ANNUAL REPORT 2019

中國鋁罐控股有限公司
China Aluminum Cans Holdings Limited

(Incorporated in the Cayman Islands with limited liability)

Stock Code : 6898

CONTENTS

CORPORATE INFORMATION

BOARD OF DIRECTORS

Executive Directors

Mr. Lin Wan Tsang *(Chairman)*
Mr. Dong Jiangxiong

Non-executive Director

Mr. Kwok Tak Wang

Independent Non-executive Directors

Dr. Lin Tat Pang
Ms. Guo Yang
Mr. Chung Yi To
Mr. Yip Wai Man Raymond

COMMITTEES OF THE BOARD

Audit Committee

Mr. Yip Wai Man Raymond *(Chairman)*
Dr. Lin Tat Pang
Ms. Guo Yang
Mr. Chung Yi To

Remuneration Committee

Ms. Guo Yang *(Chairman)*
Mr. Lin Wan Tsang
Mr. Kwok Tak Wang
Dr. Lin Tat Pang
Mr. Chung Yi To
Mr. Yip Wai Man Raymond

Nomination Committee

Dr. Lin Tat Pang *(Chairman)*
Mr. Lin Wan Tsang
Mr. Kwok Tak Wang
Ms. Guo Yang
Mr. Chung Yi To
Mr. Yip Wai Man Raymond

Risk Management Committee

Mr. Chung Yi To *(Chairman)*
Mr. Kwok Tak Wang
Dr. Lin Tat Pang
Mr. Yip Wai Man Raymond

AUTHORIZED REPRESENTATIVES

Mr. Lin Wan Tsang
Ms. Ho Wing Yan *(ACIS, ACS (PE))*

COMPANY SECRETARY

Ms. Ho Wing Yan *(ACIS, ACS (PE))*

REGISTERED OFFICE

Clifton House
75 Fort Street
P.O. Box 1350
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KY1-1108
Cayman Islands

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National Health Technology Park of Zhongshan
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Zhongshan City
Guangdong Province
People's Republic of China

PRINCIPAL PLACE OF BUSINESS IN HONG KONG

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Nos. 59/67 Bonham Strand West
Sheung Wan
Hong Kong

AUDITOR

Ernst & Young
22/F, CITIC Tower
1 Tim Mei Avenue
Central
Hong Kong

CAYMAN ISLANDS PRINCIPAL REGISTRAR AND TRANSFER OFFICE
Estera Trust (Cayman) Limited
Clifton House
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Grand Cayman
KY1-1108
Cayman Islands

HONG KONG BRANCH SHARE REGISTRAR AND TRANSFER OFFICE
Tricor Investor Services Limited
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183 Queen's Road East
Hong Kong

PRINCIPAL BANKERS
Industrial and Commercial Bank of China Limited
Bank of China Limited
Bangkok Bank (China) Company Limited

STOCK CODE
6898

WEBSITE FOR THE COMPANY
www.6898hk.com

On behalf of the board (the "Board") of directors (the "Directors") of China Aluminum Cans Holdings Limited (the "Company"), I am pleased to present to the shareholders the annual report and audited consolidated financial statements of the Company together with its subsidiaries (collectively, the "Group") for the year ended 31 December 2019 (the "Reporting Period").

RESULTS

During the Reporting Period, the Group's total turnover was approximately HK$206.0 million, representing a decrease by approximately 25.5% compared to that of last year (2018: approximately HK$276.4 million) while the Group's profit for the year amounted to approximately HK$40.2 million, decreased by approximately 53.0% compared to the prior year (2018: approximately HK$85.4 million).

DIVIDEND

The Board has resolved to recommend a final dividend of HK0.37 cent per share for the Reporting Period (2018: HK2.18 cents per share). During the Reporting Period, an interim dividend of HK0.42 cent per Share was declared.

OPERATING ENVIRONMENT AND PROSPECTS

The Group continues to face severe world-wide competition in the aluminum aerosol cans markets, especially from the increase in competition from small-sized overseas aerosol can manufacturers and the slowdown of growth in the consumable products and domestic demands in the People's Republic of China ("PRC").

Amid the rapidly changing market environment, the Group will continue to (i) leverage the research and development (the "R&D") capability to develop new products with high gross profits and high demand, while diversifying the products of the Group; (ii) optimize and integrate internal resources aggressively to consolidate business foundation; and (iii) invest further in upgrading the existing production facilities with automation system to enhance our product quality, production capacity and efficiency in order to cope with the recent development trends in the market.

SPIN-OFF AND SEPARATE LISTING OF PRECIOUS DRAGON TECHNOLOGY HOLDINGS LIMITED ("PRECIOUS DRAGON")

On 28 September 2018, Precious Dragon submitted a listing application to The Stock Exchange of Hong Kong Limited (the "Stock Exchange") for a separate listing on the Main Board of the Stock Exchange by way of introduction, through a distribution in specie by the Company of the entire issued share capital of Precious Dragon (the "Spin-off"). The spin-off was subsequently completed on 21 June 2019 upon the successful listing of Precious Dragon.

Subsequent to the separate listing of Precious Dragon, Precious Dragon and its subsidiaries (the "Precious Dragon Group") ceased to be subsidiaries of the Company. Precious Dragon Group is engaged in content filing of aerosol cans, and the production and sale of aerosol and non-aerosol products operation.

GRATITUDE

On behalf of the Company, I would like to express my sincere gratitude to our valued shareholders, customers, banks and to our management and employees for their continuous trust and support to our Group.

By order of the Board
China Aluminum Cans Holdings Limited
中國鋁罐控股有限公司
Lin Wan Tsang
Chairman

Hong Kong, 23 March 2020

BUSINESS OVERVIEW

The Group is principally engaged in the manufacture and sale of monobloc aluminum aerosol cans, which are generally used in the packaging of fast-moving personal care products such as body deodorant, hair styling products and shaving cream, as well as pharmaceutical products such as pain relieving spray, spray dressing and antiseptic spray. The Group has a wide range of extrusion dies available to produce more than 50 models of aluminum aerosol cans of base diameters from 22 mm to 66 mm and heights from 58 mm to 240 mm with various features and shapes for our customers' selection.

The Company has successfully spun off its content filing of aerosol cans, and the production and sale of aerosol and non-aerosol products operation, Precious Dragon for a separate listing on the Main Board of the Stock Exchange on 21 June 2019 under the stock code 01861. Through the spin-off of Precious Dragon for a separate listing, the Group has delineated clearly its manufacturing and sale of monobloc aluminum aerosol cans and content filing of aerosol cans, and the production and sale of aerosol and non-aerosol products operation by establishing for each of them a separate business platform. The Company will continue to focus on development of its core business and enhance its decision making efficiency and ability to accommodate changes in the market.

FINANCIAL REVIEW

Turnover

For the Reporting Period, the Group has recorded a total turnover of approximately HK$206.0 million (2018: approximately HK$276.4 million), representing a decrease of approximately 25.5% as compared to the corresponding period of 2018. The number of aluminum aerosol cans sold by the Group for the Reporting Period was approximately 123.2 million (2018: approximately 150.1 million). Whereas, the revenue of the Group from the PRC markets was HK$187.3 million (2018: HK$211.2 million). The decrease in revenue was primarily due to the world economy is shrouded in the shadow of the Sino-US trade war, there are huge uncertainties and changes in global and the PRC economic development. As a result, the turnover for both the PRC and overseas market are decreasing.

Cost of Sales

For the Reporting Period, cost of sales of the Group amounted to approximately HK$134.3million (2018: approximately HK$167.2 million), which represented approximately 65.2% (2018: approximately 60.5%) of the turnover in the Reporting Period. There was an increase of approximately 4.7% in the percentage of cost of sales to turnover which was mainly attributable to the net effects of (i) the increase in unit raw materials costs in certain products; and (ii) the increase in unit production overhead costs because of decreasing in production scales, which shared a higher fixed overhead costs per unit.

Other Income and Gains

Other income and gains mainly consist of sales of scrap materials, government grants, bank interest income, income from provision of research and development services and net exchange differences. During the period, other income and gains of the Group was approximately HK$12.4 million (2018: approximately HK$3.8 million), representing a significant increase of 226.3%, which was mainly due to the net effects of (i) significant increase in sales of scrap material approximately HK$8.0 million; (ii) increase in bank interest income approximately HK$0.7 million; (iii) increase in government grants approximately HK$0.3 million; and (iv) decrease in net exchange differences approximately HK$1.1 million.

Selling and Distribution Expenses

Selling and distribution expenses mainly consist of transportation expenses and declaration charges for delivery of products to customers, salaries, performance bonuses and employee benefits expenses for the sales and marketing staff, business travel and entertainment expenses, and advertisement and promotion costs. For the Reporting Period, selling and distribution expenses were approximately HK$9.7 million (2018: approximately HK$12.1 million), representing a decrease of approximately 19.8% as compared to the corresponding period of 2018. The decrease was primarily due to a decrease in transportation expenses, which amounted to approximately HK$3.8 million (2018: approximately HK$5.9 million), which was in line with the decrease in sales.

Administrative Expenses

Administrative expenses mainly represent the salaries and benefits of the administrative and management staff, professional consulting fees, depreciation and other miscellaneous administrative expenses. For the Reporting Period, administrative expenses were approximately HK$24.4 million (2018: approximately HK$32.4 million), representing a significant decrease of approximately 24.7% as compared to the corresponding period of 2018. The decrease in administrative expenses was primarily due to (i) the decrease in travelling expenses of approximately HK$1.1 million; (ii) the significant decrease in professional fee and consulting fee of approximately HK$4.2 million; and (iii) the decrease in tax surcharges of approximately HK$1.6 million.

Net Profit

The Group's net profit from continuing operations amounted to approximately HK$24.6 million for the Reporting Period (2018: approximately HK$38.1 million), representing a decrease of approximately 35.4% as compared to the corresponding period in 2018. Net profit margin for the Reporting Period was approximately 12.0% (2018: approximately 13.8%).

The decrease in net profit was mainly due to net effects of (i) the decrease in sales and production scales; (ii) the increase in other income and gains; and (iii) the decrease in selling and administrative expenses due to cost control.

The Group's net profit from discontinued operation amounted to approximately HK$15.6 million for the Reporting Period (2018: HK$47.3 million), representing a decrease of approximately 67.0% as compared to the corresponding period in 2018. The decrease in the net profit from discontinued operation was mainly due to the net profit from discontinued operation, Precious Dragon, was spun off from the Group since 21 June 2019.

TREASURY POLICY

The Group adopts treasury policy that aims to better control its treasury operations and lower borrowing cost. As such, the Group endeavours to maintain an adequate level of cash and cash equivalents to address short term funding needs. The Board would also consider various funding sources depending on the Group's funding needs to ensure that the financial resources have been used in the most cost-effective and efficient way to meet the Group's financial obligations. The Board reviews and evaluates the Group's treasury policy from time to time to ensure its adequacy and effectiveness.

LIQUIDITY AND CAPITAL RESOURCES

Net Current Assets

As at 31 December 2019, the Group had net current assets of approximately HK$84.0 million (31 December 2018: approximately HK$275.3 million). The Group's cash and cash equivalents and pledged bank deposits amounted to HK$51.7 million as at 31 December 2019 (31 December 2018: approximately HK$233.1 million) which are mainly denominated in Renminbi, United States dollars and Hong Kong dollars. The current ratio of the Group was approximately 3.9 as at 31 December 2019 (31 December 2018: approximately 3.1).

Borrowing and the Pledge of Assets

No bank borrowings of the Group were secured by our properties, plant and equipment and land use rights as at 31 December 2019 (31 December 2018: approximately HK$83.4 million). All borrowings are charged with reference to bank's preferential floating rates of People's Bank of China and Hong Kong Interbank Offered Rate ("HIBOR"). All borrowings are mainly denominated in Renminbi and Hong Kong dollars.

As at 31 December 2019, we had available unutilized banking facilities of approximately HK$98.1 million (31 December 2018: approximately HK$182.4 million). Further details of the Group's bank borrowings are set out in note 25 to the consolidated financial statements.

Gearing Ratio

As a result of a decrease in cash and cash equivalents and pledged bank deposits and a decrease in total borrowings of the Group, the gearing ratio which is calculated by dividing net debt by total equity and net debt, amounted to approximately -15% as at 31 December 2019 (31 December 2018: -14%).

Contingent Liabilities

As at 31 December 2019, the Group had no significant contingent liabilities (31 December 2018: Nil).

Contractual Obligations

As at 31 December 2019, the Group's capital commitment of plant and machinery amounted to HK$1.7 million (31 December 2018: approximately HK$20.6 million).

CAPITAL STRUCTURE

As at 31 December 2019, the total number of issued shares of the Company (the "Shares") was 934,179,000 (31 December 2018: 934,179,000).

FOREIGN EXCHANGE EXPOSURE AND EXCHANGE RATE RISK

Approximately 9.0% of the Group's revenue for the Reporting Period were denominated in the United States dollar ("US$"). However, over 90.0% of the production costs were conducted in RMB. Therefore, there is a currency mismatch between US$ revenue and RMB production costs, which gives rise to exposure to foreign exchange risk. Furthermore, there is a time lag between invoicing and final settlement from customers of export sales. The Group is exposed to foreign exchange risks if the foreign exchange rate at which the US$ sales proceeds received from export sales is different from the rate at which the Group used to book the US$ sales transactions at the time of sales.

During the year ended 31 December 2019, we did not enter into any foreign currency forward contracts or have any outstanding foreign currency forward contracts.

FORWARD PURCHASE OF ALUMINUM INGOTS

The major raw materials for manufacturing of aluminum aerosol cans are aluminum slugs which are processed from aluminum ingots. Aluminum ingots are widely used metal commodities, as such the price of aluminum ingots fluctuates depending on the market supply and demand conditions.

In order to avoid our business from being negatively impacted by substantial increases in the cost of aluminum ingots, it has been our practice to hedge part of our monthly estimated requirement of aluminum ingots through forward purchases and cover the remainder through purchases in the spot market. This practice enables us to average down our actual cost of aluminum ingots for production in the event of a significant increase in the spot price of aluminum ingots after our forward purchases.

During the year ended 31 December 2019, we had conducted forward purchases with amounts of approximately RMB15.0 million consisting of 1,200 tonnes of aluminum ingots. As at 31 December 2019, we did not have any outstanding forward purchases.

EMPLOYEES AND EMOLUMENTS POLICY

As at 31 December 2019, the Group had a workforce of 277 employees (31 December 2018: 302 employees). The staff costs, including directors' emoluments but excluding any contributions to the pension scheme, were approximately HK$32.9 million for the Reporting Period (2018: approximately HK$34.8 million). Remuneration is determined with reference to market terms and the performance, qualification and experience of an individual employee. In addition to a basic salary, year-end bonuses are offered to those staff with outstanding performance to attract and retain eligible employees of the Group. The emoluments of the Directors have been determined with reference to the skills, knowledge, contribution in the Company's affairs and the performance of each Director, and to the profitability of the Company and prevailing market conditions during the Reporting Period.

SIGNIFICANT INVESTMENTS

During the Reporting Period, the Group did not have any significant investments (2018: Nil).

USE OF PROCEEDS

Our business objectives and planned use of proceeds as stated in the prospectus dated 28 June 2013 (the "Prospectus") were based on the best estimation of future market conditions made by the Group at the time of preparing the Prospectus. The actual use of proceeds was based on the actual market development. The net proceeds from the public offer and placing of our Shares (the "Share Offer") were approximately HK$80.0 million. During the Reporting Period, the net proceeds from the Share Offer had been applied as follows:

Business objectives as stated in the prospectus	Actual net proceeds (HK$ million)	Actual amount utilized up to 31 December 2018 (HK$ million)	Actual amount utilized subsequent to 31 December 2018 and up to 31 December 2019 (HK$ million)	Remaining unutilized balance as at 31 December 2019 (HK$ million)	Expected timeline for unutilized net proceeds
Partially fund the expansion of our production capacity, including the upgrade of our existing production lines and the acquisition of a brand new production line for aluminum aerosol cans	48.0	48.0	—	—	
Establish a new research and development laboratory	12.0	3.3	—	8.7	by 31 December 2020
Partially repay US$ denominated bank loan	16.0	16.0	—	—	
General working capital purposes	4.0	4.0	—	—	
	80.0	71.3	—	8.7	

The unused net proceeds have been placed as interest-bearing deposits with licensed banks in Hong Kong and the PRC in accordance with the intention of the Board as disclosed in the Prospectus.

FUTURE PLANS FOR MATERIAL INVESTMENTS OR CAPITAL ASSETS

Apart from strengthening the Group's current business, the Group will explore new business opportunities as and when appropriate, in order to enhance shareholder's value.

EVENTS AFTER THE REPORTING PERIOD

Since the outbreak of pneumonia caused by the new coronavirus (the "COVID-19 Outbreak") in January 2020, the prevention and control of the pneumonia epidemic have been continuously carried out nationwide both in Mainland China and Hong Kong.

The COVID-19 Outbreak in some provinces and cities, as well as the overall economy, caused certain influence, to some extent, which could affect the business of the Group. The extent of influence will depend on the situation of the epidemic prevention and control, duration and the implementation of the regulation policies.

The Group will continue to pay close attention to the development of the COVID-19 Outbreak, and evaluate and actively respond to its impact on the Company's financial position, operating results and other aspects. As of the date of this report, this assessment was still in progress.

MATERIAL ACQUISITIONS AND DISPOSALS OF SUBSIDIARIES, ASSOCIATES AND JOINT VENTURES

On 28 September 2018, the Company proposed to carry out a spin-off and separate listing of the shares of Precious Dragon on the Main Board of the Stock Exchange (the "Spin-off"). The Spin-off was proposed by way of introduction, to be implemented by means of a distribution in specie of the entire issued share capital of Precious Dragon owned by the Company to the shareholders of the Company (the "Shareholders").

On 29 May 2019, the Board has approved the Spin-off and declared a conditional distribution in specie of the entire issued share capital of Precious Dragon held by the Company, representing the entire issued share capital of Precious Dragon, to the Shareholders whose names appear on the register of members of the Company on 14 June 2019.

Precious Dragon Group is principally engaged in the design, development, manufacture and sale of a wide range of automotive beauty and maintenance products, personal care products and other products including household products, which are in the form of aerosol and non-aerosol products. Precious Dragon successfully completed its spin-off and was listed on the Main Board of the Stock Exchange on 21 June 2019. Details of the Spin-off were set out in the announcements of the Company dated 28 September 2018, 2 April 2019, 17 May 2019 and 29 May 2019.

Save as disclosed above, during the year ended 31 December 2019, the Group had no material acquisitions or disposals of subsidiaries, associates or joint ventures.

CORPORATE GOVERNANCE PRACTICES

The Company has adopted and complied with the code provisions set out in the Corporate Governance Code as set out in Appendix 14 (the "CG Code") to the Rules Governing the Listing of Securities on The Stock Exchange of Hong Kong Limited (the "Stock Exchange") (the "Listing Rules") during the Reporting Period except the CG Code provision A.2.1.

Pursuant to the CG Code provision A.2.1, the roles of chairman and chief executive should be separate and should not be performed by the same individual. As the duties of chairman and chief executive of the Company are performed by Mr. Lin Wan Tsang ("Mr. Lin"), the Company has deviated from the CG Code. The Board believes that it is necessary to vest the roles of chairman and chief executive in the same person due to its unique role, Mr. Lin's experience and established market reputation in the industry, and the importance of Mr. Lin in the strategic development of the Company. The dual role arrangement provides strong and consistent market leadership and is critical for efficient business planning and decision making of the Company. As all major decisions are made in consultation with the members of the Board, and there are four independent non-executive Directors on the Board offering independent perspectives, the Board is therefore of the view that there are adequate safeguards in place to ensure sufficient balance of powers within the Board. The Board will also continue to review and monitor the practices of the Company for the purpose of complying with the CG Code and maintaining a high standard of corporate governance practices of the Company.

DIRECTORS' SECURITIES TRANSACTIONS

The Company has adopted the Model Code for Securities Transactions by Directors of Listed Issuers (the "Model Code") as set out in Appendix 10 to the Listing Rules as its code of conduct regarding the Directors' securities transactions. Specific enquiries have been made with all the Directors and they have confirmed that they have complied with the Model Code throughout the Reporting Period.

CHAIRMAN AND CHIEF EXECUTIVE

The CG Code provision A.2.1 stipulates that the roles of chairman and chief executive should be separate and should not be performed by the same individual. The Company does not segregate the roles of chairman and chief executive and Mr. Lin currently holds both positions, as explained in the paragraph headed "Corporate Governance Practices" in the Corporate Governance Report.

NON-EXECUTIVE DIRECTOR

The non-executive Director is expected to participate in the activities of the Board, particularly in the establishment of a selection process to ensure a mix of competent directors and officers; adoption of a system of internal checks and balances; scrutiny of the Company's performance in achieving agreed corporate goals and objectives; and ensuring that the exercise of Board authority is within the powers conferred on the Board under the memorandum and articles of association of the Company (the "Articles") and applicable laws, rules and regulations.

INDEPENDENT NON-EXECUTIVE DIRECTORS

The independent non-executive Directors are highly skilled professionals with a broad range of expertise and experience in the fields of accounting, finance, legal and business. Their skills, expertise and number in the Board ensure that strong independent views and judgment are brought in the Board's deliberations and that such views and judgment carry weight in the Board's decision-making process. Their presence and participation also enable the Board to maintain high standards of compliance in financial and other mandatory reporting requirements, and provide adequate checks and balances to safeguard the interests of shareholders of the Company and the Company.

Each of the independent non-executive Directors gives the Company an annual confirmation of his/her independence. The Company considers such Directors to be independent under the guidelines set out in Rule 3.13 of the Listing Rules.

THE BOARD

Directors' Responsibility in Respect of the Financial Statements

The Directors acknowledge their responsibility for preparing the financial statements of the Company for the Reporting Period. The Directors are not aware of any material uncertainties relating to events or conditions that may cast significant doubt upon the Company's ability to continue as a going concern. The statement of the independent auditor of the Company about their reporting responsibilities on the financial statements is set out in the Independent Auditor's Report on pages 62 to 65.

Function of the Board

The Board is responsible for leadership and control of the Company and oversees the Group's businesses, strategic decisions and performance and is collectively responsible for promoting the success of the Company by directing and supervising its affairs. Directors of the Board shall take decisions objectively in the interests of the Company.

All Directors, including non-executive Director and independent non-executive Directors, have brought a wide spectrum of valuable business experience, knowledge and professionalism to the Board for its efficient and effective operation. All Directors have full and timely access to all the information of the Company as well as the services and advice from the senior management and company secretary of the Company (the "Company Secretary"). The Directors may, upon request, seek independent professional advice in appropriate circumstances, at the Company's expenses for discharging their duties to the Company.

Board Composition

Currently, the Board comprises two executive Directors, one non-executive Director and four independent non-executive Directors. The Company has complied with Rules 3.10 and 3.10A of the Listing Rules. During the Reporting Period, the number of independent non-executive Directors represents more than one-third of the Board. As such, there exists a strong independent element in the Board, which can effectively exercise independent judgment.

The Board comprises the following Directors:

Executive Directors

Mr. Lin Wan Tsang *(Chairman)*
Mr. Dong Jiangxiong
Ms. Ko Sau Mee* (Resigned on 29 May 2019)
Mr. Lin Hing Lung* (Resigned on 29 May 2019)

Non-executive Director

Mr. Kwok Tak Wang

Independent non-executive Directors

Dr. Lin Tat Pang
Ms. Guo Yang
Mr. Chung Yi To
Mr. Yip Wai Man Raymond

* *Ms. Ko Sau Mee and Mr. Lin Hing Lung resigned as executive Directors on 29 May 2019 in order to focus on their responsibilities in view of their positions in Precious Dragon following the Spin-off.*

The brief biographical details of and relationship between the existing Directors are set out in the paragraph headed "Biographical Details of Directors and Senior Management" on pages 45 to 48. Ms. Ko Sau Mee is the spouse and Mr. Lin Hing Lung is the son of Mr. Lin Wan Tsang. Save as disclosed above, there are no other relationships (including financial, business, family or other material/relevant relationships among the members of the Board.

Appointment and Re-election of Directors

All Directors are appointed for specific terms. Mr. Lin Wan Tsang and Ms. Ko Sau Mee have entered into a service agreement with the Company for a term of 3 years commencing from 12 July 2013 to 11 July 2016 and will continue thereafter. Mr. Dong Jiangxiong and Mr. Lin Hing Lung have entered into a service agreement with the Company for a term of 3 years commencing from 31 March 2016 to 30 March 2019 and will continue thereafter. The service agreements of Ms. Ko Sau Mee and Mr. Lin Hing Lung were terminated with effect from 29 May 2019 when they resigned as executive Directors in order to focus on their responsibilities in view of their portions in Precious Dragon following the Spin-off. Dr. Lin Tat Pang and Ms. Guo Yang have entered into a service agreement with the Company for a term of 1 year commencing from 20 June 2015 to 19 June 2016 and will continue thereafter. Mr. Chung Yi To has entered into a service agreement with the Company for a term of 1 year commencing from 24 June 2015 to 23 June 2016 and will continue thereafter. Mr. Kwok Tak Wang has entered into a service agreement with the Company for a term of 1 year commencing from 12 July 2015 to 11 July 2016 and will continue thereafter. Mr. Yip Wai Man Raymond has entered into a service agreement with the Company for a term of 1 year commencing from 27 May 2016 to 26 May 2017 and will continue thereafter.

The Company has adopted "Directors Nomination Procedures" as written guidelines in providing formal, considered and transparent procedures to the Board for evaluating and selecting candidates for directorships. An external recruitment agency may be engaged to carry out the recruitment and selection process as necessary. Besides, the procedures and process of appointment, re-election and removal of directors are laid down in the Articles. According to the Articles, all Directors are subject to retirement by rotation at least once every three years and are eligible for re-election at the Company's annual general meeting (the "AGM"). Any new director appointed by the Board to fill a casual vacancy shall submit himself/herself for re-election by shareholders at the first general meeting after his/her appointment and any new director appointed by the Board as an addition to the Board shall submit himself/herself for re-election by shareholders at the next AGM.

In accordance with the Articles, Mr. Kwok Tak Wang, Ms. Guo Yang and Mr. Yip Wai Man Raymond shall retire and, being eligible, offer themselves for re-election at the forthcoming 2020 AGM. The Board and the nomination committee of the Company recommend their re-appointment. The Company's circular, sent together with this annual report, contains detailed information of the above three Directors as required by the Listing Rules.

Directors' Training

All Directors confirmed that they had complied with the CG Code provision A.6.5 during the Reporting Period. All Directors had participated in continuous professional development to develop and refresh their knowledge and skills. This is to ensure that their contribution to the Board remains informed and relevant.

A record of the Directors' participation in various continuous professional development program is kept with the Company. The external courses which the Directors had participated was about the Anti-Money Laundering and Counter-Terrorist Financing Ordinance and guidelines for environmental, social and governance report. A summary of the Directors' participation in training and continuous professional development during the year ended 31 December 2019 according to the records provided by the Directors is as follows:

Names of Directors	Training organised by professional organizations	Reading materials updating on new rules and regulations
Executive Directors		
Mr. Lin Wan Tsang (Chairman)	✓	✓
Mr. Dong Jiangxiong	✓	✓
Ms. Ko Sau Mee* (resigned on 29 May 2019)	✓	✓
Mr. Lin Hing Lung* (resigned on 29 May 2019)	✓	✓
Non-executive Director		
Mr. Kwok Tak Wang	✓	✓
Independent Non-executive Directors		
Dr. Lin Tat Pang	✓	✓
Ms. Guo Yang	✓	✓
Mr. Chung Yi To	✓	✓
Mr. Yip Wai Man Raymond	✓	✓

* *Ms. Ko Sau Mee and Mr. Lin Hing Lung resigned as executive Directors on 29 May 2019 in order to focus on their responsibilities in view of their positions in Precious Dragon following the Spin-off.*

UPDATE ON DIRECTOR'S INFORMATION

Save as disclosed herein, there has been no change to the information of the Directors pursuant to Rule 13.51B(1) of the Listing Rules.

BOARD DIVERSITY POLICY

The Board has adopted a board diversity policy. The Company seeks to achieve board diversity through the consideration of a number of factors in the Board members' selection process, including but not limited to gender, age, cultural and educational background, ethnicity, professional experience, skills, knowledge and length of service. All Board appointments will be based on meritocracy, and candidates will be considered against objective criteria, having due regard for the benefits of diversity on the Board.

During the Reporting Period, the Company has a solid slate of Directors with diverse perspectives and varied educational background and expertise made-up, from extensive knowledge of the manufacturing industry, experience in international trade, finance and corporate management, to professional qualifications in the legal and accounting fields. Each Director had accumulated experience in his/her respective field of expertise, all of whom are anchored by the common trait of having a natural aptitude and singular drive for the industry so as to bring sustainable growth to the Company.

NOMINATION POLICY

The Board has adopted the nomination policy (the "Nomination Policy") on 9 August 2018 which sets out the nomination criteria and procedures for the Company to select candidate(s) for possible inclusion in the Board. The Nomination Policy could assist the Company to achieve board diversity in the Company and enhance the effectiveness of the Board and its corporate governance standard.

When assessing the suitability of a candidate, factors such as the qualifications, skills, integrity and experience will be taken into consideration as a whole. In the case of independent non-executive Directors, they must further satisfy the independence criteria set out within Rule 3.13 of the Listing Rules. Since the selection of candidates should ensure that diversity remains a central feature of the Board, a range of diverse perspectives, including but not limited to gender, age, cultural and educational background, or professional experience would be considered.

To nominate director candidates, candidates would be identified by various methods and evaluated based on the approved selection criteria. Shortlisted candidates would be interviewed and their profiles would be reviewed, before making recommendations to the Board on the selected candidates.

The Nomination Policy also includes the Board succession plan to assess whether vacancies on the Board would be created or expected due to the Directors' resignation, retirement, death and other circumstances and to identify candidates in advance if necessary. The Nomination Policy will be reviewed on a regular basis.

Board Meeting and Procedures

The Board may meet together for the despatch of business, adjourn and otherwise regulate its meetings and proceedings as it thinks fit and may determine the quorum necessary for the transaction of business. An AGM and an extraordinary general meeting called for the passing of a special resolution shall be called by at least 21 days' notice in writing, and a meeting of the Company other than an AGM or an extraordinary general meeting for the passing of a special resolution shall be called by at least 14 days' notice in writing. A meeting of the Board or any committee of the Board may be held by means of such telephone, electronic or other communication facilities as permit all persons participating in the meeting.

When a Director and the enterprise(s) involved in a proposal of a Board meeting have connected relations, such Director shall not exercise his/her voting rights on such proposal nor shall he/she exercise any voting rights on behalf of other Directors.

Set out below are details of the attendance record of each Director at the Board and committee meetings of the Company held during the Reporting Period:

	Attendance/Number of Meetings Held					
Names of Directors	**Board Meeting**	**Audit Committee Meeting**	**Remuneration Committee**	**Nomination Committee**	**Risk Management Committee**	**General Meeting**
Executive Directors						
Mr. Lin Wan Tsang	* 12/12	—	1/1	1/1	—	3/3
Mr. Dong Jiangxiong	12/12	—	—	—	—	3/3
Ms. Ko Sau Mee** (resigned on 29 May 2019)	6/6	—	—	—	—	2/2
Mr. Lin Hing Lung** (resigned on 29 May 2019)	6/6	—	—	—	—	2/2
Non-executive Director						
Mr. Kwok Tak Wang	12/12	—	1/1	1/1	12/12	3/3
Independent non-executive Directors						
Dr. Lin Tat Pang	12/12	2/2	1/1	*1/1	12/12	3/3
Ms. Guo Yang	12/12	2/2	*1/1	1/1	—	3/3
Mr. Chung Yi To	12/12	2/2	1/1	1/1	* 12/12	3/3
Mr. Yip Wai Man Raymond	12/12	*2/2	1/1	1/1	12/12	3/3

Remark:

* *representing chairman of the Board or the committees*

** *Ms. Ko Sau Mee and Mr. Lin Hing Lung resigned as executive Directors on 29 May 2019 in order to focus on their responsibilities in view of their positions in Precious Dragon following the Spin-off.*

The Board has established four committees, namely, the audit committee (the "Audit Committee"), the remuneration committee (the "Remuneration Committee"), the nomination committee (the "Nomination Committee") and the risk management committee (the "Risk Management Committee"), for overseeing particular aspects of the Company's affairs. All committees have been established with defined written terms of reference, which were posted on the websites of the Stock Exchange (www.hkex.com.hk) and the Company (www.6898hk.com). All committees should report to the Board on their decisions or recommendations made.

All committees are provided with sufficient resources to discharge their duties and, upon reasonable request, are able to seek independent professional advice in appropriate circumstances, at the Company's expense.

Audit Committee

The Audit Committee was established on 20 June 2013 with terms of reference (amended on 31 December 2015) in compliance with the CG Code to the Listing Rules for the purpose of making recommendations to the Board on the appointment and removal of the external auditor, reviewing the financial statements and related materials and providing advice in respect of the financial reporting process, and overseeing the risk management and internal control systems of the Group. The Audit Committee comprises four members, all being independent non-executive Directors, namely, Mr. Yip Wai Man Raymond (Chairman), Dr. Lin Tat Pang, Ms. Guo Yang and Mr. Chung Yi To. The Group's accounting principles and practices, financial statements and related materials for the Reporting Period had been reviewed by the Audit Committee.

