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HUAXI HOLDINGS COMPANY LIMITED

華禧控股有限公司

(Incorporated in the Cayman Islands with limited liability)

(Stock Code: 01689)

ANNOUNCEMENT OF INTERIM RESULTS FOR THE SIX MONTHS ENDED 30 JUNE 2023

FINANCIAL HIGHLIGHTS

	For the six months ended 30 June		
	2023	2022	
	HK\$'000	HK\$'000	Change
Revenue	70,735	78,213	(9.56%)
Loss attributable to owners of the Company	(8,073)	(7,342)	9.96%
Basic losses per share	HK(1.15) cents	HK(1.05) cents	9.52%

The board (the “**Board**”) of directors (the “**Director(s)**”) of Huaxi Holdings Company Limited (the “**Company**”) is pleased to present the unaudited interim condensed consolidated results of the Company and its subsidiaries (collectively known as the “**Group**”) for the six months ended 30 June 2023 (the “**Period**”), together with the comparative figures for the corresponding period in 2022.

CONDENSED CONSOLIDATED STATEMENT OF COMPREHENSIVE INCOME
For the six months ended 30 June 2023

		Six months ended 30 June	
		2023	2022
	<i>Note</i>	<i>HK\$’000</i>	<i>HK\$’000</i>
		(Unaudited)	(Unaudited)
Revenue	5	70,735	78,213
Cost of sales	6	<u>(52,811)</u>	<u>(64,377)</u>
Gross profit		17,924	13,836
Distribution costs	6	(192)	(236)
Administrative expenses	6	(21,704)	(22,459)
Net impairment reversal/(losses) on financial and contract assets		38	(218)
Other losses — net	7	<u>(4,466)</u>	<u>(5,246)</u>
Operating loss		(8,400)	(14,323)
Finance income — net		<u>477</u>	<u>5,234</u>
Loss before income tax		(7,923)	(9,089)
Income tax (expense)/credit	8	<u>(519)</u>	<u>1,330</u>
Loss for the period		<u>(8,442)</u>	<u>(7,759)</u>
Loss attributable to:			
— Owners of the Company		(8,073)	(7,342)
— Non-controlling interests		<u>(369)</u>	<u>(417)</u>
		<u>(8,442)</u>	<u>(7,759)</u>

	Six months ended 30 June	
	2023	2022
<i>Note</i>	HK\$'000	HK\$'000
	(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>(10,952)</u>	<u>(19,615)</u>
Other comprehensive loss for the period, net of tax	<u>(10,952)</u>	<u>(19,615)</u>
	<u>(19,394)</u>	<u>(27,374)</u>
Total comprehensive loss attributable to:		
— Owners of the Company	<u>(19,229)</u>	<u>(27,252)</u>
— Non-controlling interests	<u>(165)</u>	<u>(122)</u>
	<u>(19,394)</u>	<u>(27,374)</u>
Losses per share attributable to owners of the Company (expressed in HK cent per share)		
— Basic and diluted losses per share	9	<u>HK(1.15) cents</u> <u>HK(1.05)cents</u>

The above condensed consolidated statement of comprehensive income should be read in conjunction with the accompanying notes.

CONDENSED CONSOLIDATED STATEMENT OF FINANCIAL POSITIONS

As at 30 June 2023

		30 June 2023	31 December 2022
	<i>Note</i>	HK\$'000 (Unaudited)	HK\$'000 (Audited)
ASSETS			
Non-current assets			
Property, plant and equipment		52,590	57,446
Right-of-use assets		5,443	6,693
Intangible assets		7	33
Deferred tax assets		9,994	9,852
Investment properties		14,978	15,234
Prepayments for non-current assets		28,078	24,763
		111,090	114,021
Current assets			
Inventories		34,304	45,891
Contract assets	5(a)	36,807	44,351
Trade receivables	11	193,634	220,836
Prepayments and other receivables	12	13,561	8,791
Financial assets at fair value through profit or loss		46,942	52,146
Restricted cash at banks		37,855	43,960
Cash and cash equivalents		30,262	47,270
		393,365	463,245
Total assets		504,455	577,266

