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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)

INTERIM RESULTS ANNOUNCEMENT FOR THE SIX MONTHS ENDED 30 JUNE 2022

The board (the “Board”) of directors (the “Directors”) of Litu Holdings Limited (the “Company”) is pleased to announce the unaudited condensed consolidated results of the Company and its subsidiaries (collectively referred to as the “Group”) for the six months ended 30 June 2022 (the “Period under Review”) together with the comparative figures for the corresponding period in 2021 as follows:

CONDENSED CONSOLIDATED STATEMENT OF COMPREHENSIVE INCOME *For the six months ended 30 June 2022*

| | | Six months ended 30 June | |
|---|--------------|---------------------------------|--------------------|
| | | 2022 | 2021 |
| | | (Unaudited) | (Unaudited) |
| | <i>Notes</i> | HK\$'000 | HK\$'000 |
| Revenue | 4 | 506,918 | 451,149 |
| Cost of sales | | (449,592) | (382,908) |
| Gross profit | | 57,326 | 68,241 |
| Other income | | 30,892 | 16,650 |
| Other gains and losses | 7 | 913 | (35,938) |
| Reversal for impairment losses on financial assets and contract assets, net | | 5 | 4,554 |
| Selling and distribution expenses | | (11,234) | (11,101) |
| Administrative expenses | | (74,278) | (50,986) |
| Other expenses | | – | (1,394) |
| Finance costs | 8 | (5,738) | (8,716) |
| Share of result of associates | | 27,769 | 37,723 |
| Share of result of a joint venture | | 39 | 256 |
| Profit before taxation | 8 | 25,694 | 19,289 |
| Taxation | 6 | (8,050) | (2,034) |

| | | Six months ended 30 June | |
|--|--------------|---------------------------------|----------------------|
| | | 2022 | 2021 |
| | | (Unaudited) | (Unaudited) |
| | <i>Notes</i> | HK\$'000 | HK\$'000 |
| Profit for the period | | 17,644 | 17,255 |
| Other comprehensive (losses) income: | | | |
| <i>Items that will not be reclassified to profit or loss in subsequent periods</i> | | | |
| Exchange differences arising on translation to presentation currency | | <u>(85,688)</u> | <u>19,679</u> |
| Total comprehensive (losses) income for the period | | <u><u>(68,044)</u></u> | <u><u>36,934</u></u> |
| Profit for the period attributable to: | | | |
| Owners of the Company | | 16,648 | 16,033 |
| Non-controlling interests | | <u>996</u> | <u>1,222</u> |
| | | <u><u>17,644</u></u> | <u><u>17,255</u></u> |
| Total comprehensive (losses) income attributable to: | | | |
| Owners of the Company | | (67,883) | 37,173 |
| Non-controlling interests | | <u>(161)</u> | <u>(239)</u> |
| | | <u><u>(68,044)</u></u> | <u><u>36,934</u></u> |
| | | HK\$ | HK\$ |
| Earnings per share | | | |
| Basic and diluted | <i>10</i> | <u><u>0.011</u></u> | <u><u>0.010</u></u> |

CONDENSED CONSOLIDATED STATEMENT OF FINANCIAL POSITION

As at 30 June 2022

| | 30 June 2022 | | 31 December 2021 |
|--|-------------------------|-----------|---------------------|
| | (Unaudited) | | (Audited) |
| <i>Notes</i> | HK\$'000 | | HK\$'000 |
| Non-current assets | | | |
| Property, plant and equipment | 967,711 | | 887,241 |
| Right-of-use assets | 97,336 | | 103,347 |
| Investment properties | 140,463 | | 55,780 |
| Goodwill | 785,728 | | 797,504 |
| Intangible assets | 6,397 | | 32,279 |
| Interest in an associate | 463,285 | | 455,869 |
| Interest in a joint venture | – | | 8,559 |
| Deferred tax assets | 9,107 | | 5,895 |
| Rental and other deposits paid | 3,133 | | 3,889 |
| | 2,473,160 | | 2,350,363 |
| Current assets | | | |
| Inventories | 114,325 | | 121,648 |
| Trade receivables | 351,251 | <i>11</i> | 364,539 |
| Contract assets | 86,667 | | 144,569 |
| Other receivables, prepayments and refundable deposits | 48,995 | | 57,013 |
| Tax recoverable | 3,059 | | 4,271 |
| Structured deposits | 11,714 | | – |
| Pledged bank deposits | 28,995 | | 11,488 |
| Bank balances and cash | 395,229 | | 440,350 |
| | 1,040,235 | | 1,143,878 |