During the Reporting Period, the Audit Committee held two meetings for discussion on issues arising from the audit and financial reporting matters.

Full minutes of the Audit Committee meetings are kept by the Company Secretary. Draft and final versions of the minutes of the Audit Committee meetings are sent to all members of the Audit Committee for comments and approval and all decisions of the Audit Committee are reported to the Board subject to applicable restriction.

The terms of reference of the Audit Committee are available on the websites of the Stock Exchange and the Company.

The external auditor was invited to attend the Audit Committee meetings held during the year to discuss with the Audit Committee members on issues arising from the audit and financial reporting matters. The chairman of the Audit Committee provided the Board with a briefing on the significant issues after each Audit Committee meeting. There was no disagreement between the Board and the Audit Committee on the selection and appointment of the external auditor.

Remuneration Committee

The Remuneration Committee was established on 20 June 2013, with specific written terms of reference for making recommendations to the Board regarding the Group's policy and structure for all remuneration of Directors and senior management and approving the remuneration package of the individual executive Directors, the specific duties set out in CG Code provision B.1.2(a) to (h). The Remuneration Committee comprises a total of six members, being one executive Director, namely, Mr. Lin Wan Tsang, one non-executive Director, namely, Mr. Kwok Tak Wang, and four independent non-executive Directors, namely, Ms. Guo Yang (Chairman), Dr. Lin Tat Pang, Mr. Chung Yi To and Mr. Yip Wai Man Raymond. Accordingly, a majority of the members are independent non-executive Directors.

During the Reporting Period, the Remuneration Committee held one meeting to review and discuss the remuneration policy of the Group and the remuneration packages of the Directors.

Full minutes of the Remuneration Committee meeting are kept by the Company Secretary. Draft and final versions of the minutes of the Remuneration Committee meetings are sent to all members of the Remuneration Committee for comments and approval and all decisions of the Remuneration Committee are reported to the Board subject to applicable restriction.

The terms of reference of the Remuneration Committee are available on the websites of the Stock Exchange and the Company.

The remuneration of the members of the senior management of the Group by band for the year ended 31 December 2019 is set out below:

Remuneration bands	Number of persons
Nil to HK$500,000	1
HK$500,001 to HK$1,000,000	1

Nomination Committee

The Board would follow a set of formal, considered and transparent procedures for the appointment of new directors to the Board. The appointment of a new director has been a collective decision of the Board, taking into consideration the candidate's qualification, expertise, experience, integrity and commitment to his/her responsibilities within the Group. In addition, all candidates to be selected and appointed as a director must be able to meet the standards set out in Rules 3.08 and 3.09 of the Listing Rules.

The Nomination Committee was established on 20 June 2013, with specific written terms of reference in compliance with the CG Code for reviewing the Board composition, developing the relevant procedures for nomination and appointment of Directors and assessing the independence of independent non-executive Directors to ensure that the Board has a balance of expertise, skills and experience and formulating succession plans for executive Directors and senior executives. The Nomination Committee comprises a total of six members, being one executive Director, namely, Mr. Lin Wan Tsang, one non-executive Director, namely, Mr. Kwok Tak Wang, and four independent non-executive Directors, namely, Dr. Lin Tat Pang (Chairman), Ms. Guo Yang, Mr. Chung Yi To and Mr. Yip Wai Man Raymond. Accordingly, a majority of the members are independent non-executive Directors.

During the Reporting Period, the Nomination Committee held one meeting. Full minutes of the Nomination Committee meetings are kept by the Company Secretary. Draft and final versions of the minutes of the Nomination Committee meetings are sent to all members of the Nomination Committee for comments and approval and all decisions of the Nomination Committee are reported to the Board subject to applicable restriction.

The terms of reference of the Nomination Committee are available on the websites of the Stock Exchange and the Company.

Risk Management Committee

The Risk Management Committee was established on 24 June 2013, with specific written terms of reference for reviewing and approving the hedging policies as formulated by the hedging team of the Company (the "Hedging Team") and report to the Board as to whether the hedging policies have been duly following by the Hedging Team. The Risk Management Committee is authorized to separate and independent direct access to and complete and open communication with the Group's management to allow them to fulfill their duties. The Risk Management Committee comprises a total of four members, being one non-executive Director, namely, Mr. Kwok Tak Wang, and three independent non-executive Directors, namely, Mr. Chung Yi To (Chairman), Dr. Lin Tat Pang and Mr. Yip Wai Man Raymond. Accordingly, a majority of the members are independent non-executive Directors.

During the Reporting Period, the Risk Management Committee held twelve meetings to review and approve the hedging policies which have been duly followed by the Hedging Team and reported to the Board.

Full minutes of the Risk Management Committee meeting are kept by the Company Secretary. Draft and final versions of the minutes of the Risk Management Committee meetings are sent to all members of the Risk Management Committee for comments and approval and all decisions of the Risk Management Committee are reported to the Board subject to applicable restriction.

The terms of reference of the Risk Management Committee are available on the websites of the Stock Exchange and the Company.

CORPORATE GOVERNANCE FUNCTION

The Board does not have a corporate governance committee. The functions that would be carried out by a corporate governance committee are performed by the Board as a whole and are as follows:

1. to develop and review the Company's policies and practices on corporate governance;

2. to review and monitor the training and continuous professional development of directors and senior management;

3. to review and monitor the Company's policies and practices on compliance with legal and regulatory requirements;

4. to develop, review and monitor the code of conduct and compliance manual (if any) applicable to employees and directors; and

5. to review the Company's compliance with the CG Code and disclosure in the Corporate Governance Report.

The corporate governance policy is formulated with an emphasis on the Board's quality, effective risk management and internal control, stringent disclosure practices and transparency and accountability to all shareholders of the Company. The Board strives to comply with the code provisions and reviews its corporate governance policy regularly in order to maintain high standards of business ethics and corporate governance, and to ensure the full compliance of our operations with applicable laws and regulations.

EXTERNAL AUDITOR'S REMUNERATION

During the reporting period, the Company engaged Ernst & Young as its external auditor for financial reporting, while the Company engaged the external PRC local auditor for the subsidiaries statutory audit services.

There was no disagreement between the Board and the Audit Committee on the selection, appointment, resignation or dismissal of the external auditor.

During the Reporting Period, the fees payable to Ernst & Young and PRC local auditor in respect of its statutory audit services, non-statutory audit services and non-audit services provided to the Company were as follows:

	2019 **HK$000**
Statutory audit services	**1,219**
Non-statutory audit services	**286**
Non-audit services*	**420**

* Significant non-audit service assignments include internal control review (HK$265,255.29 was paid) and preparation of Annual Corporate Income Tax Return (HK$101,866.86 was paid).

DELEGATION BY THE BOARD

In general, the Board oversees the Company's strategic development and determines the objectives, strategies and policies of the Group. The Board also monitors and controls operating and financial performance and sets appropriate policies for risk management in pursuit of the Group's strategic objectives. The Board delegates the implementation of strategies and day-to-day operation of the Group to the management.

COMPANY SECRETARY

The Company has engaged in a service contract with an external service provider, Ms. Ho Wing Yan ("Ms. Ho"), who was appointed as the Company Secretary. Mr. Lin Wan Tsang, the chairman of the Board and executive Director, is the primary corporate contact person of the Company with Ms. Ho.

Being the Company Secretary, Ms. Ho plays an important role in supporting the Board by ensuring good information flow within the Board and that the Board policies and procedures are followed. Ms. Ho is responsible for advising the Board on corporate governance matters and should also facilitate induction and professional development of the Directors.

During the Reporting Period, the Ms. Ho has complied with the relevant professional training requirement under Rule 3.29 of the Listing Rules.

SHAREHOLDERS' RIGHTS

The general meetings of the Company provide an opportunity for communication between the shareholders and the Board. An AGM of the Company shall be held in each year and at the place as may be determined by the Board. Each general meeting, other than an AGM, shall be called an extraordinary general meeting.

Shareholders to Convene an Extraordinary General Meeting

Pursuant to article 64 of the Articles, extraordinary general meetings shall be convened on the requisition of one or more shareholders of the Company, at the date of deposit of the requisition, holding not less than one-tenth of the paid up capital of the Company having the right of voting at general meetings. Such requisition shall be made in writing to the Board or the Company Secretary for the purpose of requiring an extraordinary general meeting to be called by the Board for the transaction of any business specified in such requisition. Such meeting shall be held within 2 months after the deposit of such requisition. If within 21 days of such deposit, the Board fails to proceed to convene such meeting, the requisition(s) himself (themselves) may do so in the same manner.

Putting Enquiries by Shareholders to the Board

Shareholders may send written enquiries to the Company for the attention of the Company Secretary at the Company's principal place of business in Hong Kong.

Procedures for Putting Forward Proposals by Shareholders at Shareholders' Meetings

Shareholders of the Company are requested to follow article 64 of the Articles for including a resolution at an extraordinary general meeting. The requirements and procedures are set out above in the paragraph headed "Shareholders to convene an extraordinary general meeting".

Pursuant to article 113 of the Articles, no person (other than a retiring Director) shall be eligible for election to the office of Director at any general meeting unless a notice in writing of the intention to propose that person for election as a Director and notice in writing by that person of his willingness to be elected shall have been lodged at the head office of the Company or at the Hong Kong branch share registrar and transfer office of the Company no earlier than the day after the dispatch of the notice of the general meeting appointed for such election and end no later than seven days prior to the date of such general meeting and the minimum length of the period during which such notices to the Company may be given will be at least seven days.

The procedures for the shareholders of the Company to propose a person for election as a Director are posted on the website of the Company. Shareholders or the Company may refer to the above procedures for putting forward any other proposals at general meetings.

Voting by Poll

Pursuant to Rule 13.39(4) of the Listing Rules, any vote of shareholders at a general meeting must be taken by poll except where the chairman, in good faith, decides to allow a resolution which relates purely to a procedural or administrative matter to be voted on by a show of hands. As such, all the resolutions to be set out in the notice of AGM will be voted by poll.

DIVIDEND POLICY

The Board has adopted the dividend policy (the "Dividend Policy") on 9 August 2018 which sets out the appropriate procedure on declaring and recommending the dividend payment of the Company. The Company takes priority to distributing dividends in cash and shares its profits with the shareholders of the Company. The dividend distribution decision of the Company will depend on, among others, the financial results, the current and future operations, liquidity and capital requirements, financial condition and other factors as the Board may deem relevant. The Board may also declare special dividends from time to time. The Dividend Policy will be reviewed on a regular basis.

INVESTOR RELATIONS

The Company is committed to a policy of open and regular communication and reasonable disclosure of information to its shareholders. Information of the Company is disseminated to the shareholders in the following manner:

- Delivery of annual and interim results and reports to all shareholders;
- Publication of announcements on the annual and interim results on the website of the Stock Exchange, and issue of other announcements and shareholders' circulars in accordance with the continuing disclosure obligations under the Listing Rules; and
- The general meeting of the Company is also an effective communication channel between the Board and shareholders.

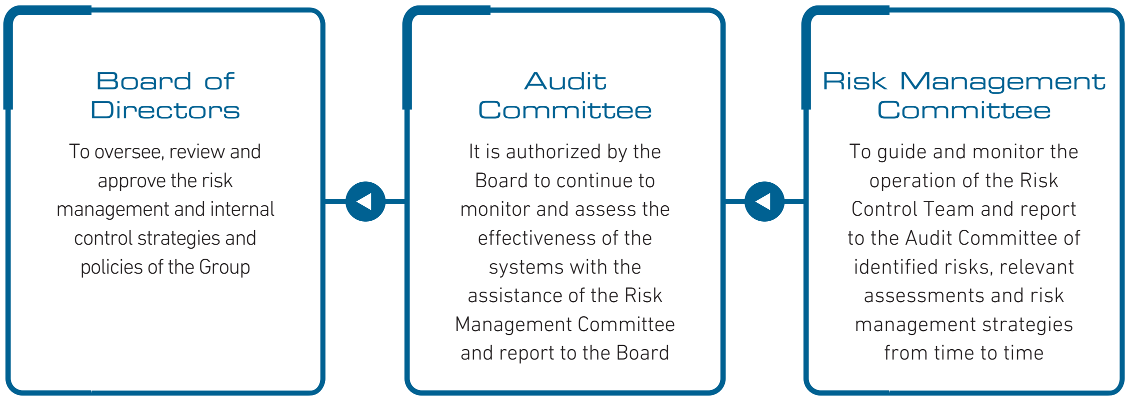
Constitutional Documents

There was no significant change in the constitutional documents of the Company during the Reporting Period.

RISK MANAGEMENT AND INTERNAL CONTROL

Maintaining sound and healthy risk management and internal control systems are the keys to fulfil the business objectives and long-term sustainable growth of the Group. The Board has recognized they are generally responsible for the assessment and determination on the nature and degree of risks which are acceptable by the Group for meeting its strategic objectives, ensuring the Group to establish and maintain proper and effective risk management and internal control systems. The Risk Management Committee assists the Board and the Audit Committee to review and control the major risks. The risk control team under the Risk Management Committee (the "Risk Control Team") comprises the management personnel from the departments of finance, sales and marketing, production and manufacturing and human resources, who are responsible for the identification and management of the risks involved in daily operations.

RISK GOVERNING STRUCTURE



RISK MANAGEMENT PROCEDURE

The Risk Control Team organizes the collection of the relevant information comprehensively, systematically and persistently by various business departments, and timely makes risk assessment in view of the current situation of the Group.

(I) Practices and procedures

The Risk Control Team calls for a quarterly regular thematic meeting. Based on the qualitative and quantitative approaches, it analyzes and ranks the identified risks according to the likelihood of their occurrence and degrees of impact so as to determine the key focus and priority risks to be handled. During risk identification, the Group will consider various internal factors such as the human resources and financial conditions of the Group together with the external factors such as the economy, technology and society. Based on the results of the risk analysis and taking the risk acceptability of the Group, it will formulate responsive strategies in terms of risk acceptance, risk allocation, risk mitigation and aversion and implement the risk management measures.

(II) Regular review

The Risk Control Team performs half-yearly checks and inspections on the implementation and effectiveness of the risk control efforts made by various business departments, makes assessments on the risk control solution plans of each business department, makes recommendations on adjustment and improvement, prepares the assessment and recommendation report and reports to the Risk Management Committee. Meanwhile, every year the Risk Control Team is required to present (i) an annual risk control report covering the fundamentals of risk control, conclusions based on prior-year risk solutions, results of the risk assessment and solutions for the year to the Risk Management Committee, and (ii) special report on material events covering, amongst others, risk analysis, risk solutions, the existing solving measures and response deadline for risk solutions, to the Risk Management Committee at the discretion of the Risk Control Team.

RISK CATEGORIES

The business development, financial conditions, operating results or prospect of the Group might be affected by risks and uncertainties, leading to a result probably deviated from the expected or past performance. Certain major risks which have impacts on the Group are listed below.

Strategic risks

The strategic risks encountered by the Group include, amongst others, those arising from the mismatch of departmental human resources allocation, division of roles and responsibilities, ineffective motivation mechanism for the management, accommodation of the core business of the Group with China's macro policies on the industry and environmental protection as well as whether a good relationship is maintained between the government and media respectively.

In view of the above risks, the Group has implemented appropriate departmental human resources allocation, definite division of roles and responsibilities and effective motivation and disciplinary mechanisms for the management. Leveraging the policy of China on promoting the development of metallic packaging, the Group has actively enhanced its innovation and competitiveness, maintained good relationship with the governments of various levels and implemented crisis communication mechanism.

Financial Risks

The financial risks encountered by the Group include, amongst others, those involved in fund misappropriation arising from poor management in fund activities, undisciplined operation arising from unsound or informal preparation, implementation and management of budgets, intended or unintended false information existed in financial statements, the compliance of those statements with accounting rules and standards, uncertainties in taxation management and tax payment, inadequate assessment of customers' credit.

In view of the above risks, the Group has strengthened the accounting system control on its working capital, prepared the overall annual budget, launch the accountability system for budget implementation, budget appraisal system, sales management system, review, approval and oversight system for tax payment. Meanwhile, the Group has determined its financing plans in connection with those from bankers, prepared monthly fund budget to spread the cash-flow risks.

Operating risks

The operating risks encountered by the Group include, amongst others, those arising from whether safety and environmental protection standards are met by the production of our products, management of human resources, sales, supply chains and information system, insufficient innovation, inspection and verification of technologies and products.

In view of the above risks, the Group has focused on the control and monitoring of dust, high temperature and chemical hazard, discharged sewage according to the total amount and concentration allowed under the pollutant discharge license, formulated the status-quo assessment on energy conservation and emission reduction as well as medium and long term planning, timely updated the staff handbook and implemented applicable labor laws and regulations, introduced advanced technologies and talents, solved the innovation problems through technological exchange and cooperation. Meanwhile, the Group strived to explore new customers and new sales channels, assess the suppliers regularly, inspect regularly and maintain the facilities of the information system and provide staff training.

Legal risks

The legal risks encountered by the Group include, amongst others, those arising from the physical or existing default operations, legal disputes, default behaviors, intellectual property and human rights protection.

In view of the above risks, the Group has implemented the measures such as the contract review and approval procedure with the routine support of our permanent legal advisor, regular third-party audit to monitor compliance so as to mitigate the impact of such risks on the Group.

ANNUAL CONFIRMATION

The Board has been continuing to monitor the risk management and internal control systems of the Group, and has made an annual review, through the Audit Committee, on the effectiveness of the risk management and internal control systems of the Group for the year ended 31 December 2019.

Meanwhile, the Company commissioned a third-party professional body to make an internal audit on the effectiveness of the design and the compliance regarding the implementation of the internal control systems relating to its risk management, control and governance practices. The Audit Committee under the Board has made an annual review on the effectiveness of the risk management and internal control systems for the year ended 31 December 2019, and reviewed the results of assessment on the internal control systems made by the third party. The Board considers the system of the Group is effective and adequate accordingly.

Any internal control system has its own restrictions; therefore, the internal control systems of the Group are established to provide reasonable, but not absolute, assurance against material misstatement or loss.

The Board approved and adopted an inside information policy and procedures for the handling and dissemination of inside information. The insider information policy provide the guidelines to the Directors, management and relevant staff (likely possessing the unpublished inside information) of the Group to ensure that the inside information of the Group is to be disseminated to the public in equal and timely manner in accordance with the applicable laws and regulations. The procedures include, among others, regularly remind the Directors, management and relevant staff about the compliance with the securities dealing restrictions as set out in the Model Code and the notification of the 60-day and 30-day blackout period applicable to the publication of the annual and interim results of the Company respectively.

All Directors and those employees who could have access to, and monitor, the information of the Group are responsible for making appropriate precautions to prevent abuse or misuse of such information. Employees of the Group are prohibited from using inside information for their own benefit.

ABOUT THIS REPORT

China Aluminum Cans Holdings Limited (the "Company" together with its subsidiaries, collectively, "we", "us", "our" or the "Group") is pleased to present our annual Environmental, Social and Governance Report (the "Report") for the year ended 31 December 2019 to provide an overview of the Group's management of significant issues affecting the operation, including environmental, social and governance ("ESG") issues.

The Board has overall responsibility for the Group's ESG strategy and reporting. The Board is responsible for evaluating and determining the Group's ESG-related risks and ensuring that appropriate and effective ESG risk management and internal control systems are in place. The management will regularly report the relevant state to the Board. The Group also conducted annual review on the effectiveness of the environmental, social and governance report for the year ended 31 December 2019.

REPORTING PERIOD

The Report illustrated the Group's initiative and performance on the environmental and social aspects for the period from 1 January 2019 to 31 December 2019 (the "Reporting Period").

REPORTING SCOPE

This Report covers all subsidiaries of the Group in the People's Republic of China (the "PRC") with core business that principally engaged in the manufacture and sale of aluminum aerosol cans. During the Reporting Period, the Company has successfully spun off its content filing of aerosol cans, and the production and sale of aerosol and nonaerosol products operation, Precious Dragon Technology Holdings Limited (the "Precious Dragon") for a separate listing on the Main Board of the Stock Exchange on 21 June 2019 under the stock code 01861. Thus, it leads to a change of reporting scope during the Reporting Period.

The Group will continue in assessing the impacts of its business on the major ESG aspects and to include in the Report.

REPORTING BASIS

This Report was prepared in accordance to the Environmental, Social, and Governance Reporting Guide ("ESG Reporting Guide") set out in Appendix 27 to the Rules Governing the Listing of Securities on The Stock Exchange of Hong Kong Limited (the "Listing Rules"). The Group has complied with the disclosure requirements of the "comply or explain" provisions set out in the ESG Reporting Guide. In view of our disclosure of certain key performance indicators ("KPIs"), which is considered as material by the Group, during the Reporting Period, the Group will continue to optimize and improve the disclosure of KPIs. This Report was prepared and published in both English and Chinese. In the event of contradiction or inconsistency, the English version shall prevail. For more information on our corporate governance, please refer to the "Corporate Governance Report" on pages 10 to 23 of the annual report of the Company for the year ended 31 December 2019.

CONTACT INFORMATION

The Group welcomes your feedback on the Report for our sustainability initiatives. Please contact us by email to esg@euroasia-p.com.

STAKEHOLDERS ENGAGEMENT

We identified the key stakeholder of our business operations. We interact with our stakeholders regularly through various communication channels. The following table illustrates the issues of concern of our major stakeholders and the ways we communicate with stakeholders:

Stakeholder	Expectation	Engagement channel	Measures
Government	— To comply with the laws — Proper tax payment — Ensure production safety, environmental protection and social responsibility — Promote regional economic development and employment	— On-site inspections and checks — research and discussion through work conferences, work reports preparation and submission for approval	— Operated, managed and paid taxes according to laws and regulations, strengthened safety management; accepted the government's supervision, inspection and evaluation (5 times during 2019), and actively undertook social responsibilities.
Shareholders and Investors	— Return on the investment — Stable operation — Low operating risk — Information disclosure and transparency — Protection of interests and fair treatment of shareholders — True, accurate and timely reporting	— Annual general meeting and other shareholder meetings — Interim reports, annual report, announcements — Company Website — Meeting with investors — Roadshow — Site visit	— Issued notices of general meeting and proposed resolutions according to regulations, disclosed company's information by publishing 22 announcements/circulars, interim report and annual report in the year. Carried out different forms of investor activities with an aim to improve investors' recognition. Held results briefing once. Disclosed company contact details on website and in reports and ensured all communication channels available and effective.
Employees	— Safeguard the rights and interests of employees — Salary and welfare — Working environment — Career development opportunities — Self-actualization — Health and safety	— Labour union — Feedback box — Wechat of director — Policies and procedures — Training, seminars, briefing sessions — Team activities	— Provided a healthy and safe working environment;established a labour union; established policies and procedures according to local labour law; developed communication channel with management; developed a fair mechanism for promotion; cared for employees by helping those in need and organizing employee activities.

Stakeholder	Expectation	Engagement channel	Measures
Customers	— Assurance on quality and quantity of product — Stable relationship — Group reputation and brand image — Market demand	— Site visit — Exhibition — Email and customer service hotline — Feedback forms — Regular meeting	— Organised marketing activities, site visit and exhibition and carried out customer's satisfaction survey.
Suppliers/Partners	— Long-term partnership — Honest cooperation — Fair, open — Information resources sharing — Timely payment	— Strategic co-operation — Regular meeting — Tendering process	— Invited tenders publicly to select best suppliers and contractors, performed contracts according to agreements, enhanced daily communication, and established long-term cooperation with quality suppliers and contractors
Peer/Industry associations	— Experience sharing — Corporations — Fair competition	— Industry conference — Site visit	— Stuck to fair play, cooperated with peers to realize win-win, shared experiences and attended about 12 times seminars of the industry so as to promote sustainable development of the industry.
Financial Institution	— Compliance with the law and regulations — Disclosure of information	— Consulting — Information disclosure — Reports	— Complied with regulatory requirements in a strict manner, disclosed and reported true information in a timely and accurate manner according to law.

Stakeholder	Expectation	Engagement channel	Measures
Bank	— Timely repayment of loan — Honest cooperation — Stable operation	— Regular meeting — Site visit	— Paid interest according to instalment schedule, cooperated with bank for inspection and monitoring and regular submission of financial statements.
Public and communities	— Community involvement including local employment opportunity — Development of local economy — Environment protection — Subsidy and assistance	— Volunteering — Charity and social investment — Annual report	— Gave priority to local people seeking jobs from the Company so as to promote community building and development; built roads, protected the communities' ecological environment, and provided timely compensation and assistance; provided volunteer service, kept communication channels open between the Company and the communities and villagers, co-sponsored community activities to promote the building up of harmonious communities.

A. ENVIRONMENTAL ASPECTS

ASPECT A1: EMISSIONS

Environmental protection is one of the major concerns of the Group. We pledge to protect the environment to which we place great emphasis on environmental protection in our operation while hoping to reduce our long-term negative impact on the environment through strict monitoring and control. In this regard, in addition to the Board which is responsible for preparing the environmental, social and governance report, all subordinate units of the Group also actively cooperate to provide advices and regularly collects data for reporting. Most of our emissions are derived from the emission incurred during the daily production of the Group. We will study and monitor the impact of our production on the environment by continuously monitoring and releasing the emission policy of the Group.

To demonstrate commitment to sustainable development and compliance with laws and regulations relating to environmental protection, the Group endeavors to minimise the environmental impact of the business activities and maintain green operations and green office practices.

Our operation in the PRC is subject to PRC environmental laws and regulations including but not limited to PRC Environmental Protection Law* (《中華人民共和國環境保護法》), the PRC Law on Prevention and Control of Water Pollution* (《中華人民共和國水污染防治法》) and the Guangdong Province Work Programme on the Comprehensive Treatment and Emission Reduction on Volatile Organic Compounds (2018-2020)* (廣東省揮發性有機物 (VOCs) 整治與減排工作方案 (2018-2020年)). These laws and regulations govern a broad range of environmental matters, including air pollution, noise emissions, water, wastewater discharge and solid wastes such as scrap aluminum and various residues from production. We consider the protection of the environment to be important and have implemented measures in the operation of our Group's business to ensure its compliance with all applicable requirements under the PRC environmental laws and regulations.

* For identification purpose only

Our Group's business operation does not generate hazards that have any significant adverse effect on the environment and our Group's environmental protection measures are adequate to comply with all applicable current local and national PRC regulations. Because of the nature of the products which we manufacture, there is minimal waste discharge, noise, water or air pollution. Nevertheless, we are committed to reducing the environmental impact from our production processes and have taken various measures to achieve this objective. Waste water is processed by our own sewage treatment station to reach national safety standards for disposal. Our hazardous waste produced mainly consists of organic solvent used during the production process. Non-hazardous waste includes aluminum waste cans, household waste, packaging paper scraps and rags. They are separately stored and handled with the ledger for record. In addition, solid wastes such as scrap aluminum and various residues from production will be sold to scrap metal recycling companies for recycling.

Highlight of measures for reduction of emissions

— Adopting low VOCs coating to reduce the emission of volatile organic gases.

— Continuously optimizing and upgrading sewage treatment.

— Actively researching and developing environmentally-friendly formulations, such as tank oil of the water-based aluminum aerosol cans.

— Promoting clean production and upgrading machinery.

— Providing crew buses for collective transportation to reduce the use of limousine buses and private cars.

— Encouraging staff to reduce waste. For example: reusing paper and approving documents via electronic approval system to reduce paper consumption.

— Continuously improving dust hazard control and introducing Handte Wet Scrubbers (Camfil APC, Germany) to improve intrinsic safety level.

— Using clean energy such as electricity or pipeline natural gas for all furnaces in the production line.

— Establishing quality management system to be recognised by world-renowned corporate customers.

— Renovating exhaust gas and dust collecting channels in production workshops to reduce emission from the hazardous substances effectively.

— Eliminating old equipment in the production line and investing in equipment with insulating effect to reduce noises.

— Introducing smart equipment (smart examination, smart packaging and conveying system) in workshops to conserve raw materials for production and labor costs.

— Our professional R&D team applied the technology of variable wall shaped aluminum cans to reduce the consumption of raw materials, which saved approximately 10% of raw materials and won the Zhongshan City Patent Gold Award* (中山市專利金獎) and Guangdong Independent and Innovative Products* (廣東省自主創新產品).

— The Group conducted the technical renovation on the washing process of aluminum cans to reduce the use of detergents and running water consumption.

* For identification purpose only

— The Group conducted sewage treatment and effectively neutralized alkaline water to about pH8.

— The Group provided staff training on operation methods to enhance product qualification rate and control product damage, thereby reducing the volume of emissions.

— The Group conducted coordination on the use of electricity and entered into electricity purchase contracts with clean energy sales companies in relation to the use of clean and green energy, with an aim to optimize relevant indicators.

— To minimize the impact of VOCs coatings on the environment and human body, the Group has partially adopted environmentally-friendly water-based coatings as the substitute for VOCs coatings such that the amount of coatings per can used is reduced.

— The Group endeavored to mitigate the impact caused by wastes. All non-hazardous wastes were essentially recycled for use and were regularly delivered to recycling companies by categories for recycling. Hazardous wastes were labeled and placed at fixed location according to the required protection measures, and were regularly delivered to qualified recyclers for recycling.

— The Group implemented pollutant emission reduction, and met the local discharge standards and therefore obtained environmental protection tax reduction, with the amount of environmental protection tax decreasing by 12.99% year-on-year.

During the Reporting Period, there was no material breach of or non-compliance with the applicable laws and regulations related to environment protection.

Major air pollutants emission from our operation during the Reporting Period as follows:

Air Pollutant Emission	
Type of Air Pollutants	**Air Pollutant Emission (tons)**
Sulphur Dioxide	1,037.33
Nitrogen Oxides	1,577.56
Particulate Matter	17.20
Industrial exhaust gas	31.38

During the Reporting Period, PH value of industry sewage is approximately 8.1 non-dimensional and chemical oxygen demand is approximately 1.8 mg/L.

During the Reporting Period, the GHG emission from the operation is set out below:

GHG Emission	
Type of GHG emissions	**Equivalent CO_2 emission (tons)**
Scope 1 Direct emissions	45.67
Scope 2 Indirect emissions	10,205.86
Scope 3 Other indirect emissions	12.02
Total	10,263.55
Intensity (tons/m^2)	0.12

Note:

The calculation of the GHG gas is based on the "A Corporate Accounting and Reporting Standard" from The GHG Protocol.

Scope 1: Direct emission from vehicles that are owned by the Group

Scope 2: Indirect emissions from the generation of purchased electricity and natural gas consumed by the Group

Scope 3: Other indirect emissions is optional disclosure that includes employee's business travel only

Hazardous and non-hazardous waste	
	(tons)
Hazardous waste	57.51
Non-hazardous waste	498.22
Total	555.73
Intensity (tons/m^2)	0.067

ASPECT A2:USE OF RESOURCES

The Group places high priority on the efficient use of resources. The major resources used by the Group are electricity and water. For usage of water, the Group did not encounter any problems in sourcing water that is fit for purpose. The Group strives to improve the efficient use of natural resources, such as minimising waste/emissions and implementing effective recycling program. Practical measures are implemented as follows.

— Switching off lights and turning off unnecessary energy-consuming devices when staff leaves the office.

— Adopting LED lighting in some production workshops and offices.

— Using frequency conversion air compressor and air compressor heat recovery during some of our productions to reduce energy consumption.

— Utilising materials that facilitate clean production environment to effectively reduce the consumption of detergents and running water.

— Bringing our own cups to avoid using paper cups.

— Improving product packaging forms to conserve the consumption of carton materials.

— The Group strengthened the education and promotion on energy saving to enhance staff awareness of energy saving and green practices while reinforcing the supervision and control over the reasonable consumption of energy. Meanwhile, production equipment and utilities were well maintained in the ordinary course of business to avoid and minimize the occurrence of any "gas escape, water emitting, liquid dropping and leakage". Cooling systems were cleaned whereas air compressors were repaired and maintained on regular basis to enhance the efficiency of use of such equipment. Lighting devices, equipment and motor with high energy consumption were replaced and new energy saving appliances were installed. For ventilation facilities, we tried our utmost to use natural renewable resources. Through the above measures, the energy consumption saw a drop during the year.

Consumption of energy, water and packaging materials by the Group during the Reporting Period is set out below:

Energy Consumption	
Type of energy	**Energy consumed (kWh)**
Unleaded Petrol	168,012.27
Diesel	16,933.55
Natural Gas	7,444,730.00
Purchased electricity	13,254,015.00
Total	20,883,690.82
Energy intensity (kWh/m²)	251.82

Water Consumption	
	(tons)
Running water consumed	133,017.75
Intensity (tons/m²)	1.60

Packaging materials	
Type of packaging materials	**(tons)**
Wood	16.65
Plastic	41.74
Paper	498.18

ASPECT A3: THE ENVIRONMENT AND NATURAL RESOURCES

The Group raises staff's awareness on environmental issues through education and training and enlist employees' support in improving the Group's performance, promote environmental awareness amongst the customers, business partners and shareholders and support community activities in relation to environmental protection and sustainability and evaluate regularly and monitor past and present business activities impacting upon health, safety and environmental matters. With the integration of policies mentioned in sections "Emissions" and "Use of Resource", the Group strives to minimise the impacts to the environment and natural resources.

B. SOCIAL ASPECTS

ASPECT B1:EMPLOYMENT

The Group believes that a key to our success is our ability to recruit, retain, motivate and develop talented and experienced staff members. We endeavour to attract and retain appropriate and suitable personnel to serve our Group. Our group assesses the available human resources on a continuous basis and will determine whether additional personnel are required to cope with the business development of our Group. The Group's employment handbook sets out our standards for compensation and dismissal, recruitment and promotion, working hours, rest periods, equal opportunity, and other benefits and welfare.

