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LITU HOLDINGS LIMITED

力圖控股有限公司

(incorporated in the Cayman Islands with limited liability)

(Stock Code: 1008)

ANNOUNCEMENT OF ANNUAL RESULTS FOR THE YEAR ENDED 31 DECEMBER 2021

The board (the “**Board**”) of directors (the “**Directors**”) of Litu Holdings Limited (the “**Company**”) is pleased to announce the consolidated results of the Company and its subsidiaries (collectively referred to as the “**Group**”) for the year ended 31 December 2021 together with the comparative figures for the corresponding period in 2020 as follows:

CONSOLIDATED STATEMENT OF COMPREHENSIVE INCOME

For the year ended 31 December 2021

	<i>Note</i>	2021 <i>HK\$’000</i>	2020 <i>HK\$’000</i>
Revenue	3	1,158,852	1,339,439
Cost of sales		<u>(997,365)</u>	<u>(1,073,661)</u>
Gross profit		161,487	265,778
Other income	4	41,575	46,939
Other net gains and losses	5	(104,983)	(173,846)
Reversal of (Loss allowance) on trade and other receivables and contract assets, net		2,486	(2,267)
Selling and distribution expenses		(26,180)	(41,220)
Administrative expenses		(113,725)	(83,531)
Other expenses		–	(4,597)
Finance costs	6	(14,416)	(20,688)
Share of result of associates		70,126	59,304
Share of result of a joint venture		<u>(83)</u>	<u>214</u>

	<i>Note</i>	2021 HK\$'000	2020 <i>HK\$'000</i>
Profit before taxation	8	16,287	46,086
Taxation	7	<u>(5,665)</u>	<u>(37,114)</u>
Profit for the year		<u>10,622</u>	<u>8,972</u>
Other comprehensive income			
Exchange differences arising from translation from functional currency to presentation currency		<u>49,920</u>	<u>134,615</u>
Total comprehensive income for the year		<u>60,542</u>	<u>143,587</u>
Profit for the year attributable to:			
Owners of the Company		8,628	8,915
Non-controlling interests		<u>1,994</u>	<u>57</u>
		<u>10,622</u>	<u>8,972</u>
Total comprehensive income attributable to:			
Owners of the Company		57,230	142,081
Non-controlling interests		<u>3,312</u>	<u>1,506</u>
		<u>60,542</u>	<u>143,587</u>
		<i>HK\$</i>	<i>HK\$</i>
Earnings per share			
Basic and diluted	9	<u>0.006</u>	<u>0.006</u>

CONSOLIDATED STATEMENT OF FINANCIAL POSITION

At 31 December 2021

	<i>Note</i>	2021 <i>HK\$'000</i>	2020 <i>HK\$'000</i>
Non-current assets			
Property, plant and equipment		887,241	902,392
Right-of-use assets		103,347	104,176
Investment properties		55,780	22,305
Goodwill		797,504	885,408
Intangible assets		32,279	72,351
Interests in an associate		455,869	450,364
Interests in a joint venture		8,559	8,414
Deferred tax assets		5,895	1,333
Rental and other deposits paid		3,889	2,402
		<hr/> 2,350,363	<hr/> 2,449,145
Current assets			
Inventories	<i>11</i>	121,648	112,491
Trade receivables	<i>12</i>	364,539	512,533
Contract assets	<i>13</i>	144,569	113,187
Other receivables, prepayments and refundable deposits		57,013	68,899
Tax recoverable		4,271	2,709
Pledged bank deposits		11,488	14,523
Bank balances and cash		440,350	315,391
		<hr/> 1,143,878	<hr/> 1,139,733
Current liabilities			
Trade payables	<i>14</i>	256,211	214,037
Other payables and accruals		133,458	102,269
Lease liabilities		333	991
Amounts due to non-controlling interests of subsidiaries		2,552	2,484
Bank borrowings		342,428	411,206
Income tax payable		10,748	16,503
		<hr/> 745,730	<hr/> 747,490
Net current assets		<hr/> 398,148	<hr/> 392,243
Total assets less current liabilities		<hr/> 2,748,511	<hr/> 2,841,388

	2021	2020
	<i>HK\$'000</i>	<i>HK\$'000</i>
Non-current liabilities		
Government grants	25,931	28,383
Lease liabilities	–	302
Deferred tax liabilities	49,000	42,876
	<u>74,931</u>	<u>71,561</u>
NET ASSETS	<u>2,673,580</u>	<u>2,769,827</u>
Capital and reserves		
Share capital	7,839	7,839
Reserves	2,639,048	2,738,607
	<u>2,646,887</u>	<u>2,746,446</u>
Equity attributable to owners of the Company	26,693	23,381
Non-controlling interests	<u>2,673,580</u>	<u>2,769,827</u>
TOTAL EQUITY	<u>2,673,580</u>	<u>2,769,827</u>

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 31 December 2021

1. GENERAL

Litu Holdings Limited (*formerly known as Brilliant Circle Holdings International Limited*) (the “Company”) was incorporated in the Cayman Islands on 11 November 2008 as an exempted company with its shares listed on the Main Board of The Stock Exchange of Hong Kong Limited (the “Stock Exchange”). Its ultimate controlling party is Mr. Cai Xiao Ming, David. The Company’s registered office is located at Cricket Square, Hutchins Drive, P.O. Box 2681, Grand Cayman, KY1-1111, Cayman Islands and its principal place of business is changed from Room 1201A, 12/F, Capital Centre, 151 Gloucester Road, Wanchai, Hong Kong to 3/F, 38 On Lok Mun Street, On Lok Tsuen, Fanling, New Territories, Hong Kong with effect from 13 October 2021.

