



HUAXI HOLDINGS COMPANY LIMITED

華禧控股有限公司

(Incorporated in the Cayman Islands with limited liability)

Stock Code: 1689

INTERIM REPORT 2021



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CORPORATION INFORMATION

BOARD OF DIRECTORS

Executive Directors

Mr. Zheng Andy Yi Sheng (*Chairman*)

Mr. Zheng Minsheng

Non-executive Director

Mr. Hao Jiming

Independent Non-executive Directors

Mr. Lau Kwok Hung

Mr. Fok Po Tin

Mr. Cai Xiaowen

AUDIT COMMITTEE

Mr. Lau Kwok Hung (*Chairman*)

Mr. Fok Po Tin

Mr. Cai Xiaowen

REMUNERATION COMMITTEE

Mr. Lau Kwok Hung (*Chairman*)

Mr. Fok Po Tin

Mr. Cai Xiaowen

NOMINATION COMMITTEE

Mr. Zheng Andy Yi Sheng (*Chairman*)

Mr. Lau Kwok Hung

Mr. Fok Po Tin

CORPORATE GOVERNANCE COMMITTEE

Mr. Zheng Andy Yi Sheng (*Chairman*)

Mr. Zheng Minsheng

Mr. Lau Kwok Hung

COMPANY SECRETARY

Mr. Yu Wing Cheung

AUTHORISED REPRESENTATIVES

Mr. Zheng Andy Yi Sheng

Mr. Yu Wing Cheung

AUDITOR

PricewaterhouseCoopers

Certified Public Accountants

Registered Public Interest Entity Auditor

LEGAL ADVISER

On Hong Kong law

Peter K.S. Chan & Co.

PRINCIPAL PLACE OF BUSINESS IN HONG KONG

Unit 1906-07 Cosco Tower

183 Queen's Road Central

Central

Hong Kong

REGISTERED OFFICE

Windward 3, Regatta Office Park,

P.O. Box 1350

Grand Cayman, KY1-1108

Cayman Islands

PRINCIPAL SHARE REGISTRAR AND TRANSFER OFFICE

Ocorian Trust (Cayman) Limited

Windward 3, Regatta Office Park,

P.O. Box 1350

Grand Cayman, KY1-1108

Cayman Islands

HONG KONG BRANCH SHARE REGISTRAR AND TRANSFER OFFICE

Computershare Hong Kong Investor

Services Limited

Shop 1712-16, 17th Floor,

Hopewell Centre

183 Queen's Road East, Wanchai

Hong Kong

PRINCIPAL BANKERS

The Hongkong & Shanghai Banking

Corporation Limited

Bank of China Limited

China Minsheng Banking Corporation Limited

Industrial & Commercial Bank of China Limited

WEBSITE

<http://www.huaxihds.com.hk>

STOCK CODE

01689

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 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 2021, with the improving situation of the 2019 novel coronavirus pandemic (the “**COVID-19**”), the national economic of PRC recovered gradually, and continued to show a trend of stabilization and improvement. Revenue of the Group for the six months ended 30 June 2021 (the “**Reporting Period**”) was approximately HK\$223.79 million, representing an increase of approximately HK\$14.69 million or 7.0% as compared with approximately HK\$209.10 million in corresponding period in 2020 (“**FY2020**”).

The Cigarette Packaging Business is facing an increasingly fierce market competition which affect the price of new tenders. During the Reporting Period, products mix of cigarette packaging materials and unit prices mix changed. Revenue from Cigarette Packaging Business was approximately HK\$99.41 million (FY2020: HK\$114.82 million, including sales of cigarette packaging materials for HK\$98.01 million and from other products for HK\$16.81 million). Sales of cigarette packaging materials recorded an increase of approximately HK\$1.40 million which was resulted from fluctuation of exchange rate of Renminbi in the corresponding period of 2020. Sales of cigarette packaging materials in Renminbi was decreased by approximately RMB5.72 million or 6.4% as compared with the corresponding period in 2020.

During the Reporting Period, the Group invested in four new environmental protection projects. The Environmental Treatment Business recorded a revenue of approximately HK\$121.27 million representing an increase of 28.6% as compared with approximately HK\$94.28 million in the corresponding period in 2020.

Gross Profit

The overall gross profit of the Group during the Reporting Period was approximately HK\$70.19 million (FY2020: HK\$75.72 million), representing decrease of HK5.53 million or 7.3% as compared with the corresponding period in 2020. The overall gross profit margin was decreased from 36% in FY2020 to 31% in the Reporting Period. Decrease in gross profit margin was mainly resulted from some new construction service contracts commenced in the Reporting Period with lower gross profit margin. During the Reporting Period, the Group’s gross profit margin for the Cigarette Packaging Business and the Environmental Treatment Business were approximately 40% and 23% respectively.

BUSINESS REVIEW *(continued)*

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\$1.07 million (FY2020: HK\$0.90 million) representing an increase of approximately HK\$0.17 million.

Administrative Expenses

Administrative expenses mainly consisted of staff costs, business development expenses, legal and professional fees, research and development expenses. The Group's administrative expenses for the Reporting Period was approximately HK\$25.78 million which is increased by approximately HK\$2.94 million or 12.9% as compared with approximately HK\$22.84 million in the corresponding period in 2020. The increase in administrative expenses was mainly attributable to the business development and professional services fees during the Reporting Period.

Finance Income — Net

Finance income of the Group during the Reporting Period was approximately HK\$1.09 million (FY2020: HK\$3.36 million). Finance income was interest received from bank deposits and other financial assets.

Income Tax Expense

The Group's income tax expense for the Reporting Period was approximately HK\$10.55 million (FY2020: HK\$10.87 million), representing a decrease of approximately HK\$0.33 million as compared with the corresponding period in 2020.

During the Reporting Period, a preferential income tax rate of 15% were applied to major subsidiaries of the Group.

Profit Attributable to Owners of the Company

The profit attributable to owners of the Company for the Reporting Period amounted approximately HK\$42.50 million (FY2020: HK\$45.03 million) and the basic earnings per share was HK6.06 cents (FY2020: HK6.42 cents).

BUSINESS REVIEW *(continued)*

Capital Structure, Liquidity and Financial Resources

As at 30 June 2021, the Group had net assets of HK\$476.50 million (31 December 2020: HK\$456.94 million); and current assets of approximately HK\$657.18 million (31 December 2020: HK\$567.20 million) and current liabilities of approximately HK\$242.63 million (31 December 2020: HK\$177.44 million). The current ratio (calculated as current assets to current liabilities) was 2.71 (31 December 2020: 3.20).

As at 30 June 2021, the Group's total cash and restricted cash balances amounted to approximately HK\$154.06 million (31 December 2020: HK\$140.07 million) including restricted cash of HK\$47.07 million (31 December 2020: HK\$36.79 million) and cash and cash equivalent HK\$106.99 million (31 December 2020: 103.28 million).