The Group entered into separate labour contracts with each of our employees in accordance with the applicable labour laws of PRC. The package includes basic wages, over-time work allowances, bonuses, retirement benefits and other staff benefits. We determine our employees' remuneration package based on factors including qualifications, contributions and years of experience. The Group recruits employees from the open market through posting of advertisements online or internal referrals by our other employees. We believe that the above arrangement can maintain good relationship with our employee as we believe that our employees are valuable assets to our Group.

Practical measures for Employment

— Actively retaining talents and recommending outstanding employees through democratic election.

— Offering employees with competitive salary and benefits in accordance with job requirements and individual performance.

— Organizing an employee labor union to promote the prevention of possible forced labor; meanwhile, holding evening parties and birthday parties for employees and giving them holiday gifts.

— The Human Resources Department taking effective procedures to verify applicants' age and inspecting their identification documents and valid proof of identity before hiring any of them.

— Implementing annual staff body check and occupational diseases examination to ensure the health of our employees.

— Establishing performance appraisal and remuneration adjustment systems and improving the remuneration management system of the Company to further motivate our employees.

During the Reporting Period, there were no material non-compliance regarding employment brought against the Group or its employees.

Below is a detailed breakdown of our employees by gender, age group and employment category as at 31 December 2019:

	Number of staff	% of total
By gender		
Male	166	60
Female	111	40
Total	277	100
By age group		
30 or below	51	18
31-40	113	41
41-50	75	27
51 or above	38	14
Total	277	100
By employment category		
Normal	248	90
Middle	14	5
Senior	15	5
Total	277	100

Below is a detailed breakdown of our employees turnover rate by gender and age group during the Reporting Period:

Turnover rate by gender	
Male	36%
Female	33%
Turnover rate by age group	
30 or below	47%
31-40	41%
41-50	15%
51 or above	39%

ASPECT B2: HEALTH AND SAFETY

The Group places emphasis on occupational health and work safety in our production plants. We are subject to PRC labour, safety and work-related laws and regulations including the Law on Production Safety of the PRC* (中華人民共和國安全生產法). Our Group has established the Production Safety Committee* (安全生產委員會) to ensure our Group's compliance with the safety laws and regulations in the PRC, provide safety training to our staff and workers, set up the safety guidelines and ensure these are properly implemented in our Group. Specific safety guidelines include i) providing adequate and regularly tested safety devices and protective clothing, gear and equipment to employees to ensure their safety; ii) offering special training to certain employees with unique skill sets who are required to attain relevant certifications; and iii) conducting regular health examinations on our employees as well as maintaining health records for them. Our Group has in place the Regulations on Safe Management* (安全管理規定) stipulating regulations and guidelines on safe management for various departments. Apart from regular in-house safety education and training for all of our personnel, we also arrange training jointly with the local fire authority for all our production staff and workers on production safety.

Regarding insurance, the Group had made social insurance and housing fund contributions for its employees in accordance with the requirements pursuant to the applicable laws and regulations. We have also maintained property insurance which covers against risks of loss or damage to our equipment, assets, including inventory and vehicles. The risks we have insured against include those caused by accidents or natural disasters, including fire or flood.

Practical measures for Health and Safety

— Actively promoting the prevention and control of employee occupational diseases and hygiene by equipping safe production equipment, including but not limited to gloves, ear plugs, gas masks, safety goggles and protective shoes.

— Installing large ceiling fans in production workshops to improve the air ventilation, thus heightening the comfort level of the working environment.

— Formulating emergency response measures, such as responses to fire and explosions.

— Providing dormitory staff with night-time emergency vehicle service.

— Arranging regular first aid drills, fire drills and evacuation drills.

— Prohibiting smoking and drinking in production workshops.

During the Reporting Period,there were no material non-compliance cases noted in relation to health and safety laws and regulations.

* For identification purpose only

ASPECT B3: DEVELOPMENT AND TRAINING

The Group recognises the importance of providing training for the development of our employees. To ensure the performance quality of our employees and their health and safety at work place and to familiarise our employees with our quality control systems,we offer relevant in-house training to our staff. Apart from regular in-house safety education and training for all of our personnel, we also arrange training jointly with the local fire authority for all our production staff and workers on production safety.

Practical measures for Development and Training

— Emphasizing trainings, including but not limited to on-board training, safety education training, pre-job training, on-the job training and fire safety escape training.

— Providing our employees with vocational English and management courses to enhance their overall competence.

Below is a detailed breakdown of the percentage of employees trained by gender and employment category during the Reporting Period:

Trained employee by gender	
Male	100%
Female	100%
Trained employee by employment category	
Normal	100%
Middle	100%
Senior	57%

The average training hours for employees by gender and employment category during the Reporting Period are as follows:

	Hours per employee
By gender	
Male	10.73
Female	10.61
By employment category	
Normal	11.00
Middle	8.29
Senior	4.00

ASPECT B4: LABOUR STANDARDS

The Group strictly complies with relevant labour laws and regulations in the PRC. The Group prohibits the use of child labour and forced labour that violate fundamental human rights and also poses threat to sustainable social and economic development. Employment contracts and other records, documenting all relevant details of the employees (including age) are properly maintained for verification by relevant statutory body upon request.

During the Reporting Period, we did not identify any issue related to child labor or forced labor within the Group.

ASPECT B5: SUPPLY CHAIN MANAGEMENT

The Group works closely with its suppliers who are committed to high quality, environmental, health and safety standards. Our principal suppliers were mainly suppliers of aluminum slugs. To ensure the quality of our products, we formulated our own internal operating guidelines namely the Procedures for Controlling Procurement* (採購控制程序) and the Management System for Procurement* (採購工作管理制度) setting out the selection criteria of our suppliers and the control procedures in our procurement of raw materials. Our procurement system was accredited by ISO 9001. Our suppliers are chosen and evaluated based on a number of criteria set out in the Procedures for Controlling Procurement* (採購控制程序) including quality and pricing of their products, and their reputation in the industry. Those suppliers which satisfy the evaluations by our procurement department are put into our list of approved suppliers. Our procurement department carries out annual review of our suppliers to ensure the quality of the products supplied to us meet the requirements of our Group.

When selecting aluminum ingot suppliers, our procurement department conducts background checks and assesses the creditworthiness of each potential supplier by making reference to their year of establishment, paid-up capital, financial position, shareholder list and background. Our procurement department will pass the proposed list of ingot suppliers to one of our director for his review and approval.

Practical measures for Supply Chain Management

— Strictly controlling the standard of product quality and safety and conducting classification management for suppliers.

— Working with suppliers to control product hygiene and safety risks, while conducting regular inspections on suppliers' plants to enhance products' safety assurance capability.

— Adding online monitoring device of suppliers to reinforce the control over the production process.

— Striving to build the "green supply chain" to assist upstream suppliers in facilitating raw material production reform and promoting the recycling of packaging waste.

Thus, we believe there are no significant environmental and social risks for our management decision on supply chain management during the Reporting Period.

The table below sets forth the number of suppliers by geographical region during the Reporting Period:

Region	Number of suppliers
PRC	130
Others	5

* For identification purpose only

ASPECT B6: PRODUCT RESPONSIBILITY

Quality Assurance

During our history of operation, we continuously strive to provide high standard products to our customers, and place strong focus on quality control, which enable us to build up our reputation in the industry. In order to ensure the quality of our products, we place great emphasis on quality control in all aspects of our operation. We have formulated the relevant internal operating guidelines Aluminum Can (Aluminum Bottle) Quality Testing Procedures* (鋁罐(鋁瓶)質量檢驗規程) and the Product Inspection and Testing Control Procedures* (產品監控測量控制程序) to govern and regulate the quality control procedures and the standards required for sourcing of raw materials, production to packing of finished products before delivery. This set of operating guidelines was accredited by ISO9001.

Our quality control personnel are responsible for the quality control of raw materials and finished products as well as the quality control during production. In addition, we have various testing equipment to facilitate our quality control measures, such as examining the evenness of coating materials of the aluminum aerosol cans as well as the internal pressure tolerance of the cans.

We implement the following quality control measures:

(a) Quality control on suppliers and raw materials

Raw materials are only sourced from the list of suppliers approved by our procurement department. Our quality control personnel perform random and sample checking of the raw materials upon receipt of the same.

For aluminum slugs, we examine their sizes in terms of diameters and thickness and their hardness by various testing methods and equipment. Samples of aluminum slugs are also visually inspected to determine if there is any surface defect. Quality reports are required for each delivery of aluminum slugs certifying that the composition of aluminum in the aluminum slugs is at least 99.7%. For coating materials and printing ink, we examine their degree of adhesion.

(b) Quality control during production

We carry out quality control on our semi-finished products at various stages along our production lines to ensure their quality complies with all internal benchmarks. Thickness of the wall and base of sample aluminum aerosol cans are tested by various testing methods and equipment at different checkpoints along the production lines. Tests are conducted to ensure the evenness of coating materials on the internal and external walls of the aluminum aerosol cans.

(c) Testing before delivery

We carry out quality control on our finished products by random sample testings. We use electronic pressure-testing machine to examine the internal pressure tolerance of our aluminum aerosol cans, and other testing equipment to examine the degree of adhesion of the printing ink and the sizes of the cans. Our Directors consider that the internal pressure tolerance of our aluminum aerosol cans, which is crucial to the safety of our products, is also one of the major quality requirements of our customers and complies with the national standard of GB/T25164-2010 in the PRC. We also examine the appearance and printing quality on the walls of sample aluminum aerosol cans by visual inspection and comparing to the same with the prototype colors.

Some of our customers visit our factory from time to time to review our production processes and the quality of products at different stages of the production. Furthermore, we submit samples to the Guangdong Province Technique Supervising Authority (廣東省技術監督局) for their sample testings on an annual basis to ensure our product quality is up to the stipulated standards.

* For identification purpose only

Practical Measures for Product Responsibility

— Running stringent tests on product safety and stress resistance, including pressure burst test, and the stress resistance of the Company's products is far higher than national standards.

— Conducting detailed analysis in case of product defects to identify the cause, pro-actively explain to customers and reach a mutually satisfactory solution.

During the Reporting Period, there are no disputes between our Group and our customers in respect of the quality of products produced by us and there were no cases of non-compliance against laws and regulations related to products responsibilities.

ASPECT B7: ANTI-CORRUPTION

To ensure the workplace operates in a fair and transparent manner, the Group has formulated whistleblowing policy in the Group's employment handbook to avoid suspected corruption and provided channels such as by letter and meeting for employees to report suspected corruption. If there is any suspected case related to corruption, employees are encouraged to report it through the mentioned channels. All these practical actions enhance the sense of belonging and fair play among our various stakeholders.

The Group has been in strict compliance with law and regulation related to anti-corruption. During the Reporting Period, there was no any legal case regarding corrupt practices brought against the Group or its employees.

Practical Measures for Anti-Corruption

— Promoting and facilitating anti-corruption through multiple aspects by coordinating education and training programs, setting up systems and rules, as well as carrying out petition supervision.

— Constantly promoting examples of anti-corruption and good deeds on the Company's publicity columns to further develop our employees' self-regard, personal integrity, and self-discipline.

— Banning all employees from involving in, assisting in and concealing any fraud, and terminating the labor relationship and reporting to the police if any employee is found to commit fraud.

ASPECT B8: COMMUNITY INVESTMENT

As a socially responsible company, the Group is committed to understanding the needs of the communities in which we operate. The Group strives to develop long-term relationship with our stakeholders and seek to make contributions to programmes that have a positive impact on community development.

Practical Measures for Community Investment

— Continuously showing special caring effort for our employees on special circumstances such as marriage, funeral, injury and illness.

— Actively participating in charity works, including Zhongshan Charity Parade Donation Campaign (中山慈善萬人行捐款活動) and staff voluntary blood donation. In order to encourage our employees to participate in community welfare activities, the Company grants paid holidays and bonuses.

— Providing impoverished families with certain annual grants on annual and regular basis to support the elderly and the young and improve the quality of life of impoverished families.

— Providing breakfast for our employees in the Company's kitchen to help them with breakfast.

During the Reporting Period, the Group had organise various activities during 2019 as follows:

Time		Event
2019		
January	•	Annual Dinner
February	•	Training of salary and performance system for production department
March	•	Ceremony of the 17th Anniversary of the Group
September	•	Ceremony of completion of project and relocation of machinery (線整改專案表彰儀式)
September	•	Happy Trip to Chimelong Park

Training of salary and performance system for production department

Ceremony of completion of project and relocation of machinery

Happy Trip to Chimelong Park

Annual Dinner

Ceremony of the 17th Anniversary of the Group

Disinfection materials donation to Red Cross Society of China

Charitable events after the balance sheet date of 2019

In light of the outbreak of coronavirus in PRC starting from January 2020, the Group has paid attention to the progress of the event and take the initiative to take the social responsibility of the enterprise to help prevention and control the pneumonia.

Mr. Lin, the Chairman of the Group, actively responded to the urgent call from the PRC government after knowing the urgency of preventing epidemic and lacking of protective materials. On 7 February 2020, the Group donated 5,000 pieces of disinfectant spray and 5,000 pieces of air sterilization spray amounting RMB390,000 in total, to a local charity in Zhongshan District.

With the united effort from the society and under the leadership of the government, we firmly believes that we can overcome difficulties and succeed finally.

AWARDS AND RECOGNITIONS

In 2019, Mr. Lin, the Chairman of the Group, was awarded the "outstanding contribution award of China packaging industry" and elected as honorary Vice President of the 9th Council of China Packaging Federation. These two honors are definitely the recognition of Mr. Lin's outstanding contribution to the development of China's packaging industry in the past 30 years.

9th Council of China Packaging Federation

REFERENCES TO THE ESG REPORTING GUIDE

Subject areas, aspects, general disclosures and KPIs		Chapter/Disclosure
A. Environmental		
Aspect A1: Emissions		
General Disclosure	Information on: (a) the policies; and (b) compliance with relevant laws and regulations that have a significant impact on the issuer, relating to air and greenhouse gas emissions,discharges into water and land, and generation of hazardous and non-hazardous waste.	Emissions
KPI A1.1	The types of emissions and respective emissions data.	Emissions
KPI A1.2	Greenhouse gas emissions in total and, where appropriate, intensity.	Emissions
KPI A1.3	Total hazardous waste produced and, where appropriate, intensity.	Emissions
KPI A1.4	Total non-hazardous waste produced and, where appropriate, intensity.	Emissions
KPI A1.5	Description of measures to mitigate emissions and results achieved.	Emissions
KPI A1.6	Description of how hazardous and non-hazardous wastes are handled, reduction initiatives and results achieved.	Emissions
Aspect A2: Use of Resources		
General Disclosure	Policies on the efficient use of resources, including energy, water and other raw materials. Note: Resources may be used in production, in storage, transportation, in buildings, electronic equipment, etc.	Use of Resources
KPI A2.1	Direct and/or indirect energy consumption by type in total and intensity.	Use of Resources
KPI A2.2	Water consumption in total and intensity.	Use of Resources
KPI A2.3	Description of energy use efficiency initiatives and results achieved.	Use of Resources
KPI A2.4	Description of whether there is any issue in sourcing water that is fit for purpose, water efficiency initiatives and results achieved.	Use of Resources
KPI A2.5	Total packaging material used for finished products and, if applicable, with reference to per unit produced.	Use of Resources

Subject areas, aspects, general disclosures and KPIs		Chapter/Disclosure
Aspect A3: The Environment and Natural Resources		
General Disclosure	Policies on minimizing the issuer's significant impact on the environment and natural resources.	Emissions and Use of Resources
KPI A3.1	Description of the significant impacts of activities on the environment and natural resources and the actions taken to manage them.	Emissions, Use of Resources and The Environment and Natural Resources
B. Social (Note)		
Employment and Labour Practices		
Aspect B1: Employment		
General Disclosure	Information on: (a) the policies; and (b) compliance with relevant laws and regulations that have a significant impact on the issuer relating to compensation and dismissal, recruitment and promotion, working hours, rest periods, equal opportunity, diversity, anti-discrimination and other benefits and welfare.	Employment
Aspect B2: Health and Safety		
General Disclosure	Information on: (a) the policies; and (b) compliance with relevant laws and regulations that have a significant impact on the issuer, relating to providing a safe working environment and protecting employees from occupational hazards.	Health and Safety
Aspect B3: Development and Training		
General Disclosure	Policies on improving employees' knowledge and skills for discharging duties at work. Description of training activities.	Development and Training
Aspect B4: Labour Standards		
General Disclosure	Information on: (a) the policies; and (b) compliance with relevant laws and regulations that have a significant impact on the issuer relating to preventing child and forced labour.	Labour Standards

Subject areas, aspects, general disclosures and KPIs		Chapter/Disclosure
Operating Practices		
Aspect B5: Supply Chain Management		
General Disclosure	Policies on managing environmental and social risks of the supply chain	Supply Chain Management
Aspect B6: Product Responsibility		
General Disclosure	Information on: (a) the policies; and (b) compliance with relevant laws and regulations that have a significant impact on the issuer, relating to health and safety, advertising, labeling and privacy matters relating to products and services provided and methods of redress.	Product Responsibility
Aspect B7: Anti-corruption		
General Disclosure	Information on: (a) the policies; and (b) compliance with relevant laws and regulations that have a significant impact on the issuer, relating to bribery, extortion, fraud and money laundering.	Anti- Corruption
Community		
Aspect B8: Community Investment		
General Disclosure	Policies on community engagement to understand the needs of the communities where the issuer operates and to ensure its activities take into consideration the communities' interests.	Community Investment

Note:

Pursuant to Appendix 27 of the Listing Rules, KPIs in this section are recommended disclosures only.

Biographies of Directors and senior management are set out below:

EXECUTIVE DIRECTORS

Mr. Lin Wan Tsang (連運增), aged 54, was appointed as the chairman and executive Director on 20 June 2013. Mr. Lin is the founder and general manager of our Group. He is responsible for formulating our corporate strategies and overseeing the overall business of our Group. Mr. Lin has over 24 years of experience in the aluminum packaging industry and has extensive experience in the aerosol manufacturing industry. Mr. Lin started his business in the production of aluminum aerosol cans when he established Chaoyang City Euro Asia Aluminum Cans Industrial Company Limited* (潮陽市歐亞鋁罐工業有限公司) in 1995. Leveraging upon his experience and business connection in the aluminum packaging industry for aerosols, he further expanded his business into the aerosol manufacturing and aerosol filling industries through the establishment of Guangzhou Botny Chemical Co., Ltd. (廣州保賜利化工有限公司) ("Botny Chemical") in 2000 and Euro Asia Aerosol & Household Products Manufacture Co., Ltd. (廣州歐亞氣霧劑與日化用品製造有限公司) ("Euro Asia Aerosol") in 2006.

Mr. Lin is currently the vice-president of Guangdong Provincial Association of Standardization* (廣東省標準化協會) and a standing member of China Packaging Federation (中國包裝聯合會) ("CPF").

Mr. Lin was appointed as a member of the Conghua City Chinese People's Political Consultative Conference National Committee* (從化市政協委員會) in 2011, vice-principal of the Metal Containers Committee (金屬容器委員會) of CPF for the period from 2011 to 2016, vice-president of Zhongshan City Printing and Packaging Association* (中山市印刷包裝行業協會) for the period from 2011 to 2014, and the deputy director of the Aerosol Packaging Committee (氣霧劑專業委員會) of CPF for the period from 2008 to 2013. He was awarded as honorary citizen of Conghua City, Guangdong Province in 2010.

Mr. Dong Jiangxiong (董江雄), aged 68, was appointed as the executive Director on 31 March 2016. Mr. Dong obtained his Bachelor's degree in Precision Instrument from Tsinghua University* (清華大學). He obtained the Qualification of Patent Attorney* (專利代理人) in 1985 and the Lawyer's License* in the PRC in 1988. He has over 30 years of experience in advising on intellectual properties matters such as patents, trademarks and copyrights. Mr. Dong has extensive experience in advising corporations in the PRC and overseas on intellectual properties matters.

* For identification purpose only

NON-EXECUTIVE DIRECTOR

Mr. Kwok Tak Wang (郭德宏), aged 56, was appointed as a non-executive Director on 20 June 2013 and was a director of Euro Asia Packaging from July 2008 to October 2011 and from October 2012 to January 2013 an indirect wholly owned subsidiary of the Company. Mr. Kwok obtained a Master's degree in Business Administration from University of Chicago in 1997 and obtained a Master's degree in Computer Engineering from University of Southern California in 1992. He graduated from University of Wisconsin-Madison with a Bachelor's degree in Electrical Engineering in 1990.

Mr. Kwok is experienced in financial management and investment. Prior to joining our Group, he served as the managing director in JRE Asia Capital (Hong Kong) Limited from 2010 to 2012. He also served as the managing director in Credit Suisse Capital Advisors (Hong Kong) Limited from 2008 to 2010.

INDEPENDENT NON-EXECUTIVE DIRECTORS

Dr. Lin Tat Pang (連達鵬), aged 63, was appointed as an independent non-executive Director on 20 June 2013. Dr. Lin obtained his Doctor of Law, Master of Law and Bachelor of Law from Peking University* (北京大學) in 2009, 1998 and 1992 respectively. He also completed his Postgraduate Certificate in Hong Kong Law in City University of Hong Kong (previously known as City Polytechnic of Hong Kong) in 1993. Dr. Lin is a member of the Hong Kong Institute of Certified Public Accountants and a fellow of the Chartered Association of Certified Accountants, United Kingdom. He is also a member of the Chartered Institute of Arbitrators, United Kingdom.

Dr. Lin has over 30 years of experience in accounting, finance and public offerings. He worked for Hong Kong Exchanges and Clearing Limited and the Stock Exchange between 1992 and March 2013, and his last position was senior consultant to the Listing, Listing & Regulatory Affairs Division of Hong Kong Exchanges and Clearing Limited. Dr. Lin has also been appointed as an independent non-executive director of HNA Technology Investments Holdings Limited (a company listed on the Stock Exchange, stock code: 2086) since December 2017. He currently serves as a member of the nomination committee, and the chairmen of both the audit committee and remuneration committee.

Dr. Lin does not have any relationship with any directors, senior management, substantial shareholders (as defined in the Listing Rules), or controlling shareholders (as defined in the Listing Rules) of the Group.

Ms. Guo Yang (郭楊), aged 58, was appointed as an independent non-executive Director on 20 June 2013. Ms. Guo completed a professional course in economics management from Correspondence College of Party School of Central Committee of the Communist Party of China* (中共中央黨校函授學院) in 2001 and a professional course in industrial enterprise management from Beijing Open University (北京廣播電視大學) in 1986.

Ms. Guo has over 20 years of experience in the packaging industry. She has been the deputy secretary-general of the Aerosol Packaging Committee (氣霧劑專業委員會) of CPF since July 2011. During the period from January 1988 to July 2011, she worked in the following positions in CPF: the principal staff member of the Secretariat, the vice-chairman of the Office of Finance, the minister and the vice-minister of the Industry Department, the secretary-general of the Aerosol Packaging Committee (氣霧劑專業委員會) and the Aseptic Packaging Committee (無菌包裝委員會) as well as the deputy secretary general of the Circular Economic Committee (循環經濟委員會). She also served as the manager of the Management Department of Concept Figure (Beijing) International Exhibition Company Limited* (觀圖(北京)國際展覽有限責任公司), the officer of the Federation of China Packaging Entrepreneurs* (中國包裝企業家聯合會).

Ms. Guo does not have any relationship with any directors, senior management, substantial shareholders (as defined in the Listing Rules), or controlling shareholders (as defined in the Listing Rules) of the Group.

* For identification purpose only

Mr. Chung Yi To (鍾詒杜), aged 53, was appointed as an independent non-executive Director on 24 June 2013. He has over 20 years of experience in finance, particularly in the derivatives, futures and commodities sectors. Mr. Chung worked as a responsible officer under the Securities and Futures Ordinance ("SFO") for Peace Town Financial Services Limited in respect of Type 1 (dealing in securities), Type 2 (dealing in futures contracts) and Type 5 (advising on futures contacts) regulated activities from 24 October 2014 to 5 March 2015. He worked as an assistant manager of the China Offshore Interest Rate Derivatives department in Tullett Prebon (Hong Kong) Limited, a financial services firm, from October 2012 to April 2013. Between November 2006 and November 2011, he served as the senior vice president of foreign exchange and listed derivatives sales in MF Global Holdings HK Limited, where he managed a team that provided 24-hour coverage in global listed futures such as fixed income and commodities in the energy and metal markets. He was the licensed responsible officer under the SFO for MF Global Hong Kong Limited in respect of Type 1 (dealing in securities) and Type 2 (dealing in futures contracts) regulated activities for the period from April 2007 to November 2011; and Type 4 (advising on securities) and Type 5 (advising on futures contracts) regulated activities for the period from July 2011 to November 2011. For the purpose of full disclosure under Rule 13.51(2) of the Listing Rules, MF Global Holdings HK Limited was ordered to conduct a creditors' voluntary liquidation pursuant to the court order dated 4 October 2012. The liquidation of MF Global Holdings HK Limited was, in any circumstances, not caused by or related to Mr. Chung.

During July 2005 to November 2006, Mr. Chung worked for Credit Suisse (Hong Kong) Limited, and his last position was the vice president of the fixed income division. From May 2004 to July 2005, he worked for HSBC Futures, Singapore Pte Ltd, (Hong Kong branch) and was responsible for marketing commodities futures, and his last position was the associate director. From February 1998 to April 2004, he was employed by ABN AMRO Bank N.V. and his last position was the assistant vice president, sales of ABN AMRO Asia Futures Limited in ABN AMRO Clearing and Execution Services.

Mr. Chung does not have any relationship with any directors, senior management, substantial shareholders (as defined in the Listing Rules), or controlling shareholders (as defined in the Listing Rules) of the Group.

Mr. Yip Wai Man Raymond (葉偉文), aged 50, was appointed as an independent non-executive Director on 27 May 2016 and chairman of the Audit Committee on 30 June 2016. Mr. Yip obtained a Bachelor of Commerce from the Memorial University of Newfoundland in May 1994. He has been admitted by the Council of The University of New South Wales and the Senate of The University of Sydney with a degree of Master of Business Administration in October 2004. Mr. Yip became a member of the Institute of Chartered Accountants in Australia in January 2001, a certified general accountant of the Certified General Accountants' Association of Canada in September 1996 and an associate of the Hong Kong Society of Accountants in February 2002.

Mr. Yip has obtained over 16 years of experience in financial management. He worked for Ernst & Young from July 1996 to September 2001. Mr. Yip was employed by Fittec Electronics Co., Ltd. as a financial controller between February 2002 and December 2004. He worked for Funmobile Limited from February 2005 to September 2011 with last position of chief financial officer.

Mr. Yip had been a director of GPRO Technologies Berhad (now known as G Nepture Berhad), shares of which are listed on the ACE Market (GNB (0045)), Malaysia between November 2011 and March 2014 and a director of Industronics Berhad, shares of which are listed on the Main Market of Bursa Malaysia Securities Berhad (Itronic (9393)), Malaysia between January 2013 and February 2014.

Mr. Yip does not have any relationship with any directors, senior management, substantial shareholders (as defined in the Listing Rules), or controlling shareholders (as defined in the Listing Rules) of the Group.

SENIOR MANAGEMENT

Mr. Lee Kam Fai (李錦輝), aged 34, has been the chief financial officer of the Group since January 2016. Mr. Lee is responsible for the overall management of the Group's finance and accounting, taxation, treasury and investor relations. Mr. Lee was appointed as the company secretary of Precious Dragon since August 2018. He graduated from The Hong Kong Polytechnic University with a bachelor's degree of business administration (Honors) in Accounting and Finance and is a member of the Hong Kong Institute of Certified Public Accountants. He has extensive experience on the accounting and auditing profession. Prior to joining the Group, he worked as a financial controller in European Asia Industrial Limited and had extensive working experience in an international accounting firm.

Mr. Zhang Yao Ping (章耀平), aged 49, has joined our Group since November 2009. He has been the assistant to the general manager and is responsible for overseeing the administration and human resources management of our Group. Mr. Zhang is qualified as a professor of engineering (教授級高級工程師). He obtained a Bachelor's degree in Chemical Safety Engineering from Wuhan Institute of Iron and Steel* (武漢鋼鐵學院) in July 1993.

Prior to joining our Group, Mr. Zhang served as a deputy general manager of Zhongshan Lok Ko Party Time Company Limited* (中山樂高派對用品有限公司) in March 2008. He also served as a deputy general manager from June 2007 to May 2008, executive deputy general manager from January 2006 to May 2007 and assistant to chairman from November 2005 to June 2006 of Xiangxue Pharmaceutical Co., Ltd. (廣州市香雪製藥股份有限公司), and deputy officer of the general manager's office from March 2002 to December 2005 and deputy chief engineer from September 1995 to March 2002 of Aestar Fine Chemical Inc. Ltd. (中山市凱達精細化工股份有限公司).

Mr. Zhang was the deputy secretary-general of the Aerosol Packaging Committee (氣霧劑專業委員會) of CPF from November 2002 to December 2010. He was also a member of the National Technical Committee on Packaging of Standardization Administration of China* (全國包裝標準化技術委員會) and Guangdong Provincial Technical Committee on Packaging of Standardization Administration of China* (廣東省包裝標準化技術委員會委員).

** For identification purpose only*

The Directors are pleased to present to the shareholders this annual report and the audited consolidated financial statements for the Reporting Period.

GROUP REORGANIZATION

The Company was incorporated in the Cayman Islands under the Companies Law as an exempted company with limited liability on 12 September 2012. On 15 March 2013, the Company became the holding company of the current subsidiary companies within the Group, which had undergone reorganization to rationalize its structure in preparation for the listing of the Shares on the Stock Exchange. On 12 July 2013, the Shares were listed on the Main Board of the Stock Exchange (the "Listing Date").

During the Reporting Period, there was no group reorganization.

PRINCIPAL ACTIVITIES

The principal activity of the Company is investment holding. The principal activities of the Company's subsidiaries are set out in note 1 to the financial statements.

BUSINESS REVIEW

The business review of the Group for the Reporting Period is set out in the sections headed "Chairman's Statement", "Management and Discussion and Analysis", "Corporate Governance Report", "Environmental, Social and Governance Report" and "Financial Summary" on pages 4 to 44 and pages 136 of this annual report.

RESULTS AND DIVIDENDS

The results of the Group for the Reporting Period and the state of affairs of the Company and of the Group at that date are set out in the financial statements on pages 66 to 135.

The Board has resolved to recommend a final dividend of HK0.37 cent per Share for the Reporting Period (2018: HK2.18 cents per Share) which will be subject to the approval of the Company's shareholders at the forthcoming AGM. During the Reporting Period, an interim dividend of HK0.42 cent per Share was declared.

CLOSURE OF REGISTER OF MEMBERS

The register of members of the Company will be closed from 12 May 2020 to 15 May 2020, both days inclusive, during which period no transfers of Shares shall be effected. In order to qualify for attending the forthcoming AGM, all transfers of Shares accompanied by the relevant share certificates must be lodged with the Company's Hong Kong branch share registrar, Tricor Investor Services Limited at Level 54, Hopewell Centre, 183 Queen's Road East, Hong Kong for registration not later than 4:30 p.m. on 11 May 2020.

The register of members of the Company will be closed from 25 May 2020 to 27 May 2020, both days inclusive, during which period no transfers of Shares shall be effected. In order to qualify for the final dividend, all transfers of Shares accompanied by the relevant share certificates must be lodged with the Company's Hong Kong branch share registrar, Tricor Investor Services Limited, at the above address for registration not later than 4:30 p.m. on 22 May 2020.

FINANCIAL SUMMARY

A summary of the published results and assets, liabilities and non-controlling interests of the Group for the last five financial years is set out on pages 136 of this annual report.

PROPERTY, PLANT AND EQUIPMENT

Details of movements in the property, plant and equipment of the Group are set out in note 17 to the financial statements.

SHARE CAPITAL

Details of the movements in share capital of the Company during the Reporting Period are set out in note 29 to the financial statements.

PRE-EMPTIVE RIGHTS

There are no provisions for pre-emptive rights under the Articles or the laws of Cayman Islands which would oblige the Company to offer new shares on a pro rata basis to existing shareholders.

PURCHASE, REDEMPTION OR SALE OF LISTED SECURITIES OF THE COMPANY

During the year ended 31 December 2019, (i) 4,000,000 new ordinary Shares of HK$1.08 each were issued upon the conversion of convertible notes; and (ii) 36,394,000 ordinary shares were repurchased on the Stock Exchange and 4,000,000 ordinary shares were subsequently cancelled by the Company. 32,394,000 repurchased ordinary shares of the Company were cancelled after 31 December 2019. The summary details of the repurchases are as follows:

Month	Number of ordinary shares repurchased	Price per share Highest (HK$)	Lowest (HK$)	Total price paid (HK$)
September 2019	2,654,000	0.53	0.485	1,380,170
October 2019	1,346,000	0.56	0.47	727,540
December 2019	32,394,000	0.57	0.52	18,209,760
Total	36,394,000			20,317,470

The total amount of HK$20,317,470 of the repurchase was paid wholly out of retained profits and 4,000,000 repurchased ordinary shares of the Company were cancelled during the year ended 31 December 2019. 32,394,000 repurchased ordinary shares of the Company were cancelled after 31 December 2019. The above repurchases during the Reporting Period were effected by the Directors, pursuant to the mandate from shareholders received at the last annual general meeting of the Company, with a view to benefiting the shareholders as a whole by enhancing the net assets value per share and earnings per share of the Company.