The Company is an investment holding company. The principal activities of the Company and its subsidiaries (collectively referred to as the “Group”) are engaged in provision of the printing of cigarette packages, manufacturing of paper packaging materials, manufacturing of laminated papers, sales of radio frequency identification (“RFID”) products, printing of packages and decoration matters, research and development on printing technology, wholesale, import and export of the packaging products and other related services.

The consolidated financial statements are presented in Hong Kong dollars (“HK\$”), which is different from the Company’s functional currency of Renminbi (“RMB”). The directors of the Company adopted HK\$ as presentation currency. For the convenience of the consolidated financial statements users, the consolidated financial statements are presented in HK\$, as the Company’s shares are listed on the Stock Exchange.

2. PRINCIPAL ACCOUNTING POLICIES

Basis of preparation

These consolidated financial statements have been prepared in accordance with Hong Kong Financial Reporting Standards (“HKFRSs”), which collective term includes all applicable HKFRSs, Hong Kong Accounting Standards (“HKASs”) and interpretations issued by the Hong Kong Institute of Certified Public Accountants (the “HKICPA”), accounting principles generally accepted in Hong Kong and the disclosure requirements of the Companies Ordinance. The consolidated financial statements also comply with the applicable disclosure requirements of the Rules Governing the Listing of Securities on the Stock Exchange (the “Listing Rules”).

All amounts have been rounded to the nearest thousand, unless otherwise indicated.

The consolidated financial statements have been prepared on a basis consistent with the accounting policies adopted in the 2020 consolidated financial statements except for the adoption of the following new/revised HKFRSs that are relevant to the Group and effective from the current year.

Adoption of new/revised HKFRSs

The Group has applied, for the first time, the following new/revised HKFRSs that are relevant to the Group:

Amendments to HKAS 39, HKFRSs 4, 7, 9 and 16	Interest Rate Benchmark Reform — Phase 2
Amendments to HKFRS 16	Covid-19-Related Rent Concessions Beyond 30 June 2021

Amendments to HKAS 39, HKFRSs 4, 7, 9 and 16: Interest Rate Benchmark Reform — Phase 2

The amendments address issues that might affect financial reporting when a company replaces the old interest rate benchmark with an alternative benchmark rate as a result of the interest rate benchmark reform (the “Reform”). The amendments complement those issued in November 2019 and relate to:

- changes to contractual cash flows — a company will not have to derecognise or adjust the carrying amount of financial instruments for changes required by the Reform, but will instead update the effective interest rate to reflect the change to the alternative benchmark rate;
- hedge accounting — a company will not have to discontinue its hedge accounting solely because it makes changes required by the Reform, if the hedge meets other hedge accounting criteria; and
- disclosures — a company will be required to disclose information about new risks arising from the reform and how it manages the transition to alternative benchmark rates.

The adoption of the amendments does not have any significant impact on the consolidated financial statements.

Amendments to HKFRS 16: Covid-19-Related Rent Concessions Beyond 30 June 2021

The amendments exempt lessees from having to consider individual lease contracts to determine whether rent concessions occurring as a direct consequence of the Covid-19 pandemic are lease modifications and allow lessees to account for such rent concessions as if they were not lease modifications. It applies to Covid-19-related rent concessions that reduce lease payments due on or before 30 June 2022. The amendments do not affect lessors.

These amendments shall be applied for annual periods beginning on or after 1 April 2021 with earlier application permitted. The Group has elected to early adopt the amendments in the current year. In accordance with the transition provisions therein, the amendments have been applied retrospectively by the Group recognising the cumulative effect of initially applying the amendments as an adjustment to the opening balance of retained earnings (or other component of equity, as appropriate) and therefore the comparative information has not been restated.

The adoption of the amendments does not have any significant impact on the consolidated financial statements.

Future changes in HKFRSs

At the date of authorisation of the consolidated financial statements, the HKICPA has issued the following new/revised HKFRSs that are relevant to the Group and are not yet effective for the current year, which the Group has not early adopted.

Amendments to HKAS 16	Proceeds before Intended Use ⁽¹⁾
Amendments to HKAS 37	Cost of Fulfilling a Contract ⁽¹⁾
Amendments to HKFRS 3	Reference to the Conceptual Framework ⁽¹⁾
Annual Improvements to HKFRSs	2018–2020 Cycle ⁽¹⁾
Amendments to HKAS 1	Classification of Liabilities as Current or Non-current ⁽²⁾
Amendments to HKAS 1	Disclosure of Accounting Policies ⁽²⁾
Amendments to HKAS 8	Definition of Accounting Estimates ⁽²⁾
Amendments to HKAS 12	Deferred Tax related to Assets and Liabilities arising from a Single Transaction ⁽²⁾
Amendments to HKFRS 10 and HKAS 28	Sale or Contribution of Assets between an Investor and its Associate or Joint Venture ⁽³⁾

⁽¹⁾ Effective for annual periods beginning on or after 1 January 2022

⁽²⁾ Effective for annual periods beginning on or after 1 January 2023

⁽³⁾ The effective date to be determined

The directors do not anticipate that the adoption of the new/revised HKFRSs in future periods will have any material impact on the results of the Group.

