

Hong Kong Exchanges and Clearing Limited and The Stock Exchange of Hong Kong Limited take no responsibility for the contents of this announcement, make no representation as to its accuracy or completeness and expressly disclaim any liability whatsoever for any loss howsoever arising from or in reliance upon the whole or any part of the contents of this announcement.



HUAXI HOLDINGS COMPANY LIMITED

華禧控股有限公司

(Incorporated in the Cayman Islands with limited liability)

(Stock Code: 1689)

ANNOUNCEMENT OF FINAL RESULTS FOR THE YEAR ENDED 31 DECEMBER 2023

FINANCIAL HIGHLIGHTS

- Revenue decreased by 20.1% to HK\$155.39 million.
- Gross profit decreased by 29.2% to HK\$33.30 million.
- Operating loss decrease by 26.5% to HK\$42.86 million.
- Loss attributable to owners of the Company decreased by 22.5% to HK\$41.18 million.
- Basic losses per share decreased by 22.5% to HK5.87 cents.
- No final dividend was proposed for the year ended 31 December 2023 (2022: Nil).

The board of directors (the “**Board**”) of Huaxi Holdings Company Limited (the “**Company**”) hereby announces the audited consolidated financial results of the Company and its subsidiaries (collectively, the “**Group**”) for the year ended 31 December 2023 (the “**Year**”), together with its comparative figures for the corresponding period in 2022.

CONSOLIDATED STATEMENT OF COMPREHENSIVE INCOME

For the year ended 31 December 2023

		Year ended 31 December	
		2023	2022
	Note	HK\$'000	HK\$'000
Revenue	3	155,387	194,536
Cost of sales	4	(122,091)	(147,480)
Gross profit		33,296	47,056
Distribution costs	4	(926)	(624)
Administrative expenses	4	(45,810)	(49,189)
Net impairment losses on financial and contract assets		(17,861)	(28,412)
Other losses – net		(11,555)	(27,175)
Operating loss		(42,856)	(58,344)
Finance income – net		409	64
Loss before income tax		(42,447)	(58,280)
Income tax credit	5	816	4,910
Loss for the year		(41,631)	(53,370)
Loss attributable to:			
– Owners of the Company		(41,184)	(53,107)
– Non-controlling interests		(447)	(263)
		(41,631)	(53,370)
Other comprehensive loss			
<i>Item that will not be reclassified to profit or loss:</i>			
Currency translation differences on translation to presentation currency		(4,428)	(36,187)
Other comprehensive loss for the year, net of tax		(4,428)	(36,187)
Total comprehensive loss for the year		(46,059)	(89,557)
Total comprehensive loss attributable to:			
– Owners of the Company		(45,702)	(89,847)
– Non-controlling interests		(357)	290
		(46,059)	(89,557)
Losses per share attributable to owners of the Company for the year (expressed in HK cent per share)			
– Basic and diluted losses per share	6	HK(5.87) cents	HK(7.57) cents

CONSOLIDATED STATEMENT OF FINANCIAL POSITION

As at 31 December 2023

	31 December 2023	31 December 2022
<i>Note</i>	<i>HK\$'000</i>	<i>HK\$'000</i>
ASSETS		
Non-current assets		
Property, plant and equipment	54,309	57,446
Right-of-use assets	7,366	6,693
Intangible assets	29	33
Deferred tax assets	11,577	9,852
Investment properties	15,223	15,234
Prepayments for non-current assets	26,795	24,763
Other non-current assets	31,757	–
	<u>147,056</u>	<u>114,021</u>
Current assets		
Inventories	28,543	45,891
Contract assets	46,062	44,351
Trade receivables	8 174,927	220,836
Prepayments and other receivables	4,907	8,791
Financial assets at fair value through profit or loss	40,872	52,146
Restricted cash at banks	33,790	43,960
Cash and cash equivalents	12,341	47,270
	<u>341,442</u>	<u>463,245</u>
Total assets	<u><u>488,498</u></u>	<u><u>577,266</u></u>
EQUITY		
Equity attributable to owners of the Company		
Share capital	3,508	3,508
Other reserves	219,157	223,675
Retained earnings	99,122	140,306
	<u>321,787</u>	<u>367,489</u>
Non-controlling interests	<u>(6,586)</u>	<u>(6,229)</u>
Total equity	<u><u>315,201</u></u>	<u><u>361,260</u></u>

