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Champion Alliance International Holdings Limited

冠均國際控股有限公司

(Incorporated in the Cayman Islands with members' limited liability)

(Stock Code: 1629)

RESULTS ANNOUNCEMENT FOR THE YEAR ENDED 31 DECEMBER 2020

HIGHLIGHTS

- Revenue for the year ended 31 December 2020 increased by approximately 7.2% or RMB38.0 million to approximately RMB568.7 million.
- Gross profit for the year ended 31 December 2020 increased by approximately 12.9% or RMB9.7 million to approximately RMB85.4 million.
- Loss attributable to equity holders of the Company for the year ended 31 December 2020 was approximately RMB0.5 million as compared to the profit attributable to equity holders of the Company of approximately RMB7.7 million for the year ended 31 December 2019.
- Basic loss per share of the Company for the year ended 31 December 2020 was approximately RMB0.10 cents as compared to basic earnings per share of the Company of approximately RMB1.55 cents for the year ended 31 December 2019.
- The Board proposed not to declare any final dividend for the year ended 31 December 2020.

RESULTS

The board (the “**Board**”) of directors (the “**Directors**”) of Champion Alliance International Holdings Limited (the “**Company**”) is pleased to announce the audited consolidated results of Company and its subsidiaries (collectively the “**Group**”) for the year ended 31 December 2020 together with the comparative audited results for the year ended 31 December 2019 as follows:

CONSOLIDATED STATEMENT OF PROFIT OR LOSS AND OTHER COMPREHENSIVE INCOME

	Notes	Year ended 31 December	
		2020 RMB'000	2019 RMB'000
Revenue	5	568,701	530,713
Cost of sales		(483,300)	(455,045)
Gross profit		85,401	75,668
Other income and gains	6	2,625	1,324
Selling and distribution expenses		(40,738)	(23,390)
Administrative expenses		(23,664)	(23,810)
Impairment of trade receivables		(1,283)	(2,103)
Other expenses		(8,311)	(9,935)
Finance costs	7	(7,658)	(603)
PROFIT BEFORE INCOME TAX	8	6,372	17,151
Income tax expense	9	(6,849)	(9,410)
(LOSS)/PROFIT FOR THE YEAR		(477)	7,741
OTHER COMPREHENSIVE INCOME			
Item that will not be reclassified subsequently to profit or loss:			
Exchange differences on translation of the Company's financial statements into its presentation currency		1,517	497
OTHER COMPREHENSIVE INCOME FOR THE YEAR		1,517	497
TOTAL COMPREHENSIVE INCOME		1,040	8,238
(LOSS)/PROFIT FOR THE YEAR ATTRIBUTABLE TO:			
Owners of the Company		(527)	7,741
Non-controlling interests		50	–
		(477)	7,741
TOTAL COMPREHENSIVE INCOME ATTRIBUTABLE TO:			
Owners of the Company		990	8,238
Non-controlling interests		50	–
		1,040	8,238
(LOSS)/EARNINGS PER SHARE			
Basic and diluted (<i>RMB cents per share</i>)	10	(0.10)	1.55

CONSOLIDATED STATEMENT OF FINANCIAL POSITION

		As at 31 December	
	<i>Notes</i>	2020 <i>RMB'000</i>	2019 <i>RMB'000</i>
NON-CURRENT ASSETS			
Property, plant and equipment		24,523	26,651
Investment property		4,350	4,614
Right-of-use assets		24,097	21,821
Computer software		66	93
Total non-current assets		53,036	53,179
CURRENT ASSETS			
Inventories		78,209	108,182
Trade and bills receivables	12	165,172	141,347
Prepayments, deposits and other receivables		20,456	17,356
Income tax recoverable		963	415
Restricted cash		48,721	17,475
Cash and cash equivalents		66,459	35,694
Total current assets		379,980	320,469
CURRENT LIABILITIES			
Trade and bills payables	13	175,379	143,720
Other payables and accruals		71,115	45,845
Income tax payable		1,253	319
Bank and other borrowings		48,462	50,748
Lease liabilities		12,840	10,784
Total current liabilities		309,049	251,416
NET CURRENT ASSETS		70,931	69,053
TOTAL ASSETS LESS CURRENT LIABILITIES		123,967	122,232
NON-CURRENT LIABILITIES			
Lease liabilities		461	–
Deferred government grants		798	944
Total non-current liabilities		1,259	944
NET ASSETS		122,708	121,288
EQUITY			
Share capital		4,459	4,459
Reserves		117,342	116,829
Equity attributable to owners of the Company		121,801	121,288
Non-controlling interests		907	–
TOTAL EQUITY		122,708	121,288

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

1 GENERAL INFORMATION

Champion Alliance International Holdings Limited (the “**Company**”) is a limited liability company incorporated in the Cayman Islands and shares of which are listed on the Main Board of The Stock Exchange of Hong Kong Limited (the “**Stock Exchange**”). The registered office address of the Company is P.O. Box 10008, Willow House, Cricket Square, Grand Cayman, KY1-1001, Cayman Islands and the Company’s principal place of business in Hong Kong is located at Room A, 17th Floor, Capitol Centre Tower II, 28 Jardine’s Crescent, Causeway Bay, Hong Kong.

During the year, the Company and its subsidiaries (collectively referred to as the “**Group**”) were principally involved in the following activities:

- manufacture and sale of cigarette packaging materials and provision of related processing services in the mainland (“**Mainland China**”) of the People’s Republic of China (the “**PRC**” or “**China**”);
- production and sale of steam for industrial use and heating and electricity in Mainland China; and
- trading of household paper products in Mainland China.