		30 June 2023	31 December 2022
	<i>Note</i>	HK\$'000	HK\$'000
		(Unaudited)	(Audited)
EQUITY			
Equity attributable to owners of the Company			
Share capital		3,508	3,508
Other reserves		212,519	223,675
Retained earnings		132,233	140,306
		348,260	367,489
Non-controlling interests		(6,394)	(6,229)
Total equity		341,866	361,260
LIABILITIES			
Non-current liabilities			
Lease liabilities		120	272
Deferred tax liabilities		6,206	7,200
		6,326	7,472
Current liabilities			
Trade and notes payable	<i>13</i>	104,920	142,184
Lease liabilities		1,134	2,295
Other payables and accruals		15,329	24,317
Current income tax liabilities		14,290	17,349
Borrowings		20,590	22,389
		156,263	208,534
Total liabilities		162,589	216,006
Total equity and liabilities		504,455	577,266

The above condensed consolidated statement of financial position should be read in conjunction with the accompanying notes.

NOTES TO THE CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

For the six months ended 30 June 2023

1. GENERAL INFORMATION

Huaxi Holdings Company Limited (the “**Company**”) was incorporated in the Cayman Islands on 29 April 2013 as an exempted company with limited liability under the Companies Law of the Cayman Islands. The address of its registered office is Windward 3, Regatta Office Park, P.O. Box 1350, Grand Cayman, KY1-1108, Cayman Islands.

The Company is an investment holding company. The Company and its subsidiaries (together, the “**Group**”) are principally engaged in (i) manufacture and sales of cigarette packaging materials; and (ii) environmental and ecological restoration treatment business in the People’s Republic of China (the “**PRC**”).

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 2023 (“**Interim Financial Information**”) is presented in thousands of Hong Kong dollar (“**HK\$**”), unless otherwise stated.

This Interim Financial Information has not been audited and has been approved for issue by the Board of the Company on 30 August 2023.

2. BASIS OF PREPARATION AND ACCOUNTING POLICIES

The Interim Financial Information has been prepared in accordance with Hong Kong Accounting Standard 34 “Interim financial reporting”. 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 report for the year ended 31 December 2022 and any public announcements made by the Company during the interim reporting period.

This accounting policies applied are consistent with those of the annual financial statements for the year ended 31 December 2022, as described in those annual financial statements.

2.1 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 2023:

		Effective for reporting periods beginning on or after
HKFRS 17	Insurance Contracts	1 January 2023
Amendments to HKAS 1 and HKFRS Practice Statement 2	Disclosure of Accounting Policies	1 January 2023
Amendments to HKAS 8	Definition of Accounting Estimates	1 January 2023
Amendments to HKAS 12	Deferred Tax related to Assets and Liabilities arising from a Single Transaction	1 January 2023

The new standards, amendments to standards and interpretations 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.

2.2 New standards, amendments to standards and interpretations not yet adopted

The following new standards, amendments to standards and interpretations have been issued but are not effective for the financial period beginning on 1 January 2023 and have not been early adopted by the Group:

		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 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

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

These new standards, amendments to standards and interpretations are not expected to have material impact on the Group in the current or future reporting periods.

3. CRITICAL ACCOUNTING ESTIMATES AND JUDGMENTS

The preparation of the Interim Financial Information requires management to make judgements, estimates and assumptions that affect the application of accounting policies and the reported amounts of assets and liabilities, income and expenses. Actual results may differ from these estimates.

In preparing the Interim Financial Information, the significant judgements made by management in applying the Group’s accounting policies and the key sources of estimation uncertainty were the same as those that applied to the consolidated financial statements for the year ended 31 December 2022.

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

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**”).

