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## **HUAXI HOLDINGS COMPANY LIMITED**

**華禧控股有限公司**

*(Incorporated in the Cayman Islands with limited liability)*

**(Stock Code: 01689)**

### **ANNOUNCEMENT OF FINAL RESULTS FOR THE YEAR ENDED 31 DECEMBER 2021**

#### **FINANCIAL HIGHLIGHTS**

	<b>For the year ended 31 December 2021 HK\$ '000</b>	<b>For the year ended 31 December 2020 HK\$ '000</b>	<b>Change %</b>
Revenue	<b>404,559</b>	373,394	8
Gross Profit	<b>115,699</b>	151,644	-24
Operating Profit	<b>46,045</b>	112,916	-59
Profit attributable to owners of the Company	<b>36,996</b>	94,275	-61
Basic earnings per share	<b>HK5.27 cents</b>	HK13.44 cents	-61

The Board does not recommend the payment of final dividend for the year ended 31 December 2021 (FY2020: a final dividend of HK4.00 cents).

The board of directors (the “**Board**”) of Huaxi Holdings Company Limited (the “**Company**”) is pleased to announce the audited consolidated financial results of the Company and its subsidiaries (together, the “**Group**”) for the year ended 31 December 2021, together with the comparative figures for the year ended 31 December 2020.

## CONSOLIDATED STATEMENT OF COMPREHENSIVE INCOME

*For the year ended 31 December 2021*

		Year ended 31 December 2021 HK\$'000	Year ended 31 December 2020 HK\$'000
	Note		
Revenue	3	404,559	373,394
Cost of sales	4	(288,860)	(221,750)
<b>Gross profit</b>		<b>115,699</b>	151,644
Distribution costs	4	(707)	(380)
Administrative expenses	4	(49,935)	(42,891)
Net impairment losses on financial and contract assets		(8,418)	(191)
Other (losses)/gains — net		(10,594)	4,734
<b>Operating profit</b>		<b>46,045</b>	112,916
Finance income — net	5	1,618	3,843
<b>Profit before income tax</b>		<b>47,663</b>	116,759
Income tax expense	6	(11,188)	(23,477)
<b>Profit for the year</b>		<b>36,475</b>	93,282
<b>Profit attributable to:</b>			
Owners of the Company		36,996	94,275
Non-controlling interests		(521)	(993)
		<b>36,475</b>	93,282
<b>Other comprehensive income</b>			
<i>Item that will not be reclassified to profit or loss:</i>			
Currency translation difference on translation to presentation currency		13,518	27,183
<b>Other comprehensive income for the year, net of tax</b>		<b>13,518</b>	27,183
<b>Total comprehensive income for the year</b>		<b>49,993</b>	120,465

		<b>Year ended 31 December 2021 HK\$'000</b>	<b>Year ended 31 December 2020 HK\$'000</b>
	<i>Note</i>		
<b>Total comprehensive income attributable to:</b>			
Owners of the Company		<b>50,734</b>	121,757
Non-controlling interests		<b>(741)</b>	(1,292)
		<u><b>49,993</b></u>	<u>120,465</u>
 <b>Earnings per share attributable to owners of the Company for the year (expressed in HK cent per share)</b>			
— Basic earnings per share	7	<u><b>HK5.27 cents</b></u>	<u>HK13.44 cents</u>
— Diluted earnings per share	7	<u><b>HK5.27 cents</b></u>	<u>HK13.43 cents</u>

# **CONSOLIDATED STATEMENT OF FINANCIAL POSITION**

*As at 31 December 2021*

		<b>31 December 2021</b>	31 December 2020
	<i>Note</i>	<b>HK\$'000</b>	<i>HK\$'000</i>
<b>ASSETS</b>			
<b>Non-current assets</b>			
Property, plant and equipment		<b>38,501</b>	42,392
Right-of-use assets		<b>9,820</b>	7,489
Intangible assets		<b>116</b>	3,695
Deferred tax assets		<b>7,563</b>	3,670
Prepaid expenses		<b>–</b>	158
Prepayments for non-current assets		<b>978</b>	22,023
		<b>56,978</b>	79,427
<b>Current assets</b>			
Inventories		<b>39,360</b>	29,549
Contract assets		<b>38,214</b>	77,120
Trade receivables	9	<b>391,054</b>	221,045
Prepayments and other receivables	10	<b>24,475</b>	32,358
Financial assets at fair value through profit or loss		<b>67,758</b>	67,064
Restricted cash at banks		<b>44,539</b>	36,785
Cash and cash equivalents		<b>70,599</b>	103,281
		<b>675,999</b>	567,202
<b>Total assets</b>		<b>732,977</b>	646,629
<b>EQUITY</b>			
<b>Equity attributable to owners of the Company</b>			
Share capital	12	<b>3,508</b>	3,508
Other reserves		<b>260,415</b>	245,651
Retained earnings		<b>193,413</b>	213,557
		<b>457,336</b>	462,716
<b>Non-controlling interests</b>		<b>(6,519)</b>	(5,778)
<b>Total equity</b>		<b>450,817</b>	456,938

