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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 FINAL RESULTS FOR THE YEAR ENDED 31 DECEMBER 2020

FINANCIAL HIGHLIGHTS			
	For the year ended 31 December 2020 HK\$'000	For the nine months ended 31 December 2019 HK\$'000	Change %
Revenue	373,394	313,466	19
Gross Profit	153,104	126,358	21
Operating Profit	112,916	93,191	21
Profit attributable to owners of the Company	94,275	81,442	16
Basic earnings per share	HK 13.44 cents	HK 11.73 cents	15
Dividends — Final	HK 4.00 cents	HK 4.00 cents	0

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 December 2020 together with the comparative figures for the nine months ended 31 December 2019.

CONSOLIDATED STATEMENT OF COMPREHENSIVE INCOME

For the year ended 31 December 2020

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

CONSOLIDATED STATEMENT OF FINANCIAL POSITION

As at 31 December 2020

		31 December 2020	31 December 2019
	<i>Note</i>	<i>HK\$'000</i>	<i>HK\$'000</i>
ASSETS			
Non-current assets			
Property, plant and equipment		42,392	36,181
Right-of-use assets		7,489	10,129
Intangible assets		3,695	10,473
Deferred tax assets		3,670	2,727
Prepaid expenses		158	260
Prepayments for non-current assets		22,023	19,647
		<u>79,427</u>	<u>79,417</u>
Current assets			
Inventories		29,549	27,327
Contract assets		77,120	10,115
Trade receivables	9	221,045	156,076
Prepayments and other receivables	10	32,358	31,470
Financial assets at fair value through profit or loss		67,064	24,746
Restricted cash at banks		36,785	40,762
Cash and cash equivalents		103,281	159,942
		<u>567,202</u>	<u>450,438</u>
Total assets		<u><u>646,629</u></u>	<u><u>529,855</u></u>

		31 December 2020	31 December 2019
	<i>Note</i>	<i>HK\$'000</i>	<i>HK\$'000</i>
EQUITY			
Equity attributable to owners of the Company			
Share capital	12	3,508	3,471
Other reserves		245,651	204,060
Retained earnings		213,557	180,060
		<u>462,716</u>	<u>387,591</u>
Non-controlling interests		(5,778)	(4,486)
		<u>456,938</u>	<u>383,105</u>
LIABILITIES			
Non-current liabilities			
Lease liabilities		440	3,004
Deferred tax liabilities		11,333	8,309
Other payables		475	893
		<u>12,248</u>	<u>12,206</u>
Current liabilities			
Trade and notes payable	11	125,966	92,070
Lease liabilities		1,699	1,776
Other payables and accruals		26,097	23,896
Current income tax liabilities		23,681	16,802
		<u>177,443</u>	<u>134,544</u>
Total liabilities		189,691	146,750
Total equity and liabilities		646,629	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 Windward 3, Regatta Office Park, PO Box 1350, Grand Cayman KY1-1108, Cayman Islands.

The Company is an investment holding company. The Company and its subsidiaries (together, the “**Group**”) are principally engaged in (i) manufacturing and sales of cigarette packaging materials; and (ii) environmental treatment business in the People’s Republic of China (the “**PRC**”).

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

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

These consolidated financial statements have been approved for issue by the board of directors (the “**Board**”) of the Company on 30 March 2021.

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

This note provides a list of the significant accounting policies adopted in the preparation of these consolidated financial statements. These policies have been consistently applied to all the year/period presented, unless otherwise stated.

2.1 Basis of preparation

(a) *Financial period*

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

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

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

(c) *Historical cost convention*

The consolidated financial statements have been prepared under the historical cost convention, as modified by the revaluation of financial assets at fair value through profit or loss (“**FVPL**”), which are carried at fair value.

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

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

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

The amendments listed above did not have any impact on the amounts recognised in prior periods and are not expected to significantly affect the current or future periods.

