



HUAXI HOLDINGS COMPANY LIMITED
華禧控股有限公司

(Incorporated in the Cayman Islands with limited liability)

Stock Code: 1689



2020

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. 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

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

PRINCIPAL PLACE OF BUSINESS IN CHINA

No. 4 Wanji North Street
Wanji Industrial District
Shantou City, Guangdong Province
People's Republic of China

REGISTERED OFFICE

Windward 3, Regatta Office Park
P O Box 1350
Grand Cayman KY1-1108
Cayman Islands

PRINCIPAL SHARE REGISTRAR AND TRANSFER OFFICE

Ocorian Trust (Cayman) Limited
Windward 3, Regatta Office Park
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 respectfully present the results of the Group for the twelve months ending on 31 December 2020.

GROUP IN RETROSPECT

Looking back on 2020, it was quite an unusual year. The Chinese domestic first quarter economic performance overall was severely hampered by the Coronavirus outbreak. For many domestic industries and market segments, the year 2020 was a difficult and challenging period. The environmental treatment industry was also not spared and had undergone arduous trials and all-encompassing adjustments.

Facing severe challenges in the macro environment, all employees of the Group commit to the business principles of “Quality First, Customer First”, we approach our projects with a customer-oriented devotion built upon the foundation of “Integrity, Harmony and Excellence”, making smooth transition over this difficult time, and continuing to cultivate new projects.

For the year ended 31 December 2020, the Group’s revenue was HK\$373,394,000 and the profit attributable to owners of the Company was HK\$94,275,000, representing an increase of 19% and 16% respectively over last financial period .

BUSINESS REVIEW

In 2020, the domestic cigarette industry was severely impacted by the new coronavirus outbreak, so much so that during the February Lunar New Year festive season sales came almost to a screeching halt; number of stock orders from the nation’s network of retail tobacco sale points dropped sharply. Things only started recovering in March. While sale tumbled in the first quarter, the overall cigarette sales total in 2020 still managed to achieve a “micro” increase. Without a doubt, the cigarette sales growth was facing deep underlying challenges, to name a few: Chinese economic growth was fraught with uncertainties and situation becoming ever more complex, new shifts in tobacco consumption culture, gradual tightening of tobacco control policies, rise in disruptive new tobacco products etc.

Tobacco industry had always been a pivotal source of national tax income. The government will have to maintain a balance between industry growth and implementing tobacco control policies.

2020 was the final year in China’s 13th Five-Year Plan, and for water ecological restoration and comprehensive treatment industry, it was known also as the “year of examination”, for which the central government underwent comprehensive review of past efforts in pollution prevention and control.

The Group participated in water treatment projects in the greater Huizhou area of Guangdong Province, and had since completed relevant projects by the end of the year. The result had demonstrated effective improvements to local ecological systems, and uplifted the living environment for residents.

The Group continues to build out the paradigm of sustainable development of human resources; we spent the past year trimming the organization, from technical design to project construction, at every ring in the Group’s value chain, our lean and mean project teams had developed fast and effective decision-making and agile execution.

CHAIRMAN'S STATEMENT

LOOKING TOWARDS THE FUTURE

In 2020, the scale of China's e-cigarette market had expanded significantly. According to relevant surveys, China's e-cigarette market had reached 8.33 billion yuan. E-cigarettes have evolved from relatively niche nicotine products to entering the mainstream consumption market. Its enormous market potential has attracted interest from tobacco giants foreign and domestic. The Group is keeping close attention to the development in China's e-cigarette regulatory policies, studying industry trends and explore potential business opportunities.

There remains many unresolved complications and hidden challenges in the treatment of black and odorous water; many Chinese cities still need to increase investments to complete the expansion of their urban sewage pipe networks. Southern China is one of the top priority regions for central government's water treatment assessment. The dilemma facing the central government is how to maintain current level of economic growth, while resolving the complex and severe problem of black and odorous water and stabilizing the quality of our water environment.

In November 2020, Xinhua News Agency broadcasted the government's "14th Five-Year Plan"; the plan also included the first ever watershed plan drafted by Ministry of Ecology and Environments: a vision of harmonious existence between humans, water life and plants.

The Group continues to cultivate new comprehensive water treatment projects in various parts of Guangdong Province, while seeking further suitable business opportunities in Southern China.

CONCLUSION

Akio Morita once said: "No theory or plan or government policy will make a business a success; that can only be done by people." Managing Employees are the foundation of business management. The Group creates a harmonious working environment for its employees; it is the platform upon which employees can develop, and trusting them to serve our customers with excellence. Management will continue to create values for employees and strengthen governance for sake of sustainable corporate development. Finally, I would like to express my gratitude to the board of directors and all the employees carrying out their respective duties during the pandemic, contributing selflessly for the Group, for city construction, giving to society and to the market.

Zheng Andy Yi Sheng

Chairman

30 March 2021

MANAGEMENT DISCUSSION AND ANALYSIS

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 year ended 31 December 2020 (the “**Reporting Period**” or “**FY2020**”), the total revenue of the Group was approximately HK\$373.39 million, representing an increase of approximately HK\$59.92 million or 19% as compared with HK\$313.47 million for the nine months ended 31 December 2019 (the “**FY2019**”). Revenue from the Cigarette Packaging Business was approximately HK\$197.07 million (FY2019: HK\$163.33 million) and the Environmental Treatment Business was approximately HK\$172.58 million (FY2019: HK\$150.14 million) contributing approximately 53% (FY2019: 52%) and 46% (FY2019: 48%) respectively to the Group’s revenue, and the rest was income from net of trading on film papers, carton boxes and other packaging materials.

Cigarette Packaging Business

In 2020, with the outbreak of COVID-19 pandemic, business environment was abnormally volatile. In February 2020, the peak sales season of cigarette during the Chinese New Year was nearly closed and began to recover in late March. During the Reporting Period, the revenue from the Cigarette Packaging Business was approximately HK\$197.07 million, representing an increase of HK\$33.74 million or 21% as compared with approximately HK\$163.33 million in FY2019. The increase in sales was due to the change of financial year end. Our production nearly came to a halt in the first quarter of 2020, and resumed to normal in the second quarter of 2020. The average monthly sales of cigarette packaging materials was decreased by approximately HK\$1.42 million, as compared with FY2019. The following tables sets forth the breakdown of the Group’s revenue from sales of cigarette packaging materials in the Reporting Period and FY2019:

	Year ended 31 December 2020		Nine months ended 31 December 2019	
	HK\$ '000	%	HK\$ '000	%
Inner frame paper	102,821	52.2	89,414	54.8
Tipping paper	63,387	32.2	51,749	31.7
Cigarette box frame paper	24,976	12.7	17,274	10.6
Cigarette trademark label	5,205	2.6	3,015	1.8
Cigarette paper box	642	0.3	1,840	1.1
Others	35	0.0	37	0.0
Total	197,066	100.0	163,329	100.0

Environmental Treatment Business

Environment Treatment Business provides full range services, from technical design solutions to plan execution and construction, on water quality restoration and livable city development. In 2020, the Environmental Treatment Business continues to build momentum, gaining recognition as a brand of excellence in ecological restoration among our customers in Greater Bay Area. During the Reporting Period, the Group simultaneously begun new exploration, design and construction projects in Huizhou, Zhongkai Hi-tech Industrial Development Zone and Tiechang Village Shiwan Town, Boluo County in Guangdong. During the Reporting Period, the Group completed construction works of our projects as planned. The water quality and environment were improved and is recognized in these areas. The total revenue from the Environmental Treatment Business was approximately HK\$172.58 million, representing an increase of approximately HK\$22.44 million or 15% as compared with approximately HK\$150.14 million in FY2019. The average monthly revenue from of Environment Treatment Business for Reporting Period and FY2019 was approximately HK\$14.38 million and HK\$16.68 million respectively, representing a decrease of approximately HK\$2.30 million or 14% due to the impact of COVID-19 pandemic on the progress of our projects.

MANAGEMENT DISCUSSION AND ANALYSIS

Gross Profit and Gross Profit Margin

During the Reporting Period, the overall gross profit of the Group was approximately HK\$153.10 million (FY2019: HK\$126.36 million) which comprised approximately HK\$78.70 million (FY2019: HK\$66.89 million) from the Cigarette Packaging Business, HK\$70.66 million (FY2019: HK\$59.47 million) from Environmental Treatment Business and HK\$3.74 million from other business.

During the Reporting Period, the overall gross profit margin was 41% which increased by 1% as compared with 40% in FY2019. The gross margin of the Cigarette Packaging Business was approximately 40%, compared with 41% in FY2019. The decrease in gross profit margin is due to decrease in unit price under the new contract. The gross profit margin for the Environment Treatment Business was approximately 41%, representing an increase of 1% as compared with 40% in FY2019. The increase of gross margin was resulted from effective cost control in subcontractors' costs.

Distribution Costs

The distribution costs of the Group in the Reporting Period was amounted to approximately HK\$1.84 million represented an increase of approximately 5%, in line with the increase of sale, as compared with approximately HK\$1.76 million in FY2019.

Administrative Expenses

The Group's administrative expenses for the Reporting Period was approximately HK\$42.89 million (FY2019: HK\$37.08 million), represented an increase of approximately HK\$5.81 million. The increase of administrative expenses was mainly resulted from the change of accounting period in 2019. The average monthly administrative expenses was decreased by approximately HK\$0.55 million as compared with FY2019. The decrease was resulted from decrease in administrative expenses from Environmental Treatment Business.

Other Gains – Net

During the Reporting Period, the total other gains – net were approximately HK\$4.73 million (FY2019: HK\$5.67 million). The Group recorded a gain of approximately HK\$7.29 million from dividend income, gain on disposal and unrealised gains on changes in fair value of financial assets at fair value through profit or loss (FY2019: HK\$5.06 million). The Group recorded a loss of approximately HK\$2.56 million from foreign exchanges (FY2019: gain of HK\$0.61 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\$3.84 million (FY2019: HK\$7.07 million).

Taxation

During the Reporting Period, income tax expense was approximately HK\$23.48 million, representing an increase of approximately HK\$4.70 million as compared to HK\$18.78 million for FY2019. 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\$94.28 million, representing an increase of approximately HK\$12.84 million or approximately 16%, as compared with approximately HK\$81.44 million in FY2019. The increase was mainly attributable to an increase in revenue and gross profit from both Cigarette Packaging Business and Environmental Treatment Business of the Group.

MANAGEMENT DISCUSSION AND ANALYSIS

Dividends

The Board has recommended to declare a final dividend of HK 4.00 cents per ordinary share for the year ended 31 December 2020 (the “**Final Dividend**”) (FY2019: HK 4.00 cents per ordinary share) whose names appear on the Register of Members of the Company on 16 June 2021. During the Reporting Period, the Board declared and paid an interim dividend of HK 4.00 cents per share for the six months ended 30 June 2020. The Final Dividend is subject to the approval of the Shareholders at the forthcoming annual general meeting (the “**AGM**”) of the Company and will be paid on 25 June 2021.

Trade Receivables

As at 31 December 2020, the total trade receivables after impairment allowance were approximately HK\$221.05 million, represented an increase of approximately HK\$64.97 million as compared with HK\$156.08 million as at 31 December 2019. The increase was mainly resulted from the receivables of the projects of Environmental Treatment Business.

Details of Trade Receivables are set out in note 21 to the consolidated financial statements.

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\$7.29 million (FY2019: HK\$5.06 million) including the unrealised gains on changes in fair value of HK\$4.17 million (FY2019: gains of HK\$2.43 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 for the respective year/period, the Group held the following financial assets at fair value through profit or loss:

	Number of shares	31 December 2020 HK\$'000	31 December 2019 HK\$'000
Equity securities listed in Hong Kong			
CNG Power (01816)	–	–	10,920
PA Gooddoctor (01833)	100,000	9,400	–
BABA-SW (09988)	30,000	6,978	–
Other equity securities (Note 1)		6,840	–
Equity securities listed in the PRC			
Guangdong Liantai (聯泰環保 603797)	1,700,873	15,966	8,289
Guongdong Tonze Electric (天際股份 002759)	1,000,000	19,748	–
Other equity securities (Note 2)		8,132	5,537
		67,064	24,746

Notes:

- (1) Other listed equity securities comprised 3 equity securities listed in Hong Kong.
- (2) Other listed equity securities comprised 3 equity securities listed in the PRC.

MANAGEMENT DISCUSSION AND ANALYSIS

Capital Structure, Liquidity and Financial Resources

At 31 December 2020, the Group had net assets of HK\$456.94 million (FY2019: HK\$383.11 million); a working capital surplus of HK\$389.76 million (FY2019: surplus HK\$315.90 million).

As at 31 December 2020, the Group's total cash and restricted cash balances amounted to approximately HK\$140.07 million (31 December 2019: HK\$200.70 million) including restricted cash of HK\$36.79 million (31 December 2019: HK\$40.76 million) and cash and cash equivalent HK\$103.28 million (31 December 2019: 159.94 million).

The following table sets forth the cash flows for FY2020 and FY2019:

	FY2020 HK\$'000	FY2019 HK\$'000
Net cash (used in)/generated from operating activities	(6,860)	14,544
Net cash used in investing activities	(23,662)	(15,192)
Net cash used in financing activities	(48,354)	(49,411)
Net decrease in cash and cash equivalents	(78,876)	(50,059)
Cash and cash equivalents at beginning of the year/period	159,942	224,523
Effect change in exchange rate	22,215	(14,522)
	103,281	159,942

Borrowings and Gearing Ratio

The Group did not have any borrowings as at 31 December 2020 and 2019 and thus no gearing 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 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 Reporting Period, the Group's total capital expenditure amounted to approximately HK\$10.39 million (FY2019: HK\$11.67 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 2020, the Group placed cash deposits of approximately HK\$35.26 million with designated banks as collateral for Group's notes payable (31 December 2019: HK\$40.76 million) and deposits of HK\$1.53 million as tender security, which were all denominated in RMB.

Contingent Liabilities

The Group had no contingent liabilities as at 31 December 2020 (31 December 2019: Nil).

Capital Commitments

As at 31 December 2020, the Group had capital commitments for the amount of approximately HK\$0.44 million (31 December 2019: HK\$14.26 million) for acquisition of property, plant and equipment.

MANAGEMENT DISCUSSION AND ANALYSIS

HUMAN RESOURCES

As at 31 December 2020, the Group employed a total of 348 (31 December 2019: 341) permanent employees in the PRC and Hong Kong. Total employee remuneration (including directors' emoluments and benefits) in the Reporting Period amounted to HK\$35.73 million (FY2019: HK\$27.82 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.

