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KA SHUI INTERNATIONAL HOLDINGS LIMITED

嘉瑞國際控股有限公司

(Incorporated in the Cayman Islands with limited liability)

(Stock code: 822)

ANNOUNCEMENT OF FINAL RESULTS FOR THE YEAR ENDED 31 DECEMBER 2022

FINANCIAL HIGHLIGHTS	For the year ended 31 December		+ / (-)
	2022 HK\$'000	2021 HK\$'000 (Restated)	
RESULTS			
Revenue	1,504,439	1,714,549	(12.3%)
Gross profit	335,334	467,235	(28.2%)
Profit attributable to owners of the Company	74,844	131,139	(42.9%)
EBITDA	183,767	248,716	(26.1%)
PER SHARE DATA			
Earnings per share for profit attributable to owners of the Company			
— Basic (HK cents)	8.37	14.67	(42.9%)
— Diluted (HK cents)	N/A	N/A	N/A

FINANCIAL RESULTS

The Board of Directors (the “**Board**”) of Ka Shui International Holdings Limited (the “**Company**” or “**Ka Shui**”) is pleased to announce the audited final results of the Company and its subsidiaries (collectively the “**Group**”) for the year ended 31 December 2022, together with the comparative figures for the year ended 31 December 2021.

CONSOLIDATED STATEMENT OF PROFIT OR LOSS

		For the year ended 31 December	
	<i>Note</i>	2022 <i>HK\$'000</i>	2021 <i>HK\$'000</i> (Restated)
Revenue	4	1,504,439	1,714,549
Cost of sales		<u>(1,169,105)</u>	<u>(1,247,314)</u>
Gross profit		335,334	467,235
Other income	5	31,220	30,125
(Impairment losses for trade receivables)/reversals of impairment losses on trade receivables		(52)	242
Selling and distribution expenses		(33,568)	(33,116)
General and administrative expenses		(246,690)	(287,988)
Other operating expenses and income		(7,068)	(22,612)
Profit from operations		79,176	153,886
Finance costs	6	(4,165)	(3,259)
Loss on deregistration of a subsidiary		—	(100)
Share of (losses)/profits of associates		<u>(1,058)</u>	<u>45</u>
Profit before tax		73,953	150,572
Income tax expense	7	<u>(5,095)</u>	<u>(22,835)</u>
Profit for the year		<u>68,858</u>	<u>127,737</u>
Attributable to:			
Owners of the Company		74,844	131,139
Non-controlling interests		<u>(5,986)</u>	<u>(3,402)</u>
		<u>68,858</u>	<u>127,737</u>
Earnings per share	8		
— Basic (<i>HK cents</i>)		8.37	14.67
— Diluted (<i>HK cents</i>)		<u>N/A</u>	<u>N/A</u>

**CONSOLIDATED STATEMENT OF PROFIT OR LOSS AND OTHER
COMPREHENSIVE INCOME**

	For the year ended	
	31 December	
	2022	2021
	<i>HK\$'000</i>	<i>HK\$'000</i>
Profit for the year	<u>68,858</u>	<u>127,737</u>
Other comprehensive income:		
<i>Items that will not be reclassified to profit or loss</i>		
Surplus on revaluation of leasehold lands	30,669	4,466
Income tax on items that will not be reclassified to profit or loss	<u>(4,573)</u>	<u>(943)</u>
	<u>26,096</u>	<u>3,523</u>
<i>Items that may be reclassified to profit or loss</i>		
Exchange differences on translating foreign operations	<u>(70,286)</u>	<u>17,421</u>
Other comprehensive income for the year, net of tax	<u>(44,190)</u>	<u>20,944</u>
Total comprehensive income for the year	<u><u>24,668</u></u>	<u><u>148,681</u></u>
Attributable to:		
Owners of the Company	32,182	151,839
Non-controlling interests	<u>(7,514)</u>	<u>(3,158)</u>
	<u><u>24,668</u></u>	<u><u>148,681</u></u>

CONSOLIDATED STATEMENT OF FINANCIAL POSITION

		As at 31 December	
	<i>Note</i>	2022	2021
		HK\$'000	HK\$'000
Non-current assets			
Property, plant and equipment		492,350	547,487
Right-of-use assets		270,990	244,968
Goodwill		2,654	2,654
Other intangible assets		3,382	3,835
Club membership		718	718
Investment in associates		9,845	8,949
Deposits paid for acquisition of property, plant and equipment		20,186	13,411
Deferred tax assets		4,364	99
		804,489	822,121
Current assets			
Inventories		192,525	209,363
Right of return assets		54	54
Trade and bills receivables	9	405,432	453,082
Contract assets		11,420	14,132
Prepayments, deposits and other receivables		43,764	49,543
Due from an associate		702	212
Current tax assets		6,261	1,474
Restricted bank balances		1,860	2,029
Bank and cash balances		244,153	280,683
		906,171	1,010,572
Current liabilities			
Trade payables	10	184,897	209,935
Contract liabilities		8,611	7,854
Refund liabilities		241	241
Other payables and accruals		92,863	103,801
Due to an associate		78	121
Derivative financial liabilities		935	3,486
Bank borrowings		68,835	132,858
Lease liabilities		11,807	8,894
Current tax liabilities		4,475	22,936
		372,742	490,126
Net current assets		533,429	520,446
Total assets less current liabilities		1,337,918	1,342,567