For the six months ended 30 June 2021, the Group's net cash generated from operating activities and investing activities amounted to approximately HK\$19.41 million and HK\$11.47 million respectively and the net cash used in financing activities was approximately HK\$28.98 million. The Group primarily uses cash inflows 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 2021 and 31 December 2020.

Financial Assets at Fair Value through Profit or Loss ("FVPL")

The Group adopted a prudent attitude in its securities investment. The management takes into account of risk exposure in comparison with the Group's risk tolerance level at the prevailing time and the potential for return on investment in terms of capital appreciation and dividend payment when determining whether to take up an investment opportunity for the cash held by the Group. The 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, dividends received and gains from listed securities was approximately HK\$8.47 million (30 June 2020: HK\$0.31 million) including the unrealised loss on changes in fair value of financial assets at FVPL for HK\$0.91 million (30 June 2020: losses HK\$2.64 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.

BUSINESS REVIEW *(continued)*
Financial Assets at Fair Value through Profit or Loss *(continued)*

As at 30 June 2021, the Group held the following financial assets at fair value through profit or loss:

	30 June 2021		31 December 2020	
	Number of shares	HK\$'000	Number of shares	HK\$'000
Equity securities listed in Hong Kong				
PA Gooddoctor (01833)	50,000	4,835	100,000	9,400
BABA — SW (9988)	30,000	6,600	30,000	6,978
HKEX — (388)	20,000	9,256	—	—
Other listed equity securities <i>(Note 1)</i>		9,584		6,840
Equity listed in the PRC				
Guangdong Liantai (聯泰環 603797)	820,000	7,332	1,700,873	15,966
Sinodaan (中達安 300635)	715,489	16,759	—	—
Guangdong Tonze Electric (天際股份 002759)	—	—	1,000,000	19,748
Other listed equity securities <i>(Note 2)</i>		6,273		8,132
		60,639		67,064

Note:

- (1) Other listed equity securities comprised 4 equity securities in Hong Kong (31 December 2020: 3).
- (2) Other listed equity securities comprised 6 equity securities in the PRC (31 December 2020: 3).

Exposure to fluctuations 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.

BUSINESS REVIEW *(continued)*

Capital expenditure

During the period under review, the Group's total capital expenditure amounted to approximately HK\$0.63 million, (FY2020: HK\$0.78 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 30 June 2021, the Group had pledged bank deposits amounting to HK\$47.07 million (31 December 2020: HK\$36.79 million) as collateral for the Group's notes payable.

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

Contingent liability

In July 2021, Shantou Hongdong Environmental Treatment Company Limited* (汕頭市弘東環境治理有限公司) (an indirect wholly-owned subsidiary of the Company) ("**Shantou Hongdong**") received a writ of summons endorsed with a statement of claim* (民事起訴書) (the "**Statement of Claim**") issued by Guangzhou Guosheng Construction Engineering Company Limited* (廣州國盛建築工程有限公司) (a sub-contractor of the Company) (the "**Claimant**"). According to the Statement of Claim, the Claimant requested Shantou Hongdong for the payments of (i) the outstanding construction fee of RMB7,527,088.39 under a construction contract dated 1 June 2019; (ii) the default penalty of RMB6,396,164.12; and (iii) the costs of the legal proceedings.

The board of directors of the Company (the "**Board**") consider that all allegations in the Statement of Claim are unfounded and without merits. Shantou Hongdong had settled the construction fees in accordance with the terms stated in the construction contract and the above mentioned fee was not yet due. After consultation with our legal advisers, the Board considered that Shantou Hongdong has good defence to the default penalty of RMB6,396,164.12; and the costs of the legal proceedings. We also have a strong case to counterclaim against the Claimant. The Board is of the view that there will not have a material adverse impact upon the Group's financial conditions, operations and reputation.

* For identification only

BUSINESS REVIEW *(continued)*

Capital commitments

As at 30 June 2021, the Group had capital commitments for the amount of approximately HK\$1.98 million (31 December 2020: HK\$0.44 million) for acquisition of property, plant and equipment.

FUTURE OUTLOOK

The Company's Cigarette Packaging Business not only facing the tightening of tobacco control policies from the PRC government but also from the tobacco manufacturers reducing their costs by renewal of tenders. The Company will reinforce the relations with existing customers to cope with their production and also strive to preserve its competitive edge over improving the production efficiency, minimising the wastage, and enhancing our inventory management to control the cost of production. We believe that quality of our products, on-time delivery, understanding of the industry and our customers' requirements are the main factors to strengthen our position in the market.

In the China's 14th Five-Year Plan the environmental protection policy has become more stringent. Major ecological system protection and restoration major projects will be carried out to achieve carbon neutrality by 2060. It will bring both opportunities and challenges for our Environmental Treatment Business. We will continue to cultivate new comprehensive water treatment projects in various parts of Guangdong Province. Meanwhile, we will also improve the construction quality, enhance project operations management, and continuously drive its technological innovation. The Group has confidence to overcome the challenges and maintain a sustainable business performance to our shareholders.

EMPLOYEES AND REMUNERATION POLICIES

As at 30 June 2021, the total number of the Group's staff was 341 (30 June 2020: 344). The Group remunerates its employees based on their performance, experience and prevailing industry practice. The Group provides retirement benefit for its employees in Hong Kong in form of mandatory provident fund, and pays social pension insurance and housing provident fund for its employees in China in accordance with the local laws and regulations.

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 June 2020: HK4.00 cents per share). The interim dividend will be paid on 26 November 2021 to shareholders whose names appear on the Register of Members of the Company on 11 November 2021.

CLOSURE OF REGISTERED MEMBERS

The register of members of the Company will be closed from 9 November 2021 to 11 November 2021 (both days inclusive), for the purpose of determining the entitlement to the interim dividend in respect of the six months ended 30 June 2021. 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 8 November 2021.

OTHER INFORMATION

DIRECTORS' INTEREST IN THE SHARES AND UNDERLYING SHARES OF THE COMPANY

As at 30 June 2021, the interests and short positions of the directors and chief executives of the Company in the shares of the Company which (a) were required to be notified to the Company and The Stock Exchange of Hong Kong Limited (the "Stock Exchange") pursuant to Divisions 7 and 8 of Part XV of the Securities and Futures Ordinance ("SFO"); or (b) were required under Section 352 of the SFO, to be entered in the register required to be kept by the Company referred to in that section; or (c) were required to be notified to the Company and the Stock Exchange pursuant to the Model Code for Securities Transactions by Directors of Listed Issuers (the "Model Code") set out in the Rules (the "Listing Rules") Governing the Listing of Securities on the Stock Exchanges were as follows:

Long positions of Directors' interests in securities of the Company

Name of Director	Nature of interest	Number of ordinary shares held	Percentage of Interest ⁽²⁾
Mr. Zheng Andy Yi Sheng	Interests held by a controlled corporation ⁽¹⁾	450,000,000	64.15%
Mr. Zheng Minsheng	Beneficial owner	1,200,000	0.17%
Mr. Lau Kwok Hung	Beneficial owner	400,000	0.06%
Mr. Fok Po Tin	Beneficial owner	400,000	0.06%

Notes:

- (1) These shares were held by SXD Limited, a controlled corporation of Mr. Zheng Andy Yi Sheng.
- (2) The percentage represents the number of ordinary shares interested divided by the number of the Company's issued shares as at 30 June 2021.