| | | 30 June 2022 (Unaudited) HK\$'000 | 31 December 2021 (Audited) HK\$'000 |
|---|--------------|--|--|
| | <i>Notes</i> | | |
| Current liabilities | | | |
| Trade payables | 12 | 279,526 | 256,211 |
| Other payables and accruals | | 142,836 | 133,458 |
| Lease liabilities | | 161 | 333 |
| Amount due to non-controlling interests of a subsidiary | | 2,441 | 2,552 |
| Bank borrowings | | 396,000 | 342,428 |
| Income tax payable | | 13,417 | 10,748 |
| | | <u>834,381</u> | <u>745,730</u> |
| Net current assets | | <u>205,854</u> | <u>398,148</u> |
| Total assets less current liabilities | | <u>2,679,014</u> | <u>2,748,511</u> |
| Non-current liabilities | | | |
| Government grants | | 23,854 | 25,931 |
| Deferred tax liabilities | | 49,624 | 49,000 |
| | | <u>73,478</u> | <u>74,931</u> |
| NET ASSETS | | <u><u>2,605,536</u></u> | <u><u>2,673,580</u></u> |
| Capital and reserves | | | |
| Share capital | | 7,839 | 7,839 |
| Reserves | | 2,571,165 | 2,639,048 |
| | | <u>2,579,004</u> | <u>2,646,887</u> |
| Equity attributable to owners of the Company | | 26,532 | 26,693 |
| Non-controlling interests | | <u>26,532</u> | <u>26,693</u> |
| TOTAL EQUITY | | <u><u>2,605,536</u></u> | <u><u>2,673,580</u></u> |

NOTES TO THE CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

For the six months ended 30 June 2022

1. GENERAL

Litu Holdings Limited (the “Company”) was incorporated in the Cayman Islands on 11 November 2008 as an exempted company with limited liability and its shares are 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 “Controlling Shareholder”). The address of the registered office of the Company is Cricket Square, Hutchins Drive, P.O. Box 2681, Grand Cayman KY1-1111, Cayman Islands and its principal place of business in Hong Kong is 3/F, 38 On Lok Mun Street, On Lok Tsuen, Fanling, New Territories, Hong Kong.

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, property holding, research and development on printing technology, wholesale, import and export of the packaging products and other related services.

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

2. BASIS OF PREPARATION

The condensed consolidated financial statements have been prepared in accordance with Hong Kong Accounting Standard 34 “Interim Financial Reporting” issued by the Hong Kong Institute of Certified Public Accountants (“HKICPA”) as well as with the applicable disclosure requirements of Appendix 16 to the Rules Governing the Listing of Securities on the Stock Exchange (the “Listing Rules”).

3. PRINCIPAL ACCOUNTING POLICIES

The condensed consolidated financial statements have been prepared on the historical cost basis, except financial assets at fair value through profit or loss (“FVPL”), which are measured at fair value, as appropriate.

Other than additional accounting policies resulting from application of amendments to Hong Kong Financial Reporting Standards (“HKFRSs”), the accounting policies and the methods of computation used in the condensed consolidated financial statements for the six months ended 30 June 2022 are the same as those presented in the Group’s annual financial statements for the year ended 31 December 2021.

Application of amendments to HKFRSs

In the current interim period, the Group has applied the following amendments to HKFRSs issued by the HKICPA, for the first time, which are mandatory effective for the annual period beginning on or after 1 January 2022 for the preparation of the Group's condensed consolidated financial statements:

| | |
|-------------------------------|---------------------------------------|
| Amendments to HKAS 16 | Proceeds before Intended Use |
| Amendments to HKAS 37 | Cost of Fulfilling a Contract |
| Amendments to HKFRS 3 | Reference to the Conceptual Framework |
| Annual Improvements to HKFRSs | 2018–2020 Cycle |

3.1 Amendments to HKAS 16: Proceeds before Intended Use

The amendments clarify the accounting requirements for proceeds received by an entity from selling items produced while testing an item of property, plant or equipment before it is used for its intended purpose. An entity recognises the proceeds from selling any such items, and the cost of those items, in profit or loss and measures the cost of those items applying the measurement requirements of HKAS 2.

3.2 Amendments to HKAS 37: Cost of Fulfilling a Contract

The amendments clarify that for the purpose of assessing whether a contract is onerous under HKAS 37, the cost of fulfilling the contract comprises the costs that relate directly to the contract. Costs that relate directly to a contract include both the incremental costs of fulfilling that contract (for example, direct labour and materials) and an allocation of other costs that relate directly to fulfilling contracts (for example, an allocation of the depreciation charge for an item of property, plant and equipment used in fulfilling the contract).

3.3 Amendments to HKFRS 3: Reference to the Conceptual Framework

The amendments update a reference in HKFRS 3 to the Conceptual Framework for Financial Reporting issued in 2018. The amendments also add to HKFRS 3 an exception to its requirement for an entity to refer to the Conceptual Framework to determine what constitutes an asset or a liability. The exception specifies that, for some types of liabilities and contingent liabilities, an entity applying HKFRS 3 should instead refer to HKAS 37. The exception has been added to avoid an unintended consequence of updating the reference.

3.4 Annual Improvements Project — 2018–2020 Cycle

HKFRS 1: Subsidiary as a First-time Adopter

This amendment simplifies the application of HKFRS 1 for a subsidiary that becomes a first-time adopter of HKFRSs later than its parent — i.e. if a subsidiary adopts HKFRSs later than its parent and applies HKFRS 1.D16(a), then a subsidiary may elect to measure cumulative translation differences for all foreign operations at amounts included in the consolidated financial statements of the parent, based on the parent's date of transition to HKFRSs.