		<b>31 December 2021</b>	31 December 2020
	<i>Note</i>	<b>HK\$'000</b>	<b>HK\$'000</b>
<b>LIABILITIES</b>			
<b>Non-current liabilities</b>			
Lease liabilities		<b>1,879</b>	440
Deferred tax liabilities		<b>10,170</b>	11,333
Others payables		<b>–</b>	475
		<b>12,049</b>	12,248
<b>Current liabilities</b>			
Trade and notes payable	<i>11</i>	<b>204,606</b>	125,966
Lease liabilities		<b>2,253</b>	1,699
Other payables and accruals		<b>38,584</b>	26,097
Current income tax liabilities		<b>24,668</b>	23,681
		<b>270,111</b>	177,443
<b>Total liabilities</b>		<b>282,160</b>	189,691
<b>Total equity and liabilities</b>		<b>732,977</b>	646,629

# NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

*For the year ended 31 December 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) manufacturing and sales of cigarette packaging materials; and (ii) environmental treatment business in the People’s Republic of China (the “**PRC**”).

The ultimate parent company of the Company is SXD limited, which was incorporated in British Virgin Islands.

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

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

These consolidated financial statements have been approved for issue by the board of directors (the “**Board**”) of the Company on 30 March 2022.

## 2 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

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

### 2.1 Basis of preparation

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

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

- (b) *Historical cost convention*

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

(c) *New and amended standards adopted by the Group for the year ended 31 December 2021*

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

- Amendments to HKFRS 9, HKAS 39, HKFRS 7, HKFRS 4 and HKFRS 16 “Interest Rate Benchmark Reform — Phase 2”
- Amendments to HKFRS 16 “Covid-19-Related Rent Concessions”

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

(d) *New standards, amendments to standards and interpretations not yet adopted*

Certain new accounting standards and interpretations have been published that are not mandatory for 31 December 2021 reporting period and have not been early adopted by the Group. These standards are not expected to have a material impact on the Group in the current or future reporting periods and on foreseeable future transactions.

		Effective for reporting periods beginning on or after
Amendments to HKFRS 3, HKAS 16, and HKAS 37	Narrow-scope amendments	1 January 2022
Annual Improvements	Annual Improvements to HKFRS Standards 2018–2020	1 January 2022
Revised Accounting Guideline 5	Merger Accounting for Common Control Combinations	1 January 2022
Amendments to HKFRS 4	Intention of the Temporary Exception from Applying HKFRS 9	1 January 2023
HKFRS 17	Insurance Contracts	1 January 2023
Amendments to HKAS 1	Classification of Liabilities as Current or Non-current	1 January 2023
Amendments to HKAS 1 and HKFRS Practice Statement 2	Disclosure of Accounting Policies	1 January 2023
Amendments to HKAS 8	Definition of Accounting Estimates	1 January 2023
Amendments to HKAS 12	Deferred Tax related to Assets and Liabilities arising from a Single Transaction	1 January 2023
Amendments to HKFRS 17	Amendments to HKFRS 17	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

\* Applied when an entity applies “Classification of Liabilities as Current or Non-current — Amendments to HKAS 1”.

### 3 REVENUE AND SEGMENT INFORMATION

Management has determined the operating segments based on the reports reviewed by the chief operating decision-maker (“**CODM**”). The CODM, who is responsible for allocating resources and assessing performance of the operating segments, has been identified as the executive directors of the Company.

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

The CODM assesses the performance of the operating segments based on 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.

