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HUAXI HOLDINGS COMPANY LIMITED

華禧控股有限公司

(Incorporated in the Cayman Islands with limited liability)

(Stock Code: 1689)

ANNOUNCEMENT OF FINAL RESULTS FOR THE YEAR ENDED 31 DECEMBER 2024

FINANCIAL HIGHLIGHTS

- Revenue decreased by 7.5% to HK\$143.77 million
- Gross profit decreased by 77.9% to HK\$7.38 million
- Operating loss increase by 179.8% to HK\$119.89 million
- Loss attributable to owners of the Company increased by 169.0% to HK\$110.77 million
- Basic losses per share increased by 168.99% to HK15.79 cents
- No final dividend was proposed for the year ended 31 December 2024 (2023: Nil).

The board (the “**Board**”) of directors (the “**Directors**”) of Huaxi Holdings Company Limited (the “**Company**”) hereby announces the audited consolidated financial results of the Company and its subsidiaries (collectively, the “**Group**”) for the year ended 31 December 2024 (the “**Year**”), together with its comparative figures for the corresponding period in 2023.

CONSOLIDATED STATEMENT OF COMPREHENSIVE INCOME

For the year ended 31 December 2024

		Year ended 31 December	
		2024	2023
	<i>Note</i>	<i>HK\$'000</i>	<i>HK\$'000</i>
Revenue	4	143,768	155,387
Cost of sales	5	(136,393)	(122,091)
Gross profit		7,375	33,296
Distribution costs	5	(998)	(926)
Administrative expenses	5	(41,227)	(45,810)
Net impairment losses on financial and contract assets	6	(79,612)	(17,861)
Other losses – net		(5,156)	(11,555)
Share of loss of an associate accounted for using the equity method		(274)	–
Operating loss		(119,892)	(42,856)
Finance (cost)/income – net		(110)	409
Loss before income tax		(120,002)	(42,447)
Income tax credit	7	8,931	816
Loss for the year		(111,071)	(41,631)
Loss attributable to:			
– Owners of the Company		(110,765)	(41,184)
– Non-controlling interests		(306)	(447)
		(111,071)	(41,631)
Other comprehensive loss			
<i>Items that will not be reclassified to profit or loss:</i>			
Currency translation differences on translation to presentation currency		(6,524)	(4,428)
Other comprehensive loss for the year, net of tax		(6,524)	(4,428)
Total comprehensive loss for the year		(117,595)	(46,059)
Total comprehensive loss attributable to:			
– Owners of the Company		(117,433)	(45,702)
– Non-controlling interests		(162)	(357)
		(117,595)	(46,059)
Losses per share attributable to owners of the Company (expressed in HK cent per share)			
– Basic and diluted losses per share	8	HK(15.79) cents	HK(5.87) cents

CONSOLIDATED STATEMENT OF FINANCIAL POSITION

As at 31 December 2024

		31 December 2024	31 December 2023
	<i>Note</i>	HK\$'000	HK\$'000
ASSETS			
Non-current assets			
Property, plant and equipment		51,357	54,309
Right-of-use assets		6,746	7,366
Intangible assets		17	29
Deferred tax assets		10,427	11,577
Investment properties		14,172	15,223
Prepayments for non-current assets	<i>10</i>	–	26,795
Other non-current assets	<i>11</i>	–	31,757
		82,719	147,056
Current assets			
Inventories		24,245	28,543
Contract assets	<i>4(a)</i>	19,184	46,062
Trade receivables	<i>12</i>	143,601	174,927
Prepayments and other receivables	<i>11</i>	4,594	4,907
Financial assets at fair value through profit or loss		13,161	40,872
Restricted cash at banks		37,548	33,790
Cash and cash equivalents		25,826	12,341
		268,159	341,442
Total assets		350,878	488,498
EQUITY			
Equity attributable to owners of the Company			
Share capital		3,508	3,508
Other reserves		212,690	219,157
(Accumulated losses)/retained earnings		(11,844)	99,122
		204,354	321,787
Non-controlling interests		(6,748)	(6,586)
Total equity		197,606	315,201

		31 December 2024	31 December 2023
	<i>Note</i>	HK\$'000	HK\$'000
LIABILITIES			
Non-current liabilities			
Lease liabilities		606	1,162
Deferred tax liabilities		4,914	5,350
		5,520	6,512
Current liabilities			
Trade and notes payables	13	109,265	106,262
Contract liabilities	4(a)	2,427	–
Lease liabilities		2,306	1,962
Other payables and accruals		20,970	21,243
Current income tax liabilities		2,524	14,696
Borrowings		10,260	22,622
		147,752	166,785
Total liabilities		153,272	173,297
Total equity and liabilities		350,878	488,498

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 31 December 2024

1. GENERAL INFORMATION

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

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

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

The Company’s shares have been listed on the Main Board of The Stock Exchange of Hong Kong Limited (the “**Stock Exchange**”) since 6 December 2013.