HKFRS 9: Fees in the “10 per cent” Test for Derecognition of Financial Liabilities

This amendment clarifies that — for the purpose of performing the “10 per cent test” for derecognition of financial liabilities — in determining those fees paid net of fees received, a borrower includes only fees paid or received between the borrower and the lender, including fees paid or received by either the borrower or lender on the other’s behalf.

HKFRS 16: Lease Incentives

The amendment removes the illustration of payments from the lessor relating to leasehold improvements. As currently drafted, Example 13 is not clear as to why such payments are not a lease incentive.

HKAS 41: Taxation in Fair Value Measurements

This amendment removes the requirement to exclude cash flows for taxation when measuring fair value, thereby aligning the fair value measurement requirements in HKAS 41 with those in HKFRS 13.

The application of the amendments to HKFRSs in the current period has had no material impact on the Group’s financial positions and performance for the current and prior periods and/or on the disclosures set out in these condensed consolidated financial statements.

3.5 Future Changes in HKFRSs

The Group has not early adopted any new/revised HKFRSs that have been issued but are not yet effective for the financial year beginning 1 January 2022. The directors are in the process of assessing the possible impact of the future adoption of these new/revised HKFRSs, but are not yet in a position to reasonably estimate their impact on the Group’s results and financial position.

4. REVENUE

Disaggregation of revenue from contracts with customers within HKFRS 15

Types of goods or services

| | Six months ended 30 June | |
|--|---------------------------------|--------------------|
| | 2022 | 2021 |
| | (Unaudited) | (Unaudited) |
| | HK\$’000 | HK\$’000 |
| Printing and manufacturing of cigarette packages and related materials | | |
| — Printing of cigarette packages | 379,175 | 340,118 |
| — Manufacturing of paper packaging materials | 84,858 | 46,944 |
| Manufacturing of laminated papers | 22 | 9,144 |
| Sales of RFID products | 42,863 | 54,943 |
| | 506,918 | 451,149 |

Timing of revenue recognition

| For the six months ended 30 June 2022 | | | | | |
|---------------------------------------|--|---|---|--|---|
| | Printing of cigarette packages (Unaudited) <i>HK\$'000</i> | Manufacturing of paper packaging materials (Unaudited) <i>HK\$'000</i> | Manufacturing of laminated papers (Unaudited) <i>HK\$'000</i> | Sales of RFID products (Unaudited) <i>HK\$'000</i> | Total (Unaudited) <i>HK\$'000</i> |
| A point in time | – | 84,858 | – | 42,863 | 127,721 |
| Over time | 379,175 | – | 22 | – | 379,197 |
| Total | <u>379,175</u> | <u>84,858</u> | <u>22</u> | <u>42,863</u> | <u>506,918</u> |
| For the six months ended 30 June 2021 | | | | | |
| | Printing of cigarette packages (Unaudited) <i>HK\$'000</i> | Manufacturing of paper packaging materials (Unaudited) <i>HK\$'000</i> | Manufacturing of laminated papers (Unaudited) <i>HK\$'000</i> | Sales of RFID products (Unaudited) <i>HK\$'000</i> | Total (Unaudited) <i>HK\$'000</i> |
| A point in time | – | 46,944 | – | 54,943 | 101,887 |
| Over time | 340,118 | – | 9,144 | – | 349,262 |
| Total | <u>340,118</u> | <u>46,944</u> | <u>9,144</u> | <u>54,943</u> | <u>451,149</u> |

Geographical markets

Information about the Group's revenue from external customers is presented based on the location of customers irrespective of the origin of goods/services.

| For the six months ended 30 June 2022 | | | | | |
|---------------------------------------|---|--|--|---|----------------------------------|
| | Printing of cigarette packages (Unaudited) HK\$'000 | Manufacturing of paper packaging materials (Unaudited) HK\$'000 | Manufacturing of laminated papers (Unaudited) HK\$'000 | Sales of RFID products (Unaudited) HK\$'000 | Total (Unaudited) HK\$'000 |
| PRC | 379,175 | 84,858 | 22 | 34,053 | 498,108 |
| Others (note) | – | – | – | 8,810 | 8,810 |
| Total | <u>379,175</u> | <u>84,858</u> | <u>22</u> | <u>42,863</u> | <u>506,918</u> |
| For the six months ended 30 June 2021 | | | | | |
| | Printing of cigarette packages (Unaudited) HK\$'000 | Manufacturing of paper packaging materials (Unaudited) HK\$'000 | Manufacturing of laminated papers (Unaudited) HK\$'000 | Sales of RFID products (Unaudited) HK\$'000 | Total (Unaudited) HK\$'000 |
| PRC | 340,118 | 46,944 | 9,144 | 44,562 | 440,768 |
| Others (note) | – | – | – | 10,381 | 10,381 |
| Total | <u>340,118</u> | <u>46,944</u> | <u>9,144</u> | <u>54,943</u> | <u>451,149</u> |

Note: Others mainly included Brazil, India, the Republic of Turkey, the Portuguese Republic and the Republic of Korea.

5. SEGMENT INFORMATION

Information reported to the executive directors of the Company, being the chief operating decision maker (“CODM”), for the purposes of resource allocation and assessment of segment performance focuses on types of goods delivered or services provided. No operating segments identified by the CODM have been aggregated in arriving at the reportable segments of the Group.

