

# SHANGHAI HITEC PLASTICS CO., Ltd

## ANNUAL MANAGEMENT REPORT BY THE BOARD OF DIRECTORS

The Board of Directors presents the annual report and audited financial statements of the Company for the year ended 31 December 2021.

### **Basis of preparation of the annual Financial Statements of the Company**

The balance sheet and the income statement as well as the annual report of our Company for 2021 have been drawn up and submitted in line with the principles determined by the Chinese Accounting Standards.

Pursuant to the regulations, our annual report shall present the work and transaction flows of our Company pertaining to the respective financial year as well as the financial status thereof in all aspects by protecting the rights and the interests of our Company; enable our shareholders to have access on any information regarding the financial status of our Company completely and properly; evaluate the general properties of our Company's financial performance and financial status as well as the basic risks encountered by it and propound, through accounting and financial reporting data, that the activities and the services of our Company are performed in most efficient, reliable and uninterrupted manner.

### **Principal activities and nature of operations of the Company**

The principal activities of the Company, which are unchanged from last year, are the production of agriculture greenhouse film and multifunctional film for other applications, wholesale trade and international trade.

### **Continuity of activity**

These financial statements have been prepared based on the business continuity principle, which assumes that the Company will normally continue its activity in the foreseeable future without entering into a state of liquidation or significant reduction of the activity.

To assess the applicability of this presumption, management analyzes forecasts of future cash inflows. Based on these analyzes, the management believes that the Company will be able to continue its activity in the foreseeable future and

therefore, the application of the principle of continuity of activity in the preparation of the financial statements is justified.

### **Review of current position, future developments and performance of the Company's business**

The Company's development to date, financial results and position as presented in the financial statements are considered satisfactory under current international politico-economic conditions.

The Turnover of the Company in 2021 was increased by 2.47% to 495.8 million RMB from 483.8 million RMB in 2020. The Operating Profits decreased to 80.5 million RMB in the reporting year from 108.3 million RMB in the previous year. The Profits Before Taxes were decreased by 26.29% to 79.9 million RMB in 2021 from 108.4 million RMB in 2020 and the Net Profits were decreased by 26.14% to 59.64 million RMB from 80.7 million RMB in the year before.

Due to the impact of the pandemic in the international markets and supply chain in China as well as the rest of the world, the Company costs have increased significantly. Despite this, the company has a relatively stable trend of its financial standing, focusing in the stabilization of the added value of its products and its expansion to the foreign markets.

### **Main Investments during the year**

The Company has proceeded to the payment of 45.5 million RMB as paid-in capital to its newly established 100% subsidiary company Anhui Hitec Plastics CO., Ltd. The accumulative paid-in capital is 120 million RMB. The company is located in the industrial area Hexian Jiangbei Wujiang of Anhui province. The business scope of the new company Anhui Hitec Plastics is the production of multi-functional films, geomembranes and masterbatch for agricultural greenhouses and other purposes.

### **Principal risks and uncertainties**

The principal risks and uncertainties faced by the Company are disclosed here below:

### **Use of financial instruments by the Company**

The Company is exposed to foreign exchange currency risk, interest rate risk, credit risk and dividends from the financial instruments it holds.



### **Foreign exchange currency risk**

The Company is exposed to the fluctuations of the local currency exchange rate.

### **Interest rate risk**

Interest rate risk is the risk that the value of financial instruments will fluctuate due to changes in market interest rates. The Company is exposed to interest rate risk in relation to its non-current borrowings. Borrowings issued at variable rates expose the Company to cash flow interest rate risk. Borrowings issued at fixed rates expose the Company to fair value interest rate risk. The Company's Management monitors the interest rate fluctuations on a continuous basis and acts accordingly.

### **Credit risk**

Credit risk is the risk that a counterparty will not meet its obligations under a financial instrument or customer contract, leading to a financial loss. The Company is exposed to credit risk from its operating activities - primarily trade receivables and from its financing activities, including deposits with banks, foreign exchange transactions and other financial instruments.

Credit risk related to trade receivables: This is managed based on established policies, procedures and controls relating to customer credit risk management. Credit limits are established for all customers based on internal ratings. Credit quality of the customer and outstanding customer receivables are assessed and regularly monitored. The Company does not hold collateral as security.

### **Liquidity risk**

Liquidity risk is the risk that arises when the maturity of assets and liabilities does not match. An unmatched position potentially enhances profitability but can also increase the risk of losses. The Company has procedures with the object of minimizing such losses such as maintaining sufficient cash and other highly liquid current assets and by having available an adequate amount of committed credit facilities.

### **Dividends**

The dividend distribution policy of the Company is defined in the articles of association. The dates as well as the manner and method of dividend payments to the shareholders are resolved by the general board.

The general board may delegate the authority to determine the date, percentage and method of dividend distribution to the board of directors.

### **Share capital**

There were no changes in the share capital of the Company during the year under review.

### **Organization and development of internal control within the Company**

The purpose of internal control is to ensure the coherence of objectives, to identify the key success factors and to communicate to the Company's management, in real time, the information regarding the performances and perspectives.

The control activities are an integral part of the management process through which the Company aims to achieve the proposed objectives.

The control aims at applying the norms and procedures of internal control, at all hierarchical and functional levels: the decisional authority regarding the definition on hierarchical levels of the approvals, the evaluation of the operational performances, the security of the assets, the separation of the functions.

### **Board of Directors**

The member of the Company's Board of Directors as on 31<sup>st</sup> December 2021 and at the date of this report are the same.

There were no significant changes in the assignment of responsibilities and remuneration of the Board of Directors.

### **Events after the balance sheet**

Despite the continuous impact of the pandemic in the societies and economies worldwide, the Company has managed to continue its production normally until today. The demand for its products has remained stable, because the sectors we are addressing, the agricultural economy and the plastics industry, have not been significantly affected. Overall, from the beginning of the year 2022 until the end of February, the sales volume of the Company has remained the same with the period of 2021. The demand for our products and the existing orders for the next two months are at normal levels for the season.

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However, the significant increase in the prices of the raw materials and logistics costs internationally have simultaneously significantly affected the Company's production costs. The Management monitors with special attention the developments in the global supply chain. Also, none of the noticeable effects is considered as a later corrective event of the financial statements of 31.12.2021.

The President of the Board



Mr. S.W.Lee

11.03.2022



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