPENSES BY NATURE

	Nine months ended 31 December 2019 HK$'000	Year ended 31 March 2019 HK$'000
Cost of inventories sold	**83,283**	121,735
Raw materials consumed and subcontracting costs for construction contracts	**86,067**	24,057
Staff costs (including directors' emoluments) *(Note 8)*	**27,823**	29,136
Depreciation and amortisation		
— Depreciation of property, plant and equipment *(Note 15)*	**4,641**	5,246
— Depreciation of right-of-use assets *(Note 16)*	**755**	156
— Amortisation of intangible assets *(Note 17)*	**5,126**	2,494
Utilities	**3,612**	4,618
Other taxes and surcharge	**1,798**	3,336
Auditor's remuneration		
— Audit services	**1,582**	1,487
— Non-audit services	**203**	187
Transportation expenses	**1,280**	1,752
Expense relating to operating leases not recognised as liabilities *(Note 16)*	**992**	1,617
Travelling expenses	**714**	655
Office expenses	**569**	870
Other expenses	**7,501**	6,900
Total cost of sales, distribution costs and administrative expenses	**225,946**	204,246

8 STAFF COSTS (INCLUDING DIRECTORS' EMOLUMENTS)

	Nine months ended 31 December 2019 HK$'000	Year ended 31 March 2019 HK$'000
Salaries, wages, bonuses, welfare and other benefits	**26,314**	27,008
Contributions to pension plans	**1,509**	1,831
Value of employee services under share option scheme *(Note 27(c))*	**–**	297
	27,823	29,136

8 STAFF COSTS (INCLUDING DIRECTORS' EMOLUMENTS) *(continued)*

(a) Directors' emoluments

The remuneration of each director of the Company are set out below:

	Fees HK$'000	Salaries and allowances HK$'000	Employer's contribution to retirement benefit schemes HK$'000	Value of employee services under share option scheme HK$'000	Total HK$'000
Nine months ended 31 December 2019					
Executive:					
Mr. Zheng Andy Yi Sheng *(i)*	375	91	8	–	474
Mr. Zheng Minsheng	300	91	8	–	399
Non-executive:					
Mr. Hao Jiming *(ii)*	85	–	–	–	85
Independent non-executive:					
Mr. Lau Kwok Hung	90	–	–	–	90
Mr. Ma Wenming	90	–	–	–	90
Mr. Fok Po Tin	90	–	–	–	90
	1,030	182	16	–	1,228
Year ended 31 March 2019					
Executive:					
Mr. Zheng Andy Yi Sheng *(i)*	500	104	18	–	622
Mr. Zheng Minsheng	400	104	18	9	531
Independent non-executive:					
Mr. Lau Kwok Hung	120	–	–	3	123
Mr. Ma Wenming	120	–	–	3	123
Mr. Fok Po Tin	120	–	–	3	123
	1,260	208	36	18	1,522

(i) Mr. Zheng Andy Yi Sheng is the chief executive officer of the Company.

(ii) Mr. Hao Jiming was appointed as an non-executive director of the Company on 15 April 2019.

8 STAFF COSTS (INCLUDING DIRECTORS' EMOLUMENTS) *(continued)*

(b) Benefits and interests of directors

During the nine months ended 31 December 2019, none of the directors waived or agreed to waive any emoluments (year ended 31 March 2019: same) and no emoluments were paid by the Group to any of the directors or the five highest paid individuals as an inducement to join or upon joining the Group or as compensation for loss of office (year ended 31 March 2019: same).

For the nine months ended 31 December 2019, no retirement benefits, payments or benefits in respect of termination of directors' services were paid or made, directly or indirectly, to the directors; nor are any payable (year ended 31 March 2019: same). No consideration was provided to or receivable by third parties for making available directors' services (year ended 31 March 2019: same). There are no loans, quasi-loans or other dealings in favour of the directors, their controlled bodies corporate and connected entities (year ended 31 March 2019: same).

No directors of the Company and their connected entities had a material interest, directly or indirectly, in any significant transactions, arrangements and contracts in relation to the Company's business to which the Company was or is a party that subsisted at the end of the nine months ended 31 December 2019 or at any time during the period (year ended 31 March 2019: same).

(c) Five highest paid individuals

The five individuals whose emoluments were the highest in the Group for the period included 2 (year ended 31 March 2019: 2) directors, whose emoluments are reflected in the analysis presented above. The emoluments payable to the remaining 3 (year ended 31 March 2019: 3) individuals during the period/year are as follows:

	Nine months ended 31 December 2019 HK$'000	Year ended 31 March 2019 HK$'000
Salaries, wages, bonuses, welfare and other benefits	**1,465**	1,610
Contributions to retirement schemes	**32**	52
Value of employee services under share option scheme	**–**	12
	1,497	1,674

The emoluments of these remaining individuals of the Group fell within the following bands:

	Nine months ended 31 December 2019	Year ended 31 March 2019
Emolument bands		
— Nil to HK$1,000,000	**3**	3

8 STAFF COSTS (INCLUDING DIRECTORS' EMOLUMENTS) *(continued)*

(d) Senior management's emoluments by band

The senior management's (excluding the directors and the five highest paid individuals) emoluments fell within the following bands:

	Nine months ended 31 December 2019	Year ended 31 March 2019
Emolument bands		
— Nil to HK$1,000,000	**3**	3

9 OTHER GAINS — NET

	Nine months ended 31 December 2019 HK$'000	Year ended 31 March 2019 HK$'000
Foreign exchange gains	**607**	1,190
Dividend income from financial assets at FVPL	**597**	526
Gain/(losses) on disposal of financial assets at FVPL	**2,040**	(888)
Unrealised gains on changes in fair value of financial assets at FVPL	**2,427**	1,222
	5,671	2,050

10 FINANCE INCOME — NET

	Nine months ended 31 December 2019 HK$'000	Year ended 31 March 2019 HK$'000
Finance income		
— Interest income from bank deposits	**699**	1,000
— Interest income from other financial assets *(a)*	**2,858**	4,193
— Interest income from loans to third parties *(b)*	**3,641**	3,890
	7,198	9,083
Finance cost		
— Interest expenses on lease liabilities *(Note 16)*	**(130)**	–
	7,068	9,083

(a) Other financial assets comprised certain non-derivative wealth management products with fixed or determinable payment terms of less than 14 days from a financial institution. As at 31 December 2019, all other financial assets were redeemed (31 March 2019: same).

(b) It represented interests from loans to third parties which were unsecured, interest bearing at a rate of 18% per annum and repayable according to the date specified in the respective loan agreements during the nine months ended 31 December 2019 (year ended 31 March 2019: same).

11 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 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 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/year. The profit of the group entities in Hong Kong is mainly derived from dividend income from subsidiaries and interest income from banks in PRC, 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, Shantou Xinda Colour Printing & Packaging Material Co. Ltd. ("**Shantou Xinda**"), the Group's 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 nine months ended 31 December 2019 (year ended 31 March 2019: 15%). Assuming that there is no change to the relevant laws and regulations, the directors assess and consider that Shantou Xinda will continue to be granted the preferential tax treatment through an application of renewal. Accordingly, tax rate of 15% has been applied when considering the deferred income tax.

According to the preferential tax policy issued by various government departments, companies engaged in pollution prevention and control can enjoy a preferential income tax rate of 15%. Shantou Hongdong Environmental Treatment Company Limited ("**Shantou Hongdong**"), 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 nine months ended 31 December 2019 (year ended 31 March 2019: 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.

	Nine months ended 31 December 2019 HK$'000	Year ended 31 March 2019 HK$'000
Current income tax		
— PRC corporate income tax	**14,772**	11,693
Deferred income tax		
— PRC corporate income tax	**619**	(39)
— Withholding income tax for profit to be distributed from subsidiaries in the PRC	**3,386**	1,970
	18,777	13,624

There were no income tax charges relating to components of other comprehensive income for the nine months ended 31 December 2019 (year ended 31 March 2019: same).

11 INCOME TAX EXPENSE *(continued)*

The tax on the Group's profit before tax differs from the theoretical amount that would arise using the tax rate applicable to profits of the consolidated entities as follows:

	Nine months ended 31 December 2019 HK$'000	Year ended 31 March 2019 HK$'000
Profit before income tax	**100,259**	69,074
Tax calculated at applicable corporate income tax rate of the respective companies	**14,348**	9,482
Tax effect of:		
— Expenses not deductible for income tax	**1,913**	2,224
— Additional deduction on research and development expenses	**(942)**	(807)
— Tax losses for which no deferred income tax asset was recognised	**72**	755
— Withholding income tax for profit to be distributed from the subsidiaries in the PRC	**3,386**	1,970
	18,777	13,624

12 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 number of ordinary shares in issue during the period/year.

	Nine months ended 31 December 2019	Year ended 31 March 2019
Profit attributable to owners of the Company (HK$'000)	**81,442**	56,296
Weighted average number of ordinary shares in issue	**694,080,000**	688,019,000
Basic earnings per share	**HK 11.73 cents**	HK 8.18 cents

12 EARNINGS PER SHARE *(continued)*

(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 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 options.

	Nine months ended 31 December 2019	Year ended 31 March 2019
Profit attributable to owners of the Company (HK$'000)	**81,442**	56,296
Weighted average number of ordinary shares in issue	**694,080,000**	688,019,000
Adjustments for share options	**16,833,000**	20,912,000
Weighted average number of ordinary shares for diluted earnings per share	**710,913,000**	708,931,000
Diluted earnings per share	**HK 11.46 cents**	HK 7.94 cents

13 DIVIDENDS

	Nine months ended 31 December 2019 HK$'000	Year ended 31 March 2019 HK$'000
Interim dividends *(a)*	**27,763**	15,270
Proposed final dividends *(b)*	**27,763**	20,822
	55,526	36,092

(a) Interim dividends

An interim dividend of HK4.00 cents per ordinary share (year ended 31 March 2019: HK2.20 cents per ordinary share), totalling approximately HK$27,763,000 (year ended 31 March 2019: HK$15,270,000) was declared during the nine months ended 31 December 2019.

