HUAXI HOLDINGS COMPANY LIMITED
華禧控股有限公司

(Incorporated in the Cayman Islands with limited liability)

(Stock Code: 01689)

ANNOUNCEMENT OF FINAL RESULTS FOR THE YEAR ENDED 31 MARCH 2019

FINANCIAL HIGHLIGHTS

	For the year ended 31 March		
	2019	2018	
	HK$'000	*HK$'000*	*Change*
Revenue	**262,187**	209,084	25%
Gross Profit	**92,166**	75,330	22%
Operating profit	**59,991**	35,453	69%
Profit attributable to owners of the Company	**56,296**	32,215	75%
Basic earnings per share	**HK8.18 cents**	HK4.75 cents	72%
Dividends — Final	**HK3.00 cents**	HK2.30 cents	30%

The board of directors (the "**Board**") of Huaxi Holdings Company Limited (the "**Company**") is pleased to announce the audited consolidated financial results of the Company and its subsidiaries (together, the "**Group**") for the year ended 31 March 2019 together with the comparative figures for the preceding year ended 31 March 2018.

CONSOLIDATED STATEMENT OF COMPREHENSIVE INCOME

For the year ended 31 March 2019

		Year ended 31 March	
		2019	2018
	Note	***HK$'000***	*HK$'000*
Revenue	*3*	**262,187**	209,084
Cost of sales	*4*	**(170,021)**	(133,754)
Gross profit		**92,166**	75,330
Distribution costs	*4*	**(2,376)**	(2,224)
Administrative expenses	*4*	**(31,849)**	(28,326)
Other gains/(losses) — net		**2,050**	(9,327)
Operating profit		**59,991**	35,453
Finance income	*5*	**9,083**	4,907
Profit before income tax		**69,074**	40,360
Income tax expense	*6*	**(13,624)**	(9,100)
Profit for the year		**55,450**	31,260
Profit/(Loss) attributable to:			
Owners of the Company		**56,296**	32,215
Non-controlling interests		**(846)**	(955)
		55,450	31,260
Other comprehensive income			
Item that will not be reclassified to profit or loss:			
Currency translation difference		**(22,238)**	33,200
Other comprehensive income for the year, net of taxes		**(22,238)**	33,200
Total comprehensive income for the year		**33,212**	64,460
Total comprehensive income attributable to:			
Owners of the Company		**33,781**	65,773
Non-controlling interests		**(569)**	(1,313)
		33,212	64,460
Earnings per share attributable to owners of the Company for the year (expressed in HK cent per share)	*7*		
— Basic		**HK8.18 cents**	HK4.75 cents
— Diluted		**HK7.94 cents**	HK4.60 cents

CONSOLIDATED STATEMENT OF FINANCIAL POSITION

As at 31 March 2019

	Note	**31 March 2019 HK$'000**	31 March 2018 HK$'000
ASSETS			
Non-current assets			
Property, plant and equipment		**40,035**	40,893
Intangible assets		**10,717**	–
Prepaid operating lease		**5,648**	6,212
Deferred tax assets		**3,609**	4,148
Prepaid expenses		**359**	509
Prepayments for non-current assets		**16,321**	–
		76,689	51,762
Current assets			
Inventories		**33,355**	33,095
Trade and notes receivable	*9*	**76,746**	103,071
Contract assets	*3*	**990**	–
Amount due from customer for contract work	*3*	**–**	10,493
Financial assets at fair value through profit or loss		**28,593**	30,500
Prepayments and other receivables		**1,703**	985
Restricted cash at banks		**42,284**	52,600
Cash and cash equivalents		**224,523**	165,608
		408,194	396,352
Total assets		**484,883**	448,114
EQUITY			
Equity attributable to owners of the Company			
Share capital		**3,471**	3,393
Other reserves		**217,501**	208,637
Retained earnings		**151,164**	126,102
		372,136	338,132
Non-controlling interests		**(4,724)**	(4,155)
Total equity		**367,412**	333,977
LIABILITIES			
Non-current liabilities			
Deferred tax liabilities		**8,999**	8,014
Other payables		**933**	–
		9,932	8,014
Current liabilities			
Trade and notes payable	*10*	**71,380**	77,393
Contract liabilities	*3*	**2,904**	–
Other payables and accruals		**21,332**	18,800
Current income tax liabilities		**11,923**	9,930
		107,539	106,123
Total liabilities		**117,471**	114,137
Total equity and liabilities		**484,883**	448,114

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 31 March 2019

1. GENERAL INFORMATION

The Company was incorporated in the Cayman Islands on 29 April 2013 as an exempted company with limited liability under the Companies Law of the Cayman Islands. The address of its registered office is Clifton House, P.O. Box 1350, 75 Fort Street, Grand Cayman, KY1-1108, Cayman Islands.

The Company is an investment holding company. The Group is principally engaged in (i) manufacturing and sales of cigarette packaging materials and (ii) environmental treatment business in the People's Republic of China (the "**PRC**") for the year ended 31 March 2019.