FUTURE OUTLOOK AND PROSPECTS

From 2016, the annual sales growth rate of cigarette in the PRC maintained around 0.4%. The cigarette industry will maintain a stable production and operation condition in the future. The Company will continue to follow closely and 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.

In 2020, the PRC Government published many policies to create a better environment for the development of environmental protection, including the respective targets of urban wastewater treatment until 2023. We believe that the policies in respect of environmental treatment will be favorable to our Environmental Treatment Business. In the future, we will actively participate in research and investigation of water ecological environment governance in the Guangdong Province. The Company is cultivating new opportunities in Huizhou Shahe river treatment, providing ongoing technical advisory services to relevant institutions, assisting in ecological restoration project planning for the years to come.

In 2020, due to the outbreak of COVID-19, the economy in the PRC faced unprecedented challenges. The PRC Government took a series of measures to actively fight the epidemic and maintain economic stability and recovered gradually in second half of 2020. We believe that the worst of COVID-19 was passed. Looking forward, the Group will continue strengthen its cost control measures substantially in order to preserve its competition edge. The Group will continue to seek business opportunities and persist in its own business strategy 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 60, was appointed as a director on 29 April 2013 and re-designated as an executive director, chairman of the Board and chief executive officer 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 and the father of Mr. Zheng Kevin Xiao Lin, the project manager of the Company.

Mr. ZHENG Minsheng, aged 57, 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 and the uncle of Mr. Zheng Kevin Xiao Lin, the project manager of the Company.

NON-EXECUTIVE DIRECTOR

Mr. HAO Jiming, aged 75, 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 was 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) from August 2015 to June 2020.

INDEPENDENT NON-EXECUTIVE DIRECTORS

Mr. LAU Kwok Hung, aged 74, 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. FOK Po Tin, aged 61, was appointed as an executive director of the Company on 24 July 2013. Mr. Fok holds a Bachelor's degree in Business Administration with honours from the Chinese University of Hong Kong and a Bachelor's degree in Laws from the Beijing University. He is a practicing solicitor of the High Court of Hong Kong and is the principal of Henry Fok & Company, Solicitors. Mr. Fok, who has over twenty years of extensive experience as a solicitor of general practice, is very familiar with commercial law. Mr. Fok has been an executive director of Sunway International Holdings Limited (Stock code: 0058) since July 2020.

BIOGRAPHICAL DETAILS OF DIRECTORS AND SENIOR MANAGEMENT

Mr. CAI Xiaowen, aged 49, was appointed as an independent non-executive director on 1 April 2020. He is the member of the audit committee and remuneration committee. Mr. Cai holds a Bachelor degree in Law from Huaqiao University. He also holds and a Master degree in Law from Southwest University of Political Science and Law and a Master of Common Law from The University of Hong Kong in 2004. Mr. Cai was also awarded a Doctor of Philosophy in Law (Legal Procedure) from Macau University of Science and Technology. Mr. Cai was qualified as a lawyer in the People's Republic of China. He was the vice president and risk control director of Yihua (Enterprise) Group Co., Ltd. ("**Yihua Group**"). Yihua Group is the controlling shareholder of Yihua Life Technology Co., Ltd. (Shanghai Stock Exchange Stock code: 600978) and Yihua Health Medical Co., Ltd. (Shenzhen Stock Exchange Stock Code: 000150). Currently, Mr. Cai is working as a lawyer in the PRC, an arbitrator at Shantou Arbitration Commission, the Supervisor of Master of Laws of Jinan University and a tutor at School of Political Science and Law of Guangdong University of Technology.

SENIOR MANAGEMENT

Mr. HUANG Bongde, aged 58, joined the Group in December 2013, as the general manager of the Group. Mr. Huang holds a master degree in 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 in the PRC.

Mr. LI Zhiyong, aged 59, 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 40, 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. ZHENG Xiao Lin, Kevin, aged 33, is currently the project manager of the Company. Mr. Zheng joined the Company in 2015 as the assistant company secretary. Since January 2020, he has been serving as the project manager. His primary domains of responsibility include engaging in Company strategic planning, managing daily operations, and superintending various projects undertaken by the Company, assessing key performance metrics. Mr. Zheng obtained his double bachelor's degrees in Commerce and Media & Communications at University of Melbourne, Australia in 2011 and a master's degree in Management at Worcester Polytechnic Institute, Massachusetts, USA. He is currently an associate of the Hong Kong Institute of Chartered Secretaries. Mr. Zheng is the son of Mr. Zheng Andy Yi Sheng, an executive director, chairman of the Board and chief executive officer of the Company and the nephew of Mr. Zheng Minsheng, an executive director of the Board.

Mr. TANG Jinhai, aged 47, 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 63, is the chief financial officer, the company secretary and one of the authorized representatives of the Company. Mr. Yu joined the Group in November 2013, and is primarily responsible for overall financial management and company secretarial affairs. Mr. Yu has over 20 years of experience in accounting, financial management and company secretarial practice. Prior to joining us, he had worked in other companies listed in Hong Kong and Singapore. Mr. Yu obtained a bachelor of Business Administration degree in Accountancy at The Open University of Hong Kong. He is also a member of The Hong Kong Institute of Certified Public Accountants.

DIRECTORS' REPORT

The directors (the “**Directors**”) of Huaxi Holdings Company Limited (the “**Company**”) submit herewith their report together with the audited consolidated financial statements of the Company and its subsidiaries (collectively referred to as the “**Group**”) for the year ended 31 December 2020.

PRINCIPAL ACTIVITIES

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

RESULTS

The results of the Group for the year ended 31 December 2020 and the financial position of the Group as at 31 December 2020 are set out in the consolidated financial statements on pages 56 to 119 of this report.

DIVIDENDS

The Board has recommended to declare a final dividend of HK 4.00 cents per ordinary share for the year ended 31 December 2020 (the “**Final Dividend**”) (FY2019: HK 4.00 cents per ordinary share) whose names appear on the Register of Members of the Company on 16 June 2021. During the Reporting Period, the Board declared and paid an interim dividend of HK 4.00 cents per share for the six months ended 30 June 2020. The Final Dividend is subject to the approval of the Shareholders at the forthcoming annual general meeting of the Company and will be paid on 25 June 2021.

ANNUAL GENERAL MEETING AND CLOSURE OF REGISTER OF MEMBERS

The annual general meeting is scheduled to be held on Friday, 28 May 2021 (the “**AGM**”). The register of members of the Company will be closed from Tuesday, 25 May 2021 to Friday, 28 May 2021, 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, 24 May 2021.

The record date for entitlement to the proposed final dividend is on Wednesday, 16 June 2021. In order to ascertain the entitlement to the proposed final dividend, the register of members of the Company will be closed from Friday, 11 June 2021 to Wednesday, 16 June 2021 (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 Tuesday, 8 June 2021. 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 Thursday, 10 June 2021.

BUSINESS REVIEW

A review of the business and the analysis of the Group’s performance during the period using financial key performance indicators is provided in the Management Discussion and Analysis on 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, credit risk and liquidity risk. Details of financial risk management are set out in note 3 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.

DIRECTORS' REPORT

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 120 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 year are set out in note 15 to the consolidated financial statements.

BANK BORROWINGS

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

SUBSIDIARIES

The details of the Company's principal subsidiaries as at 31 December 2020 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 year 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 year.

DISTRIBUTABLE RESERVES

As at 31 December 2020, distributable reserves of the Company, calculated under legislation applicable in Cayman Islands, amounted to approximately HK\$235.24 million (31 December 2019: approximately HK\$177.07 million). The details of the movements during the year/period in the reserves of the Company are set out in note 33 to the consolidated financial statements on page 119 of this report.

MAJOR CUSTOMERS AND SUPPLIERS

For the year ended 31 December 2020, the aggregate revenue attributable to the Group's five largest customers accounted for approximately 91% (FY2019: 97%) and the largest customer accounted for approximately 33% (FY2019: 46%) of the Group's total revenue. The aggregate purchases attributable to the Group's five largest suppliers accounted for approximately 44% (FY2019: 53%) and the largest suppliers accounted for approximately 18% (FY2019: 18%) of the Group's total purchases.

At no time during the year 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 year ended 31 December 2020, 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 note 32 to the consolidated financial statements.

DIRECTORS

Composition

The Directors during the financial year ended 31 December 2020 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. Cai Xiaowen

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 Minsheng and Mr. Hao Jiming shall retire by rotation at the AGM and, being eligible, offer themselves for re-election.

DIRECTORS' SERVICE CONTRACTS

Each of our executive Directors 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 Directors has signed the 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.

The independent non-executive Directors, Mr. Lau Kwok Hung and Mr. Fok Po Tin signed the appointment letters on 6 December 2019 and Mr. Cai Xiaowen signed the appointment letter on 1 April 2020, for an initial term of three years 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 year.

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 year.

DIRECTORS' REPORT

DIRECTORS' INTEREST IN COMPETING BUSINESS

During the year, 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 financial statements respectively.

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.

DIRECTORS' REPORT

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.

Set out below are the outstanding share options under the Option Scheme as at 31 December 2020

Category of grantees	Outstanding at 1 January 2020	Number of options granted	Number of options exercised	Number of options Lapsed	Outstanding at 31 December 2020	Date of Grant	Exercise Period	Exercise Price HK\$/share
Directors								
Mr. Zheng Minsheng	1,200,000	-	1,200,000	-	-	15/1/2015	15/1/2016- 14/1/2020	\$1.29
Mr. Lau Kwok Hung	400,000	-	400,000	-	-	15/1/2015	15/1/2016- 14/1/2020	\$1.29
Mr. Ma Wenming	400,000	-	400,000	-	-	15/1/2015	15/1/2016- 14/1/2020	\$1.29
Mr. Fok Po Tin	400,000	-	-	400,000	-	15/1/2015	15/1/2016- 14/1/2020	\$1.29
Total-Directors	2,400,000	-	2,000,000	400,000	-			
Employees	32,780,000	-	4,350,000	28,430,000	-	15/1/2015	15/1/2016- 14/1/2020	\$1.29
Consultants	8,000,000	-	1,000,000	7,000,000	-	15/1/2015	15/1/2016- 14/1/2020	\$1.29
Total	43,180,000	-	7,350,000	35,830,000	-			

DIRECTORS' REPORT

DIRECTORS' INTERESTS AND SHORT POSITIONS IN SHARES AND UNDERLYING SHARES

As at 31 December 2020, the interests and short positions of the Directors in the share capital of the Company or its associated corporations (within the meaning of Part XV of the Securities and Futures Ordinance (the "SFO")), as recorded in the register required to be kept 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 of the Company

Name of Directors	Capacity/ Nature of interest	Number of ordinary shares held	Total	Percentage of the Company's issued share capital (Note (ii))
Mr. Zheng Andy Yi Sheng (Note (i))	Interest in a controlled corporation	450,000,000	450,000,000	64.15%
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. 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) The approximate percentage of interests held was calculated on the basis of 701,430,000 ordinary shares of the Company in issue.

Save as disclosed above, as at 31 December 2020, none of the Directors had registered an interest or short position in the shares, underlying shares or debentures of the Company or any of its associated corporations that was required to be recorded pursuant to 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 AND UNDERLYING SHARES

At 31 December 2020, 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	Percentage of the Company's Issued share capital (Note (iii))
SXD Limited	(i)	Beneficially owned	450,000,000	64.15%
Mr. Zheng Andy Yi Sheng	(i)	Interest in a controlled corporation	450,000,000	64.15%
Ms. Chan Annie Ni	(ii)	Interest of spouse	450,000,000	64.15%

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 701,430,000 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 2020.

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 the year ended 31 December 2020. The Directors are also not aware of any material litigation or claims that are pending or threatened against the Group during the year ended 31 December 2020.

DIRECTORS' REPORT

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, C.1.2 and E.1.2. The full details of corporate governance practices adopted by the Company during the year ended 31 December 2020, or where applicable, up to the date of this report, are set out on pages 21 to 29 of this report.

AUDITOR

The consolidated financial statements for the year ended 31 December 2020 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, 30 March 2021

CORPORATE GOVERNANCE REPORT

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. Cai Xiaowen.

The Directors have brought 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.

CORPORATE GOVERNANCE REPORT

Board Diversity

During the year, 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 year.

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

The term of appointment of all non-executive Directors (including independent non-executive Directors) are three years, subject to earlier termination in accordance with the Company’s Articles of Association, Listing Rules or applicable laws and regulations. Pursuant to the Company’s Articles of Association, one-third of the Directors (including non-executive Directors) are subject to retirement by rotation and re-election at the annual general meeting at least once every three years.

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. Throughout the year, the Board has at least one-third in number of its members comprising independent non-executive directors under Rule 3.10A of the Listing Rules and at least one of the independent non-executive Directors possesses appropriate professional qualifications or accounting or related financial management expertise as required under Rule 3.10 of 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 years are as follows:

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

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 year ended 31 December 2020, four 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 year ended 31 December 2020 was as follows:

Name of Director	Meeting attended/held	
	Regular Board Meeting	Annual General Meeting
Mr. Zheng Andy Yi Sheng	4/4	0/1
Mr. Zheng Minsheng	4/4	0/1
Mr. Ha Jiming	1/4	0/1
Mr. Lau Kwok Hung	4/4	1/1
Mr. Fok Po Tin	2/4	1/1
Mr. Ma Wenming (Resigned on 1 April 2020)	0/1	0/0
Mr. Cai Xiaowen (Appointed on 1 April 2020)	1/3	0/1

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. Fok Po Tin and Mr. Cai Xiaowen 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 auditor; 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 year ended 31 December 2020, the Audit Committee held two meetings, inter alia, to review the final results for the nine months ended 31 December 2019 and the interim results for the six months ended 30 June 2020 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. In addition, the Audit Committee met the external auditor once without the presence of the management to discuss any areas of concerns. During year ended 31 December 2020, the Audit Committee met the external auditor twice without the presence of the management to discuss any areas of concerns.

CORPORATE GOVERNANCE REPORT

Members and their attendance are as follows:

Name of Directors	Meeting Attendance/held
Mr. Lau Kwok Hung (<i>Chairman</i>)	2/2
Mr. Fok Po Tin	2/2
Mr. Ma Wenming (Resigned on 1 April 2020)	0/1
Mr. Cai Xiaowen (Appointed on 1 April 2020)	1/1

Remuneration Committee

The Remuneration Committee is currently chaired by Mr. Lau Kwok Hung, with Mr. Fok Po Tin and Mr. Cai Xiaowen 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 year ended 31 December 2020, 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 (<i>Chairman</i>)	1/1
Mr. Fok Po Tin	1/1
Mr. Ma Wenming (Resigned on 1 April 2020)	0/0
Mr. Cai Xiaowen (Appointed on 1 April 2020)	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 year ended 31 December 2020, 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 (<i>Chairman</i>)	1/1
Mr. Lau Kwok Hung	1/1
Mr. Fok Po Tin	1/1

CORPORATE GOVERNANCE REPORT

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 year ended 31 December 2020, 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 (<i>Chairman</i>)	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 year ended 31 December 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 officer 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 Reporting Period, an independent non-executive Director and a non-executive Director was unable to attend the annual general meetings of the Company held on 29 May 2020 (the "2020 AGM") as they were out of town for other business commitments.

