



HUAXI HOLDINGS COMPANY LIMITED

華禧控股有限公司

(Incorporated in the Cayman Islands with limited liability)

Stock Code: 1689



2020
Interim Report

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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. Fok Po Tin

Mr. Cai Xiaowen

AUDIT COMMITTEE

Mr. Lau Kwok Hung (*Chairman*)

Mr. Fok Po Tin

Mr. Cai Xiaowen

REMUNERATION COMMITTEE

Mr. Lau Kwok Hung (*Chairman*)

Mr. Fok Po Tin

Mr. Cai Xiaowen

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 & Co.

PRINCIPAL PLACE OF BUSINESS IN HONG KONG

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REGISTERED OFFICE

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P.O. Box 1350

Grand Cayman, KY1-1108

Cayman Islands

PRINCIPAL SHARE REGISTRAR AND TRANSFER OFFICE

Ocorian Trust (Cayman) Limited

Clifton House, 75 Fort Street

P.O. Box 1350

Grand Cayman, KY1-1108

Cayman Islands

HONG KONG BRANCH SHARE REGISTRAR AND TRANSFER OFFICE

Computershare Hong Kong

Investor Services Limited

Shop 1712–16, 17th Floor, Hopewell Centre

183 Queen's Road East, Wanchai

Hong Kong

PRINCIPAL BANKERS

The Hongkong & Shanghai Banking

Corporation Limited

Bank of China Limited

China Minsheng Banking Corporation Limited

Industrial & Commercial Bank of China Limited

WEBSITE

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

STOCK CODE

01689

The board of directors (the “**Board**”) of Huaxi Holdings Company Limited (the “**Company**”) announces the unaudited condensed consolidated interim results of the Company and its subsidiaries (collectively, the “**Group**”) for the six months ended 30 June 2020, together with the comparative figures for the corresponding period in 2019.

CONDENSED CONSOLIDATED STATEMENT OF COMPREHENSIVE INCOME

	Note	Six months ended 30 June	
		2020 HK\$'000 (Unaudited)	2019 HK\$'000 (Unaudited)
Revenue	6	209,102	125,092
Cost of sales	7	(133,381)	(81,901)
Gross profit		75,721	43,191
Distribution costs	7	(897)	(1,207)
Administrative expenses	7	(22,841)	(20,284)
Other gains — net	8	1,000	4,421
Operating profit		52,983	26,121
Finance income		3,468	5,261
Finance cost		(106)	(51)
Finance income — net		3,362	5,210
Profit before income tax		56,345	31,331
Income tax expense	9	(10,872)	(6,396)
Profit for the period		45,473	24,935
Profit attributable to:			
— Owners of the Company		45,029	24,740
— Non-controlling interests		444	195
		45,473	24,935

CONDENSED CONSOLIDATED STATEMENT OF COMPREHENSIVE INCOME

		Six months ended 30 June	
	<i>Note</i>	2020 HK\$'000 (Unaudited)	2019 HK\$'000 (Unaudited)
Other comprehensive income			
<i>Items that will not be reclassified to profit or loss:</i>			
Currency translation differences		(8,025)	(1,868)
Other comprehensive income for the period, net of tax		(8,025)	(1,868)
Total comprehensive income for the period		37,448	23,067
Total comprehensive income attributable to:			
— Owners of the Company		36,908	22,858
— Non-controlling interests		540	209
		37,448	23,067
Earnings per share attributable to owners of the Company (expressed in HK cent per share)			
— Basic earnings per share	<i>10</i>	HK6.42 cents	HK3.56 cents
— Diluted earnings per share	<i>10</i>	HK6.41 cents	HK3.47 cents

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

CONDENSED CONSOLIDATED STATEMENT OF FINANCIAL POSITION

	Note	30 June 2020 HK\$'000 (Unaudited)	31 December 2019 HK\$'000 (Audited)
ASSETS			
Non-current assets			
Property, plant and equipment	12	34,466	36,181
Right-of-use assets	12	9,657	10,129
Intangible assets	12	6,538	10,473
Deferred tax assets		3,275	2,727
Prepaid expenses		200	260
Contract assets	6	1,590	–
Prepayments for non-current assets	14	18,393	19,647
		74,119	79,417
Current assets			
Inventories		24,290	27,327
Trade and notes receivable	13	209,673	156,076
Contract assets	6	22,283	10,115
Prepayments and other receivables	14	21,189	31,470
Financial assets at fair value through profit or loss	15	39,680	24,746
Restricted cash at banks		46,282	40,762
Cash and cash equivalents	16	138,983	159,942
		502,380	450,438
Total assets		576,499	529,855
EQUITY			
Equity attributable to owners of the Company			
Share capital	17	3,508	3,471
Other reserves		207,404	204,060
Retained earnings		195,012	180,060
		405,924	387,591
Non-controlling interests		(3,946)	(4,486)
Total equity		401,978	383,105

CONDENSED CONSOLIDATED STATEMENT OF FINANCIAL POSITION

	<i>Note</i>	30 June 2020 HK\$'000 (Unaudited)	31 December 2019 HK\$'000 (Audited)
LIABILITIES			
Non-current liabilities			
Lease liabilities		2,415	3,004
Deferred tax liabilities		9,782	8,309
Other payables	20	438	893
		12,635	12,206
Current liabilities			
Trade and notes payable	19	111,156	92,070
Contract liabilities	6	53	–
Other payables and accruals	20	28,630	23,896
Current income tax liabilities		19,702	16,802
Lease liabilities		2,345	1,776
		161,886	134,544
Total liabilities		174,521	146,750
Total equity and liabilities		576,499	529,855

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

CONDENSED CONSOLIDATED STATEMENT OF CHANGES IN EQUITY

	Attributable to owners of the Company					Total HK\$'000
	Share capital	Other reserves	Retained earnings	Total	Non-controlling interests	
	HK\$'000 (Note 17)	HK\$'000	HK\$'000	HK\$'000	HK\$'000	
Six months ended 30 June 2020 (Unaudited)						
Balance at 1 January 2020	3,471	204,060	180,060	387,591	(4,486)	383,105
Comprehensive income						
— Profit for the period	—	—	45,029	45,029	444	45,473
— Other comprehensive income	—	(8,121)	—	(8,121)	96	(8,025)
Total comprehensive income	—	(8,121)	45,029	36,908	540	37,448
Transactions with owners:						
— Exercise of share options	37	9,445	—	9,482	—	9,482
— Transfer to statutory reserves	—	2,020	(2,020)	—	—	—
— Dividends paid	—	—	(28,057)	(28,057)	—	(28,057)
Balance at 30 June 2020	3,508	207,404	195,012	405,924	(3,946)	401,978
Six months ended 30 June 2019 (Unaudited)						
Balance at 1 January 2019	3,471	209,637	129,002	342,110	(4,475)	337,635
Comprehensive income						
— Profit for the period	—	—	24,740	24,740	195	24,935
— Other comprehensive income	—	(1,882)	—	(1,882)	14	(1,868)
Total comprehensive income	—	(1,882)	24,740	22,858	209	23,067
Balance at 30 June 2019	3,471	207,755	153,742	364,968	(4,266)	360,702