Save as disclosed above, neither the Company nor any of its subsidiaries has purchased, sold or redeemed any of the Company's listed securities for the Reporting Period.

TAX RELIEF AND EXEMPTION

The Directors are not aware of any tax relief or exemption available to the shareholders by reason of their holding of the Company's securities.

RESERVES

The movements in the reserves of the Group during the year are set out in the consolidated statement of changes in equity of this annual report.

DISTRIBUTABLE RESERVES

As at 31 December 2019, the Company's reserve available for distribution to owners was approximately HK$641.2 million (2018: approximately HK$677.5 million). This includes the Company's share premium and is available for distribution provided that immediately following the date on which the dividend is proposed, the Company will be able to pay off its debts as they fall due in the ordinary course of business.

KEY RELATIONSHIPS WITH EMPLOYEES, CUSTOMERS AND SUPPLIERS

The Group recognizes the accomplishment of the employees by providing comprehensive benefit package, career development opportunities and internal training appropriate to individual needs. The Group provides a healthy and safe workplace for all employees. No strikes and cases of fatality due to workplace accidents are found in the Reporting Period under review.

The Group encompasses working relationships with suppliers to meet our customers' needs in an effective and efficient manner. The departments work closely to make sure the tendering and procurement process is conducted in an open, fair and just manner.

Our major suppliers are generally manufacturers for the production of aluminum slugs, paints, coating materials, solvents, packaging materials and other chemicals, and had business relationship with the Group for over five years on average. Our largest supplier is headquartered in Shenzhen of PRC and operated as wholesaler of aluminum ingot. The credit period from the major suppliers is 30 to 60 days. The payables were usually settled within the credit period. Details of the trade and bills payables of the Group as at 31 December 2019 are set out in note 23 to the financial statements. Up to the date of this report, approximately 86.2% of the trade and bills payable to the major suppliers has been settled.

The Company's principal activities are manufacturing of aluminum cans, which rely on, among other things, sufficient supply of the aluminum ingots and packaging materials. The Company is subject to price fluctuation in raw materials prices and could face shortage in supply of raw materials. To mitigate the risk, the Company has estimated certain periods of the material usages and maintained the safety raw material inventory level. The Company has also developed business relationships with more suppliers for specific raw materials in order to diversify the risk of relying on single supplier.

During the Reporting Period, the Group did not have any significant disputes with our major suppliers.

The Group values the views and opinions of all customers through various means and channels, including usage of business intelligence to understand customer trends and needs and regular analyze on customers' feedback. The Group also conducts comprehensive tests and checks to ensure that only quality products and services are offered to the customers.

Our major customers include consumer brand manufacturers of personal care products, automotive care products and aerosol filling companies. The years of business relationship with the Group ranged from 3 to 10 years and the credit terms granted to the major customers ranged from 30 to 60 days. Details of the trade and bills receivables of the Group as at 31 December 2019 are set out in note 20 to the financial statements. Up to the date of this report, approximately 67.8% of the trade and bills receivables from the major customers has been settled.

Most of the Group's revenue was generated from customers in the PRC. Should there be any material adverse change in the political, economic, legal or social conditions in the PRC and the Group is unable to divert sales to other markets outside of the PRC the turnover, profitability and prospects may be adversely affected. In order to mitigate such risk, the Group will put efforts to expand overseas market and increase the proportion of overseas sales. During the year ended 31 December 2019, we have export sales to America and Asia countries other than the PRC, etc. The Group will also continue to review competitive edges of the Group in the industry and market trend.

During the Reporting Period, the Group has not experienced any major disruption of business due to material delay or default of payment by our customers due to their financial difficulties. We did not have any material dispute with our customers.

MAJOR SUPPLIERS AND CUSTOMERS

For the Reporting Period, purchases from the single largest supplier of the Group and the five largest suppliers of the Group in aggregate accounted for approximately 36.1% (2018: approximately 10.4%) and 53.3% (2018: approximately 23.6%) of the Group's total purchases respectively.

For the Reporting Period, sales to the single largest customer of the Group and the five largest customers of the Group in aggregate accounted for approximately 7.6% (2018: approximately 6.3%) and 22.8% (2018: approximately 15.0%) of the Group's total turnover respectively.

At all-time during the Reporting Period, none of the Directors or any of their close associates or any shareholders of the Company who, to the knowledge of the Directors, owns more than 5% of the Company's issued share capital had an interest in any of the five largest suppliers or customers.

DIRECTORS

The Directors in office during the Reporting Period and up to the date of this report are:

Executive Directors

Mr. Lin Wan Tsang *(Chairman)*
Mr. Dong Jiangxiong
Ms. Ko Sau Mee* (Resigned on 29 May 2019)
Mr. Lin Hing Lung* (Resigned on 29 May 2019)

Non-executive Director

Mr. Kwok Tak Wang

Independent non-executive Directors

Dr. Lin Tat Pang
Ms. Guo Yang
Mr. Chung Yi To
Mr. Yip Wai Man Raymond

* *Ms. Ko Sau Mee and Mr. Lin Hing Lung resigned as executive Directors on 29 May 2019 in order to focus on their responsibilities in view of their positions in Precious Dragon following the Spin-off.*

Mr. Kwok Tak Wang, Ms. Guo Yang and Mr. Yip Wai Man Raymond will retire in accordance with article 108(a) of the Articles at the Company's forthcoming AGM and being eligible, offer themselves for re-election.

Every Director shall retire from office once every three years and for this purpose, at each AGM one-third (1/3) of the Directors for the time being, or, if their number is not three (3) or a multiple of three (3), then the number nearest one-third (1/3) but not less than one-third (1/3) shall retire from office by rotation. The Directors to retire in every year will be those who have been longest in office since their last election but as between persons who became Directors on the same day those to retire shall (unless they otherwise agree between themselves) be determined by lot. Subject to the Articles, a retiring Director shall be eligible for re-election at the meeting at which he retires. For avoidance of doubt, each Director shall retire at least once every three (3) years.

No Director proposed for re-election at the forthcoming AGM has an unexpired service contract which is not determinable by the Group within one year without payment of compensation, other than normal statutory obligations.

DIRECTORS' AND SENIOR MANAGEMENT'S BIOGRAPHIES

Biographical details of the Directors of the Company and the senior management of the Group are set out on pages 45 to 48 of this annual report.

MANAGEMENT CONTRACTS

No contracts concerning the management and administration of the whole or any substantial part of the business of the Company or its subsidiaries were entered into or existed during the year.

DIRECTORS' AND CHIEF EXECUTIVE'S INTERESTS AND SHORT POSITIONS IN SHARES, UNDERLYING SHARES AND DEBENTURES

As at 31 December 2019, interests or short positions in the Shares, underlying Shares and debentures of the Company and any of its associated corporations (within the meaning of Part XV of the SFO held by the Directors and chief executive of the Company which have been notified to the Company and the Stock Exchange pursuant to Divisions 7 and 8 of Part XV of the SFO (including interests and short positions which were taken or deemed to have under such provisions of the SFO) or have been entered in the register maintained by the Company pursuant to Section 352 of the SFO, or otherwise have been notified to the Company and the Stock Exchange pursuant to the Model Code are as follows:

(i) Long position in Shares and underlying Shares of the shares options granted under the Pre-IPO Share Option Scheme

	Number of Ordinary Shares		Interests in underlying Shares		
Names of Directors	Beneficial owner	Interests in a controlled corporation	Share options (Note 1)	Total	Approximate percentage of the total issued Shares (Note 2)
Mr. Lin Wan Tsang ("Mr. Lin")	392,546,000	268,000,000 (Note 3)	—	660,546,000	70.71%
Mr. Kwok Tak Wang	1,200,000	—	800,000	2,000,000	0.21%

Notes:

(1) These share options represent the awarded shares granted to the Directors under the Pre-IPO Share Option Scheme. Details of the Pre-IPO Share Option Scheme have been disclosed in the above section headed "Pre-IPO Share Option Scheme".

(2) These percentages have been complied based on the total number of issued Shares (i.e. 934,179,000 Shares) as at 31 December 2019.

(3) These Shares are held by Wellmass International Limited ("Wellmass"), which is wholly and beneficially owned by Mr. Lin.

(ii) Long positions in the underlying Shares of the convertible notes of the Company:

Name of the holder of the convertible notes	Principal amount of the convertible notes	Number of the total underlying Shares	Approximate percentage of the total issued Shares (Note 1)
Mr. Lin (Note 2)	271,825,440	251,690,222	26.94%

Notes:

1. These percentages have been complied based on the total number of issued Shares (i.e. 934,179,000 Shares) as at 31 December 2019.

2. These convertible notes were issued by the Company on 8 July 2015 as part of the consideration to the acquisition of Topspan Holdings Limited and its subsidiaries on 20 May 2015. They are unlisted, interest-free and convertible into the Shares at the conversion price of HK$1.08 per Share.

Save as disclosed above, none of the Directors or chief executive of the Company and/or any of their respective close associates had registered any interests or short positions in any Shares, underlying Shares in, and debentures of, the Company or any associated corporations as at 31 December 2019, as recorded in the register required to be kept by the Company pursuant to Section 352 of the SFO, or as otherwise notified to the Company and the Stock Exchange pursuant to Part XV of the SFO or the Model Code .

SUBSTANTIAL SHAREHOLDERS' AND OTHER PERSONS' INTERESTS AND SHORT POSITIONS IN SHARES AND UNDERLYING SHARES

As at 31 December 2019, the following persons (not being a Director or chief executive of the Company) had interests or short positions in the Shares or underlying Shares which fall to be disclosed to the Company under the provisions of Divisions 2 and 3 of Part XV of the SFO as recorded in the register required to be kept by the Company pursuant to Section 336 of the SFO:

(i) Long Position in the Shares

Name of shareholder	Capacity/Nature of interests	Number of Shares held	Approximate percentage of issued Shares (Note 1)
Wellmass (Note 2)	Beneficial owner	268,000,000	28.69%

Notes:

(1) These percentages have been complied based on the total number of issued Shares (i.e. 934,179,000 Shares) as at 31 December 2019.

(2) Wellmass is a company incorporated in the British Virgin Islands, and is solely and beneficially owned by Mr. Lin.

Save as disclosed above, as at 31 December 2019, no person, other than the Directors and chief executive of the Company, whose interests are set out in the section "Directors' and Chief Executive's Interests and Short Positions in Shares, Underlying Shares and Debentures" above, had registered an interest or short position in the Shares or underlying Shares that was required to be recorded pursuant to Section 336 of the SFO.

DIRECTORS' INTERESTS IN TRANSACTIONS, ARRANGEMENTS OR CONTRACTS

Save as disclosed in this report, no transactions, arrangements or contracts of significance to which the Company, its parent company, its subsidiaries or fellow subsidiaries were a party and in which a Director or his connected entities had a material interest, either directly or indirectly, subsisted at the end of the Reporting Period or at any time during the Reporting Period.

INDEPENDENCE OF INDEPENDENT NON-EXECUTIVE DIRECTORS

The Company has received from each of its independent non-executive Directors confirmation of independence, and the Company considers that each of them to be independent and has met the guidelines set out in Rule 3.13 of the Listing Rules.

INDEMNITY OF DIRECTORS

The Articles provide that the Directors shall be indemnified and secured harmless out of the assets of the Company from and against all actions, costs, charges, losses, damages and expenses. The Company has taken out insurance against the liabilities and costs associated with defending any proceedings which may be brought against the Directors.

DIRECTORS' INTEREST IN A COMPETING BUSINESS

As at 31 December 2019, the Directors were not aware of any business or interest of the Directors and their respective close associates that had competed or might compete with the business of the Group and any other conflicts of interests which any such person had or might have with the Group.

DIRECTORS' RIGHTS TO ACQUIRE SHARES OR DEBENTURES

Apart from the section headed "Directors' and Chief Executive's Interests and Short Positions in Shares, Underlying Shares and Debentures" above and "Pre-IPO Share Option Scheme" below, at no time during the Reporting Period were rights to acquire benefits by means of the acquisition of Shares in or debentures of the Company granted to any Director or their respective close associates nor was the Company, its parent company, or any of its subsidiaries or fellow subsidiaries a party to any arrangements to enable the Directors, or their respective close associates to acquire such rights in any other body corporate.

MODEL CODE FOR SECURITIES TRANSACTIONS BY DIRECTORS OF LISTED ISSUERS

The Company has adopted the Model Code as set out in Appendix 10 to the Listing Rules as its code of conduct regarding the Directors' securities transactions. All Directors have confirmed that, following specific enquiry by the Company, they have complied with the Model Code throughout the Reporting Period.

EQUITY-LINKED AGREEMENTS

Details of equity-linked agreements entered during the Reporting Period or subsisting at the end of the Reporting Period are set out below:

CONVERTIBLE NOTES

On 20 May 2015, the Group acquired 100% interest in the Topspan Holdings Limited and its subsidiaries from Mr. Lin Wan Tsang. The acquisition was made as part of the Group's strategy to allow the Group to capture downstream profit margins by gaining access to the downstream distribution channels. The purchase consideration aggregated to HK$900,000,000, of which HK$780,000,000 were settled by the issue of convertible notes by the Company. On 8 July 2015, the Company issued the HK$780,000,000 convertible notes (the "Convertible Notes").

Assuming that there is no change in share capital of the Company since 31 December 2019 and the conversion rights attached to the Convertible Notes are exercised in full, the number of issued shares of the Company will be increased by 251,690,222 (the "Conversion Shares"), representing approximately 26.94% of the issued share capital of the Company as at 31 December 2019 (i.e. 934,179,000 Shares) and approximately 21.22% of the issued share capital of the Company as enlarged by the allotment and issue of the Conversion Shares (i.e. 1,185,869,222 Shares).

Dilution effect of the conversion of Convertible Notes

Set out below is the dilution effect on equity interest of the substantial Shareholders upon the fully conversion of the outstanding Convertible Notes by Mr. Lin Wan Tsang, the chairman of the Board and the controlling shareholder of the Company.

Substantial Shareholders	As at 31 December 2019		Upon full conversion of Convertible Notes as at 31 December 2019	
	Number of Shares	Approximately % of issued Shares	Number of Shares	Approximately % of issued Shares
Mr. Lin Wan Tsang	392,546,000	42.02	644,236,222	54.33
Wellmass International Limited	268,000,000	28.69	268,000,000	22.60

The outstanding Convertible Notes would not be converted fully as it would result in the number of Shares which are in the hands of the public falling below 25% of the Company's issued shares.

Dilution impact on earnings per share

As calculated based on profit attributable to owners of the Company of approximately HK$39.2 million for the year ended 31 December 2019, basic and diluted earnings per share of the Company amounted to HK4.2 cents and HK3.3 cents, respectively.

The Company cannot redeem the Convertible Notes or part thereof at any time on or before the maturity date.

Based on the implied internal rate of returns of the Convertible Notes, the Company's share prices at the future dates at which it would be equally financially advantageous for the securities holders to convert were as follows:

Date	20 May 2020 *(HK$ per share)*
Share prices	1.08

Details of the convertible notes of the Company are set out in note 26 to the financial statements.

PRE-IPO SHARE OPTION SCHEME AND SHARE OPTION SCHEME

The Company conditionally adopted the Pre-IPO Share Option Scheme on 20 June 2013, which became effective on the Listing Date and options in respect of 17,490,000 Shares under the Pre-IPO Share Option Scheme had been granted on 21 June 2013. The Company also conditionally adopted a share option scheme on 20 June 2013 (the "Share Option Scheme"), which became effective on the Listing Date and no option had been granted by the Company up to the date of this report.

PRE-IPO SHARE OPTION SCHEME

The Group adopted the Pre-IPO Share Option Scheme on 20 June 2013 so as to recognize and motivate the contributions that certain executive and non-executive Directors, members of the senior management and other employees (the "Grantees") have made or may make to our Group.

Initially, options to subscribe for an aggregate of 17,490,000 Shares had been granted to the Grantees. The total number of securities available for issue under the Pre-IPO Share Option Scheme is 800,000 Shares, representing approximately 0.09% of the issued Shares as at the date of this annual report. No further options will be issued by the Company pursuant to the Pre-IPO Share Option Scheme. The exercise price per Share is HK$0.70, which is equivalent to 70% of the offering price per Share. All options granted under the Pre-IPO Share Option scheme on or before 20 June 2013 may be exercised in the following manner:

Exercise Period	Maximum percentage of options exercisable
Commencing on the first anniversary date of the Listing Date upon fulfillment of certain conditions and ending on the 10th anniversary date of the offer date (the "Expiration Date") (both dates inclusive)	30% of the total number of options granted to each of the Grantees
Commencing on the second anniversary date of the Listing Date upon fulfillment of certain conditions and ending on the Expiration Date (both dates inclusive)	30% of the total number of options granted to each of the Grantees
Commencing on the third anniversary date of the Listing Date upon fulfillment of certain conditions and ending on the Expiration Date (both dates inclusive)	40% of the total number of options granted to each of the Grantees

An option may be exercised in accordance with the terms of the Pre-IPO Share Option Scheme at any time during a period as the Board may determine which shall not exceed 10 years from the Listing Date subject to the provisions of early termination thereof. Each of the Grantees is required to pay HK$1.00 on acceptance of the options granted under the Pre-IPO Share Option Scheme.

Set out below is further information on the outstanding options granted under the Pre-IPO Share Option Scheme as at 31 December 2019:

	Number of share options							
Names of the Grantees	Outstanding as at 1 January 2019	Granted during the year	Exercised during the year	Lapsed during the year	Cancelled during the year	Outstanding as at 31 December 2019	Exercise price per Share HK$	Weighted average closing price of the Share before the date(s) of which shares options were exercised HK$
Director								
Kwok Tak Wang	800,000	–	–	–	–	800,000	0.7	–
Total	800,000	–	–	–	–	800,000		

Save as disclosed, no share options were granted, exercised, lapsed and cancelled under the Pre-IPO Share Option Scheme.

Share Option Scheme

The Company adopted the Share Option Scheme on 20 June 2013, which became effective on the Listing Date.

The Share Option Scheme is a share incentive scheme and is established to recognize and motivate the contributions that eligible participants have made or may make to the Group. The eligible participants include employees (whether full-time or part-time), directors of the Company or any subsidiary or any entity in which the Group holds at least 20% of its issued share capital (the "Invested Entity"), suppliers, customers, technological service providers, shareholders, consultants, joint venture or other business partners to any member of the Group or any Invested Entity. The eligible participants shall be determined by the Board from time to time on the basis of his contribution or potential contribution to the development and growth of our Group.

Subject to the terms and conditions of the Share Option Scheme, the maximum numbers of shares in respect of which options may be granted under the Share Option Scheme and any other schemes shall not, in aggregate, exceed 10% of the shares in issue as at the Listing Date (i.e. 40,000,000 Shares) unless approved by the shareholders of the Company. No option shall be granted to any eligible participant which, if exercised in full would result in the total number of the Shares issued and to be issued upon exercise of the options already granted or to be granted to such eligible participant under the Share Option Scheme and the Pre-IPO Share Option Scheme (including exercised, cancelled and outstanding share options) in any 12-month period up to and including the date of such grant exceeding 1% in aggregate of the Shares in issue as at the date of such grant. Any grant of further options above this limit shall be subject to the approval of the shareholders of the Company at general meeting.

The exercise price for any share option under the Share Option Scheme shall be a price determined by the Board and shall not be less than the highest of: (i) the closing price of the shares as stated in the Stock Exchange's daily quotations sheet on the offer date of the relevant option; (ii) an amount equivalent to the average closing price of the shares as stated in the Stock Exchange's daily quotations sheets for the five trading days immediately preceding the offer date of the relevant option; and (iii) the nominal value of a share on the offer date.

An option may be exercised in accordance with the terms of the Share Option Scheme at any time during a period as the Board may determine which shall not exceed 10 years from the offer date subject to the provisions of early termination thereof. A remittance of HK$1 is payable on acceptance of the grant of an option.

Subject to earlier termination by the Company in general meeting or by the Directors, the Share Option Scheme shall be valid and effective for a period of ten years from the date of adoption. The remaining life of the Share Option Scheme is three years. No share option has been granted under the Share Option Scheme and the total number of securities available for issue under the Share Option Scheme is 40,000,000 Shares, representing approximately 4.44% of the issued Shares as at the date of this report.

CONTINUING CONNECTED TRANSACTIONS

Certain related party transactions as disclosed in note 35 to the financial statements constitute continuing connected transactions as defined in Chapter 14A of the Listing Rules.

For the Reporting Period, the Group entered into various transactions which constituted continuing connected transactions under Chapter 14A of the Listing Rules. All the continuing connected transactions during the Reporting Period that need to be disclosed herein are in compliance with the Listing Rules. The actual monetary value of the continuing connected transactions of the Group for the Reporting Period is set out below:

Connected Person	Nature of Transaction	Time Periods	Actual monetary value for the year ended 31 December 2019 HK$'000
Mr. Lin Wan Tsang and his associates ("Mr. Lin's Group")			
Guangzhou Euro Asia Aerosol & Household Products Manufacture Co., Ltd.* (廣州歐亞氣霧劑與日化用品製造有限公司, "Guangzhou Euro Asia")	Sales of products	1 January 2019 - 31 December 2019	15,618
		Total	15,618
Precious Dragon Group			
Guangzhou Euro Asia	Sales of products	21 June 2019 - 31 December 2019	7,224
Guangzhou Botny Chemical Co., Ltd* (廣州保賜利化工有限公司, "Guangzhou Botny")	Sales of products	21 June 2019 - 31 December 2019	1,690
			8,914

* *For identification purpose only*

Further information on the transaction with Mr. Lin's Group is provided as follows:

Mr. Lin's Group is including, but not limited to Guangzhou Euro Asia.

On 31 July 2017, the Company and Mr. Lin entered into the new supply framework agreement (the "New Supply Framework Agreement"), pursuant to which the Group shall supply to Mr. Lin and his associates aluminum aerosol cans and car care service products from 1 August 2017 to 31 December 2019. The selling price was determined with reference to the costs of products (including with the logistic costs, taxes, insurance and other relevant costs) plus a profit margin, selling price offered to independent customers and of the same or comparable products in the market.

As set out in the announcement of the Company dated 31 July 2017, the annual caps under the New Supply Framework Agreement for the five months ended 31 December 2017 and the two financial years ending 31 December 2018 and 31 December 2019 were HK$15 million, HK$29 million and HK$32 million, respectively.

Mr. Lin is an executive Director, the chairman and a controlling shareholder of the Company, and therefore a connected person of the Company. The New Supply Framework Agreement constitutes a continuing connected transaction of the Company pursuant to Chapter 14A of the Listing Rules. The relevant percentage ratios under the Listing Rules for the annual caps are, on an annual basis, less than 5%. Accordingly, pursuant to Rule 14A.76(2) of the Listing Rules, the New Supply Framework Agreement is only subject to the reporting and announcement requirements but exempt from the independent shareholders ' approval requirements.

Further information on the transaction with Precious Dragon Group is provided as follows:

Precious Dragon Group is including, but not limited to Guangzhou Euro Asia and Guangzhou Botny.

On 17 April 2019, Hong Kong Aluminum Cans Limited ("Hong Kong Aluminum Cans", a wholly-owned subsidiary of the Company) and Precious Dragon entered into the master supply agreement (the "Master Supply Agreement"), pursuant to which the Group shall supply to Precious Dragon Group certain monobloc aluminum aerosol cans from 21 June 2019 to 31 December 2021. The selling price was determined with reference to the costs of products (including with the logistic costs, taxes, insurance and other relevant costs) plus a profit margin, selling price offered to independent customers and of the same or comparable products in the market.

As set out in the announcement of the Company dated 17 April 2019 and the circular of the Company dated 9 May 2019, the annual caps under the Master Supply Agreement for the period from 21 June 2019 to 31 December 2019 and the two financial years ending 31 December 2020 and 31 December 2021 were HK$25.1 million, HK$39.2 million and HK$47 million, respectively.

The Company spun-off and separately listed the shares of Precious Dragon on the Main Board of the Stock Exchange on 21 June 2019. After the completion of the Spin-off, Mr. Lin is also a controlling shareholder of Precious Dragon, and therefore Precious Dragon is a connected person of the Company. The Master Supply Agreement constitutes a continuing connected transaction of the Company pursuant to Chapter 14A of the Listing Rules. The highest applicable percentage ratio (other than the profits ratio) as defined under the Listing Rules for the Annual Caps exceeds 5%, the Master Supply Agreement is subject to the reporting, announcement, annual review, circular and independent shareholders' approval requirements.

The Company's auditor was engaged to report on the non-exempt continuing connected transactions (the "Transactions") and has issued a letter to the Board setting out the confirmation required under Rule 14A.56 of the Listing Rules and a copy of which has been provided by the Company to the Stock Exchange.

All independent non-executive Directors had reviewed the Transactions and confirmed that the Transactions for the Reporting Period were:

(i) in the ordinary and usual course of the Company's business;

(ii) on normal commercial terms or better to the Company; and

(iii) in accordance with the relevant agreements governing them on terms that are fair and reasonable and in the interests of the Company and its shareholders as a whole.

PUBLIC FLOAT

From information publicly available to the Company and within the knowledge of the Directors, at least 25% of the Company's total issued share capital was held by the public as at the date of this report.

FUTURE PROSPECTS AND DEVELOPMENT

Our management believes 2020 will be a difficult year for the Group due to (i) the uncertainty in the global economic environment; (ii) the soft landing of growth in consumable products and domestic demands in high-end personal care products in the PRC; (iii) the volatile fluctuation of RMB against USD; and (iv) the increasing competition from small-sized overseas aerosol can manufacturers.

Whatever the market fluctuations may bring, our Group remains optimistic about the outlook of the worldwide and domestic aerosol can manufacturing industry. Our Group will focus on developing sustainable manufacturing business while reinforcing its capabilities and strengths to provide our customers with stable, sustainable and more comprehensive service.

AUDITOR

Ernst & Young, the auditor of the Company, will retire at the conclusion of the forthcoming AGM of the Company and be eligible to offer itself for re-appointment. A resolution will be submitted to the AGM to be held on 15 May 2020 to seek shareholders' approval on the appointment of Ernst & Young as the Company's auditor until the conclusion of the next AGM and to authorize the Board to fix its remuneration.

By order of the Board
China Aluminum Cans Holdings Limited
中國鋁罐控股有限公司
Lin Wan Tsang
Chairman and executive Director

Hong Kong, 23 March 2020

EY 安永

Building a better working world

To the shareholders of China Aluminum Cans Holdings Limited
(Incorporated in the Cayman Islands with limited liability)

OPINION

We have audited the consolidated financial statements of China Aluminum Cans Holdings Limited (the "Company") and its subsidiaries (the "Group") set out on pages 66 to 135, which comprise the consolidated statement of financial position as at 31 December 2019, and the consolidated statement of profit or loss and other comprehensive income, the consolidated statement of changes in equity and the consolidated statement of cash flows for the year then ended, and notes to the consolidated financial statements, including a summary of significant accounting policies.

In our opinion, the consolidated financial statements give a true and fair view of the consolidated financial position of the Group as at 31 December 2019, and of its consolidated financial performance and its consolidated cash flows for the year then ended in accordance with International Financial Reporting Standards ("IFRSs") issued by the International Accounting Standards Board ("IASB") and have been properly prepared in compliance with the disclosure requirements of the Hong Kong Companies Ordinance.

BASIS FOR OPINION

We conducted our audit in accordance with Hong Kong Standards on Auditing ("HKSAs") issued by the Hong Kong Institute of Certified Public Accountants ("HKICPA"). Our responsibilities under those standards are further described in the Auditor's responsibilities for the audit of the consolidated financial statements section of our report. We are independent of the Group in accordance with the HKICPA's Code of Ethics for Professional Accountants (the "Code"), and we have fulfilled our other ethical responsibilities in accordance with the Code. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our opinion.

KEY AUDIT MATTERS

Key audit matters are those matters that, in our professional judgement, were of most significance in our audit of the consolidated financial statements of the current period. These matters were addressed in the context of our audit of the consolidated financial statements as a whole, and in forming our opinion thereon, and we do not provide a separate opinion on these matters. For each matter below, our description of how our audit addressed the matter is provided in that context.

We have fulfilled the responsibilities described in the Auditor's responsibilities for the audit of the consolidated financial statements section of our report, including in relation to these matters. Accordingly, our audit included the performance of procedures designed to respond to our assessment of the risks of material misstatement of the consolidated financial statements. The results of our audit procedures, including the procedures performed to address the matters below, provide the basis for our audit opinion on the accompanying consolidated financial statements.

KEY AUDIT MATTERS *(continued)*

Key audit matter	How our audit addressed the key audit matter
Impairment assessment of trade receivables	
Trade receivable balances amounted to HK$20,204,000 and represented approximately 5.75% of the total assets in the consolidated statement of financial position as at 31 December 2019. Assessment of the recoverability of trade receivables involves a high level of management judgement. During the year, management used a provision matrix to calculate expected credit losses ("ECL") for receivables. The matrix is initially based on the Group's historical default rates, and specific factors that management considered in the estimation of the rates including the type of customers, ageing of the balances and recent historical payment patterns. Management then calibrated the matrix to adjust the historical credit loss experience with forward-looking information, such as the existence of disputes and forecasted economic conditions. The relevant disclosures are contained in notes 9 and 20 to the financial statements.	We evaluated the design, implementation and operating effectiveness of key internal controls which govern credit control, debt collection and estimates of ECL. We assessed, on a sample basis, whether items in the trade receivable ageing report were classified with the appropriate ageing bracket by comparing individual items in the report with the relevant sales invoices. We assessed the adequacy of the ECL provision by evaluating the reasonableness of management's assumptions used in establishing the ECL provision matrix, by examining the information used by management to form such judgements, including testing the accuracy of historical default data and evaluating whether the historical loss rates were appropriately adjusted based on current economic conditions and forward-looking information, and by examining the actual losses recorded during the current financial year. We inspected cash receipts from customers after the financial year end relating to trade receivable balances as at 31 December 2019, on a sample basis.
Inventory provisions	
The Group had inventories of HK$32,049,000 as at 31 December 2019, which represented a significant balance. Significant management judgement was required to assess whether the carrying amount of these inventories was higher than the net realisable value. Judgements were also required in determining the damaged, slow-moving and obsolete inventories as they were based on forecasted inventory usage or sales. The relevant disclosures are contained in notes 9 and 19 to the financial statements.	We understood management's process of identifying the damaged, slow-moving and obsolete inventories and calculating the provisions. We assessed the provisions by comparing the ageing of inventories and the subsequent usage and sales of inventories. We recalculated the net realisable value of inventories to verify the adequacy of provisions. We also observed the status of inventories in stock-take to inspect obsolete and damaged inventories.

OTHER INFORMATION INCLUDED IN THE ANNUAL REPORT

The directors of the Company are responsible for the other information. The other information comprises the information included in the Annual Report, other than the consolidated financial statements and our auditor's report thereon.

Our opinion on the consolidated financial statements does not cover the other information and we do not express any form of assurance conclusion thereon.

In connection with our audit of the consolidated financial statements, our responsibility is to read the other information and, in doing so, consider whether the other information is materially inconsistent with the consolidated financial statements or our knowledge obtained in the audit or otherwise appears to be materially misstated. If, based on the work we have performed, we conclude that there is a material misstatement of this other information, we are required to report that fact. We have nothing to report in this regard.

RESPONSIBILITIES OF THE DIRECTORS FOR THE CONSOLIDATED FINANCIAL STATEMENTS

The directors of the Company are responsible for the preparation of the consolidated financial statements that give a true and fair view in accordance with IFRSs issued by the IASB and the disclosure requirements of the Hong Kong Companies Ordinance, and for such internal control as the directors determine is necessary to enable the preparation of consolidated financial statements that are free from material misstatement, whether due to fraud or error.

In preparing the consolidated financial statements, the directors of the Company are responsible for assessing the Group's ability to continue as a going concern, disclosing, as applicable, matters related to going concern and using the going concern basis of accounting unless the directors of the Company either intend to liquidate the Group or to cease operations or have no realistic alternative but to do so.

The directors of the Company are assisted by the Audit Committee in discharging their responsibilities for overseeing the Group's financial reporting process.

AUDITOR'S RESPONSIBILITIES FOR THE AUDIT OF THE CONSOLIDATED FINANCIAL STATEMENTS

Our objectives are to obtain reasonable assurance about whether the consolidated financial statements as a whole are free from material misstatement, whether due to fraud or error, and to issue an auditor's report that includes our opinion. Our report is made solely to you, as a body, and for no other purpose. We do not assume responsibility towards or accept liability to any other person for the contents of this report.

Reasonable assurance is a high level of assurance, but is not a guarantee that an audit conducted in accordance with HKSAs will always detect a material misstatement when it exists. Misstatements can arise from fraud or error and are considered material if, individually or in the aggregate, they could reasonably be expected to influence the economic decisions of users taken on the basis of these consolidated financial statements.

As part of an audit in accordance with HKSAs, we exercise professional judgement and maintain professional scepticism throughout the audit. We also:

- Identify and assess the risks of material misstatement of the consolidated financial statements, whether due to fraud or error, design and perform audit procedures responsive to those risks, and obtain audit evidence that is sufficient and appropriate to provide a basis for our opinion. The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control.