These consolidated financial statements are presented in thousands of Hong Kong dollars (“**HK\$**”) unless otherwise stated.

2. BASIS OF PREPARATION

- (a) Compliance with Hong Kong Financial Reporting Standards (“**HKFRSs**”) and Hong Kong Companies Ordinance (Cap.622) (“**HKCO**”)

The consolidated financial statements of the Group have been prepared in accordance with HKFRSs and the disclosure requirements of HKCO.

- (b) Historical cost convention

The consolidated financial statements have been prepared under the historical cost convention, as modified by the revaluation of financial assets at fair value through profit or loss (“**FVPL**”), which are carried at fair value.

- (c) New and amended standards adopted by the Group for the year ended 31 December 2024

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

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

The 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.

(d) New standards, amendments to standards and interpretations not yet adopted

Certain new accounting standards and interpretations have been published that are not mandatory for 31 December 2024 reporting period and have not been early adopted by the Group. These standards are not expected to have a material impact on the Group in the current or future reporting periods and on foreseeable future transactions.

		Effective for reporting periods beginning on or after
Amendments to HKAS 21	Lack of Exchangeability	1 January 2025
Amendments to HKFRS 9 and HKFRS 7	Amendments to the Classification and Measurement of Financial Instruments	1 January 2026
Annual Improvements to HKFRS Accounting Standards – Volume 11	Amendments to HKFRS 1, HKFRS 7, HKFRS 9, HKFRS 10 and HKAS 7	1 January 2026
HKFRS 18	Presentation and Disclosure in Financial Statements	1 January 2027
HKFRS 19	Subsidiaries without Public Accountability: Disclosures	1 January 2027
Amendments to HKFRS 10 and HKAS 28	Sales or Contribution of Assets Between an Investor and its Associate or Joint Venture	To be determined

3. SEGMENT INFORMATION

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

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

The CODM assesses the performance of the operating segments based on a measure of operating profit or loss excluding other gains or losses arising from financial assets at FVPL, share of loss of an associate accounted for using the equity method and net impairment losses on financial and contract assets.

Segment assets exclude financial assets at FVPL, investment properties, interest in an associate and deferred tax assets. Segment liabilities exclude current income tax liabilities and deferred tax liabilities.

Capital expenditures represent addition for the acquisition of property, plant and equipment, intangible assets, investment properties, prepayments for non-current assets and right-of-use assets.

- (a) The segment results and other segment items of the Group for the year ended 31 December 2024 are as follows:

	Cigarette Packaging Business HK\$'000	Environmental Treatment Business HK\$'000	Unallocated HK\$'000	The Group HK\$'000
Revenue	<u>132,636</u>	<u>11,025</u>	<u>107</u>	<u>143,768</u>
Segment results	<u>6,618</u>	<u>(41,836)</u>	<u>107</u>	<u>(35,111)</u>
Net impairment losses on financial and contract assets	(1,708)	(23,862)	(54,042)	(79,612)
Other losses arising from financial assets at FVPL				(4,895)
Share of loss of an associate accounted for using the equity method				<u>(274)</u>
Operating loss				(119,892)
Finance cost – net				<u>(110)</u>
Loss before income tax				(120,002)
Income tax credit				<u>8,931</u>
Loss for the year				<u><u>(111,071)</u></u>
<i>Other segment item</i>				
Depreciation and amortisation	<u>7,591</u>	<u>1,676</u>	<u>–</u>	<u>9,267</u>

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

	Cigarette Packaging Business HK\$'000	Environmental Treatment Business HK\$'000	Unallocated HK\$'000	The Group HK\$'000
Revenue	<u>154,875</u>	<u>255</u>	<u>257</u>	<u>155,387</u>
Segment results	<u>13,215</u>	<u>(28,175)</u>	<u>257</u>	<u>(14,703)</u>
Net impairment losses on financial and contract assets	(17,394)	57	(524)	(17,861)
Other losses arising from financial assets at FVPL				<u>(10,292)</u>
Operating loss				(42,856)
Finance income – net				<u>409</u>
Loss before income tax				(42,447)
Income tax credit				<u>816</u>
Loss for the period				<u><u>(41,631)</u></u>
<i>Other segment item</i>				
Depreciation and amortisation	<u>7,770</u>	<u>3,150</u>	<u>–</u>	<u>10,920</u>

(b) The segment assets and liabilities at 31 December 2024 are as follows:

	Cigarette Packaging Business HK\$'000	Environmental Treatment Business HK\$'000	Unallocated HK\$'000	Inter- segment elimination HK\$'000	The Group HK\$'000
Segment assets	<u>367,351</u>	<u>141,926</u>	<u>77</u>	<u>(196,236)</u>	313,118
Investment properties					14,172
Financial assets at FVPL					13,161
Deferred tax assets					<u>10,427</u>
Total assets					<u>350,878</u>
Segment liabilities	<u>74,648</u>	<u>267,422</u>	<u>–</u>	<u>(196,236)</u>	145,834
Current income tax liabilities					2,524
Deferred tax liabilities					<u>4,914</u>
Total liabilities					<u>153,272</u>
Capital expenditures	<u>4,220</u>	<u>1,595</u>	<u>–</u>	<u>–</u>	<u>5,815</u>

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

	Cigarette Packaging Business HK\$'000	Environmental Treatment Business HK\$'000	Unallocated HK\$'000	Inter- segment elimination HK\$'000	The Group HK\$'000
Segment assets	<u>398,596</u>	<u>205,694</u>	<u>7,308</u>	<u>(190,772)</u>	420,826
Investment properties					15,223
Financial assets at FVPL					40,872
Deferred tax assets					<u>11,577</u>
Total assets					<u>488,498</u>
Segment liabilities	<u>90,870</u>	<u>253,153</u>	<u>–</u>	<u>(190,772)</u>	153,251
Current income tax liabilities					14,696
Deferred tax liabilities					<u>5,350</u>
Total liabilities					<u>173,297</u>
Capital expenditures	<u>12,417</u>	<u>2,780</u>	<u>–</u>	<u>–</u>	<u>15,197</u>

4. REVENUE

	Year ended 31 December	
	2024	2023
	HK\$'000	HK\$'000
At a point in time		
Sales of cigarette packaging products	132,636	154,875
Agency services	107	257
	<u>132,743</u>	<u>155,132</u>
Over time		
Revenue from environmental and ecological restoration contracts		
– Construction services	6,131	(4,200)
– Maintenance and other services	4,894	4,455
	<u>11,025</u>	<u>255</u>
	<u>143,768</u>	<u>155,387</u>

Reversal of revenue from construction services for 2023 was mainly due to the increase of unpredictable costs for environmental and ecological restoration contracts.

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

	Year ended 31 December	
	2024	2023
	HK\$'000	HK\$'000
Customer D	52.9%	47.9%
Customer E	37.6%	51.4%

Majority of the Group's revenue were derived from customers in the PRC for the Year. (2023: same)

(a) Assets and liabilities related to contracts with customers

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

	31 December	31 December
	2024	2023
	HK\$'000	HK\$'000
Contract assets relating to construction contracts	25,859	46,105
Less: loss allowance	(6,675)	(43)
	<u>19,184</u>	<u>46,062</u>
Total contract assets	<u>19,184</u>	<u>46,062</u>
Contract liabilities – construction services	<u>2,427</u>	<u>–</u>

(ii) Unsatisfied contracts

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

5. EXPENSES BY NATURE

	Year ended 31 December	
	2024	2023
	HK\$'000	HK\$'000
Raw materials consumed and subcontracting costs		
for construction contracts	13,331	12,142
Cost of inventories sold	75,361	86,858
Cost of obtaining contracts recognised in cost of sales	24,954	–
Staff costs (including directors' emoluments)	36,400	37,993
Depreciation and amortisation		
– Depreciation of property, plant and equipment	6,437	8,137
– Depreciation of investment properties	737	852
– Depreciation of right-of-use assets	2,082	1,927
– Amortisation of intangible assets	11	4
Utilities	2,559	3,008
Professional services expenses	4,376	4,517
Auditor's remuneration		
– Audit service	2,313	1,701
– Non-audit service	132	133
Other taxes and surcharges	1,435	1,608
Expenses relating to operating leases not recognised as lease liabilities	15	10
Delivery costs	1,341	1,374
Other expenses	7,134	8,563
	<hr/>	<hr/>
Total cost of sales, distribution costs and administrative expenses	178,618	168,827

6. NET IMPAIRMENT LOSSES ON FINANCIAL AND CONTRACT ASSETS

	Year ended 31 December	
	2024	2023
	HK\$'000	HK\$'000
Impairment charges/(reversal) on:		
– Trade receivables	18,995	10,904
– Contract assets	6,737	(6)
– Other receivables and other non-current assets	53,880	6,963
	<hr/>	<hr/>
	79,612	17,861

7. INCOME TAX CREDIT

	Year ended 31 December	
	2024	2023
	HK\$'000	HK\$'000
Current income tax		
PRC enterprise income tax	<u>(9,768)</u>	<u>2,598</u>
Deferred income tax		
PRC enterprise income tax	917	(1,878)
Withholding income tax on profit to be distributed from subsidiaries in the PRC	<u>(80)</u>	<u>(1,536)</u>
	<u>837</u>	<u>(3,414)</u>
	<u>(8,931)</u>	<u>(816)</u>

There were no income tax charges relating to components of other comprehensive income for the Year (2023: same).

