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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 2022**

#### **FINANCIAL HIGHLIGHTS**

- Revenue decreased by 52% to HK\$194.54 million.
- Gross profit decreased by 59% to HK\$47.06 million.
- Operating profit decreased by 227% to operating loss HK\$58.34 million.
- Profit attributable to owners of the Company decreased by 244% to loss attributable to owners of the Company HK\$53.11 million.
- Basic earnings per share decreased by 244% to losses per share HK7.57 cents.
- No final dividend was proposed for the year ended 31 December 2022 (2021: Nil).

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 2022, together with the comparative figures for the corresponding period in 2021.

## CONSOLIDATED STATEMENT OF COMPREHENSIVE INCOME

*For the year ended 31 December 2022*

	<i>Note</i>	<b>Year ended 31 December 2022 HK\$’000</b>	Year ended 31 December 2021 HK\$’000
Revenue	3	<b>194,536</b>	404,559
Cost of sales	4	<b>(147,480)</b>	(288,860)
<b>Gross profit</b>		<b>47,056</b>	115,699
Distribution costs	4	<b>(624)</b>	(707)
Administrative expenses	4	<b>(49,189)</b>	(49,935)
Net impairment losses on financial and contract assets		<b>(28,412)</b>	(8,418)
Other losses — net		<b>(27,175)</b>	(10,594)
<b>Operating (loss)/profit</b>		<b>(58,344)</b>	46,045
Finance income — net	5	<b>64</b>	1,618
<b>(Loss)/Profit before income tax</b>		<b>(58,280)</b>	47,663
Income tax credit/(expense)	6	<b>4,910</b>	(11,188)
<b>(Loss)/Profit for the year</b>		<b>(53,370)</b>	36,475
<b>(Loss)/Profit attributable to:</b>			
— Owners of the Company		<b>(53,107)</b>	36,996
— Non-controlling interests		<b>(263)</b>	(521)
		<b>(53,370)</b>	36,475

	<b>Year ended 31 December 2022</b>	Year ended 31 December 2021
<i>Note</i>	<b>HK\$'000</b>	<b>HK\$'000</b>
<b>Other comprehensive (loss)/income</b>		
<i>Item that will not be reclassified to profit or loss:</i>		
Currency translation differences on translation to presentation currency	<u>(36,187)</u>	<u>13,518</u>
<b>Other comprehensive (loss)/income for the year, net of tax</b>	<u>(36,187)</u>	<u>13,518</u>
<b>Total comprehensive (loss)/income for the year</b>	<u>(89,557)</u>	<u>49,993</u>
<b>Total comprehensive (loss)/income attributable to:</b>		
— Owners of the Company	(89,847)	50,734
— Non-controlling interests	<u>290</u>	<u>(741)</u>
	<u>(89,557)</u>	<u>49,993</u>
<b>(Losses)/Earnings per share attributable to owners of the Company for the year (expressed in HK cent per share)</b>		
— Basic and diluted (losses)/earnings per share	7 <u>HK(7.57) cents</u>	<u>HK5.27 cents</u>

## CONSOLIDATED STATEMENT OF FINANCIAL POSITION

*As at 31 December 2022*

		31 December 2022	31 December 2021
	<i>Note</i>	<i>HK\$'000</i>	<i>HK\$'000</i>
<b>ASSETS</b>			
<b>Non-current assets</b>			
Property, plant and equipment		57,446	38,501
Right-of-use assets		6,693	9,820
Intangible assets		33	116
Deferred tax assets		9,852	7,563
Investment properties		15,234	–
Prepayments for non-current assets		24,763	978
		114,021	56,978
<b>Current assets</b>			
Inventories		45,891	39,360
Contract assets		44,351	38,214
Trade receivables	9	220,836	391,054
Prepayments and other receivables	10	8,791	24,475
Financial assets at fair value through profit or loss		52,146	67,758
Restricted cash at banks		43,960	44,539
Cash and cash equivalents		47,270	70,599
		463,245	675,999
<b>Total assets</b>		577,266	732,977
<b>EQUITY</b>			
<b>Equity attributable to owners of the Company</b>			
Share capital	12	3,508	3,508
Other reserves		223,675	260,415
Retained earnings		140,306	193,413
		367,489	457,336
<b>Non-controlling interests</b>		(6,229)	(6,519)
<b>Total equity</b>		361,260	450,817

