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 UNAUDITED INTERIM RESULTS FOR THE SIX MONTHS ENDED 30 JUNE 2024

FINANCIAL HIGHLIGHTS

	For the six months ended 30 June		
	2024	2023	+/(-)
	HK$'000	*HK$'000*	
	(unaudited)	(unaudited)	
RESULTS			
Revenue	**614,102**	531,611	15.5%
Gross profit	**84,721**	103,136	(17.9%)
Loss attributable to owners of the Company	**(50,097)**	(21,703)	130.8%
EBITDA	**7,229**	23,423	(69.1%)
PER SHARE DATA			
Loss per share for loss attributable to owners of the Company			
— Basic *(HK cents)*	**(5.61)**	(2.43)	130.9%
— Diluted *(HK cents)*	**N/A**	N/A	N/A

The board (the "**Board**") of directors (the "**Directors**") of Ka Shui International Holdings Limited (the "**Company**" or "**Ka Shui**") is pleased to announce the unaudited interim financial results of the Company and its subsidiaries (collectively the "**Group**") for the six months ended 30 June 2024, together with the comparative figures for the corresponding period in 2023.

CONDENSED CONSOLIDATED STATEMENT OF PROFIT OR LOSS

		For the six months ended 30 June	
		2024	2023
		HK$'000	*HK$'000*
	Note	**(unaudited)**	(unaudited)
Revenue	*4*	**614,102**	531,611
Cost of sales		**(529,381)**	(428,475)
Gross profit		**84,721**	103,136
Other income	*5*	**12,149**	12,654
Impairment losses for trade receivables		**(184)**	(1,357)
Selling and distribution expenses		**(18,370)**	(16,544)
General and administrative expenses		**(120,581)**	(114,592)
Other operating expenses and income		**(1,801)**	(4,643)
Loss from operations		**(44,066)**	(21,346)
Finance costs	*6*	**(5,642)**	(2,056)
Share of profits/(losses) of associates		**739**	(853)
Loss before tax		**(48,969)**	(24,255)
Income tax (expense)/credit	*7*	**(4,126)**	1,493
Loss for the period	*8*	**(53,095)**	(22,762)
Attributable to			
Owners of the Company		**(50,097)**	(21,703)
Non-controlling interests		**(2,998)**	(1,059)
		(53,095)	(22,762)
Loss per share			
— Basic *(HK cents)*	*10*	**(5.61)**	(2.43)
— Diluted *(HK cents)*	*10*	**N/A**	N/A

CONDENSED CONSOLIDATED STATEMENT OF PROFIT OR LOSS AND OTHER COMPREHENSIVE INCOME

	For the six months ended 30 June	
	2024	2023
	HK$'000	*HK$'000*
	(unaudited)	(unaudited)
Loss for the period	**(53,095)**	(22,762)
Other comprehensive income:		
Item that may be reclassified to profit or loss:		
Exchange differences on translating foreign operations	**(11,470)**	(11,678)
Other comprehensive income for the period, net of tax	**(11,470)**	(11,678)
Total comprehensive income for the period	**(64,565)**	(34,440)
Attributable to		
Owners of the Company	**(61,350)**	(33,166)
Non-controlling interests	**(3,215)**	(1,274)
	(64,565)	(34,440)

CONDENSED CONSOLIDATED STATEMENT OF FINANCIAL POSITION

	Note	**As at 30 June 2024** ***HK$'000*** **(unaudited)**	As at 31 December 2023 *HK$'000* (audited)
Non-current assets			
Property, plant and equipment		**519,226**	505,610
Right-of-use assets		**254,227**	266,597
Goodwill		**2,654**	2,654
Other intangible assets		**29,964**	30,531
Club membership		**718**	718
Investments in associates		**11,811**	13,845
Equity investment at fair value through other comprehensive income (FVTOCI)		**44,785**	45,272
Non-current deposits		**9,431**	13,834
Deferred tax assets		**4,210**	4,255
		877,026	883,316
Current assets			
Inventories		**213,969**	159,822
Right of return assets		**54**	54
Trade and bills receivables	*11*	**376,553**	417,912
Contract assets		**7,659**	12,631
Prepayments, deposits and other receivables		**58,543**	42,023
Due from an associate		**—**	354
Current tax assets		**10,205**	8,060
Restricted bank balances		**1,838**	1,855
Bank and cash balances		**251,147**	194,464
		919,968	837,175