Save as disclosed above, as at 30 June 2021, none of the directors or chief executives of the Company had any interests or short positions in the shares, underlying shares or debentures of the Company or any associated corporations (within the meaning of Part XV of the SFO) which were required to be: (i) notified to the Company and the Stock Exchange pursuant to Divisions 7 and 8 of Part XV of the SFO (including interests and short positions which the directors and chief executives were taken or deemed to have under such provisions of the SFO); (ii) recorded in the register kept by the Company pursuant to Section 352 of the SFO; or (iii) notified to the Company and the Stock Exchange pursuant to the Model Code.

SUBSTANTIAL SHAREHOLDERS' AND OTHER PERSONS' INTERESTS AND SHORT POSITIONS IN SHARES AND UNDERLYING SHARES

As at 30 June 2021, to the knowledge of the directors of the Company (the "Director"), the following entities (other than a director or chief executive of the Company) had, or were taken or deemed to have interests or short positions in the shares or underlying shares of the Company which would fall to be disclosed to the Company and the Stock Exchange under the provisions of Divisions 2 and 3 of Part XV of the SFO, or which were recorded in the register kept by the Company pursuant to Section 336 of the SFO:

Long position in the Shares of the Company

Name of Shareholders	Nature of interest	Number of ordinary shares held	Approximate percentage of the total issued share capital <i>(Note iii)</i>
SXD Limited	Beneficial interest	450,000,000 (L)	64.15%
Mr. Zheng Andy Yi Sheng <i>(Note i)</i>	Interest held by a controlled corporation	450,000,000 (L)	64.15%
Ms. Chen Annie Ni <i>(Note ii)</i>	Interest of spouse	450,000,000 (L)	64.15%

Notes:

- (i) Mr. Zheng Andy Yi Sheng is the beneficial owner of the entire issued share capital of SXD Limited and is deemed to be interested in the 450,000,000 shares held by SXD Limited under the SFO.
- (ii) Ms. Chen Annie Ni is the spouse of Mr. Zheng Andy Yi Sheng and was accordingly deemed to have an interest in the shares of SXD Limited.
- (iii) The approximate percentage of interests held was calculated on the basis of 701,430,000 ordinary shares of the Company in issue.

Save as disclosed above, as at 30 June 2021, no other person (other than the directors or chief executive of the Company) had, or were taken or deemed to have interests or short positions in the shares or underlying shares of the Company which would fall to be disclosed to the Company and the Stock Exchange under the provisions of Divisions 2 and 3 of Part XV of the SFO, or which were recorded in the register required to be kept by the Company under Section 336 of the SFO.

PURCHASE, SALE OR REDEMPTION OF THE COMPANY'S SECURITIES

During the six months ended 30 June 2021, 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 report, 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 risks 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.

SHARE OPTION SCHEME

The Company's share option scheme (the "**Scheme**") was adopted pursuant to a resolution passed on 14 November 2013 for the purpose of providing incentives and rewards attracting and retaining the best available personnel, providing additional incentive to employees (full-time and part time), directors, consultants, advisers, distributors, contractors, suppliers, agents, customers, business partners or service providers ("**Eligible Participants**") of the Group and promoting the Success of the business of the Group and will remain on force for a period of ten years commencing on the adoption date and shall expire at 13 November 2023 subject to early termination provisions contained in the Scheme. The Board may grant options To Eligible Participants to subscribe for shares in the Company subject to the terms of the Scheme.

The total number of shares in respect of which options may be granted under the Scheme is not permitted to exceed 10% of the shares of the Company in issue at any point in time, without prior approval from the Company's shareholders. However the total maximum number of the shares which may be issued upon exercise of all outstanding share options granted and yet to be exercised under the Scheme and any other share option scheme of the Company must not exceed 30% of the issued share capital of the Company from time to time. Options granted to a substantial shareholder or an independent non-executive Director, or to any of their respective associates, in excess of 0.1% of the shares of the Company in issue at any time and with an aggregate value (based on the closing price of the Company's shares as stated in the daily quotation sheets issued by the Stock Exchange at the date of the grant) in excess of HK\$5 million, within any 12-month period up to and including the date of grant, are subject to shareholders approval in advance in a general meeting.

SHARE OPTION SCHEME *(continued)*

Options granted must be taken up within 7 days inclusive of the day on which offer was made upon payment of HK\$1 by the grantee. Options may be exercised at any time for a period determined by its directors which shall not be later than the day immediately preceding the tenth anniversary of the date of grant. The exercise price of the share options shall be a price solely determined by the Board and notified to an Eligible Participant and shall be at least the highest of (i) the closing price of the Company's shares as stated in the daily quotations sheet of the Stock Exchange on the date of the grant of the options; (ii) the average closing price of the Company's shares as stated in the daily quotations sheets of the Stock Exchange for the five trading days immediately preceding the date of the grant of the option; and (iii) the nominal value of a share of the Company on the date of grant.

No share option was granted, lapsed or exercised during the six months ended 30 June 2021. As at 30 June 2021, there was no share option outstanding (30 June 2020: Nil) under the Scheme.

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 of directors (the "**Board**") 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 June 2021 and, where appropriate, the applicable recommended best practices of the CG Code, save and except for the following deviations:

COMPLIANCE WITH THE CORPORATE GOVERNANCE CODE *(continued)*

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 Reporting Period.

DIRECTORS’ INTERESTS IN COMPETING BUSINESS

As at 30 June 2021, 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.

AUDIT COMMITTEE

The Company established the audit committee (the “**Audit Committee**”) with written terms of reference in accordance with Rules 3.22 of the Listing Rules and paragraphs C.3.3 of the Corporate Governance Code as set out in Appendix 14 to the Listing Rules. The Audit Committee consists of three independent non-executive directors, namely Mr. Lau Kwok Hung, Mr. Fok Po Tin and Mr. Cai Xiaowen. Mr. Lau Kwok Hung is the chairman of the Audit Committee.

The Audit Committee has reviewed the unaudited condensed consolidated financial information of the Group for the six months ended 30 June 2021, which is of the opinion that such statements comply with the applicable accounting standards, the Exchange and legal requirements, and that adequate disclosures have been made.