	As at 31 December	
	2022	2021
<i>Note</i>	<i>HK\$'000</i>	<i>HK\$'000</i>
Non-current liabilities		
Bank borrowings	—	10,500
Loan from non-controlling interests	971	803
Lease liabilities	12,662	5,582
Deferred tax liabilities	34,009	31,280
	<u>47,642</u>	<u>48,165</u>
NET ASSETS	<u>1,290,276</u>	<u>1,294,402</u>
Capital and reserves		
Share capital	89,376	89,376
Reserves	1,194,091	1,190,703
	<u>1,283,467</u>	<u>1,280,079</u>
Equity attributable to owners of the Company	1,283,467	1,280,079
Non-controlling interests	6,809	14,323
	<u>1,290,276</u>	<u>1,294,402</u>
TOTAL EQUITY	<u>1,290,276</u>	<u>1,294,402</u>

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

1. CORPORATE INFORMATION

The Company was incorporated in the Cayman Islands as an exempted company with limited liability under the Companies Law of the Cayman Islands on 7 January 2005. The address of its registered office is Windward 3, Regatta Office Park, PO Box 1350, Grand Cayman KY1-1108, Cayman Islands. The address of its principal place of business is Room A, 29/F, Tower B, Billion Centre, 1 Wang Kwong Road, Kowloon Bay, Kowloon, Hong Kong. The Company's shares are listed on the Main Board of The Stock Exchange of Hong Kong Limited (the "Stock Exchange").

The Group is principally engaged in the manufacture and sale of zinc, magnesium and aluminium alloy and plastic products and components which are mainly sold to customers engaging in the household products, 3C (communication, computer and consumer electronics) products, automotive parts and precision components.

In the opinion of the directors of the Company, as at 31 December 2022, PreciseFull Limited, a company incorporated in the British Virgin Islands ("BVI"), is the ultimate parent and Mr. Lee Yuen Fat ("Mr. Lee") is the ultimate controlling party of the Company.

2. BASIS OF PREPARATION

The consolidated financial statements have been prepared in accordance with all applicable Hong Kong Financial Reporting Standards ("HKFRSs") issued by the Hong Kong Institute of Certified Public Accountants (the "HKICPA"). HKFRSs comprise Hong Kong Financial Reporting Standards ("HKFRS"); Hong Kong Accounting Standards ("HKAS"); and Interpretations. These consolidated financial statements also comply with the applicable disclosure provisions of the Rules Governing the Listing of Securities on the Stock Exchange (the "Listing Rules") and with the disclosure requirements of the Companies Ordinance (Cap. 622). Significant accounting policies adopted by the Group are disclosed below.

The HKICPA has issued certain new and revised HKFRSs that are first effective or available for early adoption for the current accounting period of the Group. Note 3 provides information on any changes in accounting policies resulting from initial application of these developments to the extent that they are relevant to the Group for the current and prior accounting periods reflected in the consolidated financial statements.

3. ADOPTION OF NEW AND REVISED HONG KONG FINANCIAL REPORTING STANDARDS

(a) Application of new and revised HKFRSs

The Group has applied the following amendments to HKFRSs issued by the HKICPA for the first time, which are mandatorily effective for the annual period beginning on or after 1 January 2022 for the preparation of the consolidated financial statements:

Amendments to HKAS 16	Property, Plant and Equipment: Proceeds before Intended Use
Amendments to HKAS 37	Onerous Contracts — Cost of Fulfilling a Contract
Amendments to HKFRS 3	Reference to the Conceptual Framework
Amendments to HKFRS 16 (March 2021)	Covid-19 Related Rent Concessions beyond 30 June 2021
Annual Improvements Project	Annual Improvements to HKFRS Standards 2018–2020
Amendments to Accounting Guideline 5	Merger Accounting for Common Control Combinations

None of the application of these amendments to HKFRSs in the current year had material impact on the Group's financial positions and performance for the current and prior years and/or on the disclosures set out in the consolidated financial statements.

(b) New and revised HKFRSs in issue but not yet effective

The Group has not applied any amendments to standards and interpretation that have been issued but are not yet effective for the financial year beginning 1 January 2022. These amendments to standards and interpretation include the following which may be relevant to the Group.

	Effective for accounting 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 HKAS 1 and HKFRS Practice Statement 2 — Disclosure of Accounting Policies	1 January 2023
Amendments to HKAS 8 — Definition of Accounting Estimates	1 January 2023
Amendments to HKAS 12 — Deferred Tax Related to Assets and Liabilities Arising from a Single Transaction	1 January 2023
Amendments to HKFRS 16 — Lease Liability in a Sale and Leaseback	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 by the HKICPA
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 2024

The Group is in the process of making an assessment of what the impact of these amendments to standards and interpretation is expected to be in the period of initial application. So far it has concluded that the adoption of them is unlikely to have a significant impact on the consolidated financial statements.

4. REVENUE AND SEGMENT INFORMATION

The Group is principally engaged in the manufacture and sale of zinc, magnesium and aluminium alloy and plastic products and components, trading of lighting products, production of smart home products and provision of new energy vehicle power systems.

For management purposes, the Group's operation is currently categorised into seven (2021: seven) operating divisions — zinc, magnesium and aluminium alloy, plastic products and components, trading of lighting products, production of smart home products and provision of new energy vehicle power systems. These divisions are the basis of the Group's five reportable segments. The Group's reportable segments are strategic business units that offer different products. They are managed separately because each business requires different technology and different cost measurement.

The Group's other operating segments include trading of lighting products, production of smart home products and provision of new energy vehicle power systems. None of these segments meets any of the quantitative thresholds for determining reportable segments. The information of these other operating segments is included in the "Others" column.

Segment profits or losses do not include interest income, corporate income, share of profits/losses of associates, loss on deregistration of a subsidiary, net fair value gain/loss on derivative financial instruments, corporate expenses, finance costs and income tax expense.