3. REVENUE

(i) Disaggregation of revenue from contracts with customers

	2021	2020
	<i>HK\$'000</i>	<i>HK\$'000</i>
Printing and manufacturing of cigarette packages and related materials		
— Printing of cigarette packages	871,855	1,133,380
— Manufacturing of paper packaging materials	168,076	94,366
Manufacturing of laminated papers	13,523	35,537
Sales of RFID products	105,398	76,156
	<hr/>	<hr/>
Total revenue	<u>1,158,852</u>	<u>1,339,439</u>

Timing of revenue recognition

	Printing and manufacturing of cigarette packages <i>HK\$'000</i>	Manufacturing of paper packaging materials <i>HK\$'000</i>	Manufacturing of laminated papers <i>HK\$'000</i>	Sales of RFID products <i>HK\$'000</i>	Total <i>HK\$'000</i>
Year ended 31 December 2021					
At a point in time	–	168,076	–	105,398	273,474
Over time	871,855	–	13,523	–	885,378
	<u>871,855</u>	<u>168,076</u>	<u>13,523</u>	<u>105,398</u>	<u>1,158,852</u>
Year ended 31 December 2020					
At a point in time	–	94,366	–	76,156	170,522
Over time	1,133,380	–	35,537	–	1,168,917
	<u>1,133,380</u>	<u>94,366</u>	<u>35,537</u>	<u>76,156</u>	<u>1,339,439</u>

Geographical market

	Printing and manufacturing of cigarette packages <i>HK\$'000</i>	Manufacturing of paper packaging materials <i>HK\$'000</i>	Manufacturing of laminated papers <i>HK\$'000</i>	Sales of RFID products <i>HK\$'000</i>	Total <i>HK\$'000</i>
Year ended 31 December 2021					
The PRC	871,855	168,076	13,523	79,555	1,133,009
Others (<i>Note</i>)	–	–	–	25,843	25,843
	<u>871,855</u>	<u>168,076</u>	<u>13,523</u>	<u>105,398</u>	<u>1,158,852</u>
Year ended 31 December 2020					
The PRC	1,133,380	94,366	35,537	68,421	1,331,704
Others (<i>Note</i>)	–	–	–	7,735	7,735
	<u>1,133,380</u>	<u>94,366</u>	<u>35,537</u>	<u>76,156</u>	<u>1,339,439</u>

Note: Others included the Republic of Indonesia, the United States of America and the Republic of Korea.

4. OTHER INCOME

	2021 <i>HK\$'000</i>	2020 <i>HK\$'000</i>
Interest income on bank deposits	5,230	4,464
Interest income on rental deposits	–	24
	<u>5,230</u>	<u>4,488</u>
Sales of scrap materials	7,556	10,916
Processing fee income	6,778	910
Rental income, net of direct expenses	6,275	2,622
Government grants (<i>Note</i>)	11,559	24,789
Sundry income	4,177	3,214
	<u>41,575</u>	<u>46,939</u>

Note: Government grants were received from the government of the PRC mainly as incentives granted by local authority for encouragement of its business development and innovation except for an amount of approximately HK\$3,325,000 (2020: HK\$2,079,000) which was granted for the acquisition of property, plant and equipment. These grants are accounted for as financial support with no future related costs expected to be incurred nor related to any assets.

During the current year, the Group recognised government grants of HK\$nil (2020: HK\$1,505,000) in respect of Covid-19-related subsidies.

5. OTHER NET GAINS AND LOSSES

	2021 <i>HK\$'000</i>	2020 <i>HK\$'000</i>
Net foreign exchange gains	6,200	1,095
Gain from changes in fair value of financial assets at fair value through profit or loss	285	132
Gain on disposal of an associate	4,116	–
Gain on disposal of property, plant and equipment	1,760	1,024
Impairment loss on goodwill	(96,531)	(176,000)
Reversal of (Provision for) impairment loss on property, plant and equipment	27	(27)
Gain arising from early termination of lease contracts	–	8
Provision for litigation	(21,200)	–
Others	360	(78)
	<u>(104,983)</u>	<u>(173,846)</u>

6. FINANCE COSTS

	2021 <i>HK\$'000</i>	2020 <i>HK\$'000</i>
Interest expenses on bank borrowings and overdrafts	14,378	20,570
Imputed interest expenses on lease liabilities	38	118
	<u>14,416</u>	<u>20,688</u>

7. TAXATION

	2021 <i>HK\$'000</i>	2020 <i>HK\$'000</i>
Current tax		
The PRC		
Enterprise Income Tax ("EIT")	3,300	29,575
Overprovision of EIT in prior years	(6,960)	(1,209)
	<u>(3,660)</u>	<u>28,366</u>
Deferred tax		
Origination and reversal of temporary differences	9,325	8,080
Benefit of tax loss recognised	–	668
	<u>9,325</u>	<u>8,748</u>
	<u>5,665</u>	<u>37,114</u>

Hong Kong Profits Tax has not been provided as the Group's profits neither arose in, nor derived from, Hong Kong.