	Note	As at 30 June 2024 HK$'000 (unaudited)	As at 31 December 2023 HK$'000 (audited)
Current liabilities			
Trade payables	*12*	**214,538**	214,513
Contract liabilities		**17,453**	8,015
Refund liabilities		**242**	242
Other payables and accruals		**101,236**	97,420
Bank borrowings		**199,995**	63,333
Lease liabilities		**11,898**	14,398
Current tax liabilities		**488**	950
		545,850	398,871
Net current assets		**374,118**	438,304
Total assets less current liabilities		**1,251,144**	1,321,620
Non-current liabilities			
Loan from non-controlling interests		**1,185**	1,185
Lease liabilities		**20,992**	26,042
Deferred tax liabilities		**38,597**	39,796
		60,774	67,023
NET ASSETS		**1,190,370**	1,254,597
Capital and reserves			
Share capital		**89,376**	89,376
Reserves		**1,094,294**	1,154,956
Equity attributable to owners of the Company		**1,183,670**	1,244,332
Non-controlling interests		**6,700**	10,265
TOTAL EQUITY		**1,190,370**	1,254,597

NOTES TO THE CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

1. CORPORATION 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, trading of lighting products, provision of motor vehicle repairing services, sales of special purpose vehicles, provision of new energy vehicles power systems and production of smart home and other products 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 30 June 2024, Precisefull Limited, a company incorporated in the British Virgin Islands, is the ultimate parent and Mr. Lee Yuen Fat ("**Mr. Lee**") is the ultimate controlling party of the Company.

2. BASIS OF PREPARATION

These condensed consolidated financial statements have been prepared in accordance with Hong Kong Accounting Standard ("**HKAS**") 34 "Interim Financial Reporting" issued by the Hong Kong Institute of Certified Public Accountants (the "**HKICPA**") and the applicable disclosures required by the Rules Governing the Listing of Securities on The Stock Exchange of Hong Kong Limited (the "**Listing Rules**").

These condensed consolidated financial statements should be read in conjunction with the 2023 annual financial statements. Except as described below, the accounting policies (including the significant judgements made by management in applying the Group's accounting policies and the key sources of estimation uncertainty) and methods of computation used in the preparation of these condensed consolidated financial statements are consistent with those used in the annual financial statements for the year ended 31 December 2023.

3. NEW AND AMENDED HONG KONG FINANCIAL REPORTING STANDARDS ("HKFRS")

(a) New and amended standards adopted by the Group

The Group has applied the following amendments for the first time from 1 January 2024:

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

As a result of the adoption of the amendments to HKAS 1, the Group changed its accounting policy for the classification of borrowings as below:

"Borrowings are classified as current liabilities unless at the end of the reporting period, the Group has a right to defer settlement of the liability for at least 12 months after the reporting period."

This new policy did not result in a change in the classification of the Group's borrowings. The Group did not make retrospective adjustments as a result of adopting the amendments to HKAS 1.

(b) Impact of new and amended standards issued but not yet adopted by the Group

In September 2023, HKICPA amended HKAS 21 to help entities to determine whether a currency is exchangeable into another currency, and which spot exchange rate to use when it is not. These new requirements will apply for annual reporting periods beginning on or after 1 January 2025. The management does not expect the amendment to have a material impact on the consolidated financial statements.

In July 2024, HKICPA issued HKFRS 18 which is effective for annual reporting periods beginning on or after 1 January 2027, with early application permitted. HKFRS 18 introduces significant changes to the presentation of financial statements, with a focus on information about financial performance present in the statement of profit or loss, which will affect how the Group present and disclose financial performance in the financial statements. The key changes introduced in HKFRS 18 relate to (i) the structure of the statement of profit or loss, (ii) required disclosures for management-defined performance measures (which are referred to alternative or non-GAAP performance measures), and (iii) enhanced requirements for aggregation and disaggregation of information. The management is currently assessing the impact of applying HKFRS 18 on the presentation and the disclosures of 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, provision of motor vehicle repairing services, sales of special purpose vehicles, provision of new energy vehicles power systems and production of smart home and other products.