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

Hong Kong, 27 August 2021

CONDENSED CONSOLIDATED STATEMENT OF COMPREHENSIVE INCOME

	Note	Six months ended 30 June	
		2021 HK\$'000 (Unaudited)	2020 HK\$'000 (Unaudited)
Revenue	6	223,787	209,102
Cost of sales	7	(153,598)	(133,381)
Gross profit		70,189	75,721
Distribution costs	7	(1,067)	(897)
Administrative expenses	7	(25,784)	(22,841)
Net impairment losses on financial and contract assets		98	–
Other gains — net	8	8,215	1,000
Operating profit		51,651	52,983
Finance income — net		1,092	3,362
Profit before income tax		52,743	56,345
Income tax expense	9	(10,545)	(10,872)
Profit for the period		42,198	45,473
Profit attributable to:			
— Owners of the Company		42,499	45,029
— Non-controlling interests		(301)	444
		42,198	45,473

CONDENSED CONSOLIDATED STATEMENT OF COMPREHENSIVE INCOME

		Six months ended 30 June	
	<i>Note</i>	2021 HK\$'000 (Unaudited)	2020 HK\$'000 (Unaudited)
Other comprehensive income			
<i>Items that will not be reclassified to profit or loss:</i>			
Currency translation differences		5,421	(8,025)
Other comprehensive income for the period, net of tax		5,421	(8,025)
Total comprehensive income for the period		47,619	37,448
Total comprehensive income attributable to:			
— Owners of the Company		47,986	36,908
— Non-controlling interests		(367)	540
		47,619	37,448
Earnings per share attributable to owners of the Company (expressed in HK cent per share)			
— Basic earnings per share	<i>10</i>	HK6.06 cents	HK6.42 cents
— Diluted earnings per share	<i>10</i>	HK6.06 cents	HK6.41 cents

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

CONDENSED CONSOLIDATED STATEMENT OF FINANCIAL POSITION

	Note	30 June 2021 HK\$'000 (Unaudited)	31 December 2020 HK\$'000 (Audited)
ASSETS			
Non-current assets			
Property, plant and equipment	12	39,826	42,392
Right-of-use assets	12	6,569	7,489
Intangible assets	12	1,481	3,695
Deferred tax assets		4,028	3,670
Prepaid expenses		100	158
Prepayments for non-current assets		22,273	22,023
		74,277	79,427
Current assets			
Inventories		33,372	29,549
Trade receivables	13	215,099	221,045
Contract assets	6	182,328	77,120
Prepayments and other receivables	14	11,683	32,358
Financial assets at fair value through profit or loss	15	60,639	67,064
Restricted cash at banks		47,074	36,785
Cash and cash equivalents	16	106,989	103,281
		657,184	567,202
Total assets		731,461	646,629
EQUITY			
Equity attributable to owners of the Company			
Share capital	17	3,508	3,508
Other reserves		252,455	245,651
Retained earnings		226,682	213,557
		482,645	462,716
Non-controlling interests		(6,145)	(5,778)
Total equity		476,500	456,938

CONDENSED CONSOLIDATED STATEMENT OF FINANCIAL POSITION

	<i>Note</i>	30 June 2021 HK\$'000 (Unaudited)	31 December 2020 HK\$'000 (Audited)
LIABILITIES			
Non-current liabilities			
Lease liabilities		220	440
Deferred tax liabilities		12,108	11,333
Other payables	19	–	475
		12,328	12,248
Current liabilities			
Trade and notes payable	18	193,765	125,966
Other payables and accruals	19	22,065	26,097
Current income tax liabilities		25,947	23,681
Lease liabilities		856	1,699
		242,633	177,443
Total liabilities		254,961	189,691
Total equity and liabilities		731,461	646,629

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

CONDENSED CONSOLIDATED STATEMENT OF CHANGES IN EQUITY

	Attributable to owners of the Company				Non-controlling interests	Total
	Share capital	Other reserves	Retained earnings	Total		
	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000
	<i>(Note 17)</i>					
Six months ended 30 June 2020						
(Unaudited)						
Balance at 1 January 2020	3,471	204,060	180,060	387,591	(4,486)	383,105
Comprehensive income						
— Profit for the period	–	–	45,029	45,029	444	45,473
— Other comprehensive income	–	(8,121)	–	(8,121)	96	(8,025)
Total comprehensive income	–	(8,121)	45,029	36,908	540	37,448
Transactions with owners:						
— Exercise of share options	37	9,445	–	9,482	–	9,482
— Transfer to statutory reserves	–	2,020	(2,020)	–	–	–
— Dividends paid	–	–	(28,057)	(28,057)	–	(28,057)
Balance at 30 June 2020	3,508	207,404	195,012	405,924	(3,946)	401,978
Six months ended 30 June 2021						
(Unaudited)						
Balance at 1 January 2021	3,508	245,651	213,557	462,716	(5,778)	456,938
Comprehensive income						
— Profit for the period	–	–	42,499	42,499	(301)	42,198
— Other comprehensive income	–	5,487	–	5,487	(66)	5,421
Total comprehensive income	–	5,487	42,499	47,986	(367)	47,619
Transactions with owners:						
— Transfer to statutory reserves	–	1,317	(1,317)	–	–	–
— Dividends paid	–	–	(28,057)	(28,057)	–	(28,057)
Balance at 30 June 2021	3,508	252,455	226,682	482,645	(6,145)	476,500

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

CONDENSED CONSOLIDATED STATEMENT OF CASH FLOWS

		Six months ended 30 June	
	<i>Note</i>	2021 HK\$'000 (Unaudited)	2020 HK\$'000 (Unaudited)
Cash flows from operating activities			
Cash generated from operations	20	27,237	31,530
PRC enterprise income tax paid		(7,829)	(7,628)
Net cash generated from operating activities		19,408	23,902
Cash flows from investing activities			
Purchase of property, plant and equipment		(629)	(758)
Disposal of property, plant and equipment		19	–
Purchase of intangible assets		–	(19)
Increase in restricted cash at banks		(10,289)	(5,520)
Loans to third parties		(31,780)	(29,279)
Repayments of loans from third parties		31,780	29,279
Interest received from loans to third parties		6,548	–
Purchase of financial assets at fair value through profit or loss		(92,992)	(34,572)
Net proceed from disposal of financial assets at fair value through profit or loss		107,886	19,951
Interest income from bank deposits		315	373
Interest income from other financial assets		610	1,010
Net cash generated from/(used in) investing activities		11,468	(19,535)

CONDENSED CONSOLIDATED STATEMENT OF CASH FLOWS

	Note	Six months ended 30 June	
		2021 HK\$'000 (Unaudited)	2020 HK\$'000 (Unaudited)
Cash flows from financing activities			
Proceeds from exercise of share options		–	9,482
Payments of lease liabilities		(918)	(937)
Dividends paid		(28,057)	(28,057)
Net cash used in financing activities		(28,975)	(19,512)
Net decrease in cash and cash equivalents			
Cash and cash equivalents at beginning of the period		1,901	(15,145)
Effect of change in exchange rate		103,281	159,942
		1,807	(5,814)
Cash and cash equivalents at end of the period	16	106,989	138,983

The above condensed consolidated statement of cash flows should be read in conjunction with the accompanying notes.