The PRC EIT is calculated at the applicable prevailing tax rates from 15% to 25% (2020: 15% to 25%) in the PRC. Pursuant to the "Enterprise Income Tax Law for Foreign Investment Enterprises and Foreign Enterprises", some PRC subsidiaries, being a High-Tech Enterprise, were entitled to a reduced EIT rate of 15% for three years from the date of approval.

Upon the New Tax Law and Implementation Regulations coming into effect, the PRC withholding income tax is applicable to dividends payable to investors that are "non-PRC tax resident enterprises", which do not have an establishment or place of business in the PRC, or which have such establishment or place of business but the relevant income is not effectively connected with the establishment or place of business, to the extent such dividends have their sources within the PRC. Under such circumstances, dividends distributed from the PRC subsidiaries, associates and joint venture to non-PRC tax resident group entities shall be subject to the withholding income tax at 10% or lower tax rate, as applicable. Under the relevant tax treaty, withholding tax rate on distribution to Hong Kong resident companies is 5%. Deferred taxation has been provided on undistributed earnings of all subsidiaries and associates.

8. PROFIT BEFORE TAXATION

This is stated after charging:

	2021 <i>HK\$'000</i>	2020 <i>HK\$'000</i>
Staff costs, including directors' remuneration		
Salaries and other benefits	128,672	170,872
Contributions to retirement benefits schemes	11,106	1,448
Contractual termination benefit	15,678	–
	<hr/>	<hr/>
Total staff costs	155,456	172,320
	<hr/>	<hr/>
Auditor's remuneration	2,100	3,423
Cost of inventories	779,255	808,612
Amortisation of intangible assets (included in cost of sales and administrative expenses)	40,254	41,769
Depreciation		
— property, plant and equipment	97,148	108,427
— right-of-use assets	3,616	6,017
— investment properties	4,048	2,176
	<hr/>	<hr/>
Total depreciation and amortisation	145,066	158,389
	<hr/>	<hr/>
Research expenses	58,740	75,216
Less: included in cost of sales	(58,740)	(74,073)
	<hr/>	<hr/>
Included in other expenses	–	1,143
	<hr/>	<hr/>
Direct operating expenses arising from investment properties that generated rental income (included in other income)	13,906	1,183
	<hr/> <hr/>	<hr/> <hr/>

9. EARNINGS PER SHARE

The calculation of the basic and diluted earnings per share attributable to owners of the Company is based on the following data:

	2021	2020
Earnings		
Profit for the year attributable to owners of the Company for the purpose of basic earnings per share (<i>HK\$'000</i>)	<u>8,628</u>	<u>8,915</u>
Number of shares		
Weighted average number of ordinary shares in issue for the purpose of basic earnings per share (<i>'000</i>)	<u>1,567,885</u>	<u>1,567,885</u>

Diluted earnings per share are same as the basic earnings per share as there are no dilutive potential ordinary shares in existence during the years ended 31 December 2021 and 2020.

10. DIVIDENDS

	2021	2020
	<i>HK\$'000</i>	<i>HK\$'000</i>
Dividends for ordinary shareholders of the Company recognised as distribution during the year:		
2020 final dividend, paid at HK10.00 cents per share	156,789	–
2019 final dividend, paid at HK19.13 cents per share	–	299,936
	<u>156,789</u>	<u>299,936</u>

The directors of the Company do not recommend the payment of a dividend for the year ended 31 December 2021 (2020: The final dividend of HK10 cents per share in respect of the year ended 31 December 2020 had been proposed by the directors and was subject to approval by the shareholders in the annual general meeting).

11. INVENTORIES

	2021	2020
	<i>HK\$'000</i>	<i>HK\$'000</i>
Raw materials	90,231	98,186
Work-in-progress	1,172	6,159
Finished goods	<u>30,245</u>	<u>8,146</u>
	<u>121,648</u>	<u>112,491</u>

12. TRADE RECEIVABLES

	2021 <i>HK\$'000</i>	2020 <i>HK\$'000</i>
Trade receivables		
— third parties	353,404	521,776
— an associate	18,079	—
	<u>371,483</u>	<u>521,776</u>
Less: allowance for credit losses	(6,944)	(9,243)
	<u><u>364,539</u></u>	<u><u>512,533</u></u>

The Group allows a credit period of 60 days to 90 days to its trade customers. The following is an ageing analysis of trade receivables presented based on the date of goods delivery/invoice at the end of the reporting period, which approximated revenue recognition dates except for receivables arising from printing of cigarette packages and manufacturing of laminated papers which are recognised over time upon application of HKFRS 15.