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 six months ended 30 June 2023 are as follows:

	Cigarette Packaging Business HK\$’000 (Unaudited)	Environmental Treatment Business HK\$’000 (Unaudited)	Others HK\$’000 (Unaudited)	The Group HK\$’000 (Unaudited)
Revenue	<u>70,806</u>	<u>(121)</u>	<u>50</u>	<u>70,735</u>
Segment results	<u>11,007</u>	<u>(14,788)</u>	<u>50</u>	<u>(3,731)</u>
Other losses arising from financial assets at FVPL				<u>(4,669)</u>
Operating loss				<u>(8,400)</u>
Finance income — net				<u>477</u>
Loss before income tax				<u>(7,923)</u>
Income tax expense				<u>(519)</u>
Loss for the period				<u><u>(8,442)</u></u>
Other segment item				
Depreciation and amortisation	<u>3,809</u>	<u>1,579</u>	<u>–</u>	<u>5,388</u>

The segment results and other segment items of the Group for the six months ended 30 June 2022 are as follows:

	Cigarette Packaging Business <i>HK\$'000</i> (Unaudited)	Environmental Treatment Business <i>HK\$'000</i> (Unaudited)	Others <i>HK\$'000</i> (Unaudited)	The Group <i>HK\$'000</i> (Unaudited)
Revenue	<u>69,257</u>	<u>8,763</u>	<u>193</u>	<u>78,213</u>
Segment results	<u>16,963</u>	<u>(26,254)</u>	<u>193</u>	<u>(9,098)</u>
Other losses arising from financial assets at FVPL				<u>(5,225)</u>
Operating loss				<u>(14,323)</u>
Finance income — net				<u>5,234</u>
Loss before income tax				<u>(9,089)</u>
Income tax credit				<u>1,330</u>
Loss for the period				<u><u>(7,759)</u></u>
Other segment item				
Depreciation and amortisation	<u>2,870</u>	<u>2,257</u>	<u>—</u>	<u>5,127</u>

(b) The segment assets and liabilities at 30 June 2023 are as follows:

	Cigarette Packaging Business HK\$'000 (Unaudited)	Environmental Treatment Business HK\$'000 (Unaudited)	Others HK\$'000 (Unaudited)	Inter-segment elimination HK\$'000 (Unaudited)	The Group HK\$'000 (Unaudited)
Segment assets	<u>382,730</u>	<u>216,896</u>	<u>16,129</u>	<u>(183,214)</u>	432,541
Investment properties					14,978
Financial assets at FVPL					46,942
Deferred tax assets					<u>9,994</u>
Total assets					<u><u>504,455</u></u>
Segment liabilities	<u>74,225</u>	<u>251,082</u>	<u>-</u>	<u>(183,214)</u>	142,093
Current income tax liabilities					14,290
Deferred tax liabilities					<u>6,206</u>
Total liabilities					<u><u>162,589</u></u>
Capital Expenditures	<u>7,988</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>7,988</u>

The segment assets and liabilities at 31 December 2022 are as follows:

	Cigarette Packaging Business HK\$'000 (Audited)	Environmental Treatment Business HK\$'000 (Audited)	Others HK\$'000 (Audited)	Inter-segment elimination HK\$'000 (Audited)	The Group HK\$'000 (Audited)
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><u>577,266</u></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><u>216,006</u></u>
Capital Expenditures	<u>46,556</u>	<u>22,918</u>	<u>-</u>	<u>-</u>	<u>69,474</u>

5. REVENUE

	Six months ended 30 June	
	2023	2022
	HK\$'000	HK\$'000
	(Unaudited)	(Unaudited)
At a point in time		
— Sales of cigarette packaging products	70,806	69,257
— Agency services	50	193
— Revenue from design and consulting services	—	478
	70,856	69,928
Over time		
Revenue from environmental and ecological restoration contracts		
— Construction services	(2,275)	3,004
— Maintenance services	2,154	5,281
	(121)	8,285
	70,735	78,213

Reversal of revenue from construction services 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	
	2023	2022
	HK\$'000	HK\$'000
	(Unaudited)	(Unaudited)
Customer A	62.3%	49.0%
Customer B	37.5%	39.2%

Majority of the Group's revenue were derived from customers in the PRC for the period.