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

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

These consolidated financial statements have been approved for issue by the Board of the Company on 21 June 2019.

2. BASIS OF PREPARATION

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

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

(b) 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.

(c) New and amended standards adopted by the Group

The Group has applied the following standards and amendments for the first time for its annual reporting period commencing 1 April 2018:

- HKFRS 9 "Financial instruments"
- HKFRS 15 "Revenue from contracts with customers"
- Amendments to HKFRS 2 "Classification and measurement of share-based payment transactions"
- Annual improvements 2014–2016 cycle
- Amendments to HKAS 40 "Transfers to investment property"
- Interpretation 22 "Foreign currency transactions and advance consideration"

The Group had to change its accounting policies and make certain adjustments following the adoption of HKFRS 9 and HKFRS 15. Other amendments listed above did not have any impact on the amounts recognised in prior periods and are not expected to significantly affect the current or future periods.

(d) New standards and interpretations not yet adopted

The following standards and interpretations have been issued but are not effective for the financial year beginning on 1 April 2018 and have not been early adopted by the Group:

		Effective for annual periods beginning on or after
HKFRS 16	Lease	1 January 2019
HK(IFRIC) 23	Uncertainty over Income Tax Treatments	1 January 2019
Amendments to HKFRS 9	Prepayment Features with Negative Compensation	1 January 2019
Amendments to HKAS 28	Long-term Interests in Associates and Joint Ventures	1 January 2019
Amendments to HKAS 19	Plan Amendment, Curtailment or Settlement	1 January 2019
Annual Improvements to HKFRS Standards 2015–2017 Cycle	Improvements to HKFRS 3, HKFRS 11, HKAS 12 and HKAS 23	1 January 2019
Amendments to HKFRS 3	Definition of a Business	1 January 2020*
Amendments to HKAS 1 and HKAS 8	Definition of Material	1 January 2020
HKFRS 17	Insurance Contracts	1 January 2021
Amendments to HKFRS 10 and HKAS 28	Sale or Contribution of Assets Between an Investor and its Associate or Joint Venture	To be determined

* Effective for business combinations and asset acquisitions for which the acquisition date is on or after the beginning of the first annual period beginning on or after 1 January 2020.

None of these is expected to be relevant or have material impact to the consolidated financial statements of the Group, except for HKFRS 16 as disclosed below:

HKFRS 16 Leases

Nature of change

HKFRS 16 was issued in January 2016. It will result in almost all leases being recognised on the statement of financial position by lessees, as the distinction between operating and finance leases is removed. Under the new standard, an asset (the right to use the leased item) and a financial liability to pay rentals are recognised. The only exceptions are short-term and low-value leases.

The accounting for lessors will not significantly change.

Impact

The Group is a lessee of certain offices which are currently classified as operating leases. The Group's current accounting policy for such leases is to record the operating lease expenses in the Group's consolidated statement of comprehensive income for the current year with the disclosure of related operating lease commitments. HKFRS 16 provides new provisions for the accounting treatment of leases which no longer allows lessees to recognise leases outside of the consolidated statement of financial position. Instead, all non-current leases must be recognised in the form of assets (for the right of use) and financial liabilities (for the payment obligations) in the Group's consolidated statements of financial position. Short-term leases of less than twelve months and leases of low-value assets are exempt from such reporting obligation. The new standard will result in a derecognition of prepaid operating leases, increase in right-of-use assets and increase in lease liabilities in the consolidated statement of financial position. In the consolidated statement of comprehensive income, as a result, the annual operating lease expenses under otherwise identical circumstances will decrease, while depreciation of right-of-use of assets and interest expense arising from the lease liabilities will increase.

As at 31 March 2019, the Group's total non-cancellable operating lease commitments amounted to RMB1,364,000 and most of the them are short-term leases within one year that can be exempted from reporting obligation under HKFRS 16. The directors consider that the adoption of the new standard will not have material impact on the financial position and financial performance of the Group.

Date of adoption

HKFRS 16 is mandatory for financial years commencing on or after 1 January 2019. At this stage, the Group does not intend to adopt the standard before its effective date. The Group intends to apply the simplified transition approach and will not restate comparative amounts for the year prior to first adoption.

(e) Changes in accounting policies

This note explains the impact of the adoption of HKFRS 9 "Financial Instruments" and HKFRS 15 "Revenue from Contracts with Customers" on the Group's consolidated financial statements.

(i) Impact on the financial statements

As explained in Note 2(e)(ii) and Note 2(e)(iii) below, HKFRS 9 and HKFRS 15 were generally adopted without restating comparative information. Certain reclassifications and adjustments are not restated to the statement of financial position as at 31 March 2018, but are recognised in the opening balance on 1 April 2018.

The following tables show the adjustments recognised for each individual line item. Line items that were not affected by the changes have not been included. The adjustments are explained in more detail below.