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

CONDENSED CONSOLIDATED STATEMENT OF CASH FLOWS

		Six months ended 30 June	
	<i>Note</i>	2020 HK\$'000 (Unaudited)	2019 HK\$'000 (Unaudited)
Cash flows from operating activities			
Cash generated from operations	21	31,530	46,762
PRC enterprise income tax paid		(7,628)	(8,336)
Net cash generated from operating activities		23,902	38,426
Cash flows from investing activities			
Purchase of property, plant and equipment		(758)	(22,527)
Purchase of intangible assets		(19)	(29)
(Increase)/decrease in restricted cash at banks		(5,520)	7,557
Loans to third parties		(29,279)	(30,054)
Repayments of loans from third parties		29,279	28,898
Purchase of financial assets at fair value through profit or loss		(34,572)	(51)
Net proceed from disposal of financial assets at fair value through profit or loss		19,951	694
Net proceed from disposal of other financial assets		–	35,550
Interest income from bank deposits		373	568
Interest income from other financial assets		1,010	2,273
Net cash (used in)/generated from investing activities		(19,535)	22,879
Cash flows from financing activities			
Proceeds from exercise of share options	17	9,482	–
Payments of lease liabilities		(937)	(137)
Dividends paid		(28,057)	–
Net cash used in financing activities		(19,512)	(137)

CONDENSED CONSOLIDATED STATEMENT OF CASH FLOWS

	<i>Note</i>	Six months ended 30 June	
		2020 HK\$'000 (Unaudited)	2019 HK\$'000 (Unaudited)
Net (decrease)/increase in cash and cash equivalents		(15,145)	61,168
Cash and cash equivalents at beginning of the period		159,942	15,965
Effect of change in exchange rate		(5,814)	(88)
Cash and cash equivalents at end of the period	<i>16</i>	138,983	77,045

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

NOTES TO THE CONDENSED CONSOLIDATED INTERIM FINANCIAL INFORMATION

1 GENERAL INFORMATION

Huaxi Holdings Company Limited (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) manufacture and sales of cigarette packaging materials; and (ii) environmental treatment and ecological restoration business in the People’s Republic of China (the “**PRC**”) for the six months ended 30 June 2020.

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

This condensed consolidated interim financial information for the six months ended 30 June 2020 (“**Interim Financial Information**”) is presented in thousands of Hong Kong dollar (“**HK\$**”), unless otherwise stated.

This Interim Financial Information has not been audited and has been approved for issue by the Board of the Company on 28 August 2020.

2 BASIS OF PREPARATION AND ACCOUNTING POLICIES

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

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

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

2.1 New and amended standards adopted by the Group

A number of new or amended standards became applicable for the current reporting period. The Group did not have to change its accounting policies or make retrospective adjustments as a result of adopting these standards.

3 CRITICAL ACCOUNTING ESTIMATES AND JUDGMENTS

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

In preparing the Interim Financial Information, the significant judgements made by management in applying the Group's accounting policies and the key sources of estimation uncertainty were the same as those that applied to the consolidated financial statements for the nine months ended 31 December 2019.

4 FINANCIAL RISK MANAGEMENT AND FINANCIAL INSTRUMENTS

4.1 Financial risk factors

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

The Interim Financial Information has not included all financial risk management information and disclosures required in the annual financial statements, and should be read in conjunction with the annual financial statements for the nine months ended 31 December 2019.

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

4 FINANCIAL RISK MANAGEMENT AND FINANCIAL INSTRUMENTS

(continued)

4.2 Credit risk

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

As at 30 June 2020, substantially all (31 December 2019: same) the Group's bank deposits are deposited with major financial institutions incorporated in the PRC and Hong Kong, which management believes are of high credit quality without significant credit risk (31 December 2019: same).

As at 30 June 2020, approximately 94.8% (31 December 2019: 96.0%) of the Group's trade and notes receivable were due from the five largest customers, which are government, public institutions or prominent cigarette manufacturers in the PRC.

None of the Group's trade and notes receivable and other receivables has any collateral. However, the Group has policies in place to ensure that sales are made to customers with appropriate credit history and the Group performs periodic credit evaluations of its customers. The Group assesses the credit quality of each customer by taking into account its financial position, past collection experience and other factors. Credit limits are reviewed on periodic basis, and the finance department is responsible for such monitoring procedures. In determining whether provision for impairment of receivables is required, the Group takes into consideration the future cash flows, ageing status and the likelihood of collection. In this regards, the directors of the Company are satisfied that the risks are minimal and adequate provision, if any, has been made in the Interim Financial Information after assessing the collectability of individual debts. Further quantitative disclosures in respect of trade and notes receivable and other receivables are set out in Note 13 and Note 14.

4 FINANCIAL RISK MANAGEMENT AND FINANCIAL INSTRUMENTS

(continued)

4.3 Fair value estimation

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

	Level 1 HK\$'000
Financial assets at fair value through profit or loss	
at 30 June 2020 (unaudited)	39,680
at 31 December 2019 (audited)	24,746

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.

4 FINANCIAL RISK MANAGEMENT AND FINANCIAL INSTRUMENTS

(continued)

4.3 Fair value estimation *(continued)*

Specific valuation techniques used to value financial instruments include:

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

For the six months ended 30 June 2020, there were no significant changes in the business or economic circumstances that affect the fair value of the Group's financial assets and financial liabilities.

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

5 SEGMENT INFORMATION

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

For the six months ended 30 June 2020, the principal activities of the Group were manufacture and sales of cigarette packaging materials (the "**Cigarette Packaging Business**") and environmental treatment and ecological restoration business (the "**Environmental Treatment Business**") in the PRC, which are both identified as reportable segments.

5 SEGMENT INFORMATION *(continued)*

For the six months ended 30 June 2020, the outbreak of the 2019 Novel Coronavirus (“**COVID-19**”) pandemic brought certain adverse impact to the overall economy. The cigarette manufacturers delayed their purchase orders and the construction progress of the environmental treatment projects were slowed down. The Group managed to resume work in an orderly manner in late March following the effective containment of COVID-19 pandemic in the PRC. The Group’s business activities gradually returned to normal. The directors are of the view that the COVID-19 pandemic had little impact on the financial position and operating results of the Group in this period.