NOTES TO THE CONDENSED CONSOLIDATED INTERIM FINANCIAL INFORMATION

1 GENERAL INFORMATION

Huaxi Holdings Company Limited (the “**Company**”) was incorporated in the Cayman Islands on 29 April 2013 as an exempted company with limited liability under the Companies Law of the Cayman Islands. The address of its registered office is Windward 3, Regatta Office Park, P.O. Box 1350, Grand Cayman, KY1-1108, Cayman Islands.

The Company is an investment holding company. The Company and its subsidiaries (together, the “**Group**”) are principally engaged in (i) manufacture and sales of cigarette packaging materials; and (ii) environmental and ecological restoration 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.

This condensed consolidated interim financial information for the six months ended 30 June 2021 (“**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 27 August 2021.

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 December 2020 and any public announcements made by the Company during the interim reporting period.

This accounting policies applied are consistent with those of the annual financial statements for the year ended 31 December 2020, as described in those annual financial statements, except for the estimation of income tax using the tax rate that would be applicable to expected total annual earnings and the adoption of amendments to HKFRS effective for the financial year ending 31 December 2021.

2 BASIS OF PREPARATION AND ACCOUNTING POLICIES *(continued)*

2.1 New and amended standards adopted by the Group

The Group has applied the following standards and amendments for the first time for its reporting period commencing 1 January 2021:

- Amendment to HKFRS 16, Covid-19 — related rent concessions beyond 30 June 2021
- Amendments to HKFRS 9, HKAS 39, HKFRS 7, HKFRS 4 and HKFRS 16, Interest rate benchmark reform — phase 2

Amendments to HKFRS effective for the financial year beginning on 1 January 2021 do not have a material impact on the Group's financial statements.

2.2 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 2021 and have not been early adopted by the Group:

		Effective for reporting periods beginning on or after
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
Hong Kong Interpretation 5 (2020)	Presentation of Financial Statements — Classification by the Borrower of a Term Loan that Contains a Repayment on Demand Clause	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 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 consolidated financial statements for the year ended 31 December 2020.

4 FINANCIAL RISK MANAGEMENT AND FINANCIAL INSTRUMENTS

4.1 Financial risk factors

The Group's activities expose it to a variety of financial risks: market risk (including foreign exchange risk, interest rate risk, cash flow and fair value interest rate risk and price risk), credit risk and liquidity risk. The Group's overall risk management programme focuses on the unpredictability of financial markets and seeks to minimise potential adverse effects on the Group's financial performance. Risk management is carried out by the financial department under policies approved by the Board.

The Interim Financial Information has not included all financial risk management information and disclosures required in the annual financial statements, and should be read in conjunction with the annual financial statements for the year ended 31 December 2020.

There have been no changes in the risk management policies since period end.

4 FINANCIAL RISK MANAGEMENT AND FINANCIAL INSTRUMENTS

(continued)

4.2 Credit risk

The Group's maximum exposure to credit risk in relation to financial assets is the carrying amounts of cash and cash equivalents, restricted cash at banks, trade receivables, contract assets and other receivables.

(i) Risk management

As at 30 June 2021, substantially all (31 December 2020: same) the Group's bank deposits are deposited with major financial institutions incorporated in the PRC and Hong Kong, which management believes are of high credit quality without significant credit risk (31 December 2020: same).

As at 30 June 2021, approximately 88.5% (31 December 2020: 89.1%) of the Group's trade receivables were due from the five largest customers. In respect of trade receivables and other receivables, periodical credit evaluations are performed taking into account the counterparty's financial position, past experience, future economic environment and other factors.

None of the Group's trade receivables and other receivables has any collateral. However, the Group has policies in place to ensure that sales are made to customers with appropriate credit history and the Group performs periodic credit evaluations of its customers.

4 FINANCIAL RISK MANAGEMENT AND FINANCIAL INSTRUMENTS

(continued)

4.3 Fair value estimation

This section explains the judgements and estimates made in determining the fair values of the financial instruments that are recognised and measured at fair value in the financial statements. To provide an indication about the reliability of the inputs used in determining fair value, the Group has classified its financial instruments into Level 1 prescribed under the accounting standards. An explanation of Level 1 to 3 follows underneath the table.

Level 1
HK\$'000

Financial assets at fair value through profit or loss ("FVPL")

At 30 June 2021 (unaudited)	60,639
At 31 December 2020 (audited)	67,064

Level 1: The fair value of financial instruments traded in active markets (such as publicly traded derivatives, and trading and available-for-sale securities) is based on quoted market prices at the end of the reporting period. The quoted market price used for financial assets held by the Group is the current bid price. These instruments are included in level 1.

Level 2: The fair value of financial instruments that are not traded in an active market (for example, over-the-counter derivatives) is determined using valuation techniques which maximise the use of observable market data and rely as little as possible on entity-specific estimates. If all significant inputs required to fair value an instrument are observable, the instrument is included in level 2.

Level 3: If one or more of the significant inputs is not based on observable market data, the instrument is included in level 3. This is the case for unlisted equity securities.

4 FINANCIAL RISK MANAGEMENT AND FINANCIAL INSTRUMENTS

(continued)

4.3 Fair value estimation *(continued)*

Specific valuation techniques used to value financial instruments include:

- the use of quoted market prices or dealer quotes for similar instruments
- the fair value of interest rate swaps is calculated as the present value of the estimated future cash flows based on observable yield curves
- the fair value of forward foreign exchange contracts is determined using forward exchange rates at the balance sheet date
- the fair value of the remaining financial instruments is determined using discounted cash flow analysis.

For the six months ended 30 June 2021, there were no significant changes in the business or economic circumstances that affect the fair value of the Group's financial assets and financial liabilities.

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

5 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.

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.