CORPORATE GOVERNANCE REPORT

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.

Code Provision E.1.2

Pursuant to code provision E.1.2 of the CG Code, the chairman of the Board should attend the annual general meeting. During the year, Mr. Zheng Andy Yi Sheng, the chairman of the Board and chief executive officer was unable to attend the 2020 AGM as he was out of town for other business commitments. The Board had arranged for Mr. Lau Kwok Hung, an independent non-executive Director, chairman of the Audit and Remuneration Committee of the Company to attend and chair the 2020 AGM on behalf of Mr. Zheng Andy Yi Sheng and to respond to questions from shareholders of the Company. The Company considers that the sufficient measures have been taken to ensure the Company's governance practices are not less exacting than these in the CG Code.

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 year ended 31 December 2020.

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 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. In preparing the financial statements for the year ended 31 December 2020, the Directors have selected appropriate accounting policies, applied them consistently in accordance with Hong Kong Financial Reporting Standards and Hong Kong Companies Ordinance and the related interpretations, and made adjustments and estimates are unbiased and reasonable. The Directors' responsibilities for preparing consolidated financial statements are set out in the Independent Auditor's Report on pages 51 to 55. 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 period under review and their corresponding remuneration is as follows:

Nature of services	Amount HK\$ '000
Audit service for the year ended 31 December 2020	1,564
Others (including review of interim results, review of preliminary announcement of annual results, tax consultancy and other non-audit services)	292

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.

In addition to the risk management and internal control function, the Group will review and appraise the internal control system and risk management system of the Group periodically. The annual internal control review plan of the Group covers major activities and material controls (including operational, financial, compliance and risk management) of the Group's business and service units. A report on the result of assessment and recommendations was provided to the Audit Committee and the Board. 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 considers that the Company has maintained appropriate and effective risk management and internal control systems.

CORPORATE GOVERNANCE REPORT

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 year ended 31 December 2020.

COMPANY SECRETARY

As at 31 December 2020, the company secretary of the Company is Mr. Yu Wing Cheung. A written confirmation had been received by the Company from Mr. Yu to confirm he took no less than 15 hours of relevant professional training. The Company is of the view that Mr. Yu complied with the Rule 3.29 of the Listing Rules.

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.

CORPORATE GOVERNANCE REPORT

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.

ENVIRONMENTAL, SOCIAL AND GOVERNANCE REPORT

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 corporate 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**”). The Board is authorized to set up an ESG group to handle ESG matters in a comprehensive manner, supervise the control of environmental protection indicators by the subsidiaries under the Group during the production and operation. The ESG group will coordinate and proceed with the internal and external work of the Company’s sustainable development, clarify management objectives, and continue to improve the management of ESG matters and risks. It will also ensure that the Board is informed of ESG management objectives, plans, implementation status and risks treatment through regular reporting to guarantee the effectiveness of ESG management, so as to 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 the Group’s business development is in compliance with the regulations and requirements of the jurisdiction where our business operates with regard to green environmental protection 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 twelve-month period from 1 January 2020 to 31 December 2020 (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 29 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 30 March 2021 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.

ENVIRONMENTAL, SOCIAL AND GOVERNANCE REPORT

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

ENVIRONMENTAL, SOCIAL AND GOVERNANCE REPORT

Stakeholder	Expectation	Contact and Communication
Government and Regulatory Authorities	<ul style="list-style-type: none"> Local laws and regulations compliance Obliging supervision and inspection measures Timely reporting Paying taxes levied as required Corruption-free business behavior Bearing the social responsibility of a Hong Kong listed company 	<ul style="list-style-type: none"> Compliance with laws and supervision Proactive payment of tax payables Proactively participating in relevant meetings and seminars
Supplier	<ul style="list-style-type: none"> Long-term and stable partnership Guaranteed stable payment Promoting industry development and communication 	<ul style="list-style-type: none"> Supplier periodic assessment and data enhancement Establishment of a purchasing price inquiry and comparison system Development of a code of integrity cooperation Proactively participating in industry association related activities Collaboration with universities and advanced research institutions
Community and Public	<ul style="list-style-type: none"> Organizing and participating in community improvement activities Promoting long-term social development Charity 	<ul style="list-style-type: none"> 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:

ENVIRONMENTAL, SOCIAL AND GOVERNANCE REPORT

A. ENVIRONMENT

A1: Emissions

The Group is in strict compliance with relevant 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.

Wastewater discharge standards

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

Exhaust gas emission standards

- Integrated Emission Standards of Air Pollutants GB16297-1996 (《大氣污染物綜合排放標準GB16297-1996》) in the PRC and Emission Standards of Air Pollutants DB44/27 (《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

Noise emission standards

- Class III regional standards applicable to industrial areas under the Standard of Noise at Boundary of Industrial Enterprises GB12348-90 (《工業企業廠界噪聲標準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 GB3096-1993 (《城市區域環境噪聲標準GB3096-1993》) in the PRC

Wastewater discharge policy

Xinda Colour Printing

1. No wastewater is generated by Xinda during the production. The wastewater is mainly domestic sewage, which is treated by sewage treatment facilities and then discharged in compliance with the regulations.
2. Strengthen the daily maintenance of sewage treatment facilities to ensure that the indicators of domestic sewage after treatment meet the specified requirements.
3. Wastewater pipes and rainwater pipes are strictly separated, and discharge of wastewater into rainwater pipes is prohibited.
4. 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.
5. 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, soil and garbage).
6. The equipment department shall clean the wastewater pipes and rainwater pipes once a year.

Hongdong Treatment

1. Hongdong Treatment does not operate large-scale industrial equipment, and there is no wastewater generated during the production process; the wastewater produced in the daily living is mainly kitchen wastewater, which is treated by the kitchen filter equipment and then discharged into the wastewater pipes.

Exhaust gas emission policy

Xinda Colour Printing

1. To invest and construct exhaust gas treatment facilities, in accordance with the requirements of the government, using concentration and adsorption, catalytic oxidation methods to oxidize organic exhaust gas into harmless CO₂ and H₂O for compliance discharge.
2. The main waste production equipment in each workshop shall be closed off. Exhaust gas shall be centralized collection by installing exhaust gas collection system, and sent to the treatment facilities through pipes for treatment and compliance discharge.

ENVIRONMENTAL, SOCIAL AND GOVERNANCE REPORT

3. The office shall be responsible for the annual review of all corporate vehicles to ensure compliance of exhaust gas emissions with regulatory requirements.
4. The third-party authorities are entrusted to conduct measurement with indicators of exhaust gas emissions once a year.

Hongdong Treatment

1. Hongdong Treatment does not operate large-scale industrial equipment, and there is no exhaust gas generated during the production process.
2. The Company shall carry out annual review on all public vehicles to ensure tail gas emission is qualified.

Noise control policy

Xinda Colour Printing

1. Equipment that generates a louder noise in workshops shall be sound-proofed and shock-proofed by the equipment department 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

1. Small equipment such as aerators is equipped with silencers. Measures for noise reduction are adopted for certain all-in-one wastewater treatment equipment that generates a louder noise.

A1.1 Types of exhaust 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 January to 31 December 2020 (Unit: tonne)	Total amount of Xinda Colour Printing from 1 April 2019 to 31 December 2019 (Unit: tonne)
VOCs	2.363	—
TVOCs	6.025	6.09
Benzene	0.012	0.44

Hongdong Treatment

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

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A1.2 Greenhouse gas emissions

Carbon Dioxide Emission

Carbon Dioxide Emission	Xinda Colour Printing 1 January to 31 December 2020 (Unit: tonne)	Hongdong Treatment 1 January to 31 December 2020 (Unit: tonne)	Total (tonne)	Total 1 April 2019 to 31 December 2019 (Unit: tonne)
Gas	56.63	–	56.63	23.00
Electricity	3,646.28	2,965.49	6,611.77	3,643.32
Gasoline	24.33	51.38	75.71	66.54
Diesel	4.40	–	4.40	3.30
Total	3,731.64	3,016.87	6,748.51	3,736.16

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). The increase in carbon dioxide emissions compared to last year is due to the new projects.

Nitrogen Oxide Emission

Nitrogen Oxide Emission	Xinda Colour Printing 1 January to 31 December 2020 (Unit: tonne)	Hongdong Treatment 1 January to 31 December 2020 (Unit: tonne)	Total (tonne)	Total 1 April 2019 to 31 December 2019 (Unit: tonne)
Gasoline	0.2232	–	0.2232	0.2239
Diesel	0.0150	–	0.0150	0.0114
Total	0.2383	–	0.2383	0.2353

Sulfur Oxide Emission

Sulphur Oxide Emission	Xinda Colour Printing 1 January to 31 December 2020 (Unit: tonne)	Hongdong Treatment 1 January to 31 December 2020 (Unit: tonne)	Total (tonne)	Total 1 April 2019 to 31 December 2019 (Unit: tonne)
Gasoline	0.0031	–	0.0031	0.0031
Diesel	0.0130	–	0.0130	0.0099
Total	0.0161	–	0.0161	0.013

Xinda Colour Printing 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. Hongdong Treatment 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.

ENVIRONMENTAL, SOCIAL AND GOVERNANCE REPORT

A1.3 Hazardous waste discharge

Xinda Colour Printing generated solid wastes such as waste activated carbon, waste ink and ink residue in the production process. Hongdong Treatment did not generate any hazardous solid waste during its daily operation.

Name of Solid Waste	Xinda Colour Printing 1 January to 31 December 2020 (Unit: tonne)	Hongdong Treatment 1 January to 31 December 2020 (Unit: tonne)	Total (tonne)	Total 1 April 2019 to 31 December 2019 (Unit: tonne)
Waste Activated Carbon	0.5	-	0.5	-
Waste Ink	0.2	-	0.2	0.6
Ink Residue	0.4	-	0.4	-
Total	1.1	-	1.1	0.6

A1.4 Non-hazardous waste discharge

Name of Non-hazardous Waste	Xinda Colour Printing 1 January to 31 December 2020 (Unit: tonne)	Hongdong Treatment 1 January to 31 December 2020 (Unit: tonne)	Total (tonne)	Total 1 April 2019 to 31 December 2019 (Unit: tonne)
Waste Empty Drums	1	-	1	0.86
Waste Rags	0.03	-	0.03	-
Waste Lamps	0.02	-	0.02	0.02
Non-hazardous domestic waste	6.573	7.2	13.773	13.578
Other Non-Hazardous Waste	6.2	-	6.2	6.2
Total	13.823	7.2	21.023	20.658

A1.5 Emission targets and steps

Emission targets: according to the data required by the relevant laws and regulations.

Steps: see A1

A1.6 Waste reduction targets and steps

Non-hazardous waste:

They are mainly domestic waste, which are kitchen waste, and office waste. The waste are first sorted by its employees, put in designated place each day, and then collected and disposed of by property cleaning company, so as to keep the office environment clean and tidy.

Hazardous waste:

They are centrally stored in the hazardous waste warehouse, managed in accordance with the national Hazardous Waste Management Policy (《危險廢棄物管理制度》), and centrally handled by qualified recycling institutions entrusted by the Company.

Waste reduction targets: annual waste reduction of 2%.

ENVIRONMENTAL, SOCIAL AND GOVERNANCE REPORT

Steps to be taken:

1. Strictly implement the Company's Energy-saving and Consumption-Reduction Control Regulations (《節能降耗控制規定》), encourage the recycling of waste materials and make the best use of them.
2. Strengthen the management and control of materials utilization. The production department shall control the consumption of materials within the budget or quota, and strengthen the supervision of materials utilization.

A2: Use of resources

Resources policy:

Electricity saving Measures

1. During machine overhaul, electric heat source, power source and air source are shut off.
2. During non-production period, power supply, air source and power of exhaust system of machine are cut off.
3. 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.
4. 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 is turned off 30 minutes before going off duty in the evening.
5. 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 overtime during lunch break, the indoor lighting are turned off.
6. 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.
7. 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.
8. The river regulation equipment shall be turned on regularly in strict accordance with business requirements, and shut down at unnecessary time to reduce standby energy consumption.

Consumption reduction measures

1. Production materials are reviewed annually based on various indicators to reduce consumption.
2. The use of water-saving appliances is promoted. During washing, water flow is properly controlled and taps are turned off readily. Leakage is timely reported for repairing.
3. For greening and irrigation, rainwater and recycled water are used, and the use of tap water is avoided.

Environmental protection policy

1. Waste material management

- (1) Recyclable or reusable waste material are collected by designated personnel of the Company, stored in designated place, and disposed of and sold in a centralized manner.
- (2) Non-recyclable waste material: those that will pollute the environment are placed in designated place, and disposed of in a centralized manner.

ENVIRONMENTAL, SOCIAL AND GOVERNANCE REPORT

2. Other

- (1) When purchasing materials, apparatus and office equipment, priority is given to energy-saving equipment or products with low energy consumption and national certification, and high-energy equipment or products that are prohibited nationally are eliminated.
- (2) Digitalized office is encouraged such as using DingTalk system and signing online. Whenever possible, documents are revised on electronic media and information is 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.
- (3) 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.
- (4) 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 Total Energy Consumption and Density

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).

Type of Energy	Unit	Xinda Colour Printing 1 January to 31 December 2020	Hongdong Treatment 1 January to 31 December 2020	Total	Total 1 April 2019 to 31 December 2019
Electricity	Degree/Kw	3,657,255	2,974,412.69	6,631,667.69	3,979,663
Liquefied Petroleum Gas	Kilogram	18,259	–	18,259	7,348
Gasoline	Litre	10,580.73	30,156.99	40,737.72	14,666
Diesel	Litre	1,672	–	1,672	1,600

In order to reduce energy consumption, the Group fully uses LEDs to save daily electricity consumption, adjusts the automatic opening and closing time of factory lighting according to the sunshine duration, and controls the air conditioner's temperature at 26°C during summer. Due to the new projects, Hongdong Treatment's electricity consumption increased compared with last year.