	31 March 2018		**1 April 2018**
Consolidated balance sheet (extract)	**As originally presented**	**Impact of adoption of HKFRS 15**	**Restated**
	HK$'000	*HK$'000*	*HK$'000*
Contract assets	–	10,493	10,493
Amounts due from customer for contract work	10,493	(10,493)	–

(ii) HKFRS 9 Financial Instruments

HKFRS 9 replaces the provisions of HKAS 39 that relate to the recognition, classification and measurement of financial assets and financial liabilities, derecognition of financial instruments, impairment of financial assets and hedge accounting.

The adoption of HKFRS 9 Financial Instruments from 1 April 2018 resulted in changes in accounting policies. In accordance with the transitional provisions in HKFRS 9, comparative figures have not been restated by the Group.

Classification and measurement

On 1 April 2018, the Group's management has assessed which business models apply to the financial assets held by the Group and has classified its financial instruments into the appropriate HKFRS 9 categories including 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. There were no changes to the classification and measurement of financial instruments.

Impairment of financial assets

The new impairment model requires the recognition of impairment provisions based on expected credit losses ("ECL") rather than only incurred credit losses as is the case under HKAS 39. The Group's trade and notes receivable, other receivables and contract assets are subject to new ECL model of HKFRS 9.

The Group applies the HKFRS 9 simplified approach to measuring ECL which uses a lifetime expected loss allowance for trade and notes receivable and contract assets. Impairment of other receivables are measured as either 12-month ECL or lifetime expected credit loss, depending on whether there has been a significant increase in credit risk since initial recognition.

The Group has assessed the impact of ECL on financial assets and concluded that the impact is insignificant as at 1 April 2018 and during current reporting period.

While cash and cash equivalents are also subject to the impairment requirements of HKFRS 9, the identified impairment loss was immaterial.

(iii) HKFRS 15 Revenue from Contracts with Customers

The Group has adopted HKFRS 15 Revenue from Contracts with Customers which resulted in changes in accounting policies and adjustments to the amounts recognised in financial statements. By using the modified retrospective approach in accordance with the transition provisions in HKFRS 15, the comparatives have not been restated by the Group.

The management has assessed the Group's performance obligations and timing of revenue recognition under HKFRS 15 and has concluded that there was no significant impact of HKFRS 15 on revenue recognition as at and since 1 April 2018, except for certain reclassification of assets:

Contract assets for unbilled work in progress in relation to construction contracts of environmental treatment activities were previously presented as amounts due from customer for contract work (Note 2 (e) (i)).

3. REVENUE AND SEGMENT INFORMATION

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

For the year ended 31 March 2019, the Group was principally engaged in the manufacturing and sales of packaging materials for cigarette in the PRC (the "**Cigarette Packaging Business**") and environmental treatment business in the PRC (the "**Environmental Treatment Business**"), which are both identified as reportable segments.

The CODM assesses the performance of the operating segments based on a measure of operating profit excluding other gains or losses arising from financial assets at 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 additions to property, plant and equipment, intangible assets and prepayments for non-current assets.

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

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

The segment results and other segment items of the Group for the year ended 31 March 2018 are as follows:

	Cigarette Packaging Business *HK$'000*	Environmental Treatment Business *HK$'000*	The Group *HK$'000*
Revenue	206,812	2,272	209,084
Segment results	44,002	(2,028)	41,974
Other losses arising from financial assets at FVPL			(6,521)
Operating profit			35,453
Finance income			4,907
Profit before income tax			40,360
Income tax expense			(9,100)
Profit for the year			31,260
Other segment item			
Depreciation and amortization	4,767	315	5,082

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

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

The segment assets and liabilities at 31 March 2018 are as follows:

	Cigarette Packaging Business *HK$'000*	Environmental Treatment Business *HK$'000*	Inter-segment elimination *HK$'000*	The Group *HK$'000*
Segment assets	424,862	18,871	(30,267)	413,466
Financial assets at FVPL				30,500
Deferred tax assets				4,148
Total assets				448,114
Segment liabilities	111,840	14,620	(30,267)	96,193
Current income tax liabilities				9,930
Deferred tax liabilities				8,014
Total liabilities				114,137
Capital expenditures	936	322	–	1,258

Assets and liabilities related to contracts with customers

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

	31 March 2019 ***HK$'000***	31 March 2018* *HK$'000*
Contract assets relating to construction contracts	**990**	10,493
Contract liabilities relating to construction contracts	**2,904**	–

* The amounts were reclassified under HKFRS 9. Please see Note 2(e) for detailed explanation.

Significant changes in contract assets and liabilities

Contract assets have decreased as the Group has issued progress billings for the contracts obligation fulfilled in previous years and timely monitored the billing schedule to match with the services provided.

Contract liabilities represented the billing progress in excess of the construction works performed and the advance payment made by customers. The Group has received advance payment for certain project during the year ended 31 March 2019 according to contract terms.