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

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

NOTES TO THE CONDENSED CONSOLIDATED INTERIM FINANCIAL INFORMATION

5 SEGMENT INFORMATION *(continued)*

(a) The segment results and other segment items of the Group for the six months ended 30 June 2020 are as follows:

	Cigarette Packaging Business HK\$'000 (Unaudited)	Environmental Treatment Business HK\$'000 (Unaudited)	Group HK\$'000 (Unaudited)
Revenue			
— At a point in time	114,818	–	114,818
— Over time	–	94,284	94,284
	114,818	94,284	209,102
Segment results	28,865	23,805	52,670
Other gains arising from financial assets at FVPL			313
Operating profit			52,983
Finance income			3,468
Finance cost			(106)
Profit before income tax			56,345
Income tax expense			(10,872)
Profit for the period			45,473
Other segment item Depreciation and amortisation	2,918	5,061	7,979

NOTES TO THE CONDENSED CONSOLIDATED INTERIM FINANCIAL INFORMATION

5 SEGMENT INFORMATION *(continued)*

(a) *(continued)*

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

	Cigarette Packaging Business HK\$'000 (Unaudited)	Environmental Treatment Business HK\$'000 (Unaudited)	Group HK\$'000 (Unaudited)
Revenue			
— At a point in time	104,806	–	104,806
— Over time	–	20,286	20,286
	104,806	20,286	125,092
Segment results	23,319	(1,600)	21,719
Other gains arising from financial assets at FVPL			4,402
Operating profit			26,121
Finance income			5,261
Finance cost			(51)
Profit before income tax			31,331
Income tax expense			(6,396)
Profit for the period			24,935
Other segment item			
Depreciation and amortisation	2,204	3,212	5,416

NOTES TO THE CONDENSED CONSOLIDATED INTERIM FINANCIAL INFORMATION

5 SEGMENT INFORMATION *(continued)*

(b) The segment assets and liabilities at 30 June 2020 are as follows:

	Cigarette Packaging Business HK\$'000 (Unaudited)	Environmental Treatment Business HK\$'000 (Unaudited)	Inter-segment elimination HK\$'000 (Unaudited)	Group HK\$'000 (Unaudited)
Segment assets	422,052	238,483	(126,991)	533,544
Financial assets at FVPL				39,680
Deferred tax assets				3,275
Total assets				576,499
Segment liabilities	80,673	191,355	(126,991)	145,037
Current income tax liabilities				19,702
Deferred tax liabilities				9,782
Total liabilities				174,521

NOTES TO THE CONDENSED CONSOLIDATED INTERIM FINANCIAL INFORMATION

5 SEGMENT INFORMATION *(continued)*

(b) *(continued)*

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

	Cigarette Packaging Business HK\$'000 (Audited)	Environmental Treatment Business HK\$'000 (Audited)	Inter-segment elimination HK\$'000 (Audited)	Group HK\$'000 (Audited)
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

As at 30 June 2020, majority of the Group's non-current assets were located in the PRC (31 December 2019: same).

NOTES TO THE CONDENSED CONSOLIDATED INTERIM FINANCIAL INFORMATION

6 REVENUE

	Six months ended 30 June	
	2020 HK\$'000 (Unaudited)	2019 HK\$'000 (Unaudited)
Sales of cigarette packaging products	114,818	104,806
Revenue from construction and maintenance contracts		
— Construction services	90,146	18,237
— Maintenance services	4,138	2,049
	209,102	125,092

Except for the three customers below, no other customers individually accounted for more than 10% of the Group's revenue for the six months ended 30 June 2020 (six months ended 30 June 2019: same):

	Six months ended 30 June	
	2020 (Unaudited)	2019 (Unaudited)
Customer A	41.1%	15.1%
Customer B	30.4%	51.6%
Customer C	12.9%	25.8%
	84.4%	92.5%

For the six months ended 30 June 2020, majority of the Group's revenue was generated from its subsidiaries in the PRC (six months ended 30 June 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:

	30 June 2020 HK\$'000 (Unaudited)	31 December 2019 HK\$'000 (Audited)
Contract assets relating to construction contracts	23,873	10,115
Less: non-current portion	(1,590)	–
Amount due within one year included in current assets	22,283	10,115
Contract liabilities relating to construction contracts	53	–

(i) Significant changes in contract assets

Contract assets have increased as the Group has fulfilled more construction service obligations in more construction projects in current period.

(ii) 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.

NOTES TO THE CONDENSED CONSOLIDATED INTERIM FINANCIAL INFORMATION

7 EXPENSES BY NATURE

	Six months ended 30 June	
	2020 HK\$'000 (Unaudited)	2019 HK\$'000 (Unaudited)
Cost of inventories sold	67,739	59,823
Raw materials consumed and subcontracting costs for construction contracts	55,815	11,825
Staff costs (including directors' emoluments)	17,195	16,197
Depreciation and amortisation		
— Amortisation of intangible assets <i>(Note 12)</i>	3,786	2,105
— Depreciation of property, plant and equipment <i>(Note 12)</i>	3,056	3,042
— Depreciation of right-of-use assets <i>(Note 12)</i>	1,137	269
Utilities	2,513	2,225
Other taxes and surcharge	810	1,610
Auditor's remuneration	1,062	883
Other expenses	4,006	5,413
Total cost of sales, distribution costs and administrative expenses	157,119	103,392

8 OTHER GAINS — NET

	Six months ended 30 June	
	2020 HK\$'000 (Unaudited)	2019 HK\$'000 (Unaudited)
Foreign exchange gains	687	19
Dividend income from financial assets at FVPL	810	521
Gains on disposal of financial assets at FVPL	2,144	49
Unrealised (losses)/gains on changes in fair value of financial assets at FVPL	(2,641)	3,832
	1,000	4,421

9 INCOME TAX EXPENSE

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

The Company's operating subsidiaries incorporated in Hong Kong are subject to income tax at the rate of 16.5% (six months ended 30 June 2019: 16.5%) on the assessable profits arising in Hong Kong during the six months ended 30 June 2020. For the six months ended 30 June 2020, the Group is eligible to nominate one Hong Kong incorporated entity in the Group, which is Huge East Investment Limited, to be taxed at the two tiered profits tax rates, whereby profits tax will be chargeable on the first HKD2,000,000 of assessable profits at 8.25% and assessable profits above this threshold will be subject to a rate of 16.5% (six months ended 30 June 2019: same). Hong Kong profits tax of the other Hong Kong incorporated group entities has been provided for at the rate of 16.5% on the estimated assessable profits. The profit of the other Hong Kong incorporated group entities is mainly derived from dividend income from subsidiaries and interest income from banks, which is not subject to Hong Kong profits tax.

9 INCOME TAX EXPENSE *(continued)*

Pursuant to the PRC Enterprise Income Tax Law (“**EIT Law**”) and the Implementation Rules of the EIT Law, the EIT rate for domestic enterprises and foreign invested enterprises is 25%, 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. Shantou Xinda was in the process of application for renewal of the certificate. 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 current income tax for the period and 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% from 1 January 2019 to 31 December 2021. 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 six months ended 30 June 2020 (six months ended 30 June 2019: 15%).