		<b>31 December</b>	31 December
		<b>2022</b>	2021
	<i>Note</i>	<b>HK\$'000</b>	<b>HK\$'000</b>
<b>LIABILITIES</b>			
<b>Non-current liabilities</b>			
Lease liabilities		272	1,879
Deferred tax liabilities		<u>7,200</u>	<u>10,170</u>
		<u>7,472</u>	<u>12,049</u>
<b>Current liabilities</b>			
Trade and notes payable	11	142,184	204,606
Lease liabilities		2,295	2,253
Other payables and accruals		24,317	38,584
Current income tax liabilities		17,349	24,668
Borrowings		<u>22,389</u>	<u>–</u>
		<u>208,534</u>	<u>270,111</u>
<b>Total liabilities</b>		<u>216,006</u>	<u>282,160</u>
<b>Total equity and liabilities</b>		<u><u>577,266</u></u>	<u><u>732,977</u></u>

# NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

*For the year ended 31 December 2022*

## 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 and ecological restoration 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 29 March 2023.

## 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 2022*

The Group has applied the following standards and amendments for the first time for its reporting period commencing 1 January 2022:

- Amendments to HKAS 37 “Onerous Contracts — Cost of Fulfilling a Contract”
- HKFRS Standards “2018–2020 Annual Improvements”
- Amendments to HKFRS 3 “Reference to the Conceptual Framework”
- Amendments to AG 5 “Merger Accounting for Common Control Combinations”
- Property, Plant and Equipment: Proceeds before Intended Use — Amendments to HKAS 16

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 2022 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.

		<b>Effective for reporting periods beginning on or after</b>
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 8	Definition of Accounting Estimates	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 HKAS 12	Deferred Tax related to Assets and Liabilities arising from a Single Transaction	1 January 2023

**Effective for  
reporting periods  
beginning on or after**

HKAS 1 and HKFRS Practice Statement 2	Disclosure of Accounting Policies	1 January 2023
Amendments to HKAS 1	Classification of Liabilities as Current or Non-current	1 January 2024
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 (the “**Cigarette Packaging Business**”) and environmental and ecological restoration treatment business (the “**Environmental Treatment Business**”) in the PRC, which are identified as reportable segments. Meanwhile, the Group diversified its business into other business, which is in a preliminary stage and contributed to less than 10% of the Group’s revenue, profit or loss and assets.

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

Segment assets exclude financial assets at FVPL, investment properties 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, investment properties, 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 2022 were as follows:

	<b>Cigarette Packaging Business <i>HK\$'000</i></b>	<b>Environmental Treatment Business <i>HK\$'000</i></b>	<b>Others <i>HK\$'000</i></b>	<b>The Group <i>HK\$'000</i></b>
Revenue	<u>167,582</u>	<u>26,641</u>	<u>313</u>	<u>194,536</u>
Segment results	<u>6,253</u>	<u>(37,549)</u>	<u>313</u>	<u>(30,983)</u>
Other losses arising from financial assets at FVPL				<u>(27,361)</u>
Operating loss				<u>(58,344)</u>
Finance income — net				<u>64</u>
Loss before income tax				<u>(58,280)</u>
Income tax credit				<u>4,910</u>
Loss for the year				<u><u>(53,370)</u></u>
Other segment item				
Depreciation and amortization	<u>6,030</u>	<u>4,293</u>	<u>—</u>	<u>10,323</u>

The segment results and other segment items of the Group for the year ended 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>	The Group <i>HK\$'000</i>
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>	55,991
Other losses arising from financial assets at FVPL				<u>(9,946)</u>
Operating profit				46,045
Finance income — net				<u>1,618</u>
Profit before income tax				47,663
Income tax expense				<u>(11,188)</u>
Profit for the year				<u><u>36,475</u></u>
Other segment item				
Depreciation and amortization	<u>5,951</u>	<u>7,061</u>	<u>—</u>	<u>13,012</u>