		31 December	31 December
		2023	2022
	<i>Note</i>	<i>HK\$'000</i>	<i>HK\$'000</i>
LIABILITIES			
Non-current liabilities			
Lease liabilities		1,162	272
Deferred tax liabilities		5,350	7,200
		<u>6,512</u>	<u>7,472</u>
Current liabilities			
Trade and notes payables	9	106,262	142,184
Lease liabilities		1,962	2,295
Other payables and accruals		21,243	24,317
Current income tax liabilities		14,696	17,349
Borrowings		22,622	22,389
		<u>166,785</u>	<u>208,534</u>
Total liabilities		<u>173,297</u>	<u>216,006</u>
Total equity and liabilities		<u>488,498</u>	<u>577,266</u>

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 31 December 2023

1. GENERAL INFORMATION

The Company was incorporated in the Cayman Islands on 29 April 2013 as an exempted company with limited liability under the Companies Act of the Cayman Islands. The address of its registered office is Windward 3, Regatta Office Park, PO Box 1350, Grand Cayman KY1-1108, Cayman Islands.

The Company is an investment holding company. The Group are principally engaged in (i) manufacturing and sales of cigarette packaging materials (the “**Cigarette Packaging Business**”); and (ii) environmental and ecological restoration treatment business (the “**Environmental Treatment Business**”) in the People’s Republic of China (the “**PRC**” or “**China**”).

The ultimate parent company of the Company is SXD Limited, which was incorporated in the 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.

2. 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 2023

The Group has applied the following standards and amendments for the first time for its reporting period commencing 1 January 2023:

- HKFRS 17 “Insurance Contracts”
- Amendments to HKAS 1 and HKFRS Practice Statement 2 “Disclosure of Accounting Policies”
- Amendments to HKAS 8 “Definition of Accounting Estimates”
- Amendments to HKAS 12 “Deferred Tax related to Assets and Liabilities arising from a Single Transaction” and
- Amendments to HKAS 12 International Tax Reform – Pillar Two Model Rules

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 2023 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 HKAS 1	Classification of Liabilities as Current or Non-current	1 January 2024
Amendments to HKAS 1	Non-current Liabilities with Covenants	1 January 2024
Amendments to HKFRS 7 and HKAS 7	Disclosure of Supplier Finance Arrangement	1 January 2024
Amendments to HKFRS 16	Lease Liability in Sale and Leaseback	1 January 2024
Hong Kong Interpretation 5 (Revised)	Presentation of Financial Statements – Classification by the Borrower of a Term Loan that Contains a Repayment on Demand Clause	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

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 Cigarette Packaging Business and the Environmental Treatment Business, which are identified as reportable segments. Agency service business is not separately reviewed by the CODM and therefore it is not separately presented.

The CODM assesses the performance of the operating segments based on operating profit excluding other gains or losses arising from financial assets at FVPL and net impairment losses on financial and contract assets.

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.

- (a) The segment results and other segment items of the Group for the year ended 31 December 2023 were as follows:

	Cigarette Packaging Business HK\$'000	Environmental Treatment Business HK\$'000	Unallocated HK\$'000	The Group HK\$'000
Revenue	<u>154,875</u>	<u>255</u>	<u>257</u>	<u>155,387</u>
Segment results	<u>13,215</u>	<u>(28,175)</u>	<u>257</u>	<u>(14,703)</u>
Net impairment losses on financial and contract assets				<u>(17,861)</u>
Other losses arising from financial assets at FVPL				<u>(10,292)</u>
Operating loss				<u>(42,856)</u>
Finance income – net				<u>409</u>
Loss before income tax				<u>(42,447)</u>
Income tax credit				<u>816</u>
Loss for the year				<u><u>(41,631)</u></u>
Other segment item Depreciation and amortisation	<u><u>7,770</u></u>	<u><u>3,150</u></u>	<u><u>–</u></u>	<u><u>10,920</u></u>

The segment results and other segment items of the Group for the year ended 31 December 2022 were as follows:

	Cigarette Packaging Business HK\$'000	Environmental Treatment Business HK\$'000	Unallocated HK\$'000	The Group HK\$'000
Revenue	<u>167,582</u>	<u>26,641</u>	<u>313</u>	<u>194,536</u>
Segment results	<u>35,174</u>	<u>(38,058)</u>	<u>313</u>	<u>(2,571)</u>
Net impairment losses on financial and contract assets				<u>(28,412)</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 amortisation	<u><u>6,030</u></u>	<u><u>4,293</u></u>	<u><u>–</u></u>	<u><u>10,323</u></u>

(b) The segment assets and liabilities at 31 December 2023 were as follows:

	Cigarette Packaging Business <i>HK\$'000</i>	Environmental Treatment Business <i>HK\$'000</i>	Unallocated <i>HK\$'000</i>	Inter- segment elimination <i>HK\$'000</i>	The Group <i>HK\$'000</i>
Segment assets	<u>398,596</u>	<u>205,694</u>	<u>7,308</u>	<u>(190,772)</u>	420,826
Investment properties					15,223
Financial assets at FVPL					40,872
Deferred tax assets					<u>11,577</u>
Total assets					<u>488,498</u>
Segment liabilities	<u>90,870</u>	<u>253,153</u>	<u>-</u>	<u>(190,772)</u>	153,251
Current income tax liabilities					14,696
Deferred tax liabilities					<u>5,350</u>
Total liabilities					<u>173,297</u>
Capital expenditures	<u>12,417</u>	<u>2,780</u>	<u>-</u>	<u>-</u>	<u>15,197</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>	Unallocated <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>	500,034
Investment properties					15,234
Financial assets at FVPL					52,146
Deferred tax assets					<u>9,852</u>
Total assets					<u>577,266</u>
Segment liabilities	<u>110,606</u>	<u>265,943</u>	<u>-</u>	<u>(185,092)</u>	191,457
Current income tax liabilities					17,349
Deferred tax liabilities					<u>7,200</u>
Total liabilities					<u>216,006</u>
Capital expenditures	<u>46,556</u>	<u>22,918</u>	<u>-</u>	<u>-</u>	<u>69,474</u>

(c) Analysis of revenue is as follows:

	Year ended 31 December	
	2023 HK\$'000	2022 HK\$'000
At a point in time		
– Sales of cigarette packaging products	154,875	167,582
– Agency services	257	313
– Revenue from design and consulting services	–	2,990
	<u>155,132</u>	<u>170,885</u>
Over time		
Revenue from environmental and ecological restoration contracts		
– Construction services	(4,200)	13,862
– Maintenance and other services	4,455	9,789
	<u>255</u>	<u>23,651</u>
	<u><u>155,387</u></u>	<u><u>194,536</u></u>

Reversal of revenue from construction services was mainly due to the increase of unpredictable costs for environmental and ecological restoration contracts.

4. EXPENSES BY NATURE

	Year ended 31 December	
	2023 HK\$'000	2022 HK\$'000
Raw materials consumed and subcontracting costs for construction contracts	12,142	30,106
Cost of inventories sold	86,858	89,610
Staff costs (including directors' emoluments)	37,993	43,162
Depreciation and amortisation		
– Depreciation of property, plant and equipment	8,137	7,132
– Depreciation of investment properties	852	200
– Depreciation of right-of-use assets	1,927	2,914
– Amortisation of intangible assets	4	77
Utilities	3,008	4,989
Professional services expenses	4,517	1,606
Auditor's remuneration		
– Audit services	1,701	1,955
– Non-audit services	133	372
Other taxes and surcharges	1,608	2,427
Expenses relating to operating leases not recognised as lease liabilities	10	73
Delivery costs	1,374	1,591
Other expenses	8,563	11,079
	<u>168,827</u>	<u>197,293</u>
Total cost of sales, distribution costs and administrative expenses	<u><u>168,827</u></u>	<u><u>197,293</u></u>

5. INCOME TAX CREDIT

	Year ended 31 December	
	2023 HK\$'000	2022 HK\$'000
Current income tax		
– PRC enterprise income tax	2,598	66
Deferred income tax		
– PRC enterprise income tax	(1,878)	(3,047)
– Reversal of withholding income tax on profits to be distributed from subsidiaries in the PRC	(1,536)	(1,929)
	<u>(816)</u>	<u>(4,910)</u>

There were no income tax charges relating to components of other comprehensive income for the Year (2022: same).

