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 INTERIM RESULTS FOR THE SIX MONTHS ENDED 30 SEPTEMBER 2019

The board (the "**Board**") of directors (the "**Directors**") of Huaxi Holdings Company Limited (the "**Company**") is pleased to present the unaudited interim condensed consolidated results of the Company and its subsidiaries (collectively known as the "**Group**") for the six months ended 30 September 2019 (the "**Period**"), together with the comparative figures for the corresponding period in 2018.

FINANCIAL HIGHLIGHTS

	For the six months ended 30 September		
	2019	2018	*Change*
	HK$'000	*HK$'000*	*%*
Revenue	**211,184**	111,383	89.6
Gross Profit	**85,365**	41,014	108.1
Operating Profit	**60,792**	24,251	150.7
Profit attributable to owners of the Company	**52,963**	23,060	129.7
Earnings per share — Basic	**HK7.63 cents**	HK3.38 cents	125.7
— Diluted	**HK7.45 cents**	HK3.28 cents	127.1
Dividends — Interim	**HK3.00 cents**	HK2.20 cents	36.4
— Special	**HK1.00 cent**	Nil	N/A

CONDENSED CONSOLIDATED STATEMENT OF COMPREHENSIVE INCOME

For the six months ended 30 September 2019

	Note	**Six months ended 30 September** **2019** *HK$'000* **(Unaudited)**	2018 *HK$'000* (Unaudited)
Revenue	*5*	**211,184**	111,383
Cost of sales	*6*	**(125,819)**	(70,369)
Gross profit		**85,365**	41,014
Distribution costs	*6*	**(958)**	(986)
Administrative expenses	*6*	**(28,416)**	(12,575)
Other gains/(losses) — net	*7*	**4,801**	(3,202)
Operating profit		**60,792**	24,251
Finance income		**4,682**	4,148
Finance cost		**(77)**	–
Finance income — net		**4,605**	4,148
Profit before income tax		**65,397**	28,399
Income tax expense	*8*	**(12,526)**	(6,529)
Profit for the period		**52,871**	21,870
Profit attributable to:			
Owners of the Company		**52,963**	23,060
Non-controlling interests		**(92)**	(1,190)
		52,871	21,870
Other comprehensive income			
Items that will not be reclassified to profit or loss:			
Currency translation difference		**(19,866)**	(31,042)
Other comprehensive income for the period, net of tax		**(19,866)**	(31,042)
Total comprehensive income for the period		**33,005**	(9,172)

	Note	Six months ended 30 September	
		2019	2018
		HK$'000	*HK$'000*
		(Unaudited)	(Unaudited)
Total comprehensive income attributable to:			
Owners of the Company		**32,865**	(8,404)
Non-controlling interests		**140**	(768)
		33,005	(9,172)
Earnings per share attributable to owners of the Company (expressed in HK cent per share)			
— Basic earnings per share	*9*	**HK7.63 cents**	HK3.38 cents
— Diluted earnings per share	*9*	**HK7.45 cents**	HK3.28 cents

CONDENSED CONSOLIDATED STATEMENT OF FINANCIAL POSITION

As at 30 September 2019

	Note	**30 September 2019** ***HK$'000*** **(Unaudited)**	31 March 2019 *HK$'000* (Audited)
ASSETS			
Non-current assets			
Property, plant and equipment		**36,176**	40,035
Right-of-use assets		**7,533**	–
Intangible assets		**7,980**	10,717
Prepaid operating lease		**–**	5,648
Deferred tax assets		**3,260**	3,609
Prepaid expenses		**286**	359
Prepayments for non-current assets		**17,738**	16,321
		72,973	76,689
Current assets			
Inventories		**28,965**	33,355
Trade and notes receivable	*11*	**78,112**	76,746
Contract assets		**41,776**	990
Prepayments and other receivables		**10,941**	1,703
Financial assets at fair value through profit or loss	*12*	**14,691**	28,593
Restricted cash at banks		**39,037**	42,284
Cash and cash equivalents		**220,874**	224,523
		434,396	408,194
Total assets		**507,369**	484,883
EQUITY			
Equity attributable to owners of the Company			
Share capital	*14*	**3,471**	3,471
Other reserves		**197,403**	217,501
Retained earnings		**183,305**	151,164
		384,179	372,136
Non-controlling interests		**(4,584)**	(4,724)
Total equity		**379,595**	367,412