At the end of the reporting period, the ageing analysis of trade receivables (before allowance for credit losses) by invoice date is as follows:

	2021 <i>HK\$'000</i>	2020 <i>HK\$'000</i>
0 to 90 days	338,432	462,583
91 to 180 days	22,075	39,828
181 to 365 days	2,509	5,293
Over 365 days	8,467	14,072
	<u>371,483</u>	<u>521,776</u>

13. CONTRACT ASSETS

	2021 <i>HK\$'000</i>	2020 <i>HK\$'000</i>
Printing of manufacturing of cigarette packages and related materials	144,654	112,528
Manufacturing of laminated papers	142	843
	<u>144,796</u>	<u>113,371</u>
Less: allowance for credit losses	(227)	(184)
	<u><u>144,569</u></u>	<u><u>113,187</u></u>

The contract assets primarily relate to the Group's right to consideration for work completed and not billed because the rights are conditioned on the Group's future performance in delivering the goods to the customers at the reporting date on provision of printing of cigarette package and manufacturing of laminated papers. The contract assets are transferred to trade receivables when the rights become unconditional. The Group typically transfers the contract assets to trade receivables when the products are delivered to the customers.

The consideration is payable on the earlier of the delivery and acceptance of the finished goods by customers or notice from the customer to cancel the order. If the customer cancels the order, the Group is immediately entitled to receive payment for work done to date.

14. TRADE PAYABLES

	2021	2020
	<i>HK\$'000</i>	<i>HK\$'000</i>
Trade payables — third parties	<u>256,211</u>	<u>214,037</u>

The following is an ageing analysis of trade payables presented based on the date of goods receipt/invoice at the end of the reporting period:

	2021	2020
	<i>HK\$'000</i>	<i>HK\$'000</i>
0 to 30 days	134,358	135,197
31 to 90 days	91,763	58,903
91 to 180 days	28,784	8,245
181 to 365 days	517	3,855
Over 365 days	<u>789</u>	<u>7,837</u>
	<u>256,211</u>	<u>214,037</u>

The credit period on purchases of goods ranges from 30 days to 180 days. The Group monitors and maintains a level of cash and cash equivalents sufficient to ensure that all payables are within the credit time frame.

As at 31 December 2021, bills amounting to HK\$22,408,000 (2020: HK\$13,686,000) were transferred to suppliers for settling trade payables.

BUSINESS REVIEW

In 2021, the gross domestic product (GDP) of the People's Republic of China (the "PRC") increased by 8.1% compared to last year, higher than the increase of 2.2% in 2020 and the growth target of 6% at the beginning of the year. In 2021, the GDP per capita of the PRC reached RMB80,976, equivalent to approximately US\$12,551 on the then average exchange rate over the year.

In 2021, China's tobacco industry's sales volumes continued to grow steadily and cigarettes sold increased in volume and value by 0.55% and 5.21% respectively, representing a higher scale and pace of sales volume over the past few years. However, given the decrease in tendering price under the mandatory tendering policy in the cigarette industry and the increase in raw material prices, the Group was subject to considerable operating pressure under intensifying industry competition. Total revenue of the Group decreased by 13.5% from approximately HK\$1,339.4 million in 2020 to approximately HK\$1,158.9 million in 2021, and gross profit margin also decreased from 19.8% in 2020 to 13.9% in 2021. In respect of the downstream tendering policy, during the year, the Group has already established a specific team to plan and organise the tendering among the subsidiaries. At the same time, the Group has strengthened production cost control, improved production efficiency and enhanced inventory management, in order to cope with the challenges to profitability.

Since December 2020 and in 2021, the unsuccessful bid in the tender of some customers for the orders in the coming years had and is expected to have an adverse financial impact on the overall revenue and profitability of the Group in 2021 and the coming years. The financial position and performance of the Group were affected in different aspects, including the decrease in revenue arising from printing and manufacturing of cigarette packages business and impairment losses on goodwill arising from the relevant cash generating units.

FINANCIAL REVIEW

REVENUE

The Group recorded a total revenue of approximately HK\$1,158.9 million in 2021, representing a decrease of 13.5% as compared to approximately HK\$1,339.4 million in 2020. The revenue was generated from three business segments: (i) the printing and manufacturing of cigarette packages and related materials of approximately HK\$1,040.0 million (2020: HK\$1,227.7 million), (ii) manufacturing of laminated papers of approximately HK\$13.5 million (2020: HK\$35.5 million), and (iii) sales of RFID products of approximately HK\$105.4 million (2020: HK\$76.2 million). The revenue from the printing and manufacturing of cigarette packages and related materials segment accounted for approximately 89.7% of the total revenue for 2021 (2020: 91.7%). The decrease in total revenue was mainly attributable to the decrease in business volume of printing and manufacturing of cigarette packages and related materials as a result of the failure of one of the subsidiaries of the Company to bid its tender for 2021 and 2022 orders from some of its major customers. However, the appreciation of RMB against HKD of roughly 6.8% comparing with the corresponding period of 2020 has partially offset such downside effect.