Segment assets and liabilities are not reported or used by the chief operating decision maker.

Information about the reportable segment profit or loss:

	Zinc alloy <i>HK\$'000</i>	Magnesium alloy <i>HK\$'000</i>	Aluminium alloy <i>HK\$'000</i>	Plastic <i>HK\$'000</i>	Others <i>HK\$'000</i>	Total <i>HK\$'000</i>
Year ended 31 December 2022						
Revenue from external customers	99,327	451,100	190,367	706,584	57,061	1,504,439
Segment profit/(loss)	1,130	25,770	4,355	54,620	(5,435)	80,440
Depreciation and amortisation	4,507	47,457	8,513	34,062	3,830	98,369
(Reversal of allowance for inventories)/impairment for allowance for inventories	<u>(90)</u>	<u>1,325</u>	<u>6,942</u>	<u>(4,503)</u>	<u>1,460</u>	<u>5,134</u>
	Zinc alloy <i>HK\$'000</i>	Magnesium alloy <i>HK\$'000</i>	Aluminium alloy <i>HK\$'000</i>	Plastic <i>HK\$'000</i>	Others <i>HK\$'000</i>	Total <i>HK\$'000</i>
Year ended 31 December 2021						
Revenue from external customers	142,537	415,207	144,417	964,538	47,850	1,714,549
Segment profit/(loss)	5,626	41,151	8,835	110,101	(2,574)	163,139
Depreciation and amortisation	4,671	42,661	6,886	29,173	4,390	87,781
(Reversal of allowance for inventories)/impairment for allowance for inventories	<u>—</u>	<u>793</u>	<u>—</u>	<u>15,734</u>	<u>(2,214)</u>	<u>14,313</u>

Reconciliation of reportable segment revenue, profit or loss:

	2022 <i>HK\$'000</i>	2021 <i>HK\$'000</i>
Revenue		
Total revenue of reportable segments		
Unallocated amounts	1,504,439	1,714,549
	<u>—</u>	<u>—</u>
Consolidated revenue	<u><u>1,504,439</u></u>	<u><u>1,714,549</u></u>
	2022 <i>HK\$'000</i>	2021 <i>HK\$'000</i>
Profit or loss		
Total profit of reportable segments	80,440	163,139
Unallocated amounts:		
Share of (losses)/profits of associates	(1,058)	45
Loss on deregistration of a subsidiary	—	(100)
Net fair value gain/(loss) on derivative financial instruments	2,355	(3,665)
Interest income	952	1,042
Finance costs	(4,165)	(3,259)
Government grants	14,775	9,863
Income tax expense	(5,095)	(22,835)
Corporate income	—	—
Corporate expenses	(19,346)	(16,493)
	<u>(19,346)</u>	<u>(16,493)</u>
Consolidated profit for the year	<u><u>68,858</u></u>	<u><u>127,737</u></u>
	2022 <i>HK\$'000</i>	2021 <i>HK\$'000</i>
Other material items — depreciation and amortisation		
Total depreciation and amortisation of reportable segments	98,369	87,781
Unallocated amounts:		
Depreciation of property, plant and equipment, right-of-use assets and amortisation of intangible assets for corporate use	7,280	7,104
	<u>7,280</u>	<u>7,104</u>
Consolidated depreciation and amortisation	<u><u>105,649</u></u>	<u><u>94,885</u></u>

Geographical information:

	Revenue	
	2022	2021
	<i>HK\$'000</i>	<i>HK\$'000</i>
Hong Kong	72,843	94,776
People's Republic of China (the "PRC"), except Hong Kong	734,190	710,434
Japan	—	1,566
USA	556,930	802,710
Others	140,476	105,063
	<u>1,504,439</u>	<u>1,714,549</u>
Consolidated total	<u>1,504,439</u>	<u>1,714,549</u>

In presenting the geographical information, revenue is based on the locations of the customers.

The Group's non-current assets by geographical areas are not presented as the aggregate amount of the geographical segments other than the PRC is less than 10% (2021: less than 10%) of the aggregate amount of all segments.

Revenue from major customers:

	2022	2021
	<i>HK\$'000</i>	<i>HK\$'000</i>
Zinc alloy segment		
Customer a	26,934	32,666
Customer b	47,071	48,894
Magnesium alloy segment		
Customer c	46,396	73,193
Customer d	219,556	197,993
Aluminium alloy segment		
Customer a	21,987	28,862
Customer c	10,783	3,004
Plastic segment		
Customer b	70,502	66,063
Customer e	476,584	733,600
	<u>476,584</u>	<u>733,600</u>

5. OTHER INCOME

	2022 <i>HK\$'000</i>	2021 <i>HK\$'000</i>
Interest income on bank deposits	952	1,042
Rental income	838	1,111
Reimbursement from customers	4,875	6,231
Compensation from suppliers	253	1,361
Sales of scrap materials	4,578	7,748
Government grants (<i>note</i>)	14,775	9,863
Others	4,949	2,769
	<u>31,220</u>	<u>30,125</u>

Note: Government grants recognised during the year are mainly related to various employment support schemes from PRC and Hong Kong governments (2021: mainly related to unconditional support for subsidising the Group's research and development). The Group has complied all attached conditions before 31 December 2022.