In the opinion of the directors of the Company, the immediate holding company and the ultimate holding company of the Company is Champion Alliance International Corporation, which is incorporated in the British Virgin Islands (the “**BVI**”).

2 BASIS OF PREPARATION

(a) Statement of compliance

These financial statements have been prepared in accordance with all Hong Kong Financial Reporting Standards, Hong Kong Accounting Standards (“**HKASs**”) and Interpretations (hereinafter collectively referred to as the “**HKFRSs**”) and the disclosure requirements of the Hong Kong Companies Ordinance. In addition, the financial statements include applicable disclosures required by the Rules Governing the Listing of Securities on the Stock Exchange.

(b) Basis of measurement

The financial statements have been prepared under the historical cost basis.

(c) Functional and presentation currency

The functional currency of the Company is Hong Kong dollars, while the financial statements are presented in Renminbi (“**RMB**”). As the management ordinarily uses RMB for management reporting purposes, the directors of the Company consider that it will be more appropriate to adopt RMB as the Group’s and the Company’s presentation currency. All values are rounded to the nearest thousand (RMB’000) except when otherwise indicated.

3 ADOPTION OF HONG KONG FINANCIAL REPORTING STANDARDS (“HKFRSs”)

(a) Adoption of new or revised HKFRSs – effective on 1 January 2020

The Hong Kong Institute of Certified Public Accountants has issued a number of new or amended HKFRSs that are first effective for the current accounting period of the Group:

Amendments to HKFRS 3	Definition of a Business
Amendments to HKAS 1 and HKAS 8	Definition of Material
Amendments to HKAS 39, HKFRS 7 and HKFRS 9	Interest Rate Benchmark Reform

None of these new or amended HKFRSs has a material impact on the Group’s results and financial position for the current or prior period. The Group has not early applied any new or amended HKFRSs that is not yet effective for the current accounting period.

(b) New or amended HKFRSs that have been issued but are not yet effective

The following new or amended HKFRSs, potentially relevant to the Group’s financial statements, have been issued, but are not yet effective and have not been early adopted by the Group. The Group’s current intention is to apply these changes on the date they become effective.

Amendments to HKAS 1	Classification of Liabilities as Current or Non-current and HK Interpretation 5 (2020), Presentation of Financial Statements – Classification by the Borrower of a Term Loan that Contains a Repayment on Demand Clause ⁴
Amendments to HKAS 16	Proceeds before Intended Use ²
Amendments to HKAS 37	Onerous Contracts – Cost of Fulfilling a Contract ²
Amendments to HKFRS 3	Reference to the Conceptual Framework ³
Amendments to HKAS 39, HKFRS 4, HKFRS 7, HKFRS 9 and HKFRS 16	Interest Rate Benchmark Reform – Phase 2 ¹
Annual Improvements to HKFRSs 2018–2020	Amendments to HKFRS 1 First-time Adoption of Hong Kong Financial Reporting Standards, HKFRS 9 Financial Instruments, HKFRS 16 Leases and HKAS 41 Agriculture ²
Amendment to HKFRS 16	Covid-19-Related Rent Concessions ⁵

¹ Effective for annual periods beginning on or after 1 January 2021

² Effective for annual periods beginning on or after 1 January 2022

³ Effective for business combinations for which the date of acquisition is on or after the beginning of the first annual period beginning on or after 1 January 2022

⁴ Effective for annual periods beginning on or after 1 January 2023

⁵ Effective for annual periods beginning on or after 1 June 2020

4 OPERATING SEGMENT INFORMATION

For management purposes, the Group is organised into business units based on their products and services and has three reportable operating segments as follows:

- (a) the cigarette packaging products segment manufactures and sells cigarette packaging products and provides related processing service in Mainland China;

- (b) the new energy operation segment engages in the production and sale of steam for industrial use, heating and electricity in Mainland China; and
- (c) the household paper products segment trades household paper products.

Management monitors the results of the Group's operating segments separately for the purpose of making decisions about resource allocation and performance assessment. Segment performance is evaluated based on reportable segment profit/(loss), which is a measure of adjusted profit/(loss) before tax. The adjusted profit/(loss) before tax is measured consistently with the Group's profit/(loss) before tax except that interest income, finance costs as well as head office and corporate income and expenses are excluded from such measurement.

Segment revenue and results

	Cigarette packaging products RMB'000	New energy operation RMB'000	Household paper products RMB'000	Total RMB'000
Year ended 31 December 2020				
Segment revenue				
Revenue from external customers	<u>217,468</u>	<u>115,379</u>	<u>235,854</u>	<u>568,701</u>
Segment results	<u>511</u>	<u>22,783</u>	<u>5,037</u>	<u>28,331</u>
<i>Reconciliation:</i>				
Bank interest income				291
Corporate and other unallocated expenses				(14,592)
Finance costs				<u>(7,658)</u>
Profit before income tax				<u>6,372</u>
Other segment information:				
Depreciation of items of property, plant and equipment				
– Operating segments	3,396	–	–	3,396
– Amount unallocated				<u>31</u>
				<u>3,427</u>
Depreciation of investment property	264	–	–	264
Depreciation of right-of-use assets				
– Operating segments	325	10,754	–	11,079
– Amount unallocated				<u>558</u>
				<u>11,637</u>
Amortisation of computer software	27	–	–	27
Impairment of trade receivables	–	1,283	–	1,283
Capital expenditure*				
– Operating segments	1,505	11,829	–	13,334
– Amount unallocated	–	–	–	<u>2,250</u>
				<u>15,584</u>