The segment assets and liabilities at 31 December 2022 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>417,738</u>	<u>250,741</u>	<u>16,647</u>	<u>(185,092)</u>	<u>500,034</u>
Investment properties					15,234
Financial assets at FVPL					52,146
Deferred tax assets					<u>9,852</u>
<b>Total assets</b>					<b><u><u>577,266</u></u></b>
Segment liabilities	<u>110,606</u>	<u>265,943</u>	<u>-</u>	<u>(185,092)</u>	<u>191,457</u>
Current income tax liabilities					17,349
Deferred tax liabilities					<u>7,200</u>
<b>Total liabilities</b>					<b><u><u>216,006</u></u></b>
Capital expenditures	<u><u>46,556</u></u>	<u><u>22,918</u></u>	<u><u>-</u></u>	<u><u>-</u></u>	<u><u>69,474</u></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>	657,656
Financial assets at FVPL					67,758
Deferred tax assets					<u>7,563</u>
<b>Total assets</b>					<b><u><u>732,977</u></u></b>
Segment liabilities	<u>92,820</u>	<u>345,842</u>	<u>-</u>	<u>(191,340)</u>	247,322
Current income tax liabilities					24,668
Deferred tax liabilities					<u>10,170</u>
<b>Total liabilities</b>					<b><u><u>282,160</u></u></b>
Capital expenditures	<u><u>3,792</u></u>	<u><u>2,448</u></u>	<u><u>-</u></u>	<u><u>-</u></u>	<u><u>6,240</u></u>

## Revenue

Analysis of revenue is as follows:

	Year ended 31 December 2022 <i>HK\$'000</i>	Year ended 31 December 2021 <i>HK\$'000</i>
At a point in time		
— Sales of cigarette packaging products	167,582	183,925
— Agency services	313	5,301
— Revenue from design and consulting services	2,990	1,655
	<u>170,885</u>	<u>190,881</u>
Over time		
Revenue from construction and maintenance contracts		
— Construction services	13,862	201,495
— Maintenance services	9,789	12,183
	<u>23,651</u>	<u>213,678</u>
	<u>194,536</u>	<u>404,559</u>

## 4. EXPENSES BY NATURE

	Year ended 31 December 2022 <i>HK\$'000</i>	Year ended 31 December 2021 <i>HK\$'000</i>
Raw materials consumed and subcontracting costs for construction contracts	30,106	167,947
Cost of inventories sold	89,610	89,952
Staff costs (including directors' emoluments)	43,162	42,379
Depreciation and amortisation		
— Depreciation of property, plant and equipment	7,132	7,863
— Depreciation of investment properties	200	–
— Depreciation of right-of-use assets	2,914	2,242
— Amortisation of intangible assets	77	2,907
Utilities	4,989	5,874
Professional services expenses	1,606	3,277
Auditors' remuneration		
— Audit services	1,955	2,782
— Non-audit services	372	313
Other taxes and surcharges	2,427	2,825
Expense relating to operating leases not recognised as liabilities	73	1,032
Delivery costs	1,591	1,635
Gain on modification of patent	–	(1,204)
Other expenses	11,079	9,678
Total cost of sales, distribution costs and administrative expenses	<u>197,293</u>	<u>339,502</u>

## 5. FINANCE INCOME — NET

	Year ended 31 December 2022 <i>HK\$'000</i>	Year ended 31 December 2021 <i>HK\$'000</i>
Finance Income		
Interest income from bank deposits	606	723
Interest income from other financial assets (a)	<u>526</u>	<u>1,014</u>
	1,132	1,737
Finance costs — Interest expenses on borrowings	(888)	–
— Interest expenses on lease liabilities	<u>(180)</u>	<u>(119)</u>
	<u><u>64</u></u>	<u><u>1,618</u></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 2022, all these financial assets were matured (31 December 2021: same).

## 6. INCOME TAX (CREDIT)/EXPENSE

	Year ended 31 December 2022 <i>HK\$'000</i>	Year ended 31 December 2021 <i>HK\$'000</i>
Current income tax		
— PRC corporate income tax	66	12,879
Deferred income tax		
— PRC corporate income tax	(3,047)	(3,744)
— Withholding income tax for profit to be distributed from subsidiaries in the PRC	<u>(1,929)</u>	<u>2,053</u>
	<u><u>(4,910)</u></u>	<u><u>11,188</u></u>

There were no income tax charges relating to components of other comprehensive income for the year ended 31 December 2022 (31 December 2021: same).