Revenue

Analysis of revenue is as follows:

	Year ended 31 March	
	2019	2018
	HK$'000	*HK$'000*
Sales of cigarette packaging products	**216,530**	206,812
Revenue from construction and maintainence contracts		
— Construction services	**41,506**	–
— Maintainence services	**4,151**	2,272
	45,657	2,272
	262,187	209,084

4. EXPENSES BY NATURE

	Year ended 31 March	
	2019	2018
	HK$'000	*HK$'000*
Cost of inventories sold	**121,735**	120,052
Staff costs (including directors' emoluments)	**29,136**	22,008
Raw materials consumed and subcontracting costs for construction contract	**24,057**	–
Depreciation and amortisation	**7,896**	5,082
Utilities	**4,618**	4,075
Other taxes and surcharge	**3,336**	2,265
Transportation expenses	**1,752**	1,652
Auditors' remuneration for audit services	**1,487**	1,504
Operating lease expenses	**1,617**	1,533
Office expenses	**870**	786
Travelling expenses	**655**	427
Reversal for impairment of trade and other receivables	**–**	(232)
Other expenses	**7,087**	5,152
Total cost of sales, distribution costs and administrative expenses	**204,246**	164,304

5. FINANCE INCOME

	Year ended 31 March	
	2019	2018
	HK$'000	*HK$'000*
Interest income from bank deposits	**1,000**	1,896
Interest income from other financial assets (a)	**4,193**	3,011
Interest income from loans to third parties (b)	**3,890**	–
	9,083	4,907

(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 March 2019, all other financial assets were redeemed (2018: same).

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

6. INCOME TAX EXPENSE

	Year ended 31 March	
	2019	2018
	HK$'000	*HK$'000*
Current income tax		
— PRC corporate income tax	**11,693**	7,987
Deferred income tax		
— PRC corporate income tax	**(39)**	(1,370)
— Withholding income tax for profit to be distributed from the PRC	**1,970**	2,483
	13,624	9,100

No income tax changes relating to components of other comprehensive income existed for the year ended 31 March 2019 (2018: nil).

7. 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.

	Year ended 31 March	
	2019	2018
	HK$'000	*HK$'000*
Profit attributable to owners of the Company *(HK$'000)*	**56,296**	32,215
Weighted average number of ordinary shares in issue	**688,019,000**	678,500,000
Basic earnings per share	**HK8.18 cents**	HK4.75 cents

(b) Diluted

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

	Year ended 31 March	
	2019	2018
	HK$'000	*HK$'000*
Profit attributable to owners of the Company *(HK$'000)*	**56,296**	32,215
Weighted average number of ordinary shares in issue	**688,019,000**	678,500,000
Adjustments for share options	**20,912,000**	21,839,000
Weighted average number of ordinary shares for diluted earnings per share	**708,931,000**	700,339,000
Diluted earnings per share	**HK7.94 cents**	HK4.60 cents

8. DIVIDENDS

During the year, the Company recognised the following dividends as distribution:

	Year ended 31 March	
	2019	2018
	HK$'000	*HK$'000*
Interim dividends *(Note (a))*	**15,270**	13,570
Proposed final dividends *(Note (b))*	**20,822**	15,606
	36,092	29,176

(a) Interim dividends

An interim dividend of HK2.20 cents per ordinary share (2018: HK4.00 cents per ordinary share before the effect of the Share Subdivision), totalling approximately HK$15,270,000 (2018: HK$13,570,000) were declared during the year ended 31 March 2019.

(b) Proposed final dividends

A final dividend of HK3.00 cents per ordinary share in respect of the year ended 31 March 2019 (2018: HK2.30 cents per ordinary share), totalling approximately HK$20,822,000, was proposed by the Board on 21 June 2019. 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.

9. TRADE AND NOTES RECEIVABLE

	31 March 2019 HK$'000	31 March 2018 HK$'000
Trade receivables	**76,473**	103,277
Notes receivable	**466**	–
Less: allowance for impairment of trade receivables	**(193)**	(206)
Trade and notes receivable — net	**76,746**	103,071

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

	31 March 2019 HK$'000	31 March 2018 HK$'000
Less than 30 days	**73,463**	76,986
31 days to 60 days	**–**	19,086
61 days to 90 days	**–**	–
91 days to 180 days	**494**	6,999
Over 180 days	**2,516**	206
	76,473	103,277

(b) Past due but not impaired

As at 31 March 2019, trade receivables of HK$2,817,000 (2018: HK$6,999,000) were past due but not impaired. These relate to six (2018: six) independent customers for whom there are no financial difficulty and the directors, based on past experience, consider that those amounts can be recovered. The ageing analysis of these trade receivables is as follows:

	31 March 2019 HK$'000	31 March 2018 HK$'000
91 days to 180 days	**494**	6,999
Over 180 days	**2,323**	–
	2,817	6,999

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

	31 March 2019 *HK$'000*	31 March 2018 *HK$'000*
At beginning of the year	**206**	407
Exchange differences	**(13)**	31
Reversal for impairment	**–**	(232)
	193	206

(d) The Group's trade receivables were denominated in RMB as at 31 March 2019 (2018: same).