- Obtain an understanding of internal control relevant to the audit in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the Group's internal control.

AUDITOR'S RESPONSIBILITIES FOR THE AUDIT OF THE CONSOLIDATED FINANCIAL STATEMENTS *(continued)*

- Evaluate the appropriateness of accounting policies used and the reasonableness of accounting estimates and related disclosures made by the directors.

- Conclude on the appropriateness of the directors' use of the going concern basis of accounting and, based on the audit evidence obtained, whether a material uncertainty exists related to events or conditions that may cast significant doubt on the Group's ability to continue as a going concern. If we conclude that a material uncertainty exists, we are required to draw attention in our auditor's report to the related disclosures in the consolidated financial statements or, if such disclosures are inadequate, to modify our opinion. Our conclusions are based on the audit evidence obtained up to the date of our auditor's report. However, future events or conditions may cause the Group to cease to continue as a going concern.

- Evaluate the overall presentation, structure and content of the consolidated financial statements, including the disclosures, and whether the consolidated financial statements represent the underlying transactions and events in a manner that achieves fair presentation.

- Obtain sufficient appropriate audit evidence regarding the financial information of the entities or business activities within the Group to express an opinion on the consolidated financial statements. We are responsible for the direction, supervision and performance of the group audit. We remain solely responsible for our audit opinion.

We communicate with the Audit Committee regarding, among other matters, the planned scope and timing of the audit and significant audit findings, including any significant deficiencies in internal control that we identify during our audit.

We also provide the Audit Committee with a statement that we have complied with relevant ethical requirements regarding independence and to communicate with them all relationships and other matters that may reasonably be thought to bear on our independence, and where applicable, related safeguards.

From the matters communicated with the Audit Committee, we determine those matters that were of most significance in the audit of the consolidated financial statements of the current period and are therefore the key audit matters. We describe these matters in our auditor's report unless law or regulation precludes public disclosure about the matter or when, in extremely rare circumstances, we determine that a matter should not be communicated in our report because the adverse consequences of doing so would reasonably be expected to outweigh the public interest benefits of such communication.

The engagement partner on the audit resulting in this independent auditor's report is M.L. Chau.

Certified Public Accountants
22/F, CITIC Tower
1 Tim Mei Avenue
Central
Hong Kong

23 March 2020

CONSOLIDATED STATEMENT OF PROFIT OR LOSS AND OTHER COMPREHENSIVE INCOME

Year ended 31 December 2019

	Notes	2019 HK$'000	2018 HK$'000
CONTINUING OPERATIONS			
REVENUE	8	**205,962**	276,388
Cost of sales		**(134,264)**	(167,184)
Gross profit		**71,698**	109,204
Other income and gains	8	**12,418**	3,847
Selling and distribution expenses		**(9,707)**	(12,073)
Administrative expenses		**(24,371)**	(32,447)
Research and development expenses	9	**(13,324)**	(12,628)
Impairment losses on financial and contract assets	9	**(436)**	(655)
Other expenses		**(3,980)**	(6,549)
Finance costs	10	**(120)**	(179)
PROFIT BEFORE TAX FROM CONTINUING OPERATIONS	9	**32,178**	48,520
Income tax expenses	13	**(7,564)**	(10,395)
PROFIT FOR THE YEAR FROM CONTINUING OPERATIONS		**24,614**	38,125
DISCONTINUED OPERATION			
Profit for the year from a discontinued operation	14	**15,569**	47,297
PROFIT FOR THE YEAR		**40,183**	85,422
OTHER COMPREHENSIVE LOSS			
Other comprehensive loss that may be reclassified to profit or loss in subsequent periods:			
Exchange differences on translation of foreign operations		**(5,660)**	(34,739)
TOTAL COMPREHENSIVE INCOME FOR THE YEAR, NET OF TAX		**34,523**	50,683
Profit attributable to:			
Owners of the parent		**39,182**	79,473
Non-controlling interests		**1,001**	5,949
		40,183	85,422
Total comprehensive income attributable to:			
Owners of the parent		**33,615**	45,725
Non-controlling interests		**908**	4,958
		34,523	50,683
EARNINGS PER SHARE ATTRIBUTABLE TO ORDINARY EQUITY HOLDERS OF THE PARENT	16		
Basic			
– For profit for the year		**HK4.2 cents**	HK8.5 cents
– For profit from continuing operations		**HK2.6 cents**	HK4.0 cents
Diluted			
– For profit for the year		**HK3.3 cents**	HK6.7 cents
– For profit from continuing operations		**HK2.0 cents**	HK3.2 cents

31 December 2019

	Notes	31 December 2019 HK$'000	31 December 2018 HK$'000
NON-CURRENT ASSETS			
Property, plant and equipment	17	**224,409**	316,965
Prepaid land lease payments	18 (a)	**—**	69,603
Right-of-use assets	18 (b)	**12,959**	—
Deferred tax assets	28	**793**	2,478
Non-current prepayments	21	**634**	16,617
Total non-current assets		**238,795**	405,663
CURRENT ASSETS			
Inventories	19	**32,049**	88,773
Trade and bills receivables	20	**22,844**	69,737
Prepayments, deposits and other receivables	21	**5,885**	17,514
Pledged bank deposits	22	**—**	4,930
Cash and cash equivalents	22	**51,698**	228,149
Total current assets		**112,476**	409,103
CURRENT LIABILITIES			
Trade and bills payables	23	**4,304**	57,338
Other payables and accruals	24	**23,543**	64,423
Interest-bearing bank borrowings	25	**260**	8,392
Tax payable		**172**	2,712
Deferred income	27	**196**	986
Total current liabilities		**28,475**	133,851
NET CURRENT ASSETS		**84,001**	275,252
TOTAL ASSETS LESS CURRENT LIABILITIES		**322,796**	680,915
NON-CURRENT LIABILITIES			
Interest-bearing bank borrowings	25	**—**	75,000
Deferred tax liabilities	28	**2,069**	4,379
Deferred income	27	**1,792**	4,071
Total non-current liabilities		**3,861**	83,450
Net assets		**318,935**	597,465

	Notes	**31 December 2019 HK$'000**	31 December 2018 HK$'000
EQUITY			
Equity attributable to owners of the parent			
Share capital	29	**9,342**	9,342
Equity component of convertible notes	26	**271,826**	276,146
Reserves	31	**33,028**	299,163
		314,196	584,651
Non-controlling interests		**4,739**	12,814
Total equity		**318,935**	597,465

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Lin Wan Tsang
Director

....
Dong Jiangxiong
Director

	Attributable to owners of the parent											
	Share capital HK$'000 (note 29)	Share premium account HK$'000	Contributed surplus HK$'000	Merger reserve HK$'000	Share option reserve HK$'000 (note 30)	Equity component of convertible notes HK$'000 (note 26)	Reserve funds HK$'000 (note 31)	Exchange fluctuation reserve HK$'000	Retained profits HK$'000	Total HK$'000	Non-controlling interests HK$'000	Total equity HK$'000
At 1 January 2019	9,342	677,488	111,196	(962,722)	1,986	276,146	86,629	(22,754)	407,340	584,651	12,814	597,465
Profit for the year	–	–	–	–	–	–	–	–	39,182	39,182	1,001	40,183
Other comprehensive loss for the year:												
Exchange differences on translation of foreign operations	–	–	–	–	–	–	–	(5,568)	–	(5,568)	(92)	(5,660)
Total comprehensive income for the year	–	–	–	–	–	–	–	(5,568)	39,182	33,614	909	34,523
Distribution of the Precious Dragon Group	–	(16,221)	–	62,722	–	–	(46,950)	13,742	(272,593)	(259,300)	(8,159)	(267,459)
Shares repurchased and cancelled	(40)	–	–	–	–	–	–	–	(2,084)	(2,124)	–	(2,124)
Exercise of the conversion rights attached to the Convertible Notes	40	4,280	–	–	–	(4,320)	–	–	–	–	–	–
Share purchased	–	–	–	–	–	–	–	–	(18,253)	(18,253)	–	(18,253)
Transfer from retained profits	–	–	–	–	–	–	3,391	–	(3,391)	–	–	–
Dividends paid	–	(24,392)*	–	–	–	–	–	–	–	(24,392)	(825)	(25,217)
At 31 December 2019	9,342	641,155#	111,196#	(900,000)#	1,986#	271,826	43,070#	(14,580)#	150,201#	314,196	4,739	318,935

Notes:

These reserve accounts comprise the consolidated reserves of HK$33,028,000 as at 31 December 2019 (31 December 2018: consolidated reserves of HK$299,163,000) in the consolidated statement of financial position.

* The final dividends paid were approved by the Company's shareholders at the annual general meeting.

	Attributable to owners of the parent											
	Share capital HK$'000 (note 29)	Share premium account HK$'000	Contributed surplus HK$'000	Merger reserve HK$'000	Share option reserve HK$'000 (note 30)	Equity component of convertible notes HK$'000 (note 26)	Reserve funds HK$'000 (note 31)	Exchange fluctuation reserve HK$'000	Retained profits HK$'000	Total HK$'000	Non-controlling interests HK$'000	Total equity HK$'000
As previously reported	9,342	687,484	111,196	(889,089)	2,107	276,146	74,745	8,227	329,371	609,529	4,920	614,449
Effect of business combination under common control	–	–	–	16,367	–	–	1,323	2,767	9,057	29,514	3,113	32,627
At 1 January 2018 (Restated)	9,342	687,484	111,196	(872,722)	2,107	276,146	76,068	10,994	338,428	639,043	8,033	647,076
Profit for the year	–	–	–	–	–	–	–	–	79,473	79,473	5,949	85,422
Other comprehensive loss for the year:												
Exchange differences on translation of foreign operations	–	–	–	–	–	–	–	(33,748)	–	(33,748)	(991)	(34,739)
Total comprehensive income for the year	–	–	–	–	–	–	–	(33,748)	79,473	45,725	4,958	50,683
Consideration paid for business combination under common control	–	–	–	(90,000)	–	–	–	–	–	(90,000)	–	(90,000)
Transfer from retained profits	–	–	–	–	–	–	10,561	–	(10,561)	–	–	–
Equity-settled share option arrangements	–	–	–	–	(121)	–	–	–	–	(121)	–	(121)
Dividends paid	–	(9,996) *	–	–	–	–	–	–	–	(9,996)	(177)	(10,173)
At 31 December 2018	9,342	677,488#	111,196#	(962,722)#	1,986#	276,146	86,629#	(22,754)#	407,340#	584,651	12,814	597,465

	Notes	2019 HK$'000	2018 HK$'000
CASH FLOWS FROM OPERATING ACTIVITIES			
Profit before tax			
From continuing operations		**32,178**	48,520
From a discontinued operation	14	**23,490**	61,960
Adjustments for:			
Finance costs	10,14	**1,806**	2,214
Bank interest income		**(1,045)**	(606)
Loss on disposal of items of property, plant and equipment		**1,057**	332
Share option expense	30	**—**	(121)
Depreciation of items of property, plant and equipment	17	**29,075**	37,965
Depreciation of right-of-use assets/recognition of prepaid land lease payments	18	**1,177**	1,987
Write-down of inventories to net realisable value		**1,470**	812
Impairment losses on financial assets		**2,095**	1,425
		91,303	154,488
Decrease/(increase) in inventories		**(15,208)**	5,515
Decrease/(increase) in trade and bills receivables		**24,831**	(339)
Decrease/(increase) in prepayments, deposits and other receivables		**(1,572)**	1,635
Decrease/(increase) in amounts due from related parties		**(194)**	21,151
Increase in an amount due from a director		**(11)**	—
Decrease in trade and bills payables		**(10,907)**	(7,057)
Decrease in deposits received, other payables and accruals		**(2,221)**	(3,973)
Increase/(decrease) in amounts due to related parties		**2,190**	(1,495)
Increase in an amount due to a director		**39**	—
Increase/(decrease) in deferred income		**(908)**	1,739
Cash generated from operations		**87,342**	171,664
Withholding tax paid		**(5,778)**	(3,072)
PRC corporate income tax paid		**(9,779)**	(21,175)
Net cash flows from operating activities		**71,785**	147,417

Year ended 31 December 2019

	Notes	2019 HK$'000	2018 HK$'000
CASH FLOWS FROM INVESTING ACTIVITIES			
Purchases of items of property, plant and equipment		**(30,083)**	(52,220)
Proceeds from disposal of items of property, plant and equipment		**835**	433
Decrease in restricted short-term deposits		**600**	3,248
Interest received from the bank		**1,045**	606
Acquisition of a subsidiary		**—**	(90,000)
Net cash flows used in investing activities		**(27,603)**	(137,933)
CASH FLOWS FROM FINANCING ACTIVITIES			
Shares repurchased		**(18,253)**	—
Shares repurchased and cancelled		**(2,124)**	—
New bank loans		**15,000**	98,392
Repayment of bank loans		**(53,392)**	(18,730)
Interest paid		**(1,806)**	(2,214)
Dividends paid to owners of the parent		**(24,392)**	(9,996)
Dividends paid to non-controlling interests		**(825)**	(160)
Distribution of the Precious Dragon Group	32	**(133,744)**	—
Net cash flows from/(used in) financing activities		**(219,536)**	67,292
NET INCREASE/(DECREASE) IN CASH AND CASH EQUIVALENTS		**(175,354)**	76,776
Exchange realignment		**(1,097)**	(13,560)
Cash and cash equivalents at beginning of year		**228,149**	164,933
CASH AND CASH EQUIVALENTS AT END OF YEAR	22	**51,698**	228,149
ANALYSIS OF BALANCES OF CASH AND CASH EQUIVALENTS			
Cash and bank balances	22	**51,698**	233,079
Pledged bank deposits		**—**	(4,930)
Cash and cash equivalents as stated in the consolidated statement of cash flows		**51,698**	228,149

1. CORPORATE AND GROUP INFORMATION

China Aluminum Cans Holding Limited is a limited liability company incorporated in the Cayman Islands. The registered office address of the Company is Clifton House, 75 Fort Street, P.O. Box 1350, Grand Cayman KY1-1108, Cayman Islands.

During the year, the Group was involved in the following principal activities:

- manufacture and sale of aluminum aerosol cans; and

- content filling of aerosol cans and production and sale of aerosol and non-aerosol products (discontinued during the year ended 31 December 2019 (note 14)).

In the opinion of the directors (the "Directors"), as at the date of these financial statements, the immediate holding company and ultimate holding company of the Company is Wellmass International Limited ("Wellmass"), a company incorporated in the British Virgin Islands (the "BVI").

Information about subsidiaries

Particulars of the Company's subsidiaries are as follows:

Company name	Place of incorporation/ registration and business	Issued capital	Percentage of equity attributable to the Company		Principal activities
			Direct %	Indirect %	
Euro Asia Investments Global Limited	BVI	US$1	100	—	Investment holding
Hong Kong Aluminum Cans Limited	Hong Kong	HK$1,001	—	100	Trading of aluminum aerosol cans
Euro Asia Packaging (Hong Kong) Co. Limited	Hong Kong	HK$1,000,000	—	100	Trading of aluminum aerosol cans
Euro Asia Packaging (Guangdong) Co., Ltd. ("Euro Asia Packaging") (廣東歐亞包裝有限公司) *	Mainland China	RMB125,000,000	—	98.6	Manufacture and sale of aluminum aerosol cans
European Asia Group Company Limited	Hong Kong	HK$1,500,000	—	98.6	Trading of aluminum aerosol cans

- Euro Asia Packaging is registered as a non-wholly-foreign-owned enterprise under PRC law

2. BASIS OF PREPARATION

These financial statements have been prepared in accordance with International Financial Reporting Standards ("IFRSs") (which include all International Financial Reporting Standards, International Accounting Standards ("IASs") and Interpretations) issued by the International Accounting Standards Board (the "IASB"), and the disclosure requirements of the Hong Kong Companies Ordinance. They have been prepared under the historical cost convention, except for derivative financial instruments which have been measured at fair value. These financial statements are presented in Hong Kong dollars ("HK$") and all values are rounded to the nearest thousand except when otherwise indicated.

Basis of consolidation

The consolidated financial statements include the financial statements of the Company and its subsidiaries (collectively referred to as the "Group") for the year ended 31 December 2019. A subsidiary is an entity (including a structured entity), directly or indirectly, controlled by the Company. Control is achieved when the Group is exposed, or has rights, to variable returns from its involvement with the investee and has the ability to affect those returns through its power over the investee (i.e., existing rights that give the Group the current ability to direct the relevant activities of the investee).

When the Company has, directly or indirectly, less than a majority of the voting or similar rights of an investee, the Group considers all relevant facts and circumstances in assessing whether it has power over an investee, including:

(a) the contractual arrangement with the other vote holders of the investee;

(b) rights arising from other contractual arrangements; and

(c) the Group's voting rights and potential voting rights.

The financial statements of the subsidiaries are prepared for the same reporting period as the Company, using consistent accounting policies. The results of subsidiaries are consolidated from the date on which the Group obtains control, and continue to be consolidated until the date that such control ceases.

Profit or loss and each component of other comprehensive income are attributed to the owners of the parent of the Group and to the non-controlling interests, even if this results in the non-controlling interests having a deficit balance. All intra-group assets and liabilities, equity, income, expenses and cash flows relating to transactions between members of the Group are eliminated in full on consolidation.

The Group reassesses whether or not it controls an investee if facts and circumstances indicate that there are changes to one or more of the three elements of control described above. A change in the ownership interest of a subsidiary, without a loss of control, is accounted for as an equity transaction.

If the Group loses control over a subsidiary, it derecognises (i) the assets (including goodwill) and liabilities of the subsidiary, (ii) the carrying amount of any non-controlling interest and (iii) the cumulative translation differences recorded in equity; and recognises (i) the fair value of the consideration received, (ii) the fair value of any investment retained and (iii) any resulting surplus or deficit in profit or loss. The Group's share of components previously recognised in other comprehensive income is reclassified to profit or loss or retained profits, as appropriate, on the same basis as would be required if the Group had directly disposed of the related assets or liabilities.

3. CHANGES IN ACCOUNTING POLICIES AND DISCLOSURES

The Group has adopted the following new and revised IFRSs for the first time for the current year's financial statements.

Amendments to IFRS 9	*Prepayment Features with Negative Compensation*
IFRS 16	*Leases*
Amendments to IAS 19	*Plan Amendment, Curtailment or Settlement*
Amendments to IAS 28	*Long-term Interests in Associates and Joint Ventures*
IFRIC 23	*Uncertainty over Income Tax Treatments*
Annual Improvements to IFRSs 2015-2017 Cycle	Amendments to IFRS 3, IFRS 11, IAS 12 and IAS 23

Except for the amendments to IFRS 9, IAS 19 and IAS 28, and *Annual Improvements to IFRSs 2015-2017 Cycle*, which are not relevant to the preparation of the Group's financial statements, the nature and the impact of the new and revised IFRSs are described below:

(a) IFRS 16 replaces IAS 17 *Leases*, IFRIC 4 *Determining whether an Arrangement contains a Lease*, SIC 15 *Operating Leases - Incentives* and SIC 27 *Evaluating the Substance of Transactions Involving the Legal Form of a Lease*. The standard sets out the principles for the recognition, measurement, presentation and disclosure of leases and requires lessees to account for all leases under a single on-balance sheet model to recognise and measure right-of-use assets and lease liabilities, except for certain recognition exemptions. Lessor accounting under IFRS 16 is substantially unchanged from IAS 17. Lessors continue to classify leases as either operating or finance leases using similar principles as in IAS 17.

The Group has adopted IFRS 16 using the modified retrospective method with the date of initial application of 1 January 2019. Under this method, the standard has been applied retrospectively with the cumulative effect of initial adoption recognised as an adjustment to the opening balance of retained profits at 1 January 2019, and the comparative information for 2018 was not restated and continued to be reported under IAS 17 and related interpretations.

New definition of a lease

Under IFRS 16, a contract is, or contains, a lease if the contract conveys a right to control the use of an identified asset for a period of time in exchange for consideration. Control is conveyed where the customer has both the right to obtain substantially all of the economic benefits from use of the identified asset and the right to direct the use of the identified asset. The Group elected to use the transition practical expedient allowing the standard to be applied only to contracts that were previously identified as leases applying IAS 17 and IFRIC 4 at the date of initial application. Contracts that were not identified as leases under IAS 17 and IFRIC 4 were not reassessed. Therefore, the definition of a lease under IFRS 16 has been applied only to contracts entered into or changed on or after 1 January 2019.

As a lessee – Leases previously classified as operating leases

Nature of the effect of adoption of IFRS 16

The Group has lease contracts for various items of property and motor vehicles. As a lessee, the Group previously classified leases as either finance leases or operating leases based on the assessment of whether the lease transferred substantially all the rewards and risks of ownership of assets to the Group. Under IFRS 16, the Group applies a single approach to recognise and measure right-of-use assets and lease liabilities for all leases, except for two elective exemptions for leases of low-value assets (elected on a lease-by-lease basis) and leases with a lease term of 12 months or less ("short-term leases") (elected by class of underlying asset). Instead of recognising rental expenses under operating leases on a straight-line basis over the lease term commencing from 1 January 2019, the Group recognises depreciation (and impairment, if any) of the right-of-use assets and interest accrued on the outstanding lease liabilities (as finance costs).

3. CHANGES IN ACCOUNTING POLICIES AND DISCLOSURES *(continued)*

(a) *(continued)*

As a lessee – Leases previously classified as operating leases *(continued)*

Impact on transition

Lease liabilities at 1 January 2019 were recognised based on the present value of the remaining lease payments, discounted using the incremental borrowing rate at 1 January 2019 and included in interest-bearing bank and other borrowings. The right-of-use assets were measured at the amount of the lease liability, adjusted by the amount of any prepaid or accrued lease payments relating to the lease recognised in the statement of financial position immediately before 1 January 2019.

The Group has used the following elective practical expedient when applying IFRS 16 at 1 January 2019:

- Applying the short-term lease exemptions to leases with a lease term that ends within 12 months from the date of initial application
- Using hindsight in determining the lease term where the contract contains options to extend/terminate the lease

Financial impact at 1 January 2019

Accordingly, the Group recognised right-of-use assets of HK$563,000 and lease liabilities of HK$563,000 as at 1 January 2019.

The lease liabilities as at 1 January 2019 reconciled to the operating lease commitments as at 31 December 2018 are as follows:

	HK$'000
Operating lease commitments as at 31 December 2018	1,131
Less: Distribution of the Precious Dragon Group	(446)
Less: Commitments relating to short-term leases and those leases with a remaining lease term ended on or before 31 December 2019	(104)
Add: Payments for optional extension periods not recognised as at 31 December 2018	57
	638
Weighted average incremental borrowing rate as at 1 January 2019	4.75%~5.125%
Discounted operating lease commitments as at 1 January 2019	563
Add: Finance lease liabilities recognised as at 31 December 2018	—
Lease liabilities as at 1 January 2019	563

(b) IFRIC 23 addresses the accounting for income taxes (current and deferred) when tax treatments involve uncertainty that affects the application of IAS 12 (often referred to as "uncertain tax positions"). The interpretation does not apply to taxes or levies outside the scope of IAS 12, nor does it specifically include requirements relating to interest and penalties associated with uncertain tax treatments. The interpretation specifically addresses (i) whether an entity considers uncertain tax treatments separately; (ii) the assumptions an entity makes about the examination of tax treatments by taxation authorities; (iii) how an entity determines taxable profits or tax losses, tax bases, unused tax losses, unused tax credits and tax rates; and (iv) how an entity considers changes in facts and circumstances. Upon adoption of the interpretation, the Group considered whether it has any uncertain tax positions arising from the transfer pricing on its intergroup sales. Based on the Group's tax compliance and transfer pricing study, the Group determined that it is probable that its transfer pricing policy will be accepted by the tax authorities. Accordingly, the interpretation did not have any impact on the financial position or performance of the Group.

4. ISSUED BUT NOT YET EFFECTIVE INTERNATIONAL FINANCIAL REPORTING STANDARDS

The Group has not applied the following new and revised IFRSs, which have been issued but are not yet effective, in these financial statements.

Amendments to IFRS 3	*Definition of a Business*[1]
Amendments to IAS 1 and IAS 8	*Definition of Material*[1]

1 Effective for annual periods beginning on or after 1 January 2020

Further information about those IFRSs that are expected to be applicable to the Group is described below.

Amendments to IFRS 3 clarify and provide additional guidance on the definition of a business. The amendments clarify that for an integrated set of activities and assets to be considered a business, it must include, at a minimum, an input and a substantive process that together significantly contribute to the ability to create output. A business can exist without including all of the inputs and processes needed to create outputs. The amendments remove the assessment of whether market participants are capable of acquiring the business and continue to produce outputs. Instead, the focus is on whether acquired inputs and acquired substantive processes together significantly contribute to the ability to create outputs. The amendments have also narrowed the definition of outputs to focus on goods or services provided to customers, investment income or other income from ordinary activities. Furthermore, the amendments provide guidance to assess whether an acquired process is substantive and introduce an optional fair value concentration test to permit a simplified assessment of whether an acquired set of activities and assets is not a business. The Group expects to adopt the amendments prospectively from 1 January 2020. Since the amendments apply prospectively to transactions or other events that occur on or after the date of first application, the Group will not be affected by these amendments on the date of transition.

Amendments to IAS 1 and IAS 8 provide a new definition of material. The new definition states that information is material if omitting, misstating or obscuring it could reasonably be expected to influence decisions that the primary users of general purpose financial statements make on the basis of those financial statements. The amendments clarify that materiality will depend on the nature or magnitude of information. A misstatement of information is material if it could reasonably be expected to influence decisions made by the primary users. The Group expects to adopt the amendments prospectively from 1 January 2020. The amendments are not expected to have any significant impact on the Group's financial statements.

5. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Fair value measurement

The Group measures its derivative financial instruments at fair value at the end of each reporting period. Fair value is the price that would be received to sell an asset or paid to transfer a liability in an orderly transaction between market participants at the measurement date. The fair value measurement is based on the presumption that the transaction to sell the asset or transfer the liability takes place either in the principal market for the asset or liability, or in the absence of a principal market, in the most advantageous market for the asset or liability. The principal or the most advantageous market must be accessible by the Group. The fair value of an asset or a liability is measured using the assumptions that market participants would use when pricing the asset or liability, assuming that market participants act in their economic best interest.

A fair value measurement of a non-financial asset takes into account a market participant's ability to generate economic benefits by using the asset in its highest and best use or by selling it to another market participant that would use the asset in its highest and best use.

The Group uses valuation techniques that are appropriate in the circumstances and for which sufficient data are available to measure fair value, maximising the use of relevant observable inputs and minimising the use of unobservable inputs.

All assets and liabilities for which fair value is measured or disclosed in the financial statements are categorised within the fair value hierarchy, described as follows, based on the lowest level input that is significant to the fair value measurement as a whole:

Level 1 – based on quoted prices (unadjusted) in active markets for identical assets or liabilities

Level 2 – based on valuation techniques for which the lowest level input that is significant to the fair value measurement is observable, either directly or indirectly

Level 3 – based on valuation techniques for which the lowest level input that is significant to the fair value measurement is unobservable

For assets and liabilities that are recognised in the financial statements on a recurring basis, the Group determines whether transfers have occurred between levels in the hierarchy by reassessing categorisation (based on the lowest level input that is significant to the fair value measurement as a whole) at the end of each reporting period.

5. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES *(continued)*

Impairment of non-financial assets

Where an indication of impairment exists, or when annual impairment testing for an asset is required (other than inventories, contract assets, deferred tax assets and financial assets), the asset's recoverable amount is estimated. An asset's recoverable amount is the higher of the asset's or cash-generating unit's value in use and its fair value less costs of disposal, and is determined for an individual asset, unless the asset does not generate cash inflows that are largely independent of those from other assets or groups of assets, in which case the recoverable amount is determined for the cash-generating unit to which the asset belongs.

An impairment loss is recognised only if the carrying amount of an asset exceeds its recoverable amount. In assessing value in use, the estimated future cash flows are discounted to their present value using a pre-tax discount rate that reflects current market assessments of the time value of money and the risks specific to the asset. An impairment loss is charged to profit or loss in the period in which it arises in those expense categories consistent with the function of the impaired asset.

An assessment is made at the end of each reporting period as to whether there is an indication that previously recognised impairment losses may no longer exist or may have decreased. If such an indication exists, the recoverable amount is estimated. A previously recognised impairment loss of an asset other than goodwill is reversed only if there has been a change in the estimates used to determine the recoverable amount of that asset, but not to an amount higher than the carrying amount that would have been determined (net of any depreciation/amortisation) had no impairment loss been recognised for the asset in prior years. A reversal of such an impairment loss is credited to profit or loss in the period in which it arises.

Related parties

A party is considered to be related to the Group if:

(a) the party is a person or a close member of that person's family and that person

- (i) has control or joint control over the Group;
- (ii) has significant influence over the Group; or
- (iii) is a member of the key management personnel of the Group or of a parent of the Group;

or

(b) the party is an entity where any of the following conditions applies:

- (i) the entity and the Group are members of the same group;
- (ii) one entity is an associate or joint venture of the Group (or of a parent, subsidiary or fellow subsidiary of the other entity);
- (iii) the entity and the Group are joint ventures of the same third party;
- (iv) one entity is a joint venture of a third entity and the other entity is an associate of the third entity;
- (v) the entity is a post-employment benefit plan for the benefit of employees of either the Group or an entity related to the Group;
- (vi) the entity is controlled or jointly controlled by a person identified in (a);
- (vii) a person identified in (a)(i) has significant influence over the entity or is a member of the key management personnel of the entity (or of a parent of the entity); and
- (viii) the entity, or any member of a group of which it is a part, provides key management personnel services to the Group or to the parent of the Group.

5. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES *(continued)*

Property, plant and equipment and depreciation

Property, plant and equipment, other than construction in progress, are stated at cost less accumulated depreciation and any impairment losses. The cost of an item of property, plant and equipment comprises its purchase price and any directly attributable costs of bringing the asset to its working condition and location for its intended use.

Cost may also include transfers from equity of any gains or losses on qualifying cash flow hedges of foreign currency purchases of property, plant and equipment.

Expenditure incurred after items of property, plant and equipment have been put into operation, such as repairs and maintenance, is normally charged to profit or loss in the period in which it is incurred. In situations where the recognition criteria are satisfied, the expenditure for a major inspection is capitalised in the carrying amount of that asset as a replacement. Where significant parts of property, plant and equipment are required to be replaced at intervals, the Group recognises such parts as individual assets with specific useful lives and depreciates them accordingly.

Valuations are performed frequently enough to ensure that the fair value of a revalued asset does not differ materially from its carrying amount. Changes in the values of property, plant and equipment are dealt with as movements in the asset revaluation reserve. If the total of this reserve is insufficient to cover a deficit, on an individual asset basis, the excess of the deficit is charged to profit or loss. Any subsequent revaluation surplus is credited to profit or loss to the extent of the deficit previously charged. An annual transfer from the asset revaluation reserve to retained profits is made for the difference between the depreciation based on the revalued carrying amount of an asset and the depreciation based on the asset's original cost. On disposal of a revalued asset, the relevant portion of the asset revaluation reserve realised in respect of previous valuations is transferred to retained profits as a movement in reserves.

Depreciation is calculated on the straight-line basis to write off the cost of each item of property, plant and equipment to its residual value over its estimated useful life. The principal annual rates used for this purpose are as follows:

Buildings	4.5%
Plant and machinery	4.5%-9%
Office and other equipment	18%
Motor vehicles	18%

Where parts of an item of property, plant and equipment have different useful lives, the cost of that item is allocated on a reasonable basis among the parts and each part is depreciated separately. Residual values, useful lives and the depreciation method are reviewed, and adjusted if appropriate, at least at each financial year end.

An item of property, plant and equipment including any significant part initially recognised is derecognised upon disposal or when no future economic benefits are expected from its use or disposal. Any gain or loss on disposal or retirement recognised in profit or loss in the year the asset is derecognised is the difference between the net sales proceeds and the carrying amount of the relevant asset.

Construction in progress represents plant and machinery under construction, which are stated at cost less any impairment losses, and are not depreciated. Cost comprises the direct costs of construction and capitalised borrowing costs on related borrowed funds during the period of construction. Construction in progress is reclassified to the appropriate category of property, plant and equipment when completed and ready for use.

5. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES *(continued)*

Leases (applicable from 1 January 2019)

The Group assesses at contract inception whether a contract is, or contains, a lease. A contract is, or contains, a lease if the contract conveys the right to control the use of an identified asset for a period of time in exchange for consideration.

Group as a lessee

The Group applies a single recognition and measurement approach for all leases, except for short-term leases and leases of low-value assets. The Group recognises lease liabilities to make lease payments and right-of-use assets representing the right to use the underlying assets.

(a) Right-of-use assets

Right-of-use assets are recognised at the commencement date of the lease (that is the date the underlying asset is available for use). Right-of-use assets are measured at cost, less any accumulated depreciation and any impairment losses, and adjusted for any remeasurement of lease liabilities. The cost of right-of-use assets includes the amount of lease liabilities recognised, initial direct costs incurred, and lease payments made at or before the commencement date less any lease incentives received. Right-of-use assets are depreciated on a straight-line basis over the shorter of the lease terms and the estimated useful lives of the assets as follows:

Leasehold land	50 years
Buildings	1.5 to 2 years

If ownership of the leased asset transfers to the Group by the end of the lease term or the cost reflects the exercise of a purchase option, depreciation is calculated using the estimated useful life of the asset.