The Group's operating and reportable segments currently are (i) printing and manufacturing of cigarette packages and related materials, (ii) manufacturing of laminated papers and (iii) sales of RFID products. The CODM considered the Group has three (2021: three) operating and reportable segments which are based on the internal organisation and reporting structure. This is the basis upon which the Group is organised.

The following is an analysis of the Group's revenue and results by reportable segments:

For the six months ended 30 June 2022

| | Printing and manufacturing of cigarette packages and related materials (Unaudited) <i>HK\$'000</i> | Manufacturing of laminated papers (Unaudited) <i>HK\$'000</i> | Sales of RFID products (Unaudited) <i>HK\$'000</i> | Total (Unaudited) <i>HK\$'000</i> |
|--|---|--|---|--|
| Segment revenue | <u>464,033</u> | <u>22</u> | <u>42,863</u> | <u>506,918</u> |
| Segment profit | <u>58,550</u> | <u>354</u> | <u>6,644</u> | 65,548 |
| Unallocated — other income | | | | 30,892 |
| Unallocated — other gains and losses | | | | 913 |
| Unallocated expenses | | | | (93,734) |
| Finance costs | | | | (5,738) |
| Share of result of an associate | | | | 27,769 |
| Share of result of a joint venture | | | | 39 |
| Reversal of impairment losses on financial assets and contract assets, net | | | | <u>5</u> |
| Profit before taxation | | | | <u><u>25,694</u></u> |

For the six months ended 30 June 2021

| | Printing and manufacturing of cigarette packages and related materials (Unaudited) <i>HK\$'000</i> | Manufacturing of laminated papers (Unaudited) <i>HK\$'000</i> | Sales of RFID products (Unaudited) <i>HK\$'000</i> | Total (Unaudited) <i>HK\$'000</i> |
|--|---|---|--|---|
| Segment revenue | 387,062 | 9,144 | 54,943 | 451,149 |
| Segment profit | 70,561 | 226 | 3,752 | 74,539 |
| Unallocated — other income | | | | 16,650 |
| Unallocated — other gains and losses | | | | (35,938) |
| Unallocated expenses | | | | (69,779) |
| Finance costs | | | | (8,716) |
| Share of result of associates | | | | 37,723 |
| Share of result of a joint venture | | | | 256 |
| Reversal of impairment losses on financial assets and contract assets, net | | | | 4,554 |
| Profit before taxation | | | | <u>19,289</u> |

Segment profit represents the profit earned by each segment without allocation of corporate management expenses, directors' emoluments, share of result of associates and a joint venture, finance costs, unallocated other income, other gains and losses, impairment loss on financial assets and contract assets, net of reversal, amortisation of intangible assets relating to customer relationship and other expenses. This is the measure reported to the CODM for the purposes of resource allocation and performance assessment.

All of the segment revenue reported above is from external customers.

6. TAXATION

| | Six months ended 30 June | |
|---|---------------------------------|-----------------|
| | 2022 | 2021 |
| | (Unaudited) | (Unaudited) |
| | HK\$'000 | HK\$'000 |
| Current tax | | |
| The PRC Enterprise Income Tax (“EIT”) | 8,743 | 2,559 |
| Overprovision of EIT in prior years | (397) | (5,925) |
| | 8,346 | (3,366) |
| Deferred tax | | |
| Origination and reversal of temporary differences | 3,413 | 5,400 |
| Benefit of tax loss recognised | (3,709) | – |
| | (296) | 5,400 |
| Income tax expenses | 8,050 | 2,034 |

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% (2021: 15% to 25%) in the PRC. Pursuant to the “Enterprise Income Tax Law for Foreign Investment Enterprises and Foreign Enterprises”, some PRC subsidiaries, being High-Tech Enterprises, 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 a 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.

7. OTHER GAINS AND LOSSES

| | Six months ended 30 June | |
|---|---------------------------------|-----------------|
| | 2022 | 2021 |
| | (Unaudited) | (Unaudited) |
| | HK\$'000 | HK\$'000 |
| Net foreign exchange (losses) gains | (323) | 1,805 |
| Gain from changes in fair value of financial assets at FVPL | 686 | 89 |
| Gain on disposal of intangible assets | 37 | – |
| Gain on disposal of property, plant and equipment | 1,332 | 2,152 |
| Impairment losses on goodwill | – | (41,531) |
| Loss on deregistration of a joint venture | (819) | – |
| Others | – | 1,547 |
| | 913 | (35,938) |

8. PROFIT BEFORE TAXATION

This is stated after charging (crediting):