GROSS PROFIT

Gross profit decreased by 39.2% from approximately HK\$265.8 million for the year ended 31 December 2020 to approximately HK\$161.5 million for the year ended 31 December 2021, primarily due to the decrease in revenue and increase in raw material price. Despite the implementation of the cost reduction and efficiency measures during the year under review, the gross profit margin still decreased from 19.8% for the year ended 31 December 2020 to 13.9% for the year ended 31 December 2021. The average selling price was also subject to pressure induced by the ongoing mandatory tendering system.

OTHER INCOME

Other income decreased by 11.4% from approximately HK\$47.0 million for the year ended 31 December 2020 to approximately HK\$41.6 million for the year ended 31 December 2021 due to the decrease in various government grants of approximately HK\$13.2 million and the increase in processing fee income of approximately HK\$5.9 million.

OTHER NET GAINS AND LOSSES

Other net gains and losses decreased by 39.6% from approximately HK\$173.8 million for the year ended 31 December 2020 to approximately HK\$105.0 million for the year ended 31 December 2021, which was mainly attributable to the decrease in impairment losses on goodwill by approximately HK\$79.5 million from HK\$176.0 million to HK\$96.5 million of which approximately HK\$93.3 million was recognised for Shenzhen Kecai Printing Co., Limited, an indirect wholly-owned subsidiary of the Company established in the PRC, as its recoverable amount was less than the carrying value as at 31 December 2021.

The Group has also made provision of HK\$21,200,000 in respect of an arbitration proceeding with an ex-staff, the details of which are disclosed in the circular of the Company dated 24 December 2021.

SELLING AND DISTRIBUTION EXPENSES

The selling and distribution expenses decreased by 36.5% from approximately HK\$41.2 million for the year ended 31 December 2020 to approximately HK\$26.2 million for the year ended 31 December 2021 which was primarily attributable to reduction of sales expenses and staff costs.

ADMINISTRATIVE EXPENSES AND OTHER EXPENSES

The administrative expenses and other expenses increased by 29.0% from approximately HK\$88.1 million for the year ended 31 December 2020 to approximately HK\$113.7 million for the year ended 31 December 2021.

The increase was mainly attributable to an one-off compensation for staff in 2021 and the absence of one-off preferential treatment in relation to the COVID-19 pandemic in 2020.

FINANCE COSTS

The finance costs decreased by 30.3% from approximately HK\$20.7 million for the year ended 31 December 2020 to approximately HK\$14.4 million for the year ended 31 December 2021.

The decrease was mainly due to decrease in the average bank borrowings rate and average bank borrowings balance in 2021. The Group has implemented plan to improve the bank loan portfolio by the replacement of existing facilities with new bank loan with lower interest rate.

SHARE OF RESULTS OF ASSOCIATES

The share of profits of associates increased by 18.2% from approximately HK\$59.3 million for the year ended 31 December 2020 to approximately HK\$70.1 million for the year ended 31 December 2021 due to improvement in profitability of the Group's major associate namely Changde Gold Roc Printing Co., Ltd. ("**Changde Gold Roc**"). Changde Gold Roc is principally engaged in the provision of cigarette printing package services. The Group beneficially owns RMB50,546,120 of its paid up capital, representing 31% of the total paid up capital of RMB163,052,000. The profit of Changde Gold Roc increased by 17.6% from approximately HK\$192.3 million for the year ended 31 December 2020 to approximately HK\$226.2 million for the year ended 31 December 2021. The increase in net profit of our associates was mainly due to an increase in revenue by 17.2% as a result of successful tenders by Changde Gold Roc. Changde Gold Roc also strengthened its production cost control and improved its production efficiency. The net asset value of Changde Gold Roc as at 31 December 2021 was approximately HK\$1,442.2 million (2020: approximately HK\$1,425.3 million). The carrying amount of the Group's interest in Changde Gold Roc was approximately HK\$455.9 million as at 31 December 2021 (2020: approximately HK\$450.4 million). During the year under review, the Group received dividend of approximately HK\$76.8 million (2020: HK\$58.5 million) from Changde Gold Roc. The Group holds the investment in Changde Gold Roc for stable earnings and dividend income in view of its stable business with the local customers.

Save for Changde Gold Roc, there were no significant investments held by the Group with a value of 5% or more of the Group's total assets as at 31 December 2021.

TAXATION

The effective tax rate of the Group decreased from 80.5% in 2020 to 34.8% in 2021. Such decrease was primarily due to the decrease in recognition of the impairment losses on goodwill of HK\$79.5 million, which is not deductible for tax purpose.

PROFIT FOR THE YEAR ATTRIBUTABLE TO OWNERS OF THE COMPANY

As a result of the foregoing, the profit attributable to the owners of the Company decreased by 3.2% from approximately HK\$8.9 million for the year ended 31 December 2020 to approximately HK\$8.6 million for the year ended 31 December 2021.