6. FINANCE COSTS

	2022 <i>HK\$'000</i>	2021 <i>HK\$'000</i>
Interest expenses on lease liabilities	1,059	618
Interest expenses on bank borrowings	2,941	2,641
Other interest expenses	165	—
	<u>4,165</u>	<u>3,259</u>

7. INCOME TAX EXPENSE

	2022 <i>HK\$'000</i>	2021 <i>HK\$'000</i>
Current tax — Hong Kong Profits Tax		
Provision for the year	12,536	20,108
Over-provision in prior years	(5,049)	(5,973)
Current tax — income tax outside Hong Kong		
Provision for the year	1,720	4,092
(Over)/under-provision in prior years	(449)	1,150
Current tax — PRC dividend withholding tax for the year	815	227
Deferred tax	(4,478)	3,231
	<u>5,095</u>	<u>22,835</u>

Under the two-tiered Profits Tax regime, the first HK\$2 million of profits of the qualifying group entity established in Hong Kong will be taxed at 8.25% (2021: 8.25%), and profits above will be subject to the tax rate of 16.5% (2021: 16.5%). The profits of the group entities not qualifying for the two-tiered Profits Tax rate regime will continue to be taxed at a rate of 16.5%.

Under the PRC Enterprise Income Tax (the “EIT”) Law, the statutory tax rate for the Group’s subsidiaries established and operating in Mainland China is 25% (2021: 25%).

Three (2021: Three) of the Group’s subsidiaries registered in the PRC are recognised as High and New Technology Enterprises which have been granted tax concessions by local tax bureau and are entitled to PRC EIT at the concessionary rate of 15% during the reporting period.

Income tax on overseas profit has been calculated on the estimated assessable profit for the year at the rates of taxation prevailing on the overseas countries in which the Group operates.

According to the PRC EIT Law, withholding tax at a rate of 10% would be imposed on dividend payment relating to profits earned from year 2008 onwards to foreign investors for the companies established in the PRC. Such tax rate may be further reduced by applicable tax treaties or arrangements. According to the Arrangement between the Mainland of China and the Hong Kong Special Administrative Region for the Avoidance of Double Taxation and the Prevention of Fiscal Evasion with respect to Taxes on Income, the withholding tax rate on dividends paid by a PRC resident enterprise to a Hong Kong resident enterprise is further reduced to 5% (2021: 5%) if the Hong Kong resident enterprise holds at least 25% equity interests in the PRC resident enterprise.

8. EARNINGS PER SHARE

The calculation of the basic earnings per share is based on the following:

	2022 <i>HK\$’000</i>	2021 <i>HK\$’000</i>
Earnings		
Profit attributable to owners of the Company, used in the basic earnings per share calculation	<u>74,844</u>	<u>131,139</u>
	2022	2021
Number of shares		
Weighted average number of ordinary shares for the purpose of calculating basic earnings per share	<u>893,761,400</u>	<u>893,761,400</u>

No diluted earnings per share for 2022 and 2021 is presented as the Company did not have any dilutive potential shares for the financial years ended 31 December 2022 and 2021.

9. TRADE AND BILLS RECEIVABLES

	2022 <i>HK\$'000</i>	2021 <i>HK\$'000</i>
Trade receivables	398,656	445,961
Bills receivables	<u>6,776</u>	<u>7,121</u>
	<u>405,432</u>	<u>453,082</u>

The Group's trading terms with customers are mainly on credit. The credit terms generally range from 30 to 120 days (2021: 30 to 120 days) after the end of the month in which the invoices have been issued. Each customer has a maximum credit limit. The Group seeks to maintain strict control over its outstanding receivables. Overdue balances are reviewed regularly by the directors. The ageing analysis of trade receivables, based on the invoice date, and net of allowance, is stated as follows:

	2022 <i>HK\$'000</i>	2021 <i>HK\$'000</i>
0 to 30 days	333,791	181,915
31 to 60 days	50,516	135,361
61 to 90 days	12,065	101,984
91 to 180 days	1,804	25,940
Over 180 days	<u>865</u>	<u>1,114</u>
	399,041	446,314
Less: Allowance for bad and doubtful debts	<u>(385)</u>	<u>(353)</u>
	<u>398,656</u>	<u>445,961</u>

As at 31 December 2022, total bills received amounted to approximately HK\$6,776,000 (2021: HK\$7,121,000) are held by the Group for future settlement of trade receivables. The Group continues to recognise their full carrying amounts at the end of the reporting period. All bills received by the Group are with a maturity period of less than one year.

10. TRADE PAYABLES

The ageing analysis of trade payables, based on the date of receipt of goods, is as follows:

	2022 <i>HK\$'000</i>	2021 <i>HK\$'000</i>
0 to 30 days	53,082	72,849
31 to 60 days	44,693	58,065
61 to 90 days	30,296	40,400
91 to 180 days	40,015	32,944
Over 180 days	<u>16,811</u>	<u>5,677</u>
	<u>184,897</u>	<u>209,935</u>

11. DIVIDEND

	2022 <i>HK\$'000</i>	2021 <i>HK\$'000</i>
2022 Interim dividend of HK0.3 cent (2021: 2021 Interim dividend of HK1.0 cent) per ordinary share	2,682	8,938
2021 Final dividend of HK3.0 cents (2021: 2020 Final dividend of HK3.0 cents) per ordinary share	26,812	26,812
	29,494	35,750

Subsequent to the end of the reporting period, final dividend in respect of the year ended 31 December 2022 of HK2.0 cents per share totaling approximately HK\$17,875,000 has been proposed by the Board of the Company and is subject to approval by the shareholders of the Company at the forthcoming annual general meeting.

12. COMPARATIVE FIGURES

Certain comparative figures have been reclassified to conform to the current year's presentation. The new classification of the accounting items was considered to provide a more appropriate presentation of the state of affairs of the Group.