| | Six months ended 30 June | |
|---|--------------------------|----------------|
| | 2022 | 2021 |
| | (Unaudited) | (Unaudited) |
| | HK\$'000 | HK\$'000 |
| Staff costs: | | |
| Directors' emoluments | 2,993 | 3,276 |
| Other staff costs | | |
| Salaries and other benefits | 65,898 | 54,000 |
| Contractual termination benefit | 24,493 | 7,206 |
| Contributions to retirement benefits schemes | 9,120 | 8,643 |
| | <u>102,504</u> | <u>73,125</u> |
| Total staff costs | | |
| | <u>102,504</u> | <u>73,125</u> |
| Amortisation of intangible assets (included in cost of sales and administrative expenses) | 19,582 | 20,126 |
| Depreciation | | |
| — property, plant and equipment | 49,518 | 51,127 |
| — right-of-use assets | 1,568 | 2,037 |
| — investment properties | 4,890 | 2,035 |
| | <u>75,558</u> | <u>75,325</u> |
| Total amortisation and depreciation | | |
| | <u>75,558</u> | <u>75,325</u> |
| Cost of inventories* | 449,592 | 382,908 |
| | <u>449,592</u> | <u>382,908</u> |
| Finance costs | | |
| — Interest expenses on bank borrowings and overdraft | 5,732 | 8,700 |
| — Interest expenses on lease liabilities | 6 | 16 |
| | <u>5,738</u> | <u>8,716</u> |
| | <u>5,738</u> | <u>8,716</u> |

* Included in cost of inventories were staff costs and depreciation and amortisation of approximately HK\$44,305,000 and HK\$62,695,000 (2021: HK\$44,451,000 and HK\$60,396,000) respectively which are recognised during the period.

| | Six months ended 30 June | |
|---|---------------------------------|---------------------|
| | 2022 | 2021 |
| | (Unaudited) | (Unaudited) |
| | HK\$'000 | HK\$'000 |
| Research and development costs recognised as an expense (included in other expenses) | – | 106 |
| Government grants (included in other income) | (17,457) | (7,570) |
| Government support in respect of Covid-19-related subsidies (included in other income) | (104) | – |
| Direct operating expenses arising from investment properties that generated rental income (included in other income) | 8,290 | 2,708 |
| | <u><u>8,290</u></u> | <u><u>2,708</u></u> |

9. DIVIDENDS

The aggregate amount of the dividends declared and paid during the period is as follows:

| | Six months ended 30 June | |
|---|---------------------------------|-----------------------|
| | 2022 | 2021 |
| | (Unaudited) | (Unaudited) |
| | HK\$'000 | HK\$'000 |
| Dividends for ordinary shareholders of the Company recognised as distribution during the period: | | |
| 2020 final dividend | – | 156,789 |
| | <u><u>–</u></u> | <u><u>156,789</u></u> |

No dividend has been paid or declared by the Company for the six months ended 30 June 2022 (2021: The final dividend of HK10 cents per share in respect of the year ended 31 December 2020, amounting approximately of HK\$156,789,000 had been declared).

10. EARNINGS PER SHARE

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

| | Six months ended 30 June | |
|---|---------------------------------|-------------------------|
| | 2022 | 2021 |
| | (Unaudited) | (Unaudited) |
| Earnings: | | |
| Profit for the period attributable to owners of the Company for the purpose of basic earnings per share (HK\$'000) | 16,648 | 16,033 |
| | <u><u>16,648</u></u> | <u><u>16,033</u></u> |
| Number of shares: | | |
| Weighted average number of ordinary shares in issue for the purpose of basic earnings per share ('000) | 1,567,885 | 1,567,885 |
| | <u><u>1,567,885</u></u> | <u><u>1,567,885</u></u> |

Dilutive earnings per share are same as the basic earnings per share as there were no potential ordinary shares in existence during the six months ended 30 June 2022 and 2021.

11. TRADE RECEIVABLES

| | 30 June 2022 (Unaudited) HK\$'000 | 31 December 2021 (Audited) HK\$'000 |
|-----------------------------------|--|--|
| Trade receivables | | |
| — third parties | 347,948 | 353,404 |
| — an associate | 9,947 | 18,079 |
| | <u>357,895</u> | <u>371,483</u> |
| Less: allowance for credit losses | (6,644) | (6,944) |
| | <u>351,251</u> | <u>364,539</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 date 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.

| | 30 June 2022 (Unaudited) HK\$'000 | 31 December 2021 (Audited) HK\$'000 |
|---------------|--|--|
| 0–90 days | 293,222 | 338,432 |
| 91–180 days | 39,428 | 22,075 |
| 181–365 days | 18,275 | 2,509 |
| Over 365 days | 6,970 | 8,467 |
| | <u>357,895</u> | <u>371,483</u> |

As at 30 June 2022, included in trade receivables were bills receivables of HK\$28,792,000 (31 December 2021: HK\$599,000), which are held by the Group for future settlement of trade receivables due from third parties. All bills received by the Group are with a maturity period of less than one year.

12. TRADE PAYABLES

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

| | 30 June 2022 (Unaudited) HK\$'000 | 31 December 2021 (Audited) HK\$'000 |
|---------------|--|--|
| 0–30 days | 97,912 | 134,358 |
| 31–90 days | 101,169 | 91,763 |
| 91–180 days | 60,797 | 28,784 |
| 181–365 days | 18,881 | 517 |
| Over 365 days | 767 | 789 |
| | <hr/> 279,526 <hr/> | <hr/> 256,211 <hr/> |

As at 30 June 2022, bills amounting to HK\$74,717,000 (31 December 2021: HK\$22,408,000) were transferred to suppliers for settling trade payables.

13. ACQUISITION OF A SUBSIDIARY

On 21 October 2021 (as supplemented on 15 December 2021), the Company entered into a sale and purchase agreement with the Controlling Shareholder, in relation to the acquisition of the entire issued share capital of Eagle Swift Limited (“Eagle Swift”).