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

The segment results and other segment items of the Group for the year ended 31 December 2021 were as follows:

	<b>Cigarette Packaging Business HK\$’000</b>	<b>Environmental Treatment Business HK\$’000</b>	<b>Others HK\$’000</b>	<b>The Group HK\$’000</b>
Revenue	<u>183,925</u>	<u>215,333</u>	<u>5,301</u>	<u>404,559</u>
Segment results	<u>25,326</u>	<u>25,463</u>	<u>5,202</u>	<u>55,991</u>
Other losses arising from financial assets at FVPL				<u>(9,946)</u>
Operating profit				<u>46,045</u>
Finance income — net				<u>1,618</u>
Profit before income tax				<u>47,663</u>
Income tax expense				<u>(11,188)</u>
Profit for the year				<u><u>36,475</u></u>
Other segment items				
Depreciation and amortisation	<u>5,951</u>	<u>7,061</u>	<u>—</u>	<u>13,012</u>



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

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

The segment assets and liabilities at 31 December 2021 were as follows:

	Cigarette Packaging Business <i>HK\$'000</i>	Environmental Treatment Business <i>HK\$'000</i>	Others <i>HK\$'000</i>	Inter-segment elimination <i>HK\$'000</i>	The Group <i>HK\$'000</i>
Segment assets	<u>416,226</u>	<u>375,166</u>	<u>57,604</u>	<u>(191,340)</u>	<u>657,656</u>
Financial assets at FVPL					67,758
Deferred tax assets					<u>7,563</u>
Total assets					<u>732,977</u>
Segment liabilities	<u>92,820</u>	<u>345,842</u>	<u>—</u>	<u>(191,340)</u>	<u>247,322</u>
Current income tax liabilities					24,668
Deferred tax liabilities					<u>10,170</u>
Total liabilities					<u>282,160</u>
Capital expenditures	<u>3,792</u>	<u>2,448</u>	<u>—</u>	<u>—</u>	<u>6,240</u>

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

	Cigarette Packaging Business <i>HK\$'000</i>	Environmental Treatment Business <i>HK\$'000</i>	Others <i>HK\$'000</i>	Inter-segment elimination <i>HK\$'000</i>	The Group <i>HK\$'000</i>
Segment assets	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
Capital expenditures	1,240	9,150	–	–	10,390

## Revenue

Analysis of revenue is as follows:

	Year ended 31 December 2021 <i>HK\$'000</i>	Year ended 31 December 2020 <i>HK\$'000</i>
At a point in time		
— Sales of cigarette packaging products	183,925	197,066
— Agency services	5,301	3,744
— Revenue from design and consulting services	1,655	–
	190,881	200,810
Over time		
Revenue from construction and maintenance contracts		
— Construction services	201,495	164,199
— Maintenance services	12,183	8,385
	213,678	172,584
	404,559	373,394

#### 4 EXPENSES BY NATURE

	Year ended 31 December 2021 HK\$'000	Year ended 31 December 2020 HK\$'000
Raw materials consumed and subcontracting costs for construction contracts	167,947	92,474
Cost of inventories sold	89,952	100,695
Staff costs (including directors' emoluments)	42,379	35,753
Depreciation and amortisation		
— Depreciation of property, plant and equipment	7,863	6,627
— Depreciation of right-of-use assets	2,242	2,055
— Amortisation of intangible assets	2,907	7,074
Utilities	5,874	5,576
Professional services expenses	3,277	830
Auditor's remuneration		
— Audit services	2,782	1,564
— Non-audit services	313	292
Other taxes and surcharge	2,825	2,424
Expenses relating to operating leases not recognised as liabilities	1,032	585
Delivery costs	1,635	1,460
Gain on modification of patent	(1,204)	—
Other expenses	9,678	7,612
	<u>339,502</u>	<u>265,021</u>
Total cost of sales, distribution costs and administrative expenses	<u>339,502</u>	<u>265,021</u>

#### 5. FINANCE INCOME — NET

	Year ended 31 December 2021 HK\$'000	Year ended 31 December 2020 HK\$'000
Finance Income		
Interest income from bank deposits	723	790
Interest income from other financial assets (a)	1,014	1,540
Interest income from loans to third parties	—	1,665
	<u>1,737</u>	<u>3,995</u>
Finance costs — Interest expenses on lease liabilities	<u>(119)</u>	<u>(152)</u>
	<u>1,618</u>	<u>3,843</u>

- (a) Other financial assets comprised certain non-derivative wealth management products with fixed or determinable payment terms of less than 180 days from a financial institution. As at 31 December 2021, all these financial assets were matured (31 December 2020 same).

## 6. INCOME TAX EXPENSE

	Year ended 31 December 2021 HK\$'000	Year ended 31 December 2020 HK\$'000
Current income tax		
— PRC corporate income tax	12,879	18,893
Deferred income tax		
— PRC corporate income tax	(3,744)	(728)
— Withholding income tax on profit to be distributed from subsidiaries in the PRC	2,053	5,312
	<u>11,188</u>	<u>23,477</u>

There were no income tax charges relating to components of other comprehensive income for the year ended 31 December 2021 (2020: same).

