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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: 1689)

ANNOUNCEMENT OF INTERIM RESULTS FOR THE SIX MONTHS ENDED 30 JUNE 2024

FINANCIAL HIGHLIGHTS

- Revenue decreased by 11.5% to HK\$62.62 million
- Gross profit decreased by 49.6% to HK\$9.03 million
- Operating loss increased by 152.9% to HK\$21.24 million
- Loss attributable to owners of the Company increased by 160.1% to HK\$20.99 million
- Basic losses per share increased by 160.0% to HK2.99 cents
- No interim dividend was proposed for the six months ended 30 June 2024 (for the six months ended 30 June 2023: nil).

The board of directors (the “**Board**”) of Huaxi Holdings Company Limited (the “**Company**”) hereby announces the unaudited condensed consolidated financial results of the Company and its subsidiaries (collectively, the “**Group**”) for the six months ended 30 June 2024 (the “**Reporting Period**” or “**FP2024**”), together with its comparative figures for the corresponding period in 2023 (“**FP2023**”).

CONDENSED CONSOLIDATED STATEMENT OF COMPREHENSIVE INCOME

For the six months ended 30 June 2024

		Six months ended 30 June	
	<i>Note</i>	2024	2023
		HK\$'000	HK\$'000
		(Unaudited)	(Unaudited)
Revenue	4	62,615	70,735
Cost of sales	5	(53,590)	(52,811)
Gross profit		9,025	17,924
Distribution costs	5	(276)	(192)
Administrative expenses	5	(18,198)	(21,704)
Net impairment (losses)/reversal on financial and contract assets		(6)	38
Share of loss of an associate accounted for using the equity method		(11)	–
Other losses – net	6	(11,775)	(4,466)
Operating loss		(21,241)	(8,400)
Finance (cost)/income – net		(118)	477
Loss before income tax		(21,359)	(7,923)
Income tax credit/(expense)	7	313	(519)
Loss for the period		(21,046)	(8,442)
Loss attributable to:			
– Owners of the Company		(20,987)	(8,073)
– Non-controlling interests		(59)	(369)
		(21,046)	(8,442)

	Six months ended 30 June	
	2024	2023
<i>Note</i>	<i>HK\$'000</i>	<i>HK\$'000</i>
	(Unaudited)	(Unaudited)
Other comprehensive loss		
<i>Items that will not be reclassified to profit or loss:</i>		
Currency translation differences on translation to presentation currency	<u>(2,643)</u>	<u>(10,952)</u>
Other comprehensive loss for the period, net of tax	<u>(2,643)</u>	<u>(10,952)</u>
Total comprehensive loss for the period	<u><u>(23,689)</u></u>	<u><u>(19,394)</u></u>
Total comprehensive loss attributable to:		
– Owners of the Company	(23,672)	(19,229)
– Non-controlling interests	<u>(17)</u>	<u>(165)</u>
	<u><u>(23,689)</u></u>	<u><u>(19,394)</u></u>
Losses per share attributable to owners of the Company (expressed in HK cent per share)		
– Basic and diluted losses per share	8	
	<u><u>HK(2.99) cents</u></u>	<u><u>HK(1.15) cents</u></u>

CONDENSED CONSOLIDATED STATEMENT OF FINANCIAL POSITION

As at 30 June 2024

		30 June 2024	31 December 2023
	<i>Note</i>	<i>HK\$'000</i> (Unaudited)	<i>HK\$'000</i> (Audited)
ASSETS			
Non-current assets			
Property, plant and equipment		48,254	54,309
Right-of-use assets		7,902	7,366
Intangible assets		27	29
Investment properties		14,752	15,223
Prepayments for non-current assets		26,830	26,795
Deferred tax assets		11,806	11,577
Other non-current assets		31,552	31,757
		141,123	147,056
Current assets			
Inventories		20,509	28,543
Contract assets	4(a)	41,372	46,062
Trade receivables	10	172,444	174,927
Prepayments and other receivables		4,792	4,907
Financial assets at fair value through profit or loss		22,685	40,872
Restricted cash at banks		33,738	33,790
Cash and cash equivalents		10,911	12,341
		306,451	341,442
Total assets		447,574	488,498