(e) As at 31 March 2019, the Group's maximum exposure to credit risk was the carrying value of each class of trade receivables mentioned above. The Group does not hold any collateral as security (2018: same)

10. TRADE AND NOTES PAYABLE

	31 March 2019 *HK$'000*	31 March 2018 *HK$'000*
Trade payables *(Note a)*	**28,748**	24,405
Notes payable — bank acceptance notes	**42,632**	52,988
	71,380	77,393

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

	31 March 2019 *HK$'000*	31 March 2018 *HK$'000*
Within 90 days	**26,454**	18,622
90 to 180 days	**1,810**	5,783
Over 180 days	**484**	–
	28,748	24,405

(b) The Group's trade payables were interest-free and denominated in RMB at 31 March 2019 (2018: same).

(c) The fair value of trade and notes payable approximate their carrying amounts at 31 March 2019 (2018: same).

11. BUSINESS COMBINATION

The Group acquired 100% equity interests in Huge East Investment Limited, together with its subsidiary Shantou Hongdong Environmental Treatment Company (together, the "Acquiree") from an independent third party. The acquisition was completed on 21 August 2018.

The Acquiree has been principally engaged in the Environmental Treatment Business and the acquisition will expand the Group's business, broaden its revenue streams and bring greater return to the shareholders.

The following table summarises the consideration paid for the Acquiree, the fair value of the assets acquired and liabilities assumed at 21 August 2018, the acquisition date.

	HK$'000
Total consideration, paid by issuance of shares *(Note a)*	**31,160**

Recognised amounts of identifiable assets acquired and liabilities assumed:

	Fair Value
	HK$'000
Property, plant and equipment	**1,675**
Intangible assets	**11,251**
Cash and cash equivalents	**5,790**
Trade receivables	**12,459**
Prepayments and other receivables	**1,823**
Contract assets	**5,653**
Other payables and accruals	**(5,943)**
Deferred tax liabilities	**(1,548)**
Net identifiable assets acquired	**31,160**

(a) The consideration of HK$31,160,000 was paid by issuance of the Company's ordinary shares of 15,580,000 shares at the price of HK$2.00 per share to the then shareholder of the Acquiree (the "**Issuance of Consideration Shares**"), resulting in HK$78,000 credited to share capital and HK$31,082,000 credited to share premium.

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**").

In 2018, the growth of tobacco and cigarette business in China was limited because of the tobacco control policy in the PRC. However, statistics showed that the number of smokers in China was about 300 million to 350 million, and was still growing. The consumption of cigarette increased from 2,349 billion sticks in 2017 to 2,372 billion sticks in 2018. After the destocking policy of our major customers in the last two years since 2016, their purchase orders resumed normal in the last year.

Under The Clean Water Action Plan (水十條), the PRC government will put more effort to strengthen regulations on the environmental protection and invest more in the environmental protection industry. The acquisition of Huge East Investment Limited ("**Huge East**") in August 2018 boosted the Group's revenue in the Environmental Treatment Business.

For the financial year ended 31 March 2019 ("**FY2018/19**"), the revenue of the Group was approximately HK$262.19 million, representing an increase of HK$53.11 million or 25% as compared with HK$209.08 million for the year ended 31 March 2018 ("**FY2017/18**"). Revenue from the Cigarette Packaging Business was approximately HK$216.53 million (FY2017/18: HK$206.81 million) and the Environmental Treatment Business was approximately HK$45.66 million (FY2017/18: HK$2.27 million) which contributed approximately 83% (FY2017/18: 99%) and 17% (FY2017/18: 1%) respectively of Group's revenue.

Cigarette Packaging Business

In FY2018/19, the revenue from the Cigarette Packaging Business was approximately HK$216.53 million, representing an increase of HK$9.72 million or 5% as compared with approximately HK$206.81 million in FY2017/18. The increase in sales was primarily attributable to the increase of cigarette consumption in China and the purchase orders from our major customers resuming normal after their destocking policy since 2016. The following table sets forth the breakdown of the Group's revenue from sales of cigarette packaging materials in FY2018/19 and FY2017/18:

	FY2018/19		FY2017/18	
	HK$'000	*%*	*HK$'000*	*%*
Inner frame paper	**117,734**	**54.4**	105,681	51.1
Tipping paper	**56,537**	**26.1**	52,905	25.6
Cigarette box frame paper	**30,721**	**14.2**	35,284	17.1
Cigarette trademark label	**10,093**	**4.7**	4,365	2.1
Cigarette paper box	**805**	**0.4**	1,285	0.6
Transfer printing cardboard and transfer art paper	**322**	**0.1**	7,225	3.5
Others	**318**	**0.1**	67	0.0
Total	**216,530**	**100.0**	206,812	100.0