(e) *New standards and interpretations not yet adopted*

The following standards and interpretations have been issued but are not effective for the financial period beginning on 1 January 2020 and have not been early adopted by the Group:

		Effective for reporting periods beginning on or after
Amendments to HKFRS 16	COVID-19-Related Rent Concessions	1 June 2020
Amendments to HKFRS 9, HKAS 39, HKFRS 7, HKFRS 4 and HKFRS 16	Interest Rate Benchmark Reform — Phase 2	1 January 2021
Amendments to HKAS 16	Property, Plant and Equipment: Proceeds before Intended Use	1 January 2022
Amendments to HKFRS 3	Reference to the Conceptual Framework	1 January 2022
Amendments to HKAS 37	Onerous Contracts — Cost of Fulfilling a Contract	1 January 2022
Annual Improvements	Annual Improvements to HKFRS Standards 2018–2020	1 January 2022
HKFRS 17	Insurance Contracts	1 January 2023
Amendments to HKAS 1	Classification of Liabilities as Current or Non-current	1 January 2023
Amendments to HKFRS 10 and HKAS 28	Sale or Contribution of Assets between an Investor and its Associate or Joint Venture	To be determined

These standards are not expected to have material impact on the Group in the current or future reporting periods.

3. REVENUE AND 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.

The Group is principally engaged in the manufacturing and sales of packaging materials for cigarette in the PRC (the “**Cigarette Packaging Business**”) and environmental treatment business in the PRC (the “**Environmental Treatment Business**”), which are identified as reportable segments. Meanwhile, the Group diversified its business into other business, which is in a preliminary stage and contributed to less than 10% of the Group’s revenue, profit or loss and assets.

The CODM assesses the performance of the operating segments based on operating profit excluding other gains arising from financial assets at FVPL.

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

Capital expenditures represent payments for the acquisition of property, plant and equipment, intangible assets, prepayments for non-current assets and right-of-use assets.

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

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

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

	Cigarette Packaging Business <i>HK\$'000</i>	Environmental Treatment Business <i>HK\$'000</i>	Others <i>HK\$'000</i>	The Group <i>HK\$'000</i>
Revenue	<u>163,329</u>	<u>150,137</u>	<u>–</u>	<u>313,466</u>
Segment results	<u>44,449</u>	<u>43,678</u>	<u>–</u>	<u>88,127</u>
Other gains arising from financial assets at FVPL				<u>5,064</u>
Operating profit				<u>93,191</u>
Finance income — net				<u>7,068</u>
Profit before income tax				<u>100,259</u>
Income tax expense				<u>(18,777)</u>
Profit for the period				<u><u>81,482</u></u>
Other segment item				
Depreciation and amortization	<u>3,431</u>	<u>7,091</u>	<u>–</u>	<u>10,522</u>

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

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

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

	Cigarette Packaging Business <i>HK\$'000</i>	Environmental Treatment Business <i>HK\$'000</i>	Others <i>HK\$'000</i>	Inter- segment elimination <i>HK\$'000</i>	The Group <i>HK\$'000</i>
Segment assets	<u>429,516</u>	<u>200,772</u>	<u>–</u>	<u>(127,906)</u>	502,382
Financial assets at FVPL					24,746
Deferred tax assets					<u>2,727</u>
Total assets					<u><u>529,855</u></u>
Segment liabilities	<u>84,443</u>	<u>165,102</u>	<u>–</u>	<u>(127,906)</u>	121,639
Current income tax liabilities					16,802
Deferred tax liabilities					<u>8,309</u>
Total liabilities					<u><u>146,750</u></u>
Capital expenditures	<u>2,702</u>	<u>8,971</u>	<u>–</u>	<u>–</u>	<u>11,673</u>

Revenue

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

4. EXPENSES BY NATURE

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

5. FINANCE INCOME — NET

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

- (a) Other financial assets comprised certain non-derivative wealth management products with fixed or determinable payment terms of less than 14 days from a financial institution. As at 31 December 2020, all other financial assets were redeemed (31 December 2019: same).

6. INCOME TAX EXPENSES

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

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

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/period.

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

(b) Diluted

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

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

8. DIVIDENDS

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

(a) Interim dividends

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

(b) Proposed final dividends

A final dividend of HK 4.00 cents per ordinary share in respect of the year ended 31 December 2020 (nine months ended 31 December 2019: HK 4.00 cents per ordinary share), totalling approximately HK\$28,057,000, was proposed by the Board on 30 March 2021. Such final dividends are subject to approval by the shareholders at the upcoming annual general meeting. The accompanying financial statements have not reflected the declaration of such dividends.