(b) Proposed final dividends

A final dividend of HK4.00 cents per ordinary share in respect of the nine months ended 31 December 2019 (year ended 31 March 2019: HK3.00 cents per ordinary share), totalling approximately HK$27,763,000, was proposed by the Board on 27 March 2020. Such final dividends are subject to approval by the shareholders at the upcoming annual general meeting. The accompanying financial statements have not reflected the declaration of such dividends.

14 SUBSIDIARIES

Details of the subsidiaries at 31 December 2019 are set out below.

Name	Place and date of incorporation/ establishment	Nominal value of issued share capital or registered capital	Attributable equity interest to the owners of the Company	Principal activities
Directly held by the Company:				
Esteem Joy Limited	British Virgin Islands 13 April 2015	US$1	100%	Investment holding
Xinda Capital Limited	British Virgin Islands 21 May 2013	US$50,000	100%	Investment holding
China Environmental Holdings Limited	Hong Kong 17 October 2016	HK$1	100%	Investment holding
Xin Da (Hong Kong) Investment Trading Company Limited	Hong Kong 13 June 2013	HK$1	100%	Investment holding
Hua Xin Finance Limited *(k)*	Hong Kong 15 May 2019	HK$100	100%	Financing service
Xin Da High-tech Investments Limited	Hong Kong 31 October 2019	HK$100	100%	Investment holding
Indirectly held by the Company:				
Shantou Xinda *(a)*	PRC 14 May 1992	HK$35,000,000	100%	Design, printing and sale of cigarette packages
Huge East Investment Limited ("**Huge East**") *(b)*	Hong Kong 30 May 2016	HK$1	100%	Investment holding
Shantou Hongdong *(b)*	PRC 21 July 2016	HK$150,000,000 *(g)*	100%	Environmental protection construction works
Guangdong Xinda Detection Technology Company Limited ("**Xinda Detection**") *(c)*	PRC 26 November 2019	HK$35,000,000 *(h)*	100%	Not yet commenced formal operation
Huazhang Investments Company Limited	Hong Kong 12 November 2014	HK$16,412,600	51%	Investment holding
Huazhang Biological Technology (Shanghai) Co., Ltd. ("**Huazhang Shanghai**") *(d)*	PRC 17 December 2014	RMB13,000,000	51%	Biological technology research and related products trading
Heihe Huazhang Agricultural Science and Technology Development Co., Ltd. ("**Huazhang Heihe**") *(e)*	PRC 14 January 2015	RMB10,000,000 *(i)*	51%	Agricultural science and technology related service
Guangdong Foxin Environmental Management Co., Ltd. ("**GD Foxin**") *(f)*	PRC 15 July 2015	RMB10,000,000 *(j)*	51%	Environmental treatment service

14 SUBSIDIARIES *(continued)*

Details of the subsidiaries at 31 December 2019 are set out below. *(continued)*

(a) Shantou Xinda is a wholly foreign owned enterprise established in the PRC for 30 years up to 13 May 2022.

(b) Huge East and Shantou Hongdong were acquired by the Group in a business combination. The Group acquired 100% equity interests in Huge East, together with its subsidiary on 21 August. Shantou Hongdong was registered as wholly foreign owned enterprises under PRC law on 21 July 2016.

(c) Xinda Detection was registered as wholly foreign owned enterprises under PRC law with an infinite operating period.

(d) Huazhang Shanghai is a wholly foreign owned enterprise established in the PRC to be operated for 30 years up to 16 December 2044.

(e) Huazhang Heihe is established in the PRC with an infinite operating period.

(f) GD Foxin is a wholly foreign owned enterprise established in the PRC for 15 years up to 15 July 2030.

(g) Registered capital of Shantou Hongdong amounting to HK$122,260,000 is yet to be paid up as at 31 December 2019.

(h) Registered capital of Xinda Detection amounting to HK$35,000,000 is yet to be paid up as at 31 December 2019.

(i) Registered capital of Huazhang Heihe amounting to RMB5,780,000 is yet to be paid up as at 31 December 2019.

(j) Registered capital of GD Foxin amounting to RMB5,267,000 is yet to be paid up as at 31 December 2019.

15 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
Year ended 31 March 2019						
Opening net book amount	17,720	–	21,555	556	1,062	40,893
Additions	103	3,300	1,182	603	602	5,790
Business combination	–	–	610	805	260	1,675
Transfer	999	–	864	–	(1,863)	–
Disposal	–	–	(411)	–	–	(411)
Depreciation	(1,413)	(110)	(3,259)	(464)	–	(5,246)
Currency translation differences	(1,166)	(15)	(1,399)	(25)	(61)	(2,666)
Closing net book amount	16,243	3,175	19,142	1,475	–	40,035
At 31 March 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
Nine months ended 31 December 2019						
Opening net book amount	**16,243**	**3,175**	**19,142**	**1,475**	**–**	**40,035**
Additions	**–**	**415**	**897**	**581**	**543**	**2,436**
Transfer	**–**	**–**	**54**	**–**	**(54)**	**–**
Depreciation	**(1,166)**	**(502)**	**(2,531)**	**(442)**	**–**	**(4,641)**
Currency translation differences	**(675)**	**(134)**	**(770)**	**(64)**	**(6)**	**(1,649)**
Closing net book amount	**14,402**	**2,954**	**16,792**	**1,550**	**483**	**36,181**
At 31 December 2019						
Cost	**35,365**	**3,555**	**50,853**	**4,780**	**483**	**95,036**
Accumulated depreciation	**(20,963)**	**(601)**	**(34,060)**	**(3,231)**	**–**	**(58,855)**
Net book amount	**14,402**	**2,954**	**16,793**	**1,549**	**483**	**36,181**