NOTES TO THE CONDENSED CONSOLIDATED INTERIM FINANCIAL INFORMATION

5 SEGMENT INFORMATION *(continued)*

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

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

- (a) The segment results and other segment items of the Group for the six months ended 30 June 2021 are as follows:

	Cigarette Packaging Business HK\$'000 (Unaudited)	Environmental Treatment Business HK\$'000 (Unaudited)	Others HK\$'000 (Unaudited)	The Group HK\$'000 (Unaudited)
Revenue	99,414	121,274	3,099	223,787
Segment results	23,698	16,390	3,094	43,182
Other gains arising from financial assets at FVPL				8,469
Operating profit				51,651
Finance income — net				1,092
Profit before income tax				52,743
Income tax expense				(10,545)
Profit for the period				42,198
Other segment item Depreciation and amortisation	2,988	3,876	–	6,864

NOTES TO THE CONDENSED CONSOLIDATED INTERIM FINANCIAL INFORMATION

5 SEGMENT INFORMATION *(continued)*

(a) *(continued)*

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)	Others HK\$'000 (Unaudited)	The Group HK\$'000 (Unaudited)
Revenue	114,818	94,284	–	209,102
Segment results	28,865	23,805	–	52,670
Other gains arising from financial assets at FVPL				313
Operating profit				52,983
Finance income — net				3,362
Profit before income tax				56,345
Income tax expense				(10,872)
Profit for the period				45,473
Other segment item Depreciation and amortisation	2,918	5,061	–	7,979

NOTES TO THE CONDENSED CONSOLIDATED INTERIM FINANCIAL INFORMATION

5 SEGMENT INFORMATION *(continued)*

(b) The segment assets and liabilities at 30 June 2021 are as follows:

	Cigarette Packaging Business HK\$'000 (Unaudited)	Environmental Treatment Business HK\$'000 (Unaudited)	Others HK\$'000 (Unaudited)	Inter- segment elimination HK\$'000 (Unaudited)	The Group HK\$'000 (Unaudited)
Segment assets	465,149	377,921	47,587	(223,863)	666,794
Financial assets at FVPL					60,639
Deferred tax assets					4,028
Total assets					731,461
Segment liabilities	75,650	357,987	7,132	(223,863)	216,906
Current income tax liabilities					25,947
Deferred tax liabilities					12,108
Total liabilities					254,961

NOTES TO THE CONDENSED CONSOLIDATED INTERIM FINANCIAL INFORMATION

5 SEGMENT INFORMATION *(continued)*

(b) *(continued)*

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

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

As at 30 June 2021, majority of the Group's non-current assets were located in the PRC (31 December 2020: same).

NOTES TO THE CONDENSED CONSOLIDATED INTERIM FINANCIAL INFORMATION

6 REVENUE

	Six months ended 30 June	
	2021 HK\$'000 (Unaudited)	2020 HK\$'000 (Unaudited)
At a point in time		
— Sales of cigarette packaging products	99,414	114,818
— Sales of other products	3,099	–
	102,513	114,818
Over time		
Revenue from environmental and ecological restoration contracts		
— Construction services	116,607	90,146
— Maintenance services	4,667	4,138
	121,274	94,284
	223,787	209,102

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

	Six months ended 30 June	
	2021 HK\$'000 (Unaudited)	2020 HK\$'000 (Unaudited)
Customer A	47.6%	Not applicable*
Customer B	26.4%	30.4%
Customer C	14.0%	12.9%
Customer D	Not applicable*	41.1%

* The revenue of each customer is less than 10% of the Group's revenue for the respective period.

Majority of the Group's revenue were derived from customers in the PRC for the period.

6 REVENUE *(continued)*

(a) Assets and liabilities related to contracts with customers

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

	30 June 2021 HK\$'000 (Unaudited)	31 December 2020 HK\$'000 (Audited)
Contract assets relating to construction contracts	182,346	77,129
Loss allowance	(18)	(9)
Total contract assets	182,328	77,120

(i) Significant changes in contract assets

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

(ii) Unsatisfied contracts

The Group's contracts of sales of cigarette packaging products were for periods of one year or less and the Group's construction contracts were billed based on time incurred. As permitted under HKFRS 15, the transaction price allocated to these unsatisfied contracts is not disclosed.

NOTES TO THE CONDENSED CONSOLIDATED INTERIM FINANCIAL INFORMATION

7 EXPENSES BY NATURE

	Six months ended 30 June	
	2021 HK\$'000 (Unaudited)	2020 HK\$'000 (Unaudited)
Cost of inventories sold	52,875	67,739
Raw materials consumed and subcontracting costs for construction contracts	86,939	55,815
Staff costs (including directors' emoluments)	19,680	17,195
Depreciation and amortisation		
— Amortisation of intangible assets (<i>Note 12</i>)	2,248	3,786
— Depreciation of property, plant and equipment (<i>Note 12</i>)	3,671	3,056
— Depreciation of right-of-use assets (<i>Note 12</i>)	945	1,137
Utilities	3,086	2,513
Other taxes and surcharge	1,213	810
Auditor's remuneration	2,497	1,062
Other expenses	7,295	4,006
Total cost of sales, distribution costs and administrative expenses	180,449	157,119

8 OTHER GAINS — NET

	Six months ended 30 June	
	2021 HK\$'000 (Unaudited)	2020 HK\$'000 (Unaudited)
Foreign exchange (losses)/gains	(254)	687
Dividend income from financial assets at FVPL	195	810
Gains on disposal of financial assets at FVPL	9,179	2,144
Unrealised losses on changes in fair value of financial assets at FVPL	(905)	(2,641)
	8,215	1,000

9 INCOME TAX EXPENSE

The Company was incorporated in the Cayman Islands as an exempted company with limited liability under the Companies Law of Cayman Islands and accordingly, is exempted from Cayman Islands income tax. The Company's direct subsidiary in the British Virgin Islands was incorporated under the International Business Companies Act of the British Virgin Islands and, accordingly, is exempted from British Virgin Islands income tax.

The Company's operating subsidiaries incorporated in Hong Kong are subject to income tax at the rate of 16.5% (six months ended 30 June 2020: 16.5%) on the assessable profits arising in Hong Kong during the six months ended 30 June 2021. For the six months ended 30 June 2021, the Group is eligible to nominate one Hong Kong incorporated entity in the Group, which is Huge East Investment Limited, to be taxed under a two tiered profits tax rate system, whereby profits tax will be chargeable on the first HKD2,000,000 of assessable profits at 8.25% and assessable profits above this threshold will be subject to a rate of 16.5% (six months ended 30 June 2020: same). Hong Kong profits tax of the other Hong Kong incorporated group entities has been provided for at a rate of 16.5% on the estimated assessable profits. The profit of the other Hong Kong incorporated group entities is mainly derived from dividend income from subsidiaries and interest income from banks, which is not subject to Hong Kong profits tax.

9 INCOME TAX EXPENSE *(continued)*

Pursuant to the PRC Enterprise Income Tax Law (“**EIT Law**”) and the Implementation Rules of the EIT Law, the EIT rate for domestic enterprises and foreign invested enterprises is 25%, effective from 1 January 2008.