		30 June	31 December
		2024	2023
	<i>Note</i>	<i>HK\$'000</i>	<i>HK\$'000</i>
		(Unaudited)	(Audited)
EQUITY			
Equity attributable to owners of the Company			
Share capital		3,508	3,508
Other reserves		216,673	219,157
Retained earnings		77,934	99,122
		<u>298,115</u>	<u>321,787</u>
Non-controlling interests		(6,603)	(6,586)
		<u>291,512</u>	<u>315,201</u>
LIABILITIES			
Non-current liabilities			
Lease liabilities		1,030	1,162
Deferred tax liabilities		5,067	5,350
		<u>6,097</u>	<u>6,512</u>
Current liabilities			
Trade and notes payables	<i>11</i>	101,646	106,262
Other payables and accruals		15,156	21,243
Current income tax liabilities		13,236	14,696
Borrowings		16,982	22,622
Lease liabilities		2,945	1,962
		<u>149,965</u>	<u>166,785</u>
Total liabilities		156,062	173,297
Total equity and liabilities		447,574	488,498

NOTES TO THE CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

For the six months ended 30 June 2024

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 ultimate parent company of the Company is SXD Limited, which was incorporated in the British Virgin 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 Company’s shares have been listed on the Main Board of The Stock Exchange of Hong Kong Limited (the “**Stock Exchange**”) since 6 December 2013.

This condensed consolidated interim financial information for the six months ended 30 June 2024 (“**Interim Financial Information**”) is presented in thousands of Hong Kong dollar (“**HK\$**”), unless otherwise stated.

2. BASIS OF PREPARATION

The Interim Financial Information has been prepared in accordance with the applicable disclosure provisions of the Rules Governing the Listing of Securities on the Stock Exchange (the “**Listing Rules**”), including compliance with Hong Kong Accounting Standard (“**HKAS**”) 34 “Interim Financial Reporting” issued by the Hong Kong Institute of Certified Public Accountants. The Interim Financial Information does not include all the notes of the type normally included in an annual financial report. Accordingly, the Interim Financial Information is to be read in conjunction with the annual financial statements for the year ended 31 December 2023.

The Interim Financial Information has been prepared in accordance with the same accounting policies adopted in the annual financial statements for the year ended 31 December 2023, except for the adoption of the revised Hong Kong Financial Reporting Standards (“**HKFRSs**”) for the first time for the current period’s financial information as set out below.

New standards, amendments to standards and interpretations adopted by the Group

The Group has applied the following new standards, amendments to standards and interpretations for the first time for its reporting period commencing 1 January 2024:

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

The new standards, amendments to standards and interpretations listed above did not have any significant impact on the financial position or performance of the Group. The Group has not applied any new standards or interpretations that is not yet effective for the current accounting period.

3. SEGMENT INFORMATION

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

The Group is principally engaged in Cigarette Packaging Business and Environmental Treatment Business in the PRC, 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 a measure of operating profit or loss excluding other gains or losses arising from financial assets at fair value through profit or loss (“FVPL”), share of loss of an associate accounted for using the equity method and net impairment losses on financial and contract assets.

Segment assets exclude financial assets at FVPL, investment properties, interest in an associate 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 six months ended 30 June 2024 are as follows:

	Cigarette Packaging Business <i>HK\$'000</i> (Unaudited)	Environmental Treatment Business <i>HK\$'000</i> (Unaudited)	Unallocated <i>HK\$'000</i> (Unaudited)	The Group <i>HK\$'000</i> (Unaudited)
Revenue	58,445	4,069	101	62,615
Segment results	4,077	(14,572)	101	(10,394)
Net impairment losses on financial and contract assets				(6)
Share of loss of an associate accounted for using the equity method				(11)
Other losses arising from financial assets at FVPL				(10,830)
Operating loss				(21,241)
Finance cost – net				(118)
Loss before income tax				(21,359)
Income tax credit				313
Loss for the period				(21,046)
<i>Other segment item</i>				
Depreciation and amortisation	3,835	1,130	–	4,965

The segment results and other segment items of the Group for the six months ended 30 June 2023 are as follows:

	Cigarette Packaging Business <i>HK\$'000</i> (Unaudited)	Environmental Treatment Business <i>HK\$'000</i> (Unaudited)	Unallocated <i>HK\$'000</i> (Unaudited)	The Group <i>HK\$'000</i> (Unaudited)
Revenue	70,806	(121)	50	70,735
Segment results	10,992	(14,811)	50	(3,769)
Net impairment reversal on financial and contract assets				38
Other losses arising from financial assets at FVPL				(4,669)
Operating loss				(8,400)
Finance income – net				477
Loss before income tax				(7,923)
Income tax expense				(519)
Loss for the period				(8,442)
<i>Other segment item</i>				
Depreciation and amortisation	3,809	1,579	–	5,388

(b) The segment assets and liabilities at 30 June 2024 are as follows:

	Cigarette Packaging Business <i>HK\$'000</i> (Unaudited)	Environmental Treatment Business <i>HK\$'000</i> (Unaudited)	Unallocated <i>HK\$'000</i> (Unaudited)	Inter-segment elimination <i>HK\$'000</i> (Unaudited)	The Group <i>HK\$'000</i> (Unaudited)
Segment assets	<u>379,832</u>	<u>210,367</u>	<u>6,996</u>	<u>(198,864)</u>	398,331
Investment properties					14,752
Financial assets at FVPL					22,685
Deferred tax assets					<u>11,806</u>
Total assets					<u>447,574</u>
Segment liabilities	<u>67,790</u>	<u>268,833</u>	<u>-</u>	<u>(198,864)</u>	137,759
Current income tax liabilities					13,236
Deferred tax liabilities					<u>5,067</u>
Total liabilities					<u>156,062</u>
Capital expenditures	<u>440</u>	<u>1,601</u>	<u>-</u>	<u>-</u>	<u>2,041</u>

The segment assets and liabilities at 31 December 2023 are as follows:

	Cigarette Packaging Business <i>HK\$'000</i> (Audited)	Environmental Treatment Business <i>HK\$'000</i> (Audited)	Unallocated <i>HK\$'000</i> (Audited)	Inter-segment elimination <i>HK\$'000</i> (Audited)	The Group <i>HK\$'000</i> (Audited)
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>

4. REVENUE

	Six months ended 30 June	
	2024 <i>HK\$'000</i> (Unaudited)	2023 <i>HK\$'000</i> (Unaudited)
At a point in time		
Sales of cigarette packaging products	58,445	70,806
Agency services	<u>101</u>	<u>50</u>
	<u>58,546</u>	<u>70,856</u>
Over time		
Revenue from environmental and ecological restoration contracts		
– Construction services	2,625	(2,275)
– Maintenance and other services	<u>1,444</u>	<u>2,154</u>
	<u>4,069</u>	<u>(121)</u>
	<u>62,615</u>	<u>70,735</u>

Reversal of revenue from construction services for FP2023 was mainly due to the increase of unpredictable costs for environmental and ecological restoration contracts.

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

	Six months ended 30 June	
	2024 <i>HK\$'000</i> (Unaudited)	2023 <i>HK\$'000</i> (Unaudited)
Customer A	45.2%	37.5%
Customer B	<u>44.6%</u>	<u>62.3%</u>

Majority of the Group's revenue were derived from customers in the PRC for the Reporting Period. (FP2023: same)

(a) **Assets and liabilities related to contracts with customers**

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

	30 June 2024 HK\$'000 (Unaudited)	31 December 2023 HK\$'000 (Audited)
Contract assets relating to construction contracts	41,410	46,105
<i>Less:</i> loss allowance	(38)	(43)
Total contract assets	<u>41,372</u>	<u>46,062</u>

(i) **Significant changes in contract assets**

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

(ii) **Unsatisfied contracts**

The Group's contracts of sales of cigarette packaging products, rendering of agency services, and design and consulting services are for periods of one year or less. Contracts for construction services and maintenance services give the Group rights to consideration from customers in the amount that corresponds directly with the value to the customer of the Group's performance completed to date. As permitted under HKFRS 15, the transaction price allocated to these unsatisfied contracts is not disclosed.