15 PROPERTY, PLANT AND EQUIPMENT *(continued)*

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

Depreciation of the property, plant and equipment has been charged to profit or loss as follows:

	Nine months ended 31 December 2019 HK$'000	Year ended 31 March 2019 HK$'000
Cost of sales	**1,824**	2,774
Administrative expenses	**2,817**	2,472
Total	**4,641**	5,246

16 LEASES

(a) Amounts recognised in the consolidated statement of financial position

(i) Right-of-use assets

	Land-use rights HK$'000	**Office buildings** HK$'000	**Total** HK$'000
At 31 March 2019			
Net book amount	–	–	–
Adjustment for change in accounting policy *(Note 2.2)*	5,648	302	5,950
Restated net book amount at 1 April 2019	5,648	302	5,950
Nine months ended 31 December 2019			
Opening net book amount	**5,648**	**302**	**5,950**
Additions	**–**	**5,209**	**5,209**
Depreciation charges	**(112)**	**(643)**	**(755)**
Currency translation differences	**(238)**	**(37)**	**(275)**
Closing net book amount	**5,298**	**4,831**	**10,129**
At 31 December 2019			
Cost	**7,562**	**5,468**	**13,030**
Accumulated depreciation	**(2,264)**	**(637)**	**(2,901)**
Net book amount	**5,298**	**4,831**	**10,129**

As at 31 December 2019, except for certain leased office which was located in Hong Kong, the Group's other right-of-use assets were located in the PRC.

16 LEASES *(continued)*

(a) Amounts recognised in the consolidated statement of financial position *(continued)*

(ii) Lease liabilities

	31 December 2019 HK$'000	1 April 2019 * HK$'000
Lease liabilities		
— Current	**1,776**	158
— Non-current	**3,004**	144
	4,780	302

* For adjustments recognised on adoption of HKFRS 16 on 1 April 2019, please refer to Note 2.2.

(b) Amounts recognised in the consolidated statement of comprehensive income

	Nine months ended 31 December 2019 HK$'000
Interest expense (included in finance cost)	**130**
Expense relating to short-term leases (included in administrative expenses)	**992**

The total cash outflow for leases in the nine months ended 31 December 2019 was HK$1,818,000.

17 INTANGIBLE ASSETS

	Computer software HK$'000	License HK$'000	Patent and technology HK$'000	Total HK$'000
At 1 April 2018				
Net book amount	–	–	–	–
Year ended 31 March 2019				
Opening net book amount	–	–	–	–
Additions	29	–	1,749	1,778
Business combination	280	–	10,971	11,251
Amortisation	(238)	–	(2,256)	(2,494)
Currency translation differences	6	–	176	182
Closing net book amount	77	–	10,640	10,717
At 31 March 2019				
Cost	651	–	12,887	13,538
Accumulated amortisation	(574)	–	(2,247)	(2,821)
Net book amount	77	–	10,640	10,717
Nine months ended 31 December 2019				
Opening net book amount	**77**	**–**	**10,640**	**10,717**
Additions	**78**	**5,148**	**112**	**5,338**
Amortisation	**(53)**	**(2,001)**	**(3,072)**	**(5,126)**
Currency translation differences	**(3)**	**(38)**	**(415)**	**(456)**
Closing net book amount	**99**	**3,109**	**7,265**	**10,473**
At 31 December 2019				
Cost	**701**	**5,087**	**12,452**	**18,240**
Accumulated amortisation	**(602)**	**(1,978)**	**(5,187)**	**(7,767)**
Net book amount	**99**	**3,109**	**7,265**	**10,473**

Amortisation of HK$5,126,000 has been charged to administrative expenses for the nine months ended 31 December 2019 (year ended 31 March 2019: HK$2,494,000).

18 DEFERRED INCOME TAX

The analysis of deferred income tax assets and deferred income tax liabilities is as follows:

	31 December 2019 HK$'000	31 March 2019 HK$'000
Deferred income tax assets	**2,727**	3,609
Deferred income tax liabilities	**(8,309)**	(8,999)

The net movements on the deferred income tax account is as follows:

	Nine months ended 31 December 2019 HK$'000	Year ended 31 March 2019 HK$'000
At beginning of the period/year	**(5,390)**	(3,866)
Tax charged to the consolidated statement of comprehensive income	**(4,005)**	(1,931)
Withholding income tax paid	**3,583**	1,688
Acquisition of subsidiaries	**–**	(1,548)
Currency translation differences	**230**	267
At end of the period/year	**(5,582)**	(5,390)

The movement in deferred income tax assets and liabilities during the period/year, without taking into consideration the offsetting of balances within the same tax jurisdiction, is as follows:

18 DEFERRED INCOME TAX *(continued)*

Deferred income tax assets

	Temporary difference on depreciation and amortisation HK$'000	Temporary difference on accrual HK$'000	Temporary difference on fair value losses of listed securities HK$'000	Temporary difference on lease liabilities HK$'000	Temporary difference on tax losses HK$'000	Total HK$'000
At 1 April 2018	431	1,330	2,196	–	191	4,148
Tax credited/(charged) to the consolidated statement of comprehensive income	152	(49)	(192)	–	(179)	(268)
Currency translation differences	(29)	(87)	(143)	–	(12)	(271)
At 31 March 2019	554	1,194	1,861	–	–	3,609
Tax (charged)/credited to the consolidated statement of comprehensive income	**(453)**	**80**	**(393)**	**28**	**–**	**(738)**
Currency translation differences	**(19)**	**(52)**	**(73)**	**–**	**–**	**(144)**
At 31 December 2019	**82**	**1,222**	**1,395**	**28**	**–**	**2,727**

Deferred income tax liabilities

	Withholding income tax on earnings to be remitted by PRC subsidiaries HK$'000
At 1 April 2018	8,014
Tax charged to the consolidated statement of comprehensive income	1,663
Acquisition of subsidiaries	1,548
Withholding income tax paid	(1,688)
Currency translation differences	(538)
At 31 March 2019	8,999
Tax charged to the consolidated statement of comprehensive income	**3,267**
Withholding income tax paid	**(3,583)**
Currency translation differences	**(374)**
At 31 December 2019	**8,309**

18 DEFERRED INCOME TAX *(continued)*

Deferred income tax liabilities *(continued)*

As at 31 December 2019, the Group had unrecognised deferred income tax liabilities of HK$7,295,000 (31 March 2019: HK$6,295,000), that would otherwise be payable as withholding income tax in respect of the undistributed profits of a PRC subsidiary. No provision has been made in respect of such withholding income tax as the directors have confirmed that such profits will not be distributed out of the PRC in the foreseeable future. Unremitted earnings in this respect amounted to approximately HK$145,905,000 as at 31 December 2019 (31 March 2019: HK$125,897,000).

As at 31 December 2019, the Group has unrecognised deferred tax assets of approximately HK$3,224,000 (31 March 2019: HK$3,153,000) with respect to tax losses amounting to HK$12,897,000 (31 March 2019: HK$12,611,000) of certain subsidiaries in the PRC.

The expiry date of tax losses carried forward in respect of which deferred tax assets have not been accounted for is as follows:

	31 December 2019 HK$'000	31 March 2019 HK$'000
Expire in 2021	**4,816**	4,816
Expire in 2022	**4,386**	4,386
Expire in 2023	**388**	388
Expire in 2024	**3,307**	3,021
	12,897	12,611

19 PREPAYMENTS FOR NON-CURRENT ASSETS

	31 December 2019 HK$'000	31 March 2019 HK$'000
Prepayments for properties	**19,647**	16,321
Prepayment for an intangible asset	**11,163**	11,658
	30,810	27,979
Less: provision for impairment of prepayment of an intangible asset	**(11,163)**	(11,658)
	19,647	16,321

20 INVENTORIES

	31 December 2019 HK$'000	31 March 2019 HK$'000
Raw materials	**16,872**	20,903
Finished goods	**10,455**	12,452
	27,327	33,355

The cost of inventories recognised as expense and included in cost of sales amounted to HK$83,283,000 for the nine months ended 31 December 2019 (year ended 31 March 2019: HK$121,735,000).

21 TRADE AND NOTES RECEIVABLE

	31 December 2019 HK$'000	31 March 2019 HK$'000
Trade receivables	156,260	76,473
Notes receivable	–	466
Less: allowance for impairment of trade receivables	(184)	(193)
Trade and notes receivable — net	156,076	76,746

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

	31 December 2019 HK$'000	31 March 2019 HK$'000
Less than 30 days	147,955	73,463
31 days to 60 days	3,267	–
61 days to 90 days	591	–
91 days to 180 days	1,019	494
Over 180 days	3,428	2,516
	156,260	76,473

(b) Past due but not impaired

As at 31 December 2019, trade receivables of HK$4,263,000 (31 March 2019: HK$2,817,000) were past due but not impaired. These relate to two (31 March 2019: six) independent customers with no financial difficulty and the directors, based on past experience, consider that those amounts can be recovered. The ageing analysis of these trade receivables is as follows:

	31 December 2019 HK$'000	31 March 2019 HK$'000
91 days to 180 days	1,019	494
Over 180 days	3,244	2,323
	4,263	2,817

(c) The movement of allowance for impairment of trade receivables is as follows:

	Nine months ended 31 December 2019 HK$'000	Year ended 31 March 2019 HK$'000
At beginning of the period/year	193	206
Currency translation differences	(9)	(13)
At end of the period/year	184	193

21 TRADE AND NOTES RECEIVABLE *(continued)*

(d) The Group's trade receivables is denominated in the following currencies:

	31 December 2019 HK$'000	31 March 2019 HK$'000
— Denominated in RMB	**156,160**	76,473
— Denominated in HK$	**100**	–
	156,260	76,473

(e) As at 31 December 2019, the Group's maximum exposure to credit risk was the carrying value of trade receivables mentioned above. The Group does not hold any collateral as security (31 March 2019: same).