## 7. EARNINGS PER SHARE

### (a) Basic

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

	Year ended 31 December 2021	Year ended 31 December 2020
Profit attributable to owners of the Company (HK\$'000)	<u>36,996</u>	<u>94,275</u>
Weighted average numbers of ordinary shares in issue	<u>701,430,000</u>	<u>701,279,000</u>
Basic earnings per share	<u>HK5.27 cents</u>	<u>HK13.44 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.

	<b>Year ended 31 December 2021</b>	Year ended 31 December 2020
Profit attributable to owners of the Company ( <i>HK\$'000</i> )	<b>36,996</b>	94,275
Weighted average numbers of ordinary shares in issue	<b>701,430,000</b>	701,279,000
Adjustments for share options	<b>–</b>	524,000
Weighted average number of ordinary shares for diluted earnings per share	<b>701,430,000</b>	701,803,000
Diluted earnings per share	<b>HK5.27 cents</b>	HK13.43 cents

**8. DIVIDENDS**

	<b>Year ended 31 December 2021 <i>HK\$'000</i></b>	Year ended 31 December 2020 <i>HK\$'000</i>
Interim dividends (a)	<b>28,057</b>	28,057
Proposed final dividends (b)	<b>–</b>	28,057
	<b>28,057</b>	56,114

**(a) Interim dividends**

An interim dividend of HK4.00 cents (2020: HK4.00 cents) per ordinary share, totalling approximately HK\$28,057,000 (2020: HK\$28,057,000) was declared during the year ended 31 December 2021.

**(b) Final dividends**

No final dividend in respect of the year ended 31 December 2021 (2020: HK4.00 cents per ordinary share, totalling approximately HK\$28,057,000), was proposed by the Board on 30 March 2022. Such final dividends are subject to approval by the shareholders at the upcoming annual general meeting. The accompanying financial statements have not reflected the declaration of such dividends.

## 9. TRADE RECEIVABLES

	<b>31 December 2021 HK\$'000</b>	31 December 2020 HK\$'000
Trade receivables	<b>399,449</b>	221,324
Less: allowance for impairment of trade receivables	<b>(8,395)</b>	(279)
Trade receivables — net	<b>391,054</b>	221,045

(a) Ageing analysis of trade receivables based on date of billing at respective dates was as follows:

	<b>31 December 2021 HK\$'000</b>	31 December 2020 HK\$'000
Less than 90 days	<b>258,009</b>	168,885
91 days to 180 days	<b>25,978</b>	6,293
181 days to 365 days	<b>16,784</b>	2,881
Over 365 days	<b>98,678</b>	43,265
	<b>399,449</b>	221,324

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

	<b>31 December 2021 HK\$'000</b>	31 December 2020 HK\$'000
— Denominated in RMB	<b>399,449</b>	221,174
— Denominated in HK\$	<b>—</b>	150
	<b>399,449</b>	221,324

(c) As at 31 December 2021, the Group's maximum exposure to credit risk was the carrying value of trade receivables mentioned above. The Group did not hold any collateral as security (31 December 2020: same).

## 10. PREPAYMENTS AND OTHER RECEIVABLES

	31 December 2021 HK\$'000	31 December 2020 HK\$'000
Other receivables (a)	23,578	8,836
Prepayments	1,421	23,934
Less: allowance for impairment of other receivables	(524)	(412)
	<u>24,475</u>	<u>32,358</u>

- (a) As at 31 December 2021, other receivables mainly included expected refund of RMB16,370,000 (amounting to HK\$20,022,000) from a third party for certain cancelled purchases of properties, which has been subsequently received (31 December 2020: mainly included loans to third parties which were unsecured, interest bearing and receivable on demand).

## 11. TRADE AND NOTES PAYABLE

	31 December 2021 HK\$'000	31 December 2020 HK\$'000
Trade payables (a)	161,311	90,436
Notes payable — bank acceptance notes	43,295	35,530
	<u>204,606</u>	<u>125,966</u>

- (a) The ageing analysis of trade payables based on date of billing at respective dates of the Group was as follows:

	31 December 2021 HK\$'000	31 December 2020 HK\$'000
Within 90 days	145,996	89,013
91–180 days	5,594	167
Over 180 days	9,721	1,256
	<u>161,311</u>	<u>90,436</u>

- (b) The Group's trade payable were denominated in RMB at 31 December 2021 (31 December 2020: same).
- (c) The fair value of trade and notes payable approximated their carrying amounts at 31 December 2021 (31 December 2020: same).