5. EXPENSES BY NATURE

	Six months ended 30 June	
	2024 HK\$'000 (Unaudited)	2023 HK\$'000 (Unaudited)
Cost of inventories sold	35,078	43,097
Staff costs (including directors' emoluments)	15,680	16,845
Raw materials consumed and subcontracting costs for construction contracts	8,666	2,267
Depreciation and amortisation		
– Amortisation of intangible assets	2	26
– Depreciation of property, plant and equipment	3,565	4,014
– Depreciation of right-of-use assets	1,033	984
– Depreciation of investment properties	365	364
Utilities	1,090	1,467
Impairment loss on property, plant and equipment	504	–
Other taxes and surcharges	319	379
Auditor's remuneration		
– Audit service	903	1,169
– Non-audit service	132	135
Other expenses	4,727	3,960
Total cost of sales, distribution costs and administrative expenses	<u>72,064</u>	<u>74,707</u>

6. OTHER LOSSES – NET

	Six months ended 30 June	
	2024	2023
	HK\$'000	HK\$'000
	(Unaudited)	(Unaudited)
Foreign exchange gain	478	203
Dividend income from financial assets at FVPL	143	480
Losses on disposal of property, plant and equipment	(1,423)	(1,380)
Net fair value losses on financial assets at FVPL	(10,973)	(3,769)
	<u>(11,775)</u>	<u>(4,466)</u>

7. INCOME TAX CREDIT/(EXPENSE)

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

The Company's operating subsidiaries incorporated in Hong Kong are subject to income tax at the rate of 16.5% (FP2023: 16.5%) on the assessable profits arising in Hong Kong during the Reporting Period, except for one subsidiary of the Group which is qualifying corporation under the two-tiered profits tax rate regime. For this subsidiary, profits tax will be chargeable at 8.25% on the first HK\$2,000,000 of assessable profits and the remaining assessable profits will be subject to a rate of 16.5% (FP2023: same).

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

On 28 December 2023, Shantou Xinda Packing Colour Printing & Packaging Material Company Limited ("Shantou Xinda") successfully renewed the High and New Technology Enterprise Certificate which was effective for three years commencing on 1 January 2023. As there is no change to the relevant laws and regulations, the directors of the Company (the "Directors") assessed and considered that Shantou Xinda will continue to be granted the preferential tax treatment through an application of renewal. Accordingly, a tax rate of 15% (FP2023: 15%) was applied when considering the current income tax and the deferred income tax for the six months ended 30 June 2024.

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

	Six months ended 30 June	
	2024	2023
	HK\$'000	HK\$'000
	(Unaudited)	(Unaudited)
Current income tax		
PRC enterprise income tax	–	(1,588)
Deferred income tax		
PRC enterprise income tax	313	524
Withholding income tax on profit to be distributed from subsidiaries in the PRC	–	545
	<u>313</u>	<u>1,069</u>
	<u>313</u>	<u>(519)</u>

There were no income tax charges relating to components of other comprehensive income for the six months ended 30 June 2024 (FP2023: same).

8. LOSSES PER SHARE

(a) Basic

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

	Six months ended 30 June	
	2024	2023
	(Unaudited)	(Unaudited)
Loss attributable to owners of the Company (HK\$'000)	(20,987)	(8,073)
Weighted average number of ordinary shares in issue	<u>701,430,000</u>	<u>701,430,000</u>
Basic losses per share	<u>HK(2.99) cents</u>	<u>HK(1.15) 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 diluted shares in issue for the six months ended 30 June 2024 (FP2023: same).

9. DIVIDENDS

The Board does not recommend the payment of an interim dividend for the six months ended 30 June 2024 (FP2023: nil).

10. TRADE RECEIVABLES

	30 June 2024 HK\$'000 (Unaudited)	31 December 2023 HK\$'000 (Audited)
Trade receivables (a)	213,221	216,171
Less: allowance for impairment of trade receivables	<u>(40,777)</u>	<u>(41,244)</u>
Trade receivables – net	<u>172,444</u>	<u>174,927</u>

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

	30 June 2024 HK\$'000 (Unaudited)	31 December 2023 HK\$'000 (Audited)
Within 90 days	26,142	39,406
91 days to 180 days	689	1,014
181 days to 365 days	639	1,429
Over 365 days	<u>185,751</u>	<u>174,322</u>
	<u>213,221</u>	<u>216,171</u>

(b) The Group's trade receivables were denominated in Renminbi ("RMB") at 30 June 2024 (31 December 2023: same).