MANAGEMENT DISCUSSION AND ANALYSIS

(A) Financial Review

During the year under review, the emergence of COVID-19 new variants around the world, soaring inflation and contractionary policies adopted in the West had led to a decline in both local and global consumption markets. In view of this, the Group's overall revenue for the year ended 31 December 2022 (the "Year") recorded a year-on-year decrease of approximately 12.3% to HK\$1,504,439,000 (2021: HK\$1,714,549,000). This is primarily attributed to the unsatisfactory performance in the sales of plastic and zinc alloy business. As a result, the consolidated profit attributable to owners of the Company reduced to approximately HK\$74,844,000 (2021: HK\$131,139,000), representing a drop of 42.9% when compared with that of last year. The Group's gross profit for the Year also decreased by approximately 28.2% to HK\$335,334,000 (2021: HK\$467,235,000 (Restated)) and gross profit margin was approximately 22.3% (2021: 27.3% (Restated)).

The Group's EBITDA, computed as profit before tax, depreciation, amortisation and finance costs, amounted to approximately HK\$183,767,000 (2021: HK\$248,716,000).

(B) Business Review

Plastic business

The revenue of plastic business was affected by the decline of consumption around the world due to COVID-19 pandemic, high inflation and contractionary policies in the West. In this relation, the revenue of plastic business segment had decreased by approximately 26.7% to HK\$706,584,000 (2021: HK\$964,538,000), which accounted for approximately 47.0% (2021: 56.3%) of the Group's overall revenue. The Group will continue to attempt to acquire more orders from different customers by providing the varieties of products and enhancing quality of our products and services for plastic injection and precision products.

Magnesium alloy business

In light of the satisfactory performance in new energy vehicles in 2022, the revenue of the magnesium alloy business slightly increased by approximately 8.6% to HK\$451,100,000 (2021: HK\$415,207,000), accounting for approximately 30.0% of the Group's overall revenue (2021: 24.2%). The focus of the Group on magnesium alloy business will remain on exploring new applications of magnesium alloy in new energy vehicles in the hope of improving the sales performance of magnesium alloy business in the forthcoming future.

Aluminium alloy business

Driven by the rising sales in new energy vehicles, the revenue of the aluminium alloy business for the Year increased by approximately 31.8% to HK\$190,367,000 (2021: HK\$144,417,000) when compared with that of the previous year. The segment's contribution to the Group's overall revenue had also grown from approximately 8.4% in 2021 to approximately 12.7% in 2022. In view of the increasing awareness of people and government in relation to environmental protection and sustainable development, the new energy vehicle market has substantial growth potential. The Group will strive to expand diversified applications of aluminum alloy in new energy vehicles to enhance the profitability of this segment in the forthcoming future.

Zinc alloy business

The persistence of COVID-19 pandemic greatly weakened the consumption in household products. As such, the revenue of the zinc alloy business for the year ended 31 December 2022 was approximately HK\$99,327,000 (2021: HK\$142,537,000), representing a decrease of approximately 30.3% when compared with that of 2021. This business segment accounted for approximately 6.6% of the Group's overall revenue (2021: 8.3%).

Others

The revenue of other businesses (trading of lighting products, production of smart home products and provision of new energy vehicle power systems) increased by approximately 19.2% to HK\$57,061,000 (2021: HK\$47,850,000) when compared with that of the previous year.

(C) Prospects

The global business landscape in 2023 remains uncertain due to ongoing economic and political turbulence. Ongoing geopolitical conflicts, coupled with the cycle of rising interest rates, are expected to persist in the foreseeable future. Nonetheless, the Group has noted positive developments such as the recent deceleration of inflation in the West and the revival of supply chains, as well as deflationary tendencies in the goods sector. Furthermore, the reopening of China, following its exit from disease prevention policy, is anticipated to spur global economic growth. Ka Shui will remain vigilant and agile in response to the ever-changing market conditions while consolidating its competitive edge in innovation, especially in lightweight material application and precision mould development. The Group is prepared to respond to the economic cycle promptly.

Ka Shui is committed to the provision of diversified magnesium industry chain related professional services, with the following “Four New” strategy (“**New Materials, New Business, New Markets, New Opportunities**”) being the Group's long-term development strategy.

New Materials

After years of research and development, Ka Shui's magnesium alloy of high thermal conductivity and its complete production process (including mould making, die-casting, post-machining and surface treatment) have finally been developed. The current thermal conductivity of the material is $100\text{W}/(\text{m} \cdot \text{K})$, which doubles that of the conventional magnesium alloy. The main application for this material is high-end notebooks, AR/VR wearable electronic products and automotive electronic components, which solves the heat dissipation problem.

Besides, the Group has been cooperating with domestic and foreign technology research and development institutions for other magnesium alloy materials including high strength, high toughness and high flow magnesium alloy, which can be widely used in automotive instrument parts, car body structure parts, chassis parts and triboelectric system, etc.

In addition to new materials for magnesium alloys, Ka Shui has also been developing the market for new materials for germ-repelling plastics.

Recently, the American Society for Testing and Materials ("ASTM") E35.15 Committee recently recognized Ka Shui as an active participant and key technical contact in the development of the ASTM E3371-22 antimicrobial standard. Like traditional antimicrobial materials, germ repellent materials are difficult to demonstrate technically through visual and other means, and require a test report based on the appropriate test standard. With the latest ASTM E3371-22 standard, it will help to promote the Group's new materials and increase the recognition of our products by our customers. In addition to the international standards, Ka Shui also actively participates in the establishment of the Chinese National Standard Committee on Plastic Aging Branch (TC15/SC5) regarding the establishment of germ-repelling test standards, in anticipation of further promoting the internal circulation business.

New Business

Lightweight solutions for new energy vehicles have always been a focus of the Group's development.