9. TRADE RECEIVABLES

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

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

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

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

	31 December 2020 HK\$'000	31 December 2019 HK\$'000
At beginning of the year/period	184	193
Impairment charges	79	–
Currency translation differences	16	(9)
	<u>279</u>	<u>184</u>

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

	31 December 2020 HK\$'000	31 December 2019 HK\$'000
— Denominated in RMB	221,174	156,160
— Denominated in HK\$	150	100
	<u>221,324</u>	<u>156,260</u>

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

10. PREPAYMENTS AND OTHER RECEIVABLES

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

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

11. TRADE AND NOTES PAYABLE

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

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

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

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

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

12. SHARE CAPITAL

Authorised share capital	Number of ordinary shares	HK\$
At 31 March 2019, 31 December 2019 and 31 December 2020	<u>4,000,000,000</u>	<u>20,000,000</u>
	Number of issued shares	Share capital HK\$
At 31 March 2019 and 31 December 2019	694,080,000	3,471,000
Exercise of share options (<i>Note a</i>)	<u>7,350,000</u>	<u>36,750</u>
At 31 December 2020	<u>701,430,000</u>	<u>3,507,750</u>

(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 being credited to share capital and share premium account respectively.

MANAGEMENT DISCUSSION AND ANALYSIS

BUSINESS AND OPERATIONS REVIEW

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

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

Cigarette Packaging Business

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

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

Environmental Treatment Business

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

Gross Profit and Gross Profit Margin

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

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

Distribution costs

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

Administrative Expenses

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

Other Gains — Net

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

Finance Income — Net

During the Reporting Period, the finance income primarily consisted of interest income on certain non-derivative wealth management products and of loans to independent third parties. Net financial income was approximately HK\$3.84 million (FY2019: HK\$7.07 million).

Taxation

During the Reporting Period, income tax expense was approximately HK\$23.48 million, representing an increase of approximately HK\$4.70 million as compared to HK\$18.78 million for FY2019. The Group's indirect wholly owned subsidiaries, Shantou Xinda Colour Printing & Packaging Material Company Limited and Shantou Hongdong Environmental Treatment Company Limited, are granted preferential tax rate at 15%.

Profit attributable to owners of the Company

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

Dividends

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

Trade receivables

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

Details of Trade Receivables are set out in Note 9 of the Notes to the consolidated financial results.

Financial assets at FVPL

The Group adopted a prudent attitude in its securities investments. The management takes into account of risk exposure in comparison with the Group's risk tolerance level at the prevailing time and the potential for return on investment in terms of capital appreciation and dividend payment when determining whether to take up an investment opportunity for the cash held by the Group. The fair value of the listed securities are determined with reference to the quoted market prices available on the relevant stock exchanges. During the Reporting Period, the gains from listed securities was approximately HK\$7.29 million (FY2019: HK\$5.06 million) including the unrealised gains on changes in fair value of HK\$4.17 million (FY2019: gains of HK\$2.43 million). The management invests in these shares expecting the price will be stable and gradually increase in line with the upward trend of the global financial market.

As at 31 December for the respective year/period, the Group held the following financial assets at fair value through profit or loss:

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

Note: (1) Other listed equity securities comprised 3 equity securities listed in Hong Kong.

(2) Other listed equity securities comprised 3 equity securities listed in the PRC.

Capital structure, liquidity and financial resources

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

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

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

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

Borrowings and gearing ratio

The Group did not have any borrowings as at 31 December 2020 and 2019 and thus no gearing was presented.

Exposure to fluctuation in exchange rate

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

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

Capital expenditure

During the Reporting Period, the Group's total capital expenditure amounted to approximately HK\$10.39 million (FY2019: HK\$11.67 million), which was used in the acquisition of property, plant and equipment, intangible assets and prepayments for non-current assets and right-of-use assets.

Charge on assets

As at 31 December 2020, the Group placed cash deposits of approximately HK\$35.26 million with designated banks as collateral for Group's notes payable (31 December 2019: HK\$40.76 million) and deposits of HK\$1.53 million as tender security, which were all denominated in RMB.

Contingent liabilities

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

Capital commitments

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

HUMAN RESOURCES

As at 31 December 2020, the Group employed a total of 348 (31 December 2019: 341) permanent employees in the PRC and Hong Kong. Total employee remuneration (including directors' emoluments and benefits) in the Reporting Period amounted to HK\$35.73 million (FY2019: HK\$27.82 million). The Group provided its employees with competitive remuneration packages which were determined by their performance, qualification, experience and continued to review with reference to the level and composition of pay and general market condition. In addition to basic salary, employees are entitled to other benefits including social insurance contributions, employee provident fund schemes and discretionary incentive.

FUTURE OUTLOOK AND PROSPECTS

From 2016, the annual sales growth rate of cigarette in the PRC maintained around 0.4%. The cigarette industry will maintain a stable production and operation condition in the future. The Company will continue to follow closely and stay cautious on the market. In the meanwhile, we will continue to improve our operational efficiency and internal control system, reinforce market knowledge and solid our relation with existing customers and also explore potential customers to strengthen our position in the market.

