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HUAXI HOLDINGS COMPANY LIMITED

華禧控股有限公司

(Incorporated in the Cayman Islands with limited liability)

(Stock Code: 01689)

ANNOUNCEMENT OF INTERIM RESULTS FOR THE SIX MONTHS ENDED 30 JUNE 2021

The board (the “**Board**”) of directors (the “**Director(s)**”) of Huaxi Holdings Company Limited (the “**Company**”) is pleased to present the unaudited interim condensed consolidated results of the Company and its subsidiaries (collectively known as the “**Group**”) for the six months ended 30 June 2021 (the “**Period**”), together with the comparative figures for the corresponding period in 2020.

	For the six months ended 30 June		Change
	2021 HK\$'000	2020 HK\$'000	
Revenue	223,787	209,102	7.0%
Gross Profit	70,189	75,721	-7.3%
Operating Profit	51,651	52,983	-2.5%
Profit for the period	42,198	45,473	-7.2%
Basic earnings per share	HK6.06 cents	HK6.42 cents	-5.6%
Dividends — Interim	HK4.00 cents	HK4.00 cents	0.0%

CONDENSED CONSOLIDATED STATEMENT OF COMPREHENSIVE INCOME*For the six months ended 30 June 2021*

		Six months ended 30 June	
	<i>Note</i>	2021	2020
		HK\$'000	HK\$'000
		(Unaudited)	(Unaudited)
Revenue	4, 5	223,787	209,102
Cost of sales	6	(153,598)	(133,381)
Gross profit		70,189	75,721
Distribution costs	6	(1,067)	(897)
Administrative expenses	6	(25,784)	(22,841)
Net impairment losses on financial and contract assets		98	–
Other gains — net	7	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	8	(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

		Six months ended 30 June	
		2021	2020
	<i>Note</i>	HK\$'000	HK\$'000
		(Unaudited)	(Unaudited)
Other comprehensive income			
<i>Items that will not be reclassified to profit or loss:</i>			
Currency translation differences		<u>5,421</u>	<u>(8,025)</u>
Other comprehensive income for the period, net of tax		<u>5,421</u>	<u>(8,025)</u>
Total comprehensive income for the period		<u>47,619</u>	<u>37,448</u>
Total comprehensive income attributable to:			
Owners of the Company		47,986	36,908
Non-controlling interests		<u>(367)</u>	<u>540</u>
		<u>47,619</u>	<u>37,448</u>
Earnings per share attributable to owners of the Company (expressed in HK cent per share)			
— Basic earnings per share	9	<u>HK6.06 cents</u>	<u>HK6.42 cents</u>
— Diluted earnings per share	9	<u>HK6.06 cents</u>	<u>HK6.41 cents</u>

CONDENSED CONSOLIDATED STATEMENT OF FINANCIAL POSITIONS

As at 30 June 2021

	<i>Note</i>	30 June 2021 HK\$'000 (Unaudited)	31 December 2020 HK\$'000 (Audited)
ASSETS			
Non-current assets			
Property, plant and equipment		39,826	42,392
Right-of-use assets		6,569	7,489
Intangible assets		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	<i>11</i>	215,099	221,045
Contract assets	<i>5a</i>	182,328	77,120
Prepayments and other receivables		11,683	32,358
Financial assets at fair value through profit or loss		60,639	67,064
Restricted cash at banks		47,074	36,785
Cash and cash equivalents		106,989	103,281
		657,184	567,202
Total assets		731,461	646,629
EQUITY			
Equity attributable to owners of the Company			
Share capital	<i>13</i>	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

		30 June	31 December
		2021	2020
	<i>Note</i>	HK\$'000	HK\$'000
		(Unaudited)	(Audited)
LIABILITIES			
Non-current liabilities			
Lease liabilities		220	440
Deferred tax liabilities		12,108	11,333
Other payables		–	475
		12,328	12,248
Current liabilities			
Trade and notes payable	<i>12</i>	193,765	125,966
Other payables and accruals		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

NOTES TO THE INTERIM FINANCIAL INFORMATION

For the six months ended 30 June 2021

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.

2.1 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:

- Amendments 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 JUDGEMENTS

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. 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.

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

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

The segment results and other segment items of the Group for the six months ended 30 June 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	<u>99,414</u>	<u>121,274</u>	<u>3,099</u>	<u>223,787</u>
Segment results	<u>23,698</u>	<u>16,390</u>	<u>3,094</u>	<u>43,182</u>
Other gains arising from financial assets at FVPL				<u>8,469</u>
Operating profit				<u>51,651</u>
Finance income — net				<u>1,092</u>
Profit before income tax				<u>52,743</u>
Income tax expense				<u>(10,545)</u>
Profit for the period				<u><u>42,198</u></u>
Other segment item				
Depreciation and amortisation	<u>2,988</u>	<u>3,876</u>	<u>–</u>	<u>6,864</u>

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

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

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

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

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

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

5. REVENUE

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

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	2020
	<i>HK\$'000</i>	<i>HK\$'000</i>
	(Unaudited)	(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.

