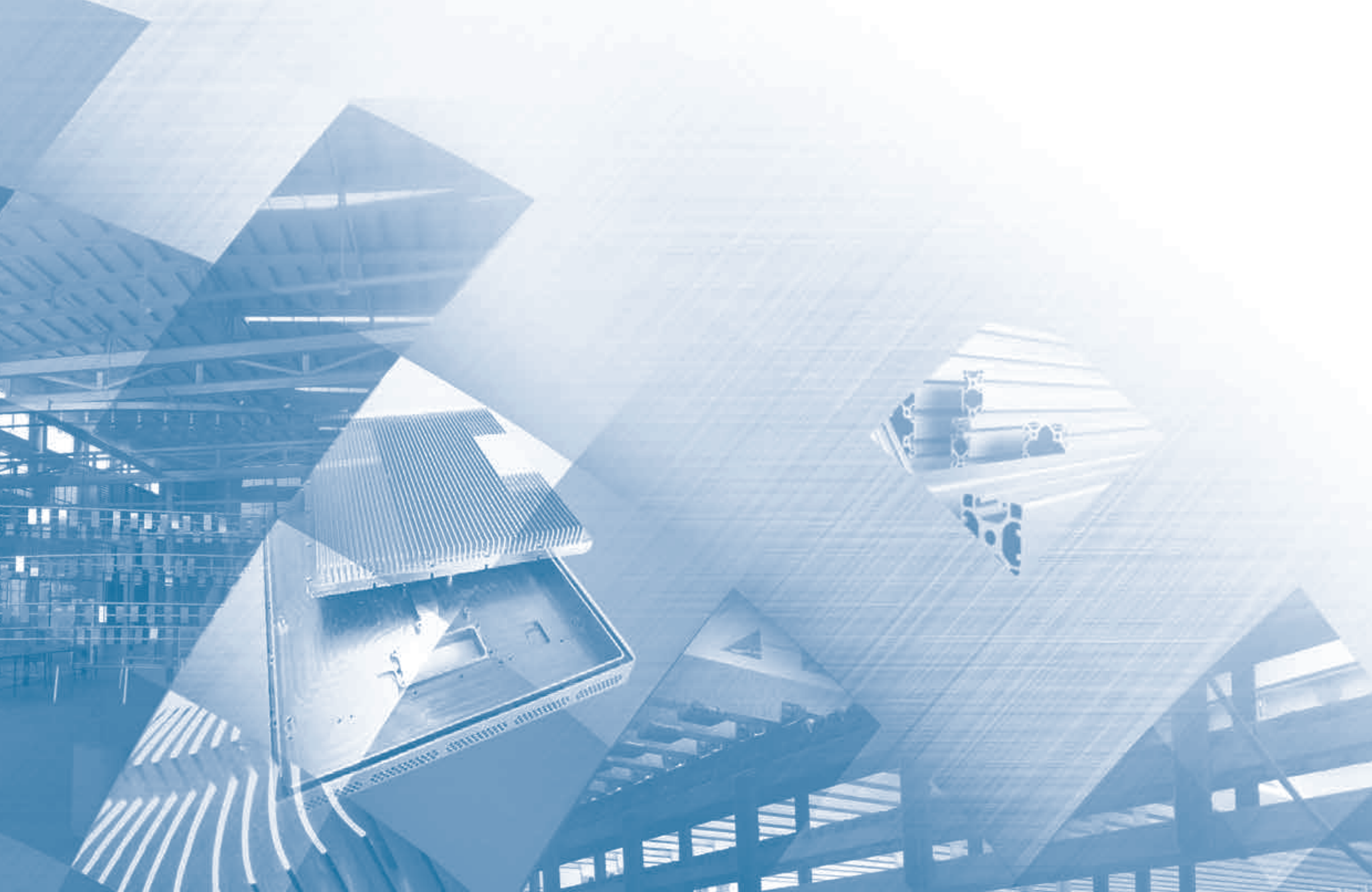
榮陽實業集團有限公司
PanAsialum Holdings Company Limited

(Incorporated in the Cayman Islands with limited liability)
Stock Code: 2078

2020 ANNUAL REPORT

This Annual Report is printed on environmentally friendly paper

Contents



Corporate Information

Directors

Executive Directors

Ms. Li Jiewen
(Chief Executive Officer)
Mr. Gao Mingjie
Mr. Pan Zhaolong

Independent Non-executive Directors

Mr. Mar Selwyn
Mr. Leung Ka Tin
Dr. Cheung Wah Keung
(Independent Non-executive Chairman)
Mr. Chan Kai Nang

Board Committees

Audit Committee

Mr. Mar Selwyn (Chairman)
Mr. Leung Ka Tin
Mr. Chan Kai Nang

Remuneration Committee

Dr. Cheung Wah Keung (Chairman)
Ms. Li Jiewen
Mr. Chan Kai Nang

Nomination Committee

Mr. Leung Ka Tin (Chairman)
Mr. Chan Kai Nang
Mr. Pan Zhaolong

Environmental, Social and Governance Committee

Mr. Pan Zhaolong (Chairman)
Mr. Gao Mingjie
Dr. Cheung Wah Keung

Authorized Representatives

Mr. Pan Zhaolong
Ms. Li Jiewen

Company Secretary

Ms. Kwok Ka Huen

Registered Office

Cricket Square
Hutchins Drive
P.O. Box 2681
Grand Cayman KY1-1111
Cayman Islands

Stock Code

2078

Principal Place of Business in Hong Kong

Unit 05, 17th Floor, Nanyang Plaza,
57 Hung To Road,
Kwun Tong, Kowloon,
Hong Kong

Production Bases in People's Republic of China

Long Sheng Industrial Area
No. 6 Long Sheng Road
Wolong District
Nanyang City
Henan Province
PRC

Dong Fang Xi Wang Aluminium Industrial Garden
Wu Cai Wan
ZhunDong Economic and Technology Development Zone
Changji City
Xinjiang Province
PRC

Principal Share Registrar

Suntera (Cayman) Limited
Suite 3204, Unit 2A, Block 3, Building D
P.O. Box 1586, Gardenia Court, Camana Bay
Grand Cayman, KY1-1100
Cayman Islands

Hong Kong Branch Share Registrar

Computershare Hong Kong Investor Services Limited
Shops 1712-1716, 17th Floor
Hopewell Centre
183 Queen's Road East
Wanchai, Hong Kong

Principal Bankers

Agricultural Bank of China
China CITIC Bank, Nanyang Branch
Bank of Communications, Nanyang Branch
Bank of China Macau branch
Guangzhou Rural Commercial Bank, Zengcheng Branch
Guangzhou Rural Commercial Bank, Jiangmen Branch

Independent Auditor

BDO Limited

Legal Adviser

Jeffrey Mak Law Firm

Website

www.palum.com

Financial Highlights

For the year ended December 31, 2020

	Year ended December 31, 2020 HK$'000	Year ended December 31, 2019 HK$'000
Operating results		
Revenue	**1,817,633**	1,717,428
Gross profit	**90,821**	2,733
Profit (loss) before income tax	**1,229,240**	(489,659)
Operating loss before working capital changes	**(215,607)**	(222,981)
Profit (loss) attributable to owners of the Company*	**920,832**	(495,594)
Cash used in operations	**(88,990)**	(297,419)
Financial position (HK$'000)		
Net debt	**(1,808,238)**	(1,517,986)
Equity attributable to owners of the Company	**1,226,852**	243,242
Earnings (loss) per share attributable to owners of the Company		
Basic and diluted (HK cents per share)	**76.8**	(41.3)
Key ratios (%)		
Gross profit margin	**5.0%**	0.2%
Net profit (loss) margin	**50.7%**	-28.9%

* Profit attributable to owners of the Company for the year ended December 31, 2020 include an one-off gain of HK$1,742 million and an one-off expenses of HK$213 million from disposal of Zengcheng land.

Management Discussion and Analysis

Overview

Business and Financial Overview

PanAsialum Holdings Company Limited ("**Company**") and its subsidiaries (collectively, "**Group**") is an aluminium products manufacturer with several production plants in the People's Republic of China ("**PRC**"), making and selling a large and diverse portfolio of high quality products to its customers. The Group strategically located plants in Jiangmen, Henan, Xinjiang, literally in south, middle and north-west of PRC allows the Group to serve customers at more optimal cost of production in different locations.

Performance Overview

Amidst the inevitable impact caused by the COVID-19 pandemic, during the year ended December 31, 2020 ("**Year**"), the Group had managed to mitigate the detrimental impacts to its operations. Nonetheless, the Group had proceeded with gradual improvements in different aspects for the period. The total operating revenue of the Group for the Year was HK$1,818 million (year ended December 31, 2019: HK$1,717 million), representing an increase of 5.9% as compared with the year ended December 31, 2019.

The Group's overall gross profit and gross profit margin increased from HK$3 million and 0.2% for the year ended December 31, 2019 to HK$91 million and 5.0% respectively for the Year. The increase in gross profit margin was primarily attributable to (i) an increase in sales turnover for the Year; (ii) an increase in the ingot-to-product yield; and (iii) the Group shifted its focus on products with higher profit margin customers.

Net gain after tax attributable to shareholders of HK$921 million was reported for the Year, reversing from net loss of HK$496 million as compared with the year ended December 31, 2019. It was mainly due to a non-recurring gain representing the net proceeds from the disposal of the land use right ("**Land**") in Zengcheng recorded for the Year, and partly due to (i) an increase in gross profit contribution; and (ii) a decrease in operating related administrative expenses.

Revenue

Revenue contributions by the geographical segments for the years ended December 31, 2019 and 2020 are presented below:

	Revenue for the		The percentage of total revenue for the	
	Year ended December 31, 2020 (HK$ million)	Year ended December 31, 2019 (HK$ million)	**Year ended December 31, 2020**	Year ended December 31, 2019
Geographical Segment				
– The PRC	**1,019**	1,217	**56.0%**	70.9%
– Australia	**216**	236	**11.9%**	13.7%
– South East Asia	**321**	6	**17.7%**	0.4%
– Hong Kong	**98**	71	**5.4%**	4.1%
– Others	**164**	187	**9.0%**	10.9%
Total	**1,818**	1,717	**100%**	100.0%

The increase in overall revenue for the Year was mainly attributable to the expansion into the South East Asia market and an increase in sales in Hong Kong offsetting the decrease in revenue in the PRC and Australia. The decrease in revenue in the PRC and Australia was principally attributable to the elimination of low profit margin customers and the adverse impact of the COVID-19 outbreak respectively for the Year.

Management Discussion and Analysis

The PRC
The PRC segment contributed approximately HK$1,019 million to the total revenue of the Group, representing a decrease of 16% as compared with HK$1,217 million for the year ended December 31, 2019. Gross profit margin improved to 0.1% for the Year as compared with -3% for the year ended December 31, 2019. The decrease in sales was mainly due to the impact of the COVID-19 pandemic at early 2020 which shrunk our production and the elimination of the low margin customers.

Australia
The revenue and gross profit margin of the Australia segment were HK$216 million (year ended December 31, 2019: HK$236 million) and 20% (year ended December 31, 2019: 15%) respectively for the Year. There was a 8% drop in sales which mainly because of the COVID-19 pandemic impact during the Year. However, the gross profit margin improved due to the sales of product with high gross profit margin.

South East Asia
The South East Asia segment is a brand new segment in the Year, which contributed HK$321 million of sales. It was mainly contributed by bringing to the Group orders of solar energy product, which is expected to grow continuously in the forthcoming year.

Cost of Sales
Cost of sales increased by 0.7% from HK$1,715 million for the year ended December 31, 2019 to HK$1,727 million for the Year. The increase is lower than the increase in sales of 6% for the Year which was mainly due to the substantial decrease in the cost of sales for the PRC segment.

Gross Profit
Gross profit increased from HK$3 million for the year ended December 31, 2019 to HK$91 million for the Year. The Group's gross profit margin has increased from 0.2% for the year ended December 31, 2019 to 5.0% for the Year. The increase in sales would enable effective absorption of fixed costs. The retention of relationships with customers and suppliers and retaining requisite production capacities allow the Group to capture future opportunities and internalise potential benefits.

Distribution and Selling Expenses
Distribution and selling expenses increased by 18% from HK$79 million for the year ended December 31, 2019 to HK$93 million for the Year. The increase was due to the higher transportation cost globally during the Year.

Administrative Expenses
Administrative expenses decreased by 27% from HK$316 million for the year ended December 31, 2019 to HK$231 million for the Year. The decrease was mainly due to a decrease in staff cost caused by the labour restructuring scheme carried out at the end of the year 2019.

Other Income
Other income comprised government grant income of HK$27 million for the Year.

Other Expense
During the Year, the Group transferred the land in Zengcheng to Zengcheng People's Government, in relation to which extraordinary expenses of HK$213 million (year ended December 31, 2019: Nil) were incurred, including machinery relocation expenses, labour indemnity and loss on disposal of fixed assets.

Management Discussion and Analysis

Other gains–net

Other gain changed from HK$1 million for the year ended December 31, 2019 to HK$5 million for the Year. The change was mainly due to the appreciation of Australian Dollar ("**AUD**") and British Pound ("**GBP**") against Hong Kong Dollar ("**HKD**"), thus resulting in overall exchange gain.

Finance Income

Finance income mainly comprised interest income which amounted to approximately HK$1 million for the Year compared to HK$1 million for the year ended December 31, 2019.

Finance Costs

Finance costs amounted to approximately HK$111 million for the Year compared to HK$113 million for the year ended December 31, 2019.

Income Tax Expenses

The income tax changed from income tax expenses of HK$6 million for the year ended December 31, 2019 to HK$308 million for the Year, which was mainly due to tax provision for disposal of the land in Zengcheng and the settlement with the Hong Kong Inland Revenue Department for tax dispute in the past years.

Currency Translation Differences in Other Comprehensive Income

Currency translation differences amounted to approximately HK$58 million for the Year, which was mainly attributable to the currency translation difference of Renminbi ("**RMB**") against HKD.

Prospects

With reference to the Company's announcement dated January 5, 2021, the land in Zengcheng has already been officially transferred to the Local Office of Zengcheng People's Government pursuant to the land disposal agreement. The auction of the land took place on December 25, 2020. The compensation amount of the land disposal was RMB1.57 billion, RMB1.53 billion of which had been fully received in the subsequent period. The board of the Company is of the view that the Group's financial position will be greatly strengthened and the proceeds will provide the Group with additional working capital for its future business development. The Group has completed the relocation of its manufacturing facilities from Zengcheng to Nanyang. Given that the Group has been diverting its orders to its manufacturing facility in Nanyang which has sufficient production capacity. The Company is of the view that the disposal of the land will have no material impact on the Group's business and operations.

The Group intends to establish a new production base in the Heshan Industrial City District A (鶴山工業城A區)* for manufacturing and production of high performance and high precision aluminium products including high-end aluminum alloys and moulds, hardware parts, heatsinks and other electronic parts mainly to fulfill the demand from the overseas market. Details of the relevant investment agreement are set out in the announcements of the Company dated June 6, 2019 and March 3, 2020.

Throughout the Year, the Group had continued to enhance the performance. It will continue to develop the markets for its product, put emphasis on sales to overseas customers, and endeavor to improve its gross profit margin.

* *For identification purpose only*

Management Discussion and Analysis

Significant Investment, Material Acquisition and Disposal

Successful Bidding for Land Use Right in Heshan City

As disclosed in the announcements of the Company dated June 6, 2019 and March 3, 2020, PanAsia Enterprises (Jiangmen) Company Limited (榮陽實業(江門)有限公司), a wholly owned subsidiary of the Company established in the PRC, succeeded in the bidding of the land use right of phase 1 of the target lands, which consisted of a site area of approximately 133,332.99 square meters through an open tender on February 26, 2020 at the consideration of RMB46 million (equivalent to approximately HK$52 million). This transaction is completed on April 16, 2020.

Disposal of Zengcheng Land

Subsequent to the passing of an ordinary resolution in respect of the granting of the proposed mandate in advance to the directors of the Company to enter into and complete the disposal of the land of Zengcheng by way of a public land auction under the redevelopment scheme in Zengcheng District at the extraordinary general meeting of the Company held on August 13, 2020, a land disposal agreement had been entered into between the Group and the Planning and Natural Resources Bureau on August 13, 2020 ("**Disposal**"). The Group was compensated by the Planning and Natural Resources Bureau from proceeds derived from the sale of the land. The auction of the land took place on December 25, 2020, and the compensation amount of the Disposal was RMB1.57 billion.

For more details on the Disposal, please refer to the circular of the Company dated July 29, 2020 and the announcements of the Company dated July 8, 2020, August 13, 2020, August 14, 2020, November 11, 2020 and January 5, 2021.

Save as disclosed above, the Group did not have any other significant investment, material acquisition and disposal during the Year.

Liquidity and Financial Resources

The Group mainly used its borrowings and internally generated cashflow for its capital expenditure and working capital. As at December 31, 2020, the Group had HK$26.7 million cash and cash equivalents (December 31, 2019: HK$15.9 million), HK$2.1 million pledged bank deposits (December 31, 2019: HK$47.9 million) and interest-bearing borrowings of HK$1,835.0 million denominated in RMB (December 31, 2019: HK$1,533.9 million denominated in RMB).

Borrowings

Particulars of borrowings of the Group as at December 31, 2020 are set out in Note 28 to the consolidated financial statements.

Management Discussion and Analysis

Charges on Asset

HK$323 million (December 31, 2019: HK$259 million) of land use rights, HK$30 million (December 31, 2019: HK$23 million) of buildings, HK$91 million (December 31, 2019: HK$115 million) of plant and machinery, HK$1,805 million (December 31, 2019: HK$45 million) of trade and other receivables, HK$241 million (December 31, 2019: HK$219 million) of inventories and HK$nil (December 31, 2019: HK$45 million) of bank deposits of the Group were pledged as security for the Group's borrowings.

Summary of Key Financial Ratios

	Year ended December 31, 2020	Year ended December 31, 2019
Gross Profit Margin (1)	**5.0%**	0.2%
Return on Equity (2)	**75.1%**	(203.7%)
Interest Coverage Ratio (3)	**12.08**	(3.36)

	As at December 31, 2020	As at December 31, 2019
Current Ratio (4)	**1.01**	0.62
Quick Ratio (5)	**0.91**	0.44
Gearing Ratio (6)	**149.9%**	630.6%
Debt to Equity Ratio (7)	**147.7%**	624.1%

(1) The calculation of Gross Profit Margin is based on gross profit divided by revenue and multiplied by 100%.

(2) The calculation of Return on Equity is based on profit attributable to owners of the Company divided by equity attributable to owners of the Company and multiplied by 100%.

(3) The calculation of Interest Coverage Ratio is based on profit before interest and tax expenses divided by finance costs.

(4) The calculation of Current Ratio is based on current assets divided by current liabilities.

(5) The calculation of Quick Ratio is based on current assets less inventories divided by current liabilities.

(6) The calculation of Gearing Ratio is based on total borrowings divided by total equity multiplied by 100%.

(7) The calculation of Debt to Equity Ratio is based on total borrowings less cash and cash equivalents divided by total equity multiplied by 100%.

Capital Structure

As at December 31, 2020 and December 31, 2019, the Company's issued share capital was HK$120,000,000, divided into 1,200,000,000 shares of HK$0.1 each.

Management Discussion and Analysis

Foreign Exchange and Other Risk

The Group continued to receive AUD, United States Dollar ("**USD**") and RMB from the sales to major customers during the Year, while most of the Group's purchases of raw materials were settled in RMB. As RMB is not a freely convertible currency, any fluctuation in exchange rate of HKD against RMB may have impact on the Group's results. Currently, the Group has not entered into any agreements or purchased any instruments to hedge the Group's exchange rate risks. Any material fluctuation in the exchange rates of AUD and RMB may have an impact on the operating results of the Group.

The Group is exposed to commodity price risk because aluminium ingots are the major raw materials of the Group's products. During the Year, the Group has not entered into any instruments in order to mitigate the risk arising from the fluctuations in aluminium price. Any change in aluminium price could affect the Group's financial performance.

Capital Commitments

Capital commitments contracted by the Group but not yet provided for in the consolidated financial statements as at December 31, 2020 amounted to approximately HK$253 million (December 31, 2019: approximately HK$246 million), which was mainly related to the acquisition of machineries in the PRC.

Future Plans for Material Investments or Capital Assets

Except the future plans as disclosed in the paragraph headed "Prospects", the Group had no other future plans for material investments or capital assets as at December 31, 2020.

Contingent Liabilities

As at December 31, 2020, the Group had no contingent liabilities (December 31, 2019: Nil).

Employee Information and Remuneration Policies

As at December 31, 2020, the Group employed approximately 2,200 staff (December 31, 2019: 2,700). The Group's remuneration package is determined with reference to the experience and qualifications of the individual employee and general market conditions. The Group also ensures that all employees are provided with adequate training and continued professional opportunities according to their needs. During the Year, the Group incurred staff costs (including Directors' emoluments) of HK$245 million (year ended December 31, 2019: HK$351 million).

Biographical Details of Directors

Set out below are the biographical details of the Company's directors as at the date hereof:

Executive Directors

Ms. Li Jiewen – Chief Executive Officer

Ms. Li Jiewen ("**Ms. Li**"), aged 56, has been appointed as an executive director and joint chief executive officer of the Company with effect from November 6, 2018, and has been re-designated from joint chief executive officer to chief executive officer of the Company on August 2, 2019. Ms. Li is also a member of the remuneration committee of the Company since August 2, 2019, and was a member of the nomination committee of the Company from August 2, 2019 to August 6, 2020. Ms. Li is also a director of certain subsidiaries of the Group. Ms. Li is a senior economist and Certified Senior Enterprise Risk Manager and a member of CPA Australia. Ms. Li graduated from Shanghai Jiao Tong University with a bachelor's degree in Naval Architecture and Ocean Engineering in 1987. She received a master's degree in Management from Zhejiang University in 2001. Ms. Li joined China National Offshore Oil Corporation ("**CNOOC**") in 1987 and has been working in the oil and gas industry for over 30 years. From 1987 to 1989, Ms. Li was an Assistant Engineer in Nanhai East Oil Corporation of CNOOC. From 1989 to 2004, she worked as the Assistant Engineer, Budget and Planning Engineer, Budget Supervisor, Assistant Finance Manager of CACT (CNOOC-AGIP-Chevron-Texaco) Operators Group. From February 2004 to October 2006, she served as the Finance Manager of CNOOC China Limited Shenzhen Branch. From October 2006 to November 2010, Ms. Li was the Deputy General Manager of the Controllers Department of CNOOC Limited (stock code: 883). Ms. Li served as the General Manager of the Controllers Department of CNOOC Limited from November 2010 to June 2016. Ms. Li also served as the director of Nexen Energy ULC, a subsidiary of CNOOC Limited. Ms. Li was the General Manager (Director) of the Investor Relations Department (Office for the Board of Directors) of CNOOC Limited from October 2015 to November 2018. Ms. Li was the joint company secretary of CNOOC Limited from November 27, 2015 to November 19, 2018.

Mr. Gao Mingjie

Mr. Gao Mingjie ("**Mr. Gao**"), aged 49, has been appointed as an executive director of the Company on August 2, 2019 and a member of the environmental, social and governance committee of the Company on February 10, 2021. He is also the deputy general manager (China region) of the Company and a director of certain subsidiaries of the Group. Mr. Gao has worked in the non-ferrous aluminium processing industry for nearly 25 years and has extensive experience in technology research and development and business operations and management. Mr. Gao joined the Group in 2015 and is responsible for the coordination between the Group and the government, and is in charge of the Group's administrative affairs and the business development and operations in the northwest region. Mr. Gao is also a legal representative, the general manager, and factory director of the Xinjiang branch company of the Company. Mr. Gao graduated from Lanzhou University with a bachelor's degree in materials mechanics and metallic materials engineering in 1995. He obtained a master's degree in material forming and engineering control from the Lanzhou University of Technology in 2010. Mr. Gao is a senior engineer and the vice-president of the sixth session of the Council of Xinjiang Non-ferrous Metals Society* (新疆有色金屬學會). During the period from 2010 to 2015, Mr. Gao was variously the chief engineer and general manager of the Panel, Strip, and Foil Company* (板帶箔公司) of the Suntown Technology Group Co., Ltd. From 1995 to 2010, Mr. Gao joined Northwest Aluminum Fabrication Company* (西北鋁加工分公司) of Aluminum Corporation of China Limited and focused on aluminium processing technology and material forming technology.

* *For identification purpose only*

Biographical Details of Directors

Mr. Pan Zhaolong

Mr. Pan Zhaolong ("**Mr. Pan**"), aged 28, has been appointed as an executive director, a member of the nomination committee, and an authorised representative of the Company, with effect from August 6, 2020. Mr. Pan has also been appointed as the chairman of the environmental, social and governance committee of the Company on February 10, 2021. Mr. Pan oversees the daily operations as general manager of a major subsidiary of the Company. He started his career in manufacturing with Foxconn Technology Co., Ltd. in 2011, and founded TySr Industrial Company Limited in November 2012. Mr. Pan was also the Managing Director of the Company from July 2014 to April 2015. From August 2017 to June 2018, Mr. Pan took a sabbatical to study Art History at Tsinghua University before pursuing humanitarian work as a First Responder in Amman, Jordan from July 2018 to February 2020. Mr. Pan graduated from Harrow School in 2010.

Independent Non-Executive Directors

Mr. Mar Selwyn

Mr. Mar Selwyn ("**Mr. Mar**"), aged 85, has been appointed as an independent non-executive director, chairman of the audit committee of the Company with effect from February 8, 2017. Mr. Mar was a member of each of the nomination committee and remuneration committee of the Company from February 8, 2017 to August 26, 2020. Mr. Mar graduated from the London School of Economics, University of London. He is a fellow member of the Institute of Chartered Accountants of the United Kingdom and the Hong Kong Institute of Certified Public Accountants. He is a director of Nexia Charles Mar Fan Limited. He is also an independent non-executive director and the chairman of the audit committee of Minmetals Land Limited (stock code: 230), Man Yue Technology Holdings Limited (stock code: 894) and China Everbright Environment Group Limited (formerly known as China Everbright International Limited) (stock code: 257). He was also an independent non-executive director and the chairman of the audit committee of Standard Bank Asia Limited. He was the President of Hong Kong Society of Accountants (now known as Hong Kong Institute of Certified Public Accountants) in 1991. Mr. Mar is an Honorary Fellow and Honorary Court Member of Lingnan University.