6. LOSSES PER SHARE

(a) Basic

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

	Year ended 31 December	
	2023	2022
Loss attributable to owners of the Company (HK\$'000)	(41,184)	(53,107)
Weighted average number of ordinary shares in issue	<u>701,430,000</u>	<u>701,430,000</u>
Basic losses per share	<u>HK(5.87) cents</u>	<u>HK(7.57) cents</u>

(b) Diluted

Diluted losses per share adjusts the figures used in the determination of basic losses 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 per share equals to basic losses per share as there were no potential dilutive shares outstanding as at 31 December 2023 and 2022.

7. DIVIDENDS

The Board does not recommend the payment of any dividend for the Year (2022: nil).

8. TRADE RECEIVABLES

	31 December 2023 HK\$'000	31 December 2022 HK\$'000
Trade receivables (a)	216,171	251,685
Less: allowance for impairment of trade receivables	(41,244)	(30,849)
Trade receivables – net	<u>174,927</u>	<u>220,836</u>

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

	31 December 2023 HK\$'000	31 December 2022 HK\$'000
Less than 90 days	39,406	41,598
91 days to 180 days	1,014	1,469
181 days to 365 days	1,429	8,867
Over 365 days	174,322	199,751
	<u>216,171</u>	<u>251,685</u>

(b) The Group's trade receivables were denominated in Renminbi ("RMB") at 31 December 2023 (31 December 2022: same).

(c) As at 31 December 2023, 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 2022: same).

9. TRADE AND NOTES PAYABLES

	31 December 2023 HK\$'000	31 December 2022 HK\$'000
Trade payables (a)	73,823	103,349
Notes payable – bank acceptance notes	32,439	38,835
	<u>106,262</u>	<u>142,184</u>

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

	31 December 2023 HK\$'000	31 December 2022 HK\$'000
Within 90 days	58,348	84,063
91 to 180 days	872	4,277
Over 180 days	14,603	15,009
	<u>73,823</u>	<u>103,349</u>

- (b) The Group's trade payables were denominated in RMB at 31 December 2023 (31 December 2022: same).
- (c) The fair value of trade and notes payables approximated their carrying amounts at 31 December 2023 (31 December 2022: same).

MANAGEMENT DISCUSSION AND ANALYSIS

BUSINESS AND OPERATION REVIEW

The principal activities of the Group were Cigarette Packaging Business and Environmental Treatment Business in China.

During the Year, notwithstanding the further relaxation of COVID-19 control policies in China in December 2022 and the orderly issue of various policies and measures to help PRC's economy to stabilize and recover in 2023, the global economy and the PRC's economy remained unstable in 2023.

For the Year, the Group recorded revenue of approximately HK\$155.39 million, representing a decrease of approximately HK\$39.15 million or 20.1% as compared with HK\$194.54 million for 2022. Revenue from the Cigarette Packaging Business was approximately HK\$154.88 million (2022: HK\$167.58 million) and the Environmental Treatment Business was approximately HK\$0.26 million (2022: HK\$26.64 million) contributing approximately 100% (2022: 86%) and 0% (2022: 14%) 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\$0.26 million (2022: HK\$0.32 million).

Cigarette Packaging Business

Under the keen market 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 Year, the revenue from Cigarette Packaging Business was approximately HK\$154.88 million, representing a decrease of HK\$12.70 million or 7.6% as compared with approximately HK\$167.58 million in 2022. The following tables sets forth the breakdown of the Group's revenue from sales of cigarette packaging materials for 2023 and 2022:

	2023		2022	
	HK\$'000	%	HK\$'000	%
Inner Frame paper	86,384	55.8	96,969	57.9
Tipping paper	49,098	31.7	41,933	25.0
Cigarette box frame paper	12,915	8.3	21,732	13.0
Cigarette trademark label	6,424	4.1	6,894	4.1
Others	54	0.0	54	0.0
Total	<u>154,875</u>	<u>100.0</u>	<u>167,582</u>	<u>100.0</u>

Environmental Treatment Business

Affected by the further reduction in the number of new ecological restoration projects obtained during the Year and the reversal of revenue from construction services as a result of the increase of unpredictable costs for environmental and ecological restoration contracts, the Environmental Treatment Business recorded a revenue of approximately HK\$0.26 million, representing a decrease of HK\$26.38 million or 99.0% as compared with approximately HK\$26.64 million in 2022.