(a) Assets and liabilities related to contracts with customers

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

	30 June 2023 HK\$'000 (Unaudited)	31 December 2022 HK\$'000 (Audited)
Contract assets relating to construction contracts	36,848	44,401
Loss allowance	(41)	(50)
Total contract assets	<u>36,807</u>	<u>44,351</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.

6. EXPENSES BY NATURE

	Six months ended 30 June	
	2023 HK\$'000 (Unaudited)	2022 HK\$'000 (Unaudited)
Cost of inventories sold	43,097	38,104
Staff costs (including directors' emoluments)	16,845	20,217
Raw materials consumed and subcontracting costs for construction contracts	2,267	12,215
Depreciation and amortisation		
— Amortisation of intangible assets	26	47
— Depreciation of property, plant and equipment	4,014	3,513
— Depreciation of right-of-use assets	984	1,567
— Depreciation of investment properties	364	—
Utilities	1,467	2,709
Other taxes and surcharge	379	1,300
Auditor's remuneration		
— Audit service	1,169	1,019
— Non-audit service	135	386
	<u>135</u>	<u>386</u>

7. OTHER LOSSES — NET

	Six months ended 30 June	
	2023	2022
	HK\$'000	HK\$'000
	(Unaudited)	(Unaudited)
Foreign exchange gain/(loss)	203	(21)
Dividend income from financial assets at FVPL	480	948
Losses on disposal of property, plant and equipment	(1,380)	—
Net fair value losses on financial assets at FVPL	(3,769)	(6,173)
	<u>(4,466)</u>	<u>(5,246)</u>

8. INCOME TAX (EXPENSE)/CREDIT

	Six months ended 30 June	
	2023	2022
	HK\$'000	HK\$'000
	(Unaudited)	(Unaudited)
Current income tax		
— PRC corporate income tax	<u>(1,588)</u>	<u>(2,027)</u>
Deferred income tax		
— PRC corporate income tax	524	4,128
— Withholding income tax on profit to be distributed from subsidiaries in the PRC	<u>545</u>	<u>(771)</u>
	<u>(519)</u>	<u>1,330</u>

There were no income tax charges relating to components of other comprehensive income existed for the six months ended 30 June 2023 (six months ended 30 June 2022: same).

9. 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	
	2023	2022
	(Unaudited)	(Unaudited)
Loss attributable to owners of the Company (HK\$'000)	<u>(8,073)</u>	<u>(7,342)</u>
Weighted average number of ordinary shares in issue	<u>701,430,000</u>	<u>701,430,000</u>
Basic losses per share	<u>HK(1.15) cents</u>	<u>HK(1.05) 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 outstanding for the six months ended 30 June 2023 and 2022.

10. DIVIDENDS

No interim dividend for the six months ended 30 June 2023 has been declared (six months ended 30 June 2022: Nil).

11. TRADE RECEIVABLES

	30 June 2023 HK\$'000 (Unaudited)	31 December 2022 HK\$'000 (Audited)
Trade receivables (a)	223,504	251,685
Less: allowance for impairment of trade receivables	(29,870)	(30,849)
	<u>193,634</u>	<u>220,836</u>

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

	30 June 2023 HK\$'000 (Unaudited)	31 December 2022 HK\$'000 (Audited)
Within 90 days	26,932	41,598
91 days to 180 days	3,578	1,469
181 days to 365 days	6,335	8,867
Over 365 days	186,659	199,751
	<u>223,504</u>	<u>251,685</u>

(b) The carrying amounts of Group's trade receivables were denominated in RMB.

12. PREPAYMENTS AND OTHER RECEIVABLES

	30 June 2023 HK\$'000 (Unaudited)	31 December 2022 HK\$'000 (Audited)
Other receivables (a)	13,856	7,029
Prepayments	4,088	6,409
Less: allowance for impairment of other receivables	(4,383)	(4,647)
	<u>13,561</u>	<u>8,791</u>

(a) As at 30 June 2023, other receivables mainly included loans of RMB9,800,000 (equivalent to HK\$10,629,000) to an independent third party, which were unsecured, interest bearing and receivable on demand.