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

In 2020, due to the outbreak of COVID-19, the economy in the PRC faced unprecedented challenges. The PRC Government took a series of measures to actively fight the epidemic and maintain economic stability and recovered gradually in second half of 2020. We believe that the worst of COVID-19 was passed. Looking forward, the Group will continue strengthen its cost control measures substantially in order to preserve its competition edge. The Group will continue to seek business opportunities and persist in its own business strategy to create more value for our Shareholders.

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

The AGM is scheduled to be held on 28 May 2021. The register of members of the Company will be closed from 25 May 2021 to 28 May 2021, both days inclusive, for the purpose of identifying Shareholders who are entitled to attend the AGM, during which no transfer of Shares will be registered. In order to qualify for attending the AGM, all transfers of Shares accompanied by the relevant share certificates and transfer forms must be lodged with the Company's branch share registrar in Hong Kong, Computershare Hong Kong Investor Services Limited, at Shops 1712–1716, 17/F Hopewell Centre, 183 Queen's Road East, Wanchai, Hong Kong before 4:30 p.m. on 24 May 2021.

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 16 June 2021. In order to ascertain the entitlement to the proposed final dividend, the register of members of the Company will be closed from 11 June 2021 to 16 June 2021 (both days inclusive) during which no transfer of shares will be registered. The last day for dealing in Shares cum entitlements to the proposed final dividend will be 8 June 2021. In order to qualify for the proposed final dividend, all transfers of shares accompanied by the relevant share certificates and transfer forms must be lodged with the Company's branch share registrar in Hong Kong, Computershare Hong Kong Investor Services Limited, at Shops 1712–1716, 17th Floor, Hopewell Centre, 183 Queen's Road East, Wan Chai, Hong Kong for registration no later than 4:30 p.m. on 10 June 2021.

MATERIAL ACQUISITION AND DISPOSALS OF SUBSIDIARIES AND ASSOCIATED COMPANIES

The Group has no material acquisitions or disposals of subsidiaries and associated companies in the Reporting Period.

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 Reporting Period and, where appropriate, the applicable recommended best practices of the CG Code, save and except for the following deviations:

Code Provision A.2.1

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

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

Code Provision A.6.7

Under Code Provision A.6.7, independent non-executive directors and other non-executive directors, as equal board members, should attend general meetings. During the Reporting Period, an independent non-executive director and a non-executive director was unable to attend annual general meetings of the Company held on 29 May 2020 (the "2020 AGM") as they were out of town for other business commitments.

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 details 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, 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 periodical updates giving a balanced and understandable assessment of the Company's performance, position and prospects in sufficient details prior to the regular board meetings of the Company. In addition, the management has provided all members of the Board, in a timely manner, updates on any material changes to the performance, position and prospects of the Company and sufficient background or explanatory information for matters brought before the Board.

Code Provision E.1.2

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

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 Reporting Period.

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 Reporting Period.

SUFFICIENCY OF PUBLIC FLOAT

Based on the information that is publicly available to the Company and within the knowledge of the Directors, the Company has maintained sufficient public float for its Shares as required under the Listing Rules during the Reporting Period and up to the date of this announcement.

REVIEW OF FINANCIAL STATEMENTS BY THE AUDIT COMMITTEE

The audit committee of the Boards (the “**Audit Committee**”) comprises three independent non-executive directors, including Mr. Lau Kwok Hung (Chairman of the Audit Committee), Mr. Fok Po Tin and Mr. Cai Xiaowen. Mr. Lau Kwok Hung has appropriate professional qualifications or accounting or related financial management expertise as required under Rule 3.21 of the Listing Rules.

The functions of the Audit Committee are, among others, to assist the Board to review the financial reporting, including interim and final results, to review and monitor the external auditor's independence and objectivity and the effectiveness of the audit process in accordance with applicable standards, to oversee of the Company's risk management, internal control procedures and external audit functions and to make relevant recommendations to the Board to ensure effective and efficient operations and reliable reporting processes.

The Audit Committee has reviewed the accounting principles and practices adopted by the Group, reviewed the annual results of the Group for the Reporting Period 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 December 2020 containing all the information required by the Listing Rules will be despatched to the Shareholders and made 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 Holdings Company Limited
Zheng Andy Yi Sheng
Chairman

Hong Kong, 30 March 2021

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.