(b) Lease liabilities

Lease liabilities are recognised at the commencement date of the lease at the present value of lease payments to be made over the lease term. The lease payments include fixed payments (including in substance fixed payments) less any lease incentives receivable, variable lease payments that depend on an index or a rate, and amounts expected to be paid under residual value guarantees. The lease payments also include the exercise price of a purchase option reasonably certain to be exercised by the Group and payments of penalties for termination of a lease, if the lease term reflects the Group exercising the option to terminate. The variable lease payments that do not depend on an index or a rate are recognised as an expense in the period in which the event or condition that triggers the payment occurs.

In calculating the present value of lease payments, the Group uses its incremental borrowing rate at the lease commencement date because the interest rate implicit in the lease is not readily determinable. After the commencement date, the amount of lease liabilities is increased to reflect the accretion of interest and reduced for the lease payments made. In addition, the carrying amount of lease liabilities is remeasured if there is a modification, a change in the lease term, a change in lease payments (e.g., a change to future lease payments resulting from a change in an index or rate) or a change in assessment of an option to purchase the underlying asset.

The Group's lease liabilities are included in interest-bearing bank and other borrowings.

5. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES *(continued)*

Leases (applicable from 1 January 2019) *(continued)*

Group as a lessee *(continued)*

(c) Short-term leases and leases of low-value assets

The Group applies the short-term lease recognition exemption to its short-term leases of machinery and equipment (that is those leases that have a lease term of 12 months or less from the commencement date and do not contain a purchase option). It also applies the recognition exemption for leases of low-value assets such as leases of office equipment and laptop computers that are considered to be of low value.

Lease payments on short-term leases and leases of low-value assets are recognised as an expense on a straight-line basis over the lease term.

Leases (applicable before 1 January 2019)

Leases that transfer substantially all the rewards and risks of ownership of assets to the Group, other than legal title, are accounted for as finance leases. At the inception of a finance lease, the cost of the leased asset is capitalised at the present value of the minimum lease payments and recorded together with the obligation, excluding the interest element, to reflect the purchase and financing. Assets held under capitalised finance leases are included in property, plant and equipment, and depreciated over the shorter of the lease terms and the estimated useful lives of the assets. The finance costs of such leases are charged to profit or loss so as to provide a constant periodic rate of charge over the lease terms.

Assets acquired through hire purchase contracts of a financing nature are accounted for as finance leases, but are depreciated over their estimated useful lives.

Leases where substantially all the rewards and risks of ownership of assets remain with the lessor are accounted for as operating leases. Where the Group is the lessor, assets leased by the Group under operating leases are included in non-current assets, and rentals receivable under the operating leases are credited to profit or loss on the straight-line basis over the lease terms. Where the Group is the lessee, rentals payable under operating leases net of any incentives received from the lessor are charged to profit or loss on the straight-line basis over the lease terms.

Prepaid land lease payments under operating leases are initially stated at cost and subsequently recognised on the straight-line basis over the lease terms.

5. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES *(continued)*

Investments and other financial assets

Initial recognition and measurement

Financial assets are classified, at initial recognition, as subsequently measured at amortised cost, fair value through other comprehensive income, and fair value through profit or loss.

The classification of financial assets at initial recognition depends on the financial asset's contractual cash flow characteristics and the Group's business model for managing them. With the exception of trade receivables that do not contain a significant financing component or for which the Group has applied the practical expedient of not adjusting the effect of a significant financing component, the Group initially measures a financial asset at its fair value, plus in the case of a financial asset not at fair value through profit or loss, transaction costs. Trade receivables that do not contain a significant financing component or for which the Group has applied the practical expedient are measured at the transaction price determined under IFRS 15 in accordance with the policies set out for "Revenue recognition" below.

In order for a financial asset to be classified and measured at amortised cost or fair value through other comprehensive income, it needs to give rise to cash flows that are solely payments of principal and interest ("SPPI") on the principal amount outstanding. Financial assets with cash flows that are not SPPI are classified and measured at fair value through profit or loss, irrespective of the business model.

The Group's business model for managing financial assets refers to how it manages its financial assets in order to generate cash flows. The business model determines whether cash flows will result from collecting contractual cash flows, selling the financial assets, or both. Financial assets classified and measured at amortised cost are held within a business model with the objective to hold financial assets in order to collect contractual cash flows, while financial assets classified and measured at fair value through other comprehensive income are held within a business model with the objective of both holding to collect contractual cash flows and selling. Financial assets which are not held within the aforementioned business models are classified and measured at fair value through profit or loss.

All regular way purchases and sales of financial assets are recognised on the trade date, that is, the date that the Group commits to purchase or sell the asset. Regular way purchases or sales are purchases or sales of financial assets that require delivery of assets within the period generally established by regulation or convention in the marketplace.

Subsequent measurement

The subsequent measurement of financial assets depends on their classification as follows:

Financial assets at amortised cost (debt instruments)

Financial assets at amortised cost are subsequently measured using the effective interest method and are subject to impairment. Gains and losses are recognised in profit or loss when the asset is derecognised, modified or impaired.

Financial assets at fair value through other comprehensive income (debt instruments)

For debt investments at fair value through other comprehensive income, interest income, foreign exchange revaluation and impairment losses or reversals are recognised in profit or loss and computed in the same manner as for financial assets measured at amortised cost. The remaining fair value changes are recognised in other comprehensive income. Upon derecognition, the cumulative fair value change recognised in other comprehensive income is recycled to profit or loss.

5. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES *(continued)*

Investments and other financial assets *(continued)*

Financial assets designated at fair value through other comprehensive income (equity investments)

Upon initial recognition, the Group can elect to classify irrevocably its equity investments as equity investments designated at fair value through other comprehensive income when they meet the definition of equity under IAS 32 *Financial Instruments: Presentation* and are not held for trading. The classification is determined on an instrument-by-instrument basis.

Gains and losses on these financial assets are never recycled to profit or loss. Dividends are recognised as other income in profit or loss when the right of payment has been established, it is probable that the economic benefits associated with the dividend will flow to the Group and the amount of the dividend can be measured reliably, except when the Group benefits from such proceeds as a recovery of part of the cost of the financial asset, in which case, such gains are recorded in other comprehensive income. Equity investments designated at fair value through other comprehensive income are not subject to impairment assessment.

Financial assets at fair value through profit or loss

Financial assets at fair value through profit or loss are carried in the statement of financial position at fair value with net changes in fair value recognised in profit or loss.

This category includes derivative instruments and equity investments which the Group had not irrevocably elected to classify at fair value through other comprehensive income. Dividends on equity investments classified as financial assets at fair value through profit or loss are also recognised as other income in the statement of profit or loss and other comprehensive income when the right of payment has been established, it is probable that the economic benefits associated with the dividend will flow to the Group and the amount of the dividend can be measured reliably.

A derivative embedded in a hybrid contract, with a financial liability or non-financial host, is separated from the host and accounted for as a separate derivative if the economic characteristics and risks are not closely related to the host; a separate instrument with the same terms as the embedded derivative would meet the definition of a derivative; and the hybrid contract is not measured at fair value through profit or loss. Embedded derivatives are measured at fair value with changes in fair value recognised in profit or loss. Reassessment only occurs if there is either a change in the terms of the contract that significantly modifies the cash flows that would otherwise be required or a reclassification of a financial asset out of the fair value through profit or loss category.

A derivative embedded within a hybrid contract containing a financial asset host is not accounted for separately. The financial asset host together with the embedded derivative is required to be classified in its entirety as a financial asset at fair value through profit or loss.

Derecognition of financial assets

A financial asset (or, where applicable, a part of a financial asset or part of a group of similar financial assets) is primarily derecognised (i.e., removed from the Group's consolidated statement of financial position) when:

- the rights to receive cash flows from the asset have expired; or

- the Group has transferred its rights to receive cash flows from the asset or has assumed an obligation to pay the received cash flows in full without material delay to a third party under a "pass-through" arrangement; and either (a) the Group has transferred substantially all the risks and rewards of the asset, or (b) the Group has neither transferred nor retained substantially all the risks and rewards of the asset, but has transferred control of the asset.

5. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES *(continued)*

Derecognition of financial assets *(continued)*

When the Group has transferred its rights to receive cash flows from an asset or has entered into a pass-through arrangement, it evaluates if, and to what extent, it has retained the risk and rewards of ownership of the asset. When it has neither transferred nor retained substantially all the risks and rewards of the asset nor transferred control of the asset, the Group continues to recognise the transferred asset to the extent of the Group's continuing involvement. In that case, the Group also recognises an associated liability. The transferred asset and the associated liability are measured on a basis that reflects the rights and obligations that the Group has retained.

Continuing involvement that takes the form of a guarantee over the transferred asset is measured at the lower of the original carrying amount of the asset and the maximum amount of consideration that the Group could be required to repay.

Impairment of financial assets

The Group recognises an allowance for expected credit losses ("ECLs") for all debt instruments not held at fair value through profit or loss. ECLs are based on the difference between the contractual cash flows due in accordance with the contract and all the cash flows that the Group expects to receive, discounted at an approximation of the original effective interest rate. The expected cash flows will include cash flows from the sale of collateral held or other credit enhancements that are integral to the contractual terms.

General approach

ECLs are recognised in two stages. For credit exposures for which there has not been a significant increase in credit risk since initial recognition, ECLs are provided for credit losses that result from default events that are possible within the next 12 months (a 12-month ECL). For those credit exposures for which there has been a significant increase in credit risk since initial recognition, a loss allowance is required for credit losses expected over the remaining life of the exposure, irrespective of the timing of the default (a lifetime ECL).

At each reporting date, the Group assesses whether the credit risk on a financial instrument has increased significantly since initial recognition. When making the assessment, the Group compares the risk of a default occurring on the financial instrument as at the reporting date with the risk of a default occurring on the financial instrument as at the date of initial recognition and considers reasonable and supportable information that is available without undue cost or effort, including historical and forward-looking information.

For debt investments at fair value through other comprehensive income, the Group applies the low credit risk simplification. At each reporting date, the Group evaluates whether the debt investments are considered to have low credit risk using all reasonable and supportable information that is available without undue cost or effort. In making that evaluation, the Group reassesses the external credit ratings of the debt investments. In addition, the Group considers that there has been a significant increase in credit risk when contractual payments are more than 30 days past due.

The Group considers a financial asset in default when contractual payments are 90 days past due. However, in certain cases, the Group may also consider a financial asset to be in default when internal or external information indicates that the Group is unlikely to receive the outstanding contractual amounts in full before taking into account any credit enhancements held by the Group. A financial asset is written off when there is no reasonable expectation of recovering the contractual cash flows.

5. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES *(continued)*

Impairment of financial assets *(continued)*

General approach *(continued)*

Financial assets at amortised cost are subject to impairment under the general approach and they are classified within the following stages for measurement of ECLs except for trade receivables and contract assets which apply the simplified approach as detailed below.

Stage 1: Financial instruments for which credit risk has not increased significantly since initial recognition and for which the loss allowance is measured at an amount equal to 12-month ECLs

Stage 2: Financial instruments for which credit risk has increased significantly since initial recognition but that are not credit-impaired financial assets and for which the loss allowance is measured at an amount equal to lifetime ECLs

Stage 3: Financial assets that are credit-impaired at the reporting date (but that are not purchased or originated credit-impaired) and for which the loss allowance is measured at an amount equal to lifetime ECLs

Simplified approach

For trade receivables and contract assets that do not contain a significant financing component or when the Group applies the practical expedient of not adjusting the effect of a significant financing component, the Group applies the simplified approach in calculating ECLs. Under the simplified approach, the Group does not track changes in credit risk, but instead recognises a loss allowance based on lifetime ECLs at each reporting date. The Group has established a provision matrix that is based on its historical credit loss experience, adjusted for forward-looking factors specific to the debtors and the economic environment.

For trade receivables and contract assets that contain a significant financing component and lease receivables, the Group chooses as its accounting policy to adopt the simplified approach in calculating ECLs with policies as described above.

Financial liabilities

Initial recognition and measurement

Financial liabilities are classified, at initial recognition, as financial liabilities at fair value through profit or loss, loans and borrowings, payables, or as derivatives designated as hedging instruments in an effective hedge, as appropriate.

All financial liabilities are recognised initially at fair value and, in the case of loans and borrowings and payables, net of directly attributable transaction costs.

The Group's financial liabilities include trade and other payables, an amount due to the ultimate holding company, derivative financial instruments and interest-bearing bank and other borrowings.

Subsequent measurement

The subsequent measurement of financial liabilities depends on their classification as follows:

5. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES *(continued)*

Financial liabilities *(continued)*

Financial liabilities at fair value through profit or loss

Financial liabilities at fair value through profit or loss include financial liabilities held for trading and financial liabilities designated upon initial recognition as at fair value through profit or loss.

Financial liabilities are classified as held for trading if they are incurred for the purpose of repurchasing in the near term. This category also includes derivative financial instruments entered into by the Group that are not designated as hedging instruments in hedge relationships as defined by IFRS 9. Separated embedded derivatives are also classified as held for trading unless they are designated as effective hedging instruments. Gains or losses on liabilities held for trading are recognised in profit or loss. The net fair value gain or loss recognised in profit or loss does not include any interest charged on these financial liabilities.

Financial liabilities designated upon initial recognition as at fair value through profit or loss are designated at the initial date of recognition, and only if the criteria in IFRS 9 are satisfied. Gains or losses on liabilities designated at fair value through profit or loss are recognised in profit or loss, except for the gains or losses arising from the Group's own credit risk which are presented in other comprehensive income with no subsequent reclassification to profit or loss. The net fair value gain or loss recognised in profit or loss does not include any interest charged on these financial liabilities.

Financial liabilities at amortised cost (loans and borrowings)

After initial recognition, interest-bearing loans and borrowings are subsequently measured at amortised cost, using the effective interest rate method unless the effect of discounting would be immaterial, in which case they are stated at cost. Gains and losses are recognised in profit or loss when the liabilities are derecognised as well as through the effective interest rate amortisation process.

Amortised cost is calculated by taking into account any discount or premium on acquisition and fees or costs that are an integral part of the effective interest rate. The effective interest rate amortisation is included in finance costs in profit or loss.

Convertible bonds

The component of convertible bonds that exhibits characteristics of a liability is recognised as a liability in the statement of financial position, net of transaction costs. On issuance of convertible bonds, the fair value of the liability component is determined using a market rate for an equivalent non-convertible bond; and this amount is carried as a long term liability on the amortised cost basis until extinguished on conversion or redemption. The remainder of the proceeds is allocated to the conversion option that is recognised and included in shareholders' equity, net of transaction costs. The carrying amount of the conversion option is not remeasured in subsequent years. Transaction costs are apportioned between the liability and equity components of the convertible bonds based on the allocation of proceeds to the liability and equity components when the instruments are first recognised.

Derecognition of financial liabilities

A financial liability is derecognised when the obligation under the liability is discharged or cancelled, or expires.

When an existing financial liability is replaced by another from the same lender on substantially different terms, or the terms of an existing liability are substantially modified, such an exchange or modification is treated as a derecognition of the original liability and a recognition of a new liability, and the difference between the respective carrying amounts is recognised in profit or loss.

5. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES *(continued)*

Offsetting of financial instruments

Financial assets and financial liabilities are offset and the net amount is reported in the statement of financial position if there is a currently enforceable legal right to offset the recognised amounts and there is an intention to settle on a net basis, or to realise the assets and settle the liabilities simultaneously.

Treasury shares

Own equity instruments which are reacquired and held by the Company or the Group are recognised directly in equity at cost. No gain or loss is recognised in the statement purchase, sale, issue or cancellation of the Group's own equity instruments.

Inventories

Inventories are stated at the lower of cost and net realisable value. Cost is determined on the weighted average basis and, in the case of work in progress and finished goods, comprises direct materials, direct labour and an appropriate proportion of overheads. Net realisable value is based on estimated selling prices less any estimated costs to be incurred to completion and disposal.

Cash and cash equivalents

For the purpose of the consolidated statement of cash flows, cash and cash equivalents comprise cash on hand and demand deposits which are readily convertible into known amounts of cash and which are subject to an insignificant risk of changes in value, and have a short maturity of generally within three months when acquired, less bank overdrafts which are repayable on demand and form an integral part of the Group's cash management.

For the purpose of the consolidated statement of financial position, cash and cash equivalents comprise cash on hand and at banks, including term deposits, which are not restricted as to use.

Provisions

A provision is recognised when a present obligation (legal or constructive) has arisen as a result of a past event and it is probable that a future outflow of resources will be required to settle the obligation, provided that a reliable estimate can be made of the amount of the obligation.

When the effect of discounting is material, the amount recognised for a provision is the present value at the end of each reporting period of the future expenditures expected to be required to settle the obligation. The increase in the discounted present value amount arising from the passage of time is included in finance costs in profit or loss.

Income tax

Income tax comprises current and deferred tax. Income tax relating to items recognised outside profit or loss is recognised outside profit or loss, either in other comprehensive income or directly in equity.

Current tax assets and liabilities are measured at the amount expected to be recovered from or paid to the taxation authorities, based on tax rates (and tax laws) that have been enacted or substantively enacted by the end of each reporting period, taking into consideration interpretations and practices prevailing in the jurisdictions in which the Group operates.

Deferred tax is provided, using the liability method, on all temporary differences at the end of each reporting period between the tax bases of assets and liabilities and their carrying amounts for financial reporting purposes.

5. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES *(continued)*

Income tax *(continued)*

Deferred tax liabilities are recognised for all taxable temporary differences, except:

- when the deferred tax liability arises from the initial recognition of goodwill or an asset or liability in a transaction that is not a business combination and, at the time of the transaction, affects neither the accounting profit nor taxable profit or loss; and

- in respect of taxable temporary differences associated with investments in subsidiaries, when the timing of the reversal of the temporary differences can be controlled and it is probable that the temporary differences will not reverse in the foreseeable future.

Deferred tax assets are recognised for all deductible temporary differences, and the carryforward of unused tax credits and any unused tax losses. Deferred tax assets are recognised, to the extent that it is probable that taxable profit will be available against which the deductible temporary differences, the carryforward of unused tax credits and unused tax losses can be utilised, except:

- when the deferred tax asset relating to the deductible temporary differences arises from the initial recognition of an asset or liability in a transaction that is not a business combination and, at the time of the transaction, affects neither the accounting profit nor taxable profit or loss; and

- in respect of deductible temporary differences associated with investments in subsidiaries, deferred tax assets are only recognised to the extent that it is probable that the temporary differences will reverse in the foreseeable future and taxable profit will be available against which the temporary differences can be utilised.

The carrying amount of deferred tax assets is reviewed at the end of each reporting period and reduced to the extent that it is no longer probable that sufficient taxable profit will be available to allow all or part of the deferred tax asset to be utilised. Unrecognised deferred tax assets are reassessed at the end of each reporting period and are recognised to the extent that it has become probable that sufficient taxable profit will be available to allow all or part of the deferred tax asset to be recovered.

Deferred tax assets and liabilities are measured at the tax rates that are expected to apply to the period when the asset is realised or the liability is settled, based on tax rates and tax laws that have been enacted or substantively enacted by the end of each reporting period.

Deferred tax assets and deferred tax liabilities are offset if and only if the Group has a legally enforceable right to set off current tax assets and current tax liabilities and the deferred tax assets and deferred tax liabilities relate to income taxes levied by the same taxation authority on either the same taxable entity or different taxable entities which intend either to settle current tax liabilities and assets on a net basis, or to realise the assets and settle the liabilities simultaneously, in each future period in which significant amounts of deferred tax liabilities or assets are expected to be settled or recovered.

Government grants

Government grants are recognised at their fair value where there is reasonable assurance that the grant will be received and all attaching conditions will be complied with. When the grant relates to an expense item, it is recognised as income on a systematic basis over the periods that the costs, which it is intended to compensate, are expensed.

Where the grant relates to an asset, the fair value is credited to a deferred income account and is released to profit or loss over the expected useful life of the relevant asset by equal annual instalments or deducted from the carrying amount of the asset and released to profit or loss by way of a reduced depreciation charge.

5. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES *(continued)*

Revenue recognition

Revenue from contracts with customers

Revenue from contracts with customers is recognised when control of goods is transferred to the customers at an amount that reflects the consideration to which the Group expects to be entitled in exchange for those goods or services.

Sale of industrial products

Revenue from the sale of industrial products is recognised at the point in time when control of the asset is transferred to the customer, generally on delivery of the industrial products.

Other Income

Interest income is recognised on an accrual basis using the effective interest method by applying the rate that discounts the estimated future cash receipts over the expected life of the financial instrument or a shorter period, when appropriate, to the net carrying amount of the financial asset.

Income from research and development (R&D) design is recognised when the relevant R&D service has been rendered at a point in time.

Contract liabilities

A contract liability is recognised when a payment is received or a payment is due (whichever is earlier) from a customer before the Group transfers the related goods or services. Contract liabilities are recognised as revenue when the Group performs under the contract (i.e., transfers control of the related goods or services to the customer).

Share-based payments

The Company operates a share option scheme for the purpose of providing incentives and rewards to eligible participants who contribute to the success of the Group's operations. Employees (including directors) of the Group receive remuneration in the form of share-based payments, whereby employees render services as consideration for equity instruments ("equity-settled transactions").

The cost of equity-settled transactions with employees for grants is measured by reference to the fair value at the date at which they are granted. The fair value is determined by an external valuer using a binomial model, further details of which are given in note 30 to the financial statements.

The cost of equity-settled transactions is recognised in employee benefit expense, together with a corresponding increase in equity, over the period in which the performance and/or service conditions are fulfilled. The cumulative expense recognised for equity-settled transactions at the end of each reporting period until the vesting date reflects the extent to which the vesting period has expired and the Group's best estimate of the number of equity instruments that will ultimately vest. The charge or credit to profit or loss for a period represents the movement in the cumulative expense recognised as at the beginning and end of that period.

Service and non-market performance conditions are not taken into account when determining the grant date fair value of awards, but the likelihood of the conditions being met is assessed as part of the Group's best estimate of the number of equity instruments that will ultimately vest. Market performance conditions are reflected within the grant date fair value. Any other conditions attached to an award, but without an associated service requirement, are considered to be non-vesting conditions. Non-vesting conditions are reflected in the fair value of an award and lead to an immediate expensing of an award unless there are also service and/or performance conditions.

5. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES *(continued)*

Share-based payments *(continued)*

For awards that do not ultimately vest because non-market performance and/or service conditions have not been met, no expense is recognised. Where awards include a market or non-vesting condition, the transactions are treated as vesting irrespective of whether the market or non-vesting condition is satisfied, provided that all other performance and/or service conditions are satisfied.

Where the terms of an equity-settled award are modified, as a minimum an expense is recognised as if the terms had not been modified, if the original terms of the award are met. In addition, an expense is recognised for any modification that increases the total fair value of the share-based payments, or is otherwise beneficial to the employee as measured at the date of modification.

Where an equity-settled award is cancelled, it is treated as if it had vested on the date of cancellation, and any expense not yet recognised for the award is recognised immediately. This includes any award where non-vesting conditions within the control of either the Group or the employee are not met. However, if a new award is substituted for the cancelled award, and is designated as a replacement award on the date that it is granted, the cancelled and new awards are treated as if they were a modification of the original award, as described in the previous paragraph.

The dilutive effect of outstanding options is reflected as additional share dilution in the computation of earnings per share.

Employee retirement benefits

The employees of the Group's subsidiaries which operate in Mainland China are required to participate in a central pension scheme operated by the local municipal government. These subsidiaries are required to contribute a certain percentage of their payroll costs to the central pension scheme. The contributions are charged to profit or loss as they become payable in accordance with the rules of the central pension scheme.

Borrowing costs

Borrowing costs directly attributable to the acquisition, construction or production of qualifying assets, i.e., assets that necessarily take a substantial period of time to get ready for their intended use or sale, are capitalised as part of the cost of those assets. The capitalisation of such borrowing costs ceases when the assets are substantially ready for their intended use or sale. Investment income earned on the temporary investment of specific borrowings pending their expenditure on qualifying assets is deducted from the borrowing costs capitalised. All other borrowing costs are expensed in the period in which they are incurred. Borrowing costs consist of interest and other costs that an entity incurs in connection with the borrowing of funds.

Dividends

Final dividends are recognised as a liability when they are approved by the shareholders in a general meeting. Proposed final dividends are disclosed in the notes to the financial statements.

Interim dividends are simultaneously proposed and declared, because the Company's memorandum and articles of association grant the directors the authority to declare interim dividends. Consequently, interim dividends are recognised immediately as a liability when they are proposed and declared.

5. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES *(continued)*

Foreign currencies

These financial statements are presented in Hong Kong dollars, which is the Company's functional currency. Each entity in the Group determines its own functional currency and items included in the financial statements of each entity are measured using that functional currency. Foreign currency transactions recorded by the entities in the Group are initially recorded using their respective functional currency rates prevailing at the dates of the transactions. Monetary assets and liabilities denominated in foreign currencies are translated at the functional currency rates of exchange ruling at the end of each reporting period. Differences arising on settlement or translation of monetary items are recognised in profit or loss.

Non-monetary items that are measured in terms of historical cost in a foreign currency are translated using the exchange rates at the dates of the initial transactions. Non-monetary items measured at fair value in a foreign currency are translated using the exchange rates at the date when the fair value was measured. The gain or loss arising on translation of a non-monetary item measured at fair value is treated in line with the recognition of the gain or loss on change in fair value of the item (i.e., translation differences on the item whose fair value gain or loss is recognised in other comprehensive income or profit or loss are also recognised in other comprehensive income or profit or loss, respectively).

In determining the exchange rate on initial recognition of the related asset, expense or income on the derecognition of a non-monetary asset or non-monetary liability relating to an advance consideration, the date of initial transaction is the date on which the Group initially recognises the non-monetary asset or non-monetary liability arising from the advance consideration. If there are multiple payments or receipts in advance, the Group determines the transaction date for each payment or receipt of the advance consideration.

The functional currencies of certain overseas subsidiaries are currencies other than the Hong Kong dollar. As at the end of the reporting period, the assets and liabilities of these entities are translated into Hong Kong dollars at the exchange rates prevailing at the end of the reporting period and their statements of profit or loss are translated into Hong Kong dollars at the weighted average exchange rates for the year.

The resulting exchange differences are recognised in other comprehensive income and accumulated in the exchange fluctuation reserve. On disposal of a foreign operation, the component of other comprehensive income relating to that particular foreign operation is recognised in profit or loss.

For the purpose of the consolidated statement of cash flows, the cash flows of overseas subsidiaries are translated into Hong Kong dollars at the exchange rates ruling at the dates of the cash flows. Frequently recurring cash flows of overseas subsidiaries which arise throughout the year are translated into Hong Kong dollars at the weighted average exchange rates for the year.

6. SIGNIFICANT ACCOUNTING JUDGEMENTS AND ESTIMATES

The preparation of the Group's financial statements requires management to make judgements, estimates and assumptions that affect the reported amounts of revenues, expenses, assets and liabilities, and their accompanying disclosures, and the disclosure of contingent liabilities. Uncertainty about these assumptions and estimates could result in outcomes that could require a material adjustment to the carrying amounts of the assets or liabilities affected in the future.

Judgements

In the process of applying the Group's accounting policies, management has made the following judgements, apart from those involving estimations, which have the most significant effect on the amounts recognised in the financial statements:

Tax

Determining income tax provisions requires the Group to make judgements on the future tax treatment of certain transactions. The Group carefully evaluates tax implications of transactions in accordance with prevailing tax regulations and makes tax provisions accordingly.

Deferred tax assets are recognised to the extent that it is probable that future taxable profits will be available against which the deductible temporary differences can be utilised. This requires significant judgement on the tax treatments of certain transactions and also assessment on the probability that adequate future taxable profits will be available for the deferred tax assets to be recovered.

Deferred tax liabilities are recognised for a withholding tax levied on dividends declared to foreign investors from the foreign investment enterprises established in the PRC. Significant management judgement is required to determine the amount of deferred tax liabilities that can be recognised, based upon the likely dividends to be declared.

Estimation uncertainty

The key assumptions concerning the future and other key sources of estimation uncertainty at the end of each reporting period, that have a significant risk of causing a material adjustment to the carrying amounts of assets and liabilities within the next financial year, are described below.

Useful lives and residual values of property, plant and equipment

In determining the useful life and residual value of an item of property, plant and equipment, the Group has to consider various factors, such as technical or commercial obsolescence arising from changes or improvements in production, or from a change in the market demand for the product or service output of the asset, the expected usage of the asset, the expected physical wear and tear, the care and maintenance of the asset, and legal or similar limits on the use of the asset. The estimation of the useful life of the asset is based on the experience of the Group with similar assets that are used in a similar way. Additional depreciation is made if the estimated useful lives and/or the residual values of items of property, plant and equipment are different from the previous estimation. Useful lives and residual values are reviewed at each financial year end based on changes in circumstances. The carrying amounts of property, plant and equipment at 31 December 2019 and 2018 were HK$224,409,000 and HK$316,965,000 respectively. Further details are given in note 17.

Write-down of inventories to net realisable value

A write-down of inventories to net realisable value is made based on the estimated net realisable value of the inventories. The assessment of the required write-down involves management's judgement and estimates on market conditions. Where the actual outcome or expectation in future is different from the original estimate, the differences will have an impact on the carrying amounts of inventories and the write-down/write-back of inventories in the period in which the estimate has been changed.

6. SIGNIFICANT ACCOUNTING JUDGEMENTS AND ESTIMATES *(continued)*

Estimation uncertainty *(continued)*

Provision for expected credit losses on trade receivables

The Group uses a provision matrix to calculate ECLs for trade receivables. The provision rates are based on the invoice date for groupings of various customer segments with similar loss patterns (i.e., product type, customer type and rating, ageing of the balances and recent historical payment patterns). The calculation reflects the probability-weighted outcome, the time value of money and reasonable and supportable information that is available at the reporting date about past events, current conditions and forecasts of future economic conditions.

The provision matrix is initially based on the Group's historical observed default rates. The Group will calibrate the matrix to adjust the historical credit loss experience with forward-looking information. For instance, if forecasted economic conditions (i.e., gross domestic product) are expected to deteriorate over the next year which can lead to an increased number of defaults in the manufacturing sector, the historical default rates will be adjusted. At each reporting date, the historical observed default rates are updated and changes in the forward-looking estimates are analysed.

The assessment of the correlation among historical observed default rates, forecasted economic conditions and ECLs is a significant estimate. The amount of ECLs is sensitive to changes in circumstances and forecasted economic conditions. The Group's historical credit loss experience and forecast of economic conditions may also not be representative of a customer's actual default in the future. The information about the ECLs on the Group's trade receivables is disclosed in note 20 to the financial statements.

Other receivables are assessed for impairment based on 12-month expected credit losses: 12-month ECLs are the portion of lifetime ECLs that result from default events that are possible within the 12 months after the reporting date (or a shorter period if the expected life of the asset is less than 12 months). However, when there has been a significant increase in credit risk since origination, the allowance will be based on the lifetime ECL.

Leases – Estimating the incremental borrowing rate

The Group cannot readily determine the interest rate implicit in a lease, and therefore, it uses an incremental borrowing rate ("IBR") to measure lease liabilities. The IBR is the rate of interest that the Group would have to pay to borrow over a similar term, and with a similar security, the funds necessary to obtain an asset of a similar value to the right-of-use asset in a similar economic environment. The IBR therefore reflects what the Group "would have to pay", which requires estimation when no observable rates are available (such as for subsidiaries that do not enter into financing transactions) or when it needs to be adjusted to reflect the terms and conditions of the lease (for example, when leases are not in the subsidiary's functional currency). The Group estimates the IBR using observable inputs (such as market interest rates) when available and is required to make certain entity-specific estimates (such as the subsidiary's stand-alone credit rating).

7. OPERATING SEGMENT INFORMATION

Management monitors the operating results of its business units separately for the purpose of making decisions about resource allocation and performance assessment. After the Company spun off and separately listed the shares of its aerosol and non-aerosol products business on 21 June 2019 (note 14), for management purposes, the Group operates in one operating segment which comprises the manufacture and sale of aluminum aerosol cans mainly for the packaging of household chemical products. Accordingly, no further business segment information is provided for 2019. Segment assets and liabilities as at 31 December 2018 are presented below:

Year ended 31 December 2018	Continuing operations Aluminum aerosol cans HK$'000	Discontinued operation Aerosol and non-aerosol products HK$'000	Total HK$'000
Segment assets*	323,583	273,238	596,821
Reconciliation:			
Elimination of intersegment receivables			(15,133)
Corporate and other unallocated assets			233,078
Total assets			814,766
Segment liabilities**	32,084	117,224	149,308
Reconciliation:			
Elimination of intersegment payables			(15,399)
Corporate and other unallocated liabilities			83,392
Total liabilities			217,301

* Segment assets exclude deferred tax assets, tax recoverable, pledged bank deposits, cash and cash equivalents, and other unallocated head office and corporate assets as these assets are managed on a group basis

** Segment liabilities exclude interest-bearing bank borrowings, amounts due to related parties, convertible notes, tax payable, deferred tax liabilities and other unallocated head office and corporate liabilities as these liabilities are managed on a group basis

7. OPERATING SEGMENT INFORMATION *(continued)*

Geographical information

(a) Revenue from external customers:

	2019 HK$'000	2018 HK$'000
Continuing Operations:		
Africa	**2,293**	3,880
America	**9,065**	9,893
Asia	**7,005**	51,142
Mainland China	**187,344**	211,183
Middle East	**255**	290
	205,962	276,388

	For the period from 1 January 2019 to 21 June 2019 HK$'000	2018 HK$'000
Discontinued Operation:		
Asia	**5,310**	41,815
America	**9,584**	30,219
Mainland China	**190,044**	410,636
Middle East	**3,146**	9,198
Africa	**558**	1,147
Japan	**47,305**	88,222
Others	**1,044**	3,924
	256,991	585,161

The revenue information above is based on the shipment destinations.