For management purposes, the Group's operation is currently categorised into nine (2023: nine) operating divisions — zinc, magnesium, aluminium alloy, plastic products and components, trading of lighting products, provision of motor vehicle repairing services, sales of special purpose vehicles, provision of new energy vehicles power systems and production of smart home and other products. 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.

Operating divisions including provision of motor vehicle repairing services, sales of special purpose vehicles and provision of new energy vehicles power systems are aggregated into motor vehicle power systems segment as they have similar economic characteristics including sharing similar type of customers for their products and services.

The Group's other operating segments include production of smart home and other products. 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, government grants, net fair value gains on derivative financial instruments, share of profits/(losses) of associates, gain on step-up acquisition, loss on deregistration of a subsidiary, finance costs, corporate expenses and income tax (expense)/credit.

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

An analysis of the Group's revenue and results for the period by reportable segment is as follows:

	Zinc alloy	**Magnesium alloy**	**Aluminium alloy**	**Plastic**	**Lighting products**	**Motor vehicle power systems**	**Others**	**Total**
	HK$'000	***HK$'000***	***HK$'000***	***HK$'000***	***HK$'000***	***HK$'000***	***HK$'000***	***HK$'000***
	(unaudited)	**(unaudited)**	**(unaudited)**	**(unaudited)**	**(unaudited)**	**(unaudited)**	**(unaudited)**	**(unaudited)**
For the six months ended 30 June 2024								
Revenue from external customers	**30,188**	**199,916**	**96,666**	**268,981**	**15,198**	**2,983**	**170**	**614,102**
Segment (loss)/profit	**(4,210)**	**3,895**	**251**	**(26,559)**	**(6,258)**	**(3,677)**	**(138)**	**(36,696)**
Depreciation and amortisation	**2,199**	**12,796**	**4,948**	**22,851**	**2,532**	**34**	**—**	**45,360**
(Reversal of allowance for inventories)/impairment for allowance for inventories	**(108)**	**(1,123)**	**(2,510)**	**1,158**	**4,397**	**—**	**(6)**	**1,808**
For the six months ended 30 June 2023								
Revenue from external customers	36,007	159,106	117,548	190,213	21,794	6,597	346	531,611
Segment (loss)/profit	(2,509)	(9,542)	(791)	398	1,679	(5,330)	(1,061)	(17,156)
Depreciation and amortisation	2,990	11,048	5,170	21,616	765	88	8	41,685
Impairment for allowance for inventories	—	3,097	—	—	—	—	—	3,097

	For the six months ended 30 June	
	2024	2023
	HK$'000	*HK$'000*
	(unaudited)	(unaudited)
Reconciliation of reportable segment profit or loss:		
Total loss of reportable segments	**(36,696)**	(17,156)
Unallocated amounts:		
Interest income	**1,458**	2,598
Government grants	**1,241**	2,943
Net fair value gain on derivative financial instruments	**—**	872
Share of profits/(losses) of associates	**739**	(853)
Gain on step-up acquisition	**438**	—
Loss on deregistration of a subsidiary	**(137)**	—
Finance costs	**(5,642)**	(2,056)
Corporate expenses	**(10,370)**	(10,603)
Income tax (expense)/credit	**(4,126)**	1,493
Consolidated loss for the period	**(53,095)**	(22,762)

5. OTHER INCOME

	For the six months ended 30 June	
	2024	2023
	HK$'000	*HK$'000*
	(unaudited)	(unaudited)
Interest income	**1,458**	2,598
Reimbursement from customers	**2,611**	1,791
Sales of scrap materials	**3,485**	2,435
Government grants	**1,241**	2,943
Others	**3,354**	2,887
	12,149	12,654

6. FINANCE COSTS

	For the six months ended 30 June	
	2024	2023
	HK$'000	*HK$'000*
	(unaudited)	(unaudited)
Interest expenses on bank borrowings	**4,511**	1,709
Interest expenses on lease liabilities	**1,131**	347
	5,642	2,056

7. INCOME TAX EXPENSE/(CREDIT)

	For the six months ended 30 June	
	2024	2023
	HK$'000	*HK$'000*
	(unaudited)	(unaudited)
Current tax — Hong Kong Profits Tax		
Provision for the period	**385**	15
Under/(over)-provision in prior years	**117**	(2,177)
Current tax — Income tax outside Hong Kong		
Provision for the period	**3,965**	733
Under-provision in prior years	**766**	219
Deferred tax	**(1,107)**	(283)
	4,126	(1,493)

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%, and profits above that amount will be subject to the tax rate of 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% (six months ended 30 June 2023: 16.5%). Income tax on overseas profit has been calculated on the estimated assessable profit for the period at the rates of taxation prevailing on the overseas countries in which the Group operates.