OTHER PERFORMANCE INDICATORS

The following table sets forth other performance indicators of the Group as at the dates or for the years indicated:

	As at or for the year ended 31 December	
	2021	2020
Current Ratio (<i>Note 1</i>)	1.5 times	1.5 times
Quick Ratio (<i>Note 2</i>)	1.4 times	1.4 times
Return on equity (<i>Note 3</i>)	0.3%	0.3%
Return on total assets (<i>Note 4</i>)	0.2%	0.2%

Notes:

- (1) Current ratio is calculated based on total current assets of the Group divided by total current liabilities of the Group as at the end of the respective year.
- (2) Quick ratio is calculated based on total current assets of the Group less inventories of the Group divided by total current liabilities of the Group as at the end of the respective year.
- (3) Return on equity is calculated by dividing profit attributable to owners of the Company for the year by the arithmetic mean of the opening and closing balance of total equity attributable to owners of the Company.
- (4) Return on total assets is calculated by dividing profit attributable to owners of the Company for the year by the arithmetic mean of the opening and closing balance of total assets of the Group.

Current ratio and quick ratio

The Group's current ratio and quick ratio as at 31 December 2021 remained relatively stable at 1.5 times (2020: 1.5 times) and 1.4 times (2020: 1.4 times), respectively.

Return on equity and return on total assets

The Group's return on equity remained at 0.3% in 2020 and 2021 and the Group's return on total assets remained at 0.2% in 2020 and 2021, as there was no material fluctuation in the profit attributable to owners of the Company for 2021 as compared to that of 2020.

LIQUIDITY AND CAPITAL RESOURCES

The Group's financial position remains solid and the Group possessed sufficient cash to meet its commitments and working capital requirements. As at 31 December 2021, the Group had net current assets of approximately HK\$398.1 million (2020: approximately HK\$392.2 million) of which cash and cash equivalents were approximately HK\$440.4 million (2020: approximately HK\$315.4 million) and were denominated in RMB, US\$ and HK\$ as at 31 December 2021.

As at 31 December 2021, the Group had outstanding bank borrowings of approximately HK\$342.4 million (2020: approximately HK\$411.2 million) which shall be repaid within 1 year. The gearing ratio as at 31 December 2021 was 12.8% (2020: 14.8%), which is calculated by dividing the total bank borrowings by the total equity. No financial instruments were used for hedging purposes, nor were there any foreign currency net investments hedged by current borrowings and/or other hedging instruments during the year.

CHARGES ON ASSETS

As at 31 December 2021, assets with gross carrying amounts of approximately HK\$23.3 million (31 December 2020: HK\$14.5 million) were pledged to banks in respect of bank borrowings granted to the Group.

CAPITAL COMMITMENTS

As at 31 December 2021, the Group had capital commitment amounted to approximately HK\$269.2 million (31 December 2020: approximately HK\$76.4 million) in respect of the acquisition of a subsidiary and property, plant and equipment contracted for but not provided in the consolidated financial statements.

TREASURY POLICY

The Group has adopted a prudent financial management approach towards its treasury policies and thus maintained a healthy liquidity position throughout the year of 2021. The Group strives to reduce exposure to credit risk by performing ongoing credit assessments and evaluations of the financial status of its existing customers from time to time. To manage liquidity risk, the Board closely monitors the Group's liquidity position to ensure that the liquidity structure of the Group's assets, liabilities and other commitments can meet its funding requirements from time to time.

MATERIAL ACQUISITIONS AND DISPOSALS OF SUBSIDIARIES, ASSOCIATES AND JOINT VENTURES, AND FUTURE PLANS FOR MATERIALS INVESTMENTS OR CAPITAL ASSETS

Save as disclosed below, there were no material acquisitions or disposals of subsidiaries, associates and joint ventures by the Group during the year ended 31 December 2021.

On 21 October 2021, the Company entered into a sale and purchase agreement with Mr. Cai Xiao Ming, David, a controlling shareholder of the Company interested in approximately 57.5% of the issued share capital of the Company and hence a connected person of the Company within the meaning of the Listing Rules, in relation to the acquisition by the Group of the entire issued share capital of Eagle Swift Limited and all obligations, liabilities and debts owing or incurred by Eagle Swift Limited to Mr. Cai Xiao Ming David and his associates for an aggregate cash consideration of HK\$233,000,000. The only significant asset of Eagle Swift Limited is a property located in Hong Kong. All conditions precedent as stated in the sale and purchase agreement were fulfilled and completion took place on 26 January 2022. After completion, Eagle Swift Limited has become a wholly-owned subsidiary of the Company.

Save as disclosed in this announcement, there was no plan authorised by the Board for other material investments or additions of capital assets at the date of this announcement.

HUMAN RESOURCES

As at 31 December 2021, the Group had 978 employees (2020: 1,150). The total remuneration cost incurred by the Group for the year ended 31 December 2021 was approximately HK\$155.5 million (2020: approximately HK\$172.3 million). The Group's remuneration packages are generally structured with reference to market terms and individual merits. The Group participates in a defined contribution retirement benefits scheme under the Mandatory Provident Fund Schemes Ordinance for all of its employees in Hong Kong. Contributions are made based on a percentage of the employees' base salaries. The Group also made contributions to provident funds, elderly insurance, medical insurance, unemployment insurance and work-related injury insurance in accordance with the applicable laws and regulations in the PRC.

IMPORTANT EVENTS AFFECTING THE GROUP AFTER THE REPORTING PERIOD

Save for the completion of the acquisition of Eagle Swift Limited on 26 January 2022, no important events affecting the Group have taken place since 31 December 2021 and up to the date of this announcement.