According to the EIT Law and Implementation Rules, starting from 1 January 2008, a withholding income tax of 10% will be levied on the intermediate 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 intermediate 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. Hence, the Group used 5% as its withholding tax rate for certain Hong Kong intermediate holding companies which are expected to fulfill the aforesaid conditions.

NOTES TO THE CONDENSED CONSOLIDATED INTERIM FINANCIAL INFORMATION

9 INCOME TAX EXPENSE *(continued)*

	Six months ended 30 June	
	2020 HK\$'000 (Unaudited)	2019 HK\$'000 (Unaudited)
Current income tax		
— PRC enterprise income tax	8,872	4,991
Deferred income tax		
— PRC enterprise income tax	(510)	(158)
— Withholding income tax for profit to be distributed from the PRC	2,510	1,563
	10,872	6,396

No income tax charges relating to components of other comprehensive income existed for the six months ended 30 June 2020 (six months ended 30 June 2019: same).

10 EARNINGS PER SHARE

(a) Basic

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

	Six months ended 30 June	
	2020 (Unaudited)	2019 (Unaudited)
Profit attributable to owners of the Company (HK\$'000)	45,029	24,740
Weighted average number of ordinary shares in issue	701,126,000	694,080,000
Basic earnings per share	HK6.42 cents	HK3.56 cents

(b) Diluted

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

NOTES TO THE CONDENSED CONSOLIDATED INTERIM FINANCIAL INFORMATION

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

	Six months ended 30 June	
	2020 (Unaudited)	2019 (Unaudited)
Profit attributable to owners of the Company (HK\$'000)	45,029	24,740
Weighted average number of ordinary shares in issue	701,126,000	694,080,000
Adjustments for share options	1,167,000	19,914,000
Weighted average number of ordinary shares for diluted earnings per share	702,293,000	713,994,000
Diluted earnings per share	HK6.41 cents	HK3.47 cents

11 DIVIDENDS

A final dividend of HK4.00 cents per ordinary share for the nine months ended 31 December 2019, totalling approximately HK\$28,057,000, was paid in June 2020. A final dividend of HK3.00 cents per ordinary share for the year ended 31 March 2019, totalling approximately HK\$20,822,000, was paid in September 2019.

In August 2020, the Board has resolved to declare an interim dividend for the six months ended 30 June 2020 of HK4.00 cents per share (six months ended 30 September 2019: an interim dividend of HK3.00 cents per share and a special dividend of HK1.00 cent per share, amounting to a total of HK4.00 cents per share), totally amounting to approximately HK\$28,057,000 (six months ended 30 September 2019: HK\$27,763,000).

12 PROPERTY, PLANT AND EQUIPMENT, INTANGIBLE ASSETS AND RIGHT-OF-USE ASSETS

	Property, plant and equipment HK\$'000 (Unaudited)	Intangible assets HK\$'000 (Unaudited)	Right-of-use assets HK\$'000 (Unaudited)
At 1 January 2019			
Cost	91,007	13,291	–
Accumulated depreciation	(53,984)	(1,710)	–
Net book amount	37,023	11,581	–
Six months ended 30 June 2019			
Opening net book amount	37,023	11,581	–
Adoption of HKFRS 16 on 1 April 2019	–	–	5,950
Additions	4,397	29	2,501
Depreciation	(3,042)	(2,105)	(269)
Currency translation differences	(111)	(12)	(187)
Closing net book amount	38,267	9,493	7,995
At 30 June 2019			
Cost	94,969	13,267	10,452
Accumulated depreciation	(56,702)	(3,774)	(2,457)
Net book amount	38,267	9,493	7,995
At 1 January 2020			
Cost	95,036	18,240	13,030
Accumulated depreciation	(58,855)	(7,767)	(2,901)
Net book amount	36,181	10,473	10,129
Six months ended 30 June 2020			
Opening net book amount	36,181	10,473	10,129
Additions	2,012	19	811
Depreciation	(3,056)	(3,786)	(1,137)
Currency translation differences	(671)	(168)	(146)
Closing net book amount	34,466	6,538	9,657
At 30 June 2020			
Cost	96,377	17,907	13,636
Accumulated depreciation	(61,911)	(11,369)	(3,979)
Net book amount	34,466	6,538	9,657

13 TRADE AND NOTES RECEIVABLE

	30 June 2020 HK\$'000 (Unaudited)	31 December 2019 HK\$'000 (Audited)
Trade receivables	208,321	156,260
Notes receivable	1,533	–
Less: allowance for impairment of trade receivables	(181)	(184)
	209,673	156,076

- (a) Ageing analysis of trade receivables (excluding notes receivable), based on recognition date, is as follows:

	30 June 2020 HK\$'000 (Unaudited)	31 December 2019 HK\$'000 (Audited)
Less than 90 days	124,639	151,813
91 days to 180 days	1,221	1,019
Over 180 days	82,461	3,428
	208,321	156,260

As at 30 June 2020, trade receivables of HK\$83,501,000 (31 December 2019: HK\$4,263,000) were past due but not impaired.

- (b) The Group's trade receivables were mainly denominated in RMB as at 30 June 2020 (31 December 2019: same).

14 PREPAYMENTS AND OTHER RECEIVABLES

	30 June 2020 HK\$'000 (Unaudited)	31 December 2019 HK\$'000 (Audited)
Prepayment for acquisition of property and equipment	18,393	19,647
Prepayments to suppliers and service providers	11,931	5,534
Interest receivables from loans to third parties (<i>Note a</i>)	5,943	3,825
Other receivables	3,594	22,396
Less: allowance for impairment of other receivables	(279)	(285)
	39,582	51,117
Less: prepayment for non-current assets	(18,393)	(19,647)
	21,189	31,470

- (a) The amounts represented the unreceived interests from loans to third parties which were unsecured and interest bearing at a rate of 18% per annum.
- (b) The carrying amounts of the Group's interest receivables and other receivables were denominated in the following currencies:

	30 June 2020 HK\$'000 (Unaudited)	31 December 2019 HK\$'000 (Audited)
Denominated in RMB	8,391	25,825
Denominated in HK\$	1,146	396
	9,537	26,221

NOTES TO THE CONDENSED CONSOLIDATED INTERIM FINANCIAL INFORMATION

15 FINANCIAL ASSETS AT FVPL

	30 June 2020 HK\$'000 (Unaudited)	31 December 2019 HK\$'000 (Audited)
Listed securities — held for trading		
— Equity securities — denominated in HK\$	28,585	11,775
— Equity securities — denominated in RMB	11,095	12,971
	39,680	24,746

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

16 CASH AND CASH EQUIVALENTS

Cash and cash equivalents were denominated in the following currencies:

	30 June 2020 HK\$'000 (Unaudited)	31 December 2019 HK\$'000 (Audited)
Denominated in RMB	128,267	143,300
Denominated in HK\$	10,380	16,304
Denominated in US\$	336	338
	138,983	159,942

The Group's cash and bank balances of HK\$128,267,000 (31 December 2019: HK\$143,300,000) denominated in RMB were deposited with banks in the PRC. The conversion of RMB denominated balances into foreign currencies and the remittance of such foreign currencies denominated bank balances and cash out of the PRC are subject to relevant rules and regulations of foreign exchange control promulgated by the PRC government.