11. TRADE AND NOTES PAYABLES

	30 June 2024 HK\$'000 (Unaudited)	31 December 2023 HK\$'000 (Audited)
Trade payables (a)	68,793	73,823
Notes payable – bank acceptance notes	<u>32,853</u>	<u>32,439</u>
	<u>101,646</u>	<u>106,262</u>

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

	30 June 2024 HK\$'000 (Unaudited)	31 December 2023 HK\$'000 (Audited)
Within 90 days	51,833	58,348
91 days to 180 days	1,888	872
Over 180 days	<u>15,072</u>	<u>14,603</u>
	<u>68,793</u>	<u>73,823</u>

(b) The Group's trade and notes payables were denominated in RMB as at 30 June 2024 (31 December 2023: 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 Reporting Period, the Group recorded revenue of approximately HK\$62.62 million, representing a decrease of approximately HK\$8.12 million or 11.5% as compared to HK\$70.74 million for FP2023 and loss attributable to owners of the Company of approximately HK\$20.99 million, representing an increase of approximately HK\$12.92 million or approximately 160.1% as compared to the loss attributable to owners of the Company of approximately HK\$8.07 million for FP2023.

Cigarette Packaging Business

During the Reporting Period, the overall revenue and profitability of the Cigarette Packaging Business were adversely affected by the weak consumer market, intense competition, declining demand from key customers and rising raw material prices. Revenue of the Cigarette Packaging Business for FP2024 was approximately HK\$58.45 million, representing a decrease of HK\$12.36 million or 17.5% compared to approximately HK\$70.81 million for FP2023.

The following tables sets forth the breakdown of the Group's revenue from sales of cigarette packaging materials for FP2024 and FP2023:

	FP2024		FP2023	
	<i>HK\$'000</i>	%	<i>HK\$'000</i>	%
Inner Frame paper	36,948	63.2	32,499	45.9
Tipping paper	14,996	25.7	27,026	38.2
Cigarette box frame paper	3,924	6.7	8,673	12.2
Cigarette trademark label	2,577	4.4	2,608	3.7
Total	<u>58,445</u>	<u>100.0</u>	<u>70,806</u>	<u>100.0</u>

Environmental Treatment Business

With the gradual completion of some existing construction projects and the income from river ecological maintenance during the Reporting Period, the Environmental Treatment Business recorded a revenue of approximately HK\$4.07 million, compared to a revenue reversal of approximately HK\$0.12 million for FP2023.

Gross profit and gross profit margin

The gross profit of the Group for FP2024 was approximately HK\$9.03 million (FP2023: HK\$17.92 million) which consisted of gross profit of approximately HK\$16.51 million (FP2023: HK\$23.25 million) from the Cigarette Packaging Business and gross loss of HK\$7.48 million (FP2023: gross loss HK\$5.33 million) from the Environmental Treatment Business.

The gross profit margin of the Group for FP2024 was 14.4%, a decrease of 10.9% as compared to 25.3% for FP2023. This was mainly due to (i) the decrease in gross profit margin of the Cigarette Packaging Business and (ii) the increase in gross loss contributed by the Environment Treatment Business, as no new ecological restoration projects were awarded during the Reporting Period but additional costs were incurred for the maintenance of existing projects.

The gross profit margin of the Cigarette Packaging Business was approximately 28.2%, a decrease of 4.6% as compared to 32.8% for FP2023. The decrease in gross profit margin was mainly due to the decrease in sales from the Cigarette Packaging Business and the increase in raw material prices during the Reporting Period.

Distribution costs

The distribution costs of the Group for the Reporting Period were amounted to approximately HK\$0.28 million, representing an increase of HK\$0.09 million compared to approximately HK\$0.19 million for FP2023.

Administrative expenses

The administrative expenses of the Group for the Reporting Period were approximately HK\$18.20 million (FP2023: HK\$21.70 million), a decrease of 16.1% or approximately HK\$3.50 million.