8. LOSS FOR THE PERIOD

The Group's loss for the period is arrived at after charging/(crediting):

	For the six months ended 30 June	
	2024	2023
	HK$'000	*HK$'000*
	(unaudited)	(unaudited)
Cost of inventories sold *(note (b))*	**486,843**	382,974
Allowance for inventories, net *(note (a))*	**1,808**	3,097
Amortisation of intangible assets	**1,658**	221
Bad debts written off *(note (a))*	**9**	325
Depreciation of property, plant and equipment	**37,920**	36,229
Depreciation of right-of-use assets	**10,978**	9,172
Impairment loss on property, plant and equipment *(note (a))*	**—**	407
Impairment loss on right-of-use assets *(note (a))*	**—**	1,402
Net exchange gain	**(746)**	(1,006)
Loss on disposal of property, plant and equipment *(note (a))*	**999**	98
Loss on deregistration of a subsidiary *(note (a))*	**137**	—
Gain on early termination of a lease *(note (a))*	**(826)**	—
Gain on step-up acquisition *(note (a))*	**(438)**	—
Property, plant and equipment written off *(note (a))*	**112**	186
Net fair value gain on derivative financial instruments *(note (a))*	**—**	(872)
Research and development expenditure	**8,893**	22,865
Employee benefits expense (including director's emolument):		
— Salaries, bonuses and allowances	**224,505**	149,504
— Retirement benefit scheme contributions	**18,031**	13,633
— Equity-settled share-based payments *(note (c))*	**688**	2,076
— Other benefits	**14,378**	12,610

Notes:

(a) These amounts are included in other operating expenses and income.

(b) Cost of inventories sold includes staff costs and depreciation of approximately HK$210,474,000 (2023: HK$157,123,000), which are included in the amounts disclosed separately above.

(c) Equity-settled share-based payments represents amortisation to the profit or loss of the fair value of share options measured at the respective grant dates, regardless the share options could be exercised or not.

9. DIVIDENDS

	For the six months ended 30 June	
	2024	2023
	HK$'000	*HK$'000*
	(unaudited)	(unaudited)
Dividends paid during the period		
Final dividend for the year ended 31 December 2023:		
HK Nil cent per ordinary share (Final dividend for the year ended 31 December 2022: HK2.0 cents per ordinary share)	**—**	17,875

The Board has resolved not to declare an interim dividend in respect of the six months ended 30 June 2024 (2023: HK Nil cent).

10. LOSS PER SHARE

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

	For the six months ended 30 June	
	2024	2023
	HK$'000	*HK$'000*
	(unaudited)	(unaudited)
Loss		
Loss attributable to owners of the Company, used in the basic earnings per share calculation	**(50,097)**	(21,703)
Number of shares	***'000***	*'000*
Weighted average number of ordinary shares used in basic earnings per share calculation	**893,761**	893,761

No diluted loss per share are presented as the effect of all potential ordinary shares are anti-dilutive for the six months ended 30 June 2024 and 2023.

11. TRADE AND BILLS RECEIVABLES

	As at 30 June 2024 HK$'000 (unaudited)	As at 31 December 2023 HK$'000 (audited)
Trade receivables	**372,163**	408,201
Bills receivables	**4,390**	9,711
	376,553	417,912

The Group's trading terms with customers are mainly on credit. The credit terms generally range from 30 to 120 days (31 December 2023: 30 to 120 days) after the end of the month in which the invoices are 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 as at 30 June 2024, based on the invoice date, and net of allowance for bad and doubtful debt, is stated as follows:

	As at 30 June 2024 HK$'000 (unaudited)	As at 31 December 2023 HK$'000 (audited)
0 to 30 days	**148,984**	157,827
31 to 60 days	**88,460**	106,173
61 to 90 days	**75,250**	80,425
91 to 180 days	**50,715**	59,800
Over 180 days	**10,765**	5,805
Less: Allowance for bad and doubtful debts	**(2,011)**	(1,829)
	372,163	408,201