	Note	**30 September 2019**	31 March 2019
		HK$'000	*HK$'000*
		(Unaudited)	(Audited)
LIABILITIES			
Non-current liabilities			
Lease liabilities		**1,704**	–
Other payables		**887**	933
Deferred tax liabilities		**8,889**	8,999
		11,480	9,932
Current liabilities			
Trade and notes payable	*13*	**85,142**	71,380
Contract liabilities		**160**	2,904
Other payables and accruals		**14,426**	21,332
Current income tax liabilities		**16,232**	11,923
Lease liabilities		**334**	–
		116,294	107,539
Total liabilities		**127,774**	117,471
Total equity and liabilities		**507,369**	484,883

NOTES TO THE CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

For the six months ended 30 September 2019

1. GENERAL INFORMATION

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

The Company is an investment holding company. The Company and its subsidiaries (together, the "**Group**") are principally engaged in (i) manufacturing and sales of cigarette packaging materials; and (ii) environmental treatment business in the People's Republic of China (the "**PRC**") for the six months ended 30 September 2019.

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

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

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

2. BASIS OF PREPARATION AND ACCOUNTING POLICIES

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

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

3. CHANGES IN ACCOUNTING POLICIES

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

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

3.1 Adjustments recognised on adoption of HKFRS 16

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

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

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

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

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

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

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

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

Practical expedients applied

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

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

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

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

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

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

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

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

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

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

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

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

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

4. SEGMENT INFORMATION

Management has determined the operating segments based on the reports reviewed by 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.

For the six months ended 30 September 2019, the Group was principally engaged in the manufacturing and sales of packaging materials for cigarette in the PRC (the "**Cigarette Packaging Business**") and environmental treatment business in the PRC (the "**Environmental Treatment Business**"), which are both identified as reportable segments.

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

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

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

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

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

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

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

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

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

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

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

5. REVENUE

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

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

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

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

6. EXPENSES BY NATURE

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

7. OTHER GAINS/(LOSSES) — NET

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

8. INCOME TAX EXPENSE

	Six months ended 30 September	
	2019	2018
	HK$'000	*HK$'000*
Current income tax		
— PRC enterprise income tax	**10,696**	3,983
Deferred income tax		
— PRC enterprise income tax	**(131)**	1,193
— Withholding income tax for profit to be distributed from the PRC	**1,961**	1,353
	12,526	6,529

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

9. EARNINGS PER SHARE

(a) Basic

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

	Six months ended 30 September	
	2019	2018
Profit attributable to owners of the Company *(HK$'000)*	**52,963**	23,060
Weighted average number of ordinary shares in issue	**694,080,000**	681,991,000
Basic earnings per share	**HK7.63 cents**	HK3.38 cents

(b) Diluted

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

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

10. DIVIDENDS

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

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

11. TRADE AND NOTES RECEIVABLE

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

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

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

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

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

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

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

12. FINANCIAL ASSETS AT FVPL

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

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

13. TRADE AND NOTES PAYABLE

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

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

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

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

14. SHARE CAPITAL

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

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

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

MANAGEMENT DISCUSSION AND ANALYSIS

BUSINESS REVIEW

Revenue

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

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

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

Gross Profit

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

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

Distribution Costs

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

Administrative Expenses

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

Finance Income

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

Income Tax Expense

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

Results

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

Capital structure, liquidity and financial resources

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

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

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

Borrowings and Gearing Ratio

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

Financial Assets at Fair Value through Profit or Loss

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

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

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

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

Exposure to Fluctuations in Exchange Rate

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

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

Capital Expenditure

During the period under review, the Group's total capital expenditure amounted to approximately HK$4.72 million, (30 September 2018: HK$0.39 million) which was used in the acquisition of property, plant and equipment, intangible assets and prepayments for non-current assets.