## 12. SHARE CAPITAL

Authorised share capital	Number of ordinary shares	HK\$
As at 1 January 2020, 31 December 2020 and 31 December 2021	<u>4,000,000,000</u>	<u>20,000,000</u>

Ordinary shares, issued and fully paid	Number of Issued shares	Share capital HK\$
At 1 January 2020	694,080,000	3,741,000
Exercise of share options ( <i>Note a</i> )	<u>7,350,000</u>	<u>36,750</u>
At 31 December 2020 and 31 December 2021	<u>701,430,000</u>	<u>3,507,750</u>

*Note (a):* On 15 January 2015, the Company granted share options to certain directors, employees and consultants of the Group under a share option scheme (the “**Share Option Scheme**”). Pursuant to the exercise of share options in January 2020, the Company issued 7,350,000 new shares, at the price of HK\$1.29 per share, resulting in HK\$36,750 and HK\$9,444,750 being credited to share capital and share premium account respectively.



## MANAGEMENT DISCUSSION AND ANALYSIS

### BUSINESS AND OPERATIONS REVIEW

In 2021, the economic prospects in the PRC remained uncertain as the COVID-19 pandemic has not been put under control. The PRC government implemented certain policies to recover and grow. China's economy recovered steadily and achieved a year-on-year GDP growth of 8.1%. In 2021, China's tobacco industry generated about 118.2 billion yuan in profit, slightly higher than in 2020.

The principal activities of the Group were manufacturing and sales of cigarette packaging materials (the “**Cigarette Packaging Business**”) and environmental treatment business (the “**Environmental Treatment Business**”) in the People's Republic of China (the “**PRC**”). For the year ended 31 December 2021 (the “**Reporting Period**” or “**FY2021**”), the total revenue of the Group was approximately HK\$404.56 million, representing an increase of approximately HK\$31.17 million or 8% as compared with HK\$373.39 million for the year ended 31 December 2020 (the “**FY2020**”). Revenue from the Cigarette Packaging Business was approximately HK\$183.93 million (FY2020: HK\$197.07 million) and the Environmental Treatment Business was approximately HK\$215.33 million (FY2020: HK\$172.58 million) contributing approximately 45% (FY2020: 53%) and 53% (FY2020: 46%) respectively to the Group's revenue, and the rest was income from net of trading on film papers, carton boxes and other packaging materials.

#### **Cigarette Packaging Business**

During the Reporting Period, fall of sales volume and increase of raw material price brought the adverse financial impact on the overall revenue and profitability of the Cigarette Packaging Business. The revenue from the Cigarette Packaging Business was approximately HK\$ 183.93 million, representing a decrease of HK\$13.14 million or 7% as compared with approximately HK\$197.07 million in FY2020.

The following tables sets forth the breakdown of the Group's revenue from sales of cigarette packaging materials in the Reporting Period and FY2020:

	Year ended 31 December 2021		Year ended 31 December 2020	
	HK\$ '000	%	HK\$ '000	%
Inner Frame paper	87,611	47.7	102,821	52.2
Tipping paper	57,631	31.3	63,387	32.2
Cigarette box frame paper	32,005	17.4	24,976	12.7
Cigarette trademark label	6,138	3.3	5,205	2.6
Cigarette paper box	489	0.3	642	0.3
Others	51	0.0	35	0.0
Total	<u>183,925</u>	<u>100.0</u>	<u>197,066</u>	<u>100.0</u>

## ENVIRONMENTAL TREATMENT BUSINESS

Environmental Treatment Business provides full range services, from technical design solutions to plan execution and construction, on water quality restoration and livable city development. The projects, which commenced in 2021, were mainly municipal construction projects of drainage pipe network in Huizhou. During the Reporting Period, the Environmental Treatment Business recorded a revenue of approximately HK\$215.33 million, an increase of approximately HK\$42.75 million over the corresponding period in 2020.

### Gross Profit and Gross Profit Margin

During the Reporting Period, the overall gross profit of the Group was approximately HK\$115.70 million (FY2020: HK\$151.64 million) which comprised approximately HK\$73.86 million (FY2020: HK\$77.24 million) from the Cigarette Packaging Business, HK\$36.54 million (FY2020: HK\$70.66 million) from the Environmental Treatment Business and HK\$5.30 million (FY2020: HK\$3.74 million) from other business.

During the Reporting Period, the overall gross profit margin was 29% which was decreased by 12% as compared with 41% in FY2020. The gross margin of the Cigarette Packaging Business was approximately 40%, which was stable. The gross profit margin for the Environment Treatment Business was approximately 17%, representing a decrease of 24% as compared with 41% in FY2020. The gross profit margin of the drainage pipe network construction projects executed during the Reporting Period is lower than that of technical restoration services projects in FY2020.