8. LOSSES PER SHARE

(a) Basic

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

	Year ended 31 December	
	2024	2023
Loss attributable to owners of the Company (HK\$'000)	(110,765)	(41,184)
Weighted average number of ordinary shares in issue	<u>701,430,000</u>	<u>701,430,000</u>
Basic losses per share	<u>HK(15.79) cents</u>	<u>HK(5.87) 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 as at 31 December 2024 and 2023.

9. DIVIDENDS

The Board does not recommend the payment of any dividend for the Year (2023: nil).

10. PREPAYMENTS FOR NON-CURRENT ASSETS

	31 December 2024 HK\$'000	31 December 2023 HK\$'000
Prepayment for an intangible asset	10,799	11,035
Prepayments for property, plant and equipment	–	4,725
Prepayment for an investment (a)	–	22,070
	<u>10,799</u>	<u>37,830</u>
Less: provision for impairment of prepayment for an intangible asset	<u>(10,799)</u>	<u>(11,035)</u>
	<u>–</u>	<u>26,795</u>

- (a) The amount represented a prepayment for equity investment to an independent third party company Zhongcai Xiangrui (Beijing) Investment Management Company Limited (中財祥瑞(北京)投資管理有限公司) (“**Zhongcai Xiang Rui**”). In November 2024, as the relevant investment project failed to be successfully implemented, the Group was entitled to collect the prepaid amount with accumulated interest of 4% per annum in accordance with the signed agreement. Therefore, the amount was transferred to other receivables.

11. PREPAYMENTS AND OTHER RECEIVABLES

	31 December 2024 HK\$'000	31 December 2023 HK\$'000
Other receivables (a)	25,500	2,887
Amounts due from an associate (b)	31,609	32,278
Loans to third parties (c)	10,583	11,791
Prepayments	1,191	1,206
Less: allowance for impairment of other receivables, amounts due from an associate and loans to third parties	<u>(64,289)</u>	<u>(11,498)</u>
	<u>4,594</u>	<u>36,664</u>
Less: classified as other non-current assets	<u>–</u>	<u>(31,757)</u>
	<u>4,594</u>	<u>4,907</u>

- (a) As at 31 December 2024, other receivables mainly included RMB20,000,000 (equivalent to HK\$21,598,000) receivables due from Zhongcai Xiang Rui, which was recognised as prepayment for an investment in 2023 (note 10). Considering the commercial dispute currently dealing with Zhongcai Xiang Rui, the Group expected the collectability of the amount was remote and a 100% impairment loss was provided for the Year accordingly.

- (b) The amount represented the funds advanced to an associate, Shengshi Heng Rui (Guangdong) Technology Company Limited (盛世恒瑞(廣東)科技有限公司) (“**Shengshi Heng Rui**”), which were unsecured, interest free and is repayable on demand but not expected to be recovered within one year, and therefore, was classified as other non-current assets in 2023. Since the funds advanced to Shengshi Heng Rui had been transferred to Zhongcai Xiang Rui, and considering the commercial dispute currently dealing with Zhongcai Xiang Rui, the Group expected the collectability of the amount was remote and a 100% impairment loss was provided for the Year accordingly. The amounts due from an associate were denominated in Renminbi (“**RMB**”) at 31 December 2024 (31 December 2023: same).
- (c) Loans to third parties mainly included HK\$10,583,000 (equivalent to RMB9,800,000) (31 December 2023: HK\$10,814,000 (equivalent to RMB9,800,000)) which was a loan granted to a renowned property developer in Shantou, Guangdong Province, the PRC, an independent third party. The loan was for obtaining good interest return and maximizing the possible return for the Group, which was in line with the Group’s business strategy and in the interest of the Company and its Shareholders as a whole. The loan was unsecured, bearing interest at 1.5% (31 December 2023: 1.5%) per month and repayable on 30 June 2023. The loan was fully impaired based on the lifetime expected credit loss model due to the significant financial difficulties of the borrower (31 December 2023: same).

The loans to third parties were denominated in RMB at 31 December 2024 (31 December 2023: same).