Environmental Treatment Business

In 2018/19, total revenue from the Environmental Treatment Business was approximately HK$45.66 million, representing an increase of HK$43.39 million or 1,911% as compared with approximately HK$2.27 million in FY2017/18. The increase was resulted from the acquisition of Hugh East. The total revenue from the Environmental Treatment Business comprised two new eco-rehabilitation projects in Shantou and Huizhou operated by Hugh East, for approximately HK$28.15 million and approximately HK$13.36 million respectively (FY2017/18: Nil), and the water quality maintenance service in the basin from Dong Tang to Tao Chen Sha Xi for approximately HK$4.15 million (FY2017/18: HK$2.27 million).

Gross Profit and Gross Profit Margin

In FY2018/19, the overall gross profit of the Group was approximately HK$92.17 million (FY2017/18: HK$75.33 million) which comprised approximately HK$78.08 million (FY2017/18: HK$75.84 million) from the Cigarette Packaging Business and HK$14.09 million (FY2017/18: losses of HK$0.51 million) from Environmental Treatment Business.

In FY2018/19, the overall gross profit margin was 35% which decreased slightly by 1% from 36% in FY2017/18. The gross profit margin for the Cigarette Packaging Business was approximately 36% in FY2018/19, representing a decrease of less than 1% over the same period in 2017/18. The gross profit margin was quite steady because of the effective procurement and cost control. The gross profit margin for the Environmental Treatment Business was approximately 31% compared to the gross loss of 22% over the same period in 2017/18.

Distribution expenses

In FY2018/19, distribution expenses of the Group was amounted to approximately HK$2.38 million (FY2017/18: HK$2.22 million) which was increased in line with the sales of the Group.

Administrative Expenses

The Group's administrative expenses in FY2018/19 was approximately HK$31.85 million (FY2017/18: HK$28.33 million) increased by approximately HK$3.52 million. The increase of administrative expenses was mainly due to the expenses in related to the acquisition of Huge East and its routine administrative expenses.

Other Gains/(Losses) — Net

In FY2018/19, the total other gains/(losses) — net, comprised the foreign exchange gains/(losses), dividend income from financial assets at fair value through profit or loss ("FVPL"), losses on disposal of financial assets at FVPL and unrealised gains/(losses) on changes in fair value of financial assets at FVPL was approximately HK$2.05 million (FY2017/18: losses of HK$9.33 million). Due to the favourable condition in the securities market in FY2018/19, the Group recorded a gain of approximately HK$0.86 million from a combined impact of dividend income from financial assets at FVPL, losses on disposal of financial assets at FVPL and unrealised gains on changes in fair value of financial assets at FVPL (FY2017/18: losses of approximately HK$6.52 million). In FY2018/19, the Group also recorded a gain of approximately HK$1.19 million from foreign exchange (FY2017/18: losses of HK$2.81 million) which was resulted from the fluctuation in exchange rate of Renminbi against Hong Kong dollars.

Finance Income

In FY2018/19, the finance income was primarily consist of interest income on certain non-derivative wealth management products and loans to independent third parties. Net financial income was approximately HK$9.08 million (FY2017/18: HK$4.91 million).

Taxation

Tax expense of the Group increased by approximately HK$4.52 million, from approximately HK$9.10 million in the FY2017/18 to approximately HK$13.62 million in the FY2018/19. Increase in tax expense was due to increase in profit before income tax and certain non-deductible expenses occurred during the year. The income tax rate of Shantou Xinda Colour Printing & Packaging Material Company Limited (an indirectly wholly owned subsidiary of the Company) is 15% under the High & New Technology Enterprise Certificate (the "**Certificate**"). The Certificate was renewed for three years effective from 1 January 2017.

Profit attributable to owners of the Company

In FY2018/19, the Profit attributable to owners of the Company was approximately HK$56.30 million representing an increase of approximately HK$24.08 million as compared with approximately HK$32.22 million in FY2017/18. The increase was mainly attributable to an increase in revenue and gross profit from the Cigarette Packaging Business and the Environmental Treatment Business and an increase in other gains-net and finance income during the period under review.

Dividends

The Board has recommended to declare a final dividend of HK3.0 cents per ordinary share for the year ended 31 March 2019 (the "**Final Dividend**") (FY2017/18: HK2.3 cents per ordinary share) whose names appear on the Register of Members of the Company on 3 September 2019. During the current year, the Board declared and paid an interim dividend of HK2.2 cents per share for the six months ended 30 September 2018. 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 12 September 2019.