Net impairment losses/reversal on financial and contract assets

During the Reporting Period, the net impairment losses on financial and contract assets were approximately HK\$0.01 million compared to a net impairment reversal of HK\$0.04 million for FP2023.

Other Losses – Net

The net other losses of the Group for FP2024 were approximately HK\$11.78 million (FP2023: HK\$4.47 million), mainly due to the volatility in the securities markets of Hong Kong and China. The Group recognised dividend income from financial assets at FVPL of approximately HK\$0.14 million (FP2023: HK\$0.48 million) and net fair value losses on financial assets at FVPL of approximately HK\$10.97 million (FP2023: HK\$3.77 million) for the Reporting Period.

Finance cost/income – net

During the Reporting Period, the net finance cost/income of the Group mainly consisted of interest income on certain non-derivative wealth management products and bank deposits and interest expenses on borrowings and lease liabilities. The net financial cost for the Reporting Period was approximately HK\$0.12 million (FP2023: net finance income of HK\$0.48 million).

Income tax credit/expense

The income tax credit for FP2024 was approximately HK\$0.31 million compared to the income tax expense of HK\$0.52 million for FP2023. The Group's indirect wholly-owned subsidiary, Shantou Xinda, was granted a preferential tax rate of 15%.

Loss attributable to owners of the Company

The Group recorded a loss attributable to owners of the Company for FP2024 of approximately HK\$20.99 million, representing an increase of approximately HK\$12.92 million or approximately 160.1%, as compared to the loss attributable to owners of the Company of approximately HK\$8.07 million for FP2023.

Interim dividend

The Board does not recommend the payment of an interim dividend for the Reporting Period (FP2023: 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. The Group's total net loss from the listed securities for FP2024 was approximately HK\$10.83 million (FP2023: HK\$3.29 million), including the loss on change in fair value of HK\$10.97 million (FP2023: HK\$3.77 million) due to the volatility in the securities markets. The management invests in these shares with the expectation that the price will be stable and gradually increase in line with the upward trend of the securities market in China and Hong Kong in the long term.

As at 30 June 2024, the financial assets at FVPL held by the Group are as follow:

	30 June 2024		31 December 2023	
	Number of shares	Amount HK\$'000	Number of shares	Amount HK\$'000
Equity securities listed in Hong Kong:				
Sunac China (1918)	400,000	460	400,000	600
BABA-SW (9988)	10,000	705	30,000	2,268
Tencent (0700)	5,000	1,862	5,000	1,468
Other equity securities (<i>Note 1</i>)		1,594		2,451
Equity securities listed in China:				
Guangdong Liantai 聯泰環保 (603797)	1,260,972	4,311	1,260,972	7,681
Sino Daan 中達安 (300635)	919,189	7,604	715,489	9,933
Guangdong Tonze Electric 天際股份 (002759)	750,000	5,654	1,255,200	14,696
Other equity securities (<i>Note 2</i>)		495		1,775
		22,685		40,872

Notes:

- (1) Other listed equity securities comprised 3 equity securities listed in Hong Kong (31 December 2023: 6).
- (2) Other listed equity securities comprised 3 equity securities listed in China (31 December 2023: 4).

Capital structure, liquidity and financial resources

As at 30 June 2024, the Group had net assets of HK\$291.51 million (31 December 2023: HK\$315.20 million) and working capital surplus of HK\$156.49 million (31 December 2023: HK\$174.66 million).

As at 30 June 2024, the total cash and cash equivalents and restricted cash balances of the Group amounted to approximately HK\$44.65 million (31 December 2023: HK\$46.13 million), including restricted cash at banks of HK\$33.74 million (31 December 2023: HK\$33.79 million) of which all (31 December 2023: all) were denominated in RMB and cash and cash equivalents of HK\$10.91 million (31 December 2023: HK\$12.34 million) of which HK\$9.06 million (31 December 2023: HK\$11.57 million) were denominated in RMB and HK\$0.03 million (31 December 2023: HK\$nil) were denominated in United States dollars.