Gross Profit and Gross Profit Margin

During the Year, the overall gross profit of the Group was approximately HK\$33.30 million (2022: HK\$47.06 million) which comprised gross profit of approximately HK\$47.25 million (2022: HK\$58.43 million) from the Cigarette Packaging Business, gross loss of HK\$14.21 million (2022: gross loss HK\$11.68 million) from the Environmental Treatment Business, and gross profit of approximately HK\$0.26 million (2022: HK\$0.31 million) from other business.

During the Year, the overall gross profit margin was 21.4% which was decreased by 2.8% as compared with 24.2% in 2022. This was mainly due to the gross loss from the Environment Treatment Business because no new ecological restoration project was obtained in the Year and there was a reversal of revenue recognised for the Year. The gross profit margin of the Cigarette Packaging Business was approximately 30.5% decreased by 4.4% as compared with 34.9% in 2022. The decrease in gross margin was due to the increase in price of raw materials and the reduction in certain products' price during the Year.

Distribution Cost

The distribution cost of the Group for the Year was amounted to approximately HK\$0.93 million, represented an increase of approximately 50% as compared with approximately HK\$0.62 million in 2022.

Administrative Expenses

The Group's administrative expenses for the Year was approximately HK\$45.81 million (2022: HK\$49.19 million), decreased 6.9% or approximately HK\$3.38 million.

Net impairment losses on financial and contract assets

During the Year, net impairment losses on financial and contract assets was approximately HK\$17.86 million, represented a decrease of approximately HK\$10.55 million as compared to HK\$28.41 million for 2022, which was mainly a result of further impairment losses were provided for certain high credit risk customers.

Other Losses – Net

During the Year, the net other losses of the Group were approximately HK\$11.56 million (2022: HK\$27.18 million) which was mainly resulted from the continuing unfavourable condition of the securities markets in Hong Kong and China in 2023. The Group recorded dividend income of approximately HK\$0.48 million (2022: HK\$1.06 million) and a loss of approximately of HK\$10.77 million on disposal and unrealised losses on changes in fair value of financial assets at FVPL (2022: HK\$28.43 million) for the Year.

Finance Income – Net

During the Year, the net finance income of the Group primarily consisted of interest income on certain non-derivative wealth management products and bank deposits and interest expenses on borrowings and lease liabilities. Net financial income for the Year was approximately HK\$0.41 million (2022: HK\$0.06 million).

Taxation

During the Year, income tax credit was approximately HK\$0.82 million (2022: HK\$4.91 million) which was mainly a result of the reversal of withholding income tax on profits to be distributed from subsidiaries in the PRC.

Loss attributable to owners of the Company

During the Year, the Group recorded a loss attributable to owners of the Company of approximately HK\$41.18 million, representing a decrease of approximately HK\$11.93 million or approximately 22.5%, as compared to a loss attributable to owners of the Company of approximately HK\$53.11 million for 2022.

Dividends

The Board does not recommend the payment of final dividend for the Year (2022: 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 Year, the total loss of the Group from the listed securities was approximately HK\$10.29 million market (2022: HK\$27.36 million), including loss on changes in fair value of HK\$10.77 million (2022: HK\$28.43 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 markets in China and Hong Kong in the long run.

As at 31 December 2023, the financial assets at FVPL held by the Group are as follow:

	31 December 2023		31 December 2022	
	<i>Number of shares</i>	<i>Amount HK\$'000</i>	<i>Number of shares</i>	<i>Amount HK\$'000</i>
Equity securities listed in Hong Kong:				
BABA-SW (9988)	30,000	2,268	30,000	2,588
Tencent (0700)	5,000	1,468	5,000	1,586
Sunac China (1918)	400,000	600	400,000	1,080
Other equity securities (<i>Note 1</i>)		2,451		3,744
Equity securities listed in the China:				
Guangdong Liantai Environmental Protection (603797)	1,260,972	7,681	1,260,972	7,792
Tonze New Energy Technology (002759)	1,255,200	14,696	1,255,200	22,805
Other equity securities (<i>Note 2</i>)		11,708		12,551
Total		<u>40,872</u>		<u>52,146</u>

Notes:

- (1) Other listed equity securities comprised 6 equity securities listed in Hong Kong (31 December 2022: 5).
- (2) Other listed equity securities comprised 5 equity securities listed in the China (31 December 2022: 8).