22 FINANCIAL ASSETS AT FVPL

	31 December 2019 HK$'000	31 March 2019 HK$'000
Listed securities — held for trading		
— Equity securities — denominated in HK$	**11,775**	11,498
— Equity securities — denominated in RMB	**12,971**	17,095
	24,746	28,593

23 PREPAYMENTS AND OTHER RECEIVABLES

	31 December 2019 HK$'000	31 March 2019 HK$'000
Other receivables *(a)*	**22,396**	1,657
Prepayments	**5,534**	343
Interest receivables from loans to third parties	**3,825**	–
Less: allowance for impairment of other receivables	**(285)**	(297)
	31,470	1,703

23 PREPAYMENTS AND OTHER RECEIVABLES *(continued)*

(a) As at 31 December 2019, other receivables mainly included deposits and amounts due from third parties which were unsecured, interest-free and receivable on demand (31 March 2019: same).

(b) The carrying amounts of the Group's other receivables are denominated in the following currencies:

	31 December 2019 HK$'000	31 March 2019 HK$'000
Denominated in RMB	22,000	1,291
Denominated in HK$	396	366
	22,396	1,657

(c) As at 31 December 2019, the Group's maximum exposure to credit risk was the carrying value of other receivables mentioned above. The Group does not hold any collateral as security (31 March 2019: same).

(d) The movement in allowance for impairment of other receivables is as follows:

	Nine months ended 31 December 2019 HK$'000	Year ended 31 March 2019 HK$'000
At beginning of the period/year	297	318
Currency translation differences	(12)	(21)
At end of the period/year	285	297

24 RESTRICTED CASH AT BANK

As at 31 December 2019, the Group placed cash deposits of approximately HK$40,762,000 (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 effective interest rate on restricted cash at bank was 1.56% (31 March 2019: 1.56%) per annum. These deposits have an average original maturity of 180 days (31 March 2019: same).

25 CASH AND CASH EQUIVALENTS

Cash and cash equivalents were denominated in the following currencies:

	31 December 2019 HK$'000	31 March 2019 HK$'000
Denominated in RMB	**143,300**	219,682
Denominated in HK$	**16,304**	4,504
Denominated in US$	**338**	337
	159,942	224,523

The Group's cash and bank balances of HK$143,300,000 (31 March 2019: HK$219,682,000) and restricted cash at banks of HK$40,762,000 (31 March 2019: HK$42,284,000) 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.

26 SHARE CAPITAL

Authorised share capital	**Number of ordinary shares**	**HK$**
At 1 April 2018, 31 March 2019 and 31 December 2019	4,000,000,000	20,000,000

Ordinary shares, issued and fully paid	**Number of issued shares**	**Share capital HK$**
At 1 April 2018	678,500,000	3,393,000
Issuance of Consideration Shares *(Note (a))*	15,580,000	78,000
At 31 March 2019 and 31 December 2019	694,080,000	3,471,000

(a) Pursuant to the Acquisition which was completed on 21 August 2018 (Note 14 (b)), the Company issued new shares as consideration for the Acquisition. The consideration amounted to 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.

27 OTHER RESERVES

	Share premium HK$'000 *(Note 26)*	Statutory reserves HK$'000 *(a)*	Exchange reserves HK$'000	Capital reserves HK$'000 *(b)*	Share-based compensation reserves HK$'000 *(c)*	Others HK$'000	Total HK$'000
Year ended 31 March 2019							
Balance at 1 April 2018	130,934	22,087	12,347	35,000	7,995	274	208,637
Issuance of ordinary shares	31,082	–	–	–	–	–	31,082
Value of employee services under share option scheme	–	–	–	–	297	–	297
Currency translation differences	–	–	(22,515)	–	–	–	(22,515)
Balance at 31 March 2019	162,016	22,087	(10,168)	35,000	8,292	274	217,501
Nine months ended 31 December 2019							
Balance at 1 April 2019	**162,016**	**22,087**	**(10,168)**	**35,000**	**8,292**	**274**	**217,501**
Transfer to statutory reserves	**–**	**3,961**	**–**	**–**	**–**	**–**	**3,961**
Currency translation differences	**–**	**–**	**(17,402)**	**–**	**–**	**–**	**(17,402)**
Balance at 31 December 2019	**162,016**	**26,048**	**(27,570)**	**35,000**	**8,292**	**274**	**204,060**

(a) Statutory reserves

In accordance with relevant rules and regulations in the PRC, all the PRC companies that operated exclusively with foreign capitals are required to transfer an amount of not less than 10% of profit after taxation calculated under PRC accounting standards and regulations to the reserve fund, until the accumulated total of the fund reaches 50% of their registered capital. The statutory reserve fund can only be used, upon approval by the relevant authority, to offset previous years' losses or to increase the capital of respective companies. The appropriation to the enterprise expansion fund is solely determined by the board of directors of the PRC companies. The enterprise expansion fund can only be used to increase capital of the respective companies or to expand their production operations upon approval by the relevant authority.

(b) Capital reserves

The Group's capital reserves represented deemed contribution by the controlling shareholder Mr. Zheng Andy Yi Sheng to a subsidiary of the Group.