(b) The Group's other receivables were denominated in the following currencies:

	30 June 2023 HK\$'000 (Unaudited)	31 December 2022 HK\$'000 (Audited)
Denominated in RMB	13,504	6,658
Denominated in HK\$	352	371
	<u>13,856</u>	<u>7,029</u>

13. TRADE AND NOTES PAYABLE

	30 June 2023 HK\$'000 (Unaudited)	31 December 2022 HK\$'000 (Audited)
Trade payables (a)	68,379	103,349
Notes payable — bank acceptance notes	36,541	38,835
	<u>104,920</u>	<u>142,184</u>

(a) The ageing analysis of trade payables of the Group was as follows:

	30 June 2023 HK\$'000 (Unaudited)	31 December 2022 HK\$'000 (Audited)
Within 90 days	49,914	84,063
91 days to 180 days	2,255	4,277
Over 180 days	16,210	15,009
	<u>68,379</u>	<u>103,349</u>

(b) The Group's trade and notes payable were denominated in RMB as at 30 June 2023 (31 December 2022: same).

MANAGEMENT DISCUSSION AND ANALYSIS

BUSINESS REVIEW

Overview

Notwithstanding the further relaxation of COVID-19 control policies in PRC 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 PRC's economy outlook remained uncertain in the first half year in 2023. During the six months ended 30 June 2023 (the “**Reporting Period**”), the Group recorded revenues of approximately HK\$70.74 million (30 June 2022: HK\$78.21 million), representing a decrease for approximately HK\$7.47 million or 10%. During the Reporting Period the Group recorded a loss of approximately HK\$8.44 million, representing an increase of loss for approximately HK\$0.68 million or 9%, as compared with a loss of approximately HK\$7.76 million for the corresponding period in 2022, which was mainly resulted from the decrease in finance income of approximately HK\$4.76 million and the change from a tax credit of HK\$1.33 million for the period ended 30 June 2022 to a tax expense of HK\$0.52 million in the Reporting Period.

Revenue

Cigarette Packaging Business of the Group was facing a keen market competition. Revenue from Cigarette Packaging Business was approximately HK\$70.81 million, representing an increase of HK\$1.55 million or 2% as compared with HK\$69.26 million in the corresponding period of 2022.

During the Reporting Period, revenue from Environmental Treatment Business recorded a reversal of HK\$0.12 million representing a decrease of HK\$8.88 million or 101% as compared with a revenue of HK\$8.76 million for the corresponding period in 2022. The decrease was due to the increase of unpredictable costs for environmental and ecological restoration contracts.

Gross Profit

The overall gross profit of the Group during the Reporting Period was approximately HK\$17.92 million (FY2022: HK\$13.84 million), representing an increase of HK\$4.08 million or 29% as compared with the corresponding period in 2022. The overall gross profit margin was increased from 18% for the 6 months ended 30 June 2022 to 25% in the Reporting Period. Increase in gross profit margin was mainly resulted from decrease in contract costs from Environmental Treatment Business during the Reporting Period. During the Reporting Period, the Group's gross profit for Cigarette Packaging Business was approximately HK\$23.20 million (30 June 2022: HK\$24.62 million) and the gross loss for Environmental Treatment Business was approximately HK\$5.33 million (30 June 2022: gross loss HK\$10.98 million).

Administrative Expenses

Administrative expenses mainly consisted of staff costs, legal and professional fees, research and development expenses. The Group's administrative expenses for the Reporting Period was approximately HK\$21.70 million which was decreased by approximately HK\$0.76 million or 3% as compared with approximately HK\$22.46 million in the corresponding period in 2022.

Finance Income — Net

Finance income of the Group during the Reporting Period was approximately HK\$0.48 million (30 June 2022 HK\$5.23 million). Finance income were interest income from bank deposits and other financial assets.