Lightweight technology has become increasingly crucial in the automotive industry, both for traditional and new energy vehicles, in the pursuit of enhanced energy efficiency and reduced environmental impact. According to a research report, the global automotive lightweight materials market attained a size of US\$67.2 billion in 2021, with an expected compound annual growth rate of 8.1% from 2021 to 2027, reaching US\$107.0 billion by 2027. Ka Shui currently provides lightweight products and solutions for various types of vehicles, including electric, plug-in, and hybrid electric vehicles in China. In addition to decorative auto parts, the Group is directing its efforts towards developing various large magnesium alloy components such as cross car beam, seat skeleton, battery pack case, electric control box, dashboard LCD screen skeleton and commercial vehicle hydrogen storage bottle holder, etc., as well as the components of other integrated electronic systems, including autopilot system, intelligent display system, intelligent control system and heat dissipation system, so as to improve the energy saving of vehicles.

With its large-scale die casting system and machining capacity, the Group possesses a competitive advantage to design and produce massive automotive components in one piece. The Group is optimistic about the growth prospects of the automotive lightweight market and is well-positioned to leverage its product knowledge, innovation, production capacity, and industry experience to increase its market share in the near term.

At present, the self-developed low-floor LPG extended-range minibus launched by the Group can diversify its business on the one hand, and more importantly, it demonstrates the application of lightweight materials in the new energy vehicle parts. The whole vehicle implements low-carbon travel from materials to fuels.

As it is well known, apart from the new energy vehicle business, the sustainable energy and energy storage sector also has great potential for future development. The Group has plans for the development of related products and components and expects that this business can bring new growth momentum to the Group.

New Markets

On July 21, 2020, Chinese President Xi Jinping emphasized the need to smooth out the dual domestic and international circulation. In addition to consolidating the internal circulation business, Ka Shui has to actively explore new international markets.

In response to the country's "One Belt, One Road" and "Go Global" strategies, the Group is actively exploring the expansion of its business in Central Asia, the Middle East and North America to meet local and neighboring demands and hedge against risks arising from geopolitics.

New Opportunities

With over 40 years of rich experience in the metal manufacturing industry and our Industry 4.0 establishment, the Group is actively developing extended businesses. For example, the vertical development of the whole magnesium industry chain and the export of professional services of intelligent manufacturing solutions, in order to leverage our research and development, innovation and manufacturing experience to bring new growth drivers for the Group.

In addition, intelligent products are the general trend. Ka Shui has already accumulated sufficient experience in moving from components to intelligent products, for instance, its smart home products have been sold to overseas markets. The Group will continue to invest in this sector and expects to participate in the development and manufacture of intelligent products in different fields.

Apart from the traditional manufacturing business, the Group has also been actively developing the application of 3D printing in recent years. We are now working closely with the National Intelligent Foundry Industry Light Alloy Innovation Center to promote "rapid casting", cultural creation and conservation areas by mean of 3D sand printing services and solutions.

Rapid casting refers the use of 3D printing technology to quickly build sand mould and use the traditional casting process to shape the metal prototype and subsequently finish the final product with a small amount of finishing. This process is particularly suitable for small batches and also saves a lot of time and money compared to conventional full machining.

The extension from rapid casting to sand-based cultural and conservation products has also opened the way for 3D business diversification. Since the main raw material for 3D sand printing is ordinary sand and the whole product life cycle is environmentally friendly, the service has started to be welcomed by customers who value environmental, social and governance ("ESG") in Hong Kong and the Mainland, and the 3D printed products have started to be displayed in different places for long or short term.

Ka Shui sees this project not only as a new business opportunity, but also a highlight of the value and position that it places on ESG for the Group's sustainable development.

(D) Liquidity and Financial Resources

The Group has adopted a prudent policy in financial resources management, maintaining an appropriate level of cash and cash equivalents as well as adequate facilities to meet the requirements of day-to-day operations and business development, at the same time controlling borrowings at a healthy level.

The principal sources of working capital of the Group during the Year was from cash flows generated from operating activities and bank borrowings. As at 31 December 2022, the Group had restricted bank balances as well as bank and cash balances of approximately HK\$246,013,000 (2021: HK\$282,712,000), most of which were denominated in either US dollars, Renminbi or Hong Kong dollars.

The interest-bearing borrowings of the Group as at 31 December 2022 were bank loans and loan from non-controlling interests with an aggregate amount of approximately HK\$69,806,000 (2021: HK\$144,161,000). All of these borrowings were denominated in Hong Kong dollars and Euros (2021: Hong Kong dollars and Euros) and which were primarily subject to floating interest rates. The borrowings with maturities falling due within one year, in the second to fifth year with repayment on demand clause and in the second to fifth year without repayment on demand clause amounted to HK\$60,502,000, HK\$8,333,000 and HK\$971,000 respectively (2021: HK\$36,000,000, HK\$96,858,000 and HK\$11,303,000 respectively).

As at 31 December 2022, the net gearing ratio (a ratio of the sum of the total bank borrowings and loan from non-controlling interests less restricted bank balances (if any) and bank and cash balances divided by the total equity) of the Group was not applicable since the Group had net cash (restricted bank balances (if any) and bank and cash balances less total borrowings) of HK\$176,207,000 (2021: net cash of HK\$138,551,000).

As at 31 December 2022, the net current assets of the Group were approximately HK\$533,429,000 (2021: HK\$520,446,000), which consisted of current assets of approximately HK\$906,171,000 (2021: HK\$1,010,572,000) and current liabilities of approximately HK\$372,742,000 (2021: HK\$490,126,000), representing a current ratio of approximately 2.4 (2021: 2.1).