12. TRADE PAYABLES

The Group normally obtains credit terms ranging from 30 to 90 days (31 December 2023: 30 to 90 days) from its suppliers. The ageing analysis of trade payables as at 30 June 2024, based on the invoice date, is as follows:

	As at 30 June 2024	As at 31 December 2023
	HK$'000	*HK$'000*
	(unaudited)	(audited)
0 to 30 days	**77,018**	65,481
31 to 60 days	**39,121**	54,482
61 to 90 days	**46,990**	32,301
91 to 180 days	**36,076**	37,490
Over 180 days	**15,333**	24,759
	214,538	214,513

MANAGEMENT DISCUSSION AND ANALYSIS

(A) Financial Review

During the first half of 2024, the demand for stock replenishment following last year's channel destocking, coupled with anticipated interest rate cuts by the third quarter this year, has invigorated the Group's brand customers to place new orders. As such, the Group's revenue for the six months ended 30 June 2024 (the "**Period**") recorded an increase of approximately 15.5% to HK$614,102,000 (2023 first half: HK$531,611,000). This is primarily attributable to the satisfactory performance in the sales of plastics and magnesium alloy businesses. However, volume-driven pricing strategy and change of product mix led to a reduction in the Group's overall gross profit margin. At the same time, production costs increased compared to the same period last year, mainly due to the fact that production in Mexico is still in its early stages and costs are relatively high. As a result, the Group's gross profit dropped by approximately 17.9% to HK$84,721,000 (2023 first half: HK$103,136,000) and gross profit margin was 13.8% (2023 first half: 19.4%).

Due to the decrease in gross profit, the Group recorded a net loss attributable to owners of the Company of HK$50,097,000 for the Period (2023 first half: net loss of HK$21,703,000). The Group's EBITDA, computed as profit before tax, depreciation, amortisation of intangible assets and finance costs, amounted to approximately HK$7,229,000 (2023 first half: HK$23,423,000).

(B) Business Review

Plastic business

Leveraging the Group's "China + Mexico" dual-location manufacturing strategy, the revenue of plastic business for the Period had risen by approximately 41.4% to HK$268,981,000 (2023 first half: HK$190,213,000) as compared with 2023 first half. The contribution of this business segment to the Group's total revenue had also increased approximately to 43.8% (2023 first half: 35.8%) in the Period. Due to the relatively higher cost of production involved in the early stages of the operation of the Group's Mexico plant for the Period, the Group recorded a temporary loss in this segment. The Group had implemented measures to increase the production efficiency of the Mexico plant during the Period and the directors of the Company anticipate that cost efficiency improvements would be achieved in the second half of 2024. Furthermore, the Group will continue to optimize the production efficiency of the Mexico plant and further develop the market in North America.

Magnesium alloy business

The popularization of AI created demand for heat dissipation materials which ensure stable operation of notebook CPU under high-load tasks. As such, there was a growing demand for our self-developed high thermal conductivity magnesium alloy with a better dissipating heat feature. It has seen an increase in the revenue of magnesium alloy business for the Period of approximately 25.6% to HK$199,916,000 (2023 first half: HK$159,106,000), accounting for approximately 32.6% of the Group's overall revenue (2023 first half: 29.9%). The Group is now working with the renowned R&D Institutes in mainland China in the search of the optimal formula on composition of the magnesium alloy with the aim to seize the business opportunity to further expand its customer base and market share.

Aluminium alloy business

Affected by the better performance of magnesium alloy lightweight electronic control and electric drive products which leads to a relative decline in the use of the aluminium alloy in new energy vehicles, the revenue of aluminium alloy business has recorded a decrease of approximately 17.8% to HK$96,666,000 (2023 first half: HK$117,548,000). The contribution of this segment also dropped to approximately 15.7% of the Group's overall revenue (2023 first half: 22.1%).

Zinc alloy business

Due to the substantial reduction in the demand on household products in the Period, the revenue of zinc alloy business decreased by approximately 16.2% to HK$30,188,000 (2023 first half: HK$36,007,000) as compared with the same period last year, accounting for approximately 4.9% (2023 first half: 6.8%) of the Group's overall revenue.