## 7. (LOSSES)/EARNINGS PER SHARE

### (a) Basic

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

	<b>Year ended 31 December 2022</b>	Year ended 31 December 2021
(Loss)/Profit attributable to owners of the Company ( <i>HK\$'000</i> )	<u>(53,107)</u>	<u>36,996</u>
Weighted average number of ordinary shares in issue	<u>701,430,000</u>	<u>701,430,000</u>
Basic (losses)/earnings per share	<u><u>HK(7.57) cents</u></u>	<u><u>HK5.27 cents</u></u>

### (b) Diluted

Diluted (losses)/earnings per share adjusts the figures used in the determination of basic (losses)/earnings per share to take into account the after income tax effect of interest and other financing costs associated with dilutive potential ordinary shares, and the weighted average number of additional ordinary shares that would have been outstanding assuming the conversion of all dilutive potential ordinary shares. Diluted (losses)/earnings per share equals to basic (losses)/earnings per share as there were no potential diluted shares outstanding for the year ended 31 December 2022 and 2021.

## 8. DIVIDENDS

	<b>Year ended 31 December 2022</b>	Year ended 31 December 2021
	<i>HK\$'000</i>	<i>HK\$'000</i>
Interim dividends (a)	–	28,057
Proposed final dividends	<u>–</u>	<u>–</u>
	<u><u>–</u></u>	<u><u>28,057</u></u>

### (a) Interim dividends

No interim dividend was declared during the year ended 31 December 2022 (2021: HK4.00 cents).

### (b) Proposed final dividends

The Board does not declare any final dividend for the year ended 31 December 2022 (31 December 2021: Nil).

## 9. TRADE RECEIVABLES

	<b>31 December 2022</b>	31 December 2021
	<i>HK\$'000</i>	<i>HK\$'000</i>
Trade receivables	<b>251,685</b>	399,449
Less: allowance for impairment of trade receivables	<b>(30,849)</b>	(8,395)
	<u><b>220,836</b></u>	<u>391,054</u>

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

	<b>31 December 2022</b>	31 December 2021
	<i>HK\$'000</i>	<i>HK\$'000</i>
Within 90 days	<b>41,598</b>	258,009
91 days to 180 days	<b>1,469</b>	25,978
181 days to 365 days	<b>8,867</b>	16,784
Over 365 days	<b>199,751</b>	98,678
	<u><b>251,685</b></u>	<u>399,449</u>

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

	<b>31 December 2022</b>	31 December 2021
	<i>HK\$'000</i>	<i>HK\$'000</i>
At the beginning of the year	<b>8,395</b>	279
Impairment charge	<b>24,079</b>	7,982
Currency translation difference	<b>(1,625)</b>	134
	<u><b>30,849</b></u>	<u>8,395</u>

(c) The Group's trade receivables were denominated in RMB at 31 December 2022 (31 December 2021: same).

(d) As at 31 December 2022, 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 2021: same).

## 10. PREPAYMENTS AND OTHER RECEIVABLES

	<b>31 December 2022</b>	31 December 2021
	<i>HK\$'000</i>	<i>HK\$'000</i>
Other receivables (a)	<b>7,029</b>	23,578
Prepayments	<b>6,409</b>	1,421
Less: allowance for impairment of other receivables	<b>(4,647)</b>	(524)
	<b>8,791</b>	24,475

- (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.

## 11. TRADE AND NOTES PAYABLE

	<b>31 December 2022</b>	31 December 2021
	<i>HK\$'000</i>	<i>HK\$'000</i>
Trade payables (a)	<b>103,349</b>	161,311
Notes payable — bank acceptance notes	<b>38,835</b>	43,295
	<b>142,184</b>	204,606

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

	<b>31 December 2022</b>	31 December 2021
	<i>HK\$'000</i>	<i>HK\$'000</i>
Within 90 days	<b>84,063</b>	145,996
90–180 days	<b>4,277</b>	5,594
Over 180 days	<b>15,009</b>	9,721
	<b>103,349</b>	161,311

- (b) The Group's trade payables were denominated in RMB at 31 December 2022 (31 December 2021: same).
- (c) The fair value of trade and notes payable approximated their carrying amount at 31 December 2022 (31 December 2021: same).