Charge on Assets

As at 30 September 2019, the Group had pledged bank deposits amounting to HK$39.04 million (31 March 2019: HK$42.29 million) as collateral for the Group's notes payable.

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

Contingent Liability

The Group has no significant contingent liabilities as at 30 September 2019 and 31 March 2019.

Capital Commitments

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

FUTURE OUTLOOK

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

EMPLOYEES AND REMUNERATION POLICIES

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

SIGNIFICANT INVESTMENTS AND ACQUISITIONS

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

INTERIM DIVIDEND AND SPECIAL DIVIDEND

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

CLOSURE OF REGISTERED MEMBERS

The register of members of the Company will be closed from 2 December 2019 to 4 December 2019 (both days inclusive) for the purpose of determining the entitlement to the Interim Dividend and Special Dividend. In order to be qualified for the Interim Dividend and Special Dividend, all transfer documents accompanied by the corresponding share certificates should be lodged for registration with the Company's branch share registrar and transfer office, Computershare Hong Kong Investor Services Limited at Shops 1712–1716, 17th Floor, Hopewell Centre, 183 Queen's Road East, Wanchai, Hong Kong for registration not later than 4:30 p.m. on 29 November 2019.

PURCHASE, SALE OR REDEMPTION OF THE COMPANY'S SECURITIES

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

SUFFICIENCY OF PUBLIC FLOAT

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

RISK MANAGEMENT

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

COMPLIANCE WITH THE CORPORATE GOVERNANCE CODE

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

The Company periodically reviews its corporate governance practices to ensure its continuous compliance with the CG Code. In the opinion of the Directors, the Company was in compliance with the applicable code provisions of the CG Code for the six months ended 30 September 2019 and, where appropriate, the applicable recommended best practices of the CG Code, save and except for the following deviations:

Code Provision A.2.1

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

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

Code Provision A.4.1

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

Code Provision A.6.7

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

Code Provision C.1.2

Under Code Provision C.1.2, management should provide all members of the board with monthly updates giving a balanced and understandable assessment of the Company's performance, position and prospects in sufficient detail to enable the board as a whole and each director to discharge their duties under Rule 3.08 and Chapter 13. During the Reporting Period, management did not provide the board with monthly updates required under Code Provision C.1.2 of the CG Code, as all the executive Directors were involved in the daily operation of the Group and were fully aware of the performance, position and prospects of the Company. The management has also provided to all Directors (including non-executive Director and independent non-executive Directors) regularly the corporate activities and updates on any material changes to the performance, position and prospects of the Company and sufficient background or explanatory information for matters brought before the Board. As such, the management did not provide updates to the full Board on a monthly basis.

COMPLIANCE WITH THE MODEL CODE FOR SECURITIES TRANSACTIONS BY DIRECTORS

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

Specific enquiry has been made of all the Directors and the Directors have confirmed that they have complied with the Model Code throughout the six months ended 30 September 2019.

CHANGES IN INFORMATION OF DIRECTORS

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

DIRECTORS' INTERESTS IN COMPETING BUSINESSES

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

REVIEW OF FINANCIAL STATEMENTS BY THE AUDIT COMMITTEE

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

PUBLICATION OF THE INTERIM RESULTS AND INTERIM REPORT

This interim results announcement is published on the websites of the Stock Exchange (www.hkex.com.hk) and the Company (www.huaxihds.com.hk). The interim report for the period containing all the information required by Appendix 16 to the Listing Rules will be dispatched to Shareholders and available on the same websites in due course.

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

Hong Kong, 15 November 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.