- (d) The Group’s other receivables were denominated in the following currencies:

	31 December 2024 HK\$’000	31 December 2023 HK\$’000
Denominated in RMB	24,665	2,517
Denominated in HK\$	835	370
	<u>25,500</u>	<u>2,887</u>

12. TRADE RECEIVABLES

	31 December 2024 HK\$’000	31 December 2023 HK\$’000
Trade receivables (a)	202,485	216,171
Less: allowance for impairment of trade receivables	(58,884)	(41,244)
Trade receivables – net	<u>143,601</u>	<u>174,927</u>

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

	31 December 2024 HK\$'000	31 December 2023 HK\$'000
Within 90 days	25,872	39,406
91 days to 180 days	9,073	1,014
181 days to 365 days	6,114	1,429
Over 365 days	161,426	174,322
	202,485	216,171

- (b) The Group's trade receivables were denominated in RMB at 31 December 2024 (31 December 2023: same).
- (c) As at 31 December 2024, the Group's maximum exposure to credit risk was the carrying value of trade receivables mentioned above. The Group did not hold any collateral as security (31 December 2023: same).

13. TRADE AND NOTES PAYABLES

	31 December 2024 HK\$'000	31 December 2023 HK\$'000
Trade payables (a)	73,364	73,823
Notes payable – bank acceptance notes	35,901	32,439
	109,265	106,262

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

	31 December 2024 HK\$'000	31 December 2023 HK\$'000
Within 90 days	69,652	58,348
91 days to 180 days	164	872
Over 180 days	3,548	14,603
	73,364	73,823

- (b) The Group's trade and notes payables were denominated in RMB as at 31 December 2024 (31 December 2023: same).
- (c) The fair value of trade and notes payables approximated their carrying amounts at 31 December 2024 (31 December 2023: same).

MANAGEMENT DISCUSSION AND ANALYSIS

BUSINESS AND OPERATION REVIEW

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

For the Year, the Group recorded revenue of approximately HK\$143.77 million, representing a decrease of approximately HK\$11.62 million or 7.5% as compared with HK\$155.39 million for 2023 and loss attributable to owners of the Company of approximately HK\$110.77 million, representing an increase of approximately HK\$69.59 million or approximately 169.0% as compared to the loss attributable to owners of the Company of approximately HK\$41.18 million for 2023.

Cigarette Packaging Business

During the Year, the overall revenue and profitability of the Cigarette Packaging Business were adversely affected by the weak consumer market, intense competition and declining demand from key customers. Revenue from Cigarette Packaging Business for the Year was approximately HK\$132.64 million, representing a decrease of HK\$22.24 million or 14.4% compared to approximately HK\$154.88 million for 2023.

The following table sets forth the breakdown of the Group's revenue from sales of cigarette packaging materials for 2024 and 2023:

	2024		2023	
	HK\$'000	%	HK\$'000	%
Inner Frame paper	86,877	65.5	86,384	55.8
Tipping paper	31,132	23.5	49,098	31.7
Cigarette box frame paper	8,604	6.5	12,915	8.3
Cigarette trademark label	5,918	4.5	6,424	4.1
Others	105	0.0	54	0.0
Total	<u>132,636</u>	<u>100.0</u>	<u>154,875</u>	<u>100.0</u>

Environmental Treatment Business

With the gradual completion of certain existing construction projects and the income from river ecological maintenance during the Year, the Environmental Treatment Business recorded a revenue of approximately HK\$11.03 million, representing an increase of HK\$10.77 million as compared with approximately HK\$0.26 million in 2023.

Gross profit and gross profit margin

The gross profit of the Group for the Year was approximately HK\$7.38 million (2023: HK\$33.30 million) which comprised gross profit of approximately HK\$36.26 million (2023: HK\$47.25 million) from the Cigarette Packaging Business, gross loss of HK\$28.99 million (2023: gross loss of HK\$14.21 million) from the Environmental Treatment Business, and gross profit of approximately HK\$0.11 million (2023: HK\$0.26 million) from other business.

A further increase in gross loss of the Environmental Treatment Business for the Year was mainly due to the increase in cost of obtaining contracts of HK\$24.95 million (2023: HK\$ nil) for the Year. During the Year, in order to speed up the settlement procedures with the local government and the return of the project funds as well as to maintain a good and close cooperative relationship with the local government for enhancing the opportunities in obtaining potential new projects in the future, the Group has actively cooperated with the local government in project settlements and has made appropriate modifications to the contracts of the completed projects when necessary.

The gross profit margin of the Group for the Year was 5.1%, a decrease of 16.3% as compared to 21.4% for 2023. This was mainly due to (i) the decrease in gross profit margin of the Cigarette Packaging Business and (ii) the increase in gross loss contributed by the Environmental Treatment Business, as few new ecological restoration projects were awarded during the Year but additional costs were incurred for the maintenance of existing projects and obtaining new contracts.