## 12. SHARE CAPITAL

	Number of ordinary shares	<i>HK\$</i>
<b>Authorised share capital</b>		
At 1 January 2021, 31 December 2021 and 31 December 2022	<u>4,000,000,000</u>	<u>20,000,000</u>
	Number of Issued shares	Share capital <i>HK\$</i>
<b>Ordinary shares, issued and fully paid</b>		
At 1 January 2021, 31 December 2021 and 31 December 2022	<u>701,430,000</u>	<u>3,507,750</u>

## MANAGEMENT DISCUSSION AND ANALYSIS

### BUSINESS AND OPERATIONS REVIEW

During the year under review, the economic environment in the People's Republic of China (the "PRC") continued to be adversely affected by the resurgence of the 2019 novel coronavirus ("COVID-19"). The business environment was tough and difficult in the year. The Group's overall performance was weaker than the previous year.

The principal activities of the Group were manufacturing and sales of cigarette packaging materials (the "Cigarette Packaging Business") and environmental and ecological restoration treatment business (the "Environmental Treatment Business") in the PRC. For the year ended 31 December 2022 (the "Reporting Period" or "FY2022"), the total revenue of the Group was approximately HK\$194.54 million, representing a decrease of approximately HK\$210.02 million or 52% as compared with HK\$404.56 million for the year ended 31 December 2021 (the "FY2021"). Revenue from the Cigarette Packaging Business was approximately HK\$167.58 million (FY2021: HK\$183.93 million) and the Environmental Treatment Business was approximately HK\$26.64 million (FY2021: HK\$215.33 million) contributing approximately 86% (FY2021: 45%) and 14% (FY2021: 53%) respectively to the Group's revenue, and the rest was income from net of trading on film papers, carton boxes and other packaging materials for approximately HK\$0.32 million (FY2021: HK\$5.30 million).

## Cigarette Packaging Business

Under the keen competition, 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. During the Reporting Period, the total revenue from the Cigarette Packaging Business was approximately HK\$167.58 million, representing a decrease of HK\$16.35 million or 9% as compared with approximately HK\$183.93 million in FY2021. The following tables sets forth the breakdown of the Group's revenue from sales of cigarette packaging materials in the Reporting Period and FY2021:

	Year ended 31 December 2022		Year ended 31 December 2021	
	HK\$ '000	%	HK\$ '000	%
Inner Frame paper	96,969	57.9	87,611	47.7
Tipping paper	41,933	25.0	57,631	31.3
Cigarette box frame paper	21,732	13.0	32,005	17.4
Cigarette trademark label	6,894	4.1	6,138	3.3
Cigarette paper box	–	–	489	0.3
Others	54	0.0	51	0.0
Total	<u>167,582</u>	<u>100.0</u>	<u>183,925</u>	<u>100.0</u>

## Environmental Treatment Business

In 2022, due to the impact of the resurgence of the pandemic outbreak, the PRC government implemented a number of prevention and control measures in Beijing, Shanghai, Guangzhou and several other cities that led to a significant drop in the number of new environmental treatment projects. During the Reporting Period, the Environmental Treatment Business recorded a revenue of approximately HK\$26.64 million, representing a decrease of HK\$188.69 million or 88% as compared with approximately HK\$215.33 million in FY2021.

## Gross Profit and Gross Profit Margin

During the Reporting Period, the overall gross profit of the Group was approximately HK\$47.06 million (FY2021: HK\$115.70 million) which comprised approximately HK\$58.43 million (FY2021: HK\$73.86 million) from the Cigarette Packaging Business, gross loss of HK\$11.68 million (FY2021: gross profit HK\$36.54 million) from Environmental Treatment Business, and HK\$0.31 million (FY2021: HK\$5.30 million) from other business.

During the Reporting Period, the overall gross profit margin was 24% which was decreased by 5% as compared with 29% in FY2021. This was mainly due to a gross loss from the Environment Treatment Business because few new ecological restoration project was generated and additional costs were also incurred in maintenance works for the existing projects in FY2022. The gross profit margin of the Cigarette Packaging Business was approximately 35% decreased by 5% as compared with 40% in FY2021. The decrease in gross margin was due to increase in price of raw materials in the year.

### **Distribution Cost**

The distribution cost of the Group in the Reporting Period was amounted to approximately HK\$0.62 million represented a decrease of approximately 13%, in line with the decrease of sale, as compared with approximately HK\$0.71 million in FY2021.

### **Administrative Expenses**

The Group's administrative expenses for the Reporting Period was approximately HK\$49.19 million (FY2021: HK\$49.94 million), decreased slightly 2% or approximately HK\$0.75 million.