Mr. Leung Ka Tin

Mr. Leung Ka Tin ("**Mr. Leung**"), aged 67, has been appointed as an independent non-executive director, chairman of the nomination committee and a member of the audit committee of the Company since February 24, 2017. He was a member of the remuneration committee of the Company from February 24, 2017 to February 10, 2021. Mr. Leung holds a Diploma in Management Studies, and has over 35 years of management experience in banking, treasury operation, project finance, telecommunication, corporate finance, logistics and human resource management. He was a member of the senior management team in financial institutions including FPB Asia Limited, Nedcor (Asia) Limited, BfG: Finance Asia Limited, and Delta Asia Financial Group as well as companies in the logistics and telecommunication sectors including EAS Da Tong Group and Trident Telecom Ventures Limited. Mr. Leung's experience covers both professional management and entrepreneurship. Mr. Leung joined SSC Mandarin Group Limited in March 2010, a corporate financial advisory firm, as a project director. From January 2012 to May 2013, Mr. Leung joined Chun On Management Limited as a consultant. Mr. Leung then became a consultant of Galaxy Master Fund SPC in September 2012.

Mr. Leung was appointed as an independent non-executive director of Narnia (Hong Kong) Group Company Limited (stock code: 8607) from January 29, 2019 to September 27, 2019, Rentian Technology Holdings Limited (stock code: 885) (was ordered to be wounded up by the High Court of Hong Kong on October 21, 2020) from May 6, 2019 to March 16, 2020 and Evershine Group Holdings Limited (stock code: 8022) from January 19, 2021 to March 8, 2021. Mr. Leung was also the executive director of National Agricultural Holdings Limited (stock code: 1236) from October 4, 2019 to October 21, 2019.

Mr. Leung is currently an independent non-executive director of China Apex Group Limited (formerly known as KEE Holdings Company Limited) (stock code: 2011) since February 17, 2016.

Biographical Details of Directors

Dr. Cheung Wah Keung – Independent Non-executive Chairman
Dr. Cheung Wah Keung ("**Dr. Cheung**"), aged 60, has been appointed as an independent non-executive director and chairman of the remuneration committee of the Company since March 22, 2018. Dr. Cheung has also been appointed as the independent non-executive chairman and member of the environmental, social and governance committee of the Company on August 2, 2019 and February 10, 2021 respectively. He was a member of each of the audit committee and nomination committee of the Company from March 22, 2018 to February 10, 2021. Dr. Cheung holds a Bachelor Degree in Business Administration, a Master Degree in Global Political Economy from the Chinese University of Hong Kong and a Master Degree in Corporate Governance, a Doctor Degree in Business Administration from the Hong Kong Polytechnic University.

Dr. Cheung is currently the chairman of Shinhint Group and Tai Sing Industrial Company Limited. He has more than 30 years of experience in trading and manufacturing of consumer electronic products. He is currently an independent non-executive director of Sky Light Holdings Limited (stock code: 3882) since June 12, 2015, Casablanca Group Limited (stock code: 2223) since May 26, 2017, and Activation Group Holdings Limited (stock code: 9919) since December 19, 2019.

Dr. Cheung was awarded as "Young Industrialist of Hong Kong" in 2005 and "Certificates of Merit in Directorship" by the Hong Kong Institutes of Directors in 2006. He has taken up a variety of roles, including the president of the Hong Kong Young Industrialists Council from 2015 to 2016, the chairman of each of Departmental Advisory Committee of Marketing Department of the City University of Hong Kong and the Advisory Board for Master of Corporate Governance of the Hong Kong Polytechnic University. Furthermore, he is a committee member of Council of the Hang Seng University of Hong Kong. Dr. Cheung has also joined the board of directors of the Hong Kong Academy of Gifted Education since April 29, 2020.

Mr. Chan Kai Nang
Mr. Chan Kai Nang ("**Mr. Chan**"), aged 75, has been appointed as an independent non-executive director, a member of each of the audit committee, nomination committee and remuneration committee of the Company on January 1, 2020. Mr. Chan holds a Postgraduate Diploma in Management Studies from The University of Hong Kong and a Bachelor's degree of Laws from the University of London. Mr. Chan also completed the Stanford Executive Program from the Graduate Business School of Stanford University and the Senior Transport Management Programme from the Ashridge Centre for Transport Management. Mr. Chan is an associate member of The Chartered Institute of Management Accountants (formerly known as The Institute of Cost and Management Accountants) in the United Kingdom, a member of The Hong Kong Institute of Certified Public Accountants and a fellow member of The Association of Certified Accountants. During the past 46 years, Mr. Chan worked as senior executive in major multinational and local corporations engaged in different industries ranging from textile, toys, electronics, and electrical manufacturing, transportation, property developments and hotel operations as well as construction materials manufacturing (including cement and steel slake).

Mr. Chan is currently an independent non-executive director of Soundwill Holdings Limited (stock code: 878) since March 11, 2009, and an independent non-executive director of Burwill Holdings Limited (stock code: 24) since September 14, 2020. Mr. Chan was an independent non-executive director of the Company from February 24, 2017 to January 24, 2018. He was also an independent non-executive director of Steering Holdings Limited (stock code: 1826) (formerly known as Dafy Holdings Limited) from September 16, 2015 to January 12, 2018 and Prosperity International Holdings (H.K.) Limited (stock code: 803) from August 17, 2010 to September 26, 2019.

Directors' Report

This report is presented by the board ("**Board**") of directors ("**Director(s)**") comprising, Ms. Li Jiewen, Mr. Gao Mingjie, Mr. Pan Zhaolong, Mr. Mar Selwyn, Mr. Leung Ka Tin, Dr. Cheung Wah Keung and Mr. Chan Kai Nang based on the information available to them for the Year.

General Information

The Group is principally engaged in the manufacturing and trading of aluminium products. The principal activity of the Company is investment holding. Details of the principal activities of the Company's principal subsidiaries are set out in Note 17 to the consolidated financial statements.

Business Review and Performance

The business review for the Company during the Year is set out in the section of Management Discussion and Analysis of this report on pages 4 to 9.

Environmental Performance

The Company is committed to building its own brand by way of sustainable development. The Company is very concerned about the environmental impact of emissions generated from operations and is committed to the implementation of environmental protection measures. With the implementation of the "Emission and Control Procedure for Waste Water, Exhaust Gas and Noise Pollution" by Nanyang plant, impacts on the environment are reduced as waste water, exhaust gas and noise generated during the process of operation are put under control.

Apart from it, the Company also developed the "Control Procedures for the Disposal of Hazardous Wastes" for the control of environmental pollution resulted from disposed wastes, "Control System for Energy Saving and Emission Reduction" according to relevant laws and regulations of the PRC in respect of energy saving, and "Control Procedures for Non-compliance of Environmental Safety", which differentiates different types of environmental safety incidents, and clearly defines the management process. The Company strives to explore the business models of sustainable development, integrate environmental management and social care into its business decisions.

For details, please refer to the Environmental, Social and Governance Report 2020 which will be published in due course.

Compliance with laws and regulations

The Company recognizes the importance of compliance with regulatory requirements and the risk of non-compliance with relevant requirements could lead to adverse impact on business operation and financial position of the Company.

The Company's operations are mainly carried out by the Company's subsidiaries in Hong Kong and the PRC while the Company itself was incorporated in Cayman Islands and listed on The Stock Exchange of Hong Kong Limited ("**Exchange**") in Hong Kong. The Company's establishment and operations accordingly shall comply with relevant laws and regulations in Hong Kong, Cayman Islands and the PRC. The Board as a whole is responsible to ensure the Company is in compliance with relevant laws and regulations that have a significant impact on the Company.

During the course of the business operations, the Company shall comply with different laws and regulations, including, but not limited to, i) laws regarding employee recruitment and benefits, such as the "Labor Law of the PRC", the "Labor Contract Law of the PRC", and the "Rulings of Implementing the Labor Contract Law of the PRC"; and ii) the PRC national and local laws and regulations with respect to environmental protection, including the Environmental Protection Law of the PRC. For the Year, the Company was in strict compliance with these said laws and regulations.

Key relationships with stakeholders

1. Employees

Human resources are the most valuable asset of the Company. Developing and retaining talents are vital to the Group's success. The Company is committed to providing employees with a safe, pleasant and healthy working environment. The Company rewards and recognizes employees by competitive remuneration package, implements a key performance index evaluation program with appropriate incentives, and promotes career development by providing opportunities for career advancement to employees. In addition, each department of the Company is responsible for determining its training needs for employees and workers in its department and any suggested applicable training courses either arranged internally or by external service providers shall be submitted to the senior management of the Company for approval. Knowledge, skills and capacities of employees are vital to continuous improvement, business growth and success of the Company. The Company strives to ensure that all employees can fulfill as well as enhance the relevant job qualifications in terms of education, training, technical and work experience.

2. Suppliers

The Group has developed long term relationships with various vendors and ensures that they share the Group's value and commitment to quality, ethics and environment. Suppliers are selected carefully and are required to satisfy certain assessment criteria, including track record, experience, financial strength, reputation, ability to produce high-quality products, quality control effectiveness and environmental issues.

3. Distributors and customers

The Group sells products to distributors and customers. Distributors and customers are required to comply with the relevant laws and regulations, credit policy, as well as the Group's sales and marketing policies, including but not limited to selling price, promotional activities and use of the Group's ordering system. The Group also monitors the financial condition as well as repayment capability and timeliness of the distributors and customers, and their sales performance.

Principal risks and uncertainties

The Company is exposed to various risks and uncertainties which are disclosed in Note 3 to the consolidated financial statements of this report. The effects of such risks may vary over time. The following paragraphs set forth material risks classified by the Company and the relevant alleviating measures for each material risk for the management of such risks.

Business Risk

Most of the Group's revenue was generated from customers in the PRC, Australia and Hong Kong. Should there be any material adverse change in the political, economic, legal or social conditions in the PRC, Australia and Hong Kong and the Group is unable to divert sales to other markets outside of the PRC, Australia and Hong Kong, the turnover, profitability and prospects may be adversely affected. In order to alleviate such risk, the Group will put efforts to expand overseas market and increase the proportion of overseas sales. During the Year, the Group has exported sales to the United Kingdom and North America, etc. The Group will also continue to review competitive edges of the Group in the industry and the market trend. The Group also acknowledges that the overall performance of the Group's sales is inherently subject to risks associated with international trade and global economic conditions. The outbreak of the Sino-U.S. trade war, the overall economic slowdown since 2019 and the occurrence of similar events may result in a decrease in demand for the Group's products and a reduction of the Group's revenue.

Directors' Report

The Company's production activities of aluminium profiles rely on, among other things, sufficient and uninterrupted supply of aluminium ingots, being the principal raw materials. The Company procures such principal raw materials from several major suppliers and has only entered into long-term purchase contracts with some of the major suppliers of aluminium ingots which provide the Group with flexibility (but not commitment) in purchasing aluminium ingots at competitive prices at various times from domestic as well as foreign suppliers. In order to alleviate such business risk, the Company will conduct review and assessment on the Company's suppliers periodically to ensure stable supply source of raw materials. The outbreak of any severe communicable disease, such as the COVID-19 pandemic, if uncontrolled, could have an adverse effect on the operations, the overall business sentiments and the environment in the PRC, Hong Kong and Australia, which in turn could have an adverse impact on the domestic and international consumption and, possibly, the overall business growth of the Group.

Financial risks

Delinquent payments of customers who were granted credit terms by the Company will increase the Company's exposure to financial risks and have impacts on the financial performance and operating cash flows of the Company. In order to alleviate such risk, the Company has conducted regular review of accounts receivable due from all customers to control the outstanding amounts and ageing. The Company will also continue to manage and maintain strict control internally and devote additional efforts in collecting overdue trade receivables on a timely basis.

Cyber security risk

During the Year, the Company obtained the foundation for implementing phase-by-phase cyber risk vulnerability controls management and evaluation objectives with reference to CoBit by Information Systems Audit and Control Association (ISACA). The cyber security plan includes, but not limited to, enhancing the following: 1) training and staff development; 2) secure wireless networks; 3) keep software updated; 4) access control management; 5) boundary defense; and 6) backup and recovery of data.

The Company has internal control on data-fraud. The Company always values the importance of the internal control systems, and has been taking into account certain critical aspects of organizational governance, business ethics, fraud and financial reporting established by the internal audit in their audit planning and objectives when assessing the effectiveness of internal controls. Such systems are designed to manage rather than eliminate the risk of fraud or failure to achieve business objectives, and can only provide reasonable and not absolute assurance against material misstatement or loss.

Environmental and social risks

The environmental and social risks encountered by the Group include, amongst others, those arising from whether safety and environmental protection standards are met by the production of the 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, and solved the innovation problems through technological exchange and cooperation. Meanwhile, the Group strives to 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 contracts review and approval procedure with the routine support of the general legal advisor and regular third-party audit to monitor the compliance so as to mitigate the impact of such risks on the Group.

Directors' Report

Dividend Policy

The amount of dividend actually distributed to the shareholders of the Company ("**Shareholder(s)**") will depend upon the earnings and financial condition, operating requirements, capital requirements and any other conditions that the Directors may deem relevant and will be subject to the approval of the Shareholders.

The payment of dividends by the Company is also subject to the requirements of the Cayman Islands law and the articles of association of the Company ("**Articles of Association**").

Results and Distribution

No interim dividend was declared for the six months ended June 30, 2020 (six months ended June 30, 2019: Nil) and the Board does not recommend payment of a final dividend in respect of the Year (year ended December 31, 2019: Nil).

There is no arrangement pursuant to which a Shareholder has waived or agreed to waive any dividends.

The results of the Group for the Year are set out in the consolidated statement of comprehensive income on pages 42 to 43.

Financial Statements

The statements of the results, assets and liabilities of the Group for the last five financial years/period are set out on page 116 of this report. This summary does not form part of the audited consolidated financial statements to the Group.

Reserves

Movements in the reserves of the Group during the Year are set out on page 46.

Distributable Reserves

Under the Companies Law of the Cayman Islands, the share premium of the Company is available for distribution of dividends to the Shareholders subject to the provisions of the Articles of Association. With the sanction of an ordinary resolution, dividends may be declared and paid out of the share premium account of any other fund or account which can be authorized for this purpose. As at December 31, 2020, the Company had nil balance of distributable reserves (December 31, 2019: Nil).

Share Capital

Changes in share capital of the Company for the Year and as at that date are set out in Note 23 to the consolidated financial statements.

Directors' Report

Pre-emptive Rights

There is no provision for pre-emptive rights under the Articles of Association or the laws of the Cayman Islands, which would oblige the Company to offer new shares to existing Shareholders on a pro-rata basis.

Share Option Scheme

On January 18, 2013, the Company adopted a share option scheme ("**Share Option Scheme**") whereby the Board can grant options for the subscription of the Company's shares to the employees, managerial staff and senior employees and those other persons that the Board considers that they will contribute or have contributed to the Group ("**Participants**") as described in the Share Option Scheme in order to serve as compliment and to reciprocate their contribution to the Group. The maximum number of shares that can be issued according to the Share Option Scheme is 120,000,000 shares which is equivalent to 10% of the issued capital of the Company after the completion of the global offering ("**Global Offering**", as defined in the prospectus dated January 23, 2013). The number of options that may be granted pursuant to the terms of the Share Option Scheme shall not exceed 10% of the issued shares immediately after the completion of the Global Offering. Unless otherwise approved by the Shareholders in a general meeting, the number of shares that may be granted to any one Participant under the options shall not exceed 1% within any 12-month period (other than those granted to the substantial shareholders (as defined in the Rules Governing the Listing of Securities on the Exchange ("**Listing Rules**")), or the total number of shares that may be granted under the options to the independent non-executive Directors or any of their respective connected persons shall not exceed 0.1% of the shares in issue of the Company from time to time. There is no minimum period that the options must be held before they become exercisable, and the options granted shall be exercised within the period decided by the Board, however no options shall be exercised 10 years after they have been granted. The exercise price of the option shall be the higher of (a) the closing price of the shares on the daily quotation sheet of the Exchange on the date of grant; (b) the average closing price of the shares on the daily quotation sheet of the Exchange for the five business days immediately preceding the date of grant; and (c) the nominal value of the share.

Each grantee shall pay a consideration of HK$1.00 at the time the option is granted. The Share Option Scheme shall take effect from the date it is adopted and shall remain effective within a period of 10 years from that date.

As at the date hereof, the outstanding number of options available for issue under the Share Option Scheme is 48,000,000, representing 4% of the issued shares of the Company ("**Share(s)**").

Directors' Report

Details of the share options movements during the Year under the Share Option Scheme are as follows:

Name or category of grantee	Date of grant of share options	Exercise price (HKD)	Exercise period	Number of share options: Balance as at January 1, 2020	Granted during the Year	Exercised during the Year	Lapsed during the Year	Cancelled during the Year	Surrendered during the Year	Balance as at December 31, 2020
Directors										
Ms. Li Jiewen	23/12/2019	0.396 (Note1)	23/12/2019 – 22/12/2029 (Note2)	12,000,000	–	–	–	–	–	12,000,000
Mr. Gao Mingjie	23/12/2019	0.396 (Note1)	23/12/2019 – 22/12/2029 (Note2)	6,000,000	–	–	–	–	–	6,000,000
Mr. Mar Selwyn	23/12/2019	0.396 (Note1)	23/12/2019 – 22/12/2029 (Note2)	1,200,000	–	–	–	–	–	1,200,000
Mr. Leung Ka Tin	23/12/2019	0.396 (Note1)	23/12/2019 – 22/12/2029 (Note2)	1,200,000	–	–	–	–	–	1,200,000
Dr. Cheung Wah Keung	23/12/2019	0.396 (Note1)	23/12/2019 – 22/12/2029 (Note2)	1,200,000	–	–	–	–	–	1,200,000
Mr. Chan Kai Nang	23/12/2019	0.396 (Note1)	23/12/2019 – 22/12/2029 (Note2)	1,200,000	–	–	–	–	–	1,200,000
Other Participants										
Employees	23/12/2019	0.396 (Note1)	23/12/2019 – 22/12/2029 (Note2)	38,320,000	–	–	1,168,000	–	1,200,000	35,952,000
Others (Note 3)	23/12/2019	0.396 (Note1)	23/12/2019 – 22/12/2029 (Note2)	10,800,000	–	–	–	–	–	10,800,000
Total				71,920,000	–	–	1,168,000	–	1,200,000	69,552,000

Notes:

Save as disclosed herein, there are no other Directors, chief executive or substantial shareholders of the Company, or their respective associates that have been granted share options pursuant to the Share Option Scheme.

** No participants were granted options in excess of the individual limit pursuant to the Share Option Scheme.

*** No suppliers for goods or services were granted options pursuant to the Share Option Scheme.

1. The closing price of the Shares immediately before December 23, 2019, on which those options were granted, was HK$0.38.

2. The share options are exercisable for a period of 10 years from the date of grant, subject to the vesting period as follows: (i) 60% of the share options be vested on the date of grant; and (ii) 40% of the share options be vested on the first anniversary of the date of grant.

3. The share options were granted to a sales and marketing relations consultant appointed on July 1, 2019. The rationale for such grant was to serve as the consideration of the services provided by the consultants.

Directors' Report

Share Award Scheme

The share award scheme ("**Share Award Scheme**") of the Company has been adopted on March 3, 2014 ("**Adoption Date**").

Who May Join

Employee(s) are selected by the Board pursuant to the scheme rules for participation in the Share Award Scheme ("**Selected Employee(s)**").

The Purpose and Objective of the Share Award Scheme

The purposes of the Share Award Scheme are to recognize the contributions by Selected Employees and to give incentives thereto in order to retain them for the continual operation and development of the Group as part of the talent retention program of the Group, and to attract suitable personnel for further development of the Group.

Operation of the Share Award Scheme

Bank of Communications Trustee Limited has been appointed as the trustee of the Share Award Scheme ("**Trustee**"). Pursuant to the scheme rules and the trust deed entered into with the Trustee, the Trustee shall purchase from the market or subscribe for the relevant number of Shares awarded out of the Company's resources and shall transfer the relevant Shares to that Selected Employee at no cost in accordance with the scheme rules.

At no point in time shall the Trustee be holding more than 5% of the issued share capital of the Company under the Share Award Scheme.

The Share Award Scheme came into effect on March 3, 2014, and shall terminate on the earlier of (i) the tenth (10) anniversary date of the Adoption Date; or (ii) such date of early termination as determined by the Board.

During the Year, no Shares were purchased by the Trustee on the market for the purpose of the Share Award Scheme.

No Shares were granted to employees of the Company during the Year, details of which are set out in Note 24 to the consolidated financial statement.

Major Suppliers and Customers

During the Year, aggregate sales attributable to the Group's five largest customers comprised approximately 44% of the Group's total sales and the sales attributable to the Group's largest customer were approximately 18% of the Group's total sales. The aggregate purchases during the Year attributable to the Group's five largest suppliers were approximately 67% of the Group's cost of sales and the purchases attributable to the Group's largest supplier were approximately 24% of the Group's cost of sales.

Based on the confirmations received from certain Directors who were in their positions during the Year and to the best knowledge of the Company, none of the Directors, nor any of their associates or any Shareholders which, to the knowledge of the Directors, own more than 5% of the Company's issued Shares had any interest in the five largest customers and suppliers of the Group.

Directors' Report

Property, Plant and Equipment

During the Year, the Group held property, plant and equipment of approximately HK$919 million. Details of the movements are set out in Note 14 to the consolidated financial statements.

Purchase, Sale or Redemption of the Company's Shares

The Company and any of its subsidiaries have not redeemed any of its listed securities during the Year. Neither the Company nor any of its subsidiaries purchased or sold any of the Company's listed securities during the Year.

Equity-linked agreements

Other than the Share Option Scheme as set out under the heading "Share Option Scheme", no equity-linked agreements that will or may result in the Company issuing Shares or that require the Company to enter into any agreements that will or may result in the Company issuing Shares were entered into by the Company or subsisting during the Year.

Directors

The Directors in office during the Year:

Executive Directors

Mr. Wong Kwok Wai Eddy (resigned on January 31, 2020)
Ms. Li Jiewen (Chief Executive Officer)
Mr. Gao Mingjie
Mr. Pan Zhaolong (appointed on August 6, 2020)

Independent Non-executive Directors

Mr. Mar Selwyn
Mr. Leung Ka Tin
Dr. Cheung Wah Keung (Independent Non-executive Chairman)
Mr. Chan Kai Nang

Directors' Report

Board Committees

Audit Committee

Mr. Mar Selwyn (Chairman)
Mr. Leung Ka Tin
Dr. Cheung Wah Keung (ceased on February 10, 2021)
Mr. Chan Kai Nang

Remuneration Committee

Dr. Cheung Wah Keung (Chairman)
Mr. Mar Selwyn (ceased on August 26, 2020)
Mr. Leung Ka Tin (ceased on February 10, 2021)
Ms. Li Jiewen
Mr. Chan Kai Nang

Nomination Committee

Mr. Leung Ka Tin (Chairman)
Mr. Mar Selwyn (ceased on August 26, 2020)
Dr. Cheung Wah Keung (ceased on February 10, 2021)
Ms. Li Jiewen (ceased on August 6, 2020)
Mr. Chan Kai Nang
Mr. Pan Zhaolong (appointed on August 6, 2020)

Environmental, Social and Governance Committee (established on February 10, 2021)

Mr. Pan Zhaolong (Chairman)
Mr. Gao Mingjie
Dr. Cheung Wah Keung

Directors' Service Contracts

Pursuant to Article 83(3) of the Articles of Association, any Director appointed by the Board to fill a casual vacancy shall hold office until the first general meeting after his or her appointment and be subject to re-election at such meeting and any Director appointed by the Board shall hold office only until the next following annual general meeting of the Company and shall then be eligible for re-election.

In accordance with Article 84 of the Articles of Association, at each annual general meeting, one-third of the Directors for the time being (or, if their number is not a multiple of three (3), the number nearest to but not less than one-third) shall retire from office by rotation and being eligible, offer themselves for re-election at each annual general meeting, provided that every Director shall be subject to retirement at an annual general meeting at least once every three years.

Ms. Li Jiewen and Mr. Gao Mingjie have each entered into a service contract with the Company for a term of 3 years with effect from November 6, 2018 and August 2, 2019 respectively. Mr. Pan Zhaolong has entered into a service contract with the Company for a term of 3 years with effect from August 6, 2020.

Mr. Chan Kai Nang, the independent non-executive Director, has entered into a letter of appointment with the Company for a specific term commencing from January 1, 2021 to March 31, 2023. Mr. Mar Selwyn, Mr. Leung Ka Tin and Dr. Cheung Wah Keung, the independent non-executive Directors, have each entered into a letter of appointment with the Company for a term of 2 years commencing from April 1, 2021 to March 31, 2023 respectively.

Directors' Report

During the Year, none of the Directors proposed for re-election at the forthcoming annual general meeting has a service contract with the Company which is not determinable by the Company within one year without payment of compensation (other than statutory compensation).

Permitted Indemnity Provision

Pursuant to the Articles of Association, subject to the relevant statutes, every Director shall be indemnified out of the assets of the Company against all costs, charges, expenses, losses and liabilities which he/she may sustain or incur in or about the execution of his/her office or which may attach thereto.

Directors' Interests in Transactions, Arrangements and Contracts of Significance

To the best knowledge of the Company and with the information available to the Company, there was no transaction, arrangement and contract of significance in relation to the Group's business to which the Company or any of its subsidiaries, holding companies or fellow subsidiaries was a party and in which a Director or an entity connected with him/her had a material interest, whether directly or indirectly, and subsisted at the end of the Year or at any time during the Year save as disclosed under the paragraph headed "Significant Investment, Material Acquisition and Disposal" in the section headed "Management Discussion and Analysis" in this report.

Directors' Rights to Purchase Shares or Debentures

Save as disclosed under the headings "Share Option Scheme" and "Share Award Scheme", at no time during the Year 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 spouse or minor children, or were any such rights exercised by them; or was the Company, its holding company, or any of its subsidiaries or fellow subsidiaries a party to any arrangement to enable the Directors to acquire such rights in any other body corporate.

Management Contracts

During the Year, to the best knowledge of the Company and with the information available to the Company, no contracts, other than a contract of service with any Director or any person engaged in the full-time employment of the Company, concerning the management and administration of the whole or any substantial part of the business of the Company were entered into or existed during the Year.

Charitable Donations

During the Year, the Group did not make any charitable donations (2019: nil).