Financial assets at FVPL

The Group adopted a prudent attitude in its securities investment. The management takes into account of risk exposure in comparison with the Group's risk tolerance level at the prevailing time and the potential for return on investment in terms of capital appreciation and dividend payment when determining whether to take up an investment opportunity for the cash held by the Group. The fair values of the listed securities are determined with reference to the quoted market prices available on the relevant stock exchanges. In FY2018/19, the gains from listed securities was approximately HK$0.86 million (FY2017/18: losses of HK$6.52 million) including the unrealised gains on changes in fair value for HK$1.22 million (FY2017/18: losses of HK$6.15 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 March 2019 and 31 March 2018, the Group held the following financial assets at FVPL:

	Number of shares	**31 March 2019** *HK$'000*	31 March 2018 *HK$'000*
Equity securities listed in Hong Kong			
CNG Power (01816)	5,250,000	**11,498**	10,658
Equity securities listed in the PRC			
Guangdong Liantai (聯泰環保 603797)	650,000	**11,420**	13,814
Other equity securities *(Note)*		**5,675**	6,028
		28,593	30,500

Note: Other listed equity securities comprised 6 equity securities listed in the PRC.

Capital structure, liquidity and financial resources

As at 31 March 2019, the Group's total cash and restricted cash balances amounted to approximately HK$266.81 million (31 March 2018: HK$218.21 million) including restricted cash of HK$42.29 million (31 March 2018: HK$52.60 million) and cash and cash equivalent HK$224.52 million (31 March 2018: HK$165.61 million).

In FY2018/19, the Group's net cash generated from operating activities and investing activities amounted to approximately HK$100.22 million and HK$7.43 million respectively and net cash used in financing activities amounted to HK$30.87 million. The Group primarily uses cash inflow of operating activities to satisfy the requirement of working capital.

Borrowings and gearing ratio

The Group did not have any borrowings as at 31 March 2019 and 2018 and thus no gearing was presented.

Exposure to fluctuation in exchange rate

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

The Group's exposure to foreign currency risk related primarily to certain bank balances and cash, financial assets at FVPL, 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

In FY2018/19 the Group's total capital expenditure amounted to approximately HK$19.64 million (FY2017/18: HK$1.26 million), which was used in the acquisition of property, plant and equipment, intangible assets and prepayments for non-current assets.

Charge on assets

As at 31 March 2019, the Group placed cash deposits of approximately HK$42.29 million with designated banks as collateral for Group's notes payable (31 March 2018: HK$52.60 million).

Contingent liabilities

The Group had no contingent liabilities as at 31 March 2019 (31 March 2018: Nil).

Capital commitments

As at 31 March 2019, the Group had capital commitments for the amount of approximately HK$1.51 million (31 March 2018: HK$0.29 million) for acquisition of property, plant and equipment.

HUMAN RESOURCES

As at 31 March 2019, the Group employed a total of 351 (31 March 2018: 250) permanent employees in the PRC and Hong Kong. Total employee remuneration (including directors' emoluments and benefits) in FY2018/19 amounted to HK$29.14 million (2017/18: HK$22.01 million). The Group provides its employees with competitive remuneration packages which were determined by their performance, qualification, experience and continued to review with reference to the level and composition of pay and general market condition. In addition to basic salary, employees are entitled to other benefits including social insurance contributions, employee provident fund schemes, and discretionary incentive and share option schemes

FUTURE OUTLOOK AND PROSPECTS

In spite of the tobacco control policy, sales of cigarette market in the PRC still recorded an increase for less the 1%. The number of smokers is expected to grow stably. The company will devote more resources to the design and quality of new products so as to strengthen our relation with existing customers and also explore potential customers to expand our market share. We will continue to improve our operational efficiency, lower operating costs and management expenses to enhance profitability of the Group.

The PRC government's policy is to put more effort to the environmental protection. The Clean Water Action Plan (水十條) provide a lot of business opportunities for the Environmental Treatment Business. We will seize the opportunities to seek for new sewage treatment projects to widen our revenue streams and bring greater return to the Shareholders. The Group will be awarded the second grade qualification of Contractor for Municipal Public Project (二級市政公用工程施工總承包許可證) and the second grade qualification of Contractor for Environmental Engineering Projects (二級環保工程專業承包許可證) soon. With these qualifications, we can undertake most of the municipal works and environment treatment projects.

Looking forward, we will continue with our existing businesses and focus more on locating other business opportunities, especially the Environmental Treatment Business, so as to generate higher returns for the Shareholders.

CLOSURE OF REGISTER OF MEMBERS FOR ANNUAL GENERAL MEETING AND FINAL DIVIDEND

The AGM is scheduled to be held on Friday, 23 August 2019. The register of members of the Company will be closed from Tuesday, 20 August 2019 to Friday, 23 August 2019, both days inclusive, for the purpose of identifying Shareholders who are entitled to attend the AGM, during which period 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, 19 August 2019.

The proposed final dividend is subject to the approval of the Shareholders at the AGM. The record date for entitlement to the proposed final dividend is on Tuesday, 3 September 2019. In order to ascertain the entitlement to the proposed final dividend, the register of members of the Company will be closed from Friday, 30 August 2019 to Tuesday, 3 September 2019 (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 on Tuesday, 27 August 2019. 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, 29 August 2019.