## **Distribution expenses**

The distribution costs of the Group in the Reporting Period was amounted to approximately HK\$0.71 million, represented an increase of approximately 87% as compared with approximately HK\$0.38 million in FY2020. The increase was mainly due to increased travelling and business entertainment expenses incurred in the Reporting Period.

## **Administrative Expenses**

The Group's administrative expenses for the Reporting Period was approximately HK\$49.94 million (FY2020: HK\$42.89 million), represented an increase of approximately HK\$7.05 million. The increase of administrative expenses was mainly resulted from increased in staffs costs during the Reporting Period.

## **Net impairment losses on financial and contract assets**

During the Reporting Period, net impairment losses on financial and contract assets was approximately HK\$8.42 million, representing an increase of approximately HK\$8.22 million as compared to HK\$0.20 million for FY2020, which was mainly a result of higher credit risk for specific customers in agency services and also in line with the increase in total of contract assets and trade receivables.

## **Other (Losses)/Gains — Net**

During the Reporting Period, the total other losses — net of the Group were approximately HK\$10.59 million (FY2020: a total other gains of HK\$4.73 million) which was resulted from the unfavourable condition of the securities market. The Group recorded a gain of approximately HK\$1.78 million from dividend income (FY2020: a gain of HK\$1.13 million) and a loss of approximately of HK\$11.73 million on disposal and unrealised losses on changes in fair value of financial assets at fair value through profit or loss (FY2020: a gain of HK\$6.17 million). The Group recorded a loss of approximately HK\$0.65 million from foreign exchanges (FY2020: a loss of HK\$2.56 million) which were resulted from the fluctuation of Renminbi against Hong Kong dollars.

## **Finance Income — Net**

During the Reporting Period, the finance income primarily consisted of interest income on certain non-derivative wealth management products and bank deposits. Net financial income was approximately HK\$1.62 million (FY2020: HK\$3.84 million).

## **Taxation**

During the Reporting Period, income tax expense was approximately HK\$11.19 million, representing a decrease of approximately HK\$12.29 million as compared to HK\$23.48 million for FY2020 in line with decrease in profit. The Group's indirect wholly owned subsidiary, Shantou Xinda Colour Printing & Packaging Material Company Limited was granted a preferential tax rate at 15%.

## **Profit attributable to owners of the Company**

During the Reporting Period, the Profit attributable to owners of the Company was approximately HK\$37.00 million, representing a decrease of approximately HK\$57.28 million or approximately 61%, as compared with approximately HK\$94.28 million in FY2020. The decrease was mainly attributable to the decrease in gross profit from the Environmental Treatment Business of the Group.

## **Dividends**

The Board does not recommend the payment of final dividend for the year ended 31 December 2021 (FY2020: a final dividend of HK4.00 cents per ordinary share). During the Reporting Period, an interim dividend of HK4.00 cents per share was declared and paid for the six months ended 30 June 2021 (FY2020: an interim dividend of HK4.00 cents per ordinary share).

## **Financial assets at FVPL**

The Group adopted a prudent attitude in its securities investments. The management takes into account of risk exposure in comparison with the Group's risk tolerance level at the prevailing time and the potential for return on investment in terms of capital appreciation and dividend payment when determining whether to take up an investment opportunity for the cash held by the Group. The fair value of the listed securities are determined with reference to the quoted market prices available on the relevant stock exchanges. In the Reporting Period, the total loss of the Group from the listed securities was approximately HK\$9.95 million (FY2020: a gain of HK\$7.30 million) due to the adverse trend of the Hong Kong securities market. including the unrealised loss on changes in fair value of HK\$11.73 million (FY2020: a gain of HK\$6.17 million). The management invests in these shares expecting the price will be stable and gradually increase in line with the upward trend of the global financial market.

As at 31 December for the respective year, the Group held the following financial assets at FVPL:

	<b>31 December 2021</b>		
	<b>Number of shares</b>	<b>HK\$'000</b>	<b>31 December 2020 HK\$'000</b>
Equity securities listed in Hong Kong:			
Sunac China (1918)	400,000	<b>4,712</b>	–
BABA-SW (9988)	30,000	<b>3,567</b>	6,978
Tencent (0700)	5,000	<b>2,217</b>	–
Other equity securities ( <i>Note 1</i> )	1,466,000	<b>5,764</b>	16,240
Equity securities listed in the PRC			
Guangdong Liantai (聯泰環保 603797)	1,260,972	<b>10,765</b>	15,966
Guangdong Tonze Electric (天際股份 002759)	730,000	<b>26,161</b>	19,748
Other equity securities ( <i>Note 2</i> )	755,499	<b>14,572</b>	8,132
Total		<b>67,758</b>	67,064

*Note:*

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

### **Capital structure, liquidity and financial resources**

At 31 December 2021, the Group had net assets of HK\$450.82 million (FY2020: HK\$456.94 million); a working capital surplus of HK\$405.89 million (FY2020: surplus HK\$389.76 million).