A2.2 Water Consumption

Unit	Xinda Colour Printing 1 January to 31 December 2020	Hongdong Treatment 1 January to 31 December 2020	Total	Total 1 April 2019 to 31 December 2019	
Total Water Consumption	Tonne	23,280	926	24,206	20,613

Xinda Colour Printing has been targeting to conserving water use and enhancing water use efficiency, and put the concept of water conservation into practice by collecting rainwater to irrigate plants. Water consumption has increased slightly due to the addition of a new exhaust gas treatment facility — water spray. Hongdong Treatment does not require a lot of water in its core business, and its water resources are mainly consumed by its employees at the worksite.

ENVIRONMENTAL, SOCIAL AND GOVERNANCE REPORT

A2.3 Set energy use efficiency targets and steps to be taken

Xinda Colour Printing

Targets: saving energy use by 1% compared with the same period last year.

Steps: see A2 Policies for efficient use of energy.

Hongdong Treatment

Hongdong Treatment mainly changes according to the progress of the project, so it is impossible to accurately set energy conservation targets.

A2.4 Set water use efficiency targets and steps to be taken

Xinda Colour Printing

Water use efficiency targets: saving water by 1% compared with the same period last year.

Steps: see A2 Water saving measures

Hongdong Treatment

Hongdong Treatment mainly changes according to the progress of the project, so it is impossible to accurately set water saving targets.

A2.5 Total packaging materials used in finished goods

Xinda Colour Printing

The total packaging materials used in finished goods are 10.06 tonnes

Hongdong Treatment

No finished goods

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 actively. 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 Colour 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 of equipment, fire-protection water and daily irrigation water. Its business activities have no significant impact on natural resources. Hongdong Treatment is committed to governing water environment, and advocates civilized construction, and its business activities have no significant impact on natural resources.

A4: Climate change

A4.1 Significant climate-related matters affecting the issuer

The Group has no significant climate-related matters that affect the issuer.

ENVIRONMENTAL, SOCIAL AND GOVERNANCE REPORT

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

1. 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.
2. 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.
3. The Group has been in compliance with the requirements under the Labor Contract Law of the People's Republic of China (《中華人民共和國勞動法》) and the Employment Ordinance (《僱傭條例》) of Hong Kong. Where any employee fails to perform his/her current position, such an employee will receive training or be transferred to another position. In case such an employee continues to fail the position, the Group will terminate the employment relationship in accordance with relevant laws and regulations.
4. The Group arranges various social insurance, such as pension insurance, unemployment insurance, work injury insurance and medical insurance, for employees in accordance with government regulations.

Remuneration

1. 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.
2. 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.

ENVIRONMENTAL, SOCIAL AND GOVERNANCE REPORT

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, mainly including:

1. Social insurance for employees;
2. Work-related injury insurance for employees engaged in relatively dangerous operation;
3. Monthly birthday party to celebrate employee birthdays;
4. Corresponding bonuses and prizes based on production performance;
5. Free cooling medicines and drinks for employees;
6. Holiday gifts and year-end prizes for employees;
7. Unscheduled employees group activities (such as tourism, catering, community charity activities);
8. Regular medical examination for employees of special work types;
9. Free summer and winter work clothes for employees;
10. Accommodation and food or corresponding allowances for resident and project department employees;
11. Travelling allowance for employees from other provinces to return to their hometown during Spring Festival;
12. The Group improves the accommodation, food and working conditions and benefits of employees according to the actual situation of society and employees.

Hongdong Treatment

Hongdong Treatment promulgated the Human Resource Management System (《人力資源管理制度》) and the Staff Handbook (《員工手冊》) to clarify the relevant regulations that employees should abide by, such as recruitment, promotion, attendance, integrity, rewards and punishments, and code of conduct.

ENVIRONMENTAL, SOCIAL AND GOVERNANCE REPORT

B1.1 Total number of employees

Xinda Colour Printing

During the Reporting Period, all of the employees of the Company are stationed in China. As of 31 December 2020, the Company employed a total of 224 full-time employees, details of which are set out as follows:

By age	Percentage	By gender	Percentage
≤ 25	2.8	Male	69.6
26–35	25	Female	30.4
36–45	34.3		
46–55	27.2		
≥ 56	10.7		

Hongdong Treatment

During the Reporting Period, all of the employees of the Company are stationed in China. As of 31 December 2020, the Company employed a total of 93 full-time employees, details of which are set out as follows:

By age	Percentage	By gender	Percentage
≤ 25	7.3	Male	83.6
26–35	53.9	Female	16.4
36–45	20.9		
46–55	15.9		
≥ 56	2		

B1.2 Employee turnover rate

Xinda Colour Printing

During the Reporting Period, Xinda Colour Printing has a total of 25 departed personnel, details of which are set out as follows:

By age	Percentage	By gender	Percentage
≤ 25	24	Male	76
26–35	24	Female	24
36–45	8		
46–55	32		
≥ 56	12		

ENVIRONMENTAL, SOCIAL AND GOVERNANCE REPORT

Hongdong Treatment

During the Reporting Period, Hongdong Treatment has a total of 36 departed personnel, details of which are set out as follows:

By age	Percentage	By gender	Percentage
≤ 25	26.9	Male	86.9
26–35	34.7	Female	13.1
36–45	27.8		
46–55	10.6		
≥ 56	0		

B2: Health and safety

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:

1. Continuously improve the working and production environment, and increase funds allocated for protective equipment for safe production;
2. Provide employees with hygienic supplies such as masks and disinfectants during the period of pandemic prevention of COVID-19;
3. Hold safety production training every quarter to enhance employees' occupational health and safety mindset;
4. Strengthen the regular inspection and maintenance of mechanical equipment to ensure the safe operation of mechanical facilities;
5. Strictly control the employment of special operations personnel by checking the corresponding skills certificate and qualification certificate, and ensure that special operations are conducted strictly in accordance with relevant operational practices implemented by local governments;
6. Put up a standing healthcare cabinet to supply conventional prescription drugs and cooling products for bringing down temperature, and protect employees' health as much as possible;
7. 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 Occupational Health and Safety Management System Certification (GB/T 45001–2020/ISO 45001:2018).

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》).

ENVIRONMENTAL, SOCIAL AND GOVERNANCE REPORT

Employees' health

1. 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.
2. A compliance team has been set up to take charge of occupational safety monitoring and measurement. Each department of the Company is responsible for assisting the monitoring and measurement work of the compliance team.
3. 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).
4. The compliance team monitors and measures occupational health and safety parameters based on relevant documents. Measurement includes: motor vehicle noise measurement and production equipment noise measurement, and the results are archived in the prescribed form.
5. In respect of monitoring of compliance of occupational health and safe operation control, each department of the Company 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 an overall inspection once a quarter. The results of inspection are recorded in the "Occupational Health and Safe Operation Inspection Record Form".
6. 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

1. The production workshops are of a rational layout and kept clean and tidy. Protective equipment is 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.
2. 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.
3. 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.
4. 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.
5. 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.
6. 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》).
7. Employees monitor and supervise each other, identify problems and risks in time, and put forward suggestions for improvement. During the Reporting Period, there were no work-related deaths or injuries of employees of the Group.

B2.1 Number and rate of work-related deaths in the past three years

There were no work-related deaths of employees of the Group in the past three years (including the reporting year), and the rate of work-related deaths in the past three years is zero.

B2.2 Lost workdays due to work-related injury

There were no work-related injuries of the Group in the last year.

B2.3 Occupational health and safety measures adopted

Refer to the description of B2 employees' safety for details

ENVIRONMENTAL, SOCIAL AND GOVERNANCE REPORT

B3: Development and training

Training management

1. The Company has formulated the responsibilities and requirements of each position and regards these as the criteria for evaluation of employees.
2. Establish training management system to make the training work available.
3. When training is conducted, the training department fills in and submits the Training Implementation Record Form to the office in time.
4. 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).
5. Quality education or professional theoretical training shall be received from time to time outside or inside the Company.
6. New employees shall be trained (collectively or individually as entourage) before duty commence.
7. 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.
8. The Company's employees have the right to participate in training, as well as the obligation to receive training and train others. In addition to requiring employees to actively and cooperatively participate in various trainings organized by the Company and all departments, the Company advocates and encourages employees to carry out autonomous learning in improving professional knowledge, skills and comprehensive quality.

B3.1 The percentage of employee trained

During the Reporting Period, Xinda Colour 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 Colour Printing

59% for male employees trained and 41% for female employees trained

17% for senior management trained and 43% for middle management trained

Xinda Colour Printing has provided training for not less than 150 employees this period, with a total training time of 3,194 hours.

Date	Training Program	Duration	Number of Participant
January 2020	ISO9001:2016	2	148
February 2020	Pandemic Control; ISO14001:2016	2	147
March 2020	ISO45001:2018	2	147
May 2020	Material Factory Machine Safety Operation Training	2	87
June 2020	Material Factory Key Job Professional Skills Training	2	83
June 2020	Fire Drill	2	150
July 2020	Tipping Paper Factory Key Job Professional Skills Training	2	67
August 2020	Tipping Paper Factory Machine Safety Operation Training	18	64
September 2020	Quality Management Job Training	4	13
October 2020	Quality Standard Training of Cigarette Factory	2	149
November 2020	Equipment Management Training	2	5
December 2020	Internal Auditor Training	4	6

ENVIRONMENTAL, SOCIAL AND GOVERNANCE REPORT

Hongdong Treatment

77% for male employees trained and 23% for female employees trained

4.3% for senior management trained and 24.7% for middle management trained

Hongdong Treatment has provided training for not less than 80 employees this period, with a total training time of 1,706 hours.

Date	Training Program	Duration	Number of Participant
March 2020	Online Pandemic Prevention and Control Training	2	80
April 2020	Three-level Safety Training on Site Construction	4	8
May 2020	Online Vocational Skills Training for Enterprise Employees	26	39
June 2020	Fire Safety Knowledge Training	2	60
July 2020	High-tech Enterprise Application Process Training	8	12
August 2020	ISO Integrated Management Manual Training	4	20
September 2020	Continuing Education and Training for Certificate Holders	6	5
October 2020	Accounting Continuing Education	18	6
November 2020	Pre Examination Training of Internal Constructor	2	8
December 2020	Technical Exchange and Training for Professors in Tsinghua University	2	25

B3.2 The average training hours completed per employee

Xinda Colour Printing

The average training hours completed by male employees are 0.5 hours

The average training hours completed by female employees are 1.2 hours

The average training hours completed by middle management are 1.5 hours

The average training hours completed by senior management are 4 hours

B4: Labour standards – prevention of child labour or forced labour

The Group strictly complies with the Labor Law (《勞動法》), Labor Contract Law (《勞動合同法》), Law on the Protection of Minors (《未成年人保護法》), Law on Protection of Rights and Interests of Women (《婦女權益保護法》) and other relevant laws and regulations, and formulates relevant internal rules and regulations to protect the legitimate rights and interests of employees.

B4.1 Measures to avoid child labour and forced labour

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

B4.2 Measures taken when violations are discovered

During the Reporting Period, there were no violations of child labor and forced labor. If such a violation is found, we will immediately organize human resources to verify it, properly handle the relevant personnel, and strictly prevent the recurrence of this situation.

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 with stable cooperation 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.

ENVIRONMENTAL, SOCIAL AND GOVERNANCE REPORT

B5.1 Number of suppliers

The details of the main suppliers of Xinda Colour Printing are as follows:

1 in Heilongjiang, 4 in Zhejiang, 3 in Shanghai, 5 in Jiangsu, 9 in Guangdong, 1 in Shaanxi

The details of the main suppliers of Hongdong Treatment are as follows:

7 in Guangdong, 2 in Zhejiang, 3 in Jiangsu, 1 in Shanghai, 1 in Shandong

B5.2 Management and supervision of suppliers

The Group's supplier selection conditions:

1. The standards of the raw material, products or services provided meet the purchase requirements of the Company.
2. Assessment will be made as to suppliers' product quality, and product inspection report or verification report will be verified.
3. Assessment will be made as to supplier's production qualification, operation status and other information, and verify their "business license".
4. Review will be made as to supplier's payment terms, product prices, delivery time and other aspects.
5. Requirements on safety and hygiene of the suppliers: 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.
6. For the suppliers that have been included in the Qualified Supplier List (《合格供方名單》), 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, etc.
7. 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.

Related execution and inspection methods:

1. For the suppliers that have been included in the Qualified Supplier List (《合格供方名單》), a qualification review will be conducted once every year. The content of the review includes basic enterprise information, product information and production technology equipment information, etc.
2. When an existing qualified supplier fails to comply with the requirements in one of the above steps, our purchasing department will notify such supplier, and the supplier will be deemed as unqualified if there is any problem after improvement.

B5.3 Identify environmental and social risk practices in the supply chain

1. In the selection of upstream suppliers, suppliers are explicitly required to carry out green and environmental protection activities.
2. Requirements on safety and hygiene of the suppliers: 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.
3. Supplier obtained environmental management system certification is preferred.

ENVIRONMENTAL, SOCIAL AND GOVERNANCE REPORT

B5.4 Practice of promoting the use of environmentally friendly products in selecting suppliers

1. To require suppliers to provide performance test reports of the supplied goods to check whether the ingredients of the goods meet environmental protection requirements in selecting suppliers.
2. Agreement with suppliers to recover packaging or defective products to avoid waste of raw materials.

B6: Product social responsibility

Being an enterprise with a strong sense of brand honour and corporate social responsibility, Xinda Colour Printing obtained the GB/T19001-2008 and ISO9001: 2008 certification for its 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. All production operators need to undergo technical training, so that the operators can master the technical requirements of the process and operate only after they are qualified. During the production process, all production process control regulations shall be strictly implemented, including Process Control Procedure (《程序控制程式》), Product Identification and Product Traceability Control Procedure (《產品標識和產品可追溯性控制程式》), Control Process of Unqualified Product (《不合格品控制程式》), Raw Material, Semi-finished Products, Finished Products Protection Control Procedure (《原材料、半成品、成品防護控制程式》), Corrective and Preventive Action Control Procedure (《糾正和預防措施控制程式》), etc.. In addition, 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 the Company's 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 Percentage of the product subject to recalls for health reasons

Xinda Colour Printing

The total products sold or shipped do not require to be recalled for safety and health reasons.

B6.2 Enterprise production quality verification process and product return

During the Reporting Period, the Group had no complaints regarding its services.

Coping method: once a complaint is received, the Group should organize manpower to investigate the situation immediately, and he/she should go to the site in the first time and assign someone to implement the investigation records, actively communicate and coordinate with the parties concerned to solve the problem, and take the corresponding measures.

B6.3 Practices relating to observing and protecting intellectual property rights

In order to protect the intellectual property rights of the Group, we have built various internal management systems such as the 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 are protected by law and enhance its competitiveness in the market.