(E) Exposure to Foreign Exchange Risk

Most of the Group's transactions were conducted in US dollars, Hong Kong dollars or Renminbi. As such, the Group is aware of the potential foreign currency risk that may arise from the fluctuation of exchange rates between US dollars, Renminbi and Hong Kong dollars. Currently, the Group has not entered into any financial instrument for hedging purposes. However, the Group will closely monitor its overall foreign exchange exposure and take appropriate measures to mitigate the risks that the Group faces from exchange rate fluctuations.

(F) Contingent Liabilities

As at 31 December 2022, the Group had no material contingent liabilities.

(G) Charge on Assets

As at 31 December 2022, none of the assets of the Group were pledged.

(H) Significant Investments, Acquisitions or Disposal

On 19 December 2022, an indirect wholly-owned subsidiary of the Company (the “**Purchaser**”) entered into the sale and purchase agreement with Mr. Lee Yuen Fat (“**Mr. Lee**”) and Ms. Chan So Wah (“**Ms. Chan**”) as vendors, pursuant to which the Purchaser has agreed to acquire the entire issued share capital of Bestgrand Enterprises Limited (“**Bestgrand**”) at a consideration of HK\$7,534,000 (“**Acquisition**”). Bestgrand is the sole legal and beneficial owner of the properties of Room 403 and 404, Block A, Guanlan Garden, Golf Avenue, Guanlan Town, Baoan District, Shenzhen, the PRC.

As vendors are Mr. Lee (being the chairman of the Board, an executive director and controlling shareholder of the Company) and Ms. Chan (being the executive director of the Company), vendors are connected persons of the Company and the Acquisition constituted a connected transaction for the Company. As one or more of the applicable percentage ratios in respect of the Acquisition under the aforesaid sale and purchase agreement exceeds 0.1% but is less than 5%, the Acquisition is subject to reporting and announcement requirements but is exempt from the circular and independent Shareholders’ approval under Chapter 14A of the Listing Rules.

Details of the above Acquisition are set out in the Company’s announcement dated 19 December 2022. As at the date of this announcement, the Acquisition has completed. The Acquisition will also be set out in the section headed “Significant Investments, Acquisitions or Disposal” in the Management Discussion and Analysis of the 2022 annual report to be published.

Save for the above, during the Year, the Group did not have any significant investments, acquisitions or disposals.

(I) Human Resources

As at 31 December 2022, the Group had approximately 3,750 full-time employees (31 December 2021: 4,200). The Group attributes its success to the hard work and dedication of all staff, therefore, they are deemed to be the most valuable assets of the Group. In order to attract and retain high caliber staff, the Group provides a competitive salary package, including retirement schemes, medical benefits and bonuses. The Group's remuneration policy and structure are determined based on market trends, the performance of individual staff as well as the financial performance of the Group. The Group has also adopted a share option scheme and a share award scheme as incentives and rewards for those qualifying staff who have made contributions to the Group. The aforesaid share award scheme was expired on 9 January 2023.

The Group provides regular training courses for different levels of staff and holds various training programs together with PRC institutes and external training bodies. Apart from academic and technical training, the Group also organises different kinds of recreational activities, including New Year gathering, various sports competitions and interest groups. The aim is to promote interaction among staff, establish a harmonious team spirit and promote a healthy lifestyle.

IMPORTANT EVENTS AFFECTING THE GROUP SINCE THE END OF THE YEAR

No significant events affecting the Group that require additional disclosures or adjustments occurred after the financial year ended 31 December 2022.

FINAL DIVIDEND

The Board had recommended the payment of a final dividend of HK2.0 cents per share in respect of the year ended 31 December 2022, in an aggregate amount of approximately HK\$17,875,000. The proposed final dividend will be payable on or about Monday, 19 June 2023 to shareholders whose names appear on the register of members of the Company on Monday, 12 June 2023 subject to the approval of the shareholders of the Company at the forthcoming annual general meeting to be held on Tuesday, 30 May 2023.

CLOSURE OF REGISTER OF MEMBERS

The register of members of the Company will be closed from Wednesday, 24 May 2023 to Tuesday, 30 May 2023, both days inclusive, during which no transfer of shares will be registered. In order to be eligible to attend and vote at the forthcoming annual general meeting of the Company, all share transfer documents accompanied by the relevant share certificates and transfer forms must be lodged with the Company's branch share registrar and transfer office in Hong Kong, Computershare Hong Kong Investor Services Limited, at 17M Floor, Hopewell Centre, 183 Queen's Road East, Wanchai, Hong Kong for registration not later than 4:30 p.m. on Tuesday, 23 May 2023.

The register of members will be closed from Wednesday, 7 June 2023 to Monday, 12 June 2023, both days inclusive, during which no transfer of shares will be registered. In order to qualify for the final dividend, all share transfer documents accompanied by the relevant share certificates and transfer forms must be lodged with the Company's branch share registrar and transfer office in Hong Kong, Computershare Hong Kong Investor Services Limited, at 17M Floor, Hopewell Centre, 183 Queen's Road East, Wanchai, Hong Kong for registration not later than 4:30 p.m. on Tuesday, 6 June 2023.

PURCHASE, SALE OR REDEMPTION OF LISTED SECURITIES OF THE COMPANY

For the year ended 31 December 2022, neither the Company nor any of its subsidiaries has purchased, sold or redeemed any of the listed securities of the Company.