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

During the Reporting Period, net impairment losses on financial and contract assets was approximately HK\$28.41 million, representing an increase of approximately HK\$19.99 million as compared to HK\$8.42 million for FY2021, which was mainly a result of higher credit risk for specific customers in agency services.

### **Other Losses — Net**

During the Reporting Period, the total other losses — net of the Group were approximately HK\$27.18 million (FY2021: HK\$10.59 million) which was resulted from the unfavourable condition of the securities market. The Group recorded a gain of approximately HK\$1.06 million from dividend income (FY2021: HK\$1.78 million) and a loss of approximately of HK\$28.43 million on disposal and unrealised losses on changes in fair value of financial assets at fair value through profit or loss (FY2021: HK\$11.73 million). The Group recorded a gain from foreign exchanges of approximately HK\$0.19 million (FY2021: loss of HK\$0.65 million) which were resulted from the fluctuation of Renminbi against Hong Kong dollars.

## **Finance Income — Net**

During the Reporting Period, the finance income — net of the Group primarily consisted of interest income on certain non-derivative wealth management products, bank deposits, interest expenses on borrowings and lease liabilities. Net financial income was approximately HK\$0.06 million (FY2021: HK\$1.62 million).

## **Taxation**

During the Reporting Period, income tax credit was approximately HK\$4.91 million, as compared to tax expense of HK\$11.19 million in FY2021. The Group's indirect wholly owned subsidiaries, Shantou Xinda Colour Printing & Packaging Material Company Limited was granted preferential tax rate at 15%.

## **(Loss)/Profit attributable to owners of the Company**

During the Reporting Period, the Group recorded a loss attributable to owners of the Company of approximately HK\$53.11 million, representing a decrease of approximately HK\$90.11 million or approximately 244%, as compared to a net profit after tax of approximately HK\$37.00 million for the year ended 31 December 2021.

## **Dividends**

The Board does not recommend the payment of any final dividend for the year ended 31 December 2022 (FY2021: Nil).

## **Financial assets at FVPL**

The Group adopted a prudent attitude in its securities investments. The management takes into account of risk exposure in comparison with the Group's risk tolerance level at the prevailing time and the potential for return on investment in terms of capital appreciation and dividend payment when determining whether to take up an investment opportunity for the cash held by the Group. The fair value of the listed securities are determined with reference to the quoted market prices available on the relevant stock exchanges. During the Reporting Period, the total loss of the Group from the listed securities was approximately HK\$27.36 million market (FY2021: HK\$9.95 million), including loss on changes in fair value of HK\$28.43 million (FY2021: HK\$11.73 million) because of volatility in the securities market. The management invests in these shares expecting the price will be stable and gradually increase in line with the upward trend of the securities market in the PRC and Hong Kong.

As at 31 December 2022, the financial assets at fair value through profit or loss held by the Group are as follow:

	<b>31 December 2022</b>		31 December 2021	
	<b>Number of shares</b>	<b>Amount HK\$'000</b>	Number of shares	Amount HK\$'000
Equity securities listed in Hong Kong:				
Sunac China (1918)	<b>400,000</b>	<b>1,080</b>	400,000	4,712
BABA-SW (09988)	<b>30,000</b>	<b>2,588</b>	30,000	3,567
Tencent (0700)	<b>5,000</b>	<b>1,586</b>	5,000	2,217
Other equity securities ( <i>Note 1</i> )		<b>3,744</b>		5,764
Equity securities listed in the PRC:				
Guangdong Liantai (聯泰環保 603797)	<b>1,260,972</b>	<b>7,792</b>	1,260,972	10,765
Guangdong Tonze Electric (天際股份 002759)	<b>1,255,200</b>	<b>22,805</b>	730,000	26,161
Other equity securities ( <i>Note 2</i> )		<b>12,551</b>		14,572
		<b>52,146</b>		67,758

*Note:* (1) Other listed equity securities comprised 5 equity securities listed in Hong Kong (31 December 2021: 4).

(2) Other listed equity securities comprised 8 equity securities listed in the PRC (31 December 2021: 6).

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

At 31 December 2022, the Group had net assets of HK\$361.26 million (FY2021: HK\$450.82 million); a working capital surplus of HK\$254.71 million (FY2021: surplus HK\$405.89 million).