27 OTHER RESERVES *(continued)*

(c) 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.

The nominal value of the ordinary shares of the Company was initially at HK$0.01 per share. With effect from 25 January 2018, each of the then existing issued and unissued share of the Company was subdivided into two subdivided shares of HK$0.005 each, after a resolution passed at the extraordinary general meeting of the Company held on 24 January 2018 and with an approval obtained from the Stock Exchange (the "**Share Subdivision**"). Upon the Share Subdivision became effective, the authorised share capital of the Company became HK$20,000,000, divided into 4,000,000,000 shares of HK$0.005 each. The other rights and terms of the shares remained unchanged.

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 31 December 2019 and 31 March 2019 are as follows:

Vesting date	Expiry dates	Exercise price	Number of outstanding options	
			31 December 2019	31 March 2019
1 year from 15 January 2015	14 January 2020	HK$1.29	**10,795,000**	10,935,000
2 years from 15 January 2015	14 January 2020	HK$1.29	**10,795,000**	10,935,000
3 years from 15 January 2015	14 January 2020	HK$1.29	**10,795,000**	10,935,000
4 years from 15 January 2015	14 January 2020	HK$1.29	**10,795,000**	10,935,000
			43,180,000	43,740,000

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

	Nine months ended 31 December 2019	Year ended 31 March 2019
At beginning of the period/year	**43,740,000**	50,060,000
Forfeited	**(560,000)**	(6,320,000)
At end of the period/year	**43,180,000**	43,740,000

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

27 OTHER RESERVES *(continued)*

(c) 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 nine months ended 31 December 2019 (year ended 31 March 2019: same).

No expense was recognised for employee services received in respect of the Share Option Scheme for the nine months ended 31 December 2019 (year ended 31 March 2019: HK$297,000).

28 TRADE AND NOTES PAYABLE

	31 December 2019 HK$'000	31 March 2019 HK$'000
Trade payables *(a)*	**50,993**	28,748
Notes payable — bank acceptance notes	**41,077**	42,632
	92,070	71,380

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

	31 December 2019 HK$'000	31 March 2019 HK$'000
Within 90 days	**48,066**	26,454
91 to 180 days	**1,440**	1,810
Over 180 days	**1,487**	484
	50,993	28,748

(b) The Group's trade payables were denominated in RMB at 31 December 2019 (31 March 2019: same).

(c) The fair value of trade and notes payable approximate their carrying amounts at 31 December 2019 (31 March 2019: same).

29 OTHER PAYABLES AND ACCRUALS

	31 December 2019 HK$'000	31 March 2019 HK$'000
Other tax payables	**12,361**	9,379
Accrual for staff costs and allowances	**7,401**	6,561
Other payables	**5,027**	6,325
	24,789	22,265
Less: non-current portion	**(893)**	(933)
	23,896	21,332

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

	31 December 2019 HK$'000	31 March 2019 HK$'000
Denominated in RMB	**23,992**	20,782
Denominated in HK$	**797**	1,483
	24,789	22,265

(b) The fair value of these balance approximate their carrying amounts at 31 December 2019 (31 March 2019: same).

30 CASH FLOW INFORMATION

(a) Cash generated from operations

Reconciliation of profit before income tax to cash generated from operating activities is as follows:

	Nine months ended 31 December 2019 HK$'000	Year ended 31 March 2019 HK$'000
Profit before income tax	**100,259**	69,074
Adjustments for:		
— Finance income	**(7,198)**	(9,083)
— Finance cost	**130**	–
— Depreciation and amortisation	**10,522**	7,896
— Other gains — net	**(5,671)**	(2,050)
— Value of employee services under share option scheme	**–**	297
Changes in working capital:		
— Trade and notes receivable	**(79,330)**	38,784
— Contract assets	**(9,125)**	15,156
— Trade and notes payable	**20,690**	(6,013)
— Other payables and accruals	**2,311**	(5,897)
— Contract liabilities	**(2,904)**	2,904
— Inventories	**6,028**	(260)
— Prepaid expenses	**99**	150
— Prepayments and other receivables	**(7,791)**	(87)
Cash generated from operating activities	**28,020**	110,871

(b) Liabilities from financing activities

	Lease liabilities HK$'000
Net debt as at 31 March 2019	–
Recognised on adoption of HKFRS 16 *(see Note 2.2)*	(302)
Net debt as at 1 April 2019	(302)
Cash flows	826
Additions of lease liabilities	(5,209)
Foreign exchange adjustments	35
Interest expenses	(130)
Net debt as at 31 December 2019	(4,780)

31 COMMITMENTS

(a) Capital commitments

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

	31 December 2019 HK$'000	31 March 2019 HK$'000
Capital expenditure in respect of the addition of property, plant and equipment contracted for but not provided	**14,256**	1,513

(b) Non-cancellable operating leases

The Group as a leasee had future aggregate minimum lease payments in respect of rented premises under non-cancellable operating leases as follows:

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

32 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

32 RELATED PARTY TRANSACTIONS *(continued)*

(b) Key management compensations

Key management comprised executive directors and senior management of the Group. Their compensations are set out below.