ENVIRONMENTAL, SOCIAL AND GOVERNANCE REPORT

B6.4 Production quality verification and product return process

Xinda Colour Printing

1. Products quality should be monitored in the whole process of production, with ensuring real-time quality monitoring, raw materials, processing products, finished products should also be inspected in strict accordance with the Inspection Procedures (《檢驗規程》).
2. The quality management department is responsible for investigating complaints regarding quality problems, analysing the cause, formulating rectification plans, and tracking and giving feedback on the effectiveness of prevention. The quality management department will first investigate the cause of the complaint and trace the customer's goods, and fill in the Customer Complaint Handling Report (《顧客投訴處理報告》) after the incident is properly handled.
3. 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 (《顧客投訴處理報告》) and forwarding the report to the relevant departments.
4. The technical centre is responsible for handling customer complaints regarding quality in collaboration with the quality management department, making improvements to technical issues, and giving feedback on the causes.
5. 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 management department for re-inspection.

B6.5 Consumer privacy protection policy

1. Customer data should be under unified management in office, and a customer data ledger should be established.
2. Customer data should not be copied or disseminated without approval, taken away from the working area without authorization, and disclosed to the cooperative manufacturers by any means;
3. In external communication and cooperation, the use of customer data by employees shall be subject to the review and approval by the general manager;
4. When an employee is transferred from his/her current position or resigns, he/she shall return all customer data to the Company without any backup.

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

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 obliged to comply with applicable laws and regulations and to make ethical business decisions. 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 Concluded legal cases regarding corrupt practices and the outcomes of these cases

During the Reporting Period, there were no lawsuits against the Group in relation to corruption.

ENVIRONMENTAL, SOCIAL AND GOVERNANCE REPORT

B7.2 Preventive measures and whistle-blowing procedures

1. We formulate and promulgate Anti-fraud Policies and Procedures (《反舞弊政策和流程》), and set up anti-fraud mailboxes and special lines.
2. We enter into the Integrity Commitment and Staff Handbook 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 Company. The office is responsible for the execution and supervision of the matter.

B7.3 Anti-corruption training

In order to reduce the risk of corruption, the Company specified the corresponding code of conduct and integrity requirements in the Staff Handbook (《員工手冊》), including corresponding guidelines on accepting & giving gifts and negotiating with suppliers, acceptable and unacceptable behaviors in the employees live and work and the corresponding consequences, which ensures that every employee is obliged to comply with applicable laws and regulations and to make ethical business decisions, and also deepens their understanding in misconduct such as bribery, extortion, fraud and corruption. At the same time, the Company enters into the honesty agreement with each new employee.

B8: Community investment

B8.1 Areas of contribution

Due to the pandemic, we actively cooperated with relevant national regulations and community requirements, and strictly implemented community regulations for the entry and exit of personnel, vehicles and goods in business activities to avoid large-scale gatherings of people.

B8.2 Resources contributed to the focus area

In order to comply with the national requirements related to the pandemic, a 10-day shutdown was arranged.

INDEPENDENT AUDITOR'S REPORT



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 56 to 119, which comprise:

- the consolidated statement of financial position as at 31 December 2020;
- the consolidated statement of comprehensive income for the year ended 31 December 2020;
- the consolidated statement of changes in equity for the year ended 31 December 2020;
- the consolidated statement of cash flows for the year ended 31 December 2020; 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 2020, and of its consolidated financial performance and its consolidated cash flows for the year ended 31 December 2020 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 ("HKSA") 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 judgment, 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.

INDEPENDENT AUDITOR'S REPORT

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

- Revenue recognition from construction contracts
- Assessment of the expected credit losses of trade receivables and contract assets

Key Audit Matters	How our audit addressed the Key Audit Matters
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Revenue recognition from construction contracts

Refer to Note 2.19 for the accounting policy, Note 4.1 for the critical accounting estimates and judgments involved and Note 6 for the analysis of revenue from construction contracts.

The Group recognised revenue from construction services of HK\$164,199,000 for the year ended 31 December 2020, representing approximately 44% of the Group's total revenue.

The recognition of revenue from construction contracts is based on the progress of contract activities by reference to actual costs incurred up to the end of the reporting period as a percentage of total estimated costs for each contract.

Management's estimate of total contract revenue, budgeted costs and progress of the related contract work requires significant judgement.

We focused on this area due to the significant judgement and estimate involved in determining the total contract revenue, budgeted costs and progress of the related contract work.

We performed the following procedures in assessing management's estimate of the total contract revenue, budgeted costs and progress of the related contract work:

- a. We understood, evaluated and validated management's key internal controls of the Group's budgeting process and cost accumulation process for contract projects;
- b. We discussed with management the status of selected projects to identify any variation and claims for each project, and obtained explanations for fluctuations in margins. We obtained corroborative evidence by inspecting the correspondences with the customers;
- c. We inspected, on a sampling basis, the signed contracts and other supporting documents to obtain audit evidence on total contract sum;
- d. We tested, on a sampling basis, the actual costs incurred on contract work during the reporting period by examination of supporting documents, including purchase agreements, payment records, receipt notes of materials and labour cost records.
- e. We recalculated the progress of contract work based on the latest budgeted costs and total actual costs incurred; and
- f. We tested the calculation of contract revenue based on the estimated progress of contract work.

Based on our work done, we found the judgement and estimates adopted by management in determining total contract revenue, budgeted costs and progress of the related contract work were supported by available evidence.

INDEPENDENT AUDITOR'S REPORT

Key Audit Matters	How our audit addressed the Key Audit Matters
Assessment of the expected credit losses of trade receivables and contract assets	We have performed the following procedures to address this key audit matter:
Refer to Note 4.2 for the critical accounting estimates and judgments involved and Note 21 for the analysis of trade receivables and Note 6 for the analysis of contract assets.	a. Understood, evaluated and validated management's key controls in relation to the assessment of the expected credit losses of trade receivables and contract assets, including expected lifetime analysis and review on reasonableness of the key assumption and data involved in expected credit losses assessment.
As at 31 December 2020, the Group had gross trade receivables of HK\$221,324,000 and gross contract assets of HK\$77,129,000 and provision for expected credit losses of trade receivables and contract assets of HK\$279,000 and HK\$9,000, respectively.	b. Assessed the appropriateness of customer group and the credit loss provisioning methodology adopted by management.
Management applied HKFRS 9 by using the simplified approach to measure the lifetime expected credit losses of trade receivables and contract assets. Impairment provision of trade receivables and contract assets was made based on an assessment of the risk of default and expected loss rates with reference to the credit rating of each customer group. Management also took into account forward-looking adjustments to expected credit losses.	c. Assessed the reasonableness of the risk of default and expected loss rates by checking reasonableness of the assumptions and parameters used by management.
We focused on this area because management's assessment on the expected credit losses of trade receivables and contract assets involved significant management judgements.	d. Assessed the appropriateness of the forward-looking adjustment made to the historical loss rates by considering our industry knowledge and macroeconomic information.
	e. Checked the mathematical accuracy of the calculation of the allowance of expected credit losses.

We found that management's judgement on the expected credit losses of trade receivables and contract assets 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.

INDEPENDENT AUDITOR'S REPORT

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 HKSAAs 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 HKSAAs, we exercise professional judgment 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.

INDEPENDENT AUDITOR'S REPORT

- 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, actions taken to eliminate threats or safeguards applied.

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 Leung Po Wah Pauline.

PricewaterhouseCoopers
Certified Public Accountants

Hong Kong, 30 March 2021

CONSOLIDATED STATEMENT OF COMPREHENSIVE INCOME

	Note	Year ended 31 December 2020 HK\$'000	Nine months ended 31 December 2019 HK\$'000
Revenue	6	373,394	313,466
Cost of sales	7	(220,290)	(187,108)
Gross profit		153,104	126,358
Distribution costs	7	(1,840)	(1,761)
Administrative expenses	7	(42,891)	(37,077)
Net impairment losses on financial and contract assets		(191)	–
Other gains – net	9	4,734	5,671
Operating profit		112,916	93,191
Finance income – net	10	3,843	7,068
Profit before income tax		116,759	100,259
Income tax expense	11	(23,477)	(18,777)
Profit for the year/period		93,282	81,482
Profit attributable to:			
– Owners of the Company		94,275	81,442
– Non-controlling interests		(993)	40
		93,282	81,482
Other comprehensive income			
<i>Item that will not be reclassified to profit or loss:</i>			
Currency translation differences		27,183	(17,204)
Other comprehensive income for the year/period, net of tax		27,183	(17,204)
Total comprehensive income for the year/period		120,465	64,278
Total comprehensive income attributable to:			
– Owners of the Company		121,757	64,040
– Non-controlling interests		(1,292)	238
		120,465	64,278
Earnings per share attributable to owners of the Company for the year/period (expressed in HK cent per share)	12		
– Basic earnings per share		HK 13.44 cents	HK 11.73 cents
– Diluted earnings per share		HK 13.43 cents	HK 11.46 cents

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

CONSOLIDATED STATEMENT OF FINANCIAL POSITION

		31 December 2020 HK\$'000	31 December 2019 HK\$'000
	<i>Note</i>		
ASSETS			
Non-current assets			
Property, plant and equipment	15	42,392	36,181
Right-of-use assets	16	7,489	10,129
Intangible assets	17	3,695	10,473
Deferred tax assets	18	3,670	2,727
Prepaid expenses		158	260
Prepayments for non-current assets	19	22,023	19,647
		79,427	79,417
Current assets			
Inventories	20	29,549	27,327
Contract assets	6(a)	77,120	10,115
Trade receivables	21	221,045	156,076
Prepayments and other receivables	22	32,358	31,470
Financial assets at fair value through profit or loss	23	67,064	24,746
Restricted cash at banks	24	36,785	40,762
Cash and cash equivalents	25	103,281	159,942
		567,202	450,438
Total assets		646,629	529,855

CONSOLIDATED STATEMENT OF FINANCIAL POSITION

	<i>Note</i>	31 December 2020 HK\$'000	31 December 2019 HK\$'000
EQUITY			
Equity attributable to owners of the Company			
Share capital	26	3,508	3,471
Other reserves	27	245,651	204,060
Retained earnings		213,557	180,060
		462,716	387,591
Non-controlling interests		(5,778)	(4,486)
Total equity		456,938	383,105
LIABILITIES			
Non-current liabilities			
Lease liabilities	16	440	3,004
Deferred tax liabilities	18	11,333	8,309
Other payables	29	475	893
		12,248	12,206
Current liabilities			
Trade and notes payable	28	125,966	92,070
Lease liabilities	16	1,699	1,776
Other payables and accruals	29	26,097	23,896
Current income tax liabilities		23,681	16,802
		177,443	134,544
Total liabilities		189,691	146,750
Total equity and liabilities		646,629	529,855

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

The financial statements on pages 56 to 119 were approved by the board of directors on 30 March 2021 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				Non-controlling interests HK\$'000	Total HK\$'000
	Share capital HK\$'000 (Note 26)	Other reserves HK\$'000 (Note 27)	Retained earnings HK\$'000	Total HK\$'000		
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
Year ended 31 December 2020						
Balance at 1 January 2020	3,471	204,060	180,060	387,591	(4,486)	383,105
Comprehensive income						
– Profit for the year	–	–	94,275	94,275	(993)	93,282
– Other comprehensive income	–	27,482	–	27,482	(299)	27,183
Total comprehensive income	–	27,482	94,275	121,757	(1,292)	120,465
Exercise of share options	37	9,445	–	9,482	–	9,482
Dividends paid	–	–	(56,114)	(56,114)	–	(56,114)
Transfer to statutory reserves	–	4,664	(4,664)	–	–	–
Balance at 31 December 2020	3,508	245,651	213,557	462,716	(5,778)	456,938

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

CONSOLIDATED STATEMENT OF CASH FLOWS

	Note	Year ended 31 December 2020 HK\$'000	Nine months ended 31 December 2019 HK\$'000
Cash flows from operating activities			
Cash generated from operations	30	8,368	28,020
PRC enterprise income tax paid		(15,228)	(13,476)
Net cash (used in)/generated from operating activities		(6,860)	14,544
Cash flows from investing activities			
Purchase of property, plant and equipment		(10,371)	(2,183)
Prepayments for non-current assets		(2,376)	(3,326)
Disposal of property, plant and equipment		54	–
Purchase of intangible assets		(19)	(5,338)
Decrease in restricted cash at banks		3,977	1,522
Loans to third parties		(61,818)	(77,926)
Repayments of loans from third parties		79,581	59,591
Purchase of financial assets at fair value through profit or loss		(102,631)	(976)
Net proceeds from disposal of financial assets at fair value through profit or loss		67,611	9,887
Interest income from other financial assets		1,540	2,858
Interest income from bank deposits		790	699
Net cash used in investing activities		(23,662)	(15,192)
Cash flows from financing activities			
Proceeds from exercise of share options		9,482	–
Payments of lease liabilities		(1,722)	(826)
Dividends paid		(56,114)	(48,585)
Net cash used in financing activities		(48,354)	(49,411)
Net decrease in cash and cash equivalents			
Cash and cash equivalents at beginning of the year/period		159,942	224,523
Effect of change in exchange rate		22,215	(14,522)
Cash and cash equivalents at end of the year/period	25	103,281	159,942

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 Windward 3, Regatta Office Park, 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**”).

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 30 March 2021.

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 year/period presented, unless otherwise stated.

2.1 Basis of preparation

(a) Financial period

Pursuant to a resolution of the Board passed in 2019, the Company’s financial year end date was changed from 31 March to 31 December. The consolidated financial statements for the current financial year cover a twelve-month period from 1 January 2020 to 31 December 2020, whereas the comparative financial statements in this report cover a nine-month period from 1 April 2019 to 31 December 2019.

(b) Compliance with Hong Kong Financial Reporting Standards (“**HKFRSs**”) and Hong Kong Companies Ordinance (Cap. 622) (“**HKCO**”)

The consolidated financial statements of the Group have been prepared in accordance with HKFRSs 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.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

2 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES *(continued)*

2.1 Basis of preparation *(continued)*

(d) New and amended standards adopted by the Group for the year ended 31 December 2020

The Group has applied the following standards and amendments for the first time for its reporting period commencing 1 January 2020:

- Amendments to HKAS 1 and HKAS 8 “Definition of Material”
- Amendments to HKFRS 3 “Definition of a Business”
- Amendments to HKFRS 9, HKAS 39 and HKFRS 7 “Interest Rate Benchmark Reform”
- Revised Conceptual Framework for Financial Reporting

The 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 January 2020 and have not been early adopted by the Group:

		Effective for reporting periods beginning on or after
Amendments to HKFRS 16	COVID-19-Related Rent Concessions	1 June 2020
Amendments to HKFRS 9, HKAS 39, HKFRS 7, HKFRS 4 and HKFRS 16	Interest Rate Benchmark Reform — Phase 2	1 January 2021
Amendments to HKAS 16	Property, Plant and Equipment: Proceeds before Intended Use	1 January 2022
Amendments to HKFRS 3	Reference to the Conceptual Framework	1 January 2022
Amendments to HKAS 37	Onerous Contracts — Cost of Fulfilling a Contract	1 January 2022
Annual Improvements	Annual Improvements to HKFRS Standards 2018–2020	1 January 2022
HKFRS 17	Insurance Contracts	1 January 2023
Amendments to HKAS 1	Classification of Liabilities as Current or Non-current	1 January 2023
Amendments to 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.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

2 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES *(continued)*

2.2 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.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

2 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES *(continued)*

2.2 Principles of consolidation *(continued)*

(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.