The principal activity of Eagle Swift is holding a property located at 38 On Lok Mun Street, Fanling, New Territories, Hong Kong which comprises a 6-storey building (“Property”). The acquisition was completed on 26 January 2022 and was accounted for as an acquisition of assets through acquisition of a subsidiary. The fair value of the Property at the date of acquisition was estimated to be HK\$233,079,000. The Group intended to lease out first and fifth floor of the Property and the remaining portion of the Property shall be for the Group’s own uses. Thus, the Property are recognised as “Investment properties” and “Property, plant and equipment” at the fair value of HK\$80,300,000 and HK\$152,779,000 respectively based on their respective gross floor areas.

| | Eagle Swift (Unaudited) HK\$'000 |
|--|---|
| Recognised amounts of identifiable assets acquired: | |
| Property, plant and equipment | 152,779 |
| Investment properties | 80,300 |
| Prepayments and deposits | 195 |
| | <hr/> 233,274 <hr/> |
| Consideration satisfied by: | |
| Cash | <hr/> 233,274 <hr/> |
| Net cash outflow arising from the acquisition: | |
| Cash consideration paid | <hr/> (233,274) <hr/> |

BUSINESS REVIEW

For the six months ended 30 June 2022 (the “Period under Review”), the Company achieved revenue of approximately HK\$506.9 million with profit attributable to owners of the Company amounting to approximately HK\$16.6 million and basic earnings per share of approximately HK\$0.011. The Board did not recommend the payment of an interim dividend for the Period under Review.

In the first half of 2022, China’s economy recovered steadily and achieved a year-on-year gross domestic product (GDP) growth of 2.5%. In May 2022, the State Council of China issued the “Policy Package to Stabilize the Economy”, which proposed 33 detailed measures to help China’s economy to stabilize and recover. However, the prospects of the global economy remain 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 China’s economy and the Group’s operating environment in the second half of 2022.

During the Period under Review, China’s tobacco industry’s production and sales volumes continued to grow steadily. Cigarettes sold increased in volume and value by 2.68% and 7.86% respectively. However, given the decrease in tendering price under the mandatory tendering policy in the cigarette industry and the increase in raw material price, the Group was under operating pressure of intensifying industry competition. The Group has put more efforts to plan and organise the tendering among the subsidiaries.

Under the pressure of the fall of tender prices and the inflation of raw material price, the Group has implemented a series of measures in order to cope with the challenges to the profitability of the Group. The measures included to simplify the management structure in order to increase the efficiency of decision making to match with fast changing of the market demand, to enhance the inventory management to control the inventory at appropriate level and to implement tendering system for the purchase of raw materials to increase the bargaining power on the purchase price in order to reduce and control the purchase cost.

Printing and Manufacturing of Cigarette Packages and Related Materials

During the Period under Review, the revenue of this segment increased by 19.9% to HK\$464.0 million. The increase is mainly due to the increase of sales order from one of the major customers.

This segment has suffered from the fall of tender prices and the inflation of raw material price, as both had adverse impact on the profitability. To cope with the challenges, the Group has increased our participation in tenders, actively sought other new market opportunities and allocated additional resources on research and development of new products in order to expand into other packaging markets and to increase revenue in the future. The Group will also continue to reduce the pressure of declining gross profit through cost reduction, efficiency enhancement and resource consolidation measures.

Manufacturing of Laminated Papers

The segment profit of laminated paper manufacturing has increased mainly due to increase in the government grants.

Sales of RFID products

During the Period under Review, the sales of RFID products has decreased by 22.0% to HK\$42.9 million. Due to the resurgence of COVID-19 in the Jiangsu Province Jingjiang City in the PRC, the Group's production factory was closed for nearly one month to comply with the pandemic control and lockdown measures implemented by the local government. Thus, the revenue of this segment has been adversely affected.

PROSPECT

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

MANAGEMENT DISCUSSION AND ANALYSIS

REVENUE

During the Period under Review, the revenue of the Group was approximately HK\$506.9 million (six months ended 30 June 2021: HK\$451.1 million), which represents an increase of approximately HK\$55.8 million or 12.4% as compared to the corresponding period in 2021. The revenue of our three business segments, namely printing and manufacturing of cigarette package and related materials, manufacturing of laminated papers and sales of RFID products were approximately HK\$464.0 million (six months ended 30 June 2021: HK\$387.1 million), HK\$0.022 million (six months ended 30 June 2021: HK\$9.1 million) and HK\$42.9 million (six months ended 30 June 2021: HK\$54.9 million) respectively.

The increase in revenue was mainly attributable to the increase in business volume of printing and manufacturing of cigarette packages and related materials as a result of the increase of sales order from one of the major customers.

GROSS PROFIT

During the Period under Review, gross profit of the Group decreased by 16.0% to approximately HK\$57.3 million (six months ended 30 June 2021: HK\$68.2 million) as compared to the corresponding period in 2021. The gross profit margin decreased to 11.3% during the Period under Review (six months ended 30 June 2021: 15.1%).

The decrease of gross profit margin was mainly due to the increase of raw materials price and the decrease of average selling price which was induced by the ongoing mandatory tendering system of the tobacco industry in China.