Capital structure, liquidity and financial resources

As at 31 December 2023, the Group had net assets of HK\$315.20 million (2022: HK\$361.26 million); a working capital surplus of HK\$174.66 million (2022: HK\$254.71 million).

As at 31 December 2023, the Group's total cash and restricted cash balances amounted to approximately HK\$46.13 million (31 December 2022: HK\$91.23 million) including restricted cash at banks of HK\$33.79 million (31 December 2022: HK\$43.96 million) of which all (31 December 2022: all) were denominated in RMB and cash and cash equivalents of HK\$12.34 million (31 December 2022: HK\$47.27 million) of which HK\$11.57 million (31 December 2022: HK\$46.41 million) were denominated in RMB.

The following table sets forth the cash flows for 2023 and 2022:

	2023 <i>HK\$'000</i>	2022 <i>HK\$'000</i>
Net cash generated from operating activities	5,493	54,891
Net cash used in investing activities	(37,589)	(93,518)
Net cash (used in)/generated from financing activities	(2,153)	20,234
Net decrease in cash and cash equivalents	(34,249)	(18,393)
Cash and cash equivalents at the beginning of the Year	47,270	70,599
Effect on change in exchange rates	(680)	(4,936)
Cash and cash equivalents at the end of the Year	<u>12,341</u>	<u>47,270</u>

Sources of funds of the Group are mainly cash inflows from operating activities and bank borrowings. The Group regularly monitors its liquidity position, projected liquidity requirements and its compliance with lending covenants, as well as maintains long-term sound relationships with major banks to ensure that it has sufficient liquidity to meet its working capital requirements and future development needs.

Borrowings and gearing ratio

As at 31 December 2023, the Group's borrowings of approximately HK\$22.62 million (31 December 2022: HK\$22.39 million) which secured by personal guarantee provided by the controlling Shareholder and certain subsidiaries of the Group, bearing interest rate at 3.70%-4.00% per annum and maturing in 2024, were fixed-rate debts and denominated in RMB.

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 consolidated financial statements plus net borrowings. The gearing ratio was 4.44% as at 31 December 2023. No gearing ratio was presented as the Group had net cash surplus as at 31 December 2022.

Exposure to fluctuations in exchange rates

The Group's transactions for its principal subsidiaries in China were mainly conducted in 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 bank balances, financial assets at FVPL, trade receivables, prepayment and other receivables, other payables and accruals and lease liabilities denominated in HK\$. Presently, the Group has no hedging policy with respect to the foreign exchange exposure.

Capital expenditure and commitments

During the Year, the Group's total capital expenditure amounted to approximately HK\$15.20 million (2022: HK\$69.47 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.

As at 31 December 2023, the Group had capital commitments for the amount of approximately HK\$4.31 million (31 December 2022: HK\$4.42 million) for acquisition of property, plant and equipment.

Charge on assets

As at 31 December 2023, the Group placed cash deposits of approximately HK\$33.79 million (31 December 2022: HK\$43.96 million), which comprised deposits of HK\$32.44 million (31 December 2022: HK\$38.84 million) as collateral for the Group's notes payable and deposits of HK\$1.35 million (31 December 2022: HK\$5.12 million) as performance guarantee letter deposits, which were all denominated in RMB.

Contingent liabilities

The Group had no contingent liabilities as at 31 December 2023 and 31 December 2022.

Material acquisitions and disposals for subsidiaries, associates and joint ventures

On 3 November 2023, Guangdong Xinda Detection Technology Company Limited, an indirectly wholly-owned subsidiary of the Company, entered into a share transfer agreement with three independent third parties in relation to the disposal of 48% equity interest of Shengshi Heng Rui (Guangdong) Technology Company Limited, an indirectly wholly-owned subsidiary of the Company, for a total nominal consideration of RMB3 (the "**Disposal**"). The Disposal was then completed on 17 November 2023. Save as disclosed above, the Group did not have any material acquisitions and disposals relating to subsidiaries, associates and joint ventures during the Year (2022: Nil).