As at 31 December 2021, the Group's total cash and restricted cash balances amounted to approximately HK\$115.14 million (31 December 2020: HK\$140.07 million) including restricted cash of HK\$44.54 million (31 December 2020: HK\$36.79 million) and cash and cash equivalent HK\$70.60 million (31 December 2020: HK\$103.28 million).

The following table sets forth the cash flows for FY2021 and FY2020:

	<b>FY2021</b> <b>HK\$'000</b>	<b>FY2020</b> <b>HK\$'000</b>
Net cash generated from/(used in) operating activities	<b>38,836</b>	(6,860)
Net cash used in investing activities	<b>(16,825)</b>	(23,662)
Net cash used in financing activities	<b>(58,353)</b>	(48,354)
Net decrease in cash and cash equivalents	<b>(36,342)</b>	(78,876)
Cash and cash equivalents at beginning of year	<b>103,281</b>	159,942
Effect change in exchange rate	<b>3,660</b>	22,215
	<b>70,599</b>	103,281

### **Borrowings and gearing ratio**

The Group did not have any borrowings as at 31 December 2021 and 31 December 2020 and thus no gearing was presented.

### **Exposure to fluctuation in exchange rate**

The Group's transactions for our principal subsidiaries in the PRC were mainly conducted in Renminbi ("RMB"), the functional currency of the subsidiaries, 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 restricted cash balances, financial assets at FVPL, trade receivables, other receivables and other payables and accruals denominated in HK\$ and US dollar. Presently, the Group has no hedging policy with respect to the foreign exchange exposure.

### **Capital expenditure**

During the Reporting Period, the Group's total capital expenditure amounted to approximately HK\$6.24 million (FY2020: HK\$10.39 million), which was used in the acquisition of property, plant and equipment, intangible assets and prepayments for non-current assets and right-of-use assets.

### **Charge on assets**

As at 31 December 2021, the Group placed cash deposits of approximately HK\$44.54 million with designated banks as collateral for Group's notes payable (31 December 2020: HK\$36.79 million) which were all denominated in RMB.

## **Contingent liabilities**

The Group had no contingent liabilities as at 31 December 2021 (31 December 2020: Nil).

## **Capital commitments**

As at 31 December 2021, the Group had capital commitments for the amount of approximately HK\$1.34 million (31 December 2020: HK\$0.44 million) for acquisition of property and equipment.

## **HUMAN RESOURCES**

As at 31 December 2021, the Group employed a total of 329 (31 December 2020: 348) permanent employees in the PRC and Hong Kong. Total employee remuneration (including directors' emoluments and benefits) in the Reporting Period amounted to HK\$42.38 million (FY2020: HK\$35.73 million). The Group provided its employees with competitive remuneration packages which were determined by their performance, qualification, experience and continued to review with reference to the level and composition of pay and general market condition. In addition to basic salary, employees are entitled to other benefits including social insurance contributions, employee provident fund schemes and discretionary incentive.

## **FUTURE OUTLOOK AND PROSPECTS**

Looking ahead, the Cigarette Packaging Business is still the main source of revenue of the Group and will maintain a stable production and operation condition in the future. The Group will continue to seeking for new business by participating in tenders, actively expand into cigarette packaging market. Our production team will continue to implement a series of measures, including strengthening production cost control, logistic and inventory management and improving production efficiency to minimize wastage, in order to enhance the profitability. We will solid our relation with existing customers and also explore potential customers to strengthen our position in the market.

In the Reporting Period, most of new projects of the Environmental Treatment Business also faced keen competition. Some projects awarded were municipal construction projects with lower profit margin than water ecological treatment. Management of the Group will actively explore in research and investigation of potential water ecological restoration project in Guangdong province to bid for new projects for both municipal construction engineering and ecological restoration in the future.

Management of the Group will continue to adhere to the concentric and diversified development strategy. We will continue to seek business opportunities and persist in its own business strategy to create more value for our shareholders.