Income Tax (Expense)/Credit

The Group's income tax for the six months ended 30 June 2023 was approximately HK\$0.52 million (30 June 2022: income tax credit HK\$1.33 million).

During the Reporting Period, a preferential income tax rate of 15% were applied Shantou Xinda Colour Printing & Packaging Material Co. Ltd.

Loss Attributable to Owners of the Company

The loss attributable to owners of the Company for the Reporting Period amounted approximately HK\$8.07 million (30 June 2022: HK\$7.34 million) and the basic losses per share of HK1.15 cents (30 June 2022: loss per share HK1.05 cents).

Capital Structure, Liquidity and Financial Resources

At 30 June 2023, the Group had net assets of HK\$341.87 million (31 December 2022: HK\$361.26 million); and a working capital surplus of HK\$237.10 million (31 December 2022: surplus HK\$254.71 million).

At 30 June 2023, the Group's total cash and restricted cash balances amounted to approximately HK\$68.12 million (31 December 2022: HK\$91.23 million) including restricted cash of HK\$37.86 million (31 December 2022: HK\$43.96 million) and cash and cash equivalent HK\$30.26 million (31 December 2022: HK\$47.27 million).

For the six months ended 30 June 2023, the Group's net cash used in operating activities, financing activities and investing activities were approximately HK\$6.86 million, HK\$6.70 million and HK\$2.71 million respectively.

Based on the Group's steady cashflow from operations, coupled with sufficient cash and bank balances, the Group has adequate liquidity and financial resources to meet the daily operations and working capital requirements as well as to fund its expansion plans. By taking a prudent financial management attitude, the Group continued to maintain the healthy financial position.

Borrowings and gearing ratio

As at 30 June 2023, the Group's bank borrowings which secured by personal guarantee provided by the controlling shareholder of the Group were approximately HK\$20.59 million (RMB18.98 million) repayable in one year (31 December 2022: HK\$22.39 million (RMB20.00 million)).

The Group's gearing ratios is calculated as net borrowings divided by total capital. Net borrowings are calculated as borrowings plus lease liabilities less cash and cash equivalents. Total capital is calculated as "total equity" as shown in the financial statements plus net borrowings. No gearing ratio was presented as the Group had net cash surplus as at 30 June 2023 (31 December 2022: same).

Charge on assets

As at 30 June 2023, the Group placed cash deposits of approximately HK\$37.86 million (31 December 2022: HK\$43.96 million), which comprised deposits of HK\$36.55 million (31 December 2022: HK\$38.84 million) as collateral for the Group's notes payable and deposits of HK\$1.31 million (31 December 2022: HK\$5.12 million) as performance guarantee letter deposits, which were all denominated in RMB.

Saved as above, no other assets of the Group was pledged.

Contingent liability

The Group has no significant contingent liabilities as at 30 June 2023 and 31 December 2022.

Financial Assets at Fair Value through Profit or Loss

The Group adopted a prudent attitude in its securities investment. 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 Board exercised caution while actively managing its investment portfolio in accordance with the Company's strategy and policy. The fair values of the listed securities are determined with reference to the quoted market prices available on the relevant stock exchanges. Both Hong Kong and the PRC securities markets were affected by the global and domestic economy, the Group recorded a loss from listed securities was approximately HK\$3.77 million (30 June 2022: HK\$6.17 million). The management invests in these shares expecting the price will be stable and gradually increase in line with the upward trend of the financial market.

As at 30 June 2023, the Group held the following financial assets at fair value through profit or loss:

	30 June 2023		31 December 2022	
	Number of shares	Amount HK\$'000	Number of shares	Amount HK\$'000
Equity securities listed in Hong Kong				
Sunac China (01918)	400,000	552	400,000	1,080
BABA — SW (09988)	30,000	2,436	30,000	2,588
Tencent (0700)	5,000	1,658	5,000	1,586
Other listed equity securities (Note 1)		2,917		3,744
Equity listed in the PRC				
Guangdong Liantai (聯泰環保 603797)	1,260,972	7,604	1,260,972	7,792
Guangdong Tonze Electric (天際股份 002759)	1,255,200	19,032	1,255,200	22,805
Other listed equity securities (Note 2)		12,743		12,551
		<u>46,942</u>		<u>52,146</u>

Notes:

(1) Other listed equity securities comprised 6 equity securities in Hong Kong (31 December 2022: 5).