Directors' Report

Interests and Short Positions of the Directors and Chief Executives of the Company in the Shares, Underlying Shares and Debentures

As at December 31, 2020, the interests or short positions of the Directors or chief executives of the Company in the shares, underlying shares and debentures of the Company or its associated corporations (within the meaning of Part XV of the Securities and Futures Ordinance ("**SFO**")) required to be notified to the Company and the Exchange pursuant to Divisions 7 and 8 of Part XV of the SFO (including interests or short positions which they were taken or deemed to have under such provisions of the SFO) or which would be required, pursuant to section 352 of the SFO, to be entered in the register referred to therein, or which would be required, pursuant to Model Code for Securities Transactions by Directors of Listed Companies as set out in Appendix 10 of the Listing Rules ("**Model Code**"), are as follows:

Long Position in the Shares

Name of Director	Nature of interest	Number of ordinary shares	Number of underlying shares held pursuant to share options *(Note 1)*	Percentage of the issued share capital of the Company *(Note 2)*
Ms. Li Jiewen	Beneficial owner	–	12,000,000	1.00%
Mr. Gao Mingjie	Beneficial owner	–	6,000,000	0.50%
Mr. Mar Selwyn	Beneficial owner	–	1,200,000	0.10%
Mr. Leung Ka Tin	Beneficial owner	–	1,200,000	0.10%
Dr. Cheung Wah Keung	Beneficial owner	–	1,200,000	0.10%
Mr. Chan Kai Nang	Beneficial owner	–	1,200,000	0.10%

Notes:

1. Details of share options held by Directors are set out in the section headed "Share Option Scheme".

2. The percentage represents the number of Shares interested divided by the number of the issued Shares as at December 31, 2020 (i.e. 1,200,000,000 Shares).

Save as disclosed above, as at December 31, 2020, none of the Directors or chief executives of the Company had or was deemed to have any interests or short positions in any shares, underlying shares or debentures of the Company or any of its associated corporations (within the meaning of Part XV of the SFO) which were required to be notified to the Company and the Exchange pursuant to Divisions 7 and 8 of Part XV of the SFO (including interests or short positions which they were taken or deemed to have under such provisions of the SFO), or which were required to be recorded in the register required to be kept by the Company under section 352 of the SFO or as otherwise notified to the Company and the Exchange pursuant to the Model Code.

Substantial Shareholders' Interests and Short Positions

As at December 31, 2020, the following persons (other than the Directors and chief executives of the Company) had or deemed or taken to have an interest and/or short position in the Shares or the underlying Shares which would fall to be disclosed under the provisions of Divisions 2 and 3 of Part XV of the SFO or which were recorded in the register required to be kept by the Company under Section 336 of the SFO:

Long Position in the Shares

Name	Capacity	Number of Shares	Approximate Percentage of Shareholding
Easy Star Holdings Limited ("**Easy Star**") *(Note)*	Beneficial Owner	900,000,000	75%
Marina Star Limited *(Note)*	Interest in controlled corporation	900,000,000	75%
HSBC International Trustee Limited *(Note)*	Trustee	900,000,000	75%

Note:

Easy Star was the registered holder of the 900,000,000 Shares. Easy Star was wholly-owned by Marina Star Limited. The entire issued Shares of Marina Star Limited was owned by HSBC International Trustee Limited as trustee for The Pan Family Trust. The Pan Family Trust was a discretionary trust. Mr. Pan Zhaolong, the executive Director, is a nominated beneficiary under The Pan Family Trust.

Save as disclosed above, as at December 31, 2020, the Directors were not aware of any other person (other than the Directors and chief executive of the Company) who had an interest or short position in the shares, underlying shares or debentures of the Company which would fall to be disclosed to the Company under the provisions of Divisions 2 and 3 of Part XV of the SFO or, who is, directly or indirectly, interested in 5% or more of the nominal value of any class of share capital carrying rights to vote in all circumstances at general meetings of any other members of the Group, or any other substantial Shareholders whose interests or short positions were recorded in the register required to be kept by the Company under Section 336 of the SFO.

Directors' Report

Changes of Director's Information

Below are the changes in the information of Directors during the Year and up to the date hereof that are required to be disclosed pursuant to Rule 13.51B(1) of the Listing Rules:

Mr. Pan Zhaolong, the executive Director, has been appointed as the chairman of the environmental, social and governance committee of the Company ("**Environmental, Social and Governance Committee**") with effect from February 10, 2021.

Dr. Cheung Wah Keung, the independent non-executive Director, has ceased to be the members of each of the audit committee ("**Audit Committee**") and nomination committee of the Company ("**Nomination Committee**") and has been appointed as the member of the Environmental, Social and Governance Committee with effect from February 10, 2021 respectively.

Mr. Gao Mingjie, the executive Director, has been appointed as the member of the Environmental, Social and Governance Committee with effect from February 10, 2021.

Mr. Leung Ka Tin, the independent non-executive Director, has ceased to be the member of the remuneration committee of the Company ("**Remuneration Committee**"). He was an independent non-executive director of Evershine Group Holdings Limited (stock code: 8022) from January 19, 2021 to March 8, 2021.

Mr. Chan Kai Nang, the independent non-executive Director, has been appointed as an independent non-executive director of Burwill Holdings Limited (stock code: 24) since September 14, 2020.

Except as set out hereof, there is no other change in the information of the Directors required to be disclosed pursuant to Rule 13.51B(1) of the Listing Rules.

Sufficiency of Public Float

Based on the information available to the Company and within the knowledge of the Directors, the Company maintained a sufficient public float as required under the Listing Rules as at the date hereof.

Corporate Governance

Please refer to the Corporate Governance Report in this report of the Company for the Year.

Disclosure under Rule 13.20 of the Listing Rules

The Directors were not aware of any circumstances resulting in the responsibility of disclosure under Rule 13.20 of the Listing Rules regarding the provision of advances by the Company to an entity.

Directors' Interests in Competing Business

To the best knowledge of the Company, it was not aware of any business or interest of the Directors nor the controlling Shareholder nor any of their respective associates that compete or may compete with the business of the Group and any other conflict of interest which any such person has or may have with the Group during the Year.

Connected Transactions

During the Year, there were no connected transactions or continuing connected transactions of the Company as defined under Chapter 14A of the Listing Rules, which are required to comply with any of the reporting, announcement or independent Shareholders' approval requirements under the Listing Rules.

Directors' Report

Related Party Transactions

The related party transactions of the Group are disclosed in Note 31 to the consolidated financial statements. These related party transactions did not fall under the definition of connected transaction or continuing connected transaction pursuant to Chapter 14A of the Listing Rules.

Employee and Remuneration Policies

As of December 31, 2020, the Group had an aggregate of approximately 2,195 full-time employees. The Group recruited and promoted individual persons according to their strength and development potential. The Group determined the remuneration packages of all employees (including the Directors) with reference to corporate performance, individual performance and current market salary scale. The Group also operated the mandatory provident fund scheme for its Hong Kong staff and participates in the employee social security plan as required by the regulations in the PRC.

Taxation

Shareholders are urged to consult their tax advisers regarding the PRC, Hong Kong and other tax consequences of owing and disposing of the Company's Shares.

Audit Committee

The Company has an Audit Committee which was established in compliance with Rule 3.21 of the Listing Rules for the purpose of reviewing and providing supervision over the Group's financial reporting process and internal controls. The Audit Committee comprises three members who are the independent non-executive Directors, namely Mr. Mar Selwyn, Mr. Leung Ka Tin and Mr. Chan Kai Nang.

The Audit Committee and the management have reviewed the accounting principles and practices adopted by the Group, as well as the audited consolidated financial statements for the Year and has recommended their adoption to the Board.

Auditors

The consolidated financial statements for the years ended December 31, 2017, 2018, 2019 and 2020 were audited by BDO Limited, who will retire and, being eligible, offer themselves for re-appointment upon conclusion of the forthcoming annual general meeting of the Company. A resolution for the re-appointment of BDO Limited as the auditor of the Company is to be proposed at the forthcoming annual general meeting of the Company.

By order of the Board
Cheung Wah Keung
Independent Non-executive Chairman
and Independent Non-Executive Director

Hong Kong, March 29, 2021

Corporate Governance Report

Corporate Governance Practices

The Board, with the best information available, confirmed that the Company had complied with the Code on Corporate Governance Practice ("**CG Code**") set out in Appendix 14 of the Listing Rules.

The Board of Directors

As at the date hereof, the Board comprised seven Directors, including three executive Directors, namely Ms. Li Jiewen as the chief executive officer of the Company ("**CEO**"), Mr. Gao Mingjie and Mr. Pan Zhaolong; and four independent non-executive Directors, namely Mr. Mar Selwyn, Mr. Leung Ka Tin, Mr. Chan Kai Nang and Dr. Cheung Wah Keung as the independent non-executive chairman of the Company ("**Independent Non-executive Chairman**"). Biographical details of the Directors are shown on pages 10 to 12 and set out on the website of the Company.

Responsibilities

The Board is responsible for overseeing the overall development of the Company's business with the objective of enhancing the value of the Shareholders including setting and approving the Company's strategic implementation, considering substantial investments, reviewing the Group's financial performance and developing and reviewing the Group's policies and practices on corporate governance.

The Company has arranged for appropriate insurance cover for Directors' and officers' liabilities in respect of legal actions against its Directors and senior management arising out of corporate activities.

Directors' Securities Transaction

The Company has adopted the Model Code as its code of conduct for dealings in securities of the Company by the Directors. Having made specific enquiry, all Directors confirmed that they had complied with the Model Code provisions during the Year.

Relationship with Directors

During the Year and up to the date hereof, to the best knowledge of the Company, there is no financial, business, family or other material/relevant relationship among members of the Board.

Independence Confirmation

The Company has received annual confirmations from each of the independent non-executive Directors as to their independence pursuant to Rule 3.13 of the Listing Rules, and considered all the independent non-executive Directors to be independent.

Corporate Governance Report

Appointment and Re-election of Directors
In accordance with the Articles of Association, all Directors are subject to retirement by rotation at least once every three years and any new Director appointed by the Board to fill a causal vacancy or as an addition to the Board shall submit himself/herself for re-election by the Shareholders at the first general meeting after his/her appointment.

Term of Appointment of the Independent Non-Executive Directors
During the Year, the independent non-executive Directors were appointed for a term of 2 years or a specific term referred in their respective letter of appointments and are subject to retirement by rotation and re-election in accordance with the Articles of Association.

Mr. Chan Kai Nang, the independent non-executive Director, has entered into a letter of appointment with the Company for a specific term commencing from January 1, 2021 to March 31, 2023. Mr. Mar Selwyn, Mr. Leung Ka Tin and Dr. Cheung Wah Keung, the independent non-executive Directors, have each entered into a letter of appointment with the Company for a term of 2 years commencing from April 1, 2021 to March 31, 2023 respectively.

Chairman and Chief Executive Officer
Dr. Cheung Wah Keung is currently the Independent Non-executive Chairman. Ms. Li Jiewen currently serves as the CEO.

Dr. Cheung Wah Keung provides leadership for the Board, attends to management development and provides strategic plan guidance. Ms. Li Jiewen is responsible for the overall strategic planning, operation, sales and marketing of the Group, and overall control system and supervision of the management team.

Dr. Cheung Wah Keung, the Independent Non-executive Chairman, met with the independent non-executive Directors without the presence of other Directors in the Year.

The responsibilities of the Chairman and the CEO have been clearly defined in the Company's "Job Descriptions for Directors and Senior Management".

Corporate Governance Report

Directors' Training

The Company has arranged induction training for newly appointed Directors. All Directors are encouraged to participate in continuous professional development trainings to develop and refresh their knowledge and skills.

The individual training record of each of the Directors who confirmed they had received trainings for the Year is summarized as follows:

Directors	**Type of continuous professional development programmes**
Executive Directors	
Mr. Wong Kwok Wai Eddy (resigned on January 31, 2020)	N/A
Ms. Li Jiewen	A and B
Mr. Gao Mingjie	A and B
Mr. Pan Zhaolong (appointed on August 6, 2020)	A
Independent non-executive Directors	
Mr. Mar Selwyn	A and B
Mr. Leung Ka Tin	A and B
Dr. Cheung Wah Keung	A and B
Mr. Chan Kai Nang (appointed on January 1, 2020)	A and B

Notes:

A: attending seminars/ forums/ workshops/ conferences/ trainings relevant to the business or directors' duties

B: reading regulatory updates

Delegation by the Board

The Board undertakes the responsibility for decision making in major matters of the Company, with the day-to-day management delegated to the CEO and senior management. Each Director is normally able to seek independent professional advice in appropriate circumstances at the Company's expense, for discharge of their duties.

Board Committees

The Board has established four standing committees, namely, the Nomination Committee, Remuneration Committee, Audit Committee and Environmental, Social and Governance Committee, for overseeing particular aspects of the Company's affairs. All Board committees of the Company are established with defined written terms of reference which are available to Shareholders on the Company's website.

Nomination Committee

During the Year, the majority members of the Nomination Committee were independent non-executive Directors, with Mr. Leung Ka Tin acted as the chairman of the Nomination Committee. The members of the Nomination Committee for the Year were:

Mr. Leung Ka Tin (Chairman)
Mr. Mar Selwyn (ceased on August 26, 2020)
Dr. Cheung Wah Keung
Ms. Li Jiewen (ceased on August 6, 2020)
Mr. Chan Kai Nang
Mr. Pan Zhaolong (appointed on August 6, 2020)

The duties of the Nomination Committee shall be:

- to review the structure, size and composition (including the skills, knowledge, experience and diversity of perspectives) of the Board on a regular basis and make recommendations to the Board regarding any proposed changes;

- to identify individuals suitably qualified to become Board members and select or make recommendations to the Board on the selection of individuals nominated for directorships;

- to assess the independence of independent non-executive Directors, having regard to the requirements under the applicable laws, rules and regulations;

- to make recommendations to the Board on relevant matters relating to the appointment and re-appointment of the Directors and, in particular, the chairman and the CEO;

- to review the policy on Board diversity ("**Board Diversity Policy**"), the policy on director nomination ("**Nomination Policy**") and any measurable objectives for implementing such Board Diversity Policy and the Nomination Policy as may be adopted by the Board from time to time and to review the progress on achieving the objectives; and

- to make disclosure of its review results in the annual report of the Company annually.

During the Year, the Nomination Committee held 2 meetings for nominating or considering the candidates of potential Board and committee members, making recommendations to the Board on the appointment and re-appointment of Directors, re-election of Directors at the general meeting, reviewing the Board Diversity Policy and the Nomination Policy; reviewing the structure, size, composition and diversity of the Board members and assessing the independence of the independent non-executive Directors. The individual attendance record of the Directors at the meeting of Nomination Committee is set out in the paragraph headed "Attendance Records of Board and Committee Meetings" of this Corporate Governance Report.

Corporate Governance Report

Board Diversity Policy

The Board has adopted the Board Diversity Policy which sets out the approach to achieve diversity on the Board. Accordingly, selection of candidates to the Board is based on a range of measurable objectives, including but not limited to gender, age, cultural and educational background, professional experience and qualifications, skills, knowledge and length of service, having due regard to the Company's own business model and specific needs from time to time. With the existing Board members coming from a variety of business and professional background, the Company considers that the Board possesses a balance of skills, experience, expertise and diversity of perspectives appropriate to the requirements of the Company's business.

Director Nomination Policy

The Nomination Policy of the Group was adopted in writing with effect from January 1, 2019. The Nomination Policy sets out the procedures, process and criteria for identifying and recommending candidates for election to the Board.

Remuneration Committee

During the Year, the majority of members of the Remuneration Committee were independent non-executive Directors, with Dr. Cheung Wah Keung acted as the chairman of the Remuneration Committee. The members of the Remuneration Committee during the Year were:

Dr. Cheung Wah Keung (Chairman)
Mr. Mar Selwyn (ceased on August 26, 2020)
Mr. Leung Ka Tin
Ms. Li Jiewen
Mr. Chan Kai Nang

The duties of the Remuneration Committee shall be:

- to make recommendations to the Board on the Company's policy and structure for all remunerations of Directors and senior management and on the establishment of formal and transparent procedures for developing policies on all such remunerations;
- to make recommendations to the Board on the remuneration packages of individual executive Directors and senior management;
- to review and approve performance-based remunerations by reference to corporate goals and objectives resolved by the Board from time to time;
- to make recommendations to the Board on the remuneration of non-executive Directors;
- to consider salaries paid by comparable companies, time commitment and responsibilities and employment conditions elsewhere in the Group;
- to review and approve compensation payable to executive Directors and senior management members of the Company in connection with any loss or termination of their office or appointment to ensure that such compensation is determined in accordance with relevant contractual terms and that such compensation is fair and not excessive for the Company;
- to review and approve compensation arrangements relating to dismissal or removal of Directors for misconduct to ensure that such arrangements are determined in accordance with relevant contractual terms and that any compensation payment is reasonable and appropriate; and
- to ensure that no Director or any of his/her associates is involved in deciding his/her own remuneration.

Corporate Governance Report

During the Year, the Remuneration Committee held 3 meetings for reviewing the remuneration package for Directors by reference to the performance, experience and qualification of the Directors and making recommendations to the Board on (i) the remuneration proposals for the Directors and (ii) the housing allowance for the executive Directors. The individual attendance record of the Directors at the meeting of Remuneration Committee is set out in the paragraph headed "Attendance Records of Board and Committee Meetings" of this Corporate Governance Report.

Audit Committee

During the Year, the Audit Committee comprised all independent non-executive Directors, with Mr. Mar Selwyn acted as the chairman of the Audit Committee. The members of the Audit Committee during the Year were:

Mr. Mar Selwyn (Chairman)
Mr. Leung Ka Tin
Dr. Cheung Wah Keung
Mr. Chan Kai Nang

The duties of the Audit Committee shall be:

- to make recommendations to the Board on the appointment, re-appointment and removal of the external auditor, and to approve the remuneration and terms of engagement of the external auditor, and any questions of resignation or dismissal of that external auditor;
- to review and monitor the external auditor's independence and objectivity and the effectiveness of the audit process in accordance with applicable standards;
- to develop and implement policy on the engagement of an external auditor to supply non-audit services;
- to monitor integrity of financial statements of the Company and the Company's annual report and accounts and half-year reports and to review significant financial reporting judgments contained in them;
- to review the Company's financial controls, internal control and risk management systems annually;
- to discuss with management the system of internal control and ensure that management has discharged its duty to have an effective internal control system;
- to consider major investigation findings on internal control matters as delegated by the Board or on its own initiative and management's response to these findings;
- to review the Group's financial and accounting policies and practices; and
- to review the external auditor's management letter, any material queries raised by the auditor to the management in respect of the accounting records, financial accounts or systems of control and management's response, and to ensure that the Board provides a timely response to the issues raised.

During the Year, the Audit Committee held 5 meetings for considering and reviewing the internal control procedures, internal audit, whistleblowing policy, risk management, cash flow, taxation, financial results (including annual and interim results), accounting policies and related matters, adequacy of staff experience, qualifications, resources of the company's accounting and financial reporting departments, training programs and budget, re-appointment of auditor, and outstanding issues raised by the auditor. The individual attendance record of the Directors at the meeting of Audit Committee is set out in the paragraph headed "Attendance Records of Board and Committee Meetings" of this Corporate Governance Report.

Corporate Governance Report

Environmental, Social and Governance Committee

The Company has established the Environmental, Social and Governance Committee on February 10, 2021, with Mr. Pan Zhaolong as the chairman of the Environmental, Social and Governance Committee. The members of the Environmental, Social and Governance Committee as at the date hereof are:

Mr. Pan Zhaolong (Chairman)
Mr. Gao Mingjie
Dr. Cheung Wah Keung

The duties of the Environmental, Social and Governance Committee shall be:

- to review, formulate and adopt the environmental, social and governance ("**ESG**") vision, objectives and strategies of the Group, and provide recommendations to the Board on relevant ESG matters;
- to review and report back to the Board on major trends in corporate environment, society and governance, as well as risks and opportunities related to environment, society and governance;
- to review and assess the adequacy and effectiveness of the relevant framework for ESG matters at the Group level;
- to review and monitor the Group's ESG policies and practices to ensure compliance with legal and regulatory requirement;
- to identify the relevant matters that significantly affect the operation of the Group and/or the interest of other important stakeholders in the ESG aspects;
- to adopt and update as necessary the Group's policies on environmental protection, social responsibility management and corporate governance;
- to supervise, review, evaluate and report back to the Board on (i) actions taken by the Group to promote ESG objectives, strategies and framework, and (ii) the Group's performance on ESG indicators with appropriate international or national standards;
- to monitor the channels and methods of communication with the stakeholders and ensure that there is an appropriate communication policy that can effectively promote the relationship between the Group and stakeholders and protect the Group's reputation;
- to monitor internal and external opinions on the Group's ESG practices and provide suggestions for improvement of these practices;
- to identify, assess and manage important issues related to ESG and update the assessment results to the Board on a regular basis; and
- to review the Group's public reports on the performance of identified important issues regarding ESG and make recommendations to the Board, including but not limited to (i) setting appropriate standards for environment, society and governance, and monitoring and reporting on an annual basis, (ii) preparing annual ESG report for relevant activities, and (iii) reviewing annual ESG report and recommending it to the Board for approval, and recommending specific actions or decisions for the Board to consider in order to maintain the integrity of the ESG report.

Corporate Governance Report

Corporate governance functions

The Company's corporate governance function is carried out by the Board in compliance with code provision D.3.1 of the CG Code, which include (i) to develop and review the Company's policies and practices on corporate governance and make recommendations to the Board and senior management; (ii) to review and monitor the training and continuous professional development of Directors; (iii) to review and monitor the Company's policies and practices on compliance with legal and regulatory requirements; (iv) to develop, review and monitor the code of conduct and compliance manual (if any) applicable to employees and Directors; and (v) to review the Company's compliance with the CG Code and disclosure in the Corporate Governance Report. During the Year, the Board has reviewed the policy of the corporate governance and the corporate governance report of the Company.

Board Practices and Conduct of Meetings

The Directors can attend meetings in person or through other means of electronic communication or by way of written resolution in accordance with the Articles of Association. All minutes of the Board and committee meetings were recorded in sufficient detail the matters considered by the Board and the decisions reached.

Attendance Records of Board and Committee Meetings

The Board meets regularly discuss the Company's affairs and operations. During the Year, the Board held 8 Board meetings which were convened when board-level decisions on particular matters were required in person, by phone or through other electronic means of communication. The attendance records of each Director at the Board, Nomination Committee, Remuneration Committee, Audit Committee meetings and general meetings for the Year are set out below:

	Attendance/Number of Meetings				
	Board Meetings	Nomination Committee Meetings	Remuneration Committee Meetings	Audit Committee Meetings	General Meetings
Executive Directors					
Mr. Wong Kwok Wai Eddy (resigned on January 31, 2020)	0/0	N/A	N/A	N/A	0/0
Ms. Li Jiewen	8/8	1/1	3/3	N/A	2/2
Mr. Gao Mingjie	8/8	N/A	N/A	N/A	2/2
Mr. Pan Zhaolong (appointed on August 6, 2020)	3/3	1/1	N/A	N/A	1/1
Independent Non-executive Directors					
Mr. Mar Selwyn	7/8	1/1	1/1	5/5	2/2
Mr. Leung Ka Tin	8/8	2/2	3/3	5/5	2/2
Dr. Cheung Wah Keung	8/8	2/2	3/3	5/5	2/2
Mr. Chan Kai Nang	8/8	2/2	3/3	5/5	2/2

Corporate Governance Report

For the Year, apart from the meetings of the Board, Nomination Committee, Remuneration Committee and Audit Committee, consent/approval from the Board and Board committees had also been obtained by written resolutions on a number of matters.

Annual Report and Financial Statements

All Directors acknowledge their responsibilities to prepare financial statements for the Year which give a true and fair view of the state of affairs of the Group and in presenting the interim and annual financial statements, and announcements to the Shareholders. The Directors aim to present a balanced and understandable assessment of the Group's position and prospects of the financial statements of the Group.

The statements of the external auditor of the Company, BDO Limited, about their reporting responsibilities on the financial statements of the Group are set out in the Independent Auditor's Report on pages 38 to 41 of the annual report.

Risk Management and Internal Control

The Board is responsible for evaluating and determining the nature and extent of the risks that it is willing to take in achieving the Group's strategic objectives, and ensuring that the Group establishes and maintains appropriate and effective risk management and internal control systems for reviewing their effectiveness annually. The system of internal controls is designed to facilitate effective and efficient operations, to safeguard assets and to ensure the quality of internal and external reporting and compliance with applicable laws and regulations. It is also designed to provide reasonable, but not absolute, assurance that material loss can be avoided, and to manage and minimize risks of failure in operation systems. The Company has established Audit Committee and internal audit department to conduct analysis and independent assessments on the effectiveness of the risk management and internal control systems of the Company. The Company is committed to implementing stricter and more regulated internal control procedures in the new financial year.

The Audit Committee reviews the risk management and internal controls that are significant to the Group on an on-going basis. The Audit Committee would consider the adequacy of resources, qualifications, experience and training of staff and external advisor of the Group's accounting, internal audit and financial reporting function.

The management of the Group is responsible for designing, maintaining, implementing and monitoring of the risk management and internal control system to ensure adequate control in place to safeguard the Group's assets and stakeholder's interest.

The Group has established risk management procedures to address and handle significant risks associated with the business of the Group including strategic risk, financial risk, business risk, environmental and social risk, and legal risk. The Board would perform annual review on significant changes of the business environment and establish procedures to response to the risks resulted from significant changes of the business environment. The risk management and internal control systems are designed to mitigate the potential losses of the business.

The management of the Group would identify the risks associated with the business of the Group by considering both internal and external factors and events which include political, economic, technological, environmental, social and staff. Each of the risks has been assessed and prioritized based on their relevant impacts and occurrence opportunities. The relevant risk management strategy would be applied to each type of risk according to the assessment results. Types of risk management strategy are: (i) risk reduction; (ii) risk avoidance; (iii) risk diversification; and (iv) risk transfer.

The internal control systems are designed and implemented to reduce the risks associated with the business accepted by the Group and minimize the adverse impact resulted from the risks. The risk management and internal control system are designed to manage rather than eliminate the risk of failure to achieve business objectives, and can only provide reasonable and not absolute assurance against material misstatement or loss.

The management confirmed to the Board, and the Company is satisfied that, for the Year, the risk management and internal control system and procedures of the Group, covering all material controls including financial, operational and compliance controls and risk management functions were reasonably effective and adequate.

Company Secretary

During the Year, Ms. Kwok Ka Huen ("**Ms. Kwok**"), delegated by an external service provider, was appointed as the company secretary of the Company on November 10, 2017. Ms. Kwok has confirmed that she has taken not less than 15 hours of appropriate professional training as required under Rule 3.29 of the Listing Rules. Ms. Kwok's primary corporate contact is Ms. Li Jiewen, an executive Director and the CEO.

External Auditor and Auditor's Remuneration

The statement of the external auditor of the Company about their reporting responsibilities for the consolidated financial statements is set out in the "Independent Auditor's Report" on pages 38 to 41.