	Cigarette packaging products <i>RMB'000</i>	New energy operation <i>RMB'000</i>	Household paper products <i>RMB'000</i>	Total <i>RMB'000</i>
Year ended 31 December 2019				
Segment revenue				
Revenue from external customers	<u>251,847</u>	<u>101,125</u>	<u>177,741</u>	<u>530,713</u>
Segment results	<u>(1,999)</u>	<u>19,378</u>	<u>11,645</u>	29,024
<i>Reconciliation:</i>				
Bank interest income				447
Corporate and other unallocated expenses				(11,717)
Finance costs				<u>(603)</u>
Profit before income tax				<u>17,151</u>
Other segment information:				
Depreciation of items of property, plant and equipment				
– Operating segments	3,200	–	–	3,200
– Amount unallocated				<u>12</u>
				<u>3,212</u>
Depreciation of investment property	264	–	–	264
Depreciation of right-of-use assets				
– Operating segments	325	–	–	325
– Amount unallocated				<u>229</u>
				<u>554</u>
Amortisation of computer software	15	–	–	15
Impairment of trade receivables	2,103	–	–	2,103
Capital expenditure*	<u>417</u>	<u>10,754</u>	<u>45</u>	<u>11,216</u>

* Capital expenditure consists of additions to property, plant and equipment, right-of-use assets and computer software.

Segment assets and liabilities

Segment assets and liabilities information is not disclosed as they are not regularly reviewed by the chief operating decision maker.

Geographical information

No geographical information is presented as the Group's revenue is solely derived from Mainland China and more than 90% of the Group's non-current assets were located in Mainland China.

Information about major customers

During the year ended 31 December 2020, two (2019: two) external customers individually contributed 10% or more of the Group's total revenue for the year and the revenue generated from sales to each of these customers is set out below:

	Year ended 31 December	
	2020 RMB'000	2019 RMB'000
Cigarette packaging products segment:		
Customer A	79,427	63,373
Customer B	58,072	N/A
New energy operation segment:		
Customer C	N/A	59,889

Note: N/A represents that the revenue from the particular customer for the particular year accounted for less than 10% of the Group's revenue for the particular year.

5 REVENUE

An analysis of the Group's revenue is as follows:

	Year ended 31 December	
	2020 RMB'000	2019 RMB'000
Sales of goods	550,059	522,898
Processing service income	18,642	7,815
	<u>568,701</u>	<u>530,713</u>

6 OTHER INCOME AND GAINS

An analysis of the Group's other income and gains is as follows:

	Year ended 31 December	
	2020	2019
	RMB'000	RMB'000
Bank interest income	291	447
Rental income	934	700
Subsidy income	146	146
Government grants (<i>Note</i>)	617	–
Other income	130	31
Gain on disposal of property, plant and equipment	89	–
Net foreign exchange gains	418	–
	<u>2,625</u>	<u>1,324</u>

Note: For the year ended 31 December 2020, the Group obtained government grants from the PRC government supporting the Group's research and development of new anti-counterfeiting paper, stabilising, and also obtained grants from Employment Support Scheme under the Anti-epidemic Fund launched by the government of Hong Kong Special Administrative Region supporting the payroll of the Group's employees in Hong Kong. There were no conditions to be fulfilled or contingencies related to these grants.

7 FINANCE COSTS

An analysis of the Group's finance costs is as follows:

	Year ended 31 December	
	2020	2019
	RMB'000	RMB'000
Interest on bank and other borrowings	7,381	592
Interest on lease liabilities	277	11
	<u>7,658</u>	<u>603</u>

8 PROFIT BEFORE INCOME TAX

The Group's profit before income tax is arrived at after charging/(crediting):

	Year ended 31 December	
	2020	2019
	RMB'000	RMB'000
Cost of inventories sold	442,592	453,086
Depreciation of items of property, plant and equipment	3,427	3,212
Less: Amount included in cost of inventories sold	<u>(2,114)</u>	<u>(1,891)</u>
	<u>1,313</u>	<u>1,321</u>
Depreciation of right-of-use assets	11,637	554
Less: Amount included in cost of inventories sold	<u>(10,822)</u>	<u>(68)</u>
	<u>815</u>	<u>486</u>
Depreciation of investment property	264	264
Amortisation of computer software	27	15
Lease payments not included in the measurement of lease liabilities	59	10,984
Auditor's remuneration	1,300	1,780
Impairment of trade receivables	1,283	2,103
Employee benefit expense (excluding directors' remuneration)		
Salaries, bonus and benefits in kind	16,557	19,752
Retirement benefit scheme contributions	1,306	1,891
Share-based compensation expense	<u>–</u>	<u>500</u>
	<u>17,863</u>	<u>22,143</u>
Less: Amount included in cost of inventories sold	<u>(7,676)</u>	<u>(9,081)</u>
	<u>10,187</u>	<u>13,062</u>
Net foreign exchange losses	–	660
Research and development costs (included in other expenses)	<u>8,047</u>	<u>7,993</u>

9 INCOME TAX EXPENSE

	Year ended 31 December	
	2020	2019
	RMB'000	RMB'000
Current tax – Mainland China		
– tax for the year	6,869	7,570
– (over)/under provision in respect of prior years	(20)	137
	<u>6,849</u>	<u>7,707</u>
Deferred tax	<u>–</u>	<u>1,703</u>
Income tax expense	<u><u>6,849</u></u>	<u><u>9,410</u></u>

No provision for Hong Kong profits tax has been made for the year ended 31 December 2020 as the Group did not generate any assessable profits arising in Hong Kong during the year (2019: Nil).

Taxes on profits assessable in Mainland China have been calculated at the applicable tax rate on the estimated assessable profits for the year, based on the prevailing legislation, interpretations and practices in respect thereof.