(2) Other listed equity securities comprised 6 equity securities in the PRC (31 December 2022: 8).

Exposure to fluctuations in exchange rate

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

The Group's exposure to foreign currency risk was primarily related to certain cash and bank balances, financial assets at FVPL and other receivables denominated in HK dollar. Presently, the Group has no hedging policy with respect to the foreign exchange exposure.

Capital expenditure

During the period under review, the Group's total capital expenditure amounted to approximately HK\$7.99 million (30 June 2022: HK\$46.03 million), which was used in the acquisition of property, plant and equipment, investment properties, prepayments for non-current assets and right-of-use assets.

Capital commitments

As at 30 June 2023, the Group had capital commitments for the amount of approximately HK\$5.44 million (31 December 2022: HK\$4.42 million) for acquisition of property, plant and equipment.

FUTURE OUTLOOK

In the second half of 2023, the Group will further improve its operational efficiency and optimisation in quality control measure and procedure to maintain product quality of our cigarette packaging materials to maximize our customers' satisfaction. The Group will continue to allocate sufficient resources to research and development in order to enhance the quality of our products. Meanwhile, we are committed to achieve better quality control and adopt and enhancing flexible strategies in its production process, supply chains, logistics and marketing to maintain its competitive position.

The Group will keep evaluating its technique and equipment to pursue strategic opportunities arising from the development of the ecological restoration industry. We will continue to explore new water environmental projects, including the construction of drainage pipe network and river ecological maintenance. The Group will stick to its proven business strategies to maintain and strengthen its growth and performance to sustain its well-recognised reputation in the market. While solidifying our Cigarette Packaging Business, we will proactively pursue strategic opportunities that would be beneficial to the overall business development to provide better returns to the shareholders.

EMPLOYEES AND REMUNERATION POLICIES

As at 30 June 2023, the total number of the Group's staff was 295 (as at 30 June 2022: 314). The Group remunerates its employees based on their performance, experience and prevailing industry practice. The Group provides retirement benefit for its employees in Hong Kong in form of mandatory provident fund, and pays social pension insurance and housing provident fund for its employees in China in accordance with the local laws and regulations.

SHARE OPTION SCHEME

A share option scheme was originally adopted by the Company for a period of 10 years pursuant to a written resolution of all the shareholders of the Company on 14 November 2013 (the “**Old Share Option Scheme**”). The Old Share Option Scheme was subsequently terminated on 16 June 2023 and a new share option scheme (the “**New Share Option Scheme**”) was adopted on the same day at the annual general meeting of the Company for a further 10 years. The adoption of the New Share Option Scheme was approved by the Company in the annual general meeting held on 16 June 2023. Please refer to the circular and the announcement of the Company dated 28 April 2023 and 16 June 2023 for details of the New Share Option Scheme. The aim of the New Share Option Scheme is to recognise the past contribution and future performance and contribution of the employees (full-time and part time), directors, suppliers, service providers, advisers and consultants (“**Eligible Participants**”) to the long term growth of the Group by granting Options to them as incentives or rewards and to attract, retain and motivate high-calibre Eligible Participants in line with the performance goals of the Group. No share options was granted for the six months ended 30 June 2023 under the New Share Option Scheme.

MATERIAL ACQUISITION OR DISPOSAL OF SUBSIDIARIES, ASSOCIATES AND JOINT VENTURES

During the Reporting Period, there were no material acquisitions or disposals of subsidiaries, associated companies or joint ventures.