During the Year, the remuneration paid/payable to the Company's external auditor, BDO Limited and its affiliated companies, is set out below:

Type of Services	**Fees Paid/ Payable** (HK$'000)
Audit services	
– The reporting accountant in relation to the disposal of land in Zengcheng	154
– Agreed-upon procedures on interim financial information	180
– Audit of annual financial statements	3,800
Non-Audit Services	
– Tax advisory	87
– Others	766
Total	4,987

Shareholders' Rights

Convening an extraordinary general meeting by Shareholders

Procedures for Shareholders to convene an extraordinary general meeting (including making proposals/moving a resolution at the extraordinary general meeting)

Any one or more Shareholders holding at the date of deposit of the requisition not less than one-tenth of the paid up capital of the Company carrying the right of voting at general meetings of the Company ("**Eligible Shareholder(s)**") shall at all times have the right, by written requisition to the Board or the company secretary of the Company, to require an extraordinary general meeting to be called by the Board for the transaction of any business specified in such requisition, including making proposals or moving a resolution at an extraordinary general meeting. Eligible Shareholders who wish to convene an extraordinary general meeting for the purpose of making proposals or moving a resolution at an extraordinary general meeting must deposit a written requisition ("**Requisition**") signed by the Eligible Shareholder(s) concerned to the principal place of business of the Company in Hong Kong. The Requisition must state clearly the name of the Eligible Shareholder(s) concerned, his/her/their shareholding in the Company, the reason(s) to convene an extraordinary general meeting, the agenda proposed to be included, the details of the business(es) proposed to be transacted in the extraordinary general meeting, signed by the Eligible Shareholder(s) concerned. If within 21 days of the deposit of the Requisition, the Board has not advised the Eligible Shareholders of any outcome to the contrary and fails to proceed to convene an extraordinary general meeting, the Eligible Shareholder(s) himself/herself/themselves may do so in accordance with the Articles of Associations, and all reasonable expenses incurred by the Eligible Shareholder(s) concerned as a result of the failure of the Board shall be reimbursed to the Eligible Shareholder(s) concerned by the Company.

Corporate Governance Report

Investors Relations

During the Year, there was no change in the Company's constitutional documents.

Communication with Shareholders and Making Enquiry to the Board

The Company has updated its status to Shareholders from time to time through announcements and information as appeared on the website of the Company.

Shareholders may send their enquiries and concerns to the Board by addressing them to the principal place of business of the Company in Hong Kong by post or email to ir@palum.com.

The Company will hold an annual general meeting to approve the financial results for the Year as soon as practicable in 2021. The notice of annual general meeting will be sent to Shareholders at least 20 clear business days before the annual general meeting.

Independent Auditor's Report

Tel : +852 2218 8288
Fax: +852 2815 2239
www.bdo.com.hk

25th Floor Wing On Centre
111 Connaught Road Central
Hong Kong

電話：+852 2218 8288
傳真：+852 2815 2239
www.bdo.com.hk

香港干諾道中111號
永安中心25樓

To the Shareholders of PanAsialum Holdings Company Limited
(Incorporated in the Cayman Islands with limited liability)

Opinion

We have audited the consolidated financial statements of PanAsialum Holdings Company Limited (the "Company") and its subsidiaries (together the "Group") set out on pages 42 to 115, which comprise the consolidated statement of financial position as at December 31, 2020, and the consolidated statement of 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 December 31, 2020, and of its consolidated financial performance and its consolidated cash flows for the year then ended in accordance with Hong Kong Financial Reporting Standards issued by the Hong Kong Institute of Certified Public Accountants ("HKICPA") 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 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 judgment, 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, we do not provide a separate opinion on these matters.

Independent Auditor's Report

Impairment of property, plant and equipment and right-of-use assets

Refer to Notes 2, 4, 14 and 15 to the consolidated financial statements.

The carrying value of the Group's property, plant and equipment and right-of-use assets amounted to HK$919,125,000 and HK$338,087,000 respectively as at December 31, 2020. The Group sustained a loss without the disposal of the land in Zengcheng for the year ended December 31, 2020 and accordingly, management considered that there were indicators of impairment of the Group's property, plant and equipment and right-of-use assets.

Following a detailed impairment review of the Group's CGUs, management has estimated that no impairment loss in respect of the Group's property, plant and equipment and right-of-use assets is necessary.

The directors' assessment on the impairment of property, plant and equipment is based on the value-in-use calculation of the Group's cash-generating units (the "CGUs") which involves judgment and estimates about the future results of the businesses. Key assumptions including budgeted gross margins, discount rate and growth rate applied to the future cash flow forecast.

Our response:

Our audit procedures included, amongst others, the following:

(1) Evaluating and checking the composition of the Group's future cash flow forecasts in the CGUs, and the process by which they were drawn up, including testing the underlying value-in-use calculations and comparing them to the latest approved budgets;

(2) Checking the key assumptions by comparing the current year actual results with the 2019 figures included in the prior year forecast, by reference to future plans and by performing independent market analysis; and

(3) Utilizing our own valuation specialists' work when considering the appropriateness of the methodology and assumptions adopted in the valuation.

Other Information in the Annual Report

The directors are responsible for the other information. The other information comprises the information included in the Company's annual report, but does not include 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.

Independent Auditor's Report

Directors' Responsibilities for the Consolidated Financial Statements

The directors are responsible for the preparation of the consolidated financial statements that give a true and fair view in accordance with Hong Kong Financial Reporting Standards issued by the HKICPA 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 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 either intend to liquidate the Group or to cease operations, or have no realistic alternative but to do so.

The directors are also responsible for overseeing the Group's financial reporting process. The Audit Committee assists the directors in discharging their responsibilities in this regard.

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. This report is made solely to you, as a body, in accordance with the terms of our engagement, 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 judgment and maintain professional skepticism 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.

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

Independent Auditor's Report

Auditor's Responsibilities for the Audit of the Consolidated Financial Statements *(Continued)*

- 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 directors, 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.

BDO Limited
Certified Public Accountants

Chan Tsz Hung
Practising Certificate Number: P06693

Hong Kong, March 29, 2021

Consolidated Statement of Comprehensive Income

For the year ended December 31, 2020

	Notes	Year ended December 31, 2020 HK$'000	Year ended December 31, 2019 HK$'000
Revenue	5	**1,817,633**	1,717,428
Cost of sales		**(1,726,812)**	(1,714,695)
Gross profit		**90,821**	2,733
Distribution and selling expenses		**(93,170)**	(79,472)
Administrative expenses		**(231,418)**	(315,694)
Other expenses	6	**(212,810)**	–
Other income	8	**36,808**	12,699
Other gains – net	9	**1,748,854**	1,462
Finance costs – net	10	**(109,845)**	(111,387)
Profit/(loss) before income tax		**1,229,240**	(489,659)
Income tax expense	11	**(308,408)**	(5,935)
Profit/(loss) for the year		**920,832**	(495,594)
Earnings/(loss) per share attributable to owners of the Company			
Basic and diluted (HK cents per share)	12	**76.8**	(41.3)

The notes on pages 48 to 115 are an integral part of these consolidated financial statements.

Consolidated Statement of Comprehensive Income

For the year ended December 31, 2020

	Year ended December 31, 2020 HK$'000	Year ended December 31, 2019 HK$'000
Profit/(loss) for the year	**920,832**	(495,594)
Other comprehensive income:		
Items that may be reclassified subsequently to profit or loss:		
Currency translation differences	**57,808**	(10,722)
Total comprehensive income for the year	**978,640**	(506,316)

The notes on pages 48 to 115 are an integral part of these consolidated financial statements.

Consolidated Statement of Financial Position

As at December 31, 2020

	Notes	**December 31, 2020 HK$'000**	December 31, 2019 HK$'000
ASSETS			
Non-current assets			
Property, plant and equipment	*14*	**919,125**	1,009,088
Right-of-use assets	*15*	**338,087**	290,989
Investment property	*16*	**–**	11,496
Deposits and lease prepayments		**–**	609
Prepayments for property, plant and equipment		**44,894**	59,570
		1,302,106	1,371,752
Current assets			
Inventories	*19*	**270,740**	222,146
Trade and bills receivables	*20*	**394,867**	383,891
Prepayments, deposits and other receivables	*20*	**2,015,089**	118,304
Pledged bank deposits	*22*	**2,124**	47,950
Cash and cash equivalents	*22*	**26,749**	15,923
		2,709,569	788,214
Total assets		**4,011,675**	2,159,966
EQUITY			
Capital and reserves attributable to owners of the Company			
Share capital	*23*	**120,000**	120,000
Reserves	*26*	**1,106,852**	123,242
Total equity attributable to owners of the Company		**1,226,852**	243,242

The notes on pages 48 to 115 are an integral part of these consolidated financial statements.

Consolidated Statement of Financial Position

As at December 31, 2020

	Notes	December 31, 2020 HK$'000	December 31, 2019 HK$'000
LIABILITIES			
Non-current liabilities			
Lease liabilities	*15*	**4,241**	14,217
Borrowings	*28*	**87,666**	622,706
		91,907	636,923
Current liabilities			
Trade payables	*27*	**147,011**	76,713
Contract liabilities, other payables and accrued charges	*27*	**364,014**	184,597
Due to a director	*21*	**–**	645
Borrowings	*28*	**1,747,321**	911,203
Lease liabilities	*15*	**11,595**	13,864
Deferred income on government grants		**18,532**	17,791
Current income tax liabilities		**404,443**	74,988
		2,692,916	1,279,801
Total liabilities		**2,784,823**	1,916,724
Total equity and liabilities		**4,011,675**	2,159,966

The consolidated financial statements on pages 42 to 115 were approved by the Board of Directors on March 29, 2021 and were signed on its behalf.

Li Jiewen
Director

Gao Mingjie
Director

The notes on pages 48 to 115 are an integral part of these consolidated financial statements.

Consolidated Statement of Changes in Equity

For the year ended December 31, 2020

	Attributable to owners of the Company						
	Share capital HK$'000	Share premium HK$'000	Share held for share award scheme HK$'000	Share option reserve HK$'000	Other reserves* HK$'000	(Accumulated losses)/ retained earnings HK$'000	Total equity HK$'000
Balance at January 1, 2020	**120,000**	**1,001,287**	**(774)**	**4,670**	**(40,707)**	**(841,234)**	**243,242**
Profit for the year	–	–	–	–	–	920,832	920,832
Other comprehensive income:							
Currency translation differences	–	–	–	–	57,808	–	57,808
Total comprehensive income for the year	–	–	–	–	57,808	920,832	978,640
Equity-settled share-based payment *(Note 25)*	–	–	–	4,970	–	–	4,970
Transfer upon lapse of share options *(Note 25)*	–	–	–	(333)	–	333	–
Balance at December 31, 2020	**120,000**	**1,001,287**	**(774)**	**9,307**	**17,101**	**79,931**	**1,226,852**
Balance at January 1, 2019	120,000	1,001,287	(774)	–	(29,985)	(345,640)	744,888
Loss for the year	–	–	–	–	–	(495,594)	(495,594)
Other comprehensive income:							
Currency translation differences	–	–	–	–	(10,722)	–	(10,722)
Total comprehensive income for the year	–	–	–	–	(10,722)	(495,594)	(506,316)
Equity-settled share-based payment *(Note 25)*	–	–	–	4,670	–	–	4,670
Balance at December 31, 2019	**120,000**	**1,001,287**	**(774)**	**4,670**	**(40,707)**	**(841,234)**	**243,242**

* The other reserves comprises foreign currency translation reserve of debit balance of HK$2,144,000 (December 31, 2019: debit balance of HK$59,952,000) and statutory reserves of HK$19,245,000 (December 31, 2019: HK$19,245,000). There was no movement in the statutory reserves during the years ended December 31, 2019 and 2020, further details of which are set out in Note 26.

The notes on pages 48 to 115 are an integral part of these consolidated financial statements.

Consolidated Statement of Cash Flows

For the year ended December 31, 2020

	Notes	Year ended December 31, 2020 HK$'000	Year ended December 31, 2019 HK$'000
Cash flows from operating activities			
Cash used in operations	29(a)	**(88,990)**	(297,419)
Income tax paid		**(8,123)**	(27,886)
Net cash used in operating activities		**(97,113)**	(325,305)
Cash flows from investing activities			
Purchase of property, plant and equipment and construction in progress	14	**(37,467)**	(184,418)
Purchase of right-of-use assets	15	**(53,591)**	–
Decrease in prepayments for property, plant and equipment		**8,093**	19,350
Proceeds from sales of property, plant and equipment	29(b)	**63,550**	1,930
Proceeds from disposal of investment property		**13,209**	–
Decrease in due to a director		**(645)**	(6,000)
Interest received		**1,119**	1,139
Decrease/(increase) in pledged bank deposits		**46,391**	(44,821)
Net cash generated from/(used in) investing activities		**40,659**	(212,820)
Cash flows from financing activities			
Proceeds from borrowings	29(c)	**398,162**	1,112,593
Repayments of borrowings	29(c)	**(215,911)**	(451,740)
Payment for lease liabilities	29(c)	**(12,488)**	(13,206)
Interest paid	29(c)	**(102,496)**	(112,526)
Net cash generated from financing activities		**67,267**	535,121
Net increase/(decrease) in cash and cash equivalents		**10,813**	(3,004)
Cash and cash equivalents at beginning of the year		**15,923**	22,720
Exchange gains/(losses) on cash and cash equivalents		**13**	(3,793)
Cash and cash equivalents at end of the year		**26,749**	15,923

The notes on pages 48 to 115 are an integral part of these consolidated financial statements.

Notes to the Consolidated Financial Statements

1 General information

PanAsialum Holdings Company Limited (the "**Company**") and its subsidiaries (together the "**Group**") are principally engaged in the manufacturing and trading of aluminium products. The Company is an investment holding company. The Company was incorporated and registered as an exempted company with limited liability in the Cayman Islands on October 7, 2005 under the Companies Law, Cap.22 (Law 3 of 1961, as consolidated and revised) of the Cayman Islands. The address of its registered office is Cricket Square, Hutchins Drive, P.O. Box 2681, Grand Cayman, KY1-1111, Cayman Islands.

The Company's shares have been listed on the Main Board of The Stock Exchange of Hong Kong Limited (the "**Exchange**") since February 5, 2013.

These consolidated financial statements are presented in Hong Kong Dollar ("**HK$**" or "**HKD**"), unless otherwise stated. These consolidated financial statements have been approved for issue by the Board of Directors (the "**Board**") on March 29, 2021.

2 Summary of significant accounting policies

The principal accounting policies applied in the preparation of the consolidated financial statements are set out below. These policies have been consistently applied to all the periods presented, unless otherwise stated.

2.1 Basis of preparation

The consolidated financial statements have been prepared in accordance with Hong Kong Financial Reporting Standards ("**HKFRS**") issued by the Hong Kong Institute of Certified Public Accountants (the "**HKICPA**"), and the disclosure requirements of the Hong Kong Companies Ordinance. In addition, the consolidated financial statements include applicable disclosures required by the Rules Governing the Listing of Securities on the Exchange. The consolidated financial statements have been prepared under the historical cost convention, as explained in the accounting policies set out below.

The preparation of the consolidated financial statements in conformity with HKFRS requires the use of certain critical accounting estimates. It also requires management to exercise its judgment in the process of applying the Group's accounting policies. The areas involving a higher degree of judgment or complexity, or areas where assumptions and estimates are significant to the consolidated financial statements are disclosed in Note 4.

The management has given careful consideration to the going concern status of the Group in light of the fact that the Group (i) incurred a loss without the disposal of the land in Zengcheng for the year ended December 31, 2020, (ii) had net cash outflow from operating activities of HK$97 million for the year ended December 31, 2020 and (iii) had cash and cash equivalents of approximately HK$27 million against the Group's borrowings amounted to approximately HK$1,747 million, which will be due within twelve months after December 31, 2020. These events or conditions may cast significant doubt about the Group's ability to continue as a going concern. Nevertheless, these consolidated financial statements were prepared based on the assumption that the Group is able to operate as a going concern and the management is of the view that the Group will have sufficient working capital to finance its operations and meet its financial obligations as and when they fell due based on a projected cash flow covering a period from the end of the reporting period to June 30, 2022 after taking the following measures into account:

(i) The Group will implement cost control to closely monitor the administrative expenses and other operating costs with the aim at improving the working capital and cash flows of the Group;

(ii) Subsequent to the end of the reporting period, the Group has received the compensation from the disposal of the land in Zengcheng of RMB1.53 billion (Note 34); and

(iii) The Group has been negotiating with the financial institutions in the PRC to seek for renewing the existing facilities and obtaining new facilities.

Notes to the Consolidated Financial Statements

2 Summary of significant accounting policies *(Continued)*

2.1 Basis of preparation *(Continued)*

2.1.1 Changes in accounting policy and disclosure

(a) *New, revised or amended standards and interpretation adopted by the Group*

The following new and amended standards have been adopted by the Group for the first time for the current year's financial statements:

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

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

Amendments to HKFRS 3, Definition of a Business

The amendments clarify the definition of a business and introduce an optional concentration test that permits a simplified assessment of whether an acquired set of activities and assets is not a business. The election to apply the concentration test is made for each transaction. The concentration test is met if substantially all of the fair value of the gross assets acquired is concentrated in a single identifiable asset or group of similar identifiable assets. If the concentration test is met, the set of activities and assets is determined not to be a business. If the concentration test is failed, the acquired set of activities and assets is further assessed based on the elements of a business.

The adoption of these amendments has no impact on these financial statements as the Group does not have any acquisition during the year.

(b) *New and amendments to standards, interpretations and improvements not yet adopted*

The following new and amendments to standards, interpretations and improvements have been issued, but are not effective for the financial year beginning on January 1, 2020 and have not been early adopted by the Group:

Amendments to HKAS 1	Classification of Liabilities as Current or Non-current and HK Interpretation 5 (2020), Presentation of Financial Statements – Classification by the Borrower of a Term Loan that Contains a Repayment on Demand Clause[5]
Amendments to HKAS 16	Proceeds before Intended Use[3]
Amendments to HKAS 37	Onerous Contracts – Cost of Fulfilling a Contract[3]
HKFRS 17	Insurance Contracts[5]
Amendments to HKFRS 3	Reference to the Conceptual Framework[4]
Amendments to HKFRS 10 and HKAS 28	Sale or Contribution of Assets between an Investor and its Associate or Joint Venture[6]
Amendment to HKFRS 16	Covid-19-Related Rent Concessions[1]
Amendments to HKAS 39, HKFRS 4, HKFRS 7, HKFRS 9 and HKFRS 16	Interest Rate Benchmark Reform – Phase 2[2]
Annual Improvements to HKFRSs 2018-2020[3]	

1 Effective for annual periods beginning on or after June 1, 2020
2 Effective for annual periods beginning on or after January 1, 2021
3 Effective for annual periods beginning on or after January 1, 2022
4 Effective for business combinations for which the date of acquisition is on or after the beginning of the first annual period beginning on or after January 1, 2022
5 Effective for annual periods beginning on or after January 1, 2023
6 The amendments shall be applied prospectively to the sale or contribution of assets occurring in annual periods beginning on or after a date to be determined.

2 Summary of significant accounting policies *(Continued)*

2.1 Basis of preparation *(Continued)*

2.1.1 Changes in accounting policy and disclosure (Continued)

(b) New and amendments to standards, interpretations and improvements not yet adopted (Continued)

Amendments to HKAS 1, Classification of Liabilities as Current or Non-current and HK Interpretation 5 (2020) ("HK Int 5 (2020)"), Presentation of Financial Statements – Classification by the Borrower of a Term Loan that Contains a Repayment on Demand Clause

The amendments clarify that the classification of liabilities as current or non-current is based on rights that are in existence at the end of the reporting period, specify that classification is unaffected by expectations about whether an entity will exercise its right to defer settlement of a liability and explain that rights are in existence if covenants are complied with at the end of the reporting period. The amendments also introduce a definition of 'settlement' to make clear that settlement refers to the transfer to the counterparty of cash, equity instruments, other assets or services.

HK Int 5 (2020) was revised as a consequence of the Amendments to HKAS 1 issued in August 2020. The revision to HK Int 5 (2020) updates the wordings in the interpretation to align with the Amendments to HKAS 1 with no change in conclusion and do not change the existing requirements.

Amendments to HKAS 16, Proceeds before Intended Use

The amendments prohibit deducting from the cost of an item of property, plant and equipment any proceeds from selling items produced while bringing that asset to the location and condition necessary for it to be capable of operating in the manner intended by management. Instead, the proceeds from selling such items, and the cost of producing those items, is recognized in profit or loss.

Amendments to HKAS 37, Onerous Contracts – Cost of Fulfilling a Contract

The amendments specify that the 'cost of fulfilling' a contract comprises the 'costs that relate directly to the contract'. Costs that relate directly to a contract can either be incremental costs of fulfilling that contract (e.g. direct labor and materials) or an allocation of other costs that relate directly to fulfilling contracts (e.g. the allocation of the depreciation charge for an item of property, plant and equipment used in fulfilling the contract).

2 Summary of significant accounting policies *(Continued)*

2.1 Basis of preparation *(Continued)*

2.1.1 Changes in accounting policy and disclosure (Continued)

(b) New and amendments to standards, interpretations and improvements not yet adopted (Continued)

HKFRS 17, Insurance Contracts

The new standard establishes the principles for the recognition, measurement, presentation and disclosure of insurance contracts and supersedes HKFRS 4, Insurance Contracts. The standard outlines a 'General Model', which is modified for insurance contracts with direct participation features, described as the 'Variable Fee Approach'. The General Model is simplified if certain criteria are met by measuring the liability for remaining coverage using the Premium Allocation Approach.

Amendments to HKFRS 3, Reference to the Conceptual Framework

The amendments update HKFRS 3 so that it refers to the revised Conceptual Framework for Financial Reporting 2018 instead of the version issued in 2010. The amendments add to HKFRS 3 a requirement that, for obligations within the scope of HKAS 37, an acquirer applies HKAS 37 to determine whether at the acquisition date a present obligation exists as a result of past events. For a levy that would be within the scope of HK(IFRIC)-Int 21 Levies, the acquirer applies HK(IFRIC)-Int 21 to determine whether the obligating event that gives rise to a liability to pay the levy has occurred by the acquisition date. The amendments also add an explicit statement that an acquirer does not recognize contingent assets acquired in a business combination.

Amendments to HKFRS 10 and HKAS 28, Sale or Contribution of Assets between an Investor and its Associate or Joint Venture

The amendments clarify with situations where there is a sale or contribution of assets between an investor and its associate or joint venture. When the transaction with an associate or joint venture that is accounted for using the equity method, any gains or losses resulting from the loss of control of a subsidiary that does not contain a business are recognized in the profit or loss only to the extent of the unrelated investors' interests in that associate or joint venture. Similarly, any gains or losses resulting from the remeasurement of retained interest in any former subsidiary (that has become an associate or a joint venture) to fair value are recognized in the profit or loss only to the extent of the unrelated investors' interests in the new associate or joint venture.

2 Summary of significant accounting policies *(Continued)*

2.1 Basis of preparation *(Continued)*

2.1.1 Changes in accounting policy and disclosure (Continued)

(b) New and amendments to standards, interpretations and improvements not yet adopted (Continued)

Amendment to HKFRS 16, Covid-19-Related Rent Concessions

HKFRS 16 was amended to provide a practical expedient to lessees in accounting for rent concessions arising as a result of the Covid-19 pandemic, by including an additional practical expedient in HKFRS 16 that permits entities to elect not to account for rent concessions as modifications. The practical expedient applies only to rent concessions occurring as a direct consequence of Covid-19 pandemic and only if all of the following criteria are satisfied:

(a) the change in lease payments results in revised consideration for the lease that is substantially the same as, or less than, the consideration for the lease immediately preceding the change;

(b) the reduction in lease payments affects only payments originally due on or before June 30, 2021; and

(c) there is no substantive change to other terms and conditions of the lease.

Rent concessions that satisfy these criteria may be accounted for in accordance with this practical expedient, which means the lessee does not need to assess whether the rent concession meets the definition of lease modification. Lessees shall apply other requirements of HKFRS 16 in accounting for the rent concession.

Accounting for rent concessions as lease modifications would have resulted in the Group remeasuring the lease liability to reflect the revised consideration using a revised discount rate, with the effect of the change in the lease liability recorded against the right-of-use asset. By applying the practical expedient, the Group is not required to determine a revised discount rate and the effect of the change in the lease liability is reflected in profit or loss in the period in which the event or condition that triggers the rent concession occurs.

Notes to the Consolidated Financial Statements

2 Summary of significant accounting policies *(Continued)*

2.1 Basis of preparation *(Continued)*

2.1.1 Changes in accounting policy and disclosure (Continued)

(b) New and amendments to standards, interpretations and improvements not yet adopted (Continued)

Annual Improvements to HKFRSs 2018-2020

The annual improvements amends a number of standards, including:

- HKFRS 1, First-time Adoption of Hong Kong Financial Reporting Standards, which permit a subsidiary that applies paragraph D16(a) of HKFRS 1 to measure cumulative translation differences using the amounts reported by its parent, based on the parent's date of transition to HKFRSs.

- HKFRS 9, Financial Instruments, which clarify the fees included in the '10 per cent' test in paragraph B3.3.6 of HKFRS 9 in assessing whether to derecognize a financial liability, explaining that only fees paid or received between the entity and the lender, including fees paid or received by either the entity or the lender on other's behalf are included.

- HKFRS 16, Leases, which amend Illustrative Example 13 to remove the illustration of reimbursement of leasehold improvements by the lessor in order to resolve any potential confusion regarding the treatment of lease incentives that might arise because of how lease incentives are illustrated in that example.

- HKAS 41, Agriculture, which remove the requirement to exclude taxation cash flows when measuring the fair value of a biological asset using a present value technique.

Amendments to HKAS 39, HKFRS 4, HKFRS 7, HKFRS 9 and HKFRS 16, Interest Rate Benchmark Reform – Phase 2

The amendments address issues that might affect financial reporting when a company replaces the old interest rate benchmark with an alternative benchmark rate as a result of the interest rate benchmark reform (the "Reform"). The amendments complement those issued in November 2019 and relate to (a) changes to contractual cash flows in which an entity will not have to derecognize or adjust the carrying amount of financial instruments for changes required by the Reform, but will instead update the effective interest rate to reflect the change to the alternative benchmark rate; (b) hedge accounting in which an entity will not have to discontinue its hedge accounting solely because it makes changes required by the Reform, if the hedge meets other hedge accounting criteria; and (c) disclosures in which an entity will be required to disclose information about new risks arising from the Reform and how it manages the transition to alternative benchmark rates.

The Group is not yet in a position to state whether these new pronouncements will result in substantial changes to the Group's accounting policies and financial statements.