10 (LOSS)/EARNINGS PER SHARE

The calculation of the basic and diluted loss (2019: earnings) per share attributable to the owners of Company is based on the following data:

	Year ended 31 December	
	2020	2019
	RMB'000	RMB'000
(Loss)/earnings		
(Loss)/profit for the year attributable to owners of the Company	<u>(527)</u>	<u>7,741</u>
Number of shares		
Weighted average number of ordinary shares	<u><u>500,000,000</u></u>	<u><u>500,000,000</u></u>

Diluted (loss)/earnings per share amount was the same as basic (loss)/earnings per share amount as there were no potential dilutive ordinary shares outstanding for the years ended 31 December 2020 and 2019.

11 DIVIDEND

The Board did not recommend the payment of any dividend for the year ended 31 December 2020 (2019: Nil).

12 TRADE AND BILLS RECEIVABLES

	As at 31 December	
	2020	2019
	RMB'000	RMB'000
Trade receivables	170,348	141,741
Less: Impairment	(5,176)	(3,893)
Trade receivables – net	165,172	137,848
Bills receivables	–	3,499
	165,172	141,347

An ageing analysis of the trade and bills receivables as at the end of the reporting period, based on the invoice date and net of impairment, is as follows:

	As at 31 December	
	2020	2019
	RMB'000	RMB'000
Within 1 month	52,514	93,488
1 to 2 months	47,208	18,135
2 to 3 months	27,268	11,359
3 to 4 months	21,648	12,278
Over 4 months	16,534	6,087
	165,172	141,347

13 TRADE AND BILLS PAYABLES

	As at 31 December	
	2020	2019
	RMB'000	RMB'000
Trade payables	96,667	108,769
Bills payables	78,712	34,951
	175,379	143,720

An ageing analysis of the trade and bills payables as at the end of the reporting period, based on the invoice date, is as follows:

	As at 31 December	
	2020	2019
	RMB'000	RMB'000
Within 1 month	122,360	79,723
1 to 2 months	22,771	29,745
2 to 3 months	6,604	11,840
Over 3 months	23,644	22,412
	175,379	143,720

MANAGEMENT DISCUSSION AND ANALYSIS

The Group is principally engaged in the production and sale of metallised packaging paper for cigarette package manufacturers. The Group has an operating history of more than 10 years, with two main line of products, being transfer metallised paper and laminated metallised paper. Since 2019, the Group successfully diversified its business with household paper products and new energy operation (steam for industrial use, household heating, and electricity supply). The Group will hence continue to stride with its three core businesses.

MARKET REVIEW

As the global economy recorded its tenth consecutive year of positive growth when the year 2020 arrived, people anticipated another strong year ahead. Unfortunately, the outbreak of the novel coronavirus (the “**COVID-19 Outbreak**”) brought an unprecedented shock to the world. China’s economy therefore faced difficult challenges as various regions in the country that were hardest-hit by the pandemic imposed strict lockdown measures such as factory suspension, which resulted in a sharp decline in economic activities.

With the pandemic being largely contained, industrial production and economic activities gradually resumed since the second quarter and China’s economy showed resilience with a year-on-year growth of 6.5% in the fourth quarter. Such quick recovery helped China stand out from the rest of the world amidst the greatest global recession since the Great Recession, and saw its gross domestic product grow by 2.3% in 2020, thus making China the only major economy to have expanded in 2020.

In addition, consumption in China also gained momentum and recorded positive monthly growth again in its total retail sales of consumer goods since August, compared with the 20.5% drop during the period between January and February 2020. In full-year terms, total retail sales of consumer goods witnessed a decline of 3.9% year-on-year only.

BUSINESS REVIEW

i. Cigarette packaging products

Hubei Mengke Paper Co., Ltd (湖北盟科紙業有限公司) (“**Hubei Mengke**”), a subsidiary of the Company engaging in the production and processing of cigarette packaging products, is situated in one of the worst-hit regions, namely Hubei Province. Hampered by the COVID-19 Outbreak, the operation of Hubei Mengke was suspended after the statutory holidays for Chinese New Year as part of the Chinese government’s countermeasures in containing the pandemic. In 2020, the GDP of Hubei Province decreased by 5% year-on-year, creating a considerable impact to the cigarette packaging business of the Group.

Furthermore, the PRC government extended its effort in the structural reform of the tobacco market, which included cigarette control, promotion of mental health and cancer prevention. To overcome these challenges, the Group endeavoured to maintain a close communication with existing suppliers, customers and government authorities, while stepping up its effort in keeping up sales and marketing and production. During the year ended 31 December 2020, the Group secured 5 new projects, which were due for delivery within 2020. At the end of the reporting period, there was 1 project in tender and negotiation stages.

ii. Steam for industrial use and heating and electricity

Although the COVID-19 Outbreak hindered economic activities during the reporting period, industrial production picked up steadily and the value-added output of industrial enterprises above the designated size and total power consumption in the country increased 2.8% and 3.1% year-on-year, respectively. With the continued development of the economy and industrial parks, demand for energy has seen a significant growth in recent years. Meanwhile, supported by government policy, the increasing application of combined heat and power has driven the total installed capacity to climb also.

During the reporting period, the Group's new energy business relied on a professional technology management team of a heating and electricity company which provides integrated services solutions for high-efficiency clean coal technology, clean production, energy saving, and environmental protection. Through these solutions, the Group helps the country's clean energy industry to transform and upgrade and tackle the long-existing heating supply problem in urban areas and industrial parks. During the reporting period, revenue of this segment was approximately RMB115.4 million, an increase of approximately 14.1% as compared to 2019.

iii. Household paper products

During the reporting period, production and logistics for household paper products in China experienced inevitable disruption initially due to the pandemic, thereby putting this segment of the Group under pressure. However, the promising recovery of the Chinese economy gave strength to the already strong sector. In particular, given the COVID-19 Outbreak, national health awareness has increased significantly and demand for high-quality household paper products was strong.