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.

2.3 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.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

2 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES *(continued)*

2.4 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.

2.5 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**”). The functional currency of the Group is Renminbi (“**RMB**”) as the Group’s operations are carried out through its operating subsidiaries in the PRC. These financial statements are presented in HK\$, which is the Group’s and the Company’s presentation currency.

(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.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

2 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES *(continued)*

2.6 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.

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 are stated at cost. 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.

2.7 Intangible assets

(a) 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.

(b) License

Acquired license is capitalised on the basis of costs incurred to acquire and are amortised over its estimated useful live of 3 years.

(c) 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.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

2 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES *(continued)*

2.8 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.

2.9 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.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

2 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES *(continued)*

2.9 Investments and other financial assets *(continued)*

(c) **Measurement** *(continued)*

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.

Assets 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. Debt instruments are presented as "Trade receivables", "Other receivables", "Cash and cash equivalents" and "Restricted cash" in the consolidated statements of financial position.

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.

Expected credit losses are a probability-weighted estimate of credit losses (i.e. the present value of all cash shortfalls) over the expected life of the financial assets.

For trade receivables, the Group applies the simplified approach permitted by HKFRS 9, which requires expected lifetime losses to be recognised from initial recognition of the assets. The provision matrix is determined based on historical observed default rates over the expected life of the trade receivables with similar credit risk characteristics and is adjusted for forward-looking estimates. At every reporting date the historical observed default rates are updated and changes in the forward-looking estimates are analysed.

Impairment of other receivables are measured as either 12-month expected credit losses or lifetime expected credit losses, depending on whether there has been a significant increase in credit risk since initial recognition. If a significant increase in credit risk of a receivable has occurred since initial recognition, then impairment is measured as lifetime expected credit losses.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

2 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES *(continued)*

2.10 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.

2.11 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). 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.

2.12 Trade receivables

Trade receivables are amounts due from customers for goods sold or services performed in the ordinary course of business. If collection of trade receivables 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 receivables 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 receivables with the objective to collect the contractual cash flows and therefore measures them subsequently at amortised cost using the effective interest method.

2.13 Cash and cash equivalents

In the consolidated statements of cash flows, cash and cash equivalents includes cash on hand and deposits held at 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.

2.14 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.

2.15 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. Trade payables 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.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

2 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES *(continued)*

2.16 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.

(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.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

2 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES *(continued)*

2.17 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.

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.

2.18 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.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

2 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES *(continued)*

2.19 Revenue recognition

Revenue is measured at the fair value of the consideration received or receivable of the goods or services transferred in the ordinary course of the Group's activities.

If contracts involve the sale of multiple elements, the transaction price is allocated to each performance obligation based on their relative stand-alone selling prices. If the stand-alone selling prices are not directly observable, they are estimated based on the expected cost plus a margin or adjusted market assessment approach depending on the availability of observable information.

Revenue is 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.

(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

The Group provides environmental treatment construction services to its customers. A contract with a customer is classified as contract work when the contract relates to work which enhances an asset that the customer controls as the Group performs.

The Group has to identify the performance obligation in a contract. A performance obligation is a promise in a contract to transfer a good or service to a customer. The Group assessed that the construction contract only contained a single performance obligation as the construction works are not possible to be separately distinct.

When determining the transaction price, the Group considers factors such as whether there is any financing component. The Group considers whether the payment schedule is commensurate with the Group performance and whether the delayed payment is for finance purpose. The period between the transfer of the promised services and payments by customers may exceed one year. Management consider that there is no significant financing component for these receivables, as such payment term is an industry practise. As a consequence, the Group does not adjust any of the transaction price for the time value of money.

The Group recognises revenue from a contract work progressively over time using the input method, which is based on the proportion of the actual costs incurred relative to the estimated total costs.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

2 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES *(continued)*

2.19 Revenue recognition *(continued)*

(b) Rendering of construction services for environmental treatment business *(continued)*

The likelihood of the Group suffering contractual penalties or liquidated damages for late completion are taken into account in making these estimates where applicable, such that revenue is only recognised to the extent that it is highly probable that a significant reversal in the amount of cumulative revenue recognised will not occur. The liquidated damages are treated as variable consideration under IFRS 15 and the amounts are included in revenue to the extent that it is highly probable that contract revenue will not reverse. Management takes into account the progress of contract works and other external factors in assessing whether there will be contractual penalties or liquidated damages for late completion, which would in turn impact the amount of revenue to be recognised in an accounting period. There are no other obligations for warranty or refunds other than those warranties which provide customers with assurance that the related contract work will function as parties intended.

If at any time the costs to complete the contract are estimated to exceed the remaining amount of the consideration under the contract, the expected loss is recognised as an expense immediately.

Progress billings are billed and recognised as trade receivables in accordance with the terms agreed between the Group and its customers. A contract asset is recognised in the combined balance sheets when the Group recognises revenue before being unconditionally entitled to the consideration under the payment terms set out in the contract. Contract assets are assessed under expected credit losses model and are reclassified to receivables when the right to the consideration has become unconditional. A contract liability is recognised in the combined balance sheets when the customer pays consideration before the Group recognises the corresponding revenue. For a single contract with the customer, either a net contract asset or a net contract liability is presented. For multiple contracts, contract assets and contract liabilities of unrelated contracts are not presented on a net basis.

Contract assets will be classified as trade receivables or retention receivables when the Company's right to consideration is unconditional (that is, when payment is due only on the passage of time).

Retention sum for contract works are settled in accordance with the terms of the respective contracts.

(c) Rendering of other services

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

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

2 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES *(continued)*

2.20 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.

2.21 Leases

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.

Contracts may contain both lease and non-lease components. The Group allocates the consideration in the contract to the lease and non-lease components based on their relative stand-alone prices. However, for leases of real estate for which the Group is a lessee, it has elected not to separate lease and non-lease components and instead accounts for these as a single lease component.

Lease terms are negotiated on an individual basis and contain a wide range of different terms and conditions. The lease agreements do not impose any covenants other than the security interests in the leased assets that are held by the lessor. Leased assets may not be used as security for borrowing purposes.

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.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

2 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES *(continued)*

2.21 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 and office buildings.

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

2.22 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).

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

2 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES *(continued)*

2.23 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.

2.24 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, cash flow and fair value 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 Company and its 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.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

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 was as follows:

	31 December 2020 HK\$'000	31 December 2019 HK\$'000
Denominated in HK\$		
– Financial assets at FVPL	23,218	11,775
– Cash and cash equivalents	12,297	16,304
– Other receivables	386	396
– Trade receivables	150	100
– Other payables and accruals	(841)	(797)
	35,210	27,778
Denominated in US\$		
– Cash and cash equivalents	336	338

As at 31 December 2020, if RMB strengthened/weakened by 5% (31 December 2019: 5%) against the relevant foreign currencies with all other variables held constant, post-tax profit for the year would have been approximately HK\$1,491,000 (nine months ended 31 December 2019: HK\$1,174,000) 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.

As at 31 December 2020, if the market interest rates had been 50 basis points (31 December 2019: 50 basis points) higher/lower with all other variables held constant, post-tax profit for the year ended 31 December 2020 would have been HK\$595,000 (nine months ended 31 December 2019: HK\$853,000) 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 2020, if the price of the listed securities increased/decreased by 10% (31 December 2019: 10%) with all other variables being held constant, post-tax profit for the year ended 31 December 2020 would have increased/decreased by HK\$5,666,000 (nine months ended 31 December 2019: HK\$2,086,000).

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

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.

(i) Risk management

As at 31 December 2020, substantially all (31 December 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 December 2019: same).

As at 31 December 2020, approximately 89.1% (31 December 2019: 96.0%) of the Group's trade receivables were due from the five largest customers. In respect of trade receivables and other receivables, periodical credit evaluations are performed taking into account the counterparty's financial position, past experience, future economic environment and other factors.

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.

(ii) Impairment of financial assets

The Group has three types of assets that are subject to the expected credit loss model:

- Trade receivables;
- Contract assets; and
- Other financial assets at amortised costs

Trade receivables and contract assets

The Group applies HKFRS 9 simplified approach to measure the expected credit losses which uses a lifetime expected loss allowance of its trade receivables and contract assets.

In estimating the expected credit losses, credit evaluation on individual customer is performed by management. The evaluation focused on assessing the size and background of each customer as well as pertaining to the current and future economic environment in which the customer operates. Management estimate the expected credit loss rate of each customer by performing quantitative assessment on the customer's credit rating and apply default probability and loss rates taking into account the life of trade receivables and contract assets and forward-looking information. For forward-looking information, management has identified the exports of goods and non-financial services of PRC and the percentage of trade balance to gross domestic product ("**GDP**") in the PRC as the most relevant factors, and accordingly, has adjusted the expected loss rate based on these factors. The impact of COVID-19 has also been considered in considering the forward-looking adjustment and the overall expected credit loss rates.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

3 FINANCIAL RISK MANAGEMENT *(continued)*

3.1 Financial risk factors *(continued)*

(b) Credit risk *(continued)*

The loss allowance for the year ended 31 December 2020 was as follow:

	31 December 2020 HK\$'000	31 December 2019 HK\$'000
Trade receivables and contract assets		
– Gross carrying amount	298,453	166,375
– Expected loss rates	0.001%–0.220%	–
Loss allowance	(73)	–
Add: specific provision	(215)	(184)
	(288)	(184)

Other financial assets at amortised cost

Other financial assets at amortised cost include other receivables. Impairment on other receivables is measured as either 12-month expected credit losses or lifetime expected credit losses, depending on whether there has been a significant increase in credit risk.

Trade receivables and other receivables are written off when there is no reasonable expectation of recovery. Subsequent recoveries of amounts previously written off are credited into profit or loss.

Impairment on trade receivables and other receivables are presented as separate item in the consolidated statement of comprehensive income.

While cash and cash equivalents and restricted cash at banks are also subject to the impairment requirement of HKFRS 9, the identified impairment losses was immaterial.

(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.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

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 2020				
Trade and notes payable	125,966	–	–	125,966
Lease liabilities	1,771	261	199	2,231
Other payables and accruals*	12,584	480	–	13,064
	140,321	741	199	141,261
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

* Excluding other tax payables

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 was presented as the Group had net cash surplus as at 31 December 2020 (31 December 2019: same).

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

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 2020	67,064
At 31 December 2019	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.

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

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

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

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

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. In addition, management also takes into account other external factors, including but not limited to the impact of COVID-19 pandemic, in assessing the timing and cost required to complete the projects, which may in turn impact the amount of revenue to be recognised in an accounting period. 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 Estimated impairment of receivables and contract assets

Expected credit losses are unbiased probability-weighted estimates of credit losses which are determined by evaluating a range of possible outcomes and taking into account past events, current and future conditions, including but not limited to the impact of COVID-19 pandemic, on the ability of the Group's customers to repay the debts.

The Group has derived the expected loss rate by referencing to credit rating analysis and external default data to determine the probability of default of its trade and retention receivables and contract assets and incorporated forward looking information, including significant changes in external market indicators which involved significant estimates and judgements.

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, including but not limited to the impact of COVID-19 pandemic on the future operations and cash flows of the Group. 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.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

4 CRITICAL ACCOUNTING ESTIMATES AND JUDGEMENTS *(continued)*

4.3 Estimated impairment of non-current assets *(continued)*

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.

4.4 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, which has taken into account the impact of COVID-19 pandemic to economic environment in which the Group operates, 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 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.

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.

The Group is 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 identified as reportable segments. Meanwhile, the Group diversified its business into other business, which is in a preliminary stage and contributed to less than 10% of the Group's revenue, profit or loss and assets.

The CODM assesses the performance of the operating segments based on 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 the acquisition of property, plant and equipment, intangible assets, prepayments for non-current assets and right-of-use assets.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

5 SEGMENT INFORMATION *(continued)*

- (a) The segment results and other segment items of the Group for the year ended 31 December 2020 were as follows:

	Cigarette Packaging Business HK\$'000	Environmental Treatment Business HK\$'000	Others HK\$'000	The Group HK\$'000
Revenue	197,066	172,584	3,744	373,394
Segment results	47,676	54,245	3,697	105,618
Other gains arising from financial assets at FVPL				7,298
Operating profit				112,916
Finance income – net				3,843
Profit before income tax				116,759
Income tax expense				(23,477)
Profit for the year				93,282
Other segment item Depreciation and amortisation	5,958	9,798	–	15,756

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

5 SEGMENT INFORMATION *(continued)*

(a) *(continued)*

The segment results and other segment items of the Group for the nine months ended 31 December 2019 were as follows:

	Cigarette Packaging Business HK\$'000	Environmental Treatment Business HK\$'000	Others 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 – net				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

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

5 SEGMENT INFORMATION *(continued)*

(b) The segment assets and liabilities at 31 December 2020 were as follows:

	Cigarette Packaging Business HK\$'000	Environmental Treatment Business HK\$'000	Others HK\$'000	Inter- segment elimination HK\$'000	The Group HK\$'000
Segment assets	416,199	311,870	49,850	(202,024)	575,895
Financial assets at FVPL					67,064
Deferred tax assets					3,670
Total assets					646,629
Segment liabilities	80,059	276,460	182	(202,024)	154,677
Current income tax liabilities					23,681
Deferred tax liabilities					11,333
Total liabilities					189,691
Capital expenditures	1,240	9,150	-	-	10,390

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

	Cigarette Packaging Business HK\$'000	Environmental Treatment Business HK\$'000	Others 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

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

6 REVENUE

	Year ended 31 December 2020 HK\$'000	Nine months ended 31 December 2019 HK\$'000
At a point in time		
– Sales of cigarette packaging products	197,066	163,329
– Sales of other products	3,744	–
	200,810	163,329
Over time		
Revenue from construction and maintenance contracts		
– Construction services	164,199	147,133
– Maintenance services	8,385	3,004
	172,584	150,137
	373,394	313,466

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

	Year ended 31 December 2020	Nine months ended 31 December 2019
Customer A	32.7%	46.2%
Customer B	32.7%	33.2%
Customer C	14.4%	13.7%

Majority of the Group's revenue were derived from customers in the PRC for the year ended 31 December 2020 (nine months ended 31 December 2019: same).