(a) Assets and liabilities related to contracts with customers

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

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

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.

6. EXPENSES BY NATURE

	Six months ended 30 June	
	2021	2020
	HK\$'000	HK\$'000
	(Unaudited)	(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	2,248	3,786
— Depreciation of property, plant and equipment	3,671	3,056
— Depreciation of right-of-use assets	945	1,137
Utilities	3,086	2,513
Other taxes and surcharge	1,213	810
Auditors' remuneration		
— Audit service	2,186	770
— Non-audit service	311	292
Other expenses	7,295	4,006
	<u>180,449</u>	<u>157,119</u>

7. OTHER GAINS — NET

	Six months ended 30 June	
	2021	2020
	HK\$'000	HK\$'000
	(Unaudited)	(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)
	<u>8,215</u>	<u>1,000</u>

8. INCOME TAX EXPENSE

	Six months ended 30 June	
	2021	2020
	HK\$'000	HK\$'000
	(Unaudited)	(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
	<u>10,545</u>	<u>10,872</u>

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).

9. EARNINGS PER SHARE

(a) Basic

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

	Six months ended 30 June	
	2021	2020
	(Unaudited)	(Unaudited)
Profit attributable to owners of the Company (<i>HK\$'000</i>)	<u>42,499</u>	<u>45,029</u>
Weighted average numbers of ordinary shares in issue	<u>701,430,000</u>	<u>701,126,000</u>
Basic earnings per share	<u>HK6.06 cents</u>	<u>HK6.42 cents</u>

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

10. DIVIDENDS

A final dividend of HK4.00 cents per ordinary share in respect of 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 payable on 26 November 2021 to the shareholders who are on the register on 11 November 2021.

11. 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	<u>(286)</u>	<u>(279)</u>
	<u>215,099</u>	<u>221,045</u>

(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	<u>15,360</u>	<u>43,265</u>
	<u>215,385</u>	<u>221,324</u>

(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\$	<u>150</u>	<u>150</u>
	<u>215,385</u>	<u>221,324</u>

12. 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	<u>45,882</u>	<u>35,530</u>
	<u>193,765</u>	<u>125,966</u>

(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
	<u>147,883</u>	<u>90,436</u>

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

13. SHARE CAPITAL

Authorised share capital	Number of ordinary shares	<i>HK\$</i>
At 31 December 2020 and 30 June 2021	<u>4,000,000,000</u>	<u>20,000,000</u>
	Number of issued shares	Share capital <i>HK\$</i>
At 31 December 2020 and 30 June 2021	<u>701,430,000</u>	<u>3,507,750</u>

14. CONTINGENT LIABILITIES

In July 2021, the Group 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 the Group for the payments 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. The Group 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 the Group 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.

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 HK\$5.53 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.

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).

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

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.

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 (Note 1)		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 (Note 2)		6,273		8,132
		<u>60,639</u>		<u>67,064</u>

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.

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*

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.

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 announcement, the Company has maintained the prescribed public float of not less than 25% of the Company's issued shares as required under the Listing Rules during the period under review.

RISK MANAGEMENT

The Group has established and maintained sufficient risk management procedures to identify and control various types of 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.

COMPLIANCE WITH THE CORPORATE GOVERNANCE CODE

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

The Company periodically reviews its corporate governance practices to ensure its continuous compliance with the CG Code. In the opinion of the Directors, the Company was in compliance with the applicable code provisions of the CG Code for the six months ended 30 June 2021 and, where appropriate, the applicable recommended best practices of the CG Code, save and except for the following deviations:

Code Provision A.2.1

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

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

Code Provision A.6.7

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

Code Provision C.1.2

Under Code Provision C.1.2, management should provide all members of the board with monthly updates giving a balanced and understandable assessment of the Company's performance, position and prospects in sufficient detail to enable the board as a whole and each director to discharge their duties under Rule 3.08 and Chapter 13. During the Reporting Period, management did not provide the board with monthly updates required under Code Provision C.1.2 of the CG Code. As all the executive Directors were involved in the daily operation of the Group and were fully aware of the performance, position and prospects of the Company. The 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 six months ended 30 June 2021.

DIRECTORS' INTERESTS IN COMPETING BUSINESSES

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.

REVIEW OF FINANCIAL STATEMENTS BY THE AUDIT COMMITTEE

The Audit Committee comprises three members, namely Mr. Lau Kwok Hung (Chairman), Mr. Fok Po Tin and Mr. Cai Xiaowen, had reviewed the unaudited condensed consolidated financial statements of the Group for the six months ended 30 June 2021. During the period, one regular meeting of the Audit Committee has been held.

PUBLICATION OF THE INTERIM RESULTS AND INTERIM REPORT

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

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

Hong Kong, 27 August 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.