FUTURE OUTLOOK AND PROSPECTS

Looking ahead, competition in both Cigarette Packaging Business and Environmental Treatment Business will still be quite fierce in 2024. 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.

Creating a better environment, promoting green development and the development of harmonious coexistence of man and nature are still the policies direction of the PRC government, which also serves 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 of the Group 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 2023, the Group employed a total of 288 (31 December 2022: 295) permanent employees in China and Hong Kong. Total employee remuneration (including directors' emoluments and benefits) for the Year amounted to HK\$37.99 million (2022: HK\$43.16 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.

ANNUAL GENERAL MEETING AND CLOSURE OF REGISTER OF MEMBERS

The annual general meeting of the Company (the "AGM") is scheduled to be held on 26 June 2024. The register of members of the Company will be closed from 21 June 2024 to 26 June 2024 (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 transfer 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 20 June 2024.

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 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 Part 2 of Appendix C1 of the Rules Governing the Listing of Securities on the Stock Exchange (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 of the Company (the “**Directors**”), the Company was in compliance with the applicable code provisions of the CG Code for the Year and, where appropriate, the applicable recommended best practices of the CG Code, save and except for the followings:

Code Provision C.2.1

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

Mr. Zheng Andy Yi Sheng is the chairman of the Board and the CEO of the Group. 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 and the substantial decisions are left to the Board (including independent non-executive Directors (“**INEDs**”)), the Board considers that vesting the roles of both chairman and CEO 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.5.1

Code Provision C.5.1 stipulates that the Board should meet regularly and Board meeting should be held at least four times a year approximately quarterly intervals. During the Year, only two regular Board meetings were held to review and discuss the annual and interim results of the Company. Since the Company does not announce its quarterly results, the Board does not consider the holding of quarterly meetings as necessary. Instead, the Board meets on other occasions when a Board-level decision on a particular matter is required. Save for the aforesaid two regular Board meetings, the Board held three meetings during the Year for including but not limited to discussing and approving the change in the financial controller and secretary of the Company and the disposal of equity interest in a subsidiary.

Code Provision D.1.2

Pursuant to Code Provision D.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 of the Listing Rules. During the Year, the management of the Company did not provide monthly updates to all members of the Board as required by the code provision D.1.2, as all the executive Directors are involved in the daily operation of the Group and are fully aware of the performance, position and prospects of the Company, and the management has provided to all Directors (including INEDs) periodically updates giving a balanced and understandable assessment of the Company’s performance, position and prospects in sufficient detail prior to the regular Board meetings. In addition, the management has provided all Directors, 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.

PURCHASE, SALE AND REDEMPTION OF THE COMPANY'S SECURITIES

Neither the Company, nor any of its subsidiaries purchased, redeemed or sold any of the Company's listed securities during the Year.

REVIEW OF FINAL RESULTS

The audit committee of the Company has reviewed the final results of the Group for the Year.

SCOPE OF WORK OF PRICEWATERHOUSECOOPERS ON THIS PRELIMINARY ANNOUNCEMENT

The financial figures in respect of the Group's consolidated statement of financial position, consolidated statement of profit or loss, consolidated statement of profit or loss and other comprehensive income and the related notes thereto for the year ended 31 December 2023 as set out in this preliminary announcement have been compared by the Group's auditor, PricewaterhouseCoopers, to the amounts set out in the Group's audited consolidated financial statements for the year and the amounts were found to be in agreement. The work performed by PricewaterhouseCoopers in this respect did not constitute an audit, review or other assurance engagement in accordance with Hong Kong Standards on Auditing, Hong Kong Standards on Review Engagements or Hong Kong Standards on Assurance Engagements issued by the Hong Kong Institute of Certified Public Accountants and consequently no assurance has been expressed by PricewaterhouseCoopers on the preliminary announcement.

PUBLICATION OF FINAL RESULTS AND ANNUAL REPORT

This final results announcement is published on the Company's website (www.huaxihds.com.hk) and the Stock Exchange's website (www.hkexnews.hk). The annual report of the Company for the year ended 31 December 2023 containing all the information required by the Listing Rules shall be published and made available on the aforesaid websites in due course.

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

Hong Kong, 27 March 2024

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.