MATERIAL ACQUISITION AND DISPOSALS OF SUBSIDIARIES AND ASSOCIATED COMPANIES

On 21 August 2018, the Group completed the acquisition of the entire issued share capital of Huge East (together with its subsidiary at a total consideration of HK$31.16 million, which was satisfied by way of issuance and allotment of an aggregate of 15,580,000 new ordinary shares of the Company.

Save as disclosed above, the Group has no other material acquisitions or disposals of subsidiaries and associated companies in FY2018/19.

COMPLIANCE WITH THE CORPORATE GOVERNANCE CODE

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

The Company periodically reviews its corporate governance practices to ensure its continuous compliance with the CG Code. In the opinion of the Directors, the Company was in compliance with the applicable code provisions of the CG Code for the year ended 31 March 2019 and, where appropriate, the applicable recommended best practices of the CG Code, save and except for the following deviations:

Code Provision A.2.1

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

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

Code Provision A.6.7

Under Code Provision A.6.7, independent non-executive directors and other non-executive directors, as equal board members, should attend general meetings. During the year, an independent non-executive director was unable general meetings of the Company as he was out of town for other engagement.

Code Provision C.1.2

Pursuant to Code Provision C.1.2, management should provide all members of the board with monthly updates giving a balanced and understandable assessment of the Company's performance, position and prospects in sufficient detail to enable the board as a whole and each director to discharge their duties under Rule 3.08 and Chapter 13. During the period under review, the management of the Company did not provide monthly updates to all members of the Board as required by the code provision C.1.2, as all the executive Directors were involved in the daily operation of the Group and were fully aware of the performance, position and prospects of the Company. 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.

COMPETING BUSINESS AND CONFLICTS OF INTERESTS

None of the Directors is engaged in any business which competes or is likely to compete with the business of the Group, and none of them has any other conflicts of interest with the Group.

COMPLIANCE WITH THE MODEL CODE FOR SECURITIES TRANSACTIONS BY DIRECTORS

The Company has adopted the Model Code for Securities Transactions by Directors of Listed Issuers (the "**Model Code**") as set out in Appendix 10 to the Listing Rules. Specific enquiry has been made of all the Directors and the Directors have confirmed that they have complied with the Model Code throughout the year ended 31 March 2019.

PURCHASE, SALE OR REDEMPTION OF THE COMPANY'S SECURITIES

Neither the Company nor any of its subsidiaries had purchased, sold or redeemed any of the listed securities of the Company during the year ended 31 March 2019.

SUFFICIENCY OF PUBLIC FLOAT

Based on the information that is publicly available to the Company and within the knowledge of the Directors, the Directors' confirms that the Company has maintained a sufficient amount of public float for its Shares as required under the Listing Rules during the year ended 31 March 2019 and up to the date of this announcement.

REVIEW OF FINANCIAL STATEMENTS BY THE AUDIT COMMITTEE

During the year, the audit committee (the "**Audit Committee**") of the Board comprises three independent non-executive Directors, namely Mr. Lau Kwok Hung (chairman of the Audit Committee), Mr. Ma Wenming and Mr. Fok Po Tin. Mr. Lau has appropriate professional qualifications or accounting or related financial management expertise as required under Rule 3.21 of the Listing Rules.

The primary functions and duties of the Audit Committee are to recommend the appointment, re-appointment and removal of the external auditor, oversee the integrity of financial information of the Company and its disclosure, provide independent review of the effectiveness of the financial controls, internal control and risk management systems of the Group, and review the accounting principles and practices adopted by the Group. The full terms of reference of the Audit Committee are posted on the websites of the Stock Exchange and the Company.

The Audit Committee has reviewed the accounting principles and practices adopted by the Group, reviewed the annual results of the Group for the year ended 31 March 2019 and discussed the overall effectiveness of the internal control system of the Group with the management of the Company.

PUBLICATION OF THE ANNUAL REPORT

The annual report of the Company for the year ended 31 March 2019 containing all the information required by the Listing Rules will be despatched to the Shareholders and available on the websites of the Stock Exchange (http://www.hkex.com.hk) and the Company (www.huaxihds.com.hk) in due course.

ACKNOWLEDGEMENT

On behalf of the Board, I would also like to take this opportunity to express my gratitude to all our staff for their dedication and hard work, plus my sincere appreciation to all customers, business partners and shareholders for their continuing supports.

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

Hong Kong, 21 June 2019

As at the date of this announcement, the Board comprises Mr. Zheng Andy Yi Sheng and Mr. Zheng Minsheng as executive directors; Mr. Hao Jiming as non-executive director; and Mr. Lau Kwok Hung, Mr. Fok Po Tin and Mr. Ma Wenming as independent non-executive directors.