(b) Non-current assets

	2019 HK$'000	2018 HK$'000
Japan	**—**	49
Hong Kong	**473**	5,168
Mainland China	**237,529**	397,968
	238,002	403,185

The non-current asset information above is based on the locations of the assets and excludes deferred tax assets.

Information about major customers

No revenue from sales to any customer amounted to 10% or more of the Group's revenue during the year.

8. REVENUE, OTHER INCOME AND GAINS FROM CONTINUING OPERATIONS

Revenue

An analysis of revenue is as follows:

	2019 HK$'000	2018 HK$'000
Revenue from contracts with customers	**205,962**	276,388

Revenue from contracts with customers

(a) Disaggregated revenue information

Segments	2019 HK$'000	2018 HK$'000
Type of goods		
Sale of industrial products	**205,962**	276,388
Geographical markets		
Africa	**2,293**	3,880
America	**9,065**	9,893
Asia	**7,005**	51,142
Mainland China	**187,344**	211,183
Middle East	**255**	290
Total revenue from contracts with customers	**205,962**	276,388
Timing of revenue recognition		
Goods transferred at a point in time	**205,962**	276,388

The following table shows the amounts of revenue recognised in the current reporting period that were included in the contract liabilities at the beginning of the reporting period and recognised from performance obligations satisfied in previous periods:

	2019 HK$'000	2018 HK$'000
Revenue recognised that was included in the contract liabilities at the beginning of the reporting period:		
Sale of industrial products	**27,291**	23,107

8. REVENUE, OTHER INCOME AND GAINS FROM CONTINUING OPERATIONS *(continued)*

Revenue *(continued)*

Revenue from contracts with customers *(continued)*

(b) Performance obligations

Information about the Group's performance obligations is summarised below:

Sale of industrial products

The performance obligation is satisfied upon delivery of the industrial products and payment is generally due within 30 to 90 days from delivery, except for some customers, where payment in advance is normally required.

The amounts of transaction prices allocated to the remaining performance obligations (unsatisfied or partially unsatisfied) as at 31 December are as follows:

	2019 HK$'000	2018 HK$'000
Amounts expected to be recognised as revenue:		
Within one year	**14,257**	27,291

All the remaining performance obligations are expected to be recognised within one year.

Other income and gains

	2019 HK$'000	2018 HK$'000
Sale of scrap materials	**8,062**	97
Bank interest income	**793**	117
Government grants:		
– Related to assets*	**240**	255
– Related to income**	**2,413**	2,123
Foreign exchange differences, net	**—**	1,127
Income from research and development design	**263**	79
Income from disposal of property, plant and equipment	**—**	3
Others	**647**	46
	12,418	3,847

* The amount represents the subsidies for the aluminum aerosol cans production line technical renovation program received from the local government. Government grants received for which the related expenditure has not yet been undertaken are included in deferred income in the consolidated statement of financial position. There are no unfulfilled conditions or contingencies relating to these grants.

** Various government grants of HK$2,413,000 (2018: HK$2,123,000) represent cash receipts from and subsidies provided by the local government authorities to the Group as an encouragement for its technological innovation and overseas sales. There are no unfulfilled conditions or contingencies relating to these grants.

9. PROFIT BEFORE TAX FROM CONTINUING OPERATIONS

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

	Notes	2019 HK$'000	2018 HK$'000
Cost of inventories sold		**134,264**	167,184
Depreciation of property, plant and equipment		**20,338**	23,362
Depreciation of right-of-use assets (2018: amortisation of prepaid land lease payments)	18	**1,443**	471
Auditor's remuneration		**1,505**	3,751
Research and development costs		**13,324**	12,628
Minimum lease payments under operating leases		**—**	945
Lease payments not included in the measurement of lease liabilities	18	**525**	—
Employee benefit expense (excluding directors' and chief executive's remuneration (note 11)):			
Wages and salaries		**28,781**	30,717
Pension scheme contributions		**2,955**	2,057
		31,736	32,774
Exchange losses/(gains),net**		**1,007**	(1,127)
Loss on disposal of items of property, plant and equipment*		**1,057**	166
Impairment losses on financial and contract assets		**436**	655
Write-down/(reversal) of inventories to net realisable value*		**644**	(401)

* Included in "Other expenses" in the consolidated statement of profit or loss and other comprehensive income

** Included in "Other income and gains" or "Other expenses" in the consolidated statement of profit or loss and other comprehensive income

10. FINANCE COSTS FROM CONTINUING OPERATIONS

	2019 HK$'000	2018 HK$'000
Interest on bank loans wholly repayable within five years	**95**	179
Interest on lease liabilities (note 18)	**25**	—
	120	179

11. DIRECTORS' REMUNERATION

Directors' remuneration for the year, disclosed pursuant to the Listing Rules, section 383 (1) (a), (b), (c) and (f) of the Hong Kong Companies Ordinance and Part 2 of the Companies (Disclosure of Information about Benefits of Directors) Regulation, is as follows:

	2019 HK$'000	2018 HK$'000
Fees	**3,555**	3,341
Other emoluments:		
Salaries, allowances and benefits in kind	**527**	780
Pension scheme contributions	**33**	54
	560	834
Total	**4,115**	4,175

(a) Independent non-executive directors

The fees paid to independent non-executive directors during the year were as follows:

	2019 HK$'000	2018 HK$'000
Mr. Yip Wai Man	**191**	182
Dr. Lin Tat Pang	**191**	182
Ms. Guo Yang	**191**	182
Mr. Chung Yi To	**191**	182
	764	728

There were no other emoluments payable to the independent non-executive directors during the year (2018: Nil).

11. DIRECTORS' REMUNERATION *(continued)*

(b) Executive directors and a non-executive director

	Fees HK$'000	Salaries, allowances and benefits in kind HK$'000	Pension scheme contributions HK$'000	Total remuneration HK$'000
2019				
Executive directors:				
Mr. Lin Wan Tsang	**1,418**	**424**	**18**	**1,860**
Ms. Ko Sau Mee*	**405**	**—**	**8**	**413**
Mr. Dong Jiangxiong	**403**	**—**	**—**	**403**
Mr. Lin Hing Lung*	**150**	**103**	**7**	**260**
	2,376	**527**	**33**	**2,936**
Non-executive director:				
Mr. Kwok Tak Wang	**416**	**—**	**—**	**416**
	2,792	**527**	**33**	**3,352**

* On 29 May 2019, Ms. Ko Sau Mee and Mr. Lin Hing Lung resigned as directors of the Company.

	Fees HK$'000	Salaries, allowances and benefits in kind HK$'000	Pension scheme contributions HK$'000	Total remuneration HK$'000
2018				
Executive directors:				
Mr. Lin Wan Tsang	1,003	543	18	1,564
Ms. Ko Sau Mee	500	—	18	518
Mr. Dong Jiangxiong	384	—	—	384
Mr. Lin Hing Lung	330	237	18	585
	2,217	780	54	3,051
Non-executive director:				
Mr. Kwok Tak Wang	396	—	—	396
	2,613	780	54	3,447

There was no arrangement under which a director waived or agreed to waive any remuneration during the year.

12. FIVE HIGHEST PAID EMPLOYEES

The five highest paid employees during the year included one director (2018: one), details of whose remuneration are set out in note 11 above. Details of the remuneration for the year of the four (2018: four) highest paid employees who are neither a director nor chief executive of the Company are as follows:

	2019 HK$'000	2018 HK$'000
Salaries, allowances and benefits in kind	2,277	1,968
Pension scheme contributions	137	32
	2,414	2,000

The number of these non-director, highest paid employees whose remuneration fell within the following bands is as follows:

	2019	2018
Nil to HK$1,000,000	4	3
HK$1,000,001 to HK$1,500,000	—	1
	4	4

During the year, there were no non-director highest paid employees who were granted share options in 2013 in respect of their services to the Group, further details of which are included in the disclosures in note 30 to the financial statements. The fair value of these options, which has been recognised in profit or loss over the vesting period, was determined as at the date of grant, and the amount included in the financial statements for the year is included in the above non-director, highest paid employees' remuneration disclosures.

13. INCOME TAX EXPENSES FROM CONTINUING OPERATIONS

The Group is subject to income tax on an entity basis on profits arising in or derived from the jurisdictions in which members of the Group are domiciled and operate.

The Company was incorporated in the Cayman Islands as an exempted company with limited liability under the Companies Law of the Cayman Islands, and accordingly, is exempt from the payment of the Cayman Islands income tax.

Pursuant to the rules and regulations of the BVI, the Group is not subject to any tax in the BVI.

Hong Kong profits tax has been provided at the rate of 16.5% on the estimated assessable profits arising in Hong Kong during the year 2019 (2018: 16.5%).

Pursuant to the PRC Income Tax Law and the respective regulations, subsidiaries of the Group operating in Mainland China are subject to Corporate Income Tax ("CIT") at a rate of 25% on the taxable income. Preferential tax treatment is available to the Group's operating subsidiary, Euro Asia Packaging, since it was recognised as a high technology enterprise and was entitled to a preferential tax rate of 15% for the years of 2019 and 2018.

13. INCOME TAX EXPENSES FROM CONTINUING OPERATIONS *(continued)*

	2019 HK$'000	2018 HK$'000
Current – Mainland China	**4,975**	7,744
Current – Hong Kong	**2,276**	3,776
Deferred	**313**	(1,125)
Total tax charge for the year from continuing operations	**7,564**	10,395

A reconciliation of the income tax expenses applicable to profit before tax using the statutory rate for the jurisdictions in which the Company and the majority of its subsidiaries are domiciled to the tax expense at the effective tax rates, and a reconciliation of the applicable tax rates to the effective tax rates, are as follows:

	2019 HK$'000	2019 %	2018 HK$'000	2018 %
Profit before tax	**32,178**		48,520	
Tax at the statutory tax rate	**8,045**	**25.0**	12,130	25.0
Entities subject to a preferential tax rate	**(3,315)**	**(10.3)**	(5,056)	(10.4)
Effect of withholding tax on undistributed profits of the PRC subsidiary	**365**	**1.1**	1,226	2.5
Super deduction of R&D	**(1,499)**	**(4.7)**	(1,421)	(2.9)
Expenses not deductible for tax	**2,570**	**8.0**	1,552	3.2
Tax losses not recognised	**1,209**	**3.8**	1,868	3.8
Adjustments in respect of current tax of previous periods	**189**	**0.6**	96	0.2
Tax charge at the Group's effective tax rate	**7,564**	**23.5**	10,395	21.4

14. DISCONTINUED OPERATION

In 2018, the Company proposed to spin-off and separately list the shares of the aerosol and non-aerosol products business of the Group under Precious Dragon Technology Holdings Limited (the "Precious Dragon", together with its subsidiaries, the "Precious Dragon Group") on the Main Board (the "Main Board") of The Stock Exchange of Hong Kong Limited (the "Stock Exchange").

On 28 September 2018, Precious Dragon submitted an application to the Stock Exchange for the listing by way of introduction of, and permission to deal in the shares of Precious Dragon on the Main Board of the Stock Exchange.

On 14 June 2019, the Company's Board of Directors declared a conditional distribution in specie of all the issued share capital of the Precious Dragon Group to the Company's qualifying shareholders (note 15). On 21 June 2019, the shares of the Precious Dragon Group were listed on the Stock Exchange and the Precious Dragon Group ceased to be a subsidiary of the Company thereafter.

The consolidated results of the Precious Dragon Group for the period are presented below as a discontinued operation:

	For the period from 1 January 2019 to 21 June 2019 HK$'000	2018 HK$'000
REVENUE	**256,991**	585,161
Cost of sales	**(180,082)**	(427,232)
Gross profit	**76,909**	157,929
Other income and gains	**5,518**	16,567
Selling and distribution expenses	**(23,670)**	(45,125)
Administrative expenses	**(21,610)**	(39,047)
Research and development expenses	**(8,722)**	(22,211)
Other expenses	**(3,249)**	(4,118)
Finance costs	**(1,686)**	(2,035)
Profit before tax from the discontinued operation	**23,490**	61,960
Income tax expense	**(7,921)**	(14,663)
Profit for the period from the discontinued operation	**15,569**	47,297
Profit attributable to:		
Owners of the parent	**15,043**	42,055
Non-controlling interests	**526**	5,242
	15,569	47,297

14. DISCONTINUED OPERATION *(continued)*

The net cash flows generated from the disposal of Precious Dragon Group are as follows:

	21 June 2019 HK$'000
Cash and bank balances disposed of	**(133,744)**

The net cash flows incurred by the Precious Dragon Group are as follows:

	For the period from 1 January 2019 to 21 June 2019 HK$'000	2018 HK$'000
Operating activities	**2,018**	72,826
Investing activities	**(4,119)**	(116,687)
Financing activities	**(7,578)**	93,315
Net cash inflow/(outflow)	**(9,679)**	49,454
Earnings per share:		
Basic, from the discontinued operation	**HK1.6 cents**	HK4.5 cents
Diluted, from the discontinued operation	**HK1.3 cents**	HK3.5 cents

The calculations of basic and diluted earnings per share from the discontinued operation are based on:

	For the period from 1 January 2019 to 21 June 2019 HK$'000	2018 HK$'000
Profit attributable to ordinary equity holders of the parent from the discontinued operation	**15,043**	42,055
Weighted average number of ordinary shares in issue during the period used in the basic earnings per share calculation	**936,094,419**	934,179,000
Weighted average number of ordinary shares used in the diluted earnings per share calculation	**1,187,784,641**	1,190,160,536

15. DIVIDENDS

	Notes	2019 HK$'000	2018 HK$'000
Distribution of the Precious Dragon Group	(i)	**259,300**	—
Interim – HK0.42 cents (2018: Nil) per ordinary share		**3,940**	—
Proposed final – HK0.37 cent (2018: HK2.18 cents) per ordinary share	(ii)	**3,456**	20,353
		266,696	20,353

Notes:

(i) As mentioned in note 14, the entire issued share capital of the Precious Dragon Group was spun-off via a distribution in specie completed on 21 June 2019. The net assets attributable to the Precious Dragon Group, subject to the distribution to the Company's shareholders, amounted to approximately HK$ 259,300,000.

(ii) The proposed dividend on ordinary shares is subject to approval at the annual general meeting and is not recognised as a liability as at 31 December 2019.

16. EARNINGS PER SHARE ATTRIBUTABLE TO ORDINARY EQUITY HOLDERS OF THE PARENT

The calculation of the basic earnings per share amount is based on the profit for the year attributable to ordinary equity holders of the parent, and the weighted average number of ordinary shares of 936,094,419 (2018: 934,179,000) in issue during the year.

The calculation of the diluted earnings per share amount is based on the profit for the year attributable to ordinary equity holders of the parent. The weighted average number of ordinary shares used in the calculation is the weighted average number of ordinary shares in issue during the year, as used in the basic earnings per share calculation, and the weighted average number of ordinary shares assumed to have been issued at no consideration on the deemed exercise or conversion of all dilutive potential ordinary shares into ordinary shares.

	2019 HK$'000	2018 HK$'000
Earnings		
Profit attributable to ordinary equity holders of the parent, used in the basic and diluted earnings per share calculation	**39,182**	79,473

	Number of shares	
Shares		
Weighted average number of ordinary shares in issue used in the basic earnings per share calculation	**936,094,419**	934,179,000
Effect of dilution – weighted average number of ordinary shares:		
Share options	**—**	291,314
Convertible Notes	**251,690,222**	255,690,222
Adjusted weighted average number of ordinary shares in issue used in the diluted earnings per share calculation	**1,187,784,641**	1,190,160,536

17. PROPERTY, PLANT AND EQUIPMENT

	Buildings HK$'000	Plant and machinery HK$'000	Office and other equipment HK$'000	Motor vehicles HK$'000	Construction in progress HK$'000	Total HK$'000
31 December 2019						
At 1 January 2019:						
Cost	**150,992**	**345,136**	**25,635**	**25,441**	**11,587**	**558,791**
Accumulated depreciation	**(66,782)**	**(154,007)**	**(13,232)**	**(7,805)**	**—**	**(241,826)**
Net carrying amount	**84,210**	**191,129**	**12,403**	**17,636**	**11,587**	**316,965**
At 1 January 2019, net of accumulated depreciation	**84,210**	**191,129**	**12,403**	**17,636**	**11,587**	**316,965**
Additions	**993**	**2,950**	**664**	**3,880**	**29,566**	**38,053**
Distribution of the Precious Dragon Group (note 32)	**(56,332)**	**(16,139)**	**(6,945)**	**(12,663)**	**(4,370)**	**(96,449)**
Disposals	**(313)**	**(145)**	**(402)**	**(1,032)**	**—**	**(1,892)**
Depreciation provided during the year	**(6,855)**	**(18,157)**	**(2,043)**	**(2,020)**	**—**	**(29,075)**
Transfers	**—**	**1,648**	**—**	**—**	**(1,648)**	**—**
Exchange realignment	**(286)**	**(2,750)**	**(20)**	**(39)**	**(98)**	**(3,193)**
At 31 December 2019, net of accumulated depreciation	**21,417**	**158,536**	**3,657**	**5,762**	**35,037**	**224,409**
At 31 December 2019:						
Cost	**46,202**	**299,284**	**7,301**	**9,430**	**35,037**	**397,254**
Accumulated depreciation	**(24,785)**	**(140,748)**	**(3,644)**	**(3,668)**	**—**	**(172,845)**
Net carrying amount	**21,417**	**158,536**	**3,657**	**5,762**	**35,037**	**224,409**
31 December 2018						
At 1 January 2018:						
Cost	155,590	349,889	21,689	15,121	8,069	550,358
Accumulated depreciation	(58,238)	(139,512)	(12,606)	(9,058)	—	(219,414)
Net carrying amount	97,352	210,377	9,083	6,063	8,069	330,944
At 1 January 2018, net of accumulated depreciation	97,352	210,377	9,083	6,063	8,069	330,944
Additions	3,316	12,657	5,118	13,593	5,597	40,281
Disposals	—	(121)	(18)	(626)	—	(765)
Depreciation provided during the year	(12,069)	(23,374)	(1,390)	(1,132)	—	(37,965)
Transfers	19	1,613	26	—	(1,658)	—
Exchange realignment	(4,408)	(10,023)	(416)	(262)	(421)	(15,530)
At 31 December 2018, net of accumulated depreciation	84,210	191,129	12,403	17,636	11,587	316,965
At 31 December 2018:						
Cost	150,992	345,136	25,635	25,441	11,587	558,791
Accumulated depreciation	(66,782)	(154,007)	(13,232)	(7,805)	—	(241,826)
Net carrying amount	84,210	191,129	12,403	17,636	11,587	316,965

17. PROPERTY, PLANT AND EQUIPMENT *(continued)*

The Group's buildings are located in Mainland China.

Certain of the Group's interest-bearing bank borrowings were secured by the Group's buildings with a carrying value of HK$3,815,000 as at 31 December 2019 (2018: HK$56,763,000) (note 25).

Certain of the Group's interest-bearing bank borrowings were secured by the Group's plant and machinery with a carrying value of HK$53,994,000 as at 31 December 2019 (2018: HK$58,342,000) (note 25).

18. LEASES

The Group as a lessee

The Group has lease contracts for various items used in its operations. Lump sum payments were made upfront to acquire the leased land from the owners with lease periods of 50 years, and no ongoing payments will be made under the terms of these land leases. Leases of buildings generally have lease terms between 1.5 and 2 years. Generally, the Group is restricted from assigning and subleasing the leased assets outside the Group.

(a) Prepaid land lease payments (before 1 January 2019)

	HK$'000
Carrying amount at 1 January 2018	77,455
Recognised in profit or loss during the year	(1,987)
Exchange realignment	(3,958)
Carrying amount at 31 December 2018	71,510
Current portion included in prepayments, deposits and other receivables	(1,907)
Non-current portion	69,603

(b) Right-of-use assets

The carrying amounts of the Group's right-of-use assets and the movements during the year are as follows:

	Prepaid land lease payments HK$'000	**Buildings HK$'000**	**Total HK$'000**
As at 1 January 2019	**71,510**	**563**	**72,073**
Lease modification	**—**	**(42)**	**(42)**
Depreciation charge	**(1,177)**	**(266)**	**(1,443)**
Distribution of the Precious Dragon Group (note 32)	**(57,373)**	**—**	**(57,373)**
Exchange realignment	**(256)**	**—**	**(256)**
As at 31 December 2019	**12,704**	**255**	**12,959**

Certain of the Group's interest-bearing bank borrowings were secured by the Group's prepaid land lease payments with a carrying value of HK$2,886,000 as at 31 December 2019 (2018: HK$58,348,000) (note 25).

The Group's leasehold land is held under a medium-term lease and is situated in Mainland China.

18. LEASES *(continued)*

The Group as a lessee *(continued)*

(c) Lease liabilities

The carrying amount of lease liabilities (included under interest-bearing bank and other borrowings) and the movements during the year are as follows:

	2019 HK$'000
Carrying amount at 1 January	563
Lease modification	(42)
Accretion of interest recognised during the year	25
Payments	(289)
Exchange realignment	3
Carrying amount at 31 December	260
Analysed into:	
Current portion	260
Non-current portion	—

The maturity analysis of lease liabilities is disclosed in note 25 to the financial statements.

(d) The amounts recognised in profit or loss in relation to leases are as follows:

	2019 HK$'000
Interest on lease liabilities	25
Depreciation charge of right-of-use assets	1,443
Expense relating to short-term leases and other leases with remaining lease terms ended on or before 31 December 2019 (included in administrative expenses)	525
Total amount recognised in profit or loss	1,993

19. INVENTORIES

	2019 HK$'000	2018 HK$'000
Raw materials	16,834	37,012
Work in progress	625	4,720
Finished goods	14,590	47,041
	32,049	88,773

20. TRADE AND BILLS RECEIVABLES

	2019 HK$'000	2018 HK$'000
Trade receivables	**21,384**	66,040
Impairment	**(1,180)**	(5,930)
Trade receivables, net	**20,204**	60,110
Bills receivable	**2,640**	9,627
	22,844	69,737

The Group requires most of its customers to make payments in advance, however, the Group grants certain credit periods to those customers with good payment history. The credit period for specific customers is considered on a case-by-case basis and set out in the sales contracts, as appropriate.

The Group seeks to maintain strict control over its outstanding receivables. Overdue balances are reviewed regularly by senior management.

The Group does not hold any collateral or other credit enhancements over its trade and bills receivable balances. Trade receivables are non-interest-bearing, and the carrying amounts of the trade and bills receivables approximate to their fair values.

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

	2019 HK$'000	2018 HK$'000
Within 30 days	**7,559**	24,184
31 to 60 days	**3,207**	17,434
61 to 90 days	**792**	3,907
Over 90 days	**8,646**	14,585
	20,204	60,110

The movements in the loss allowance for impairment of trade receivables are as follows:

	2019 HK$'000	2018 HK$'000
At beginning of year	**5,930**	5,230
Impairment losses	**2,095**	1,425
Distribution of the Precious Dragon Group	**(6,765)**	—
Exchange realignment	**(80)**	(725)
At end of year	**1,180**	5,930

20. TRADE AND BILLS RECEIVABLES *(continued)*

An impairment analysis is performed at each reporting date using a provision matrix to measure expected credit losses (ECLs). The provision rates are based on the invoice date for groupings of various customer segments with similar loss patterns (i.e., by product type, customer type and rating, ageing of the balances and recent historical payment patterns). The calculation reflects the probability-weighted outcome, the time value of money and reasonable and supportable information that is available at the reporting date about past events, current conditions and forecasts of future economic conditions.

Set out below is the information about the credit risk exposure on the Group's trade receivables using a provision matrix:

	Ageing				
	1 to 30 days	31 to 60 days	61 to 90 days	Over 90 days	Total
As at 31 December 2019					
Aluminum aerosol cans					
Related party:					
Expected credit loss rate	—	—	—	—	—
Gross carrying amount (HK$'000)	1,534	95	—	—	1,629
Expected credit losses (HK$'000)	—	—	—	—	—
Third party:					
Expected credit loss rate	2.00%	2.00%	2.00%	10.40%	5.97%
Gross carrying amount (HK$'000)	6,430	3,179	808	9,338	19,755
Expected credit losses (HK$'000)	129	64	16	971	1,180
Total expected credit losses (HK$'000)	129	64	16	971	1,180

20. TRADE AND BILLS RECEIVABLES *(continued)*

	Ageing				
	1 to 30 days	31 to 60 days	61 to 90 days	Over 90 days	Total
As at 31 December 2018					
Aluminum aerosol cans					
Expected credit loss rate	—	—	—	7.28%	3.34%
Gross carrying amount (HK$'000)	6,333	3,707	2,607	10,738	23,385
Expected credit losses (HK$'000)	—	—	—	782	782
Aerosol and non-aerosol products					
Expected credit loss rate	—	—	—	52.66%	12.07%
Gross carrying amount (HK$'000)	17,851	13,727	1,300	9,777	42,655
Expected credit losses (HK$'000)	—	—	—	5,148	5,148
Total expected credit losses (HK$'000)	—	—	—	5,930	5,930

21. PREPAYMENTS, DEPOSITS AND OTHER RECEIVABLES

	2019 HK$'000	2018 HK$'000
Non-current prepayments	**634**	16,617
Current assets		
Prepayments	**3,878**	12,289
Deposits and other receivables	**1,055**	3,789
Due from related parties	**—**	1,436
Due from a director	**11**	—
Tax recoverable	**941**	—
	5,885	17,514

No Group's interest-bearing bank borrowings were secured by the Group's prepayments as at 31 December 2019 (2018: HK$1,877,000) (note 25).

22. CASH AND CASH EQUIVALENTS AND PLEDGED BANK DEPOSITS

	2019 HK$'000	2018 HK$'000
Cash and bank balances	**51,698**	233,079
Less: Deposits pledged for acceptance bills	**—**	(4,930)
Cash and cash equivalents	**51,698**	228,149
Cash and bank balances denominated in		
— Renminbi ("RMB")	**40,327**	92,815
— United States dollar ("US$")	**9,210**	112,796
— Japanese yen ("JPY")	**—**	86
— Hong Kong dollar ("HK$")	**2,161**	21,362
— Euro ("EUR")	**—**	1,090
Cash and cash equivalents	**51,698**	228,149

The RMB is not freely convertible into other currencies. However, under Mainland China's Foreign Exchange Control Regulations and Administration of Settlement, Sale and Payment of Foreign Exchange Regulations, the Group is permitted to exchange RMB for other currencies through banks authorised to conduct foreign exchange business.

Pledged bank deposits represent balances pledged to banks for the Group's acceptance bills.

Cash at banks earns interest at floating rates based on daily bank deposit rates. The bank balances and pledged deposits are deposited with creditworthy banks with no recent history of default.

23. TRADE AND BILLS PAYABLES

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

	2019 HK$'000	2018 HK$'000
Within 30 days	**2,946**	35,791
31 to 60 days	**273**	10,770
61 to 90 days	**166**	9,844
Over 90 days	**919**	933
	4,304	57,338

The trade payables are non-interest-bearing and are normally settled on terms of 30 to 90 days. The carrying amounts of the trade payables approximate to their fair values.

24. OTHER PAYABLES AND ACCRUALS

	Notes	2019 HK$'000	2018 HK$'000
Salary and welfare payables	(a)	**4,251**	15,190
Contract liabilities	(b)	**14,257**	27,291
Other payables and accruals	(c)	**4,613**	19,633
Tax payables other than current income tax liabilities		**383**	2,307
Due to a director	35 (2)	**39**	—
Due to related parties	35 (2)	**—**	2
		23,543	64,423

Notes:

(a) The salary and welfare payables are non-interest-bearing and are payable on demand.

(b) Contract liabilities of the Group mainly arise from the advance payments made by customers while the underlying goods are yet to be provided. The Group recognised the following revenue-related contract liabilities at the end of the year:

	2019 HK$'000	2018 HK$'000
Short-term advances received from customers	**14,257**	27,291

(c) The other payables and accruals are non-interest-bearing and are due to mature within one year.

25. INTEREST-BEARING BANK AND OTHER BORROWINGS

	2019			2018		
	Contractual interest rate	Maturity	HK$'000	Contractual interest rate	Maturity	HK$'000
Current						
Lease liabilities (note 18(c))	**2.563%~5.125%**	**2020**	**260**			—
Current portion of long term interest-bearing bank loans – secured			**—**	PBOC base rate*1.20	2019	8,392
			260			8,392
Non-current						
Long term interest-bearing bank loans – secured			**—**	Hong Kong Interbank Rate+1.70%	2020-2021	75,000
			—			75,000
			260			83,392

Notes:

Hong Kong Interbank Rate stands for the three-month Hong Kong Interbank Offered Rate in the Hong Kong Dollar Interbank Market at or at about 11 am (Hong Kong time).

"PBOC" stands for the People's Bank of China (中國人民銀行), the central bank of China.

25. INTEREST-BEARING BANK AND OTHER BORROWINGS *(continued)*

	2019 HK$'000	2018 HK$'000
Bank loans repayable:		
Within one year or on demand	—	8,392
In the second year	—	30,000
In the third year	—	45,000
	—	83,392
Other borrowings repayable:		
Within one year or on demand	260	—

The above secured bank loans and unutilised bank facilities were secured by certain of the Group's assets and their carrying values are as follows:

	Notes	2019 HK$'000	2018 HK$'000
Property, plant and equipment	17	57,809	115,105
Prepaid land lease payments	18	2,886	58,348
Prepayments, deposits and other receivables	21	—	1,877
		60,695	175,330

	2019 HK$'000	2018 HK$'000
Interest-bearing bank borrowings denominated in:		
— RMB	—	8,392
— HK$	—	75,000
	—	83,392

25. INTEREST-BEARING BANK AND OTHER BORROWINGS *(continued)*

The Group has the following undrawn banking facilities:

	2019 HK$'000	2018 HK$'000
Floating rate – to expire within one year	**98,087**	182,362

26. CONVERTIBLE NOTES

On 20 May 2015, the Group acquired a 100% interest in the Topspan Group from Mr. Lin Wan Tsang, the controlling shareholder of the Company. The Topspan Group is engaged in the content filling of aerosol cans, and the production and sale of aerosol and non-aerosol products. The acquisition was made as part of the Group's strategy to allow the Group to capture downstream profit margins by gaining access to the downstream distribution channels. The purchase consideration aggregated to HK$900,000,000, of which HK$780,000,000 was settled by the issue of convertible notes by the Company (the "Convertible Notes"). On 8 July 2015, the Company issued the Convertible Notes of HK$780,000,000.

The key terms of the Convertible Notes are as follows:

Principal amount: HK$780,000,000

Interest: the Convertible Notes shall not bear any interest.

Term: A fixed term of five years from the issue. Any principal amount of the Convertible Notes which have not been redeemed or converted by the maturity date will be converted into ordinary shares on the maturity date.

Conversion: The note holder may, at any time during the conversion period, convert the whole or part of the principal amount of the Convertible Notes into ordinary shares at the conversion price.

Redemption: The issuer cannot redeem the Convertible Notes or a part thereof at any time on or before the maturity date.

Conversion price: HK$1.08 per share, subject to adjustments as follows:

Adjustment events: (1) consolidation or subdivision of shares; (2) capitalisation of profits or reserves; (3) capital distribution; (4) an offer of new shares for subscription by way of rights, or a grant of options or warrants to subscribe for new shares, at a price which is less than 90% of the market price per share; (5) issue of shares being made wholly for cash of securities convertible into or exchangeable for or carrying rights of subscription for new shares, if, in any case, the total effective consideration per share receivable is less than 90% of the market price, or the conversion, exchange or subscription rights of any such issue are altered, so that the said total effective consideration receivable is less than 90% of such market price; and (6) issue of shares being made wholly for cash or for an acquisition of assets at a price less than 90% of the market price per share. As the Convertible Notes are not redeemable and carry no interest, they contain no contractual obligation and they will be settled by the exchange of a fixed amount of another financial asset for a fixed number of the Company's own equity instruments. In this case, the Convertible Notes are classified as equity.

The movements of the conversion of the Convertible Notes are set out in note 29.

27. DEFERRED INCOME

	2019 HK$'000	2018 HK$'000
At 1 January	**5,057**	3,318
Grants recognised	**—**	2,372
Amortised as income	**(872)**	(795)
Distribution of the Precious Dragon Group (Note 32)	**(2,161)**	—
Exchange realignment	**(36)**	162
At 31 December	**1,988**	5,057
Current portion	**(196)**	(986)
Non-current portion	**1,792**	4,071

28. DEFERRED TAX

Deferred tax assets

Deferred tax assets have been recognised in respect of temporary differences between the carrying amounts and tax bases of government grants, derivatives and provisions.