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

6 REVENUE (continued)

(a) Assets and liabilities related to contracts with customers

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

	31 December 2020 HK\$'000	31 December 2019 HK\$'000
Contract assets relating to construction contracts	77,129	10,115
Loss allowance	(9)	–
Total contract assets	77,120	10,115

(ii) Significant changes in contract assets

Increase in contract assets was a result of the Group having provided more services ahead of the billing process with its customers.

(iii) 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:

	Year ended 31 December 2020 HK\$'000	Nine months ended 31 December 2019 HK\$'000
Revenue recognised that was included in the contract liabilities balance at the beginning of the year/period	–	2,904

(iv) Unsatisfied contracts

The Group's contracts of sales of cigarette packaging products were for periods of one year or less and the Group's construction contracts 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 CONSOLIDATED FINANCIAL STATEMENTS

7 EXPENSES BY NATURE

	Year ended 31 December 2020 HK\$'000	Nine months ended 31 December 2019 HK\$'000
Cost of inventories sold	100,695	83,283
Raw materials consumed and subcontracting costs for construction contracts	92,474	86,067
Staff costs (including directors' emoluments) (Note 8)	35,753	27,823
Depreciation and amortisation		
– Depreciation of property, plant and equipment (Note 15)	6,627	4,641
– Depreciation of right-of-use assets (Note 16)	2,055	755
– Amortisation of intangible assets (Note 17)	7,074	5,126
Utilities	5,576	3,612
Other taxes and surcharge	2,424	1,798
Auditor's remuneration		
– Audit services	1,564	1,582
– Non-audit services	292	203
Transportation expenses	1,460	1,280
Expenses relating to operating leases not recognised as liabilities (Note 16)	585	992
Gain on derecognition of right-of-use assets and lease liabilities	(153)	–
Other expenses	8,595	8,784
Total cost of sales, distribution costs and administrative expenses	265,021	225,946

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

8 STAFF COSTS (INCLUDING DIRECTORS' EMOLUMENTS)

	Year ended 31 December 2020 HK\$'000	Nine months ended 31 December 2019 HK\$'000
Salaries, wages, bonuses, welfare and other benefits	35,409	26,314
Contributions to pension plans	344	1,509
	35,753	27,823

(a) Directors' emoluments

The remuneration of each director for the year ended 31 December 2020 was set out below:

	Fees HK\$'000	Salaries and allowances HK\$'000	Employer's contribution to pension plans HK\$'000	Total HK\$'000
Year ended 31 December 2020				
Executive directors:				
Mr. Zheng Andy Yi Sheng (i)	500	114	11	625
Mr. Zheng Minsheng	400	114	11	525
Non-executive director:				
Mr. Hao Jiming	120	-	-	120
Independent non-executive directors:				
Mr. Lau Kwok Hung	120	-	-	120
Mr. Fok Po Tin	120	-	-	120
Mr. Cai Xiaowen (ii)	90	-	-	90
Mr. Ma Wenming (ii)	30	-	-	30
	1,380	228	22	1,630

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

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

(a) Directors' emoluments *(continued)*

The remuneration of each director for the nine months ended 31 December 2019 was set out below:

	Fees HK\$'000	Salaries and allowances HK\$'000	Employer's contribution to pension plans HK\$'000	Total HK\$'000
Nine months ended 31 December 2019				
Executive directors:				
Mr. Zheng Andy Yi Sheng <i>(i)</i>	375	91	8	474
Mr. Zheng Minsheng	300	91	8	399
Non-executive director:				
Mr. Hao Jiming	85	–	–	85
Independent non-executive directors:				
Mr. Lau Kwok Hung	90	–	–	90
Mr. Ma Wenming	90	–	–	90
Mr. Fok Po Tin	90	–	–	90
	1,030	182	16	1,228

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

(ii) On 1 April 2020, Mr. Ma Wenming resigned as a non-executive director of the Company and Mr. Cai Xiaowen was appointed as a non-executive director of the Company.

(b) Benefits and interests of directors

During the year ended 31 December 2020, none of the directors waived or agreed to waive any emoluments (nine months ended 31 December 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 (nine months ended 31 December 2019: same).

For the year ended 31 December 2020, no retirement benefits, payments or benefits in respect of termination of directors' services were paid or made, directly or indirectly, to the directors; nor were any payable (nine months ended 31 December 2019: same). No consideration was provided to or receivable by third parties for making available directors' services (nine months ended 31 December 2019: same). There were no loans, quasi-loans or other dealings in favour of the directors, their controlled bodies corporate and connected entities for the year ended 31 December 2020 (nine months ended 31 December 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 year ended 31 December 2020 or at any time during the year (nine months ended 31 December 2019: same).

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

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

(c) Five highest paid individuals

The five individuals whose emoluments were the highest in the Group for the year included two (nine months ended 31 December 2019: two) directors whose emoluments were reflected in the analysis presented above. The emoluments payable to the remaining three (nine months ended 31 December 2019: three) individuals during the year/period were as follows:

	Year ended 31 December 2020 HK\$'000	Nine months ended 31 December 2019 HK\$'000
Salaries, wages, bonuses, welfare and other benefits	1,680	1,465
Contributions to retirement schemes	41	32
	1,721	1,497

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

	Year ended 31 December 2020	Nine months ended 31 December 2019
Emolument bands — Nil to HK\$1,000,000	3	3

(d) Senior management's emoluments by band

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

	Year ended 31 December 2020	Nine months ended 31 December 2019
Emolument bands — Nil to HK\$1,000,000	3	3

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

9 OTHER GAINS – NET

	Year ended 31 December 2020 HK\$'000	Nine months ended 31 December 2019 HK\$'000
Foreign exchange (losses)/gains	(2,564)	607
Dividend income from financial assets at FVPL	1,133	597
Gain on disposal of financial assets at FVPL	1,995	2,040
Unrealised gains on changes in fair value of financial assets at FVPL	4,170	2,427
	4,734	5,671

10 FINANCE INCOME – NET

	Year ended 31 December 2020 HK\$'000	Nine months ended 31 December 2019 HK\$'000
Finance income		
– Interest income from bank deposits	790	699
– Interest income from other financial assets (a)	1,540	2,858
– Interest income from loans to third parties	1,665	3,641
	3,995	7,198
Finance cost		
– Interest expenses on lease liabilities (Note 16)	(152)	(130)
	3,843	7,068

- (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 2020, all other financial assets were redeemed (31 December 2019: same).

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

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 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 a rate of 16.5% (nine months ended 31 December 2019: 16.5%) on the assessable profits arising in Hong Kong. For the year ended 31 December 2020, the Group is eligible to nominate one Hong Kong incorporated entity in the Group, which is Huge East Investment Limited, to be taxed under a two tiered profits tax rate system, whereby profits tax will be chargeable on the first HK\$2,000,000 of assessable profits at 8.25% and assessable profits above this threshold will be subject to a rate of 16.5% (nine months ended 31 December 2019: same). Hong Kong profits tax of the other Hong Kong incorporated group entities has been provided for at a 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.

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. As 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 permitted to enjoy such preferential tax treatment. Therefore, the applicable income tax rate of this subsidiary was 15% for the year ended 31 December 2020 (nine months ended 31 December 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 CONSOLIDATED FINANCIAL STATEMENTS

11 INCOME TAX EXPENSE *(continued)*

	Year ended 31 December 2020 HK\$'000	Nine months ended 31 December 2019 HK\$'000
Current income tax		
– PRC corporate income tax	18,893	14,772
Deferred income tax		
– PRC corporate income tax	(728)	619
– Withholding income tax on profit to be distributed from subsidiaries in the PRC	5,312	3,386
	23,477	18,777

There were no income tax charges relating to components of other comprehensive income for the year ended 31 December 2020 (nine months ended 31 December 2019: same).

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

	Year ended 31 December 2020 HK\$'000	Nine months ended 31 December 2019 HK\$'000
Profit before income tax	116,759	100,259
Tax calculated at applicable corporate income tax rate of the respective companies	19,177	14,348
Tax effect of:		
– Expenses not deductible for income tax	725	1,913
– Additional deduction on research and development expenses	(2,429)	(942)
– Tax losses for which no deferred income tax asset was recognised	692	72
– Withholding income tax on profit to be distributed from subsidiaries in the PRC	5,312	3,386
	23,477	18,777

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

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 year/period.

	Year ended 31 December 2020	Nine months ended 31 December 2019
Profit attributable to owners of the Company (HK\$'000)	94,275	81,442
Weighted average number of ordinary shares in issue	701,279,000	694,080,000
Basic earnings per share	HK 13.44 cents	HK 11.73 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 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.

	Year ended 31 December 2020	Nine months ended 31 December 2019
Profit attributable to owners of the Company (HK\$'000)	94,275	81,442
Weighted average number of ordinary shares in issue	701,279,000	694,080,000
Adjustments for share options	524,000	16,833,000
Weighted average number of ordinary shares for diluted earnings per share	701,803,000	710,913,000
Diluted earnings per share	HK 13.43 cents	HK 11.46 cents

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

13 DIVIDENDS

	Year ended 31 December 2020 HK\$'000	Nine months ended 31 December 2019 HK\$'000
Interim dividends (a)	28,057	27,763
Proposed final dividends (b)	28,057	28,057
	56,114	55,820

(a) Interim dividends

An interim dividend of HK 4.00 cents (nine months ended 31 December 2019: HK 4.00 cents) per ordinary share, totalling approximately HK\$28,057,000 (nine months ended 31 December 2019: HK\$27,763,000) was declared during the year ended 31 December 2020.

(b) Proposed final dividends

A final dividend of HK 4.00 cents per ordinary share in respect of the year ended 31 December 2020 (nine months ended 31 December 2019: HK 4.00 cents per ordinary share), totalling approximately HK\$28,057,000, was proposed by the Board on 30 March 2021. 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.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

14 SUBSIDIARIES

Details of the subsidiaries at 31 December 2020 were 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	Hong Kong 15 May 2019	HK\$100	100%	Inactive
Xin Da High-tech Investments Limited	Hong Kong 31 October 2019	HK\$100	100%	Inactive
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%	Inactive
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

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

14 SUBSIDIARIES *(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\$121,180,000 is yet to be paid up as at 31 December 2020.
- (h) Registered capital of Xinda Detection amounting to HK\$35,000,000 is yet to be paid up as at 31 December 2020.
- (i) Registered capital of Huazhang Heihe amounting to RMB5,780,000 is yet to be paid up as at 31 December 2020.
- (j) Registered capital of GD Foxin amounting to RMB5,267,000 is yet to be paid up as at 31 December 2020.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

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 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	50,852	4,781	483	95,036
Accumulated depreciation	(20,963)	(601)	(34,060)	(3,231)	–	(58,855)
Net book amount	14,402	2,954	16,792	1,550	483	36,181
Year ended 31 December 2020						
Opening net book amount	14,402	2,954	16,792	1,550	483	36,181
Additions	–	174	9,973	224	–	10,371
Disposal	–	–	(54)	–	–	(54)
Transfer	–	–	487	–	(487)	–
Depreciation	(1,363)	(890)	(3,799)	(575)	–	(6,627)
Currency translation differences	850	151	1,439	77	4	2,521
Closing net book amount	13,889	2,389	24,838	1,276	–	42,392
At 31 December 2020						
Cost	37,643	3,969	64,509	5,286	–	111,407
Accumulated depreciation	(23,754)	(1,580)	(39,671)	(4,010)	–	(69,015)
Net book amount	13,889	2,389	24,838	1,276	–	42,392

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

15 PROPERTY, PLANT AND EQUIPMENT *(continued)*

As at 31 December 2020, majority of the Group's property, plant and equipment were located in the PRC (31 December 2019: same).

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

	Year ended 31 December 2020 HK\$'000	Nine months ended 31 December 2019 HK\$'000
Cost of sales	2,778	1,824
Administrative expenses	3,849	2,817
	6,627	4,641

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 1 April 2019			
Net book amount	–	–	–
Adjustment for change in accounting policy	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

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

16 LEASES (continued)

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

(i) Right-of-use assets (continued)

	Land-use rights HK\$'000	Office buildings HK\$'000	Total HK\$'000
Year ended 31 December 2020			
Opening net book amount	5,298	4,831	10,129
Additions	–	823	823
Derecognition due to modification*	–	(1,794)	(1,794)
Depreciation charges	(149)	(1,906)	(2,055)
Currency translation differences	333	53	386
Closing net book amount	5,482	2,007	7,489
At 31 December 2020			
Cost	8,049	4,017	12,066
Accumulated depreciation	(2,567)	(2,010)	(4,577)
Net book amount	5,482	2,007	7,489

* During the year ended 31 December 2020, the Group modified certain lease agreement by shortening the contractual lease term (Note 32(b)).

As at 31 December 2020, except for certain leased office which was located in Hong Kong, the Group's other right-of-use assets were located in the PRC.

(ii) Lease liabilities

	31 December 2020 HK\$'000	31 December 2019 HK\$'000
Lease liabilities		
– Current	1,699	1,776
– Non-current	440	3,004
	2,139	4,780

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

16 LEASES *(continued)*

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

	Year ended 31 December 2020 HK\$'000	Nine months ended 31 December 2019 HK\$'000
Interest expense (included in finance cost)	152	130
Depreciation charges	2,055	755
Expenses relating to operating leases not recognised as liabilities (included in administrative expenses)	585	992

The total cash outflow for leases during the year ended 31 December 2020 was HK\$2,307,000 (31 December 2019: HK\$1,818,000).

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

17 INTANGIBLE ASSETS

	Computer software HK\$'000	License HK\$'000	Patent and technology HK\$'000	Total HK\$'000
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
Year ended 31 December 2020				
Opening net book amount	99	3,109	7,265	10,473
Additions	10	–	9	19
Amortisation	(48)	(2,983)	(4,043)	(7,074)
Currency translation differences	4	33	240	277
Closing net book amount	65	159	3,471	3,695
At 31 December 2020				
Cost	757	5,415	13,263	19,435
Accumulated amortisation	(692)	(5,256)	(9,792)	(15,740)
Net book amount	65	159	3,471	3,695

Amortisation of HK\$7,074,000 was charged to administrative expenses for the year ended 31 December 2020 (nine months ended 31 December 2019: HK\$5,126,000).