Our partnering brands are widely recognised in China and are among the "China's 500 Most Valuable Brands" for years. During the reporting period, revenue of this segment was approximately RMB235.9 million, an increase of approximately 32.7% as compared to 2019.

FINANCIAL REVIEW

Revenue

For the year ended 31 December 2020, total revenue of the Group was approximately RMB568.7 million, representing an increase of approximately RMB38.0 million over the total revenue of approximately RMB530.7 million for the corresponding period in 2019. Such increase was because of the increase in the sales of steam for industrial use and heating and electricity and household paper products.

The following table sets forth the breakdown of the Group's revenue for the year ended 31 December 2020 and 2019:

	For the year ended 31 December		Change %
	2020 RMB'000	2019 RMB'000	
Cigarette packaging products			
– transfer metallised paper	177,956	213,991	(16.8)
– laminated metallised paper	20,870	30,041	(30.5)
Processing service income	18,642	7,815	138.5
Steam for industrial use and heating and electricity	115,379	101,125	14.1
Household paper products	235,854	177,741	32.7

i. Cigarette packaging business

Despite the aforementioned suspension of operation, the staff of the Company had put a great effort in maintaining the Group's performance.

ii. Other businesses

To enhance and reinforce its business, the Group launched other businesses in early 2019. Other businesses mainly include sale of household paper products, as well as sale of steam for industrial use and heating and electricity. With a full year of operation, these businesses witnessed a growth of approximately 26.0% or RMB72.4 million in revenue for the year ended 31 December 2020.

Gross Profit and Gross Profit Margin

The Group's gross profit increased from approximately RMB75.7 million for the year ended 31 December 2019 to approximately RMB85.4 million for the year ended 31 December 2020. The increased was mainly due to the increased in gross profit margin of household paper products. Gross profit margin increased from approximately 14.3% for the year ended 31 December 2019 to approximately 15.0% for the year ended 31 December 2020.

Other Income and Gains

For the year ended 31 December 2020, the Group's net other income and gains mainly consisted of rental income, bank interest income, subsidy income, government grants, net foreign exchange gains and other income. The other income and gains increased by approximately 98.3% to approximately RMB2.6 million for the year ended 31 December 2020 from approximately RMB1.3 million for the year ended 31 December 2019. The increase was mainly due to the increase in rental income, government grants, net foreign exchange gains and other income for the reporting period.

Selling and Distribution Expenses

During the reporting period, selling and distribution expenses mainly consisted of (i) costs of transportation expenses, (ii) staff costs, (iii) entertainment expenses, (iv) travelling expenses and (v) other expenses. The Group's selling and distribution expenses increased by approximately 74.2% from approximately RMB23.4 million for the year ended 31 December 2019 to approximately RMB40.7 million for the year ended 31 December 2020. The increase in selling and distribution expenses was mainly due to the increase in revenue.

Administrative Expenses

For the year ended 31 December 2020, administrative expenses mainly consisted of (i) staff costs, (ii) depreciation and amortisation, (iii) entertainment expenses, (iv) office expenses and (v) legal and professional fee. Administrative expenses decreased from approximately RMB23.8 million for the year ended 31 December 2019 to approximately RMB23.7 million for the year ended 31 December 2020. The decrease in administrative expenses of the Group was mainly due to the decrease of staff costs and office expenses for the reporting period.

Other Expenses

For the year ended 31 December 2020, the Group's other expenses consisted of research and development expenses and depreciation. The net other expenses were approximately RMB8.3 million for the year ended 31 December 2020 as compared to approximately RMB9.9 million for the year ended 31 December 2019. The decrease was mainly due to the decrease in net foreign exchange losses and loss of spare materials sold for the reporting period.

Finance Costs

Finance costs consisted of interest expenses from bank and other borrowings and interest on lease liabilities. The finance expenses were approximately RMB7.7 million for the reporting period (for the year ended 31 December 2019: RMB603,000). The increase was mainly attributable to the increase in interest expenses from a loan from an independent third party and interest on lease liabilities.

Income Tax Expense

The Group's income tax expense was approximately RMB6.8 million for the year ended 31 December 2020. The Group's income tax expense was approximately RMB9.4 million in the same period of 2019.

(Loss)/Profit for the Year

For the year ended 31 December 2020, the Group's loss attributable to shareholders of the Company was approximately RMB0.5 million. Profit attributable to shareholders of the Company for the year ended 31 December 2019 was approximately RMB7.7 million. The loss was mainly attributable to the net effect of the increase in gross profit and the interest expenses from a loan from an independent third party during the reporting period.

LIQUIDITY AND FINANCIAL RESOURCES

Net Current Assets

The Group recorded net current assets of approximately RMB70.9 million as at 31 December 2020, while the net current assets as at 31 December 2019 was approximately RMB69.1 million.

Borrowings and Gearing Ratio

The total borrowings of the Group as at 31 December 2020 were approximately RMB48.5 million (as at 31 December 2019: RMB50.7 million). The Group's gearing ratio increased from approximately 52.8% as at 31 December 2019 to approximately 53.7% as at 31 December 2020. The increase in the gearing ratio was primarily a result of the increase in lease liabilities. Gearing ratio was calculated by dividing total debt (which mainly consisted of bank and other borrowings, amount due to the ultimate holding company, amount due to a company controlled by a former director and lease liabilities) by total equity as at the dates indicated and multiplied by 100%.

Capital Expenditure

During the year ended 31 December 2020, the Group's total capital expenditure amounted to approximately RMB15.6 million, which was mainly used in plant and machinery and office equipment (year ended 31 December 2019: RMB11.2 million).