The movements in deferred tax assets are as follows:

	Government grants HK$'000	Provisions HK$'000	Total HK$'000
At 1 January 2018	498	1,518	2,016
Charged to profit or loss	299	292	591
Exchange realignment	(39)	(90)	(129)
At 31 December 2018 and 1 January 2019	**758**	**1,720**	**2,478**
Charged to profit or loss	**(128)**	**586**	**458**
Distribution of the Precious Dragon Group (note 32)	**(324)**	**(1,796)**	**(2,120)**
Exchange realignment	**(8)**	**(15)**	**(23)**
At 31 December 2019	**298**	**495**	**793**

The Group has tax losses arising in Hong Kong of HK$37,067,000 (2018: HK$55,685,000) that are available indefinitely for offsetting against future taxable profits of the companies in which the losses arose. Deferred tax assets have not been recognised in respect of these losses as they have arisen in subsidiaries that have been loss-making for some time and it is not considered probable that taxable profits will be available against which the tax losses can be utilised.

28. DEFERRED TAX *(continued)*

Deferred tax liabilities

The movements in deferred tax liabilities are as follows:

	Withholding taxes HK$'000	Total HK$'000
At 1 January 2018	2,213	2,213
Charged to profit or loss	2,166	2,166
At 31 December 2018 and 1 January 2019	4,379	4,379
Charged to profit or loss	(672)	(672)
Distribution of Precious Dragon Group (note 32)	(1,638)	(1,638)
At 31 December 2019	**2,069**	**2,069**

Pursuant to the PRC Corporate Income Tax Law, a 10% withholding tax is levied on dividends declared to foreign investors from the foreign investment enterprises established in Mainland China. The requirement is effective from 1 January 2008 and applies to earnings after 31 December 2007. A lower withholding tax rate may be applied if there is a tax treaty between Mainland China and the jurisdiction of the foreign investors. The Group is therefore liable for withholding taxes on dividends distributed by the subsidiary established in Mainland China in respect of earnings generated from 1 January 2008.

At 31 December 2019, the Group has not recognised deferred tax liabilities of HK$6,208,000 (2018: HK$13,136,000) in respect of the temporary differences relating to the unremitted profits of the Group's subsidiaries established in Mainland China amounting to HK$124,168,000 (2018: HK$262,715,000), that would be payable on the distribution of these profit as the Company controls the dividend policy of these subsidiaries and it is probable that these profits will not be distributed in the foreseeable future.

There are no income tax consequences attaching to the payment of dividends by the Company to its shareholders.

29. SHARE CAPITAL

The following changes in the Company's authorised and issued share capital took place during the period from 1 January 2018 to 31 December 2019.

	Notes	Number of ordinary shares of HK$0.01	Nominal value of ordinary shares HK$
Authorised and issued:			
At 1 January 2018		934,179,000	9,341,790
At 31 December 2018 and 1 January 2019		934,179,000	9,341,790
Convertible Notes converted	(i)	4,000,000	40,000
Shares repurchased and cancelled	(ii)	(4,000,000)	(40,000)
Shares repurchased	(iii)	(32,394,000)	—
At 31 December 2019		**901,785,000**	**9,341,790**

Note:

(i) In January 2019, the Company received a formal notice from a vendor for the exercise of the conversion rights attached to the Convertible Notes in the amount of HK$4,320,000 at the conversion price of HK$1.08 per conversion share. The portion of the Convertible Notes, of which the conversion rights are being exercised, represents approximately 0.55% of the Convertible Notes with a principal amount of HK$780,000,000 held by the vendor. In accordance with the conversion requirement, 4,000,000 conversion shares were resolved to be allotted and issued by the Company to the vendor in 2019.

(ii) The Company purchased 4,000,000 of its shares on the Hong Kong Stock Exchange for a total consideration of HK$2,114,000 which was paid wholly out of retained profits in accordance with section 257 of the Hong Kong Companies Ordinance. The purchased shares were cancelled during the year and the total amount paid for the purchase of the shares of HK$2,084,000 has been charged to retained profits of the Company.

(iii) In December of 2019, 32,394,000 ordinary shares were repurchased but not yet cancelled by the Company.

30. SHARE OPTION SCHEME

The Company adopted a pre-IPO share option scheme (the "Pre-IPO Share Option Scheme") and a share option scheme (the "Share Option Scheme"), approved by the written resolutions of the shareholders passed on 20 June 2013 (the "Resolutions").

Pre-IPO Share Option Scheme

The purpose of the Pre-IPO Share Option Scheme is to recognise and motivate the contributions that certain executive and non-executive directors, members of senior management and other employees have made or may make to the Group. The principal terms of the Pre-IPO Share Option Scheme, approved by the Resolutions, are substantially the same as the terms of the Share Option Scheme, except that:

(a) the subscription price per share under the Pre-IPO Share Option Scheme is HK$0.7;

(b) the total number of shares which may be issued upon the exercise of all share options granted under the Pre-IPO Share Option Scheme is 17,490,000, representing approximately 4.19% of the total issued share capital of the Company immediately after the completion of Initial Public Offering and the capitalisation issue (assuming that the over-allotment option is not exercised);

(c) save for the share options which have been granted, no further share options will be granted under the Pre-IPO Share Option Scheme on or after the Listing Date.

All the share options under the Pre-IPO Share Option Scheme were granted on 20 June 2013 at a consideration of HK$1 paid by each participant.

30. SHARE OPTION SCHEME *(continued)*

Pre-IPO Share Option Scheme *(continued)*

The share options granted under the Pre-IPO Share Option Scheme are subject to the following vesting and exercise periods:

(1) 30% of the share options shall become vested and exercisable on the 1st anniversary date of the Listing Date (the "1st Vesting Date"), and the exercise period in respect thereof shall commence on the 1st Vesting Date and end on the day immediately before the 10th anniversary date of the offer date (the "Expiration Date") (both dates inclusive).

(2) 30% of the share options shall become vested and exercisable on the 2nd anniversary date of the Listing Date (the "2nd Vesting Date"), and the exercise period in respect thereof shall commence on the 2nd Vesting Date and end on the Expiration Date (both dates inclusive).

(3) 40% of the share options shall become vested and exercisable on the 3rd anniversary date of the Listing Date (the "3rd Vesting Date"), and the exercise period in respect thereof shall commence on the 3rd Vesting Date and end on the Expiration Date (both dates inclusive).

Share options under the Pre-IPO Share Option Scheme do not confer rights on the holders to dividends or to vote at shareholders' meetings.

A summary of share option movements during the year is presented below:

	Year ended 31 December 2019	
	Weighted average exercise price HK$ per share	Number of share options
At beginning of year	0.7	800,000
Forfeited during the year	—	—
At end of year	0.7	800,000

The fair value of the share options under the Pre-IPO Share Option Scheme granted was estimated at approximately HK$8,787,000, of which the Group reversed share option expenses of nil during the year ended 31 December 2019 (31 December 2018: HK$120,605) because of the resignation of a senior staff.

30. SHARE OPTION SCHEME *(continued)*

Pre-IPO Share Option Scheme *(continued)*

The fair value of the share options under the Pre-IPO Share Option Scheme granted was estimated as at the date of grant, using a binomial option pricing model, taking into account the terms and conditions upon which the share options were granted. The following table lists the inputs to the model used:

	First batch	Second batch	Third batch
Dividend yield	—	—	—
Expected volatility	44.81%	44.81%	44.81%
Risk-free interest rate	1.883%	1.883%	1.883%
Expected life of options (year)	10	10	10
Weighted average share price (HK$ per share)	0.7	0.7	0.7

The expected life of the share options is not necessarily indicative of the exercise patterns that may occur. The expected volatility may not necessarily reflect the actual outcome.

No other feature of the share options granted was incorporated into the measurement of fair value.

No share options were exercised during the year. As at 31 December 2019, the Company had 800,000 share options outstanding under the Pre-IPO Share Option Scheme. The exercise in full of the outstanding share options would, under the present capital structure of the Company, result in the issue of 800,000 additional ordinary shares of the Company and additional share capital of HK $8,000 and share premium of HK$792,000 (before share issue expenses).

At the date of approval of these financial statements, the Company had 800,000 share options outstanding under the Pre-IPO Share Option Scheme, which represented approximately 0.09% of the Company's shares in issue as at that date.

Share Option Scheme

The Company operates a share option scheme (the "Share Option Scheme") for the purposes of: (a) motivating the eligible participants to optimise their performance and efficiency for the benefit of the Group; and (b) attracting and retaining or otherwise maintaining ongoing business relationships with the eligible participants whose contributions are, will be or expected to be beneficial to the Group.

The board of directors (the "Board") may, at its discretion, grant options to the following eligible participants ("Eligible Participants"):

(i) any eligible employees, where "eligible employees" means the employees (whether full-time or part-time, including any executive director but excluding any non-executive director) of the Company, any subsidiary or any entity in which the Group holds at least 20% of its issued share capital ("Invested Entity");

(ii) any non-executive directors (including independent non-executive directors) of the Company, any subsidiary or any Invested Entity;

(iii) any supplier of goods or services to any member of the Group or any Invested Entity;

(iv) any customer of any member of the Group or any Invested Entity;

(v) any person or entity that provides research, development or other technological support to any member of the Group or any Invested Entity;

(vi) any shareholder of any member of the Group or any Invested Entity or any holder of any securities issued by any member of the Group or any Invested Entity;

30. SHARE OPTION SCHEME *(continued)*

Share Option Scheme *(continued)*

(vii) any advisor (professional or otherwise) or consultant to any area of business or business development of any member of the Group or any Invested Entity;

(viii) any other group or class of participants who have contributed or may contribute by way of joint venture, business alliance or other business arrangement to the development and growth of the Group; and

(ix) for the purposes of the Share Option Scheme, share options may be granted to any company wholly owned by one or more Eligible Participants.

The Share Option Scheme became effective on 20 June 2013 and, unless otherwise cancelled or amended, will remain in force for 10 years from that date.

The maximum number of shares to be issued upon exercise of all outstanding share options granted and yet to be exercised under the Share Option Scheme shall not, in aggregate, exceed 10% of the total number of shares in issue on the Listing Date, i.e., 40,000,000 shares, and 30% of the shares of the Company in issue from time to time. The maximum number of shares issuable under share options to any Eligible Participant in the Share Option Scheme within any 12-month period up to and including the date of the grant is limited to 1% in aggregate of the shares of the Company in issue at the date of the grant. Any further grant of share options in excess of this limit is subject to shareholders' approval in a general meeting.

Share options granted to a Director, chief executive or a substantial shareholder of the Company, or to any of their respective associates, are subject to approval in advance by the independent non-executive directors, excluding the independent non-executive director who is or whose associates are the grantees. In addition, any share options granted to a substantial shareholder or an independent non-executive director of the Company, or to any of their respective associates, in excess of 0.1% of the shares of the Company in issue at any time and with an aggregate value (based on the closing price of the Company's shares at the date of grant) in excess of HK$5,000,000, within any 12-month period and including the date of the grant, are subject to shareholders' approval in advance in a general meeting.

The offer of a grant of share options may be accepted within 21 days from the date of offer, upon payment of a nominal consideration of HK$1 in total by the grantee. The exercise period of the share options granted is determinable by the Board, and commences after a certain vesting period and ends on a date which is not later than ten years from the date of grant of the share options.

The exercise price in respect of any particular option shall be such price as the Board may, in its absolute discretion, determine at the time of grant of the relevant option (and shall be stated in the letter containing the offer of the grant of the option) but the exercise price shall be at least the highest of: (a) the closing price of a share as stated in the Stock Exchange's daily quotation sheet on the offer date, which must be a business day; (b) the average of the closing prices of a share as stated in the Stock Exchange's daily quotation sheets for the five business days immediately preceding the offer date; and (c) the nominal value of a share.

Share options do not confer rights on the holders to dividends or to vote at shareholders' meetings.

As at 31 December 2019 and the date of approval of these financial statements, no share option was granted and outstanding under the Share Option Scheme.

31. RESERVES

(i) The amounts of the Group's reserves and the movements therein for the current year and the prior year are presented in the consolidated statement of changes in equity on pages 69 to 70 of the financial statements.

(ii) In accordance with PRC Company Law, the PRC subsidiary of the Group is required to allocate 10% of its profit after tax to the statutory surplus reserve (the "SSR") until such reserve reaches 50% of the registered capital of the PRC subsidiary. Subject to certain restrictions set out in PRC Company Law, part of the SSR may be converted to increase paid-up capital/issued capital of the PRC subsidiary, provided that the remaining balance after the capitalisation is not less than 25% of the registered capital. The SSR of the PRC subsidiary attributable to the parent amounted to HK$43,070,000 and HK$86,629,000 as at 31 December 2019 and 2018, respectively.

32. NOTES TO THE CONSOLIDATED STATEMENT OF CASH FLOWS

The Precious Dragon spin-off and the distribution

Year ended 31 December 2019

During the year, the Group completed the Precious Dragon spin-off and the distribution. Further details are set out in note 14 to the financial statements.

Details of the aggregate net assets of the Precious Dragon Group distributed by the Company under the distribution and the financial impact are summarised below:

	Notes	HK$'000
Net assets distributed:		
Property, plant and equipment	17	96,449
Prepaid land lease payments	18	57,373
Deferred tax assets	28	2,120
Non-current prepayments		8,013
Inventories		70,461
Trade and bills receivables		21,596
Prepayments, deposits and other receivables		10,323
Pledged bank deposits		4,330
Cash and cash equivalents		133,744
Trade and bills payables		(44,320)
Other payables and accruals		(43,831)
Interest-bearing bank borrowings		(45,000)
Deferred tax liabilities	28	(1,638)
Deferred income	27	(2,161)
Non-controlling interests		(8,159)
		259,300
Special interim dividend	15	(259,300)
		—

An analysis of the net outflow of cash and cash equivalents in respect of the distribution is as follows:

	2019 HK$'000
Net outflow of cash and cash equivalents included in cash flows from financing activities	**133,744**

33. COMMITMENTS

The Group had the following capital commitments as at 31 December 2019 and 2018:

	2019 HK$'000	2018 HK$'000
Contracted, but not provided for:		
Plant and machinery	**1,709**	20,616

34. CONTINGENT LIABILITIES

The Group had no significant contingent liability as at 31 December 2019 and 2018.

35. RELATED PARTY TRANSACTIONS

In addition to the transactions detailed elsewhere in the financial statements, the Group had the following transactions with related parties during the year:

(1) Recurring transactions

	Notes	2019 HK$'000	2018 HK$'000
Sales of products to:			
European Asia Industrial Ltd. ("European Asia Industrial")	(i)	**—**	6,508
Botny Car Service Management Company (廣州保賜利汽車服務管理有限公司) ("Botny Car Management")	(i)	**—**	15
Guangzhou Botny Chemical Co., Ltd. ("Botny Chemical")* (廣州保賜利化工有限公司)	(i)	**1,690**	—
Guangzhou Euro Asia Aerosol and Household Products Manufacture Co., Ltd. ("Euro Asia Aerosol") (廣州歐亞氣霧劑與日化用品製造有限公司)	(i)	**7,224**	—
Total		**8,914**	6,523
Purchases of products from:			
European Asia Industrial Ltd.		**—**	1,388
Guangzhou Botny Chemical Co., Ltd.* (廣州保賜利化工有限公司)		**1**	—
Total		**1**	1,388
Lease rental expenses charged by:			
Mr. Lin Wan Tsang*	(ii)	**80**	96

* Director of the Company

Notes:

(i) European Asia Industrial, Botny Chemical and Euro Asia Aerosol are related companies controlled by the ultimate shareholder of the Company. The sales and purchases between the companies were made on prices and conditions as mutually agreed.

(ii) The lease rental expenses charged by Mr. Lin Wan Tsang were determined based on the underlying contracts as agreed between the Group and Mr. Lin Wan Tsang.

35. RELATED PARTY TRANSACTIONS *(continued)*

(2) Balances with related parties and directors

	2019 HK$'000	2018 HK$'000
Due from:		
European Asia Industrial*	—	514
Guangzhou Botny Chemical Co., Ltd. ("Botny Chemical") (廣州保賜利化工有限公司)**	388	—
Guangzhou Euro Asia Aerosol and Household Products Manufacture Co., Ltd. ("Euro Asia Aerosol") (廣州歐亞氣霧劑與日化用品製造有限公司)**	1,238	—
Euro Asia Japan Co., Ltd. (Euro Asia Japan)**/***	3	—
Mr. Lin Wan Tsang*	11	—
Botny Car Management*	—	922
	1,640	1,436

* Included in "Prepayments, deposits and other receivables" in the consolidated statement of financial position

** Included in "Trade and bills receivables" in the consolidated statement of financial position

*** Euro Asia Japan is a related company controlled by the ultimate shareholder of the Company. The sales and purchases between the companies were made on prices and conditions as mutually agreed.

The amounts due from European Asia Industrial, Botny Chemical, Euro Asia Aerosol and Euro Asia Japan were trade in nature. The amounts due from Botny Car Management and Mr. Lin Wan Tsang were non-trade in nature.

	2019 HK$'000	2018 HK$'000
Due to:		
Mr. Lin Wan Tsang*	39	—
European Asia Industrial*	—	2
	39	2

* Included in "Other payables and accruals" in the consolidated statement of financial position

The amounts due to Mr. Lin Wan Tsang were non-trade in nature. The amounts due to European Asia Industrial were trade in nature.

35. RELATED PARTY TRANSACTIONS *(continued)*

(3) Compensation of key management personnel of the Group, including Directors' remuneration as detailed in note 11 above, is as follows:

	2019 HK$'000	2018 HK$'000
Fees	**3,555**	3,341
Salaries, allowances and benefits in kind	**2,955**	4,273
Pension scheme contributions	**150**	100
Total compensation paid to key management personnel	**6,660**	7,714

The related party transactions in respect of item (1) above also constitute connected transactions as defined in Chapter 14A of the Listing Rules.

36. FINANCIAL INSTRUMENTS BY CATEGORY

The carrying amounts of each of the categories of financial instruments as at the end of the reporting period are as follows:

	2019		2018	
Financial assets	**Loans and receivables HK$'000**	**Total HK$'000**	Loans and receivables HK$'000	Total HK$'000
Trade and bills receivables	**22,844**	**22,844**	69,737	69,737
Due from related parties and directors	**11**	**11**	1,436	1,436
Financial assets included in prepayments, deposits and other receivables	**1,055**	**1,055**	3,789	3,789
Pledged bank deposits	**—**	**—**	4,930	4,930
Cash and cash equivalents	**51,698**	**51,698**	228,149	228,149
	75,608	**75,608**	308,041	308,041

36. FINANCIAL INSTRUMENTS BY CATEGORY *(continued)*

Financial liabilities	2019 Financial liabilities at amortised cost HK$'000	2019 Total HK$'000	2018 Financial liabilities at amortised cost HK$'000	2018 Total HK$'000
Trade and bills payables	**4,304**	**4,304**	57,338	57,338
Due to related parties and directors	**39**	**39**	2	2
Financial liabilities included in other payables and accruals	**4,613**	**4,613**	19,633	19,633
Interest-bearing bank borrowings	**260**	**260**	83,392	83,392
	9,216	**9,216**	160,365	160,365

37. FAIR VALUE AND FAIR VALUE HIERARCHY OF FINANCIAL INSTRUMENTS

At 31 December 2019 and 2018, the fair values of the Group's financial assets and financial liabilities approximated to their respective carrying amounts.

Management has assessed that the fair values of cash and cash equivalents, pledged bank deposits, trade and bills receivables, financial assets included in prepayments, deposits and other receivables, trade and bills payables, financial liabilities included in other payables and accruals, and interest-bearing bank and other borrowings approximate to their respective carrying amounts largely due to the short term maturities of these instruments.

The Group's corporate finance team headed by the finance manager is responsible for determining the policies and procedures for the fair value measurement of financial instruments. The corporate finance team reports directly to the chief financial officer and the audit committee. At each reporting date, the corporate finance team analyses the movements in the values of financial instruments and determines the major inputs applied in the valuation. The valuation is reviewed and approved by the chief financial officer. The valuation process and results are discussed with the audit committee twice a year for interim and annual financial reporting.

The fair values of the financial assets and liabilities are included at the amount at which the instrument could be exchanged in a current transaction between willing parties, other than in a forced or liquidation sale.

38. FINANCIAL RISK MANAGEMENT OBJECTIVES AND POLICIES

The Group's principal financial instruments, other than derivatives, comprise interest-bearing bank and other borrowings, amounts due from related parties and directors, amounts due to related parties and directors, cash and cash equivalents and pledged bank deposits. The main purpose of these financial instruments is to raise finance for the Group's operations. The Group has various other financial assets and liabilities, such as trade receivables, bills receivable, other receivables, trade payables, and other payables, which arise directly from its operations.

It is, and has been throughout the year under review, the Group's policy that no trading in financial instruments shall be undertaken.

The main risks arising from the Group's financial instruments are interest rate risk, foreign currency risk, credit risk and liquidity risk. The Directors review and agree policies for managing each of these risks and they are summarised below.

Interest rate risk

The Group's exposure to the risk of changes in market interest rates relates primarily to the Group's long term debt obligations with floating interest rates.

The contractual interest rates and terms of repayment of the interest-bearing bank borrowings of the Group are set out in note 25 above.

The following table demonstrates the sensitivity to a reasonably possible change in the PBOC base rate and the Hong Kong Interbank Rate, with all other variables held constant, of the Group's profit before tax (through the impact of floating rate borrowings) during the year.

	Increase/ (decrease) in basis points	Increase/ (decrease) in profit before tax HK$'000
As at 31 December 2019		
Hong Kong Interbank Rate	—	—
Hong Kong Interbank Rate	—	—
As at 31 December 2018		
PBOC base rate	25	6
Hong Kong Interbank Rate	25	147
PBOC base rate	(25)	(6)
Hong Kong Interbank Rate	(25)	(147)

38. FINANCIAL RISK MANAGEMENT OBJECTIVES AND POLICIES *(continued)*

Foreign currency risk

The Group has transactional currency exposures. These exposures arise from sales in currencies other than the units' functional currencies. Approximately 18% and 27% of the Group's sales were denominated in currencies other than the functional currencies of the operating units making the sale, whilst approximately 99% and 98% of inventory costs were denominated in the units' functional currencies for the years ended 31 December 2019 and 2018, respectively.

The following table demonstrates the sensitivity at the end of each reporting period to a reasonably possible change in the US$ exchange rate and HK$ exchange rate, with all other variables held constant, of the Group's profit before tax and the Group's equity.

	Increase/ (decrease) in exchange rate %	Increase/ (decrease) in profit before tax HK$'000	Increase/ (decrease) in equity* HK$'000
As at 31 December 2019			
If RMB weakens against US$	**5**	**522**	**444**
If RMB strengthens against US$	**(5)**	**(522)**	**(444)**
If RMB weakens against HK$	**5**	**—**	**(17,288)**
If RMB strengthens against HK$	**(5)**	**—**	**17,288**
As at 31 December 2018			
If RMB weakens against US$	5	8,205	6,974
If RMB strengthens against US$	(5)	(8,205)	(6,974)
If RMB weakens against HK$	5	—	(39,558)
If RMB strengthens against HK$	(5)	—	39,558

* Excluding retained profits

38. FINANCIAL RISK MANAGEMENT OBJECTIVES AND POLICIES *(continued)*

Credit risk

The Group trades only with recognised and creditworthy third parties. It is the Group's policy that all customers who wish to trade on credit terms are subject to credit verification procedures. In addition, receivable balances are monitored on an ongoing basis and the Group's exposure to bad debts is not significant.

Maximum exposure and year-end staging

The tables below show the credit quality and the maximum exposure to credit risk based on the Group's credit policy, which is mainly based on past due information unless other information is available without undue cost or effort, and year-end staging classification as at 31 December. The amounts presented are net carrying amounts for financial assets and the exposure to credit risk for the financial guarantee contracts.

As at 31 December 2019

	12-month ECLs	Lifetime ECLs			
	Stage 1 HK$'000	Stage 2 HK$'000	Stage 3 HK$'000	Simplified approach HK$'000	Total HK$'000
Trade receivables*	—	—	—	22,844	22,844
Financial assets included in prepayments, deposit and other receivables					
– Normal**	1,055	—	—	—	1,055
– Doubtful**	—	—	—	—	—
Due from a director	11	—	—	—	11
Pledged bank deposits					
– Not yet past due	—	—	—	—	—
Cash and cash equivalents					
– Not yet past due	51,698	—	—	—	51,698
	52,764	—	—	22,844	75,608

38. FINANCIAL RISK MANAGEMENT OBJECTIVES AND POLICIES *(continued)*

Credit risk *(continued)*

Maximum exposure and year-end staging *(continued)*

As at 31 December 2018

	12-month ECLs	Lifetime ECLs			
	Stage 1	Stage 2	Stage 3	Simplified approach	Total
	HK$'000	HK$'000	HK$'000	HK$'000	HK$'000
Trade receivables*	—	—	—	69,737	69,737
Financial assets included in prepayments, deposit and other receivables					
– Normal**	3,789	—	—	—	3,789
– Doubtful**	—	—	—	—	—
Due from related parties	1,436	—	—	—	1,436
Pledged bank deposits					
– Not yet past due	4,930	—	—	—	4,930
Cash and cash equivalents					
– Not yet past due	228,149	—	—	—	228,149
	238,304	—	—	69,737	308,041

* For trade receivables to which the Group applies the simplified approach for impairment, information based on the provision matrix is disclosed in note 20 to the financial statements.

** The credit quality of the financial assets included in prepayments, deposit and other receivables is considered to be "normal" when they are not past due and there is no information indicating that the financial assets had a significant increase in credit risk since initial recognition. Otherwise, the credit quality of the financial assets is considered to be "doubtful".

Further quantitative data in respect of the Group's exposure to credit risk arising from trade receivables are disclosed in note 20 to the financial statements.

Since the Group trades only with recognised and creditworthy third parties, there is no requirement for collateral. Concentrations of credit risk are managed by customer, by geographical region and by industry sector. There are no significant concentrations of credit risk within the Group as the customer bases of the Group's trade receivables are widely dispersed in different sectors and industries.

38. FINANCIAL RISK MANAGEMENT OBJECTIVES AND POLICIES *(continued)*

Liquidity risk

The Group's policy is to maintain sufficient cash and cash equivalents and have available funding through capital contribution and financial support from related parties and bank borrowings.

The maturity profile of financial liabilities as at 31 December 2019 and 2018, based on the contractual undiscounted payments, was as follows:

	As at 31 December 2019			
	On demand HK$'000	Less than 1 year HK$'000	Over 1 year HK$'000	Total HK$'000
Trade and bills payables	919	3,385	—	4,304
Financial liabilities included in other payables and accruals	—	4,613	—	4,613
Due to related parties and directors	—	39	—	39
Lease liabilities	—	260	—	260
	919	8,297	—	9,216

	As at 31 December 2018			
	On demand HK$'000	Less than 1 year HK$'000	Over 1 year HK$'000	Total HK$'000
Trade and bills payables	933	56,405	—	57,338
Financial liabilities included in other payables and accruals	—	19,633	—	19,633
Due to related parties and directors	—	2	—	2
Interest-bearing bank borrowings	—	8,481	80,027	88,508
	933	84,521	80,027	165,481

Capital management

The primary objectives of the Group's capital management are to safeguard the Group's ability to continue as a going concern and to maintain healthy capital ratios in order to support its business and maximise shareholders' value. The Group manages its capital structure and makes adjustments to it in light of changes in economic conditions. To maintain or adjust the capital structure, the Group may adjust the dividend payment to shareholders, return capital to shareholders or issue new shares. No changes were made in the objectives, policies or processes for managing capital during the years ended 31 December 2019 and 2018.

38. FINANCIAL RISK MANAGEMENT OBJECTIVES AND POLICIES *(continued)*

Capital management *(continued)*

The Group monitors capital using a gearing ratio, which is net debt divided by capital plus net debt. Net debt is calculated as interest-bearing bank and other borrowings, trade and bills payables, financial liabilities included in other payables and accruals, amounts due to related parties and directors less cash and cash equivalents and pledged bank deposits. Capital represents equity attributable to owners of the parent. The Group's policy is to keep the gearing ratio at a reasonable level. The gearing ratios at the end of the reporting periods are as follows:

	2019 **HK$'000**	2018 HK$'000
Interest-bearing bank borrowings	**260**	83,392
Trade and bills payables	**4,304**	57,338
Financial liabilities included in other payables and accruals	**4,613**	19,633
Due to related parties and directors	**39**	2
Less: Cash and cash equivalents and pledged bank deposits	**(51,698)**	(233,079)
Net debt	**(42,482)**	(72,714)
Equity attributable to owners of the parent	**314,196**	584,651
Capital and net debt	**271,714**	511,937
Gearing ratio	**(15%)**	(14%)

39. EVENTS AFTER THE REPORTING PERIOD

Since the outbreak of pneumonia caused by the new coronavirus (the "COVID-19 Outbreak") in January 2020, the prevention and control of the pneumonia epidemic have been continuously carried out nationwide both in Mainland China and Hong Kong.

The COVID-19 Outbreak in some provinces and cities, as well as the overall economy, caused certain influence, to some extent, which could affect the business of the Group. The extent of influence will depend on the situation of the epidemic prevention and control, duration and the implementation of the regulation policies.

The Group will continue to pay close attention to the development of the COVID-19 Outbreak, and evaluate and actively respond to its impact on the Company's financial position, operating results and other aspects. As of the date of approval of these financial statements, this assessment was still in progress.

40. STATEMENT OF FINANCIAL POSITION OF THE COMPANY

Information about the statement of financial position of the Company at the end of the reporting period is as follows:

	2019 **HK$'000**	2018 HK$'000
NON-CURRENT ASSETS		
Investments in subsidiaries	**—**	—
Total non-current assets	**—**	—
CURRENT ASSETS		
Prepayments	**—**	263
Amounts due from subsidiaries	**914,197**	948,846
Cash and cash equivalents	**667**	710
Total current assets	**914,864**	949,819
CURRENT LIABILITIES		
Accruals	**15,192**	56
Total current liabilities	**15,192**	56
NET CURRENT ASSETS	**899,672**	949,763
Net assets	**899,672**	949,763
EQUITY		
Issued capital	**9,342**	9,342
Reserves (note)	**618,504**	664,275
Equity component of Convertible Notes (note)	**271,826**	276,146
Total equity	**899,672**	949,763

40. STATEMENT OF FINANCIAL POSITION OF THE COMPANY *(continued)*

Note:

A summary of the Company's reserves is as follows:

	Share premium account HK$'000	Share option reserve HK$'000	Accumulated losses HK$'000	Equity component of Convertible Notes HK$'000	Total HK$'000
As at 1 January 2019	**677,488**	**1,986**	**(15,199)**	**276,146**	**940,421**
Total comprehensive income for the year	**—**	**—**	**18,133**	**—**	**18,133**
Distribution of the Precious Dragon Group	**(23,454)**	**—**	**—**	**—**	**(23,454)**
Exercise of the conversion rights attached to the Convertible Notes	**4,280**	**—**	**—**	**(4,320)**	**(40)**
Shares repurchased and cancelled	**—**	**—**	**(2,084)**	**—**	**(2,084)**
Share repurchased	**—**	**—**	**(18,253)**	**—**	**(18,253)**
Dividend paid	**(24,393)**	**—**	**—**	**—**	**(24,393)**
As at 31 December 2019	**633,921**	**1,986**	**(17,403)**	**271,826**	**890,330**

	Share premium account HK$'000	Share option reserve HK$'000	Accumulated losses HK$'000	Equity component of Convertible Notes HK$'000	Total HK$'000
As at 1 January 2018	687,484	2,107	(15,624)	276,146	950,113
Total comprehensive income for the year	—	—	425	—	425
Equity-settled share option arrangements	—	(121)	—	—	(121)
Dividend paid	(9,996)	—	—	—	(9,996)
As at 31 December 2018	677,488	1,986	(15,199)	276,146	940,421

41. APPROVAL OF THE FINANCIAL STATEMENTS

The financial statements were approved and authorised for issue by the board of directors on 23 March 2020.

A summary of the results and the assets, liabilities and non-controlling interests of the Group for the last five financial years is as follows.

RESULTS

	2019 HK$'000	2018 HK$'000	2017 HK$'000 (Restated)*	2016 HK$'000	2015 HK$'000
Revenue	**205,962**	861,549	756,057	696,344	693,677
Profit before tax	**32,178**	110,480	86,729	123,038	97,450
Income tax expenses	**(7,564)**	(25,058)	(13,500)	(27,753)	(18,155)
Profit for the year	**24,614**	85,422	73,229	95,285	79,295
Profit for the year from a discontinued operation	**15,569**	—	—	—	—
	40,183	85,422	73,229	95,285	79,295
Profit attributable to:					
Owners of the Company	**39,182**	79,473	70,987	94,833	78,954
Non-controlling interests	**1,001**	5,949	2,242	452	341
	40,183	85,422	73,229	95,285	79,295

ASSETS AND LIABILITIES

	2019 HK$'000	2018 HK$'000	2017 HK$'000 (Restated)*	2016 HK$'000	2015 HK$'000
Total assets	**351,271**	814,766	792,416	664,201	726,760
Total liabilities	**32,336**	217,301	145,340	146,793	192,099
	318,935	597,465	647,076	517,408	534,661
Equity					
Equity attributable to owners of the Company	**314,196**	584,651	639,043	513,293	530,732
Non-controlling interests	**4,739**	12,814	8,033	4,115	3,929
	318,935	597,465	647,076	517,408	534,661

Note:

* The summary of the consolidated results of the Group for the year ended 31 December 2017 and assets and liabilities as at 31 December 2017 have been restated to include the effect of the acquisition of 70% equity interests in Guangzhou Euro Asia Aerosol and Household Products Manufacture Co., Ltd., which was completed on 29 March 2018, in according to the accounting standards.