On 1 December 2020, Shantou Xinda Colour Printing & Packaging Material Co. Ltd. (“**Shantou Xinda**”), the Group’s subsidiary in the PRC, successfully renewed the High and New Technology Enterprise Certificate (“**the Certificate**”) which was effective for three years commencing on 1 January 2020. Accordingly, a tax rate of 15% has been applied when considering current income tax for the period and the deferred income tax for the six months ended 30 June 2021 (six months ended 30 June 2020: 15%).

According to the preferential tax policy issued by various government departments, companies engaged in pollution prevention and control can enjoy a preferential income tax rate of 15% from 1 January 2019 to 31 December 2021. Shantou Hongdong Environmental Treatment Company Limited (“**Shantou Hongdong**”), the Group’s subsidiary engaged in the Environmental Treatment Business in the PRC, was permitted to enjoy such preferential tax treatment. Therefore, the applicable income tax rate of this subsidiary was 15% for the six months ended 30 June 2021 (six months ended 30 June 2020: 15%).

According to the EIT Law and Implementation Rules, starting from 1 January 2008, a withholding income tax of 10% will be levied on the intermediate holding companies outside the PRC when their PRC subsidiaries declare dividends out of profits earned after 1 January 2008. A lower 5% withholding income tax rate may be applied when the intermediate holding companies of the PRC subsidiaries are established in Hong Kong and fulfil requirements under the tax treaty agreements between the relevant authorities of the PRC and Hong Kong. Hence, the Group used 5% as its withholding tax rate for certain Hong Kong intermediate holding companies which are expected to fulfill the aforesaid conditions.

9 INCOME TAX EXPENSE (continued)

	Six months ended 30 June	
	2021 HK\$'000 (Unaudited)	2020 HK\$'000 (Unaudited)
Current income tax		
— PRC corporate income tax	8,538	8,872
Deferred income tax		
— PRC corporate income tax	(485)	(510)
— Withholding income tax on profit to be distributed from subsidiaries in the PRC	2,492	2,510
	10,545	10,872

There were no income tax charges relating to components of other comprehensive income existed for the six months ended 30 June 2021 (six months ended 30 June 2020: same).

10 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 June	
	2021 (Unaudited)	2020 (Unaudited)
Profit attributable to owners of the Company (HK\$'000)	42,499	45,029
Weighted average number of ordinary shares in issue	701,430,000	701,126,000
Basic earnings per share	HK6.06 cents	HK6.42 cents

10 EARNINGS PER SHARE *(continued)*

(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.

	Six months ended 30 June	
	2021 (Unaudited)	2020 (Unaudited)
Profit attributable to owners of the Company (HK\$'000)	42,499	45,029
Weighted average number of ordinary shares in issue	701,430,000	701,126,000
Adjustments for share options	–	1,167,000
Weighted average number of ordinary shares for diluted earnings per share	701,430,000	702,293,000
Diluted earnings per share	HK6.06 cents	HK6.41 cents

11 DIVIDENDS

A final dividend of HK4.00 cents per ordinary share for the year ended 31 December 2020, totalling approximately HK\$28,057,000, was paid during the period.

On 27 August 2021, the Board has resolved to declare an interim dividend of HK4.00 cents per share (six months ended 30 June 2020: HK4.00 cents per share), amounting to a total of HK\$28,057,000 (six months ended 30 June 2020: HK\$28,057,000) which is to be paid on 26 November 2021 to the shareholders who are on the register on 11 November 2021.

12 PROPERTY, PLANT AND EQUIPMENT, INTANGIBLE ASSETS AND RIGHT-OF-USE ASSETS

	Property, plant and equipment	Intangible assets	Right- of-use assets
	HK\$'000	HK\$'000	HK\$'000
	(Unaudited)	(Unaudited)	(Unaudited)
At 1 January 2020			
Cost	95,036	18,240	13,030
Accumulated depreciation	(58,855)	(7,767)	(2,901)
Net book amount	36,181	10,473	10,129
Six months ended 30 June 2020			
Opening net book amount	36,181	10,473	10,129
Additions	2,012	19	811
Depreciation	(3,056)	(3,786)	(1,137)
Currency translation differences	(671)	(168)	(146)
Closing net book amount	34,466	6,538	9,657
At 30 June 2020			
Cost	96,377	17,907	13,636
Accumulated depreciation	(61,911)	(11,369)	(3,979)
Net book amount	34,466	6,538	9,657

12 PROPERTY, PLANT AND EQUIPMENT, INTANGIBLE ASSETS AND RIGHT-OF-USE ASSETS *(continued)*

	Property, plant and equipment HK\$'000 (Unaudited)	Intangible assets HK\$'000 (Unaudited)	Right- of-use assets HK\$'000 (Unaudited)
At 1 January 2021			
Cost	111,407	19,435	12,066
Accumulated depreciation	(69,015)	(15,740)	(4,577)
Net book amount	42,392	3,695	7,489
Six months ended 30 June 2021			
Opening net book amount	42,392	3,695	7,489
Additions	629	–	471
Disposals	(19)	–	(516)
Depreciation	(3,671)	(2,248)	(945)
Currency translation differences	495	34	70
Closing net book amount	39,826	1,481	6,569
At 30 June 2021			
Cost	113,313	19,657	11,934
Accumulated depreciation	(73,487)	(18,176)	(5,365)
Net book amount	39,826	1,481	6,569

NOTES TO THE CONDENSED CONSOLIDATED INTERIM FINANCIAL INFORMATION

13 TRADE RECEIVABLES

	30 June 2021 HK\$'000 (Unaudited)	31 December 2020 HK\$'000 (Audited)
Trade receivables (a)	215,385	221,324
Less: allowance for impairment of trade receivables	(286)	(279)
	215,099	221,045

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

	30 June 2021 HK\$'000 (Unaudited)	31 December 2020 HK\$'000 (Audited)
Within 90 days	82,139	168,885
91 days to 180 days	7,535	6,293
181 days to 365 days	110,351	2,881
Over 365 days	15,360	43,265
	215,385	221,324

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

	30 June 2021 HK\$'000 (Unaudited)	31 December 2020 HK\$'000 (Audited)
— Denominated in RMB	215,235	221,174
— Denominated in HK\$	150	150
	215,385	221,324

NOTES TO THE CONDENSED CONSOLIDATED INTERIM FINANCIAL INFORMATION

14 PREPAYMENTS AND OTHER RECEIVABLES

	30 June 2021 HK\$'000 (Unaudited)	31 December 2020 HK\$'000 (Audited)
Prepayments	8,391	23,934
Other receivables	3,599	8,836
Less: allowance for impairment of other receivables	(307)	(412)
	11,683	32,358

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

	30 June 2021 HK\$'000 (Unaudited)	31 December 2020 HK\$'000 (Audited)
Denominated in RMB	3,097	8,450
Denominated in HK\$	502	386
	3,599	8,836