PROSPECTS

While the Chinese economy continues to recover steadily, the global economic outlook remains uncertain due to sporadic regional COVID-19 outbreaks in the PRC, rising global inflation, intensifying competition between the United States and the PRC on various fronts and the ongoing war between Russia and Ukraine, all of which may have an adverse effect on the Chinese economy and the Group's operating environment in 2022.

Looking ahead, the Group will continue to rely on cigarette packaging as a solid foundation for the Group's development and seek to further develop new businesses such as sales of RFID products. The Group will continue to increase its participation in tenders, while actively expanding into other packaging markets, and will continue to reduce the pressure of decreasing gross profit through measures such as cost control, efficiency boosting and resource consolidation.

The Group's corporate mission is to continue to develop ways to improve financial performance, provide growth drivers for the Group and broaden revenue streams within acceptable risk levels. On 26 January 2022, the Group completed the acquisition of Eagle Swift Limited, whose only significant asset is a property in Hong Kong. The Board considers that the acquisition represents a good investment opportunity for the Company to invest in the Hong Kong property market and the future rental income from the property will provide stable income for the Group while at the same time the Group may have the benefits from the long term appreciation in value of the property.

The Company will also continue to explore the possibility of other investments or diversification into other profitable businesses in the interests of the Company and its shareholders as a whole, with a view to achieving sustainable growth, improving profitability and ultimately maximising returns for shareholders.

FINAL DIVIDEND

The Board does not recommend the payment of a final dividend for the year ended 31 December 2021 (2020: HK10 cents per share).

COMPLIANCE WITH MODEL CODE FOR SECURITIES TRANSACTIONS BY DIRECTORS

The Company has adopted the Model Code for Securities Transactions by Directors of Listed Companies (the "**Model Code**") as set out in Appendix 10 to the Listing Rules as its own code of conduct regarding directors' securities transactions. Having made specific enquiries to all the Directors, each of the Directors has confirmed that he/she has complied with the required standards set out in the Model Code during the year ended 31 December 2021.

COMPLIANCE WITH CODE ON CORPORATE GOVERNANCE PRACTICES

The Company is committed to high standards of corporate governance and recognises that good corporate governance is important for the long-term success of the Company's business. The Company has adopted the Corporate Governance Code (the "CG Code") contained in Appendix 14 of the Listing Rules. During the year ended 31 December 2021, the Company has complied in general with the CG Code, except code provisions A.6.7 and E.1.2 of the CG Code as Mr. Lui Tin Nang (the chairman of audit committee of the Company and an independent non-executive Director) was unable to attend the annual general meeting of the Company held on 11 June 2021 due to his other business engagement.

The Board will continue to review and monitor the practices of the Company with an aim to maintaining high standards of corporate governance.

REVIEW BY AUDIT COMMITTEE

The Audit Committee of the Company comprises one non-executive Director, namely Ms. Li Li and three independent non-executive Directors, namely Mr. Lam Ying Hung, Andy, Mr. Lui Tin Nang and Mr. Siu Man Ho, Simon. Mr. Lui Tin Nang is the chairman of the Audit Committee, who possesses suitable professional qualifications. The Audit Committee has reviewed the financial statements for the year ended 31 December 2021 in conjunction with the Company's auditors and management and has also discussed auditing, risk management, internal control and financial reporting matters including accounting practices and principles adopted by the Group.

SCOPE OF WORK OF THE AUDITORS

The figures in respect of this preliminary announcement of the Group's results for the year ended 31 December 2021 have been agreed by the Group's auditors, Mazars CPA Limited, to the amounts set out in the Group's consolidated financial statements for the year. The work performed by Mazars CPA Limited in this respect did not constitute an assurance engagement in accordance with Hong Kong Standards on Auditing, Hong Kong Standards on Review Engagements or Hong Kong Standards on Assurance Engagements issued by the HKICPA and consequently no assurance has been expressed by Mazars CPA Limited on the preliminary announcement.

PURCHASE, SALE OR REDEMPTION OF THE COMPANY'S LISTED SECURITIES

Neither the Company, nor any of its subsidiaries has purchased, sold or redeemed any of the Company's listed securities during the year ended 31 December 2021.

PUBLICATION OF 2021 ANNUAL RESULTS ANNOUNCEMENT AND ANNUAL REPORT

This annual results announcement is published on the Company's website (www.lituholdings.com) and the Stock Exchange's website (www.hkexnews.hk). The Company's annual report for the year ended 31 December 2021 and notice of the annual general meeting will be made available on the websites of the Company and the Stock Exchange and will be despatched to the shareholders of the Company in due course.

By Order of the Board of
Litu Holdings Limited
Chen Xiao Liang
Chairman

Hong Kong, 31 March 2022

As at the date of this announcement, the Board comprises three executive Directors, namely, Mr. Chen Xiao Liang (Chairman and chief executive officer), Mr. Huang Wanru and Mr. Jiang Xiang Yu, one non-executive Director, namely, Ms. Li Li, and three independent non-executive Directors, namely, Mr. Lui Tin Nang, Mr. Lam Ying Hung, Andy and Mr. Siu Man Ho, Simon.