17 SHARE CAPITAL

Authorised share capital	Number of ordinary shares	Equivalent nominal value of ordinary shares HK\$
At 31 December 2019 and 30 June 2020	4,000,000,000	20,000,000
Ordinary shares, issued and fully paid:	Number of issued shares	Amount HK\$
At 31 December 2019	694,080,000	3,471,000
Exercise of share options (<i>Note a</i>)	7,350,000	36,750
At 30 June 2020	701,430,000	3,507,750

- (a) Pursuant to the exercise of share options (Note 18) in January 2020, the Company issued 7,350,000 new shares, at the price of HK\$1.29 per share, resulting in HK\$36,750 and HK\$9,444,750 credited to share capital and share premium account respectively.

18 SHARE-BASED COMPENSATION RESERVES

On 15 January 2015, the Company granted share options to certain directors, employees and consultants of the Group under a share option scheme (the “**Share Option Scheme**”). Under the Share Option Scheme, the option holders are entitled to acquire an aggregate of 30,000,000 ordinary shares of the Company at an exercise price of HK\$2.58 each before a share subdivision.

Upon the share subdivision became effective in January 2018, 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. Therefore, the number of share options outstanding was doubled and the exercise price was adjusted to HK\$1.29 per share.

NOTES TO THE CONDENSED CONSOLIDATED INTERIM FINANCIAL INFORMATION

18 SHARE-BASED COMPENSATION RESERVES *(continued)*

Particulars of share options as at 30 June 2020 and 31 December 2019 are as follows:

Vesting period	Expiry dates	Exercise price	Number of outstanding options	
			30 June 2020 (Unaudited)	31 December 2019 (Audited)
1 year from 15 January 2015	14 January 2020	HK\$1.29	–	10,795,000
2 years from 15 January 2015	14 January 2020	HK\$1.29	–	10,795,000
3 years from 15 January 2015	14 January 2020	HK\$1.29	–	10,795,000
4 years from 15 January 2015	14 January 2020	HK\$1.29	–	10,795,000
			–	43,180,000

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

	Six month ended 30 June	
	2020 (Unaudited)	2019 (Unaudited)
At beginning of the period	43,180,000	43,740,000
Exercised (<i>Note a</i>)	(7,350,000)	–
Expired	(35,830,000)	–
At end of the period	–	43,740,000

- (a) The weighted average share price at the date of exercise of options exercised during the six months ended 30 June 2020 was HK\$1.96.

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

NOTES TO THE CONDENSED CONSOLIDATED INTERIM FINANCIAL INFORMATION

19 TRADE AND NOTES PAYABLE

	30 June 2020 HK\$'000 (Unaudited)	31 December 2019 HK\$'000 (Audited)
Trade payables (a)	65,934	50,993
Notes payable — bank acceptance notes	45,222	41,077
	111,156	92,070

- (a) The ageing analysis of trade payables of the Group, based on recognition date, is as follows:

	30 June 2020 HK\$'000 (Unaudited)	31 December 2019 HK\$'000 (Audited)
Within 90 days	61,323	48,066
90 to 180 days	3,420	1,440
Over 180 days	1,191	1,487
	65,934	50,993

- (b) The Group's trade and notes payable were denominated in RMB as at 30 June 2020 (31 December 2019: same).

20 OTHER PAYABLES AND ACCRUALS

	30 June 2020 HK\$'000 (Unaudited)	31 December 2019 HK\$'000 (Audited)
Other tax payables	15,869	12,361
Accrual for staff costs and allowances	5,795	7,401
Other payables	7,404	5,027
	29,068	24,789
Less: non-current portion	(438)	(893)
	28,630	23,896

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

	30 June 2020 HK\$'000 (Unaudited)	31 December 2019 HK\$'000 (Audited)
Denominated in RMB	25,337	23,992
Denominated in HK\$	3,731	797
	29,068	24,789

NOTES TO THE CONDENSED CONSOLIDATED INTERIM FINANCIAL INFORMATION

21 CASH GENERATED FROM OPERATIONS

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

	Six months ended 30 June	
	2020 HK\$'000 (Unaudited)	2019 HK\$'000 (Unaudited)
Profit before income tax	56,345	31,331
Adjustments for:		
— Depreciation and amortisation	7,979	5,416
— Other gains — net	(1,000)	(4,421)
— Finance income	(3,468)	(5,261)
— Finance cost	106	51
Changes in working capital:		
— Inventories	3,037	11,371
— Contract assets	(13,758)	20,881
— Contract liabilities	53	53,492
— Trade and notes receivable	(53,594)	(48,069)
— Prepayments and other receivables	12,405	(4,474)
— Trade and notes payable	19,086	(16,273)
— Other payables and accruals	4,279	2,718
— Prepaid expenses	60	—
Cash generated from operations	31,530	46,762

NOTES TO THE CONDENSED CONSOLIDATED INTERIM FINANCIAL INFORMATION

22 COMMITMENTS

(a) Capital Commitments

As at 30 June 2020 and 31 December 2019, the Group had the following capital commitments:

	30 June 2020 HK\$'000 (Unaudited)	31 December 2019 HK\$'000 (Audited)
Capital expenditure in respect of the acquisition of property and equipment contracted for but not provided	14,935	14,256

23 RELATED PARTY TRANSACTIONS

(a) Name and relationship with related parties:

Name	Relationship
Mr. Zheng Andy Yi Sheng	Controlling shareholder
Mr. Zheng Minsheng	Executive director and the deputy general manager of the Group and the younger brother of Mr. Zheng Andy Yi Sheng

(b) Balances with related parties

	30 June 2020 HK\$'000 (Unaudited)	31 December 2019 HK\$'000 (Audited)
Lease liabilities		
— Mr. Zheng Andy Yi Sheng (i)	1,940	1,933
Other payables (ii)		
— Mr. Zheng Andy Yi Sheng	125	125
— Mr. Zheng Minsheng	100	100
	225	225

23 RELATED PARTY TRANSACTIONS *(continued)*

(b) Balances with related parties *(continued)*

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

(c) Key management compensations

	Six months ended 30 June	
	2020 HK\$'000 (Unaudited)	2019 HK\$'000 (Unaudited)
Salaries and other employee benefits	2,329	2,116
Contribution to pension plans	65	66
	2,394	2,182

(d) Transaction with related parties

	Six months ended 30 June	
	2020 HK\$'000 (Unaudited)	2019 HK\$'000 (Unaudited)
Interest expenses on lease liabilities — Mr. Zheng Andy Yi Sheng <i>(Note (b)(i))</i>	45	47

MANAGEMENT DISCUSSION AND ANALYSIS

BUSINESS REVIEW

Revenue

The principal activities of the Group were manufacture and sales of cigarette packaging materials (the “**Cigarette Packaging Business**”) and the environmental treatment and ecological restoration business (the “**Environmental Treatment Business**”) in The People’s Republic of China (the “**PRC**”).