INTERIM DIVIDEND

The Board does not recommend the distribution of any interim dividend for the Reporting Period (30 June 2022: Nil).

PURCHASE, SALE OR REDEMPTION OF THE COMPANY'S SECURITIES

During the six months ended 30 June 2023, neither the Company nor any of its subsidiaries purchased, sold or redeemed any of the Company's listed securities.

SUFFICIENCY OF PUBLIC FLOAT

Based on the information that is publicly available to the Company and within the knowledge of the Directors as at the date of this announcement, the Company has maintained the prescribed public float of not less than 25% of the Company's issued shares as required under the Listing Rules during the period under review.

RISK MANAGEMENT

The Group has established and maintained sufficient risk management procedures to identify and control various types of risk within the organization and the external environment with active management participation and effective internal control procedures in the best interests of the Group and its shareholders.

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 (the "**Board**") of directors (the "**Directors**") of the Company 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 Appendix 14 of the Rules Governing the Listing of Securities on The Stock Exchange of Hong Kong Limited (the "**Listing Rules**").

The Company periodically reviews its corporate governance practices to ensure its continuous compliance with the CG Code. In the opinion of the Directors, the Company was in compliance with the applicable code provisions of the CG Code for the six months ended 30 June 2023 and, where appropriate, the applicable recommended best practices of the CG Code, save and except for the following deviations:

Code Provision A.2.1

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

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

Code Provision A.6.7

Under Code Provision A.6.7, independent non-executive directors and other non-executive directors, as equal board members, should attend general meetings. During the Reporting Period, an independent non-executive director and a non-executive director was unable to attend annual general meetings of the Company held on 16 June 2023 as they were out of town for other business commitments.

Code Provision C.1.2

Under Code Provision C.1.2, management should provide all members of the board with monthly updates giving a balanced and understandable assessment of the Company's performance, position and prospects in sufficient detail to enable the board as a whole and each director to discharge their duties under Rule 3.08 and Chapter 13. During the Reporting Period, management did not provide the board with monthly updates required under Code Provision C.1.2 of the CG Code. As all the executive Directors were involved in the daily operation of the Group and were fully aware of the performance, position and prospects of the Company. The Company has also based on business situation, provided to the Board from time to time, updated business information to enable the Board as a whole and each Director to discharge their duties.

COMPLIANCE WITH THE MODEL CODE FOR SECURITIES TRANSACTIONS BY DIRECTORS

The Company has adopted the Model Code for Securities Transactions by Directors of Listed Issuers (the "**Model Code**") as set out in Appendix 10 to the Listing Rules.

Specific enquiry has been made of all the Directors and the Directors have confirmed that they have complied with the Model Code throughout the six months ended 30 June 2023.

DIRECTORS' INTERESTS IN COMPETING BUSINESSES

During the Reporting Period, none of the Directors had any interests in a business which competes, either directly, or indirectly, with the business of the Company or the Group.

REVIEW OF FINANCIAL STATEMENTS BY THE AUDIT COMMITTEE

The Audit Committee comprises three members, namely Mr. Lau Kwok Hung (Chairman), Mr. Fok Po Tin and Mr. Cai Xiaowen, had reviewed the unaudited condensed consolidated financial statements of the Group for the six months ended 30 June 2023. During the period, one regular meeting of the Audit Committee has been held.

PUBLICATION OF THE INTERIM RESULTS AND INTERIM REPORT

This interim results announcement is published on the websites of the Stock Exchange (www.hkex.com.hk) and the Company (www.huaxihds.com.hk). The interim report for the period containing all the information required by Appendix 16 to the Listing Rules will be dispatched to Shareholders and available on the same websites in due course.

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

Hong Kong, 30 August 2023

As at the date of this announcement, the Board comprises Mr. Zheng Andy Yi Sheng and Mr. Zheng Minsheng as executive Directors; Mr. Hao Jiming as non-executive Director and Mr. Lau Kwok Hung, Mr. Fok Po Tin and Mr. Cai Xiaowem as independent non-executive Directors.