SCOPE OF WORK OF MESSRS. RSM HONG KONG

The financial figures in respect of the Group's consolidated statement of profit or loss, consolidated statement of profit or loss and other comprehensive income, consolidated statement of financial position and the related notes thereto for the year ended 31 December 2022 as set out in this announcement have been agreed by the Company's auditor, Messrs. RSM Hong Kong, to the amounts set out in the Group's audited consolidated financial statements for the year ended 31 December 2022. The work performed by Messrs. RSM Hong Kong in this respect did not constitute an 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 Messrs. RSM Hong Kong on this announcement.

CORPORATE GOVERNANCE

During the Year, the Company has complied with all the code provisions set out in the Corporate Governance Code (the "**CG Code**") contained in Appendix 14 of the Rules Governing the Listing of Securities on the Stock Exchange (the "**Listing Rules**").

AUDIT COMMITTEE

The Company established the Audit Committee in June 2007. The primary duties of the Audit Committee are to review the Company's financial reports, make recommendations on the appointment, removal and remuneration of independent auditor, approve audit and audit-related services, supervise the Company's internal financial reporting procedures and management policies, review the Company's risk management and internal control systems as well as the internal audit function and other duties under the CG code. The Audit Committee comprises four independent non-executive directors, namely Mr. Kong Kai Chuen, Frankie (formerly known as Kong To Yeung, Frankie), Professor Sun Kai Lit, Cliff *BBS, JP*, Ir Dr. Lo Wai Kwok *GBS, MH, JP* and Mr. Andrew

Look, and is chaired by Mr. Kong Kai Chuen, Frankie (formerly known as Kong To Yeung, Frankie), a qualified accountant with extensive experience in financial reporting and controls.

NOMINATION COMMITTEE

The Nomination Committee was set up in June 2007 and is mainly responsible for reviewing the structure, size and the composition of the Board and making recommendations on any proposed change to the Board to complement the Company's corporate strategy, assessing the independence of independent non-executive directors, making recommendations to the Board on the appointment of directors and succession planning for directors. The Nomination Committee consists of (i) four independent non-executive Directors, namely Professor Sun Kai Lit, Cliff *BBS, JP*, Ir Dr. Lo Wai Kwok *GBS, MH, JP*, Mr. Andrew Look and Mr. Kong Kai Chuen, Frankie (formerly known as Kong To Yeung, Frankie) and (ii) one executive director, Mr. Chu Weiman. Professor Sun Kai Lit, Cliff *BBS, JP*, an independent non-executive director, is the Chairman of the Nomination Committee.

REMUNERATION COMMITTEE

The Company established the Remuneration Committee in June 2007. The major duties of the Remuneration Committee are to make recommendations to the Board on the Company's policy and structure for the remuneration of directors and senior management, including the review and/or approval of matters relating to share schemes under Chapter 17 of the Listing Rules. It also reviews and determines the terms of remuneration packages, the award of bonuses and other compensation payable to individual directors and senior management with reference to the Board's corporate goals and objectives. The Remuneration Committee consists of (i) four independent non-executive Directors, namely Professor Sun Kai Lit, Cliff *BBS, JP*, Ir Dr. Lo Wai Kwok *GBS, MH, JP*, Mr. Andrew Look and Mr. Kong Kai Chuen, Frankie (formerly known as Kong To Yeung, Frankie) and (ii) one executive director, Mr. Chu Weiman. The Chairman of the Remuneration Committee is Professor Sun Kai Lit, Cliff *BBS, JP*, an independent non-executive director.

RISK MANAGEMENT COMMITTEE

The Company has set up the Risk Management Committee with terms of reference in October 2020. The main responsibilities of the Risk Management Committee include monitoring and reviewing the process of the risk management and internal control, and advising the Board on the appropriateness, effectiveness of and the proposed improvements to be made to the existing risk management and internal control systems; providing recommendations to the management on risk management and internal control, and setting up procedures to unveil, assess and manage material risk factors and ensure that management discharges its responsibility to implement effective risk management and internal control systems; and reviewing with the Group's management, external auditor

and the internal audit function, the adequacy of the Group's policies and procedures regarding risk management and internal control systems and any relevant statement by the directors to be included in the annual accounts prior to their endorsement by the Board. The Risk Management Committee currently comprises (i) the Chief Executive Officer of the Company (namely Mr. Chu Weiman), (ii) director of manufacturing (namely Mr. Wong Wing Chuen), (iii) director of operations (namely Ms. Chan So Wah), all of whom are executive directors, and (iv) director of sales and marketing (namely Mr. Wong Wai Cheung, Peter) as well as (v) Chief Financial Officer (namely Mr. Seto Sai Cheong Paul). The Chairman of Risk Management Committee is Mr. Chu Weiman.

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. Having made specific enquiry of all directors, all directors have confirmed that they have fully complied with the required standard set out in the Model Code for the year ended 31 December 2022.

REVIEW OF FINANCIAL INFORMATION

The Audit Committee has reviewed the audited consolidated financial statements of the Group for the year ended 31 December 2022.

ACKNOWLEDGEMENT

On behalf of the Board, I would like to extend our sincere appreciation to our customers, suppliers and shareholders for their continuing support, and our management and staff for their dedication and contribution to the Group throughout the year.

By order of the Board
Ka Shui International Holdings Limited
LEE YUEN FAT
Chairman

Hong Kong, 28 March 2023

As at the date of this announcement, the Board comprises four executive directors, namely Mr. Lee Yuen Fat, Mr. Wong Wing Chuen, Mr. Chu Weiman and Ms. Chan So Wah, and four independent non-executive directors, namely Professor Sun Kai Lit, Cliff BBS, JP, Ir Dr. Lo Wai Kwok GBS, MH, JP, Mr. Andrew Look and Mr. Kong Kai Chuen, Frankie.