Others

The revenue during the Period of other businesses (including trading of lighting products, production of smart home products and other products, provision of motor vehicle repairing services, sales of special purpose vehicles and provision of new energy vehicles power systems) dropped by approximately 36.1% to HK$18,351,000 (2023 first half: HK$28,737,000).

(C) Prospects

Looking ahead to the second half of 2024, the Group is poised to seize emerging market opportunities. The demand for stock replenishment following last year's channel destocking, coupled with anticipated interest rate cuts-by the third quarter this year, has invigorated the Group's brand customers to place new orders, especially in the notebook and mobile accessories segments. This activity is in preparation for the traditional festive seasons, where consumer sentiment is expected to rebound. Meanwhile, orders from traditional transportation and new energy vehicles remain stable. As such, the Group is cautiously optimistic for the remainder of the year.

Leveraging its established global platform in material solutions and its "China + Mexico" dual-location manufacturing, the Group will continue to expand both horizontally and vertically, embracing the opportunities arising from the dual domestic and international circulation. Internally, the Group is committed to strengthening production through technology and digitalization. By utilizing big data and cloud computing for real-time management decision-making and precise production scheduling, the Group will endeavor to further minimize operating risks, labor and idle time, thereby enhancing quality, precision, and efficiency of its manufacturing processes.

This approach aligns with the Central Government's initiative to develop "New Quality Productive Forces".

"Four New" Strategy Updates

New Business

In June 2024, the Group secured an order from a leading domestic aerial vehicle manufacturer to supply magnesium alloy casing products for its aerial vehicles. This milestone marks the Group's entry into the "Low-altitude Economy" supply chain. The rapid growth of this sector is set to become a significant driver for the Group's new business development. Additionally, the Group is collaborating with leading companies in the aerial vehicle and new energy vehicle industries to develop magnesium alloy lightweight electronic control and electric drive products.

China's low-altitude economic sector has seen rapid growth, buoyed by supportive policies together with increasing numbers of low-altitude aircraft and enterprises. This sector, projected to contribute up to RMB5 trillion to the economy by 2025, includes various activities deploying civil-manned and unmanned aerial vehicles, such as passenger transport, cargo and food delivery, and short-distance navigable transportation. This presents significant opportunities for both upstream and downstream industries, including the lightweight component supply.

For four decades, the Group has been well recognized by the market for its expertise in providing lightweight component solutions to a broad range of industries ranging from communication devices and accessories, personal care, automotive parts to smart home products and new energy vehicles. With the low-altitude economy and the rapid development of new energy vehicle industry, the demand for magnesium alloy die casting components is growing. Magnesium alloy plays an important role in improving the vehicle energy efficiency due to its excellent lightweight features. As such, light alloys with high strength and high heat dissipation efficiency, developed by the Group, and its large-scale die casting facilities are well-suited to cater to the high energy efficiency demands of all kinds of transportation, including this newly developed aerial vehicle market.

New Materials

As a vertically integrated magnesium solution provider, the Group consistently develops new products for different industries and applications. In view of the rise of the low-altitude economy, Chinese enterprises are focusing on developing large-scale logistics drones and airway logistics networks. Working hand-in-hand with aerial vehicle manufacturers, the Group has increased its R&D investments in high thermal conductivity magnesium alloys, enhancing their flame-retardant and heat-resistance properties.

Recently, collaborated with our R&D partners, the Group has successfully developed material products that meet the flame retardancy requirements of the US Federal Aviation Administration FAA-AR-00-12-Chapter-25 and Chapter-26. The same products have patented technology and passed the flame retardancy comparison test with conventional materials. These materials are essential for applications in aerial vehicle parts, where efficient heat dissipation is crucial. The Group's expertise in light alloy and large-scale die casting as well as machining capabilities, positions it well to capture this market demand, solidifying its industry-leading position in this emerging market and the transportation industry.

With the popularization of AI, the configuration of software and hardware equipped with AI needs to be improved simultaneously. In terms of hardware, heat dissipation is crucial for the stability and performance of AI system as the powerful computing ability of AI system will generate a large amount of heat. Therefore, with the development of AI, the importance and demand of heat dissipation materials have also increased. Compared with the magnesium alloy AZ91D commonly used in notebook computers, the high thermal conductivity magnesium alloy independently developed by the Group is more efficient in dissipating in heat generated by the CPU of notebook computers, thus improving the operating efficiency and stability of CPU, ensuring its stable operation under high-load tasks, and improving the firmness, durability and corrosion resistance of notebook computers. Currently, the Group has provided magnesium alloy notebook computer auto parts to many world-renowned consumer electronics brands. With the rapid development of AI system and their adoption to running on notebook computers, it is expected to bring more development opportunities to the Group's notebook computer business.