Treasury Policies

The Group adopts a prudent approach with respect to treasury and funding policies, with a focus on risk management and transactions that are directly related to the underlying business of the Group.

Capital Structure

The capital structure of the Group consists of equity attributable to owners of the Company, which comprises issued share capital and reserves. During the year ended 31 December 2020, there had been no change in the number of issued shares in the Company.

Charge on Assets

The Group's borrowings and notes payables were secured by its property, plant and equipment, investment property, right-of-use assets and restricted cash. The following table sets forth the carrying amounts of assets pledged to secure the bank borrowings and bills payables:

	As at 31 December 2020 RMB'000	As at 31 December 2019 RMB'000
Property, plant and equipment	13,927	15,020
Investment property	4,350	4,614
Right-of-use assets	10,714	11,039
Restricted cash	48,721	17,475
	<hr/>	<hr/>
Total	77,712	48,148
	<hr/> <hr/>	<hr/> <hr/>

In addition to the above, as at 31 December 2020, the Group has pledged the equity interest in a wholly-owned subsidiary to secured the other borrowing of the Group.

Significant Investments, Material Acquisitions and Disposals of Subsidiaries, Associates and Joint Ventures

There were no significant investments, material acquisitions or disposals of subsidiaries, associates or joint ventures by the Group for the year ended 31 December 2020 (year ended 31 December 2019: nil).

Contingent Liabilities

As at 31 December 2020, the Group did not have any significant contingent liabilities (as at 31 December 2019: nil).

Foreign Exchange Risk

The Group's transactions were mainly conducted in RMB, the functional currency of certain subsidiaries of the Group, and the major receivables and payables were denominated in RMB. The Group's exposure to foreign currency risk related primarily to certain bank balances and cash and other payables maintained in Hong Kong dollars ("HK\$"). The Group did not use derivative financial instruments to hedge against the volatility associated with foreign currency transactions and other financial assets and liabilities arising in the ordinary course of business during the year ended 31 December 2020 (year ended 31 December 2019: nil).

Human Resources and Remuneration

As at 31 December 2020, the Group employed 257 employees (as at 31 December 2019: 250) with total staff costs of approximately RMB22.0 million incurred for the same period (for the year ended 31 December 2019: approximately RMB26.3 million). The decrease of staff costs of the Group was mainly due to the decrease in bonus paid to selling and administrative staff. The Group's remuneration packages are generally structured with reference to market terms and individual merits.

Final Dividend

The Board proposed not to declare any final dividend for the year ended 31 December 2020 (year ended 31 December 2019: nil).

Use of Net Proceeds from the Listing

The Company listed its shares on the Stock Exchange on 25 November 2016 (the "**Listing Date**"). Net proceeds from the listing of the shares of the Company (the "**Listing**") (after deduction of the underwriting commission and relevant expenses) were approximately HK\$42.2 million (equivalent to approximately RMB37.6 million), which has been applied in the manner as disclosed in the prospectus of the Company dated 15 November 2016 (the "**Prospectus**").

As at 31 December 2020, the net proceeds from the Listing has been utilised as follows:

	Adjusted use of net proceeds in the manner and proportion as stated in the Prospectus <i>RMB'000</i>	Approximate % of total actual net proceeds	Actual amount utilised from the Listing Date up to 31 December 2020 <i>RMB'000</i>	Balance as at 31 December 2020 <i>RMB'000</i>	Expected timeline for the remaining use of net proceeds <i>(Note)</i>	
					For the year ending 31 December 2021 <i>RMB'000</i>	For the year ending 31 December 2022 <i>RMB'000</i>
Use of net proceeds from the Listing						
Purchase and upgrade of production equipment, as well as expansion and maintenance of the production facilities	23,303	62%	3,568	19,735	1,969	17,766
Expansion and upgrade of non-production facilities, including but not limited to warehouse and other supporting facilities	5,638	15%	1,334	4,304	226	4,078
Business development expenditures, including expanding the geographical coverage of sales network and research and development expenditures relating to the purchase of research and development equipment and to future research and development projects	4,886	13%	4,886	-	-	-
Working capital and general corporate purposes	3,758	10%	3,758	-	-	-
	<u>37,585</u>	<u>100%</u>	<u>13,546</u>	<u>24,039</u>	<u>2,195</u>	<u>21,844</u>

Note: The expected timeline for utilising the remaining net proceeds is based on the best estimation of the future market conditions made by the Group. It will be subject to change based on the current and future development of market conditions.

As at 31 December 2020, unutilised proceeds amounted to approximately HK\$28.7 million (equivalent to approximately RMB24.0 million), which will be invested in production plant, equipment upgrade and technical development. The unutilised portion of the net proceeds have been placed as interest bearing deposits with licensed banks as restricted cash in the PRC. As at the date of this announcement, the Directors do not anticipate any change to the plan on the use of net proceeds.

Future Plans for Material Investments or Capital Assets

Save for the business plan disclosed in the Prospectus or in this announcement, there is no other plan for material investments or capital assets as at 31 December 2020.

Capital Commitments

As at 31 December 2020, the Group did not have any capital commitments in terms of acquisition of property, plant and equipment (as at 31 December 2019: nil).