OTHER INCOME

Other income during the Period under Review comprises mainly government grants, rental income (net of direct expenses), sales of scrap materials and interest income of approximately HK\$17.6 million, HK\$6.2 million, HK\$2.5 million and HK\$0.8 million respectively.

Other income of the Group increased by HK\$14.2 million to HK\$30.9 million as compared with the corresponding period in 2021, which was mainly attributable to the increase in various government grants.

OTHER GAINS AND LOSSES

Other gains during the Period under Review was HK\$0.9 million, which was improved from other losses of HK\$35.9 million for the corresponding period in 2021. The improvement was mainly attributable to the absence of recognition of impairment losses on goodwill for the Period under Review. As at 30 June 2021, the Group recognised impairment losses on goodwill of approximately HK\$41.5 million for various cash-generating units as their recoverable amount were lesser than the carrying amount.

SELLING AND DISTRIBUTION EXPENSES

The selling and distribution expenses during the Period under Review increased by approximately HK\$0.1 million to HK\$11.2 million or 1.2% compared with the corresponding period of last year. The increase was mainly due to the increase of revenue.

ADMINISTRATIVE EXPENSES AND OTHER EXPENSES

During the Period under Review, administrative expenses and other expenses increased by approximately HK\$21.9 million or 41.8% compared with the corresponding period in 2021. The increase was mainly attributable to the increase in contractual termination benefit for the Period under Review and the increase in depreciation due to the acquisition of Eagle Swift Limited.

FINANCE COSTS

Finance costs during the Period under Review decreased by approximately HK\$3.0 million or 34.2% as compared with the corresponding period in 2021. Such decrease was mainly due to decrease in the average amount of bank borrowings and average interest rate of bank borrowings during the Period under Review. 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 RESULT OF ASSOCIATES

Share of profits of associates decreased by approximately HK\$10.0 million to HK\$27.8 million during the Period under Review. The decrease in net profit of our associates was mainly due to the fall of tender price for the successful tenders of the Group's major associate namely Changde Gold Roc Printing Co., Ltd. ("Changde Gold Roc") during the Period under Review. Changde Gold Roc is principally engaged in provision of cigarette printing packaging services. It has a carrying value of HK\$463.3 million, i.e. more than 10% of the Group's total assets of HK\$3,513.4 million as at 30 June 2022. The Group beneficially owns RMB50,546,120 of its paid up capital, representing 31% of the total paid up capital of RMB163,052,000. During the Period under Review, the Group hasn't received dividend from Changde Gold Roc (2021: received dividend of HK\$76.8 million). The Group considers the prospects of Changde Gold Roc to remain promising and continues to hold the investment in Changde Gold Roc for stable earnings and dividend income in view of its stable business with local customers.

TAXATION

The effective tax rate of the Group increased from approximately 10.5% to 31.3% during the Period under Review. Such increase was mainly due to the net effect of the increase of enterprise income tax, the decrease of the over provision of enterprise income tax in prior years and the decrease of the deferred tax.

PROFIT ATTRIBUTABLE TO OWNERS OF THE COMPANY

Profit attributable to the owners of the Company during the Period under Review was approximately HK\$16.6 million, representing an increase of approximately HK\$0.6 million or 3.8% as compared with the corresponding period in 2021. The increase was primarily attributable to the net effect of the absence of impairment loss on goodwill of approximately HK\$41.5 million, the increase in administrative expenses and other expenses of approximately HK\$21.9 million and the decrease of gross profit of approximately HK\$10.9 million.

SEGMENT INFORMATION

During the Period under Review, the revenue from the printing and manufacturing of cigarette packages and related materials, manufacturing of laminated papers and sales of RFID products were approximately HK\$464.0 million (six months ended 30 June 2021: HK\$387.1 million), approximately HK\$0.022 million (six months ended 30 June 2021: HK\$9.1 million) and approximately HK\$42.9 million (six months ended 30 June 2021: HK\$54.9 million) respectively. Earnings from the printing and manufacturing of cigarette packages and related materials accounted for approximately 89.3% of the total segment earnings before unallocated items. The earnings before unallocated items during the Period under Review from printing and manufacturing of cigarette packages, printing and related materials, manufacturing of laminated papers and sales of RFID products decreased by 17.0% to approximately HK\$58.6 million, increased by 56.6% to approximately HK\$0.4 million and increased by 77.1% to approximately HK\$6.6 million respectively.

FINANCIAL POSITION AND LIQUIDITY

The Group generally finances its operations with internally generated resources and banking facilities. As at 30 June 2022, the Group had net current assets of approximately HK\$205.9 million (as at 31 December 2021: HK\$398.1 million) while the Group's bank balances and cash amounted to approximately HK\$395.2 million (as at 31 December 2021: HK\$440.4 million).

The significant decrease in net current assets was mainly due to the completion of the acquisition of Eagle Swift Limited by the Company on 26 January 2022, details of which are set out in the announcements of the Company dated 21 October 2021 and 26 January 2022.