NOTES TO THE CONDENSED CONSOLIDATED INTERIM FINANCIAL INFORMATION

15 FINANCIAL ASSETS AT FVPL

	30 June 2021 HK\$'000 (Unaudited)	31 December 2020 HK\$'000 (Audited)
Listed securities — held for trading		
— Equity securities — denominated in HK\$	30,275	23,218
— Equity securities — denominated in RMB	30,364	43,846
	60,639	67,064

16 CASH AND CASH EQUIVALENTS

Cash and cash equivalents were denominated in the following currencies:

	30 June 2021 HK\$'000 (Unaudited)	31 December 2020 HK\$'000 (Audited)
Denominated in RMB	102,655	90,648
Denominated in HK\$	3,998	12,297
Denominated in US\$	336	336
	106,989	103,281

The Group's cash and bank balances of HK\$102,655,000 (31 December 2020: HK\$90,648,000) denominated in RMB were deposited with banks in the PRC. The conversion of RMB denominated balances into foreign currencies and the remittance of such foreign currencies denominated bank balances and cash out of the PRC are subject to relevant rules and regulations of foreign exchange control promulgated by the PRC government.

NOTES TO THE CONDENSED CONSOLIDATED INTERIM FINANCIAL INFORMATION

17 SHARE CAPITAL

Authorised share capital	Number of ordinary shares	HK\$
At 31 December 2020 and 30 June 2021	4,000,000,000	20,000,000

Ordinary shares, issued and fully paid:	Number of issued shares	Share capital HK\$
At 31 December 2020 and 30 June 2021	701,430,000	3,507,750

18 TRADE AND NOTES PAYABLE

	30 June 2021 HK\$'000 (Unaudited)	31 December 2020 HK\$'000 (Audited)
Trade payables (a)	147,883	90,436
Notes payable — bank acceptance notes	45,882	35,530
	193,765	125,966

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

	30 June 2021 HK\$'000 (Unaudited)	31 December 2020 HK\$'000 (Audited)
Within 90 days	140,492	89,013
91 days to 180 days	4,471	167
Over 180 days	2,920	1,256
	147,883	90,436

(b) The Group's trade and notes payable were denominated in RMB as at 30 June 2021 (31 December 2020: same).

NOTES TO THE CONDENSED CONSOLIDATED INTERIM FINANCIAL INFORMATION

19 OTHER PAYABLES AND ACCRUALS

	30 June 2021 HK\$'000 (Unaudited)	31 December 2020 HK\$'000 (Audited)
Other tax payables	8,738	13,513
Accrual for staff costs and allowances	7,682	8,279
Other payables	5,645	4,780
	22,065	26,572
Less: non-current portion	–	(475)
	22,065	26,097

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

	30 June 2021 HK\$'000 (Unaudited)	31 December 2020 HK\$'000 (Audited)
Denominated in RMB	20,711	25,731
Denominated in HK\$	1,354	841
	22,065	26,572

NOTES TO THE CONDENSED CONSOLIDATED INTERIM FINANCIAL INFORMATION

20 CASH GENERATED FROM OPERATIONS

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

	Six months ended 30 June	
	2021 HK\$'000 (Unaudited)	2020 HK\$'000 (Unaudited)
Profit before income tax	52,743	56,345
Adjustments for:		
— Depreciation and amortisation	6,864	7,979
— Other gains — net	(8,215)	(1,000)
— Finance income — net	(1,092)	(3,362)
— Gain on derecognition of right-of-use assets and lease liabilities	(133)	—
— Net impairment losses on financial and contract assets	(98)	—
Changes in working capital:		
— Inventories	(3,464)	3,037
— Contract assets	(103,737)	(13,758)
— Contract liabilities	—	53
— Trade receivables	8,428	(53,594)
— Prepayments and other receivables	14,689	12,405
— Trade and notes payable	65,976	19,086
— Other payables and accruals	(4,782)	4,279
— Prepaid expenses	58	60
Cash generated from operating activities	27,237	31,530

21 COMMITMENTS

(a) Capital Commitments

As at 30 June 2021 and 31 December 2020, the Group had the following capital commitments:

	30 June 2021 HK\$'000 (Unaudited)	31 December 2020 HK\$'000 (Audited)
Capital expenditure in respect of the addition of property and equipment contracted for but not provided	1,982	435

22 RELATED PARTY TRANSACTIONS

(a) Name and relationship with related parties:

Name	Relationship
Mr. Zheng Andy Yi Sheng	Controlling shareholder
Mr. Zheng Minsheng	Executive director and the deputy general manager of the Group and the younger brother of Mr. Zheng Andy Yi Sheng

(b) Balances with related parties

	30 June 2021 HK\$'000 (Unaudited)	31 December 2020 HK\$'000 (Audited)
Lease liabilities		
— Mr. Zheng Andy Yi Sheng (i)	16	25
Other payables (ii)		
— Mr. Zheng Andy Yi Sheng	250	125
— Mr. Zheng Minsheng	200	100
	450	225
Rental prepayment		
— Mr. Zheng Andy Yi Sheng	428	169

- (i) The Group had entered into certain lease agreements with Mr. Zheng Andy Yi Sheng to lease office buildings located in the PRC. The liabilities were denominated in HK\$ and unsecured.
- (ii) Other payables are directors' fees denominated in HK\$, unsecured, interest-free and repayable on demand.

22 RELATED PARTY TRANSACTIONS *(continued)*

(c) Key management compensations

	Six months ended 30 June	
	2021 HK\$'000 (Unaudited)	2020 HK\$'000 (Unaudited)
Salaries and other employee benefits	2,447	2,329
Contribution to pension plans	69	65
	2,516	2,394

(d) Transaction with related parties

	Six months ended 30 June	
	2021 HK\$'000 (Unaudited)	2020 HK\$'000 (Unaudited)
Interest expenses on lease liabilities — Mr. Zheng Andy Yi Sheng <i>(Note (b)(i))</i>	1	45

23 CONTINGENT LIABILITIES

In July 2021, Shantou Hongdong received a writ of summons endorsed with a statement of claim (the “**Statement of Claim**”) issued by Guangzhou Guosheng Construction Engineering Company Limited (the “**Claimant**”). According to the Statement of Claim, the Claimant sued Shantou Hongdong for the payment of:

- (i) the construction service fee of RMB7,527,000 incurred during prior years under a contract;
- (ii) the default penalty of RMB6,396,000; and
- (iii) the costs of the legal proceedings.

The Board considered that all allegations in the Statement of Claim were unfounded and without merits. Shantou Hongdong had settled the payments of fee in accordance with the terms stated in the contract, and the above mentioned fee was not yet due. After consultation with legal advisers, the Board considered that Shantou Hongdong had good defence to the contingent liability of the default penalty amounting to RMB6,396,000 and the costs of the legal proceedings. The Board was of the view that there would not be any material adverse impact upon the Group’s financial conditions, operations and reputations.