PRINCIPAL RISKS AND UNCERTAINTIES

The following are some principal risks and uncertainties facing the Group, which may pose material and adverse effects on its business, financial condition or results of operations:

Increasingly regulated industry

The PRC tobacco industry is becoming increasingly regulated and our business is subject to various industry requirements. In 2014, the State Tobacco Monopoly Administration (中國國家煙草專賣局) published the Requirements for Design of Cigarette Package (《卷煙包裝設計要求》), which limit the cost of cigarette packaging by setting a maximum ratio on the packaging cost to the cigarette selling price to avoid excessive packaging. Under these requirements, the ratio for tier 1 to tier 3 cigarettes must be no more than 8% to 11% and the ratio for tier 4 to tier 5 cigarettes must be no more than 12%. Our products are primarily used for mid to high-end cigarette brands in tier 1 to tier 3. The PRC cigarette packaging industry could be negatively affected by these requirements or any future regulatory control, industry policies or applicable guidelines or requirements, as they may reduce cigarette manufacturers' spending on the PRC cigarette packaging or otherwise place negative pricing pressure on cigarette package manufacturers. This may cause cigarette package manufacturers to reduce their demand for our products or result in increased competition among cigarette packaging paper manufacturers which drives down the selling prices of our products.

During the meeting hosted by the State Tobacco Monopoly Administration in February 2020, a number of initiatives were suggested, including enhancing the efficiency of industry governance and accelerating the upgrade of the sector's supply chain standard, which may result in a further tightening of quality control of cigarette package manufacturers, industry consolidation and spending on new equipment and technologies.

PRC legislative control and awareness of health concerns

In recent years, the PRC government has promulgated a series of legislative and regulatory control on the cigarette industry including the proposed Regulations on Smoking Control in Public Areas (《公共場所控制吸煙條例》), which aims to tighten control of the Chinese cigarette industry and to curb the demand for cigarette consumption due to concern for public health. Such tightened legislative and regulatory control includes regulations limiting smoking in public areas, prohibition on certain types of tobacco advertising, as well as labelling requirements for cigarette packages. In additions, the PRC government promulgated the Opinions on Implementing Healthy China Action (《關於實施健康中國行動的意見》), pursuant to which a number of actions such as smoking control, promotion of mental health and cancer prevention will be introduced. Integrated measures including tariff and price adjustment will be studied to improve the effectiveness of smoking control.

The global trend of increasing awareness of health and the health hazards associated with cigarette smoking may negatively influence the sales of cigarette, which in turn would affect the demand for cigarette packaging in China and our sales of cigarette packaging paper.

Dependence on cigarettes prices and economic conditions in China

The slowdown in China's economic growth in recent years has influenced the purchasing power of cigarette consumers, which in turn affected their willingness to spend on cigarettes and therefore, the amount of cigarettes consumption. According to the market research report prepared by Ipsos Limited in November 2016 (the "**Ipsos Report**"), it is forecasted that the increasing trend in sales volume of cigarettes in China from 2017 to 2020 would slow down, mainly due to the sluggish economic growth in China and an increase in specific tax.

In fact, according to the National Bureau of Statistics, total cigarette production volume was approximately 2,386.4 billion in 2020, representing a year-on-year growth of 0.9% only. Research from AskCI Consulting indicates that total income of tobacco enterprises above designated size is estimated to reach RMB977.4 billion and RMB995.4 billion in 2020 and 2021, respectively, representing a compound annual growth rate of 1.05% only between 2015 and 2021.

Intense competition

Due to industry restructuring and consolidation, the number of cigarette manufacturers in China has decreased over the years. In 2015, 29 key cigarette brands contributed approximately 93.9% of total cigarette sales revenue in China and, according to the Ipsos Report, further consolidation is expected in the future. This creates greater competition between the cigarette brands remaining in the market and increases the competition among cigarette manufacturers. In the event that further restructuring or consolidation takes place among cigarette manufacturers in China, the number of cigarette manufacturers and cigarette brands will further reduce, resulting in a more competitive market for cigarette package manufacturers and ultimately affecting the cigarette packaging paper market.

Reliance on major customers

For the years ended 31 December 2019 and 2020, revenue from our five largest customers amounted to approximately RMB221.9 million and approximately RMB243.3 million, respectively, which accounted for approximately 41.8% and approximately 42.8% of our total revenue for the respective periods.

In order to reduce such reliance and widen our customer base, the Group plans to proactively expand into new markets such as Sichuan Province, Yunnan Province, Zhejiang Province and Hunan Province of China for easing the risk of concentration on income sources.

For more details of the above principal risks and uncertainties and other risks and uncertainties facing the Group, please refer to the section headed "Risk Factors" in the Prospectus.

KEY PERFORMANCE INDICATORS (“KPI”) WITH THE STRATEGY OF THE GROUP

The Group sets a number of KPIs to support the delivery of its strategies with its performance as below:

Strategy	KPIs	Performance
Maximise value for the shareholders of the Company	Gross profit margin = 15.0% (2019: 14.3%)	The Group managed to maintain stable operational performance during the year with effective cost control measures and continued to expand into new markets.
Improve the Group’s liquidity	Cash and cash equivalents = RMB66.5 million (2019: RMB35.7 million) Current ratio = 1.2 (2019: 1.3) Gearing ratio = 53.7% (2019: 52.8%)	The Group adopts a policy to regularly monitor the liquidity requirements of the Group so as to ensure that it maintains sufficient reserves of cash and adequate committed credit facilities from major financial institutions to meet the liquidity requirements of the Group in the short and long term.
Strive for the “zero harm” safety goal	Accident rate = 0% (2019: 0%)	During the year, the Group has put adequate resources and efforts to uphold and improve its safety management system to reduce its risks related to safety issues. The Company successfully obtained the certification in OHSAS 18000 Occupational Health and Safety Assurance System.

