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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 JUNE 2020

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 June 2020 (the “**Period**”), together with the comparative figures for the corresponding period in 2019.

FINANCIAL HIGHLIGHTS

	Six months ended 30 June		
	2020	2019	Change
	HK\$ '000	HK\$ '000	%
Revenue	209,102	125,092	67
Gross Profit	75,721	43,191	75
Operating Profit	52,983	26,121	103
Profit for the period	45,473	24,935	82
Earnings per share			
— Basic	HK6.42 cents	HK3.56 cents	80
— Diluted	HK6.41 cents	HK3.47 cents	85
Dividend			
— For the six months ended 30 June 2020, an interim dividend of HK4.00 cents per share was declared.			
— For the six months ended 30 September 2019, an interim dividend of HK3.00 cents per share plus a special dividend of HK1.00 cent per share, amounting to a total of HK4.00 cents per share, was declared.			

CONDENSED CONSOLIDATED STATEMENT OF COMPREHENSIVE INCOME

For the six months ended 30 June 2020

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

	<i>Note</i>	Six months ended 30 June	
		2020	2019
		HK\$'000	HK\$'000
		(Unaudited)	(Unaudited)
Profit for the period		45,473	24,935
Other comprehensive income			
<i>Items that will not be reclassified to profit or loss:</i>			
Currency translation differences		(8,025)	(1,868)
Other comprehensive income for the period, net of tax		(8,025)	(1,868)
Total comprehensive income for the period		37,448	23,067
Total comprehensive income attributable to:			
— Owners of the Company		36,908	22,858
— Non-controlling interests		540	209
		37,448	23,067
Earnings per share attributable to owners of the Company (expressed in HK cent per share)			
— Basic earnings per share	9	HK6.42 cents	HK3.56 cents
— Diluted earnings per share	9	HK6.41 cents	HK3.47 cents

CONDENSED CONSOLIDATED STATEMENT OF FINANCIAL POSITIONS

As at 30 June 2020

		30 June 2020 HK\$'000 (Unaudited)	31 December 2019 HK\$'000 (Audited)
	Note		
ASSETS			
Non-current assets			
Property, plant and equipment		34,466	36,181
Right-of-use assets		9,657	10,129
Intangible assets		6,538	10,473
Deferred tax assets		3,275	2,727
Prepaid expenses		200	260
Contract assets		1,590	—
Prepayments for non-current assets		18,393	19,647
		<u>74,119</u>	<u>79,417</u>
Current assets			
Inventories		24,290	27,327
Trade and notes receivables	11	209,673	156,076
Contract assets		22,283	10,115
Prepayments and other receivable		21,189	31,470
Financial assets at fair value through profit or loss		39,680	24,746
Restricted cash at banks		46,282	40,762
Cash and cash equivalents		138,983	159,942
		<u>502,380</u>	<u>450,438</u>
Total assets		<u>576,499</u>	<u>529,855</u>
EQUITY			
Equity attributable to owners of the Company			
Share capital	13	3,508	3,471
Other reserves		207,404	204,060
Retained earnings		195,012	180,060
		<u>405,924</u>	<u>387,591</u>
Non-controlling interests		<u>(3,946)</u>	<u>(4,486)</u>
Total equity		<u>401,978</u>	<u>383,105</u>

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

NOTES:

1. GENERAL INFORMATION

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

The Company is an investment holding company. The Company and its subsidiaries (together, the “**Group**”) are principally engaged in (i) manufacture and sales of cigarette packaging materials; and (ii) environmental and ecological restoration treatment business in the People’s Republic of China (the “**PRC**”) for the six months ended 30 June 2020.

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

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

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

2. BASIS OF PREPARATION AND ACCOUNTING POLICIES

The Interim Financial Information has been prepared in accordance with Hong Kong Accounting Standard 34 “Interim financial reporting”. The Interim Financial Information does not include all the notes of the type normally included in an annual financial report. The Board determined to change the Company’s financial year end date from 31 March to 31 December commencing from the financial period beginning on 1 April 2019. Accordingly, the Interim Financial Information is to be read in conjunction with the annual report for the nine months ended 31 December 2019 and any public announcements made by the Company during the interim reporting period.

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

2.1 New and amended standards adopted by the Group

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

3. CRITICAL ACCOUNTING ESTIMATES AND JUDGMENTS

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

5. REVENUE

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

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

	Six months ended 30 June 2020 HK\$'000 (Unaudited)	2019 HK\$'000 (Unaudited)
Customer A	41.1%	15.1%
Customer B	30.4%	51.6%
Customer C	12.9%	25.8%
	84.4%	92.5%

For the six months ended 30 June 2020, majority of the Group's revenue was generated from its subsidiaries in the PRC (six months ended 30 June 2019: same).

6. EXPENSES BY NATURE

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

7. OTHER GAINS — NET

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

8. INCOME TAX EXPENSE

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

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

9. EARNING PER SHARE

(a) Basic

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

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

(b) Diluted

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

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

10. DIVIDENDS

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

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

11. TRADE AND NOTES RECEIVABLE

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

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

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

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

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

12. TRADE AND NOTES PAYABLE

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

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

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

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

13. SHARE CAPITAL

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

Note:

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

MANAGEMENT DISCUSSION AND ANALYSIS

BUSINESS REVIEW

Revenue

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

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

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

Gross Profit

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

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

Distribution Costs

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

Administrative Expenses

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

Finance Income — net

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

Income Tax Expense

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

Profit attributable to Owners of the Company

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

Capital Structure, Liquidity and Financial Resources

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

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

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

Borrowings and Gearing Ratio

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

Financial assets at Fair Value through Profit or Loss

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

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

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

Note:

- (1) Other listed equity securities comprised 5 equity securities in Hong Kong (31 December 2019: 1)
- (2) Other listed equity securities comprised 3 equity securities in the PRC (31 December 2019: 3)

Exposure to Fluctuations in Exchange Rate

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

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

Capital Expenditure

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

Charge on Assets

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

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

Contingent Liability

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

Capital Commitments

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

FUTURE OUTLOOK

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

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

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

EMPLOYEES AND REMUNERATION POLICIES

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

SIGNIFICANT INVESTMENTS AND ACQUISITIONS

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

INTERIM DIVIDEND

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

CLOSURE OF REGISTERED MEMBERS

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

PURCHASE, SALE OR REDEMPTION OF THE COMPANY'S SECURITIES

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

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

Code Provision A.2.1

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

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

Code Provision A.4.1

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

Code Provision A.6.7

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

Code Provision C.1.2

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

COMPLIANCE WITH THE MODEL CODE FOR SECURITIES TRANSACTIONS BY DIRECTORS

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

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

CHANGES IN INFORMATION OF DIRECTORS

Pursuant to Rule 13.51B(1) of the Listing Rules, changes in information of directors of the Company are set out below:

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

DIRECTORS’ INTERESTS IN COMPETING BUSINESSES

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

REVIEW OF FINANCIAL STATEMENTS BY THE AUDIT COMMITTEE

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

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, 28 August 2020

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. Cai Xiaowen as independent non-executive Directors.