Notes to the Consolidated Financial Statements

2 Summary of significant accounting policies *(Continued)*

2.2 Subsidiaries

2.2.1 Consolidation

A subsidiary is an entity (including a structured entity) over which the Group has control. The Group controls an entity when the Group is exposed to, or has rights to, variable returns from its involvement with the entity and has the ability to affect those returns through its power over the entity. Subsidiaries are consolidated from the date on which control is transferred to the Group. They are deconsolidated from the date that control ceases.

(a) Business combinations

The Group applies the acquisition method to account for business combinations. The consideration transferred for the acquisition of a subsidiary is the fair values of the assets transferred, the liabilities incurred to the former owners of the acquiree and the equity interests issued by the Group. The consideration transferred includes the fair value of any asset or liability resulting from a contingent consideration arrangement. Identifiable assets acquired and liabilities and contingent liabilities assumed in a business combination are measured initially at their fair values at the acquisition date.

The Group recognizes any non-controlling interest in the acquiree on an acquisition-by-acquisition basis, either at fair value or at the non-controlling interest's proportionate share of the recognized amounts of acquiree's identifiable net assets.

Acquisition-related costs are expensed as incurred.

If the business combination is achieved in stages, the acquisition-date carrying value of the acquirer's previously held equity interest in the acquiree is re-measured to fair value at the acquisition date; any gains or losses arising from such re-measurement are recognized in profit or loss.

Any contingent consideration to be transferred by the Group is recognized at fair value at the acquisition date. Subsequent changes to the fair value of the contingent consideration that is deemed to be an asset or liability is recognized in accordance with HKAS 39 either in profit or loss or as a change to other comprehensive income. Contingent consideration that is classified as equity is not remeasured, and its subsequent settlement is accounted for within equity.

The excess of the consideration transferred, the amount of any non-controlling interest in the acquiree and the acquisition-date fair value of any previous equity interest in the acquiree over the fair value of the identifiable net assets acquired is recorded as goodwill. If the total of consideration transferred, non-controlling interest recognized and previously held interest measured is less than the fair value of the net assets of the subsidiary acquired in the case of a bargain purchase, the difference is recognized directly in the consolidated statement of comprehensive income.

Intra-group transactions, balances and unrealized gains on transactions between group companies are eliminated. Unrealized losses are also eliminated. When necessary, amounts reported by subsidiaries have been adjusted to conform with the Group's accounting policies.

2 Summary of significant accounting policies *(Continued)*

2.2 Subsidiaries *(Continued)*

2.2.1 Consolidation (Continued)

(b) Changes in ownership interests in subsidiaries without change of control

Transactions with non-controlling interests that do not result in loss of control are accounted for as equity transactions – that is, as transactions with the owners in their capacity as owners. The difference between fair value of any consideration paid and the relevant share acquired of the carrying value of net assets of the subsidiary is recorded in equity. Gains or losses on disposals to non-controlling interests are also recorded in equity.

(c) Disposal of subsidiaries

When the Group ceases to have control, any retained interest in the entity is re-measured to its fair value at the date when control is lost, with the change in carrying amount recognized in profit or loss. The fair value is the initial carrying amount for the purposes of subsequently accounting for the retained interest as an associated company, joint venture or financial asset. In addition, any amounts previously recognized in other comprehensive income in respect of that entity are accounted for as if the Group had directly disposed of the related assets or liabilities. This may mean that amounts previously recognized in other comprehensive income are reclassified to profit or loss.

2.2.2 Separate financial statements

Investments in subsidiaries are accounted for at cost less impairment. Cost includes direct attributable costs of investment. The results of subsidiaries are accounted for by the Company on the basis of dividend received and receivable.

Impairment testing of the investments in subsidiaries is required upon receiving dividends from these investments if the dividend exceeds the total comprehensive income of the subsidiary in the period the dividend is declared or if the carrying amount of the investment in the separate financial statements exceeds the carrying amount in the consolidated financial statements of the investee's net assets including goodwill.

2.3 Structured entity

The Group controls a structured entity, the trust constituted by the trust deed, which is set up solely for the purpose of purchasing, administering and holding the Company shares for an employees' share award scheme. As the Group has the power to direct the relevant activities of the trust and it has the ability to use its power over the trust to affect its exposure to returns, the assets and liabilities of trust are included in the consolidated statement of financial position and the Company shares held by the trust are presented as a deduction in equity as shares held for share award scheme.

2.4 Segment reporting

Operating segments are reported in a manner consistent with the internal reporting provided to the chief operating decision-maker. The chief operating decision-maker, who is responsible for allocating resources and assessing performance of the operating segments, has been identified as the Board that makes strategic decisions.

2 Summary of significant accounting policies *(Continued)*

2.5 Foreign currency translation

(a) Functional and presentation currency

Items included in the financial statements of each of the Group's entities are measured using the currency of the primary economic environment in which each entity operates (the "**functional currency**"). The consolidated financial statements are presented in HKD, which is the Company's functional currency and the Company's and the Group's presentation currency.

(b) Transactions and balances

Foreign currency transactions are translated into the functional currency using the exchange rates prevailing at the dates of the transactions or valuation where items are remeasured. Foreign exchange gains and losses resulting from the settlement of such transactions and from the translation at year-end exchange rates of monetary assets and liabilities denominated in foreign currencies are recognized in the consolidated statement of comprehensive income.

Translation differences on non-monetary financial assets and liabilities such as equities held at fair value through profit or loss ("**FVTPL**") are recognized in profit or loss as part of the fair value gain or loss.

(c) Group companies

The results and financial position of all the group entities (none of which has the currency of a hyperinflationary economy) that have a functional currency different from the presentation currency are translated into the presentation currency as follows:

– assets and liabilities for each statement of financial position presented are translated at the closing rate at the end of the reporting date;

– income and expenses for each statement of comprehensive income are translated at average exchange rates (unless this average is not a reasonable approximation of the cumulative effect of the rates prevailing on the transaction dates, in which case income and expenses are translated at the dates of the transactions); and

– all resulting exchange differences are recognized in other comprehensive income.

Goodwill and fair value adjustments arising on the acquisition of a foreign entity are treated as assets and liabilities of the foreign entity and translated at the closing rate. Exchange differences arising are recognized in other comprehensive income.

2 Summary of significant accounting policies *(Continued)*

2.6 Property, plant and equipment

Property, plant and equipment are stated at historical cost less depreciation and impairment losses. Historical cost includes expenditure that is directly attributable to the acquisition of the items.

Subsequent costs are included in the asset's carrying amount or recognized as a separate asset, as appropriate, only when it is probable that future economic benefits associated with the item will flow to the Group and the cost of the item can be measured reliably. The carrying amount of the replaced part is derecognized. All other repairs and maintenance are charged to the consolidated statement of comprehensive income during the financial period in which they are incurred.

Depreciation of property, plant and equipment is calculated using straight-line method to allocate their costs, less their estimated residual value, if any, over their estimated useful lives, as follows:

Buildings	20 years
Plant and machinery	3 – 10 years
Office equipment	3 – 5 years
Furniture and fixtures	5 years
Motor vehicles	4 – 10 years

Construction in progress, which includes direct expenditures for construction of buildings, is stated at cost. Capitalized costs include costs incurred during the construction phase which directly relates to the asset under construction. Once all the activities necessary to prepare an asset to be available for its intended use are substantially completed, the construction in progress is transferred to property, plant and equipment. No depreciation is provided in respect of construction in progress.

The assets' residual values and useful lives are reviewed, and adjusted if appropriate, at the end of each reporting period.

An asset's carrying amount is written down immediately to its recoverable amount if the asset's carrying amount is higher than its estimated recoverable amount.

Gains or losses on disposals are determined by comparing the proceeds with the carrying amount and are recognized in the consolidated statement of comprehensive income.

2.7 Investment property

Investment property is property held either to earn rentals or for capital appreciation or for both, but not held for sale in the ordinary course of business, use in the production or supply of goods or services or for administrative purposes. Investment property is measured at cost on initial recognition and subsequently at fair value with any change therein recognized in profit or loss.

Notes to the Consolidated Financial Statements

2 Summary of significant accounting policies *(Continued)*

2.8 Impairment of non-financial assets

Assets that have an indefinite useful life – for instance, goodwill – are not subject to amortization and are tested annually for impairment. Assets that are subject to amortization are reviewed for impairment whenever events or changes in circumstances indicate that the carrying amount may not be recoverable. An impairment loss is recognized for the amount by which the asset's carrying amount exceeds its recoverable amount. The recoverable amount is the higher of an asset's fair value less costs to sell and value in use. For the purposes of assessing impairment, assets are grouped at the lowest levels for which there are separately identifiable cash flows (cash-generating units). Non-financial assets other than goodwill that suffered an impairment are reviewed for possible reversal of the impairment at each reporting date.

2.9 Financial instruments

2.9.1 Financial assets

A financial asset (unless it is a trade receivable without a significant financing component) is initially measured at fair value plus, for an item not at FVTPL, transaction costs that are directly attributable to its acquisition or issue. A trade receivable without a significant financing component is initially measured at the transaction price.

All regular way purchases and sales of financial assets are recognized 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 market place.

Financial assets with embedded derivatives are considered in their entirely when determining whether their cash flows are solely payment of principal and interest.

Debt instruments

Subsequent measurement of debt instruments depends on the Group's business model for managing the asset and the cash flow characteristics of the asset. There are three measurement categories into which the Group classifies its debt instruments:

Amortized cost: Assets that are held for collection of contractual cash flows where those cash flows represent solely payments of principal and interest are measured at amortized cost. Financial assets at amortized cost are subsequently measured using the effective interest rate method. Interest income, foreign exchange gains and losses and impairment are recognized in profit or loss. Any gain on derecognition is recognized in profit or loss.

Fair value through other comprehensive income ("**FVTOCI**"): Assets that are held for collection of contractual cash flows and for selling the financial assets, where the assets' cash flows represent solely payments of principal and interest, are measured at FVTOCI. Debt investments at FVTOCI are subsequently measured at fair value. Interest income calculated using the effective interest rate method, foreign exchange gains and losses and impairment are recognized in profit or loss. Other net gains and losses are recognized in other comprehensive income. On derecognition, gains and losses accumulated in other comprehensive income are reclassified to profit or loss.

2 Summary of significant accounting policies *(Continued)*

2.9 Financial instruments *(Continued)*

2.9.1 Financial assets (Continued)

Debt instruments *(Continued)*

FVTPL: Financial assets at FVTPL include financial assets held for trading, financial assets designated upon initial recognition at FVTPL, or financial assets mandatorily required to be measured at fair value. Financial assets are classified as held for trading if they are acquired for the purpose of selling or repurchasing in the near term. Derivatives, including separated embedded derivatives, are also classified as held for trading unless they are designated as effective hedging instruments. Financial assets with cash flows that are not solely payments of principal and interest are classified and measured at FVTPL, irrespective of the business model. Notwithstanding the criteria for debt instruments to be classified at amortized cost or at FVTOCI, as described above, debt instruments may be designated at FVTPL on initial recognition if doing so eliminates, or significantly reduces, an accounting mismatch.

Equity instruments

On initial recognition of an equity investment that is not held for trading, the Group could irrevocably elect to present subsequent changes in the investment's fair value in other comprehensive income. This election is made on an investment-by-investment basis. Equity investments at FVTOCI are measured at fair value. Dividend income are recognized in profit or loss unless the dividend income clearly represents a recovery of part of the cost of the investments. Other net gains and losses are recognized in other comprehensive income and are not reclassified to profit or loss. All other equity instruments are classified as FVTPL, whereby changes in fair value, dividends and interest income are recognized in profit or loss.

2.9.2 Impairment loss on financial assets

The Group recognizes loss allowances for expected credit loss ("**ECL**") on trade receivables, contract assets, financial assets measured at amortized cost and debt investments measured at FVOCI. The ECLs are measured on either of the following bases: (1) 12 months ECLs: these are the ECLs that result from possible default events within the 12 months after the reporting date: and (2) lifetime ECLs: these are ECLs that result from all possible default events over the expected life of a financial instrument. The maximum period considered when estimating ECLs is the maximum contractual period over which the Group is exposed to credit risk.

ECLs are a probability-weighted estimate of credit losses. Credit losses are measured as the difference between all contractual cash flows that are due to the Group in accordance with the contract and all the cash flows that the Group expects to receive. The shortfall is then discounted at an approximation to the assets' original effective interest rate.

The Group has elected to measure loss allowances for trade receivables and contract assets using HKFRS 9 simplified approach and has calculated ECLs based on lifetime ECLs. The Group has established a provision matrix that is based on the Group's historical credit loss experience, adjusted for forward-looking factors specific to the debtors and the economic environment.

For other debt financial assets, the ECLs are based on the 12-months ECLs. However, when there has been a significant increase in credit risk since origination, the allowance will be based on the lifetime ECLs.

2 Summary of significant accounting policies *(Continued)*

2.9 Financial instruments *(Continued)*

2.9.2 Impairment loss on financial assets (Continued)

When determining whether the credit risk of a financial asset has increased significantly since initial recognition and when estimating ECL, the Group considers reasonable and supportable information that is relevant and available without undue cost or effort. This includes both quantitative and qualitative information analysis, based on the Group's historical experience and informed credit assessment and including forward-looking information.

The Group assumes that the credit risk on a financial asset has increased significantly if it is more than 30 days past due unless the Group has reasonable and supportable information that a more lagging default criteria is more appropriate.

The Group considers a financial asset to be credit-impaired when: (1) the borrower is unlikely to pay its credit obligations to the Group in full, without recourse by the Group to actions such as realizing security (if any is held); or (2) the financial asset is more than 90 days past due or unless the Group has reasonable and supportable information that a more lagging default criteria is more appropriate.

Interest income on credit-impaired financial assets is calculated based on the amortized cost (i.e. the gross carrying amount less loss allowance) of the financial asset. For non credit-impaired financial assets interest income is calculated based on the gross carrying amount.

2.9.3 Financial liabilities

The Group classifies its financial liabilities, depending on the purpose for which the liabilities were incurred. Financial liabilities at FVTPL are initially measured at fair value and financial liabilities at amortized costs are initially measured at fair value, net of directly attributable costs incurred.

Financial liabilities at amortized cost

Financial liabilities at amortized cost are subsequently measured at amortized cost, using the effective interest method. The related interest expense is recognized in profit or loss.

Gains or losses are recognized in profit or loss when the liabilities are derecognized as well as through the amortization process.

2.9.4 Effective interest method

The effective interest method is a method of calculating the amortized cost of a financial asset or financial liability and of allocating interest income or interest expense over the relevant period. The effective interest rate is the rate that exactly discounts estimated future cash receipts or payments through the expected life of the financial asset or liability, or where appropriate, a shorter period.

2.9.5 Derecognition

The Group derecognizes a financial asset when the contractual rights to the future cash flows in relation to the financial asset expire or when the financial asset has been transferred and the transfer meets the criteria for derecognition in accordance with HKFRS 9.

Financial liabilities are derecognized when the obligation specified in the relevant contract is discharged, cancelled or expires.

Notes to the Consolidated Financial Statements

2 Summary of significant accounting policies *(Continued)*

2.9 Financial Instruments *(Continued)*

2.9.5 Derecognition (Continued)

Where the Group issues its own equity instruments to a creditor to settle a financial liability in whole or in part as a result of renegotiating the terms of that liability, the equity instruments issued are the consideration paid and are recognized initially and measured at their fair value on the date the financial liability or part thereof is extinguished. If the fair value of the equity instruments issued cannot be reliably measured, the equity instruments are measured to reflect the fair value of the financial liability extinguished. The difference between the carrying amount of the financial liability or part thereof extinguished and the consideration paid is recognized in profit or loss for the year.

2.10 Offsetting financial instruments

Financial assets and liabilities are offset and the net amount reported in the consolidated statement of financial position when there is a legally enforceable right to offset the recognized amounts and there is an intention to settle on a net basis or realize the asset and settle the liability simultaneously.

2.11 Inventories

Inventories are stated at the lower of cost and net realizable value. Cost is determined using the weighted average method. The cost of finished goods and work in progress comprises raw materials, direct labor, other direct costs and related production overheads (based on normal operating capacity) but excludes borrowing costs. Net realizable value is the estimated selling price in the ordinary course of business, less applicable variable selling expenses.

2.12 Cash and cash equivalents

In the consolidated statement of cash flows, cash and cash equivalents include cash in hand, deposits held at call with banks and other short-term highly liquid investments with original maturities of three months or less, excluding pledged deposits.

2.13 Share capital

Ordinary shares are classified as equity.

Incremental costs, net of tax, directly attributable to the issue of new shares or options are shown in equity as a deduction, net of tax, from the proceeds.

2.14 Provisions

Provisions are recognized when the Group has a present legal or constructive obligation as a result of past events, it is probable that an outflow of resources will be required to settle the obligation, and the amount has been reliably estimated. Provisions are not recognized for future operating losses.

Where there are a number of similar obligations, the likelihood that an outflow will be required in settlement is determined by considering the class of obligations as a whole. A provision is recognized even if the likelihood of an outflow with respect to any one item included in the same class of obligations may be small.

Provisions are measured at the present value of the expenditures expected to be required to settle the obligation using a pre-tax rate that reflects current market assessments of the time value of money and the risks specific to the obligation. The increase in the provision due to passage of time is recognized as interest expense.

2 Summary of significant accounting policies *(Continued)*

2.15 Current and deferred income tax

The tax expense for the year comprises current and deferred tax. Tax is recognized in the consolidated statement of comprehensive income, except to the extent that it relates to items recognized in other comprehensive income or directly in equity. In this case the tax is also recognized in other comprehensive income or directly in equity, respectively.

(a) Current income tax

The current income tax charge is calculated on the basis of the tax laws enacted or substantively enacted at the reporting date in the countries where the Company and its subsidiaries operate and generate taxable income. Management periodically evaluates positions taken in tax returns with respect to situations in which applicable tax regulation is subject to interpretation and establishes provisions where appropriate on the basis of amounts expected to be paid to the tax authorities.

(b) Deferred income tax

Inside basis difference

Deferred income tax is recognized, using the liability method, on temporary differences arising between the tax bases of assets and liabilities and their carrying amounts in the consolidated financial statements. However, deferred income tax is not accounted for if it arises from initial recognition of an asset or liability in a transaction other than a business combination that at the time of the transaction affects neither accounting nor taxable profit or loss. Deferred income tax is determined using tax rates (and laws) that have been enacted or substantively enacted by the reporting date and are expected to apply when the related deferred income tax asset is realized or the deferred income tax liability is settled.

Deferred income tax assets are recognized to the extent that it is probable that future taxable profit will be available against which the temporary differences can be utilized.

Outside basis difference

Deferred income tax is provided on temporary differences arising on investments in subsidiaries, associated company and joint arrangement except where the timing of the reversal of the temporary difference is controlled by the Group and it is probable that the temporary difference will not reverse in the foreseeable future.

Deferred income tax assets are recognized on deductible temporary differences arising from investments in subsidiaries, associated company and joint arrangement only to the extent that it is probable the temporary difference will reverse in the future and there is sufficient taxable profit available against which the temporary difference can be utilized.

(c) Offsetting

Deferred income tax assets and liabilities are offset when there is a legally enforceable right to offset current tax assets against current tax liabilities and when the deferred income taxes assets and liabilities relate to income taxes levied by the same taxation authority on either the taxable entity or different taxable entities where there is an intention to settle the balances on a net basis.

2 Summary of significant accounting policies *(Continued)*

2.16 Revenue recognition

Revenue from contracts with customers is recognized when control of goods or services 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, excluding those amounts collected on behalf of third parties. Revenue excludes value added tax or other sales taxes and is after deduction of any trade discounts.

Depending on the terms of the contract and the laws that apply to the contract, control of the goods or service may be transferred over time or at a point in time. Control of the goods or service is transferred over time if the Group's performance:

- provides all of the benefits received and consumed simultaneously by the customer;

- creates or enhances an asset that the customer controls as the Group performs; or

- does not create an asset with an alternative use to the Group and the Group has an enforceable right to payment for performance completed to date.

If control of the goods or services transfers over time, revenue is recognized over the period of the contract by reference to the progress towards complete satisfaction of that performance obligation. Otherwise, revenue is recognized at a point in time when the customer obtains control of the goods or service.

When the contract contains a financing component which provides the customer a significant benefit of financing the transfer of goods or services to the customer for more than one year, revenue is measured at the present value of the amounts receivable, discounted using the discount rate that would be reflected in a separate financing transaction between the Group and the customer at contract inception. Where the contract contains a financing component which provides a significant financing benefit to the Group, revenue recognized under that contract includes the interest expense accreted on the contract liability under the effective interest method. For contracts where the period between the payment and the transfer of the promised goods or services is one year or less, the transaction price is not adjusted for the effects of a significant financing component, using the practical expedient in HKFRS 15.

Sales of goods

Customers obtain control of the products when the goods are delivered to and have been accepted. Revenue is thus recognized when the customers accepted the products. There is generally only one performance obligation. Invoices are usually payable within 30 to 90 days. In the comparative period, revenue from sales of goods is recognized on transfer of risks and rewards of ownership, which was taken as at the time of delivery and the title is passed to customer.

Processing services

Revenue is recognized over time as those services are provided. Invoices for processing services are issued on a monthly basis and are usually payable within 90 days. For any satisfied performance obligation but where the Group does not have an unconditional right to consideration, a contract asset is recognized.

Other income

- Interest income is accrued on a time basis on the principal outstanding at the applicable interest rate.

- Dividend income is recognized when the right to receive the dividend is established.

2 Summary of significant accounting policies *(Continued)*

2.17 Employee benefits

(a) Employee leave entitlements

Employee entitlements to annual leave and long service leave are recognized when they accrue to employees. A provision is made for the estimated liability for annual leave and long service leave as a result of services rendered by employees up to the end of each reporting period.

Employee entitlements to sick leave and maternity leave are not recognized until the time of leave.

(b) Pension obligations

The Group participates in defined contribution schemes which are available to eligible employees, the assets of which are held in separate trustee administered funds. The Group's contributions to the defined contribution retirement schemes are expensed as incurred. The Group has no further obligation once the contributions have been paid.

The Group also participates in the employee social security plan (the "**Plan**") as required by the regulations in the PRC. The Group is required to make welfare contributions to the Plan which is based on a certain percentage of the employees' relevant income.

(c) Bonus plans

The Group recognizes a liability and an expense for bonus plans that takes into consideration the profit attributable to the Company's shareholders after certain adjustments. The Group recognizes a provision where contractually obliges or where there is a past practice that has created a constructive obligation.

(d) Equity-settled share-based payment transactions

(i) Share award

The Group operates a share award scheme, under which the entity receives services from employees as consideration for equity instruments of the Group and the share awards were granted under the share award scheme to employees as part of their compensation package.

The amount to be expensed as share-based compensation expenses is determined by reference to the fair value of the award shares granted, taking into account all non-vesting conditions associated with the grants. The total expense is recognized over the relevant vesting periods (or on the grant date if the shares vest immediately), with a corresponding credit to an employee share-based compensation reserve under equity.

Upon vesting and transfer to the awardees, the related costs of the shares are credited to shares held for share award scheme, and the related fair value of the shares are debited to employee share-based compensation reserve. The difference between the cost and the fair value of the shares is credited to share premium if the fair value is higher than the cost or debited against retained earnings if the fair value is less than the cost.

2 Summary of significant accounting policies *(Continued)*

2.17 Employee benefits *(Continued)*

(d) Equity-settled share-based payment transactions (Continued)

(ii) Share options

Where share options are awarded to employees and others providing similar services, the fair value of the services received is measured by reference to the fair value of the options at the date of grant. Such fair value is recognized in profit or loss over the vesting period with a corresponding increase in the share option reserve within equity. Non-market vesting conditions are taken into account by adjusting the number of equity instruments expected to vest at the end of each reporting period so that, ultimately, the cumulative amount recognized over the vesting period is based on the number of options that eventually vest. Market vesting conditions are factored into the fair value of the options granted. As long as all non-market vesting conditions are satisfied, a charge is made irrespective of whether the market vesting conditions are satisfied. The cumulative expense is not adjusted for failure to achieve a market vesting condition.

Where the terms and conditions of options are modified before they vest, the increase in the fair value of the options, measured immediately before and after the modification, is also recognized in profit or loss over the remaining vesting period.

2.18 Leases

All leases (irrespective of they are operating leases or finance leases) are required to be capitalized in the consolidated statement of financial position as right-of-use assets and lease liabilities, but accounting policy choices exist for an entity to choose not to capitalise (i) leases which are short-term leases and/or (ii) leases for which the underlying asset is of low-value. The Group has elected not to recognize right-of-use assets and lease liabilities for low-value assets and leases for which at the commencement date have a lease term less than 12 months. The lease payments associated with those leases have been expensed on straight-line basis over the lease term.

Right-of-use asset

The right-of-use asset should be recognized at cost and would comprise: (i) the amount of the initial measurement of the lease liability (see below for the accounting policy to account for lease liability); (ii) any lease payments made at or before the commencement date, less any lease incentives received; (iii) any initial direct costs incurred by the lessee and (iv) an estimate of costs to be incurred by the lessee in dismantling and removing the underlying asset to the condition required by the terms and conditions of the lease, unless those costs are incurred to produce inventories. Except for right-of-use asset that meets the definition of an investment property or a class of property, plant and equipment to which the Group applies the revaluation model, the Group measures the right-of-use assets applying a cost model. Under the cost model, the Group measures the right-to-use at cost, less any accumulated depreciation and any impairment losses, and adjusted for any remeasurement of lease liability.

The Group has leased a number of properties under tenancy agreements which the Group exercises it judgment and determines that it is a separate class of asset apart from the leasehold land and buildings which is held for own use. As a result, the right-of-use asset arising from the properties under tenancy agreements are carried at depreciated cost.

2 Summary of significant accounting policies *(Continued)*

2.18 Leases *(Continued)*

Lease liability

The lease liability is recognized at the present value of the lease payments that are not paid at the date of commencement of the lease. The lease payments are discounted using the interest rate implicit in the lease, if that rate can be readily determined. If that rate cannot be readily determined, the Group uses the Group's incremental borrowing rate.

The following payments for the right-to-use the underlying asset during the lease term that are not paid at the commencement date of the lease are considered to be lease payments: (i) fixed payments less any lease incentives receivable: (ii) variable lease payments that depend on an index or a rate, initially measured using the index or rate as at commencement date; (iii) amounts expected to be payable by the lessee under residual value guarantees; (iv) the exercise price of a purchase option if the lessee is reasonably certain to exercise that option and (v) payments of penalties for terminating the lease, if the lease term reflects the lessee exercising an option to terminate the lease.

Subsequent to the commencement date, the Group measures the lease liability by: (i) increasing the carrying amount to reflect interest on the lease liability; (ii) reducing the carrying amount to reflect the lease payments made; and (iii) remeasuring the carrying amount to reflect any reassessment or lease modifications, e.g., a change in future lease payments arising from change in an index or rate, a change in the lease term, a change in the in substance fixed lease payments or a change in assessment to purchase the underlying asset.