## **CLOSURE OF REGISTER OF MEMBERS FOR ANNUAL GENERAL MEETING**

The AGM is scheduled to be held on 2 June 2022. The register of members of the Company will be closed from 30 May 2022 to 2 June 2022, both days inclusive, for the purpose of identifying shareholders who are entitled to attend the AGM, during which no transfer of Shares will be registered. In order to qualify for attending the AGM, all transfers of Shares accompanied by the relevant share certificates and transfer forms must be lodged with the Company's branch share registrar in Hong Kong, Computershare Hong Kong Investor Services Limited, at Shops 1712–1716, 17/F Hopewell Centre, 183 Queen's Road East, Wanchai, Hong Kong before 4:30 p.m. on 27 May 2022.

## **MATERIAL ACQUISITION AND DISPOSALS OF SUBSIDIARIES AND ASSOCIATED COMPANIES**

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

## **COMPLIANCE WITH THE CORPORATE GOVERNANCE CODE**

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

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



### **Code Provision A.2.1**

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

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

### **Code Provision A.6.7**

Under Code Provision A.6.7, independent non-executive directors and other non-executive directors, as equal board members, should attend general meetings. During the Reporting Period, an independent non-executive director and a non-executive director was unable to attend annual general meetings of the Company held on 28 May 2021 (the "2021 AGM") as they were out of town for other business commitments.

### **Code Provision C.1.2**

Pursuant to Code Provision C.1.2, management should provide all members of the board with monthly updates giving a balanced and understandable assessment of the Company's performance, position and prospects in sufficient details to enable the board as a whole and each director to discharge their duties under Rule 3.08 and Chapter 13. During the Reporting Period, the management of the Company did not provide monthly updates to all members of the Board as required by the code provision C.1.2, as all the executive Directors were involved in the daily operation of the Group and were fully aware of the performance, position and prospects of the Company. The management has provided to all Directors (including Independent Non-executive Directors) of the Board periodical updates giving a balanced and understandable assessment of the Company's performance, position and prospects in sufficient details prior to the regular board meetings of the Company. In addition, the management has provided all members of the Board, in a timely manner, updates on any material changes to the performance, position and prospects of the Company and sufficient background or explanatory information for matters brought before the Board.

## **Code Provision E.1.2**

Pursuant to code provision E.1.2 of the CG Code, the chairman of the Board should attend the annual general meeting. For the 2021 AGM, Mr. Zheng Andy Yi Sheng, the chairman and chief executive officer of the Board was unable to attend the 2021 AGM as he was out of town for other business commitments. The Board had arranged for Mr. Lau Kwok Hung, an independent non-executive Director, chairman of the Audit and Remuneration Committee of the Company to attend and chair the 2021 AGM on behalf of Mr. Zheng and to respond to questions from shareholders of the Company. The Company considers that the sufficient measures have been taken to ensure the Company's governance practices are not less exacting than these in the CG Code.

## **COMPETING BUSINESS AND CONFLICTS OF INTERESTS**

None of the Directors is engaged in any business which competes or is likely to compete with the business of the Group, and none of them has any other conflicts of interest with the Group.

## **COMPLIANCE WITH THE MODEL CODE FOR SECURITIES TRANSACTIONS BY DIRECTORS**

The Company has adopted the Model Code for Securities Transactions by Directors of Listed Issuers (the “**Model Code**”) as set out in Appendix 10 to the Listing Rules. Specific enquiry has been made of all the Directors and the Directors have confirmed that they have complied with the Model Code throughout the Reporting Period.

## **PURCHASE, SALE OR REDEMPTION OF THE COMPANY'S SECURITIES**

Neither the Company nor any of its subsidiaries had purchased, sold or redeemed any of the listed securities of the Company during the Reporting Period.

## **SUFFICIENCY OF PUBLIC FLOAT**

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

## REVIEW OF FINANCIAL STATEMENTS BY THE AUDIT COMMITTEE

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

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

The Audit Committee has reviewed the accounting principles and practices adopted by the Group, reviewed the annual results of the Group for the Reporting Period and discussed the overall effectiveness of the internal control system of the Group with the management of the Company.

## PUBLICATION OF THE ANNUAL REPORT

The annual report of the Company for the year ended 31 December 2021 containing all the information required by the Listing Rules will be despatched to the shareholders and made available on the websites of the Stock Exchange (<http://www.hkex.com.hk>) and the Company ([www.huaxihds.com.hk](http://www.huaxihds.com.hk)) in due course.

## ACKNOWLEDGEMENT

On behalf of the Board, I would also like to take this opportunity to express my gratitude to all our staff for their dedication and hard work, plus my sincere appreciation to all customers, business partners and shareholders for their continuing supports.

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

Hong Kong, 30 March 2022

*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.*