To better meet the demand for AI computing speed for future notebook computers, the Group have made breakthrough progress in improving the thermal conductivity of magnesium alloy. According to the latest third-party testing data, the thermal conductivity of the Group's new generation of ultra-high thermal conductivity magnesium alloy has been significantly increased from 110W/(m • K) in the first generation to 140W/(m • K). The Group is now working with the renowned R&D Institutes in mainland China in the search for the optimal formula on composition of the alloy. It is expected that small and medium scale production trials will be conducted to further validate the properties of the alloy with the aim to optimize it.

The Group's materials are mainly used in cold chamber die-casting technology currently, however, with the industry advancement, thixo-moulding methods are expected to become an important development direction for future manufacturing processes for their high density and excellent performance. Therefore, the Group expects to develop a series of special materials for semi-solid equipment moulding to increase the market share of the Group in various die casting industry.

New Market

Leveraging its "China + Mexico" dual-location manufacturing strategy, the Group now offers comprehensive multi-location solutions to its customers, effectively capitalizing on both domestic and international markets. The sophisticated production bases in Guangdong, China, continue to serve domestic and non-US customers, while the newly acquired production facility in Mexico caters specifically to the US market, reducing geopolitical risks and logistics costs. This strategic production layout has significantly increased the Group's market share by attracting more orders from both existing and new customers. The Group is committed to optimizing the Mexico production base by replicating the efficient operations of its Chinese facilities. Despite the expected restructuring costs and investments to be incurred with optimization process, it is expected that the optimization process, once completed, will greatly enhance the long-term profitability and sustainability of the Mexico plant.

New Opportunities

Market diversification continues to be a central focus for the Group. The Group is actively seeking opportunities in Southeast Asia and the Middle East, aligning with regional initiatives such as the Belt and Road Initiative. Furthermore, the Group is exploring emerging sectors like 3D tailor-made printing, smart electronics and hydrogen economy. With the rise of the low-altitude economy, and the increasing demand for lightweight metals, the Group will take the new materials, especially flame-retardant magnesium alloys, as new opportunities for development. By strategically expanding along the value chain, the Group aims to leverage its strengths and provide greater value to its customers and the industry as a whole.

Conclusion

Driven by the "New Quality Productive Forces" and "Four New" strategy, the Group has successfully developed a number of lightweight electric drive auto parts, and at the same time actively exploring the development of new magnesium alloy materials. Such innovations are not only in line with the development trend of the industry, but also reflect our commitment to technological advancement and material innovation.

While 2024 will undoubtedly present challenges, it also offers numerous opportunities. The Group is committed to meeting these challenges and proactively enhancing overall performance to achieve greater profitability. With its adaptive strategies and resilient operations, the Group is confident in its ability to navigate the fast-changing business landscape and drive long-term 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 Period were from cash flows generated from operating activities and bank borrowings. As at 30 June 2024, the Group had restricted bank balances as well as bank and cash balances of approximately HK$252,985,000 (31 December 2023: HK$196,319,000), most of which were denominated in either US dollars, Renminbi or Hong Kong dollars.

The interest-bearing borrowings of the Group as at 30 June 2024 were bank loans and loan from non-controlling interests with an aggregate amount of approximately HK$201,180,000 (31 December 2023: HK$64,518,000). All of these borrowings were denominated in Hong Kong dollars (31 December 2023: Hong Kong dollars) and which were primarily subject to floating interest rates. The bank 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$179,995,000, HK$20,000,000 and HK$1,185,000 respectively (31 December 2023: HK$63,333,000, HK$Nil and HK$1,185,000 respectively).

As at 30 June 2024, the net gearing ratio (a ratio of the sum of the total bank borrowings and loan from non-controlling interests less restricted bank balances 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 and bank and cash balances less total bank borrowings and loan from non-controlling interests of HK$51,805,000 (31 December 2023: net cash of HK$131,801,000).