In the first half of 2020, the outbreak of COVID-19 pandemic brought certain adverse impact to the overall economy. In the early stage of COVID-19 outbreak the PRC Government took temporary measures including travel restrictions, postponement of resumption of work and production. The cigarette manufacturers delayed their purchase orders and the construction progress of the environmental treatment projects were slowed down. We managed to resume work in an orderly manner in late March following the effective containment against of COVID-19 pandemic in the PRC. The Group’s business activities gradually returned to normal. In all other respect the COVID-19 pandemic had little impact on our operations.

Revenue of the Group for the six months ended 30 June 2020 (the “**Reporting Period**”) was approximately HK\$209.10 million, representing an increase of 67% as compared with corresponding period in 2019 (2019: HK\$125.09 million). Cigarette Packaging Business remains the Group’s main source of income source which contributed approximately HK\$114.82 million, representing an increase of 10% as compared with the corresponding period in 2019 (30 June 2019: HK\$104.81 million). The Environmental Treatment Business recorded a revenue of approximately HK\$94.28 million during the Reporting Period representing an increase of 365% as compared with the corresponding period in 2019 (30 June 2019: HK\$20.29 million). The reason for such a surge in income from Environmental Treatment Business was that more construction service obligations in more construction projects have been fulfilled.

Gross Profit

The overall gross profit of the Group during the Reporting Period was approximately HK\$75.72 million (30 June 2019: HK\$43.19 million), representing an increased by HK\$32.53 million or 75% as compared with the corresponding period in 2019.

During the Reporting Period, the Group’s gross profit margin for sales of Cigarette Packaging Business was decreased slightly to approximately 35% (30 June 2019: 36%). The gross profit margin for Environmental Treatment Business was approximately 37% (30 June 2019: 26%) representing an increase of 11% over the same period of 2019. Increase in profit margin was mainly resulted from effective costs control in the environmental treatment and ecological restoration projects.

BUSINESS REVIEW *(continued)*

Distribution Costs

Distribution costs was mainly arising from the Cigarette Packaging Business which primarily consisted of transportation expenses for the delivery of products to customers. The total distribution costs during the Reporting Period was approximately HK\$0.90 million (30 June 2019: HK\$1.21 million) representing a decrease of approximately HK\$0.31 million as compared with the corresponding period in 2019. Decrease in distribution costs was because of reduction of travelling expenses.

Administrative Expenses

The Group's administrative expenses for the Reporting Period was approximately HK\$22.84 million (30 June 2019: HK\$20.28 million) representing an increase of HK\$2.56 million or 13% as compared with the corresponding period in 2019. The increase in administrative expenses was mainly attributable to the increase in staff costs and routine office expenses because of the growth of the Environmental Treatment Business during the Reporting Period.

Finance Income — net

Finance income of the Group during the Reporting Period was approximately HK\$3.36 million (30 June 2019: HK\$5.21 million) representing a decrease of HK\$1.85 million as compared with the corresponding period in 2019. Decrease in finance income was mainly resulted from the decrease in loans to independent third parties.

Income Tax Expense

The Group's income tax expense for the Reporting Period was approximately HK\$10.87 million (30 June 2019: HK\$6.40 million), representing an increase of approximately HK\$4.47 million as compared with the corresponding period in 2019. During the Reporting Period, the effective tax rate of the Group was approximately 19%, which decreased by 1% when compared with approximately 20% for the corresponding period in 2019. The decrease was attributable to Shantou Hongdong, being an enterprise engaged in environmental treatment and ecological restoration business, enjoying a preferential corporate income tax rate of 15%.

Profit attributable to Owners of the Company

The profit attributable to owners of the Company for the Reporting Period amounted approximately HK\$45.03 million (30 June 2019: HK\$24.74 million) and the basic earnings per share of HK6.42 cents (30 June 2019: HK3.56 cents).

BUSINESS REVIEW *(continued)*

Capital Structure, Liquidity and Financial Resources

As at 30 June 2020, the Group's total cash and restricted cash balances amounted to HK\$185.26 million (31 December 2019: HK\$200.70 million), including restricted cash at banks HK\$46.28 million (31 December 2019: HK\$40.76 million) and cash and cash equivalents HK\$138.98 million (31 December 2019: HK\$159.94 million).

As at 30 June 2020, the Group had current assets of approximately HK\$502.38 million (31 December 2019: HK\$450.44 million) and current liabilities of approximately HK\$161.89 million (31 December 2019: HK\$134.54 million). The current ratio (calculated as current assets to current liabilities) was 3.10 (31 December 2019: 3.35).

For the six months ended 30 June 2020, the Group's net cash generated from operating activities amounted to approximately HK\$23.90 million and the net cash used in investing and financing activities was approximately HK\$19.54 million and HK\$19.51 million respectively. The Group primarily uses cash inflow from operating activities to satisfy the requirement of working capital.

Borrowings and Gearing Ratio

The Group did not have any borrowing as at 30 June 2020 and 31 December 2019.

Financial Assets at Fair Value through Profit or Loss

The Group adopted a prudent attitude in its securities investment. The management takes into account of risk exposure in comparison with the Group's risk tolerance level at the prevailing time and the potential for return on investment in terms of capital appreciation and dividend payment when determining whether to take up an investment opportunity for the cash held by the Group. The Board exercised caution while actively managing its investment portfolio in accordance with the Company's strategy and policy. The fair values of the listed securities are determined with reference to the quoted market prices available on the relevant stock exchanges. During the Reporting Period, the gains from listed securities was approximately HK\$0.31 million (30 June 2019: gains of HK\$4.40 million) including the unrealised losses on changes in fair value for HK\$2.64 million (30 June 2019: gains of HK\$3.83 million). The management invests in these shares expecting the price will be stable and gradually increase in line with the upward trend of the financial market.

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

As at 30 June 2020, the Group held the following financial assets at fair value through profit or loss:

	Number of shares	30 June 2020 HK\$'000	31 December 2019 HK\$'000
Equity securities listed in Hong Kong			
CNG Power (01816)	5,250,000	8,400	10,920
Alibaba (9988)	40,000	8,384	–
Other listed equity securities <i>(Note 1)</i>		11,801	855
Equity securities listed in Hong Kong			
Guangdong Liantai (聯泰環保 603797)	564,600	7,102	8,289
Other listed equity securities <i>(Note 2)</i>		3,993	4,682
		39,680	24,746

Notes: (1) Other listed equity securities comprised 5 equity securities in Hong Kong (31 December 2019: 1).