18 DEFERRED INCOME TAX

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

	31 December 2020 HK\$'000	31 December 2019 HK\$'000
Deferred income tax assets	3,670	2,727
Deferred income tax liabilities	(11,333)	(8,309)

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

18 DEFERRED INCOME TAX *(continued)*

The net movement on the deferred income tax account was as follows:

	Year ended 31 December 2020 HK\$'000	Nine months ended 31 December 2019 HK\$'000
At beginning of the year/period	(5,582)	(5,390)
Tax charged to the consolidated statement of comprehensive income	(4,584)	(4,005)
Withholding income tax paid	3,214	3,583
Currency translation differences	(711)	230
At end of the year/period	(7,663)	(5,582)

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

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 provision for impairment of assets HK\$'000	Total HK\$'000
At 1 April 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
Tax credited/(charged) to the consolidated statement of comprehensive income	575	337	(212)	2	26	728
Currency translation differences	38	98	76	2	1	215
At 31 December 2020	695	1,657	1,259	32	27	3,670

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

18 DEFERRED INCOME TAX *(continued)*

Deferred income tax liabilities

	Withholding income tax on profit to be distributed from subsidiaries in the PRC HK\$'000
At 1 April 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
Tax charged to the consolidated statement of comprehensive income	5,312
Withholding income tax paid	(3,214)
Currency translation differences	926
At 31 December 2020	11,333

As at 31 December 2020, the Group had unrecognised deferred income tax liabilities of HK\$7,295,000 (31 December 2019: HK\$7,295,000), 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 2020 (31 December 2019: HK\$145,905,000).

As at 31 December 2020, the Group has unrecognised deferred tax assets of approximately HK\$3,916,000 (31 December 2019: HK\$3,224,000) with respect to tax losses amounting to HK\$15,666,000 (31 December 2019: HK\$12,897,000) 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 was as follows:

	31 December 2020 HK\$'000	31 December 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	3,307
Expire in 2025	2,769	–
	15,666	12,897

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

19 PREPAYMENTS FOR NON-CURRENT ASSETS

	31 December 2020 HK\$'000	31 December 2019 HK\$'000
Prepayments for properties	22,023	19,647
Prepayment for an intangible asset	11,882	11,163
	33,905	30,810
Less: provision for impairment of prepayment for an intangible asset	(11,882)	(11,163)
	22,023	19,647

20 INVENTORIES

	31 December 2020 HK\$'000	31 December 2019 HK\$'000
Raw materials	20,625	16,872
Finished goods	8,924	10,455
	29,549	27,327

The cost of inventories recognised as expense and included in cost of sales amounted to HK\$100,695,000 for the year ended 31 December 2020 (nine months ended 31 December 2019: HK\$83,283,000).

21 TRADE RECEIVABLES

	31 December 2020 HK\$'000	31 December 2019 HK\$'000
Trade receivables	221,324	156,260
Less: allowance for impairment of trade receivables	(279)	(184)
Trade receivables — net	221,045	156,076

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

	31 December 2020 HK\$'000	31 December 2019 HK\$'000
Less than 30 days	167,406	147,955
31 days to 60 days	683	3,267
61 days to 90 days	796	591
91 days to 180 days	6,293	1,019
181 days to 365 days	2,881	1,019
Over 365 days	43,265	2,409
	221,324	156,260

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

21 TRADE RECEIVABLES *(continued)*

(b) The movement of allowance for impairment of trade receivables was as follows:

	Year ended 31 December 2020 HK\$'000	Nine months ended 31 December 2019 HK\$'000
At beginning of the year/period	184	193
Impairment charges	79	–
Currency translation differences	16	(9)
At end of the year/period	279	184

(c) The Group's trade receivables was denominated in the following currencies:

	31 December 2020 HK\$'000	31 December 2019 HK\$'000
– Denominated in RMB	221,174	156,160
– Denominated in HK\$	150	100
	221,324	156,260

(d) As at 31 December 2020, the Group's maximum exposure to credit risk was the carrying value of trade receivables mentioned above. The Group did not hold any collateral as security (31 December 2019: same).

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

22 PREPAYMENTS AND OTHER RECEIVABLES

	31 December 2020 HK\$'000	31 December 2019 HK\$'000
Prepayments	23,934	5,534
Other receivables (a)	8,836	26,221
Less: allowance for impairment of other receivables	(412)	(285)
	32,358	31,470

(a) As at 31 December 2020, other receivables mainly included loans to third parties which were unsecured, interest bearing and receivable on demand (31 December 2019: mainly included loans to third parties which were unsecured, interest-free and receivable on demand).

(b) The Group's other receivables were denominated in the following currencies:

	31 December 2020 HK\$'000	31 December 2019 HK\$'000
Denominated in RMB	8,450	25,825
Denominated in HK\$	386	396
	8,836	26,221

(c) As at 31 December 2020, 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 December 2019: same).

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

	Year ended 31 December 2020 HK\$'000	Nine months ended 31 December 2019 HK\$'000
At beginning of the year/period	285	297
Impairment charges	103	–
Currency translation differences	24	(12)
At end of the year/period	412	285

23 FINANCIAL ASSETS AT FVPL

	31 December 2020 HK\$'000	31 December 2019 HK\$'000
Listed securities – held for trading		
– Equity securities – denominated in HK\$	23,218	11,775
– Equity securities – denominated in RMB	43,846	12,971
	67,064	24,746

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

24 RESTRICTED CASH AT BANK

As at 31 December 2020, the Group's restricted cash comprised deposits of HK\$35,258,000 (31 December 2019: HK\$40,762,000) as collateral for the Group's notes payable and deposits of HK\$1,527,000 as tender security, which were all denominated in RMB.

The effective interest rate on restricted cash at bank was 1.63% (31 December 2019: 1.56%) per annum. These deposits had an original maturity of 90 days to three years.

25 CASH AND CASH EQUIVALENTS

Cash and cash equivalents were denominated in the following currencies:

	31 December 2020 HK\$'000	31 December 2019 HK\$'000
Denominated in RMB	90,648	143,300
Denominated in HK\$	12,297	16,304
Denominated in US\$	336	338
	103,281	159,942

The Group's cash and bank balances of HK\$90,648,000 (31 December 2019: HK\$143,300,000) and restricted cash at banks of HK\$36,785,000 (31 December 2019: HK\$40,762,000) 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 31 March 2019, 31 December 2019 and 31 December 2020	4,000,000,000	20,000,000

Ordinary shares, issued and fully paid	Number of issued shares	Share capital HK\$
At 31 March 2019 and 31 December 2019	694,080,000	3,471,000
Exercise of share options (Note a)	7,350,000	36,750
At 31 December 2020	701,430,000	3,507,750

- (a) Pursuant to the exercise of share options (Note 27) 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 being credited to share capital and share premium account respectively.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

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
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
Year ended 31 December 2020							
Balance at 1 January 2020	162,016	26,048	(27,570)	35,000	8,292	274	204,060
Exercise of share options	9,445	-	-	-	-	-	9,445
Transfer upon exercise of share options	8,292	-	-	-	(8,292)	-	-
Transfer to statutory reserves	-	4,664	-	-	-	-	4,664
Currency translation differences	-	-	27,482	-	-	-	27,482
Balance at 31 December 2020	179,753	30,712	(88)	35,000	-	274	245,651

(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.

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.

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 CONSOLIDATED FINANCIAL STATEMENTS

27 OTHER RESERVES *(continued)*

(c) Share-based compensation reserves

Particulars of share options as at 31 December 2020 and 31 December 2019 were as follows:

Vesting date	Expiry dates	Exercise price	Number of outstanding options	
			31 December 2020	31 December 2019
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 was as follows:

	Year ended 31 December 2020	Nine months ended 31 December 2019
At beginning of the year/period	43,180,000	43,740,000
Exercised <i>(i)</i>	(7,350,000)	–
Forfeited	(35,830,000)	(560,000)
At end of the year/period	–	43,180,000

(i) The weighted average share price at the date of exercise of options exercised was HK\$1.96.

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

28 TRADE AND NOTES PAYABLE

	31 December 2020 HK\$'000	31 December 2019 HK\$'000
Trade payables <i>(a)</i>	90,436	50,993
Notes payable — bank acceptance notes	35,530	41,077
	125,966	92,070

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

28 TRADE AND NOTES PAYABLE *(continued)*

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

	31 December 2020 HK\$'000	31 December 2019 HK\$'000
Within 90 days	89,013	48,066
91 to 180 days	167	1,440
Over 180 days	1,256	1,487
	90,436	50,993

(b) The Group's trade payables were denominated in RMB at 31 December 2020 (31 December 2019: same).

(c) The fair value of trade and notes payable approximated their carrying amounts at 31 December 2020 (31 December 2019: same).

29 OTHER PAYABLES AND ACCRUALS

	31 December 2020 HK\$'000	31 December 2019 HK\$'000
Other tax payables	13,513	12,361
Accrual for staff costs and allowances	8,279	7,401
Other payables	4,780	5,027
	26,572	24,789
Less: non-current portion	(475)	(893)
	26,097	23,896

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

	31 December 2020 HK\$'000	31 December 2019 HK\$'000
Denominated in RMB	25,731	23,992
Denominated in HK\$	841	797
	26,572	24,789

(b) The fair value of these balance approximated their carrying amounts at 31 December 2020 (31 December 2019: same).

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

30 CASH FLOW INFORMATION

(a) Cash generated from operations

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

	Year ended 31 December 2020 HK\$'000	Nine months ended 31 December 2019 HK\$'000
Profit before income tax	116,759	100,259
Adjustments for:		
– Finance income	(3,995)	(7,198)
– Finance cost	152	130
– Depreciation and amortisation	15,756	10,522
– Other gains – net	(4,734)	(5,671)
– Gain on derecognition of right-of-use assets and lease liabilities	(153)	–
– Net impairment losses on financial and contract assets	191	–
Changes in working capital:		
– Trade receivables	(65,064)	(79,330)
– Contract assets	(67,014)	(9,125)
– Trade and notes payable	33,896	20,690
– Other payables and accruals	1,783	2,311
– Contract liabilities	–	(2,904)
– Inventories	(2,222)	6,028
– Prepaid expenses	102	99
– Prepayments and other receivables	(17,089)	(7,791)
Cash generated from operating activities	8,368	28,020

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

30 CASH FLOW INFORMATION *(continued)*

(b) Liabilities from financing activities

	Lease liabilities HK\$'000
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)
Cash flows	1,722
Additions of lease liabilities	(823)
Derecognition of lease liabilities due to modification	1,947
Foreign exchange adjustments	(53)
Interest expenses	(152)
Net debt as at 31 December 2020	(2,139)

31 COMMITMENTS

(a) Capital commitments

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

	31 December 2020 HK\$'000	31 December 2019 HK\$'000
Capital expenditure in respect of the addition of property and equipment contracted for but not provided	435	14,256

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

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

(b) Balances with related parties

	31 December 2020 HK\$'000	31 December 2019 HK\$'000
Lease liabilities		
– Mr. Zheng Andy Yi Sheng (i)	25	1,933
Other payables (ii):		
– Mr. Zheng Andy Yi Sheng	125	125
– Mr. Zheng Minsheng	100	100
	225	225
Rental prepayment		
– Mr. Zheng Andy Yi Sheng	169	–

(i) During the year ended 31 December 2020, the Group modified certain lease agreement with Mr. Zheng Andy Yi Sheng to shorten the rental period of office buildings located in the PRC. The Group derecognised the right-of-use assets and lease liabilities accordingly and recognised a gain of HK\$153,000.

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

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

32 RELATED PARTY TRANSACTIONS *(continued)*

(c) Transaction with related parties

	Year ended 31 December 2020 HK\$'000	Nine months ended 31 December 2019 HK\$'000
Interest expenses on lease liabilities — Mr. Zheng Andy Yi Sheng	32	96

(d) Key management compensations

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

	Year ended 31 December 2020 HK\$'000	Nine months ended 31 December 2019 HK\$'000
Salaries, wages, bonuses, welfare and other benefits	3,335	2,274
Contributions to pension plans	81	49
Value of employee services under Share Option Scheme	—	—
	3,416	2,323

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

33 FINANCIAL POSITION AND RESERVES MOVEMENT OF THE COMPANY

	31 December 2020 HK\$'000	31 December 2019 HK\$'000
ASSETS		
Non-current assets		
Investments in subsidiaries	139,012	139,012
Prepaid expenses	158	260
	139,170	139,272
Current assets		
Prepayments and other receivables	127	–
Amounts due from subsidiaries	99,582	41,372
Cash and cash equivalents	796	881
	100,505	42,253
Total assets	239,675	181,525
EQUITY		
Equity attributable to owners of the Company		
Share capital	3,508	3,471
Other reserves	165,723	148,414
Retained earnings	69,514	28,658
	238,745	180,543
LIABILITIES		
Current liabilities		
Amounts due to related parties	707	–
Other payables and accruals	223	982
	930	982
Total equity and liabilities	239,675	181,525

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

33 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
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 paid	-	-	-	(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
Year ended 31 December 2020					
Balance at 1 January 2020	162,016	(21,894)	8,292	28,658	177,072
Profit for the year	-	-	-	96,970	96,970
Exercise of share options	9,445	-	-	-	9,445
Transfer upon exercise of share options	8,292	-	(8,292)	-	-
Dividends paid	-	-	-	(56,114)	(56,114)
Currency translation differences	-	7,864	-	-	7,864
Balance at 31 December 2020	179,753	(14,030)	-	69,514	235,237

FIVE YEARS FINANCIAL SUMMARY

RESULTS

	Year ended 31 December 2020 HK\$'000	Nine months ended 31 December 2019 HK\$'000	Year ended 31 March		
			2019 HK\$'000	2018 HK\$'000	2017 HK\$'000
Revenue	373,394	313,466	262,187	209,084	260,262
Operating profit	112,916	93,191	59,991	35,453	53,082
Finance income — net	3,843	7,068	9,083	4,907	3,053
Profit before income tax	116,759	100,259	69,074	40,360	56,135
Income tax expenses	(23,477)	(18,777)	(13,624)	(9,100)	(15,107)
Profit for the year/period	93,282	81,482	55,450	31,260	41,028
Attributable to					
Owners of the Company	94,275	81,442	56,296	32,215	48,199
Non-controlling interests	(993)	40	(846)	(955)	(7,171)
	93,282	81,482	55,450	31,260	41,028
Assets, Liabilities and Non-controlling Interests					
Total assets	646,629	529,855	484,883	448,114	408,650
Total liabilities	(189,691)	(146,750)	(117,471)	(114,137)	(106,033)
Total equity	456,938	383,105	367,412	333,977	302,617
Non-controlling interests	(5,778)	(4,486)	(4,724)	(4,155)	(2,842)