The gross profit margin of the Cigarette Packaging Business was approximately 27.3%, a decrease of 3.2% as compared to 30.5% for 2023. The decrease in gross profit margin was mainly due to the decrease in sales from the Cigarette Packaging Business during the Year.

Distribution Costs

The distribution costs of the Group for the Year were amounted to approximately HK\$1.00 million representing an increase of HK\$0.07 million compared to approximately HK\$0.93 million for 2023.

Administrative expenses

The administrative expenses of the Group for 2024 were approximately HK\$41.23 million (2023: HK\$45.81 million), a decrease of 10.0% or approximately HK\$4.58 million.

Net impairment losses on financial and contract assets

During the Year, the net impairment losses on financial and contract assets were approximately HK\$79.61 million, representing an increase of approximately HK\$61.75 million as compared to HK\$17.86 million for 2023, as higher expected loss rates were adopted to the customers with financial constraints in relation to the Environmental Treatment Business, and an expected loss rate of 100% was applied to certain specific balances as the collectability of the amount was remote due to the commercial dispute currently dealing with the counterparty.

Other losses – net

The net other losses of the Group for 2024 were approximately HK\$5.16 million (2023: HK\$11.56 million), mainly due to the volatility in the securities markets of China. The Group recognised dividend income from financial assets at FVPL of approximately HK\$0.73 million (2023: HK\$0.48 million) and net fair value losses on financial assets at FVPL of approximately of HK\$5.62 million (2023: HK\$10.77 million) for 2024.

Finance cost/income – net

During the Year, the net finance cost/income of the Group mainly comprised interest income on certain non-derivative wealth management products and bank deposits and interest expenses on borrowings and lease liabilities. The net finance cost for the Year was approximately HK\$0.11 million (2023: net finance income of HK\$0.41 million).

Income tax credit

The income tax credit for 2024 was approximately HK\$8.93 million (2023: HK\$0.82 million) which was mainly due to the reversal of PRC enterprise income tax as a result of the decrease in revenue from Environmental Treatment Business due to contract modifications and the increase of costs of obtaining contracts for Environmental Treatment Business.

Loss attributable to owners of the Company

The Group recorded a loss attributable to owners of the Company for 2024 of approximately HK\$110.77 million, representing an increase of approximately HK\$69.59 million or approximately 169.0%, as compared to the loss attributable to owners of the Company of approximately HK\$41.18 million for 2023.

Dividend

The Board does not recommend the payment of final dividend for the Year (2023: nil).

Financial assets at FVPL

The Group adopted a prudent attitude in its securities investments. The management takes into account of risk exposure in comparison with the Group's risk tolerance level at the prevailing time and the potential for return on investment in terms of capital appreciation and dividend payment when determining whether to take up an investment opportunity for the cash held by the Group. The fair value of the listed securities are determined with reference to the quoted market prices available on the relevant stock exchanges. The Group's total net loss from the listed securities for 2024 was approximately HK\$4.90 million (2023: HK\$10.29 million), including the loss on change in fair value of HK\$5.62 million (2023: HK\$10.77 million) due to the volatility in the securities markets. The management invests in these shares expecting the price will be stable and gradually increase in line with the upward trend of the securities market in China and Hong Kong in the long term.

The financial assets at FVPL held by the Group as at 31 December 2024 and 31 December 2023 are as follow:

	31 December 2024		31 December 2023	
	<i>Number of shares</i>	<i>Amount HK\$'000</i>	<i>Number of shares</i>	<i>Amount HK\$'000</i>
Equity securities listed in Hong Kong:				
BABA-SW (9988)	–	–	30,000	2,268
Tencent (0700)	–	–	5,000	1,468
Sunac China (1918)	–	–	400,000	600
Other equity securities (<i>Note 1</i>)		1,236		2,451
Equity securities listed in the China:				
Guangdong Liantai 聯泰環保 (603797)	1,260,972	5,447	1,260,972	7,681
Sino Daan 中達安 (300635)	–	–	715,489	9,933
Guangdong Tonze Electric 天際股份 (002759)	350,000	3,315	1,255,200	14,696
Other equity securities (<i>Note 2</i>)		3,163		11,708
		13,161		40,872

Notes:

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

Capital structure, liquidity and financial resources

As at 31 December 2024, the Group had net assets of HK\$197.61 million (31 December 2023: HK\$315.20 million) and working capital surplus of HK\$120.41 million (31 December 2023: HK\$174.66 million).

As at 31 December 2024, the total cash and cash equivalents and restricted cash balances of the Group amounted to approximately HK\$63.37 million (31 December 2023: HK\$46.13 million), including restricted cash at banks of HK\$37.54 million (31 December 2023: HK\$33.79 million) of which all (31 December 2023: all) were denominated in RMB and cash and cash equivalents of HK\$25.83 million (31 December 2023: HK\$12.34 million) of which HK\$25.23 million (31 December 2023: HK\$11.57 million) were denominated in RMB and HK\$0.08 million (31 December 2023: HK\$nil) were denominated in US\$.