(2) Other listed equity securities comprised 3 equity securities in the PRC (31 December 2019: 3).

Exposure to Fluctuations in Exchange Rate

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

The Group's exposure to foreign currency risk was 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 period under review, the Group's total capital expenditure amounted to approximately HK\$0.78 million (30 June 2019: HK\$22.56 million), which was used in the acquisition of property, plant and equipment and intangible assets.

BUSINESS REVIEW *(continued)*

Charge on assets

As at 30 June 2020, the Group had pledged bank deposits amounting to HK\$46.28 million (31 December 2019: HK\$40.76 million) as collateral for the Group's notes payable.

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

Contingent liability

The Group has no significant contingent liabilities as at 30 June 2020 and 31 December 2019.

Capital commitments

As at 30 June 2020, the Group had capital commitments for the amount of approximately HK\$14.94 million (31 December 2019: HK\$14.26 million) for acquisition of property, plant and equipment.

FUTURE OUTLOOK

Due to the continuous pressure shock brought about by the COVID-19 pandemic, China's economic prospect remains clouded. However, the Company perpetuates optimism regarding its primary businesses for the second half of 2020. We maintain good relationship with the existing major customers for our Cigarette Packaging Business and will continue to improve quality of our products and production efficiency while maintaining operational excellence, ultimately enhancing our competitiveness.

China's domestic economy had suffered a massive unforeseen shock in the first quarter of 2020, however, as the pandemic slowly became under control in the mainland, domestic industries, including the environmental protection industry, returned back on track during the second quarter. The Chinese government had once again reaffirmed its commitments to the environmental protection agenda, and continues to promote the "Blue Sky, Clean Water, and Pure Soil Protection Initiative", achieves the long-term goals of pollution prevention and treatment. The environmental protection industry gradually matured, and our subsidiary in Shantou was able to fully grasp the new opportunities emerging from market transformation and continued to consolidate our brand position in the environmental treatment market in Guangdong Province, especially in Huizhou and Shantou. We will continue to cultivate new projects in Guangdong Province expanding the Company's revenue stream while improving the ecological environment.

FUTURE OUTLOOK *(continued)*

The Company remain highly alert about the COVID-19 pandemic and take necessary measures to protect the staff's health and safety. The Group will strive to preserve its competitive edge over cost control and endeavor to seek investment opportunities for the best interests of our shareholders.

EMPLOYEES AND REMUNERATION POLICIES

As at 30 June 2020, the Group employed a total of approximately 344 employees including the directors of the Company (30 June 2019: approximately 348). During the Reporting Period, the total staff costs (including directors' emoluments) was approximately HK\$17.20 million (30 June 2019: HK\$16.20 million). The employees including the directors were remunerated based on their working performance, professional experiences and prevailing industry practices. The emoluments of the directors were reviewed by the remuneration committee, with regard to the Company's operating results, individual performance and comparable market statistics. In response to the outbreak of COVID-19, the Group formulated a series of measures to cope with the outbreak and work deployment. We will do our utmost to continue our preventive and control work so as to protect our employees in different countries and regions around the world.

SIGNIFICANT INVESTMENTS AND ACQUISITIONS

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

INTERIM DIVIDEND AND SPECIAL DIVIDEND

The directors have resolved to pay an interim dividend of HK4.00 cents per share (30 September 2019: interim dividend of HK\$3.00 cents and special dividend of HK\$1.00 cent, total HK4.00 cents per share). The interim dividend will be paid on Tuesday, 29 September 2020 to shareholders whose names appear on the Register of Members of the Company on Thursday, 17 September 2020.

CLOSURE OF REGISTERED MEMBERS

The register of members of the Company will be closed from Tuesday, 15 September 2020 to Thursday, 17 September 2020 (both days inclusive), for the purpose of determining the entitlement to the interim dividend in respect of the six months ended 30 June 2020. In order to be qualified for the interim dividend, unregistered holders of shares of the Company should ensure that all share transfer documents accompanied by the corresponding share certificates are lodged with the Company's branch share registrar and transfer office Computershare Hong Kong Investor Services Limited at Shops 1712-1716, 17th Floor, Hopewell Centre, 183 Queen's Road East, Wanchai, Hong Kong for registration not later than 4:30 p.m. on Monday, 14 September 2020.

OTHER INFORMATION

PURCHASE, SALE OR REDEMPTION OF THE COMPANY'S SECURITIES

During the Reporting Period, neither the Company nor any of its subsidiaries purchased, sold or redeemed any of the Company's listed securities.

SUFFICIENCY OF PUBLIC FLOAT

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

RISK MANAGEMENT

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

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

As at 30 June 2020, the interests or short positions of the Directors and chief executives of the Company in the Shares, underlying Shares and debentures of the Company or any associated corporation (within the meaning of Part XV of the Securities and Futures Ordinance (Chapter 571, Laws of Hong Kong)) (the "**SFO**"), which required to be notified to the Company and the Stock Exchange pursuant to Divisions 7 and 8 of Part XV of the SFO (including interests or short positions which they are taken or deemed to have under such provisions of the SFO), or which were required, pursuant to section 352 of the SFO, to be entered in the register referred to therein, or which were required, pursuant to the Model Code for Securities Transactions by Directors of Listed Issuers (the "**Model Code**") as set out in Appendix 10 to the Rules Governing the Listing of Securities on the Stock Exchange (the "**Listing Rules**"), which required to be notified to the Company and the Stock Exchange, are set out below:

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

Name of Director	Nature of interest	Number of ordinary shares held	Percentage of Interest ⁽²⁾
Mr. Zheng Andy Yi Sheng	Interests held by a controlled corporation ⁽¹⁾	450,000,000	64.15%
Mr. Zheng Minsheng	Beneficial owner	1,200,000	0.17%
Mr. Lau Kwok Hung	Beneficial owner	400,000	0.06%
Mr. Fok Po Tin	Beneficial owner	400,000	0.06%

Notes:

- (1) These shares were held by SXD Limited, a controlled corporation of Mr. Zheng Andy Yi Sheng.
- (2) The percentage represents the number of ordinary shares interested divided by the number of the Company's issued shares as at 30 June 2020.

Save as disclosed above, none of the directors, or chief executives of the Company or their associates had any interests or short positions in any shares, underlying shares and debentures of the Company or any of its associated corporations as defined in Part XV of the SFO as recorded in the register to be kept under section 352 of the SFO or as otherwise notified to the Company and the Stock Exchange pursuant to the Model Code as at 30 June 2020.