FUTURE OUTLOOK

2020 was an exceptionally challenging year as COVID-19 swept across the world and brought permanent changes to nearly every aspect of our lives, where people have to adjust to new norms such as universal mask-wearing policy, frequent use of sanitizers, social distancing measures and web-based communication. Fortunately, China has once again shown its strength and resilience as an economic powerhouse. The country was the first major economy to recover from the COVID-19 Outbreak and rose to greater prominence on the world stage. With the vaccination programme being rolled out in countries around the world, it is expected that the global economy will finally be back on track and see a substantial improvement in 2021.

Despite that the domestic consumption growth fell behind investment and exports, total retail sales of consumer goods has been gaining momentum, showing a sign that the pandemic is tapering off. The Group expects that the overall operating environment will further improve in 2021.

Looking forward, the Group will continue to explore its household paper product and new energy operations. Through adopting diversification and tapping the enormous room for development brought by the growth in demand for domestic consumption and the rise of living standard, the Group expects that the new operations will become a growth driver. Meanwhile, the Group will also extend its market coverage for the cigarette packaging business through increased sales and marketing effort. New business models have emerged in various sectors during the pandemic and are anticipated to offer new support to the economic recovery and transformation. The Group will continue to strive for better results and thus to maximise returns to shareholders and society through its peerless dedication to optimise its businesses.

CORPORATE GOVERNANCE

As directors of a publicly listed company, the Directors recognise the importance of good corporate governance standards and internal procedures so as to achieve effective accountability and enhance shareholders' value. The Directors are of the view that the Company has complied with all applicable code provisions of the Corporate Governance Code (the "**CG Code**") as set out in Appendix 14 to the Rules Governing the Listing of Securities on the Stock Exchange ("**Listing Rules**") for the year ended 31 December 2020.

MODEL CODE FOR SECURITIES TRANSACTIONS BY DIRECTORS

The Company has adopted the Model Code for Securities Transactions by Directors of Listed Issuers (the "**Model Code**") on terms no less exacting than those set out in Appendix 10 to the Listing Rules as the code of conduct regarding directors' securities transactions. Having made specific enquiry of all Directors, each of them confirmed that he has complied in full with the Model Code for the year ended 31 December 2020.

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 listed securities of the Company throughout the year ended 31 December 2020.

IMPORTANT EVENT AFTER THE REPORTING PERIOD

Mr. Chan Yee Ping Michael has resigned as an independent non-executive Director, the chairman of the audit committee (the "**Audit Committee**") and a member of the nomination committee of the Company with effect from 1 February 2021.

Mr. Chin Chi Ho Stanley has been appointed as an independent non-executive Director, the chairman of the Audit Committee and a member of the nomination committee of the Company with effect from 1 February 2021.

Save as disclosed, there was no material subsequent event after 31 December 2020 up to the date of this announcement which requires disclosure.

ANNUAL GENERAL MEETING AND CLOSURE OF REGISTER OF MEMBERS

The annual general meeting of the Company is scheduled to be held on Tuesday, 1 June 2021 (the “**2021 AGM**”). Notice and circular of the 2021 AGM will be delivered to shareholders in accordance with the Listing Rules and the articles of association of the Company in due course.

For the purpose of determining shareholders who are entitled to attend and vote at the 2021 AGM, the register of members of the Company will be closed from Monday, 24 May 2021 to Tuesday, 1 June 2021 (both dates inclusive), during which period no transfer of shares will be registered. In order to be eligible to attend and vote at the 2021 AGM, all completed share transfer instruments accompanied by the relevant share certificates must be lodged with the Company’s branch share registrar in Hong Kong, Tricor Investor Services Limited, at Level 54, Hopewell Centre, 183 Queen’s Road East, Hong Kong, not later than 4:30 p.m. on Friday, 21 May 2021.

AUDIT COMMITTEE

The Audit Committee consists of three independent non-executive Directors, namely Mr. Chin Chi Ho Stanley (as chairman), Mr. Chen Hua and Mr. Zhao Zhendong. The Audit Committee has reviewed the Company’s consolidated financial statements for the year ended 31 December 2020 and is of the view that the preparation of such consolidated financial statements complied with applicable accounting standards and requirements and has discussed the internal control and financial reporting process with the management of the Group and external auditor.

SCOPE OF WORK OF THE COMPANY’S AUDITOR

The figures in respect of the Group’s consolidated statement of financial position and consolidated statement of profit or loss and other comprehensive income as set out in the audited annual results for the year ended 31 December 2020 have been agreed by the Company’s auditor to the amounts set out in the Group’s audited consolidated financial statements for the year. The work performed by the Company’s auditor 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 Hong Kong Institute of Certified Public Accountants and consequently no assurance has been expressed by the Company’s auditor on this announcement.

PUBLICATION OF ANNUAL RESULTS AND ANNUAL REPORT

This annual consolidated results announcement is published on the Company's website at www.championshipintl.com and the Stock Exchange's website at www.hkexnews.hk. The annual report of the Group for the year ended 31 December 2020 is expected to be despatched to the shareholders of the Company on or before Thursday, 29 April 2021 and will be available on the above websites.

APPRECIATION

The Board would like to express its sincere gratitude to the management of the Group and all the staff for their hard work and dedication, as well as the shareholders of the Company, business associates and other professional parties for their continuous support to the Group throughout the year.

By order of the Board
Champion Alliance International Holdings Limited
Chen Shuming
Chairman and Executive Director

Hong Kong, 30 March 2021

As at the date of this announcement, the Board comprises Mr. Chen Shuming, Mr. Chen Xiaolong, Mr. Hu Enfeng, Ms. Wu Cheuk Yan, Mr. Zhang Shihua and Ms. Chen Xiaoyan as executive Directors and Mr. Chen Hua, Mr. Zhao Zhendong and Mr. Chin Chi Ho Stanley as independent non-executive Directors.