The following table sets forth the cash flows for 2024 and 2023:

	2024 HK\$'000	2023 HK\$'000
Net cash generated from operating activities	17,193	5,493
Net cash generated from/(used in) investing activities	12,084	(37,589)
Net cash used in financing activities	(14,530)	(2,153)
Net increase/(decrease) in cash and cash equivalents	14,747	(34,249)
Cash and cash equivalents at the beginning of the Year	12,341	47,270
Effect on change in exchange rates	(1,262)	(680)
Cash and cash equivalents at the end of the Year	<u>25,826</u>	<u>12,341</u>

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

Borrowings and gearing ratio

As at 31 December 2024, the Group's borrowings of approximately HK\$10.26 million (31 December 2023: HK\$22.62 million) were fixed-rate borrowings denominated in RMB, which were secured by the personal guarantee provided by the controlling Shareholder, bearing interest rate at 3.70% (31 December 2023: ranged from 3.70 to 4.00%) per annum and maturing in one year.

The Group's gearing ratio is calculated as net borrowings divided by total capital. Net borrowings are calculated as borrowings plus lease liabilities less cash and cash equivalents. Total capital is calculated as "total equity" as shown in the consolidated financial statements plus net borrowings. No gearing ratio was presented as the Group had net cash surplus as at 31 December 2024 (31 December 2023: the gearing ratio was 4.08%).

Exposure to fluctuations in exchange rates

The Group's transactions for its principal subsidiaries in China are mainly conducted in RMB, the functional currency of the subsidiaries, and the major receivables and payables of the Group are also denominated in RMB.

The Group's exposure to foreign currency risk is primarily related to certain cash and bank balances, financial assets at FVPL, trade receivables, prepayment and other receivables, other payables and accruals and lease liabilities that are denominated in HK\$. Presently, the Group has no hedging policy in place with respect to the foreign exchange exposure.

Capital expenditure and commitments

During the Year, the Group's total capital expenditure amounted to approximately HK\$5.82 million (2023: HK\$15.20 million), which was used in the acquisition of property, plant and equipment, intangible assets, investment properties, prepayments for non-current assets and right-of-use assets.

As at 31 December 2024, the Group had no capital commitments (31 December 2023: capital commitments of HK\$4.31 million for acquisition of property, plant and equipment).

Charge on assets

As at 31 December 2024, the Group placed cash deposits of approximately HK\$37.55 million (31 December 2023: HK\$33.79 million), which consisted of deposits of HK\$35.90 million (31 December 2023: HK\$32.44 million) as collateral for the Group's notes payable and deposits of HK\$1.58 million (31 December 2023: HK\$1.35 million) as performance guarantee letter deposits, which were all denominated in RMB.

Contingent liabilities

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

Material acquisitions and disposals for subsidiaries, associates and joint ventures

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

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

Significant investment activities

The Group had no significant investment activities during the Year (2023: same).

FUTURE OUTLOOK AND PROSPECTS

Looking ahead, the Cigarette Packaging Business and the Environmental Treatment Business will remain challenging in 2025.

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

Despite creating a better environment, promoting green development and fostering a harmonious coexistence between man and nature remains the policy direction of the PRC government, the Environmental Treatment Business remains tough in the near future. The management of the Group will continue to explore the development opportunity in ecological restoration projects and seek for new sewage treatment projects to widen our revenue streams.

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

HUMAN RESOURCES

As at 31 December 2024, the Group employed a total of 258 (31 December 2023: 288) permanent employees in China and Hong Kong. Total employee remuneration (including directors' emoluments and benefits) for the Year amounted to HK\$36.40 million (2023: HK\$37.99 million). The Group provided its employees with competitive remuneration packages which were determined by their performance, qualification, experience and will continue to review with reference to the level and composition of pay and general market condition. In addition to basic salary, employees are entitled to other benefits including social insurance contributions, employee provident fund schemes and discretionary incentive.

ANNUAL GENERAL MEETING AND CLOSURE OF REGISTER OF MEMBERS

The annual general meeting of the Company (the "AGM") is scheduled to be held on Wednesday, 25 June 2025. The register of members of the Company will be closed from Friday, 20 June 2025 to Wednesday, 25 June 2025 (both days inclusive), for the purposed of identifying Shareholders who are entitled to attend the AGM, during which no transfer of Shares will be registered. In order to qualify for attending the AGM, all transfer of Shares accompanied by the relevant share certificates and transfer forms must be lodged with the Company's branch share registrar in Hong Kong, Computershare Hong Kong Investor Services Limited, at Shops 1712-1716, 17/F., Hopewell Centre, 183 Queen's Road East, Wanchai, Hong Kong before 4:30 p.m. on Thursday, 19 June 2025.