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

As at 30 June 2020, the interests and short positions of 5% or more of the issued share capital of the Company were recorded in the register of interests required to be kept by the Company pursuant to Section 336 of the SFO were as follows:

Long position in the Shares of the Company

Name of Shareholders	Nature of interest	Number of ordinary shares held <i>(Note i)</i>	Approximate percentage of the total issued share capital
SXD Limited	Beneficial interest	450,000,000 (L)	64.15%
Mr. Zheng Andy Yi Sheng ("Mr. Zheng") <i>(Note ii)</i>	Interest held by a controlled corporation	450,000,000 (L)	64.15%
Ms. Chen Annie Ni ("Ms. Chen") <i>(Note iii)</i>	Interest of spouse	450,000,000 (L)	64.15%

Notes:

- (i) The letter "L" denotes a long position in the shareholder's interest in the share capital of the Company.
- (ii) Mr. Zheng is the beneficial owner of the entire issued share capital of SXD Limited and is deemed to be interested in the 450,000,000 shares held by SXD Limited under the SFO.
- (iii) Ms. Chen is the spouse of Mr. Zheng. Accordingly, Ms. Chen is deemed to be interested in the shares which Mr. Zheng is interested in.

Save as disclosed above, there was no other person so far known to our directors or chief executives of the Company having an interest or short position in shares and underlying shares of the Company that was required to be recorded in the register required to be kept by the Company pursuant to Section 336 of the SFO.

SHARE OPTION SCHEME

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

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

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

SHARE OPTION SCHEME *(continued)*

On 15 January 2015, the Board granted a total of 30,000,000 share options under the Share Option Scheme adopted by the Company on 14 November 2013 to certain eligible persons to subscribe, in aggregate, for up to 30,000,000 ordinary shares of HK\$0.01 each in the share capital of the Company subject to acceptance of the eligible persons. The exercise price was HK\$2.58 per ordinary share. The validity period of option period is 5 years commencing from 15 January 2015 and expiring on 14 January 2020 (both days inclusive). (2) The number of share option was doubled upon share subdivision on 25 January 2018 and the exercise price was adjusted to HK\$1.29.

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

Category of grantees	Date of grant of share options	Exercisable period <i>(Note 1)</i>	Exercise price (HK\$)	Number of options			Outstanding at 30 June 2020
				Outstanding at 1 January 2020	Number of options granted	Number of options exercised	
Directors							
Mr. Zheng Minsheng	15.1.2015	15.1.2016–14.1.2020	1.29	1,200,000	–	1,200,000	–
Mr. Lau Kwok Hung	15.1.2015	15.1.2016–14.1.2020	1.29	400,000	–	400,000	–
Mr. Ma Wenming	15.1.2015	15.1.2016–14.1.2020	1.29	400,000	–	–	400,000
Mr. Fok Po Tin	15.1.2015	15.1.2016–14.1.2020	1.29	400,000	–	400,000	–
Total – Directors				2,400,000	–	2,000,000	400,000
Employees in aggregate	15.1.2015	15.1.2016–14.1.2020	1.29	32,780,000	–	4,350,000	28,430,000
Other participants in aggregate	15.1.2015	15.1.2016–14.1.2020	1.29	8,000,000	–	1,000,000	7,000,000
Total				43,180,000	–	7,350,000	35,830,000

Note:

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

COMPLIANCE WITH THE CORPORATE GOVERNANCE CODE

The Board is committed to maintaining the highest possible standards of corporate governance, and strives to maintain transparent, responsible and value-driven management practices that will enhance and safeguard the interests of the shareholders. The Board believes that effective and high quality corporate governance is an essential platform for creating value for the shareholders. The Company has adopted and applied the principles of the code provisions of the Corporate Governance Code (the “**CG Code**”) as set out in Appendix 14 of the Rules Governing the Listing of Securities on The Stock Exchange of Hong Kong Limited (the “**Listing Rules**”).

The Company periodically reviews its corporate governance practices to ensure its continuous compliance with the CG Code. In the opinion of the directors, the Company was in compliance with the applicable code provisions of the CG Code for the six months ended 30 June 2020 and, where appropriate, the applicable recommended best practices of the CG Code, save and except for the following deviations:

Code Provision A.2.1

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

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

Code Provision A.4.1

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

COMPLIANCE WITH THE CORPORATE GOVERNANCE CODE *(continued)*

Code Provision A.6.7

Under Code Provision A.6.7, independent non-executive directors and other non-executive directors, as equal board members, should attend general meetings. During the period under review, a non-executive director and an independent non-executive director were unable to attend the general meetings of the Company as they were out of town and had other engagements.

Code Provision C.1.2

Under Code Provision C.1.2, management should provide all members of the board with monthly updates giving a balanced and understandable assessment of the Company's performance, position and prospects in sufficient detail to enable the board as a whole and each director to discharge their duties under Rule 3.08 and Chapter 13. During the Reporting Period, management did not provide the board with monthly updates required under Code Provision C.1.2 of the CG Code. All the executive directors were involved in the daily operation of the Group and were fully aware of the performance, position and prospects of the Company. The Company has also based on business situation, provided to the Board from time to time, updated business information to enable the Board as a whole and each director to discharge their duties.

COMPLIANCE WITH THE MODEL CODE FOR SECURITIES TRANSACTIONS BY DIRECTORS

The Company has adopted the Model Code for Securities Transactions by Directors of Listed Issuers (the "**Model Code**") as set out in Appendix 10 to the Listing Rules.

Specific enquiry has been made of all the directors and the directors have confirmed that they have complied with the Model Code throughout the Reporting Period.

CHANGES TO INFORMATION IN RESPECT OF DIRECTORS

Pursuant to Rule 13.51B(1) of the Listing Rules, changes in information of directors of the Company for the Period and up to the date of this interim report are set out below:

- Mr. Ma Wenming resigned as an independent non-executive director and a member of the Audit Committee and Remuneration Committee on 1 April 2020.
- Mr. Cai Xiaowen was appointed as an independent non-executive director and a member of the Audit Committee and Remuneration Committee on 1 April 2020.

CHANGES TO INFORMATION IN RESPECT OF DIRECTORS *(continued)*

- Mr. Fok Po Tin has been appointed as an executive director and the chairman of the board of Sunway International Holdings Limited (stock code: 0058) on 3 July 2020.

Save as disclosed above, there is no other information required to be disclosed pursuant to Rule 13.51B(1) of the Listing Rules.

DIRECTORS' INTERESTS IN COMPETING BUSINESS

As at 30 June 2020, in so far as the directors were aware, none of the directors or their respective associates had any interest in a business that competed or was likely to compete with the business of the Group.

REVIEW OF FINANCIAL STATEMENTS BY THE AUDIT COMMITTEE

The Audit Committee comprises three members, namely Mr. Lau Kwok Hung (Chairman), Mr. Fok Po Tin and Mr. Cai Xiaowen, had reviewed the unaudited condensed consolidated financial statements of the Group for the Period. During the Period, one regular meeting of the Audit Committee has been held.

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

Hong Kong, 28 August 2020