The following table sets forth the unaudited cash flows for FP2024 and FP2023:

	FP2024 <i>HK\$'000</i>	FP2023 <i>HK\$'000</i>
Net cash used in operating activities	(1,865)	(6,855)
Net cash generated from/(used in) investing activities	7,510	(6,695)
Net cash used in financing activities	(6,651)	(2,712)
Net decrease in cash and cash equivalents	(1,006)	(16,262)
Cash and cash equivalents at the beginning of the period	12,341	47,270
Effect on change in exchange rates	(424)	(746)
Cash and cash equivalents at the end of the period	10,911	30,262

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 30 June 2024, the Group's borrowings of approximately HK\$16.98 million (31 December 2023: HK\$22.62 million) were fixed-rate borrowings denominated in RMB, which were secured by the personal guarantee provided by the controlling shareholder, bearing interest rate of 3.70% (31 December 2023: ranged from 3.70 to 4.00%) per annum and maturing in one year.

The Group's gearing ratio 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. As at 30 June 2024, the gearing ratio was 3.33% (31 December 2023: 4.08%).

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 of the Group 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, prepayments and other receivables, other payables and accruals and lease liabilities that were denominated in HK\$. Presently, the Group has no hedging policy in place with respect to the foreign exchange exposure.

Capital expenditure and commitments

During the Reporting Period, the Group's total capital expenditure amounted to approximately HK\$2.04 million (FP2023: HK\$7.99 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 30 June 2024, the Group had capital commitments for the amount of approximately HK\$4.09 million (31 December 2023: HK\$4.31 million) for acquisition of property, plant and equipment.

Charge on assets

As at 30 June 2024, the Group placed cash deposits of approximately HK\$33.74 million (31 December 2023: HK\$33.79 million), which consisted of deposits of HK\$32.85 million (31 December 2023: HK\$32.44 million) as collateral for the Group's notes payable and deposits of HK\$0.89 million (31 December 2023: HK\$1.35 million) as performance guarantee letter deposits, which were all denominated in RMB.

Contingent liabilities

The Group had no contingent liabilities as at 30 June 2024 and 31 December 2023.

Material acquisitions and disposals for subsidiaries, associates and joint ventures

The Group did not have any material acquisitions and disposals relating to subsidiaries, associates and joint ventures during the Reporting Period.

FUTURE OUTLOOK AND PROSPECTS

Looking ahead, both the Cigarette Packaging Business and the Environmental Treatment Business will remain challenging for the remainder of 2024.

The Cigarette Packaging Business remains the core business of the Group, and we will continue to strengthen our relationships and maintain our excellent reputation with our existing customers, as well as seek new customers to enhance our presence in the cigarette packaging materials market.

Despite creating a better environment, promoting green development and fostering a harmonious coexistence between man and nature remains the policy direction of the PRC government, the Environmental Treatment Business will remain tough in the near future and the chances of awarding new ecological restoration projects will still be low in light of the fiscal stress of the local governments.

In order to broaden the Group's revenue streams and create more value for our shareholders, we will continue to pursue our strategy of concentric and diversified development and strive to seek new business opportunities.

HUMAN RESOURCES

As at 30 June 2024, the Group employed a total of 273 (31 December 2023: 288) permanent employees in China and Hong Kong. Total employee remuneration (including Directors' emoluments and benefits) for the Reporting Period amounted to HK\$15.68 million (FP2023: HK\$16.85 million). The Group offered competitive remuneration packages to its employees based on their performance, qualification and experience and will continue to review with reference to the level and composition of remuneration and the general market conditions. In addition to basic salaries, employees are entitled to other benefits including social insurance contributions, employee provident fund schemes and discretionary incentives.

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 as set out in Part 2 of Appendix C1 of the Listing Rules (the "CG Code").

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 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 Reporting Period, only one regular Board meeting was held to review and discuss the annual 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.

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 Reporting Period, 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 Reporting Period.

REVIEW OF INTERIM RESULTS

The audit committee of the Company has reviewed the interim results of the Group for the Reporting Period.

PUBLICATION OF INTERIM RESULTS AND INTERIM REPORT

This interim results announcement is published on the Company's website (www.huaxihds.com.hk) and the Stock Exchange's website (www.hkexnews.hk). The interim report of the Company for the six months ended 30 June 2024 containing all the information required by the Listing Rules shall be dispatched to the shareholders of the Company 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, 28 August 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.