(a) Operating leases

Leases in which a significant portion of the risks and rewards of ownership are retained by the lessor are classified as operating leases. Payments made under operating leases (net of any incentives received from the lessor) are charged to profit or loss for the year on a straight-line basis over the period of the lease.

(b) Finance leases

The Group leases certain property, plant and equipment. Leases of property, plant and equipment where the Group has substantially all the risks and rewards of ownership are classified as finance leases. Finance leases are capitalized at the lease's commencement at the lower of the fair value of the leased property and the present value of the minimum lease payments.

Each lease payment is allocated between the liability and finance charges. The corresponding rental obligations, net of finance charges, are included in current and non-current liabilities. The interest element of the finance costs is charged to the consolidated statement of comprehensive income over the lease period so as to produce a constant periodic rate of interest on the remaining balance of the liability for each period.

Notes to the Consolidated Financial Statements

2 Summary of significant accounting policies *(Continued)*

2.19 Government grants and subsidies

Grants and subsidies from government are recognized at their fair value where there is a reasonable assurance that the grants and subsidies will be received and the Group will comply with all attached conditions.

Under these circumstances, the grants and subsidies are recognized as income or matched with the associated costs which the grants and subsidies are intended to compensate.

Government grants relating to the right-of-use assets are deferred income and are credited to profit or loss on a straight-line basis over the expected lives of the related assets.

2.20 Related parties

(a) A person or a close member of that person's family is related to the Group if that person:

(i) has control or joint control over the Group;

(ii) has significant influence over the Group; or

(iii) is a member of key management personnel of the Group or the Company's parent.

(b) An entity is related to the Group if any of the following conditions apply:

(i) The entity and the Group are members of the same group (which means that each parent, subsidiary and fellow subsidiary is related to the others).

(ii) One entity is an associate or joint venture of the other entity (or an associate or joint venture of a member of a group of which the other entity is a member).

(iii) Both entities 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 the employees of 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 key management personnel of the entity (or of a parent of the entity).

(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 Group's parent.

Close members of the family of a person are those family members who may be expected to influence, or be influenced by, that person in their dealings with the entity and include:

(i) that person's children and spouse or domestic partner;

(ii) children of that person's spouse or domestic partner; and

(iii) dependents of that person or that person's spouse or domestic partner.

3 Financial risk management

3.1 Financial risk factors

The Group's activities expose it to a variety of financial risks: market risk, credit risk and liquidity risk. The Group is not exposed to material equity price risk. The Group's overall risk management program focuses on the unpredictability of financial markets and seeks to minimize potential adverse effects on the Group's financial performance. The Group's management regularly monitors the exposures and implements timely and effective policies to mitigate potential risks. Risk management is carried out by the group treasury department under policies approved by the Board. Financial risks are identified and evaluated in different units with close cooperation with the group treasury. Based on the policies, the Group can also use derivative financial instruments to hedge certain risk exposures.

(a) *Market risk*

Foreign exchange risk

The Group mainly operates in Hong Kong, Macao and the PRC and is exposed to foreign exchange risk arising from various currency exposures, primarily with respect to the United States Dollar ("**USD**"), Renminbi ("**RMB**"), and Australian Dollar ("**AUD**"). Foreign exchange risk arises from future commercial transactions, recognized assets and liabilities.

The Group has certain investments in foreign operations, whose net assets are exposed to foreign currency translation risk. The results of net foreign exchange difference arise from relevant foreign currencies denominated trade and other receivables, cash and bank deposits, other payables and current accounts with group companies. The Group's exposure to different currencies is disclosed in the following table:

	2020 Increase/ (decrease) on profit for the year HK$'000	2019 Increase/ (decrease) on loss for the year HK$'000
For companies with HKD as their functional currency:		
RMB weakens against HKD by 10%	**(7,961)**	519
RMB strengthens against HKD by 10%	**7,961**	(519)
For companies with RMB as their functional currency:		
USD weakens against RMB by 10%	**(19)**	(25)
USD strengthens against RMB by 10%	**19**	25
For companies with USD as their functional currency:		
AUD weakens against USD by 10%	**(1)**	33
AUD strengthens against USD by 10%	**1**	(33)

3 Financial risk management *(Continued)*

3.1 Financial risk factors *(Continued)*

(b) Credit risk

The Group's credit risk is primarily attributable to its trade and other receivables. Management has a credit policy in place and the exposures to these credit risks are monitored on an ongoing basis.

In respect of trade and other receivables, these evaluations focus on the customer's past history of making payments when due and current ability to pay, and take into account information specific to the customers as well as pertaining to the economic environment in which the customers operate. Ongoing credit evaluation is performed on the financial condition of trade customers and, where appropriate, credit guarantee insurance cover is purchased. Normally, the Group does not obtain collateral from customers.

The credit risk is characterized by high concentration of business with several customers. At the end of reporting period, the Group has a certain concentration of credit risk as 21% (2019: 12%) and 31% (2019: 76%) of the total trade and other receivables due from the Group's largest customer and the five largest customers respectively.

The Group measures loss allowances for trade receivables at an amount equal to lifetime ECL, which is calculated using a provision matrix. As the Group's historical credit loss experience does not indicate significantly different loss patterns for different customer segments, the loss allowance based on past due status is not further distinguished between the Group's different customer bases.

Loss allowances for other receivables are also measured at an amount equal to lifetime ECLs. For the year ended December 31, 2020, no impairment loss (year ended December 31, 2019: HK$1,827,000) is recognized under the ECLs model.

The following table provides information about the Group's exposure to credit risk and ECLs for trade receivables as at December 31, 2019 and 2020:

	Expected loss rate	Gross carrying amount	Loss allowance	Net carrying amount
	%	HK$'000	HK$'000	HK$'000
At December 31, 2020				
Current	0.0%	261,306	–	261,306
1 – 30 days	1.22%	47,429	579	46,850
31 – 60 days	5.76%	19,987	1,151	18,836
61 – 90 days	11.38%	22,967	2,614	20,353
91 – 180 days	20.13%	42,987	8,653	34,334
181 days – 1 year	30.72%	17,999	5,529	12,470
More than 1 year	93.58%	11,199	10,481	718
		423,874	29,007	394,867

Notes to the Consolidated Financial Statements

3 Financial risk management *(Continued)*

3.1 Financial risk factors *(Continued)*

(b) Credit risk (Continued)

	Expected loss rate %	Gross carrying amount HK$'000	Loss allowance HK$'000	Net carrying amount HK$'000
At December 31, 2019				
Current	0.0%	244,323	–	244,323
1 – 30 days	1.32%	64,848	856	63,992
31 – 60 days	5.05%	21,504	1,086	20,418
61 – 90 days	9.70%	20,771	2,015	18,756
91 – 180 days	17.66%	31,373	5,540	25,833
181 days – 1 year	32.90%	2,216	729	1,487
More than 1 year	83.03%	7,817	6,490	1,327
		392,852	16,716	376,136

Expected loss rates are based on actual loss experience over the past three years. These rates are adjusted to reflect differences between economic conditions during the period over which the historic data has been collected, current conditions and the Group's view of economic conditions over the expected lives of the receivables.

Movement in the loss allowance account in respect of trade receivables during the year is as follows:

	2020 HK$'000	2019 HK$'000
Balance at beginning of year	**16,716**	6,011
Amounts written off during the year	**–**	(119)
Impairment loss recognized during the year	**13,367**	10,718
Exchange differences	**(1,076)**	106
Balance at end of year	**29,007**	16,716

The Group maintains frequent communications with these customers to ensure relevant transactions are running effectively and smoothly and balances are reconciled. Management believes that the credit risk related to these customers is not significant in respect of the net trade receivables.

Settlements from the customers are closely monitored on an ongoing basis by management of the Group to ensure any overdue debts are identified and follow-up action is taken to recover the overdue debts.

Notes to the Consolidated Financial Statements

3 Financial risk management *(Continued)*

3.1 Financial risk factors *(Continued)*

(c) Liquidity risk

Prudent liquidity risk management includes maintaining sufficient cash and the availability of an adequate amount of credit facilities.

Management monitors rolling forecasts of the Group's liquidity reserve (comprises undrawn borrowing facility and cash and cash equivalents) on the basis of expected cash flows.

The table below analyses the Group's financial liabilities into relevant maturity groupings based on the remaining years at the reporting date to the contractual maturity dates. The amounts disclosed in the table are the contractual undiscounted cash flows. Balances due within 12 months equal their carrying balances, as the impact of discounting is not significant.

	Carrying amount HK$'000	Total contractual undiscounted cash flow HK$'000	Less than 1 year HK$'000	Between 1 and 2 years HK$'000	Between 2 and 5 years HK$'000
At December 31, 2020					
Borrowings	**1,834,987**	**1,865,370**	**1,772,491**	**79,851**	**13,028**
Trade and other payables	**493,103**	**493,103**	**493,103**	**–**	**–**
Lease liabilities	**15,836**	**16,639**	**12,314**	**4,325**	**–**

	Carrying amount HK$'000	Total contractual undiscounted cash flow HK$'000	Less than 1 year HK$'000	Between 1 and 2 years HK$'000	Between 2 and 5 years HK$'000
At December 31, 2019					
Borrowings	1,533,909	1,684,249	978,495	108,863	596,891
Trade and other payables	249,112	249,112	249,112	–	–
Due to a director	645	645	645	–	–
Lease liabilities	28,081	30,407	15,435	10,890	4,082

3 Financial risk management *(Continued)*

3.2 Capital risk management

The Group's objectives when managing capital are to safeguard the Group's ability to continue as a going concern in order to provide returns for shareholders and benefits for other stakeholders and to maintain an optimal capital structure to reduce the cost of capital.

In order to maintain or adjust the capital structure, the Group may adjust the amount of dividends paid to shareholders, return capital to shareholders or issue new shares.

The gearing ratios of the Group as at December 31, 2019 and 2020 were as follows:

	December 31, 2020 HK$'000	December 31, 2019 HK$'000
Total borrowings	**1,834,987**	1,533,909
Less: Cash and cash equivalents	**(26,749)**	(15,923)
Net debt	**1,808,238**	1,517,986
Total equity	**1,226,852**	243,242
Total capital and net debt	**3,035,090**	1,761,228
Gearing ratio	**60%**	86%

The Board is of the view that the decrease in the gearing ratio as at December 31, 2020 was the result of recognition of receivables from the disposal of the land in Zengcheng during the year ended December 31, 2020.

3.3 Fair value estimation

The carrying amounts of the Group's financial assets and liabilities approximate their fair values due to their short maturity.

Notes to the Consolidated Financial Statements

4 Critical accounting estimates and judgments

Estimates and judgments are continually evaluated and are based on historical experience and other factors, including expectations of future events that are believed to be reasonable under the circumstances.

The Group makes estimates and assumptions concerning the future. The resulting accounting estimates will, by definition, seldom equal the related actual results. Save as disclosed in Note 2.1, the estimates and assumptions that have a significant risk of causing a material adjustment to the carrying amounts of assets and liabilities within the next financial year are discussed below.

(a) Income taxes

The Group is subject to income taxes in numerous jurisdictions. Significant judgment is required in determining the provision for income taxes. There are many transactions and calculations for which the ultimate tax determination is uncertain during the ordinary course of business. Where the final tax outcome of these matters is different from the amounts that were initially recorded, such differences will impact the current income tax and deferred tax provision in the period in which such determination is made.

(b) Provision for impairment of receivables

The loss allowances for financial assets are based on assumptions about risk default and ECLs rates. The Group uses judgment in making these assumptions and selecting the inputs to the impairment calculation, based on the Group's past history, existing market conditions as well as forward-looking estimates at the end of each reporting period.

The carrying amount and impairment of trade receivables are disclosed in Note 20.

(c) Identification of functional currencies

The functional currency for each entity in the Group is the currency of the primary economic environment in which it operates. Determination of functional currency involves significant judgment. The Group reconsiders the functional currency of its entities if there is a change in the underlying transactions, events and conditions which determine their primary economic environment.

(d) Estimated useful lives and impairment of property, plant and equipment

Management estimates useful lives of the property, plant and equipment by reference to the Group's business model, its assets management policy, the industry practice, expected usage of the assets, expected repair and maintenance, the technical or commercial obsolescence arising from changes or improvements in the market. Residual values of the property, plant and equipment are determined based on prevailing market values for equivalent aged assets taking into account the condition of the relevant assets and other economic considerations. Depreciation would be significantly affected by the useful lives and residual values of the property, plant and equipment as estimated by management.

Notes to the Consolidated Financial Statements

4 Critical accounting estimates and judgments *(Continued)*

(e) Impairment of property, plant and equipment and right-of-use assets

The Group's major operating assets represent property, plant and equipment and right-of-use assets which are carried at cost less depreciation and impairment. Management performs review for impairment of the property, plant and equipment and right-of-use assets whenever events or changes in circumstances indicate that the carrying amounts of these assets may not be recoverable. An impairment loss is recognized for the amount by which the asset's carrying amount exceeds its recoverable amount. The recoverable amount is the higher of an asset's fair value less costs of disposal and value in use. In estimating the recoverable amounts of assets, various assumptions, including future cash flows to be associated with the non-current assets and discount rates, are made. If future events do not correspond to such assumptions, the recoverable amounts will need to be revised, and this may have an impact on the Group's results of operations or financial position.

(f) Going concern consideration

The assessment of the going concern assumption involves making a judgment by the management, at a particular point of time, about the future outcome of events or conditions which are inherently uncertain. The management considers that the Group and the Company have the capabilities to continue as going concerns and the major events and conditions, which may give rise to business risks, that individually or collectively may cast significant doubt upon the going concern assumption and related mitigating measures taken by management are set out in Note 2.1.

5 Revenue and Segment information

The principal activities of the Group are manufacturing and trading of aluminium products. In prior years, the Group's revenue was divided into three product segments, namely electronics parts, construction and industrial products, and door and window frames systems which are operating in five geographical areas, namely the PRC (excluding Hong Kong for the purpose of this segmental analysis), Australia, North America, Hong Kong and others.

For the year ended December 31, 2020, the executive directors ("**ED(s)**") of the Company, being the chief operating decision makers, regularly reviewed revenue analysis by products and by locations. The EDs reassessed the Group's product segments reporting and decided that for financial reporting purposes, the three segments should be combined as the resource allocation, performance assessment and decision making of these three segments are not considered separately. The operating segment has been identified on the basis of internal management reports prepared and is regularly reviewed by the EDs of the Company. Accordingly, no analysis of product segment is presented. Due to the expansion of our business to South East Asia, the geographical areas presented are the PRC (excluding Hong Kong for the purpose of this segmental analysis), Australia, South East Asia, Hong Kong and others.

5 Revenue and Segment information *(Continued)*

The tables below present geographical segment information on the revised basis, with prior years represented to conform to the current year presentation. The Group derives revenue from the transfer of goods and services over time and at a point in time in the following geographical regions:

	Year ended December 31, 2020 HK$'000	Year ended December 31, 2019 HK$'000
Primary geographical markets		
The PRC	**1,018,593**	1,216,616
Australia	**216,093**	236,544
Hong Kong	**98,059**	71,173
South East Asia	**320,805**	5,668
Others	**164,083**	187,427
Total	**1,817,633**	1,717,428
Major products/Services		
Sales of goods	**1,816,501**	1,716,317
Processing fees	**1,132**	1,111
	1,817,633	1,717,428
Time of revenue recognition		
At a point in time	**1,816,501**	1,716,317
Transferred over time	**1,132**	1,111
	1,817,633	1,717,428

The analysis of the Group's revenue and gross profit from external customers attributed to the locations in which the sales originated during the years ended December 31, 2020 and 2019 consists of the following:

	Year ended December 31, 2020					
	The PRC HK$'000	**Australia HK$'000**	**Hong Kong HK$'000**	**South East Asia HK$'000**	**Others HK$'000**	**Total HK$'000**
Sales to external customers	**1,018,593**	**216,093**	**98,059**	**320,805**	**164,083**	**1,817,633**
Cost of sales	**(1,017,504)**	**(173,277)**	**(97,105)**	**(295,766)**	**(143,160)**	**(1,726,812)**
Gross profit	**1,089**	**42,816**	**954**	**25,039**	**20,923**	**90,821**

5 Revenue and Segment information *(Continued)*

	Year ended December 31, 2019					
	The PRC HK$'000	Australia HK$'000	Hong Kong HK$'000	South East Asia HK$'000	Others HK$'000	Total HK$'000
Sales to external customers	1,216,616	236,544	71,173	5,668	187,427	1,717,428
Cost of sales	(1,258,669)	(200,573)	(67,456)	(3,909)	(184,088)	(1,714,695)
Gross (loss)/profit	(42,053)	35,971	3,717	1,759	3,339	2,733

Details of customers accounting for 10% or more of total revenue are as follows:

	Year ended December 31, 2020 HK$'000	Year ended December 31, 2019 HK$'000
South East Asia Customer A	**319,151**	–
PRC Customer A *(Note)*	**N/A**	269,477
PRC Customer B *(Note)*	**N/A**	239,019

Note: The corresponding revenue did not contribute over 10% of the total revenue of the Group for the year ended December 31, 2020.

The geographical locations of non-current assets are determined based on the countries of domicile of the companies now comprising the Group. The total of non-current assets, excluding investments accounted for using the equity method, located in respective geographical locations is as follows:

	December 31, 2020 HK$'000	December 31, 2019 HK$'000
The PRC	**1,292,821**	1,341,876
Hong Kong	**1,813**	4,193
Other countries	**7,472**	25,683
	1,302,106	1,371,752

Analysis of segment assets and liabilities for each reportable segment has not been presented as such amounts are not regularly provided to the Board.

Notes to the Consolidated Financial Statements

6 Expenses by nature

Expenses included in cost of sales, distribution and selling expenses and administrative expenses are analyzed as follows:

	Year ended December 31, 2020 HK$'000	Year ended December 31, 2019 HK$'000
Auditor's remuneration	**4,987**	4,000
Cost of inventories recognized as expenses	**1,726,812**	1,714,695
Loss on disposal of property, plant and equipment *(Note 29(b))*	**7,702**	5,625
Employee benefit expenses *(Note 7)*	**244,747**	350,527
Revaluation loss on property, plant and equipment *(Note 14)*	**–**	630
Depreciation:		
– Owned property, plant and equipment *(Note 14)*	**111,814**	105,363
– Right-of-use assets *(Note 15)*	**19,737**	19,446
Write off of trade receivables, net	**1,104**	119
Effect of lease modification *(Note 15)*	**51**	–
Direct operating expenses arising from investment property that generated rental income	**135**	145
Impairment loss on prepayments for property, plant and equipment	**9,973**	–
Impairment loss on inventories	**3,241**	6,893
Impairment loss on trade receivables *(Note 3.1(b))*	**13,367**	10,718
Impairment loss on other receivables *(Note 3.1(b))*	**–**	1,827
Legal and professional fees	**12,388**	19,626
Equity settled share-based payments to the consultant of the Group	**1,354**	570
Other expenses[i]	**212,810**	–

(i) During the year ended December 31, 2020, the Group disposed the Land (as defined in Note 9). Other expenses represented one-off expenses incurred during the disposal. Details of these one-off expenses are as follows:

	Year ended December 31, 2020 HK$'000
Labor redundancy	**86,285**
Legal and professional fees	**60,351**
Loss on disposal of property, plant and equipment *(Note 29(b))*	**48,754**
Write off of inventories	**17,420**
	212,810

7 Employee benefit expenses (including directors' emoluments) and five highest paid individuals

	Year ended December 31, 2020 HK$'000	Year ended December 31, 2019 HK$'000
Wages and salaries	**219,368**	305,923
Contributions to retirement benefits scheme	**13,781**	27,794
Equity-settled share-based payment expenses	**3,616**	4,100
Other benefits	**7,982**	12,710
	244,747	350,527

Five highest paid individuals

For the year ended December 31, 2020, the five individuals whose emoluments were the highest in the Group include 5 directors (year ended December 31, 2019: 5), whose emoluments are reflected in the analysis presented in Note 33.

During the year ended December 31, 2020, none of the directors of the Company or the five highest paid individuals of the Group (i) received any emolument from the Group as an inducement to join or upon joining the Group; (ii) received any compensation for loss of office as a director or management of any member of the Group; or (iii) waived or has agreed to waive any emoluments (year ended December 31, 2019: Same).

8 Other income

	Year ended December 31, 2020 HK$'000	Year ended December 31, 2019 HK$'000
Government grants[i]	**26,987**	4,371
Insurance claims	**1,440**	139
Scrap sales	**6,104**	3,614
Rental income	**502**	930
Customs refund	**331**	1,264
Others	**1,444**	2,381
	36,808	12,699

(i) For the year ended December 31, 2020, government grants include (i) HK$20,166,000 (year ended December 31, 2019: HK$Nil) received by certain subsidiaries in respect of COVID-19 related subsidies, of which HK$965,000, HK$16,966,000, HK$2,162,000 and HK$73,000 relates to employment support scheme provided by the governments of Hong Kong, the PRC, Australia and Macau respectively, and (ii) HK$3,393,000 (year ended December 31, 2019: HK$3,989,000) received from several PRC government authorities for the development of intellectual property patent, social security allowance and technical renovation of the Group's equipment. There were no unfulfilled conditions or contingencies related to these grants. The remaining amounts were transferred from deferred income to consolidation statement of comprehensive income during the respective year.

Notes to the Consolidated Financial Statements

9 Other gains – net

	Year ended December 31, 2020 HK$'000	Year ended December 31, 2019 HK$'000
Net exchange gains	**4,783**	1,462
Gain on disposal of right-of-use asset[i]	**1,742,159**	–
Gain on disposal of investment property *(Note 16)*	**1,912**	–
	1,748,854	1,462

(i) On August 13, 2020, PanAsia Aluminium (China) Limited, a wholly owned subsidiary of the Company established in the PRC, entered into a land disposal agreement with the Planning and Natural Resources Bureau, the Land Reserve Centre and the Local Office of Zengcheng People's Government (collectively, the "PRC Government Bodies") to disposal the land of Zengcheng (the "Land") by way of a public land auction under the Redevelopment Scheme (the "Land Disposal"). The auction was completed on December 28, 2020 and the compensation amount of the Land Disposal was RMB1,572,652,000 (equivalent to approximately HK$1,778,816,000) and accordingly, gain on disposal of right-of-use asset of HK$1,742,159,000 was recognized during the year ended December 31, 2020. The gain on disposal of right-of-use asset represents the differences between the compensation amount of HK$1,778,816,000 and the carrying amount of the Land of HK$6,061,000 less direct costs attributable to the disposal of the Land of HK$30,596,000. Details of the transactions were set out in the circular of the Company dated July 29, 2020 and the announcements of the Company dated July 8, 2020, August 14, 2020, November 11, 2020 and January 5, 2021.

10 Finance income and costs

	Year ended December 31, 2020 HK$'000	Year ended December 31, 2019 HK$'000
Interest income:		
Interest income on bank deposits	**985**	662
Interest from overdue trade receivables	**–**	477
Interest from redemption of tax reserve certificates	**134**	–
Finance income	**1,119**	1,139
Interest expenses:		
Interest expense on borrowings *(Note 29(c))*	**(100,944)**	(110,392)
Interest expense on lease liabilities *(Note 15)*	**(1,552)**	(2,134)
Interest expense on Hong Kong profits tax *(Note 11)*	**(8,468)**	–
Finance costs	**(110,964)**	(112,526)
Finance costs – net	**(109,845)**	(111,387)

11 Income tax expense

Hong Kong profits tax has been provided at the rate of 16.5% on the estimated assessable profits arising in Hong Kong for the year ended December 31, 2020, except for the subsidiary of the Group which is qualifying entity under the two-tiered profits tax rates regime effective from the year of assessment 2019/2020. The first HK$2,000,000 of assessable profits of this subsidiary is taxed at 8.25% and the remaining assessable profits are taxed at 16.5% (year ended December 31, 2019: Same).

The Group's operations in the PRC are subject to the PRC corporate income tax. PRC corporate income tax has been calculated on the estimated assessable profit for the year ended December 31, 2020 (year ended December 31, 2019: Nil). The standard PRC corporate income tax rate was 25% for the year ended December 31, 2020 (year ended December 31, 2019: Same).

Pursuant to Article 12 of Decree-Law No. 58/99/M issued by the Macao Government, OPAL (defined in Note 17(a)) is exempted from Macao Complementary Tax during the year ended December 31, 2020 (year ended December 31, 2019: Same).

	Year ended December 31, 2020 HK$'000	Year ended December 31, 2019 HK$'000
Hong Kong profits tax		
– current year	**78**	–
– under-provisions in respect of prior years	**10,499**	4,110
Overseas taxation		
– current year	**297,831**	1,825
	308,408	5,935

Notes to the Consolidated Financial Statements

11 Income tax expense *(Continued)*

The tax on the Group's profit/(loss) before income tax differs from the theoretical amount that would arise using the weighted average tax rate applicable to results of the companies comprising the Group as follows:

	Year ended December 31, 2020 HK$'000	Year ended December 31, 2019 HK$'000
Profit/(loss) before income tax	**1,229,240**	(489,659)
Tax calculated at Hong Kong profits tax rate	**202,825**	(80,794)
Income not subject to tax	**(813)**	–
Expenses not deductible for tax purposes	**11,720**	10,492
Effect of different tax rates of subsidiaries operating in other jurisdictions	**108,238**	(34,176)
Tax losses for which no deferred income tax asset was recognized	**34,151**	98,591
Utilization of tax losses previously not recognized	**(69,020)**	–
Under-provision in respect of prior years	**10,499**	4,110
Other temporary differences not recognized	**10,808**	7,712
Income tax expense	**308,408**	5,935

As at December 31, 2020, the Group had unused tax losses arising in Hong Kong of HK$22,205,000 (December 31, 2019: HK$188,945,000) and the PRC of approximately HK$447,881,000 (December 31, 2019: HK$712,140,000) which are available for offset against future taxable profits of the Group in which the losses arose for an indefinite period and a period of five years respectively. Deferred tax assets have not been recognized in respect of these losses as they have arisen in the group companies that have been loss-making for some years.

As at December 31, 2020, the subsidiaries have no unremitted earnings with deferred income tax liability arising thereon. Management is of the view that unremitted earnings are intended for re-investment in the PRC and there is no current plan for distribution (December 31, 2019: Same).

In prior years, the Hong Kong Inland Revenue Department ("**IRD**") issued protective estimated assessments for the years of assessment 2006/07 to 2013/14 to the Company and certain of its subsidiaries, demanding profits tax payments. Notices of objection have been lodged and the IRD has granted unconditional holdover orders in respect of certain protective estimated assessments and the profits tax payments demanded.