As at 31 December 2022, the Group's total cash and restricted cash balances amounted to approximately HK\$91.23 million (31 December 2021: HK\$115.14 million) including restricted cash of HK\$43.96 million (31 December 2021: HK\$44.54 million) and cash and cash equivalent HK\$47.27 million (31 December 2021: HK\$70.60 million).

The following table sets forth the cash flows for FY2022 and FY2021:

	<b>FY2022</b> <i>HK\$'000</i>	FY2021 <i>HK\$'000</i>
Net cash generated from operating activities	<b>54,891</b>	38,836
Net cash used in investing activities	<b>(93,518)</b>	(16,825)
Net cash generated from/(used in) financing activities	<b>20,234</b>	(58,353)
Net decrease in cash and cash equivalents	<b>(18,393)</b>	(36,342)
Cash and cash equivalents at beginning of year	<b>70,599</b>	103,281
Effect change in exchange rate	<b>(4,936)</b>	3,660
	<b>47,270</b>	70,599

### **Borrowings and gearing ratio**

As at 31 December 2022, the Group's bank borrowings which secured by personal guarantee provided by the controlling shareholder of the Group were approximately HK\$22.39 million (RMB20.00 million) repayable in one year (31 December 2021: Nil).

The Group's gearing ratios is calculated as net borrowings divided by total capital. Net borrowings are calculated as borrowings plus lease liabilities less cash and cash equivalents. Total capital is calculated as "total equity" as shown in the financial statements plus net borrowings. No gearing ratio was presented as the Group had net cash surplus as at 31 December 2022 (31 December 2021: same).

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

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

The Group's exposure to foreign currency risk was primarily related to certain cash and bank balances, financial assets at FVPL, trade receivables, other receivables and other payables and accruals denominated in HK\$. 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\$69.47 million (FY2021: HK\$6.24 million), which was used in the acquisition of property, plant and equipment, intangible assets, investment properties, prepayments for non-current assets and right-of-use assets.

### **Charge on assets**

As at 31 December 2022, the Group placed cash deposits of approximately HK\$43.96 million (31 December 2021: HK\$44.54 million), which comprised deposits of HK\$38.84 million (31 December 2021: HK\$42.97 million) as collateral for the Group's notes payable and deposits of HK\$5.12 million (31 December 2021: HK\$1.57 million) as performance guarantee letter deposits, which were all denominated in RMB.

### **Contingent liabilities**

The Group had no contingent liabilities as at 31 December 2022 (31 December 2021: Nil).

### **Capital commitments**

As at 31 December 2022, the Group had capital commitments for the amount of approximately HK\$4.42 million (31 December 2021: HK\$1.34 million) for acquisition of property, plant and equipment.

## **FUTURE OUTLOOK AND PROSPECTS**

Looking ahead, following the relaxation of the PRC government restriction policies from the pandemic, it is expected to have a growth in 2023. However, competition in both Cigarette Packaging Materials Business and Environmental Treatment Business are still quite fierce. The Group will firmly adhere to its strategic direction. We will continue to focus on our existing customers' requirements and solidify its traditional businesses and explore new business related to environmental protection industry.

Cigarette Packaging Business is still the main source of revenue of the Group. We will continue to enhance the relationship and maintain an excellent reputation with our existing customers and also seek for new customers to expand our share in the cigarette packaging materials market.

After the changes in the COVID-19 pandemic control measures, the PRC government will continue its policies to create a better environment and also promote green development and the harmonious coexistence of man and nature. It will serve as a guidance for the future development of the Environmental Treatment Business. Looking forward, with the support of our solid technical background, the Group will dedicate more resources to seek for new sewage treatment projects to widen our revenue streams. The management will continue to explore the development opportunity in ecological restoration projects so as to increase its market share, and continue to contribute to the Group.

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.

## **HUMAN RESOURCES**

As at 31 December 2022, the Group employed a total of 295 (31 December 2021: 329) permanent employees in the PRC and Hong Kong. Total employee remuneration (including directors' emoluments and benefits) in the Reporting Period amounted to HK\$43.16 million (FY2021: HK\$42.38 million). The Group provided its employees with competitive remuneration packages which were determined by their performance, qualification, experience and will continue 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.

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

The AGM is scheduled to be held on 16 June 2023. The register of members of the Company will be closed from 13 June 2023 to 16 June 2023, 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 12 June 2023.

## **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 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.

## **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 2022 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, 29 March 2023

*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.*