COMPLIANCE WITH THE CORPORATE GOVERNANCE CODE

The Group strives to attain and maintain high standards of corporate governance best suited to the needs of its businesses and the best interests of its stakeholders as the Board believes that effective governance is essential to the maintenance of the Group's competitiveness and to its healthy growth. The Company has adopted and applied the principles of the code provisions of the Corporate Governance Code as set out in Part 2 of Appendix C1 of the Listing Rules (the "CG Code").

The Company periodically reviews its corporate governance practices to ensure its continuous compliance with the CG Code. In the opinion of the Directors, the Company was in compliance with the applicable code provisions of the CG Code for the Year and, where appropriate, the applicable recommended best practices of the CG Code, save the followings:

Code Provision C.2.1

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

Mr. Zheng Andy Yi Sheng is the chairman of the Board and the CEO of the Group. In view of the scale of operations of the Company and the fact that daily operations of the Group's business is delegated to the senior executives and departments heads and the substantial decisions are left to the Board (including independent non-executive Directors ("INEDs")), the Board considers that vesting the roles of both chairman and CEO in the same person will not impair the balance of power and authority between the Board and the management of the Company.

Code Provision C.5.1

Code Provision C.5.1 stipulates that the Board should meet regularly and Board meeting should be held at least four times a year approximately quarterly intervals. During the Year, only two regular Board meetings were held to review and discuss the annual and interim results of the Company. Since the Company does not announce its quarterly results, the Board does not consider the holding of quarterly meetings as necessary. Instead, the Board meets on other occasions when a Board-level decision on a particular matter is required. Save as the foresaid two regular Board meetings, the Board held one Board meeting during the Year for discussing and approving the appointment of a female director to achieve Board gender diversity.

Code Provision D.1.2

Pursuant to Code Provision D.1.2, management should provide all members of the Board with monthly updates giving a balanced and understandable assessment of the Company's performance, position and prospects in sufficient detail to enable the Board as a whole and each Director to discharge their duties under rule 3.08 and Chapter 13 of the Listing Rules. During the Year, the management of the Company did not provide monthly updates to all members of the Board as required by the code provision D.1.2, as all the executive Directors are involved in the daily operation of the Group and are fully aware of the performance, position and prospects of the Company, and the management has provided to all Directors (including INEDs) periodically updates giving a balanced and understandable assessment of the Company's performance, position and prospects in sufficient detail prior to the regular Board meetings. In addition, the management has provided all Directors, in a timely manner, updates on any material changes to the performance, position and prospects of the Company and sufficient background or explanatory information for matters brought before the Board.

PURCHASE, SALE AND REDEMPTION OF THE COMPANY'S SECURITIES

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

REVIEW OF FINAL RESULTS

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

SCOPE OF WORK OF PRICEWATERHOUSECOOPERS ON THIS PRELIMINARY ANNOUNCEMENT

The financial figures in respect of the Group's consolidated statement of financial position, consolidated statement of profit or loss, consolidated statement of profit or loss and other comprehensive income and the related notes thereto for the year ended 31 December 2024 as set out in this preliminary announcement have been compared by the Group's auditor, PricewaterhouseCoopers, to the amounts set out in the Group's audited consolidated financial statements for the year and the amounts were found to be in agreement. The work performed by PricewaterhouseCoopers in this respect did not constitute an audit, review or other assurance engagement in accordance with Hong Kong Standards on Auditing, Hong Kong Standards on Review Engagements or Hong Kong Standards on Assurance Engagements issued by the Hong Kong Institute of Certified Public Accountants and consequently no assurance has been expressed by PricewaterhouseCoopers on the preliminary announcement.

PUBLICATION OF FINAL RESULTS AND ANNUAL REPORT

This final results announcement is published on the Company's website (www.huaxihds.com.hk) and the Stock Exchange's website (www.hkexnews.hk). The annual report of the Company for the year ended 31 December 2024 containing all the information required by the Listing Rules shall be dispatched to the Shareholders and made available on the aforesaid websites in due course.

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

Hong Kong, 31 March 2025

As at the date of this announcement, the Board comprises Mr. Zheng Andy Yi Sheng, Mr. Zheng Minsheng and Ms. Zheng Catherine Jia Lin as executive directors; Mr. Hao Jiming as non-executive director; and Mr. Lau Kwok Hung, Mr. Fok Po Tin and Mr. Cai Xiaowen as independent non-executive directors.