Notes to the Consolidated Financial Statements

11 Income tax expense *(Continued)*

During the year ended December 31, 2020, the Group submitted a proposal for settlement of the case for the years of assessment 2006/07 to 2018/19. The IRD accepted the proposal and issued the Revised Assessment Demanding Final Tax for the years of assessment of 2006/07 to 2013/14 and the Assessment Demanding Final Tax for the years of assessment of 2014/15 to 2018/19 (collectively the "Assessments") to the Company and certain of its subsidiaries. According to the Assessments, the tax liabilities of the Company and relevant subsidiaries were in the aggregate amount of approximately HK$62,854,000. With the provision of HK$52,937,000 made by management based on the best estimate of the Group with reference to the available information in prior years, an additional amount of income tax of HK$9,917,000 was made during the year ended December 31, 2020 in respect of under-provision of the years of assessment 2006/07 to 2018/19. Following the calculation of the Assessments, the Group also made an additional amount of income tax of HK$582,000 in respect of underprovision for the year of assessment 2019/2020 during the year. During the year, the Group had made tax payment of HK$2,400,000, and utilized the tax reserve certificates of HK$28,957,000 to settle part of the total tax liabilities.

12 Earnings/(loss) per share

Basic

Basic earnings/(loss) per share is calculated by dividing the profit/(loss) for the year attributable to owners of the Company by the weighted average number of ordinary shares in issue during the year.

	Year ended December 31, 2020	Year ended December 31, 2019
Profit/(loss) attributable to owners of the Company (HK$'000)	**920,832**	(495,594)
Weighted average number of ordinary shares in issue less shares held for share award scheme (thousands)	**1,199,405**	1,199,405

Diluted

For the years ended December 31, 2020 and 2019, the computation of diluted earnings/(loss) per share does not assume the subscription of the Company's outstanding potential ordinary shares as they are anti-dilutive.

13 Dividends

No dividend has been paid or declared by the Company during the year ended December 31, 2020 (year ended December 31, 2019: Nil).

Notes to the Consolidated Financial Statements

14 Property, plant and equipment

	Buildings HK$'000	Plant and machinery HK$'000	Office equipment HK$'000	Furniture and fixtures HK$'000	Motor vehicles HK$'000	Construction in progress HK$'000	Total HK$'000
January 1, 2019							
Cost	266,716	1,031,120	25,270	3,395	26,216	169,399	1,522,116
Accumulated depreciation	(55,195)	(466,743)	(18,597)	(1,651)	(20,989)	–	(563,175)
Net book amount	211,521	564,377	6,673	1,744	5,227	169,399	958,941
Year ended December 31, 2019							
Opening net book amount	211,521	564,377	6,673	1,744	5,227	169,399	958,941
Initial application of HKFRS 16	–	–	–	–	(333)	–	(333)
Restated balance as at January 1, 2019	211,521	564,377	6,673	1,744	4,894	169,399	958,608
Exchange differences	(2,938)	(8,124)	(71)	–	(72)	(2,753)	(13,958)
Additions	6,713	29,312	3,588	–	2,393	142,412	184,418
Transfers	160,978	61,503	–	1,102	–	(223,583)	–
Transfers to investment property *(Note 16)*	(6,432)	–	–	–	–	–	(6,432)
Disposal *(Note 29(b))*	(312)	(7,100)	(12)	(37)	(94)	–	(7,555)
Depreciation *(Note 6)*	(22,088)	(77,516)	(3,126)	(712)	(1,921)	–	(105,363)
Revaluation loss *(Note 6)*	(630)	–	–	–	–	–	(630)
Closing net book value	346,812	562,452	7,052	2,097	5,200	85,475	1,009,088
At December 31, 2019 and January 1, 2020							
Cost	421,888	1,092,520	28,507	4,386	26,424	85,475	1,659,200
Accumulated depreciation	(75,076)	(530,068)	(21,455)	(2,289)	(21,224)	–	(650,112)
Net book amount	346,812	562,452	7,052	2,097	5,200	85,475	1,009,088
Year ended December 31, 2020							
Opening net book amount	346,812	562,452	7,052	2,097	5,200	85,475	1,009,088
Exchange differences	20,000	29,463	267	70	231	5,605	55,636
Additions	–	11,651	1,341	283	435	23,757	37,467
Transfers	3,101	53,994	–	129	–	(57,224)	–
Disposals *(Note 29(b))*	(17,867)	(51,802)	(202)	(646)	(735)	–	(71,252)
Depreciation *(Note 6)*	(24,355)	(83,210)	(2,583)	(226)	(1,440)	–	(111,814)
Closing net book value	**327,691**	**522,548**	**5,875**	**1,707**	**3,691**	**57,613**	**919,125**
At December 31, 2020							
Cost	394,795	974,979	25,029	4,071	22,512	57,613	1,478,999
Accumulated depreciation	(67,104)	(452,431)	(19,154)	(2,364)	(18,821)	–	(559,874)
Net book amount	**327,691**	**522,548**	**5,875**	**1,707**	**3,691**	**57,613**	**919,125**

14 Property, plant and equipment *(Continued)*

During the year ended December 31, 2019, the use of a property located in Australia previously held for own use has been changed to long term leasing purpose, as evidenced by the signing of the lease agreement with the tenant for a term of 2 years on January 14, 2019. Accordingly, the carrying amounts of the related building (after revaluation upon the transfer) under property, plant and equipment and right-of-use assets of HK$6,432,000 (Note 14) and HK$5,433,000 (Note 15) respectively as at the date of transfer were transferred to investment property of the Group. Since the fair value of the building fell below its then carrying amount, the revaluation gave rise to a loss of HK$630,000 recognized in profit or loss during the year ended December 31, 2019.

As at December 31, 2020, the net book amount of buildings pledged as securities for the Group's borrowing facilities was HK$29,677,000 (December 31, 2019: HK$22,819,000) (Note 28).

As at December 31, 2020, the net book value of plant and machinery pledged as securities for the Group's borrowing facilities was HK$90,920,000 (December 31, 2019: HK$115,429,000) (Note 28).

Depreciation expense of the Group's property, plant and equipment has been charged to the consolidated statement of comprehensive income as follows:

	December 31, 2020 HK$'000	December 31, 2019 HK$'000
Cost of sales	**93,383**	94,398
Administrative expenses	**18,431**	10,965
	111,814	105,363

As at December 31, 2020 all buildings are located in the PRC (December 31, 2019: PRC).

15 Leases

This note provides information for leases where the group is a lessee.

Right-of-use assets and lease liabilities

(i) Amount recognized in the statement of financial position

The consolidated statement of financial position shows the following amounts relating to leases:

Reconciliation of right-of-use assets	Buildings HK$'000	Land use rights HK$'000	Motor vehicles HK$'000	Total HK$'000
At January 1, 2019	29,356	278,598	333	308,287
Addition	17,049	–	–	17,049
Depreciation for the year	(12,935)	(6,178)	(333)	(19,446)
Effect of lease modification *(Note 6)*	(4,904)	–	–	(4,904)
Transfer to investment property *(Note 16)*	–	(5,433)	–	(5,433)
Exchange differences	(351)	(4,213)	–	(4,564)
At December 31, 2019 and January 1, 2020	28,215	262,774	–	290,989
Addition	–	53,591	–	53,591
Depreciation for the year	(13,644)	(6,093)	–	(19,737)
Effect of lease modification *(Note 6)*	(806)	–	–	(806)
Disposal	–	(6,061)	–	(6,061)
Exchange differences	984	19,127	–	20,111
At December 31, 2020	14,749	323,338	–	338,087

As at December 31, 2020, right-of-use assets with net book value of HK$323,338,000 (December 31, 2019: HK$259,072,000) were pledged as securities for the Group's borrowings (Note 28).

Reconciliation of lease liabilities	Buildings HK$'000	Land use rights HK$'000	Motor vehicles HK$'000	Total HK$'000
At January 1, 2019	29,356	–	136	29,492
Addition	17,049	–	–	17,049
Interest	2,134	–	–	2,134
Effect of lease modification *(Note 6)*	(4,904)	–	–	(4,904)
Lease payments	(13,070)	–	(136)	(13,206)
Interest paid	(2,134)	–	–	(2,134)
Exchange differences	(350)	–	–	(350)
At December 31, 2019 and January 1, 2020	28,081	–	–	28,081
Interest	1,552	–	–	1,552
Effect of lease modification *(Note 6)*	(755)	–	–	(755)
Lease payments	(12,488)	–	–	(12,488)
Interest paid	(1,552)	–	–	(1,552)
Exchange differences	998	–	–	998
At December 31, 2020	15,836	–	–	15,836

15 Leases *(Continued)*

Right-of-use assets and lease liabilities *(Continued)*

(i) Amount recognized in the statement of financial position (Continued)

	December 31, 2020 HK$'000	December 31, 2019 HK$'000
Lease liabilities		
Current	**11,595**	13,864
Non-current	**4,241**	14,217
	15,836	28,081

(ii) Amount recognized in the statement of comprehensive income

The consolidated statement of comprehensive income shows the following amounts relating to leases:

	Notes	**Year ended December 31, 2020 HK$'000**	Year ended December 31, 2019 HK$'000
Depreciation charge of right-of-use assets			
Buildings		**13,644**	12,935
Land use rights		**6,093**	6,178
Motor vehicles		**–**	333
	6	**19,737**	19,446
Interest expense (included in finance cost)	*10*	**1,552**	2,134

Notes to the Consolidated Financial Statements

15 Leases *(Continued)*

Right-of-use assets and lease liabilities *(Continued)*

(iii) Future lease payments are due as follows:

	Minimum lease payments December 31, 2020 HK$'000	**Interest December 31, 2020 HK$'000**	**Present value December 31, 2020 HK$'000**
Not later than one year	**12,314**	**719**	**11,595**
Later than one year and not later than two years	**4,325**	**84**	**4,241**
	16,639	**803**	**15,836**

	Minimum lease payments December 31, 2019 HK$'000	Interest December 31, 2019 HK$'000	Present value December 31, 2019 HK$'000
Not later than one year	15,435	1,571	13,864
Later than one year and not later than two years	10,890	675	10,215
Later than two years and not later than five years	4,082	80	4,002
	30,407	2,326	28,081

15 Leases *(Continued)*

Right-of-use assets and lease liabilities *(Continued)*

(iv) The Group's leasing activities

The Group leases various offices, warehouses, factories and motor vehicles. Rental contracts are typically made for fixed periods of two to five years, but may have extension options as described in (v) below.

Lease terms are negotiated on an individual basis and contain a wide range of different terms and conditions. The lease agreements do not impose any covenants other than security interests in the leased assets that are held by the lessor. Leased assets may not be used as security for borrowing purposes.

(v) Extension and termination options

Extension and termination options are included in a number of property and equipment leases across the Group. There are used to maximize operational flexibility in terms of managing the assets used in the Group's operations. The extension and termination options held are exercisable only by the Group and not by the respective lessor.

(vi) Residual value guarantees

To optimize lease costs during the contract period, the Group sometimes provides residual value guarantees in relation to equipment leases.

Notes to the Consolidated Financial Statements

16 Investment Property

	2020 **HK$'000**	2019 HK$'000
Fair value		
At January 1	**11,496**	–
Transfer from property, plant and equipment *(Note 14)*	**–**	6,432
Transfer from right-of-use assets *(Note 15(a))*	**–**	5,433
Disposal	**(11,297)**	–
Exchange differences	**(199)**	(369)
At December 31	**–**	11,496

During the year ended December 31, 2020, the Group disposed an industrial building located in Australia (the "**Disposal**"). The Disposal was completed in September 2020, and the gain arising from the Disposal which represents the difference between the net disposal proceeds of HK$13,209,000 and the carrying amount of the disposal property of HK$1,912,000 *(Note 9)* was recognized during the year ended December 31, 2020.

17 Subsidiaries and controlled structured entity

(a) Particulars of principal subsidiaries

The following is a list of the principal subsidiaries at December 31, 2020:

Name of company	Place of incorporation/ establishment and kind of legal entity	Issued and fully paid share capital/ registered capital	Equity interest	Principal activities and place of operations
PanAsia Aluminium (Hong Kong) Limited	Hong Kong, limited liability company	1,010,000 ordinary shares of HK$1 each	100% (indirect)	Trading of aluminium products/Hong Kong
PanAsia Aluminium Limited	Hong Kong, limited liability company	10,000 ordinary shares of HK$1 each	100% (indirect)	Investment holding and provision of management services/Hong Kong
PanAsia Trading Limited	Hong Kong, limited liability company	10,000 ordinary shares of HK$1 each	100% (indirect)	Trading of aluminium products/Hong Kong
OPAL (Macao Commercial Offshore) Limited ("**OPAL**")	Macao, limited liability company	Registered capital of MOP1,000,000	100% (indirect)	Trading of aluminium products/Macao
PanAsia Aluminium (China) Ltd.# ("**PACL**")	The PRC, limited liability company	Registered capital of US$106,800,000 and paid-up capital of US$106,800,000	100% (indirect)	Manufacturing and trading of aluminium products/ the PRC
PanAsia Enterprises (Nanyang) Company Limited# ("**PANY**")	The PRC, limited liability company	Registered capital of USD226,650,000 and paid-up capital of USD179,364,298	100% (indirect)	Manufacturing and trading of aluminium products/ the PRC

Notes to the Consolidated Financial Statements

17 Subsidiaries and controlled structured entity *(Continued)*

(a) Particulars of principal subsidiaries *(Continued)*

The following is a list of the principal subsidiaries at December 31, 2020: *(Continued)*

Name of company	Place of incorporation/ establishment and kind of legal entity	Issued and fully paid share capital/ registered capital	Equity interest	Principal activities and place of operations
PanAsia Aluminium Pty Ltd	Australia, limited liability company	AUD100	100% (indirect)	Trading of aluminium products/Australia
PanAsia Aluminium (UK) Limited	United Kingdom, limited liability company	GBP1,000	100% (indirect)	Trading of aluminium products/ United Kingdom
昌吉准東經濟技術開發區宏睿鋁業有限公司	The PRC, limited liability company	Registered capital and paid-up capital of RMB50,000,000	100% (indirect)	Manufacturing and trading of aluminium products/ the PRC
PanAsia Enterprises (Jiangmen) Company Limited	The PRC, limited liability company	Registered capital and paid-up capital of RMB70,000,000	100% (indirect)	Manufacturing and trading of aluminium products/ the PRC

\# The English names of certain subsidiaries referred in the above represent the best efforts by management of the Company in translating their Chinese names as they do not have official English names.

As at December 31, 2020, share capital of PACL and PANY were pledged as security for bank borrowings (2019: Nil) (Note 28).

Notes to the Consolidated Financial Statements

17 Subsidiaries and controlled structured entity *(Continued)*

(b) Controlled structured entity

The Group controls a structured entity which operates in Hong Kong, particulars of which are as follows:

Structured entity	Principal activities
Employees' share award scheme (Employee share trust)	Purchases, administers and holds the Company shares for the share award scheme for the benefit of the Group's eligible employees

As the employee share trust is set up solely for the purpose of purchasing, administering and holding Company's shares for the share award scheme, the Company has the power to direct the relevant activities of the employee share trust and it has the ability to use its power over the employee share trust to affect its exposure to returns. Therefore, the assets and liabilities of employee share trust are included in the consolidated and company statements of financial position and the Company's shares it held are presented as a deduction in equity as shares held for share award scheme.

18 Financial instruments by category

	Financial assets at amortized cost HK$'000
Assets as per consolidated statement of financial position	
December 31, 2020	
Trade and bills receivables *(Note 20)*	**394,867**
Deposits and other receivables	**1,896,365**
Pledged bank deposits *(Note 22)*	**2,124**
Cash and cash equivalents *(Note 22)*	**26,749**
Total	**2,320,105**
December 31, 2019	
Trade and bills receivables *(Note 20)*	383,891
Deposits and other receivables	25,146
Pledged bank deposits *(Note 22)*	47,950
Cash and cash equivalents *(Note 22)*	15,923
Total	472,910

Notes to the Consolidated Financial Statements

18 Financial instruments by category *(Continued)*

	Other financial liabilities at amortized cost HK$'000
Liabilities as per consolidated statement of financial position	
December 31, 2020	
Trade payables *(Note 27)*	**147,011**
Other payables and accrued charges	**346,092**
Lease liabilities *(Note 15)*	**15,836**
Borrowings *(Note 28)*	**1,834,987**
Total	**2,343,926**
December 31, 2019	
Trade payables *(Note 27)*	76,713
Other payables and accrued charges	172,400
Due to a director	645
Lease liabilities *(Note 15)*	28,081
Borrowings *(Note 28)*	1,533,909
Total	1,811,748

19 Inventories

	December 31, 2020 HK$'000	December 31, 2019 HK$'000
Raw materials	**80,868**	55,866
Work-in-progress	**51,043**	60,049
Finished goods	**138,829**	106,231
Total inventories	**270,740**	222,146

As at December 31, 2020, the carrying amount of inventories pledged as security for bank borrowings amounted to HK$241,159,000 (2019: HK$219,299,000) (Note 28).

20 Trade and bills receivables, prepayments, deposits and other receivables

	December 31, 2020 HK$'000	December 31, 2019 HK$'000
Trade receivables	**423,874**	392,852
Less: impairment loss recognized *(Note 3.1(b))*	**(29,007)**	(16,716)
Trade receivables – net	**394,867**	376,136
Bill receivables	**–**	7,755
Trade and bills receivables – net	**394,867**	383,891

The carrying amounts of these receivables approximate their fair values. The Group's sales are mainly made on (i) cash on delivery; and (ii) credit terms of 30 to 90 days (December 31, 2019: 30 to 90 days). The Group does not hold any collateral as security.

20 Trade and bills receivables, prepayments, deposits and other receivables *(Continued)*

The maximum exposure to credit risk at the reporting date is the carrying value of each class of receivables mentioned above.

As at December 31, 2020, the ageing analysis of the trade and bills receivables based on due date was as follows:

	December 31, 2020 HK$'000	December 31, 2019 HK$'000
Current	**261,306**	245,107
1 – 30 days	**46,850**	70,963
31 – 60 days	**18,836**	20,418
61 – 90 days	**20,353**	18,756
91 – 180 days	**34,334**	25,833
181 days – 1 year	**12,470**	1,487
More than 1 year	**718**	1,327
	394,867	383,891

As at December 31, 2020, receivables of HK$261,306,000 were neither past due nor impaired (December 31, 2019: HK$245,107,000). These receivables relate to customers for whom there is no recent history of default. The remaining receivables were past due, which related to a number of independent customers that have a good track record of payment with the Group.

During the years ended December 31, 2019 and 2020, the Group discounted part of its trade receivables with full recourse to financial institutions. In the event of default by the debtors, the Group is obliged to pay the financial institutions the amount in default. Interest is charged at 7.8% (2019: 7.8%) on the proceeds received from the financial institutions until the date the debtors pay. The Group is therefore exposed to the risks of credit losses and late payment in respect of the discounted debts.

The discounting transactions do not meet the requirements in HKFRS 9 for de-recognition of financial assets as the Group retains substantially all of the risks and rewards of ownership of the discounted trade receivables. At December 31, 2020, trade receivables of HK$23,059,000 (2019: HK$44,755,000) continue to be recognized in the Group's consolidated financial statements even though they have been legally transferred to the financial institutions. The proceeds of the discounting transactions are included in borrowings (Note 28) until the trade receivables are collected or the Group settles any losses suffered by the financial institutions. At December 31, 2020, the associated secured borrowings amounted to HK$16,016,000 (December 31, 2019: HK$38,151,000). The carrying amount of the transferred assets and their associated liabilities approximates their fair value as at December 31, 2019 and 2020.

As at December 31, 2020, all trade receivables were non-interest bearing (December 31, 2019: Same).

Notes to the Consolidated Financial Statements

20 Trade and bills receivables, prepayments, deposits and other receivables *(Continued)*

As at December 31, 2020, the carrying amounts of the Group's trade and bills receivables are denominated in the following currencies:

	December 31, 2020 HK$'000	December 31, 2019 HK$'000
AUD	**37,737**	33,338
RMB	**284,383**	274,656
USD	**29,916**	41,568
HKD	**21,949**	4,482
Others	**20,882**	29,847
	394,867	383,891

Prepayments for property, plant and equipment represented the prepayments mainly made for purchase of plant and machinery.

As at December 31, 2020, breakdown of prepayments, deposits and other receivables under current assets was as follows:

	December 31, 2020 HK$'000	December 31, 2019 HK$'000
Current portion:		
Prepayments to suppliers for purchases of materials, net	**66,701**	38,819
Receivables from the disposal of the Land	**1,875,330**	–
Others	**73,058**	79,485
	2,015,089	118,304

As at December 31, 2020, receivables from the disposal of the Land of HK$1,875,330,000 were pledged as securities as bank borrowings (2019: HK$Nil) (Note 28).

21 Due to a director

The amount due was unsecured, interest-free and repayable on demand. The carrying amount approximated its fair value.

22 Cash and cash equivalents and pledged bank deposits

	December 31, 2020 HK$'000	December 31, 2019 HK$'000
Cash in hand	**117**	153
Cash at bank	**26,632**	15,770
Cash and cash equivalents	**26,749**	15,923
Pledged bank deposits – Current	**2,124**	47,950
	28,873	63,873

As at December 31, 2020, no bank deposits were pledged (December 31, 2019: HK$3,132,000 as securities for the purchases of raw materials and guarantees for renting warehouses, and HK$44,818,000 as securities for bank borrowings).

The cash at bank and in hand and bank deposits are denominated in the following currencies:

	December 31, 2020 HK$'000	December 31, 2019 HK$'000
HKD	**5,572**	3,344
AUD	**12,911**	7,614
RMB	**2,560**	50,609
USD	**4,838**	921
Others	**2,992**	1,385
	28,873	63,873

Notes to the Consolidated Financial Statements

23 Share capital

	Ordinary shares of HK$0.10 each Number of shares	HK$'000
Authorized:		
As at January 1, 2019, December 31, 2019, January 1, 2020 and December 31, 2020	2,400,000,000	240,000
Issued and fully paid:		
As at January 1, 2019, December 31, 2019, January 1, 2020 and December 31, 2020	1,200,000,000	120,000

24 Share award scheme

Since March 3, 2014, the Group's share award scheme has been in effect. The terms of the share award scheme provide for shares in the Company to be awarded to employees of the Group (including the executive director) as part of their compensation package.

On April 7, 2014, following the Board's decision to award a sum of up to HK$10 million, the awarded shares are purchased from the market. Before vesting, the awarded shares are held in a trust set up by the share award scheme.

No awarded shares were awarded for the years ended December 31, 2019 and 2020.

During the years ended December 31, 2019 and 2020, the share award scheme did not acquire any Company shares through purchases on the open market.

During the years ended December 31, 2019 and 2020, the share award scheme did not transfer any Company shares to the awardees upon vesting of awarded shares.

As at December 31, 2020, 595,000 shares were held by the trustee representing approximately 0.05% of the issued share capital of the Company (December 31, 2019: Same).

25 Share option scheme

(a) Equity-settled share option scheme

The Group maintained a share options scheme for employee or compensation. All share-based employee compensation was settled in equity. The Group had no legal or constructive obligations to repurchase or settle the options.

On January 18, 2013, a share option scheme (the "**Share Option Scheme**") was adopted by the shareholders of the Company. The purpose of the Share Option Scheme is to grant options to eligible participants as incentives and rewards for their contribution or potential contribution to the success of the Group's operations. Under the terms of the Share Option Scheme, the Board may, at its discretion, grant options to any full-time or part-time employee and any director of the Company or its subsidiaries, including any executive, non-executive or independent non-executive directors. The total number of shares which may fall to be issued upon exercise of all of the outstanding options granted and yet to be exercised under the Share Option Scheme and other schemes of the Company must not exceed 30% of the shares in issue from time to time. The Share Option Scheme will remain in force for a period of ten years commencing the date on which the scheme becomes unconditional. The Share Option Scheme was adopted by the shareholders of the Company at the annual general meeting of the Company held on January 18, 2013.

The definition of eligible person in the Share Option Scheme include any suppliers, consultants, agents, advisors and distributors who, in the sole discretion of the Board, have contributed or may contribute to the Group. The total number of shares in respect of which options may be granted under the Share Option Scheme is not permitted to exceed 10% of the shares of the Company in issue as at the date of approval of the Share Option Scheme, without prior approval from the Company's shareholders. The number of shares in respect of which options may be granted to any individual in any 12-month period is not permitted to exceed 1% of the shares of the Company in issue at any point of time, without prior approval from the Company's shareholders.

Options granted to independent non-executive directors in excess of 0.1% of the Company's share capital or with a value in excess of HK$5 million must be approved in advance by the Company's shareholders.

Any grant of options to a connected person (including but not limited to a Director, chief executive or substantial shareholder) or its associates must be approved by the independent non-executive Directors (excluding any independent non-executive Director who is the grantee of the options).

Where options are proposed to be granted to a connected person who is also a substantial shareholder or an independent non-executive Director or their respective associates and if such grant would result in the total number of Shares issued and to be issued upon exercise of the options granted and to be granted (including options exercised, cancelled and outstanding) in any 12-month period up to and including the date of grant to such person representing in aggregate over 0.1% of the total issued Shares and having an aggregate value, based on the closing price of the securities at the date of each grant, in excess of HK$5 million, then the proposed grant must be subject to the approval of shareholders of the Company taken on a poll in a general meeting. All connected persons of the Company must abstain from voting at such general meeting.

The exercise price for shares under the Share Option Scheme may be determined by the Board at its absolute discretion but in any event must be at least the higher of: (i) the closing price of the Shares as stated in the daily quotations sheet of the Stock Exchange on the date of grant, which must be a Business Day, (ii) the average of the closing prices of the Shares as stated in the daily quotations sheets of the Stock Exchange for the five Business Days immediately preceding the date of grant; and (iii) the nominal value of the Share on the date of grant. Any options granted under the Share Option Scheme shall end in any event not later than ten years from the Commencement Date (as defined in the Share Option Scheme). A nominal value of HK$1.00 is payable on acceptance of each grant of options.