	Nine months ended 31 December 2019 HK$'000	Year ended 31 March 2019 HK$'000
Salaries, wages, bonuses, welfare and other benefits	**2,274**	3,121
Contributions to pension plans	**49**	94
Value of employee services under Share Option Scheme	**–**	38
	2,323	3,253

(c) Balances with related parties

	31 December 2019 HK$'000	31 March 2019 HK$'000
Lease liabilities		
— Mr. Zheng Andy Yi Sheng *(i)*	**1,933**	–
Other payables(ii):		
— Mr. Zheng Andy Yi Sheng	**125**	250
— Mr. Zheng Minsheng	**100**	200
	225	450

(i) During the nine months ended 31 December 2019, the Group had entered into certain lease agreements with Mr. Zheng Andy Yi Sheng to lease office buildings located in the PRC. The liabilities were denominated in RMB and unsecured.

(ii) Other payables are directors' fees denominated in HK$, unsecured, interest-free and repayable on demand.

(d) Transaction with related parties

	Nine months ended 31 December 2019 HK$'000	Year ended 31 March 2019 HK$'000
Interest expenses on lease liabilities		
— Mr. Zheng Andy Yi Sheng	**96**	–

33 SUBSEQUENT EVENTS

After the outbreak of Coronavirus Disease 2019 ("**COVID-19 outbreak**") in early 2020, a series of precautionary and control measures have been and continued to be implemented across China. Temporary shortage of transportation for cigarette packaging materials and slight delay in progress of environmental treatment construction projects as a result of postponement of work resumption has been noticed. Pending development of such subsequent non-adjusting event, the Group's financial statements may be affected, the extent of which could not be estimated as that date of this report. The Group will pay close attention to the development of the COVID-19 outbreak and evaluate its impact on the financial position and operating results of the Group.

34 FINANCIAL POSITION AND RESERVES MOVEMENT OF THE COMPANY

	31 December 2019 HK$'000	31 March 2019 HK$'000
ASSETS		
Non-current assets		
Investments in subsidiaries	**139,012**	139,012
Prepaid expenses	**260**	359
	139,272	139,371
Current assets		
Prepayments and other receivables	**–**	201
Amounts due from subsidiaries	**41,372**	40,180
Cash and cash equivalents	**881**	514
	42,253	40,895
Total assets	**181,525**	180,266
EQUITY		
Equity attributable to owners of the Company		
Share capital	**3,471**	3,471
Other reserves	**148,414**	156,328
Retained earnings	**28,658**	19,434
	180,543	179,233
LIABILITIES		
Current liabilities		
Other payables and accruals	**982**	1,033
Total equity and liabilities	**181,525**	180,266

34 FINANCIAL POSITION AND RESERVES MOVEMENT OF THE COMPANY *(continued)*

	Share premium HK$'000	Exchange reserves HK$'000	Share-based compensation reserve HK$'000	Retained earnings HK$'000	Total HK$'000
Year ended 31 March 2019					
Balance at 1 April 2018	130,934	(3,442)	7,995	15,610	151,097
Profit for the year	–	–	–	35,058	35,058
Issuance of ordinary shares *(Note 26)*	31,082	–	–	–	31,082
Dividends	–	–	–	(31,234)	(31,234)
Value of employee services under share option scheme *(Note 27)*	–	–	297	–	297
Currency translation differences	–	(10,538)	–	–	(10,538)
Balance at 31 March 2019	162,016	(13,980)	8,292	19,434	175,762
Nine months ended 31 December 2019					
Balance at 1 April 2019	**162,016**	**(13,980)**	**8,292**	**19,434**	**175,762**
Profit for the period	**–**	**–**	**–**	**57,809**	**57,809**
Dividends	**–**	**–**	**–**	**(48,585)**	**(48,585)**
Currency translation differences	**–**	**(7,914)**	**–**	**–**	**(7,914)**
Balance at 31 December 2019	**162,016**	**(21,894)**	**8,292**	**28,658**	**177,072**

FIVE YEARS FINANCIAL SUMMARY

RESULTS

	Year ended 31 March				
	Nine months ended 31 December 2019 HK$'000	2019 HK$'000	2018 HK$'000	2017 HK$'000	2016 HK$'000
Revenue	**313,466**	262,187	209,084	260,262	252,368
Operating profit	**93,191**	59,991	35,453	53,082	50,799
Finance income — net	**7,068**	9,083	4,907	3,053	3,559
Profit before income tax	**100,259**	69,074	40,360	56,135	54,358
Income tax expenses	**(18,777)**	(13,624)	(9,100)	(15,107)	(12,231)
Profit for the period/year	**81,482**	55,450	31,260	41,028	42,127
Attributable to					
Owners of the Company	**81,442**	56,296	32,215	48,199	45,077
Non-controlling interests	**40**	(846)	(955)	(7,171)	(2,950)
	81,482	55,450	31,260	41,028	42,127
Assets, Liabilities and Non-controlling Interests					
Total assets	**529,855**	484,883	448,114	408,650	403,554
Total liabilities	**(146,750)**	(117,471)	(114,137)	(106,033)	(90,480)
Total equity	**383,105**	367,412	333,977	302,617	313,074
Non-controlling interests	**(4,486)**	(4,724)	(4,155)	(2,842)	4,451