As at 30 June 2022, bank borrowings (repayable within one year) of the Group amounted to approximately HK\$396.0 million (as at 31 December 2021: HK\$342.4 million). Carrying amounts of bank deposits pledged for securing banking facilities of bills payables granted to the Group amounted to approximately HK\$29.0 million (as at 31 December 2021: HK\$11.5 million). As at 30 June 2022, the Group's gearing ratio, represented by the total bank borrowing divided by the total equity, was approximately 15.2% (as at 31 December 2021: 12.8%).

CAPITAL COMMITMENTS

As at 30 June 2022, the Group had capital commitments in respect of the acquisition of property, plant, equipment contracted for but not provided in the condensed consolidated financial statements amounting to approximately HK\$27.7 million (as at 31 December 2021: HK\$268.6 million), mainly related to the development of industrial park.

TREASURY POLICIES

The Group has adopted a prudent financial management approach towards its treasury policies and thus maintained a healthy liquidity position throughout the Period under Review. 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.

CAPITAL STRUCTURE

During the Period under Review, the Group's operation was mainly financed by funds generated from its operation and bank borrowings. As at 30 June 2022, bank borrowings were mainly denominated in HKD and RMB, while the cash and cash equivalents held by the Group were mainly denominated in HKD and RMB. The Group's turnover is mainly denominated in RMB, while its costs and expenses are mainly denominated in HKD and RMB. 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 period.

EQUITY FUND RAISING

There was no equity fund raising activity by the Company during the Period under Review, nor were there any unutilised proceeds brought forward from any issue of equity securities made in previous financial years.

CHARGES ON ASSETS

As at 30 June 2022, the Group pledged bank deposits with an aggregate carrying value of approximately HK\$29.0 million (31 December 2021: HK\$11.5 million) to secure banking facilities of bills payables granted to the Group.

As at 30 June 2022, property, plant and equipment and investment properties of approximately HK\$150.2 million (31 December 2021: Nil) and HK\$79.0 million (31 December 2021: Nil) respectively were pledged to secure banking facilities granted to the Group.

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

Save for Changde Gold Roc, the particulars of which are disclosed in the above section headed “Share of result of associates”, and as disclosed below, there were no significant investments held, and no material acquisitions or disposals of subsidiaries, associates and joint ventures by the Group during the Period under Review.

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 million. 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. Details of the acquisition are set out in the announcements of the Company dated 21 October 2021 and 26 January 2022.

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.

IMPORTANT EVENTS AFFECTING THE GROUP AFTER THE REPORTING PERIOD

No important events affecting the Group has taken place since 30 June 2022 and up to the date of this announcement.

HUMAN RESOURCES

As at 30 June 2022, the Group had 9 and 776 full-time staff based in Hong Kong and the PRC respectively. The Group's remuneration packages are generally structured with reference to market terms and individual merits. The Group operates 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 appropriate laws and regulations in the PRC.

INTERIM DIVIDEND

The Board did not recommend the payment of an interim dividend for the Period under Review.

CORPORATE GOVERNANCE

The Company has adopted the Corporate Governance Code (the "Code") contained in Part 2 of Appendix 14 of the Listing Rules. For the Period under Review, the Company has complied in general with the Code, except code provisions C.2.1.

Under code provision C.2.1 of the Code, the roles of chairman and chief executive should be separate and should not be performed by the same individual. The division of responsibilities between the chairman and the chief executive should be clearly established and set out in writing. Following the resignation of Mr. Qin Song as an executive Director, vice-chairman, chief executive officer and member of the nomination committee of the Company with effect from 21 January 2022, the Company has appointed Mr. Chen Xiao Liang in place of Mr. Qin Song to take up the vacancy of the chief executive officer. Mr. Chen Xiao Liang held the roles of chairman and chief executive officer at the same time for the period from 21 January 2022 to 22 April 2022.

In addition, following the resignation of Mr. Chen Xiao Liang as an executive Director, chairman and chief executive officer of the Company with effect from 22 April 2022, Mr. Huang Wanru was appointed as the chairman of the Company in his place on the same date, but the Company has not yet appointed an individual to take up the vacancy of the chief executive officer, and the roles and functions of the chief executive officer have been performed by all the executive Directors collectively since 22 April 2022.

PURCHASE, SALE OR REDEMPTION OF SHARES

Neither the Company nor any of its subsidiaries has redeemed, purchased or sold any of the Company's shares during the Period under Review.

AUDIT COMMITTEE

The audit committee of the Company has reviewed with management the accounting principles and practices adopted by the Group and discussed internal control, risk management and financial reporting matters including a review of the interim report and the unaudited condensed consolidated financial statements for the Period under Review with the Directors. In addition, the interim financial information of the Group for the Period under Review has also been reviewed by the independent auditor of the Company, Mazars CPA Limited. The audit committee of the Company comprises the three independent non-executive Directors, namely, Mr. Lui Tin Nang, Mr. Lam Ying Hung, Andy and Mr. Siu Man Ho, Simon, and the non-executive Director, Ms. Li Li.

APPRECIATION

The Board would like to take this opportunity to express its gratitude to its customers and shareholders for their continuing support as well as its staff for their dedication and hard work.

By Order of the Board
Litu Holdings Limited
Huang Wanru
Chairman

Hong Kong, 26 August 2022

As at the date of this announcement, the Board comprises two executive Directors, namely, Mr. Huang Wanru (Chairman) 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.