Notes to the Consolidated Financial Statements

25 Share option scheme *(Continued)*

(a) Equity-settled share option scheme *(Continued)*

Share options granted on December 23, 2019

On December 23, 2019, the Company granted share options to eligible participants to subscribe for a total of 61,200,000 ordinary shares of HK$0.1 each (with exercise price of HK$0.396 per share) in the share capital of the Company under the Share Option Scheme. The share options are exercisable for a period of ten years from the date of grant, subject to the vesting period as follows: (i) 60% of the share options be vested on the date of grant; and (ii) 40% of the share options be vested on the first anniversary of the date of grant. Details of the share options granted and movement in such holding during the years ended December 31, 2019 and 2020 are as follows:

For the year ended December 31, 2020

Name or category of participant	Date of grant	Exercise period	Exercise price HK$	Outstanding as at January 1, 2020	Granted during the year	Lapsed during the year	Surrendered during the year	Outstanding as at December 31, 2020
Directors								
Ms. Li Jiewen	December 23, 2019	December 23, 2019 – December 22, 2029	0.396	12,000,000	–	–	–	12,000,000
Mr. Gao Mingjie	December 23, 2019	December 23, 2019 – December 22, 2029	0.396	6,000,000	–	–	–	6,000,000
Mr. Mar Selwyn	December 23, 2019	December 23, 2019 – December 22, 2029	0.396	1,200,000	–	–	–	1,200,000
Mr. Leung Ka Tin	December 23, 2019	December 23, 2019 – December 22, 2029	0.396	1,200,000	–	–	–	1,200,000
Dr. Cheung Wah Keung	December 23, 2019	December 23, 2019 – December 22, 2029	0.396	1,200,000	–	–	–	1,200,000
Mr. Chan Kai Nang	December 23, 2019	December 23, 2019 – December 22, 2029	0.396	1,200,000	–	–	–	1,200,000
Sub-total				22,800,000	–	–	–	22,800,000
Others								
Employees	December 23, 2019	December 23, 2019 – December 22, 2029	0.396	38,320,000	–	1,168,000	1,200,000	35,952,000
Sub-total				38,320,000	–	1,168,000	1,200,000	35,952,000
Total				61,120,000		1,168,000	1,200,000	58,752,000

Notes to the Consolidated Financial Statements

25 Share option scheme *(Continued)*

(a) Equity-settled share option scheme *(Continued)*

Share options granted on December 23, 2019 (Continued)

For the year ended December 31, 2019

Name or category of participant	Date of grant	Exercise period	Exercise price HK$	Outstanding as at January 1, 2019	Granted during the year	Surrendered during the year	Outstanding as at December 31, 2019
Directors							
Ms. Li Jiewen	December 23, 2019	December 23, 2019 – December 22, 2029	0.396	–	12,000,000	–	12,000,000
Mr. Gao Mingjie	December 23, 2019	December 23, 2019 – December 22, 2029	0.396	–	6,000,000	–	6,000,000
Mr. Mar Selwyn	December 23, 2019	December 23, 2019 – December 22, 2029	0.396	–	1,200,000	–	1,200,000
Mr. Leung Ka Tin	December 23, 2019	December 23, 2019 – December 22, 2029	0.396	–	1,200,000	–	1,200,000
Dr. Cheung Wah Keung	December 23, 2019	December 23, 2019 – December 22, 2029	0.396	–	1,200,000	–	1,200,000
Sub-total				–	21,600,000	–	21,600,000
Others							
Employees	December 23, 2019	December 23, 2019 – December 22, 2029	0.396	–	39,600,000	80,000	39,520,000
Sub-total				–	39,600,000	80,000	39,520,000
Total				–	61,200,000	80,000	61,120,000

25 Share option scheme *(Continued)*

(a) Equity-settled share option scheme *(Continued)*

The fair value of the share options granted to the directors and employees on December 23, 2019 were HK$1,203,000 (HK$0.0879 each) and HK$2,897,000 (HK$0.1301 each) respectively, of which the Group recognized the share-based payment of HK$3,616,000 during the year ended December 31, 2020 (year ended December 31, 2019: HK$4,100,000) (Note 7).

The following information is relevant in the determination of the fair value of options granted on December 23, 2019 under the Share Option Scheme:

Option pricing model used	Binomial Option Pricing Model
Share price	HK$0.375
Exercise price	HK$0.396
Expected volatility	48.523%
Expected dividend rate	–
Risk-free interest rate	1.695%

(b) Equity-settled service contract

Share options granted on December 23, 2019

On July 1, 2019, the Company entered into a service contract with the consultant to appoint him as the Group's sales and marketing relations consultant for a term of 12 months (effective on the date of service rendered). In consideration of the services provided by the consultants, the Company granted 10,800,000 share options that are exercisable from December 23, 2019 to December 23, 2029. The share options are exercisable for a period of ten years from the date of grant, subject to the vesting period as follows: (i) 60% of the share options be vested on the date of grant; and (ii) 40% of the share options be vested on the first anniversary of the date of grant.

The fair value of the services on December 23, 2019, at grant date, were HK$570,000, which was based on terms and conditions stated in the services contract.

The weighted average remaining contractual life was 8.98 years (2019: 9.98 years). No share options has been exercised for the years ended December 31, 2019 and 2020.

The Company recognized the total expense of HK$1,354,000 for the year ended December 31, 2020 (year ended December 31, 2019: HK$570,000) in relation to share options granted by the Company to this consultant.

Notes to the Consolidated Financial Statements

26 Reserves

The amounts of the Group's reserves and the movements therein for the years ended December 31, 2019 and 2020 are presented in the consolidated statement of changes in equity.

The statutory reserves are set up by the Group's subsidiaries, namely PACL and OPAL, by way of appropriation from the profit for the year in accordance with the relevant laws and regulations in the PRC and in Macao respectively.

In the PRC, PACL is required to allocate at least 10% of its net profit for each voting period as reported in its PRC statutory accounts to the statutory reserves until such reserve reaches 50% of registered capital. The reserve is designated for statutory surplus reserve fund and an enterprise expansion fund which are non-distributable. The statutory surplus reserve fund can be used to make up its prior years' losses, if any, and can be applied in conversion into capital by means of capitalization issue. The enterprise expansion fund can be used for expanding the capital base of PACL, by means of capitalization issue.

In Macao, the Macao Commercial Code#377 requires that OPAL should set aside a minimum of 25% of OPAL's profit for each voting period to the statutory reserve until the balance of the reserve reaches a level equivalent to 50% of the capital of OPAL. The reserve is non-distributable.

During the year ended December 31, 2020, there were no appropriations to the statutory reserves (year ended December 31, 2019: Nil).

27 Trade payables, contract liabilities, other payables and accrued charges

	December 31, 2020 HK$'000	December 31, 2019 HK$'000
Trade payables	**147,011**	76,713
Contract liabilities *(Note)*	**17,922**	12,198
Accrued employee benefit expenses	**78,873**	45,887
Accrued operating expenses	**64,066**	33,236
Provision for sales rebate and claim to customers	**1,811**	2,257
Payable for purchase of property, plant and equipment	**48,722**	36,411
Other payables and accruals	**152,620**	54,608
Total contract liabilities, other payables and accrued charges	**364,014**	184,597

27 Trade payables, contract liabilities, other payables and accrued charges *(Continued)*

As at December 31, 2020, the ageing analysis of the Group's trade payables based on invoice date was as follows:

	December 31, 2020 HK$'000	December 31, 2019 HK$'000
0 – 30 days	**55,291**	19,972
31 – 60 days	**20,939**	23,790
61 – 90 days	**10,410**	7,849
Over 90 days	**60,371**	25,102
	147,011	76,713

The carrying amounts of the Group's trade payables are denominated in the following currencies:

	December 31, 2020 HK$'000	December 31, 2019 HK$'000
AUD	**2,253**	2,165
RMB	**144,093**	73,561
HKD	**312**	624
USD	**9**	9
GBP	**344**	354
	147,011	76,713

Note:

	December 31, 2020 HK$'000	December 31, 2019 HK$'000
Contract liabilities arising from:		
Sale of goods	**17,922**	12,198

Notes to the Consolidated Financial Statements

27 Trade payables, contract liabilities, other payables and accrued charges *(Continued)*

Typical payment terms which impact on the amount of contract liabilities are as follows:

Sale of goods

For sale of goods, the Group may take a deposit on acceptance of the order, with the remainder of the consideration payable when the customers accepted the goods. The remainder of the consideration is classified as a contract liability until such time as the goods are accepted by the customers.

Movements in contract liabilities

	2020 HK$'000	2019 HK$'000
Balance at beginning of year	**12,198**	10,782
Decrease in contract liabilities as a result of recognizing revenue during the year that was included in the contract liabilities at the beginning of the year	**(6,687)**	(5,698)
Increase in contract liabilities as a result of receiving deposits	**11,701**	7,114
Exchange differences	**710**	–
Balance at end of year	**17,922**	12,198

28 Borrowings

	December 31, 2020 HK$'000	December 31, 2019 HK$'000
Current		
Collateralized borrowings of a financial institution *(Note 20)*	**16,016**	38,151
Other loans	**1,731,305**	873,052
	1,747,321	911,203
Non-current		
Other loans	**87,666**	622,706
Total	**1,834,987**	1,533,909

As at December 31, 2020, the effective interest rate of the interest-bearing borrowings was 5.99% per annum (December 31, 2019: 7.85% per annum).

The carrying amounts of all borrowings are carried at amortized cost and approximate their fair values which carry interest at fixed rates.

The carrying amounts of the borrowings are denominated in RMB.

28 Borrowings *(Continued)*

The Group had the following undrawn borrowing facilities:

	December 31, 2020 HK$'000	December 31, 2019 HK$'000
Expiring within one year	**228,535**	51,484
Expiring in the second to fifth year inclusive	**–**	201,681
Total	**228,535**	253,165

As at December 31, 2020, included in the Group's undrawn facilities expiring within one year amounted to HK$181,351,000 are expired upon the compensation received from the disposal of the Land. The remaining facilities are annual facilities subject to review at various dates during the year ending December 31, 2021.

During the year ended December 31, 2020, the Group's facilities were secured by the following:

(i) guarantees of the Company and certain subsidiaries (2019: Same);

(ii) guarantees of the former executive directors of the Company (2019: Same);

(iii) guarantees of certain directors of the Company and PRC subsidiaries (2019: a director of a PRC subsidiary);

(iv) guarantees of two state-owned enterprises of the PRC (2019: Same);

(v) pledge of the Group's certain inventories (Note 19);

(vi) pledge of the Group's certain trade and other receivables (Note 20);

(vii) pledge of the Group's certain property, plant and equipment (Note 14) and right-of-use assets (Note 15); and

(viii) pledge of certain subsidiaries' share capital (2019: Nil) (Note 17).

29 Notes to consolidated statement of cash flows

(a) Cash generated from operations

	Year ended December 31, 2020 HK$'000	Year ended December 31, 2019 HK$'000
Profit/(loss) before income tax	**1,229,240**	(489,659)
Adjustments for:		
– Gain on disposal of right-of-use asset *(Note 9)*	**(1,742,159)**	–
– Gain on disposal of investment property *(Note 9)*	**(1,912)**	–
– Loss on disposal of property, plant and equipment *(Note 6)*	**7,702**	5,625
– Depreciation of property, plant and equipment *(Note 14)*	**111,814**	105,363
– Depreciation of right-of-use assets *(Note 15)*	**19,737**	19,446
– Revaluation loss on property, plant and equipment *(Note 14)*	**–**	630
– Impairment loss on prepayments for property, plant and equipment *(Note 6)*	**9,973**	–
– Impairment loss on inventories *(Note 6)*	**3,241**	6,893
– Impairment loss on trade receivables *(Note 3.1(b))*	**13,367**	10,718
– Impairment loss on other receivables *(Note 6)*	**–**	1,827
– Write off of inventories *(Note 6)*	**17,420**	–
– Write off of right-of-use assets *(Note 6)*	**806**	4,904
– Write off of trade receivables, net *(Note 6)*	**1,104**	119
– Write off of lease liabilities *(Note 15)*	**(755)**	(4,904)
– Interest expense on borrowings *(Note 10)*	**100,944**	110,392
– Interest expense on lease liabilities *(Note 10)*	**1,552**	2,134
– Interest expense on Hong Kong profits tax in respect of prior years *(Note 10)*	**8,468**	–
– Interest income on bank deposits *(Note 10)*	**(985)**	(662)
– Interest income from overdue trade receivables *(Note 10)*	**–**	(477)
– Interest income from redemption of tax reserve certificates *(Note 10)*	**(134)**	–
– Equity-settled share-based payment expenses	**4,970**	4,670
	(215,607)	(222,981)
Changes in working capital:		
– Inventories	**(62,053)**	11,929
– Trade and bills receivables, prepayments, deposits and other receivables	**(34,135)**	(16,497)
– Trade payables, contract liabilities, other payables and accrued charges and deferred income	**222,805**	(69,870)
Cash used in operations	**(88,990)**	(297,419)

29 Notes to consolidated statement of cash flows *(Continued)*

(b) An analysis of loss on disposal of property, plant and equipment is as follows:

	Year ended December 31, 2020 HK$'000	Year ended December 31, 2019 HK$'000
Net book amount *(Note 14)*	71,252	7,555
Loss on disposal of property, plant and equipment *(Note 6)*	(7,702)	(5,625)
Proceeds from disposal of property, plant and equipment	63,550	1,930

(c) Reconciliation of liabilities arising from financing activities

The table below details changes in the Group's liabilities from financing activities, including both cash and non-cash changes. Liabilities arising from financing activities are liabilities for which cash flows were, or future cash flows will be, classified in the Group's consolidated statements of cash flows as cash flows from financing activities.

	Borrowings (Note 28) HK$'000	Lease liabilities (Note 15) HK$'000	Total HK$'000
At January 1, 2020	1,533,909	28,081	1,561,990
Changes from cash flow:			
Interest paid on borrowings	(100,944)	–	(100,944)
Interest paid on lease liabilities	–	(1,552)	(1,552)
Proceeds from borrowings	398,162	–	398,162
Repayments of borrowings	(215,911)	–	(215,911)
Payment for lease liabilities	–	(12,488)	(12,488)
Total changes from financing cash flows:	81,307	(14,040)	67,267
Other changes:			
Exchange adjustments	118,827	998	119,825
Interest expense on borrowings	100,944	–	100,944
Interest expense of lease liabilities	–	1,552	1,552
Write off of lease liabilities	–	(755)	(755)
Total other changes	219,771	1,795	221,566
At December 31, 2020	1,834,987	15,836	1,850,823

29 Notes to consolidated statement of cash flows *(Continued)*

(c) Reconciliation of liabilities arising from financing activities *(Continued)*

	Borrowings (Note 28) HK$'000	Lease liabilities (Note 15) HK$'000	Total HK$'000
At December 31, 2018 as originally presented	887,474	–	887,474
Initial application of HKFRS 16 *(Note 2.1)*	–	29,492	29,492
Restated balance as at January 1, 2019	887,474	29,492	916,966
Changes from cash flows:			
Interest paid on borrowings	(110,392)	–	(110,392)
Interest paid on lease liabilities	–	(2,134)	(2,134)
Proceeds from borrowings	1,112,593	–	1,112,593
Repayments of borrowings	(451,740)	–	(451,740)
Payment for lease liabilities	–	(13,206)	(13,206)
Total changes from financing cash flows:	550,461	(15,340)	535,121
Other changes:			
Exchange adjustments	(14,418)	(350)	(14,768)
Interest expense on borrowings	110,392	–	110,392
Interest expense of lease liabilities	–	2,134	2,134
Addition of lease liabilities	–	17,049	17,049
Write off of lease liabilities	–	(4,904)	(4,904)
Total other changes	95,974	13,929	109,903
At December 31, 2019	1,533,909	28,081	1,561,990

30 Capital commitments

	December 31, 2020 HK$'000	December 31, 2019 HK$'000
Contracted but not provided for:		
– Property, plant and equipment	**252,648**	245,776

The Group won the bids and acquired the land use rights of eight parcels of land located in the Nanyang City. Pursuant to the land use right transfer agreements, the Group agreed to invest an aggregate sum of RMB2,890,590,000 (equivalent to approximately HK$3,655,273,000) in the Nanyang City. As of December 31, 2020, the Group had invested RMB1,784,385,000 (equivalent to approximately HK$2,127,814,000) in the Nanyang City (December 31, 2019: RMB1,758,133,000 (equivalent to approximately HK$1,969,897,000)).

Moreover, the Group also committed a project in Xinjiang for establishing and investing in a new wholly-owned subsidiary with an estimated aggregate capital of at least RMB200 million (equivalent to approximately HK$254 million). The Group invested RMB162,938,000 (equivalent to approximately HK$194,297,000) therein as at December 31, 2020 (December 31, 2019: RMB162,634,000 (equivalent to approximately HK$182,223,000)).

During the year ended December 31, 2019, the Group entered into the Investment Agreement ("the Investment Agreement") with the Heshan City Government and established a new wholly-owned subsidiary and estimated that an aggregate of RMB1.05 billion will be invested in Phase 1 of the development of this project in the Heshan City, Jiangmen, Guangdong. The Group invested RMB18,493,000 (equivalent to approximately HK$22,053,000) as at December 31, 2020 (December 31, 2019: RMB12,256,000 (equivalent to approximately HK$13,733,000)).

31 Related party transactions

Save as disclosed elsewhere in the consolidated financial statements, the Group had the following related party transactions during the years ended December 31, 2019 and 2020.

During the Year, no consultancy fee was incurred by the Group (year ended December 31, 2019: HK$2,400,000) to a related company controlled by a director of subsidiaries of the Company.

Key management compensation

Key management includes executive directors and the compensation paid or payable to key management for employee services is shown below:

	Year ended December 31, 2020 HK$'000	Year ended December 31, 2019 HK$'000
Salaries, bonus and allowances	**6,574**	27,787
Contributions to defined contribution plans	**58**	291
	6,632	28,078

Notes to the Consolidated Financial Statements

32 Statement of financial position and reserves movement of the Company

	December 31, 2020 HK$'000	December 31, 2019 HK$'000
ASSETS		
Non-current assets		
Investments in subsidiaries	**–**	–
Current assets		
Due from a subsidiary	**243,960**	244,162
Cash and cash equivalents	**5**	4
	243,965	244,166
Total assets	**243,965**	244,166
EQUITY		
Capital and reserves attributable to owners of the Company		
Share capital	**120,000**	120,000
Reserves	**123,041**	123,242
Total equity	**243,041**	243,242
LIABILITIES		
Current liabilities		
Other payables and accrued charges	**924**	924
Total liabilities	**924**	924
Total equity and liabilities	**243,965**	244,166

The statement of financial position was approved by the Board of Directors on March 29, 2021.

Li Jiewen
Director

Gao Mingjie
Director

Notes to the Consolidated Financial Statements

32 Statement of financial position and reserves movement of the Company *(Continued)*

	Share premium HK$'000	Shares held for share award scheme HK$'000	Share option reserve HK$'000	Other reserve HK$'000	Accumulated losses HK$'000	Total HK$'000
Balance at January 1, 2020	**1,001,287**	**(774)**	**4,670**	**828,317**	**(1,710,258)**	**123,242**
Comprehensive income:						
Loss for the year	**–**	**–**	**–**	**–**	**(5,171)**	**(5,171)**
Total comprehensive income for the year	**–**	**–**	**–**	**–**	**(5,171)**	**(5,171)**
Equity-settled share-based payment	**–**	**–**	**4,970**	**–**	**–**	**4,970**
Transfer upon lapse of share options	**–**	**–**	**(333)**	**–**	**333**	**–**
Balance at December 31, 2020	**1,001,287**	**(774)**	**9,307**	**828,317**	**(1,715,096)**	**123,041**
Balance at January 1, 2019	1,001,287	(774)	–	828,317	(1,203,942)	624,888
Comprehensive income:						
Loss for the year	–	–	–	–	(506,316)	(506,316)
Total comprehensive income for the year	–	–	–	–	(506,316)	(506,316)
Equity-settled share-based payment	–	–	4,670	–	–	4,670
Balance at December 31, 2019	1,001,287	(774)	4,670	828,317	(1,710,258)	123,242

33 Benefits and interests of directors

The emoluments of individual directors of the Company during the years ended December 31, 2019 and 2020 were set out as follows:

Year ended December 31, 2020	Fee HK$'000	Salaries and allowance HK$'000	Share award scheme HK$'000	Share option scheme HK$'000	Discretionary and retirement bonus HK$'000	Contributions to defined contribution plan HK$'000	Total HK$'000
Name of Directors							
Executive Directors:							
Mr. Gao Mingjie ("**Mr. Gao**") *(Note i)*	120	1,076	–	384	–	11	1,591
Ms. Li Jiewen ("**Ms. Li**") *(Note ii)*	120	3,227	–	768	–	18	4,133
Mr. Wong Kwok Wai Eddy *(Note iii)*	10	207	–	–	–	22	239
Mr. Pan Zhaolong ("**Mr. Pan**") *(Note iv)*	50	613	–	–	–	8	671
Independent non-executive Directors:							
Dr. Cheung Wah Keung *(Note v)*	450	–	–	723	–	–	1,173
Mr. Mar Selwyn	450	–	–	723	–	–	1,173
Mr. Leung Ka Tin	360	–	–	723	–	–	1,083
Mr. Chan Kai Nang *(Note vi)*	360	–	–	723	–	–	1,083
	1,920	5,123		4,044	–	59	11,146

Notes to the Consolidated Financial Statements

33 Benefits and interests of directors *(Continued)*

Year ended December 31, 2019	Fees HK$'000	Salaries and allowance HK$'000	Share award scheme HK$'000	Share option scheme HK$'000	Discretionary and retirement bonus HK$'000	Contributions to defined contribution plans HK$'000	Total HK$'000
Name of Directors							
Executive Directors:							
Mr. Gao Mingjie ("**Mr. Gao**") *(Note i)*	50	508	–	317	–	10	885
Ms. Li Jiewen ("**Ms. Li**") *(Note ii)*	120	3,259	–	633	5,000	14	9,026
Dr. Huang Gang ("**Dr. Huang**") *(Note vii)*	80	5,220	–	–	5,000	7	10,307
Mr. Wong Kwok Wai Eddy *(Note iii)*	120	2,480	–	–	5,000	260	7,860
Non-executive Directors:							
Mr. Cosimo Borrelli *(Note viii)*	123	–	–	–	5,000	–	5,123
Ms. Chi Lai Man Jocelyn *(Note ix)*	123	–	–	–	5,000	–	5,123
Ms. Cai Xinyu Annabelle *(Note x)*	123	–	–	–	1,000	–	1,123
Independent non-executive Directors:							
Dr. Cheung Wah Keung *(Note v)*	460	–	–	63	2,000	–	2,523
Mr. Mar Selwyn	460	–	–	63	2,000	–	2,523
Mr. Leung Ka Tin	460	–	–	63	2,000	–	2,523
	2,119	11,467	–	1,139	32,000	291	47,016

Notes:

(i) Mr. Gao was appointed as an executive Director on August 2, 2019.

(ii) Ms. Li was appointed as an executive Director and joint chief executive officer of the Company ("**Joint CEO**") on November 6, 2018 and re-designated from Joint CEO to chief executive officer of the Company ("**CEO**") on August 2, 2019.

(iii) Mr. Wong Kwok Wai Eddy was appointed as an executive Director and CEO on March 2, 2018 and August 3, 2018. Mr. Wong Kwok Wai Eddy has been re-designated from CEO to Joint CEO on November 6, 2018 and re-designated from the Joint CEO to Chief Commercial Officer ("**CCO**") on August 2, 2019. Mr. Wong Kwok Wai Eddy resigned as the executive Director and CCO on January 31, 2020.

(iv) Mr. Pan was appointed as executive Director on August 6, 2020.

Notes to the Consolidated Financial Statements

33 Benefits and interests of directors *(Continued)*

Notes: (Continued)

(v) Dr. Cheung Wah Keung was appointed as an independent non-executive Director and the independent non-executive Chairman on March 22, 2018 and August 2, 2019 respectively.

(vi) Mr. Chan Kai Nang was appointed as an independent non-executive Director on February 24, 2017 and retired on January 24, 2018. Mr. Chan Kai Nang was appointed as an independent non-executive Director on January 1, 2020.

(vii) Dr. Huang was appointed as an executive Director and the Chairman on July 11, 2018 and August 3, 2018 respectively. Dr. Huang resigned as the chairman of the Board (the "Chairman") and the executive Director on August 2, 2019.

(viii) Mr. Cosimo Borrelli was appointed as a non-executive Director on May 27, 2016 and was the non-executive Chairman during the period from November 9, 2017 to August 3, 2018. Mr. Cosimo Borrelli resigned as the non-executive Director on May 3, 2019.

(ix) Ms. Chi Lai Man Jocelyn resigned as the non-executive Director on May 3, 2019.

(x) Ms. Cai Xinyu Annabelle was appointed as a non-executive Director on July 11, 2018. Ms. Cai Xinyu Annabelle resigned as the non-executive Director on May 3, 2019.

The remuneration shown above represents remuneration received from the Group by these directors in their capacity as employees to the Group and/or in their capacity as directors of the companies comprising the Group during the year ended December 31, 2020 (year ended December 31, 2019: Same).

34 Event after the reporting period

(a) Save as disclosed elsewhere in the consolidated financial statements, the following event took place subsequently to December 31, 2020:

As disclosed in the announcement of the Company dated January 5, 2021, the Land at Zengcheng has already been officially transferred to the Local Office of Zengcheng People's Government pursuant to the land disposal agreement. The auction of the Land took place on December 25, 2020 and was completed on December 28, 2020. The finalized compensation amount of the Land Disposal was RMB1.57 billion, in which RMB1.53 billion had been received subsequently up to March 1, 2021. Following the proceeds from the Land Disposal, bank borrowings of RMB1.19 billion had been settled up to the date of these financial statements.

Financial Summary

Consolidated Results

	Year ended December 31, 2020 HK$'000	Year ended December 31, 2019 HK$'000	Year ended December 31, 2018 HK$'000	Year ended December 31, 2017 HK$'000	Fifteen months ended December 31, 2016 HK$'000
Revenue	**1,817,633**	1,717,428	1,642,215	1,778,683	2,236,024
Profit/(loss) before income tax	**1,229,240**	(489,659)	(209,436)	(150,473)	(195,676)
Income tax expense	**(308,408)**	(5,935)	(24,089)	(7,989)	(38,023)
Profit/(loss) for the year	**920,832**	(495,594)	(233,525)	(158,462)	(233,699)
Other comprehensive income	**57,808**	(10,722)	(20,196)	46,812	(85,439)
Total comprehensive income attributable to owners of the Company	**978,640**	(506,316)	(253,655)	(109,567)	(317,354)
Earnings/(loss) per share (HK cents)	**76.8**	(41.3)	(19.5)	(13.0)	(19.3)

Consolidated Assets and Liabilities

	December 31,				
	2020 HK$'000	2019 HK$'000	2018 HK$'000	2017 HK$'000	2016 HK$'000
Total assets	**4,011,675**	2,159,966	2,090,612	2,472,998	2,223,477
Total liabilities	**2,784,823**	1,916,724	1,345,724	1,474,389	1,114,001
Net assets attributable to owners of the Company	**1,226,852**	243,242	744,888	998,543	1,108,110