As at 30 June 2024, the net current assets of the Group were approximately HK$374,118,000 (31 December 2023: HK$438,304,000), which consisted of current assets of approximately HK$919,968,000 (31 December 2023: HK$837,175,000) and current liabilities of approximately HK$545,850,000 (31 December 2023: HK$398,871,000), representing a current ratio of approximately 1.7 (31 December 2023: 2.1).

(E) Exposure to Foreign Exchange Risk

During the Period, most of the Group's transactions were conducted in US dollars, Hong Kong dollars, Renminbi or Mexican Peso. 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, Mexican Peso 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 30 June 2024, the Group had no material contingent liabilities.

(G) Charge on Assets

As at 30 June 2024, none of the assets of the Group were pledged.

(H) Significant Investments, Acquisitions or Disposal

For the six months ended 30 June 2024, the Group did not have any significant investments, acquisitions or disposals.

(I) Human Resources

As at 30 June 2024, the Group had approximately 4,430 full-time employees (31 December 2023: 4,762). 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 as incentives and rewards for those qualifying staff who have made contributions to the Group.

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 PERIOD

No significant events affecting the Group that require additional disclosures or adjustments occurred after the six months ended 30 June 2024.

INTERIM DIVIDEND

The Board considers that it is prudent to retain an appropriate level of funds to take advantage of business opportunities as and when they arise, and therefore has resolved not to declare an interim dividend for the six months ended 30 June 2024 (2023: HK Nil cent).

PURCHASE, SALE OR REDEMPTION OF LISTED SECURITIES OF THE COMPANY

For the six months ended 30 June 2024, neither the Company nor any of its subsidiaries has purchased, sold or redeemed any of the listed securities of the Company.

CORPORATE GOVERNANCE

During the Period, the Company has complied with all the code provisions set out in the Corporate Governance Code (the "**CG Code**") contained in Part 2 of Appendix C1 to 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 services, develop, implement and review a policy on engaging independent auditors to supply non-audit services, approve the scopes and fees for non-audit assignments, 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. RSM Hong Kong will confirm its independence before accepting the engagement of non-audit services. 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. Tang Koon Yiu, Thomas (who was appointed as an independent non-executive director and a member of the Audit Committee of the Company with effect from 31 May 2024) and is chaired by Mr. Kong Kai Chuen, Frankie, a qualified accountant with extensive experience in financial reporting and controls. Following Mr. Andrew Look's retirement as an independent non-executive director of the Company, he has ceased to be a member of the Audit Committee with effect from 31 May 2024.

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. Kong Kai Chuen, Frankie (formerly known as Kong To Yeung, Frankie) and Mr. Tang Koon Yiu, Thomas (who was appointed as an independent non-executive director and a member of the Nomination Committee of the Company with effect from 31 May 2024) 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. Following Mr. Andrew Look's retirement as an independent non-executive director of the Company, he has ceased to be a member of the Nomination Committee with effect from 31 May 2024.

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. Kong Kai Chuen, Frankie (formerly known as Kong To Yeung, Frankie) and Mr. Tang Koon Yiu, Thomas (who was appointed as an independent non-executive director and a member of the Remuneration Committee of the Company with effect from 31 May 2024) 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. Following Mr. Andrew Look's retirement as an independent non-executive director of the Company, he has ceased to be a member of the Remuneration Committee with effect from 31 May 2024.

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 ensuring 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 (namely Mr. Chu Weiman), (ii) Vice Chairman (namely Mr. Wong Wing Chuen), (iii) Director of Planning and Management (namely Ms. Chan So Wah), all of whom are executive directors, (iv) Director of Sales and Marketing (namely Mr. Wong Wai Chung, Peter) and (v) the Chief Financial Officer (namely Mr. Yu Wai Chun), who was appointed as a new member of Risk Management Committee with effect from 26 August 2024. 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 C3 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 during the Period.

REVIEW OF FINANCIAL INFORMATION

The Audit Committee has reviewed the unaudited condensed consolidated financial statements of the Group for the six months ended 30 June 2024.

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 Period.

By Order of the Board
Ka Shui International Holdings Limited
Lee Yuen Fat
Chairman

Hong Kong, 26 August 2024

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. Kong Kai Chuen, Frankie and Mr. Tang Koon Yiu, Thomas.