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PanAsialum Holdings Company Limited

榮陽實業集團有限公司

(incorporated in the Cayman Islands with limited liability)

(Stock Code: 2078)

ANNOUNCEMENT OF ANNUAL RESULTS FOR THE YEAR ENDED DECEMBER 31, 2020

Financial Highlights

- Revenue for the year ended December 31, 2020 was approximately HK\$1,818 million, compared with approximately HK\$1,717 million for the year ended December 31, 2019;
- Gross profit for the year ended December 31, 2020 was approximately HK\$91 million, compared with approximately HK\$3 million for the year ended December 31, 2019;
- Profit attributable to owners of the Company for the year ended December 31, 2020 was approximately HK\$921 million, including an one-off gain of HK\$1,742 million and an one-off expense of HK\$213 million from disposal of Zengcheng land compared with a loss of approximately HK\$496 million for the year ended December 31, 2019; and
- Basic earnings per share for the year ended December 31, 2020 of 76.8 HK cents (year ended December 31, 2019: loss per share 41.3 HK cents).

The board (“**Board**”) of directors (“**Directors**”) of PanAsialum Holdings Company Limited (“**Company**”, together with its subsidiaries, “**Group**”) announces the audited consolidated annual results of the Group for the year ended December 31, 2020 (“**Year**”), together with the comparative figures as below.

FINANCIAL INFORMATION

CONSOLIDATED STATEMENT OF COMPREHENSIVE INCOME

For the year ended December 31, 2020

		Year ended December 31, 2020 <i>HK\$’000</i>	Year ended December 31, 2019 <i>HK\$’000</i>
	<i>Notes</i>		
Revenue	3	1,817,633	1,717,428
Cost of sales		<u>(1,726,812)</u>	<u>(1,714,695)</u>
Gross profit		90,821	2,733
Distribution and selling expenses		(93,170)	(79,472)
Administrative expenses		(231,418)	(315,694)
Other expenses	7	(212,810)	–
Other income	8	36,808	12,699
Other gains – net	9	1,748,854	1,462
Finance costs – net		<u>(109,845)</u>	<u>(111,387)</u>
Profit/(loss) before income tax		1,229,240	(489,659)
Income tax expense	10	<u>(308,408)</u>	<u>(5,935)</u>
Profit/(loss) for the year		<u>920,832</u>	<u>(495,594)</u>

		Year ended December 31, 2020 HK\$'000	Year ended December 31, 2019 HK\$'000
	<i>Note</i>		
Earnings/(loss) per share attributable to owners of the Company			
Basic and diluted (HK cents per share)	12	76.8	(41.3)
		<u><u> </u></u>	<u><u> </u></u>
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)
		<u> </u>	<u> </u>
Total comprehensive income for the year		978,640	(506,316)
		<u><u> </u></u>	<u><u> </u></u>

CONSOLIDATED STATEMENT OF FINANCIAL POSITION

As at December 31, 2020

		December 31, 2020	December 31, 2019
	<i>Note</i>	HK\$'000	HK\$'000
ASSETS			
Non-current assets			
Property, plant and equipment		919,125	1,009,088
Right-of-use assets		338,087	290,989
Investment property		–	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		270,740	222,146
Trade and bills receivables	4	394,867	383,891
Prepayments, deposits and other receivables		2,015,089	118,304
Pledged bank deposits		2,124	47,950
Cash and cash equivalents		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		120,000	120,000
Reserves		1,106,852	123,242
Total equity attributable to owners of the Company		1,226,852	243,242

		December 31, 2020	December 31, 2019
	<i>Notes</i>	HK\$'000	HK\$'000
LIABILITIES			
Non-current liabilities			
Lease liabilities		4,241	14,217
Borrowings		87,666	622,706
		91,907	636,923
Current liabilities			
Trade payables	5	147,011	76,713
Contract liabilities, other payables and accrued charges		364,014	184,597
Due to a director	6	–	645
Borrowings		1,747,321	911,203
Lease liabilities		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

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 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; and
- (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.
- (iii) The Group has been negotiating with the financial institutions in the People's Republic of China ("PRC") to seek for renewing the existing facilities and obtaining new facilities;

2.2 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.

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).

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.

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.

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.

3 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.

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
	<hr/>	<hr/>
Total	1,817,633	1,717,428
	<hr/> <hr/>	<hr/> <hr/>
Major products/Services		
Sales of goods	1,816,501	1,716,317
Processing fees	1,132	1,111
	<hr/>	<hr/>
	1,817,633	1,717,428
	<hr/> <hr/>	<hr/> <hr/>
Time of revenue recognition		
At a point in time	1,816,501	1,716,317
Transferred over time	1,132	1,111
	<hr/>	<hr/>
	1,817,633	1,717,428
	<hr/> <hr/>	<hr/> <hr/>

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	Australia	Hong Kong	South East Asia	Others	Total
	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000	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	<u>1,089</u>	<u>42,816</u>	<u>954</u>	<u>25,039</u>	<u>20,923</u>	<u>90,821</u>
Year ended December 31, 2019						
	The PRC	Australia	Hong Kong	South East Asia	Others	Total
	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000	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	<u>(42,053)</u>	<u>35,971</u>	<u>3,717</u>	<u>1,759</u>	<u>3,339</u>	<u>2,733</u>

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
	<u>1,302,106</u>	<u>1,371,752</u>

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

4 TRADE AND BILLS RECEIVABLES

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

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.

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
	<u>394,867</u>	<u>383,891</u>

5 TRADE PAYABLES

	December 31, 2020 HK\$'000	December 31, 2019 HK\$'000
Trade payables	<u>147,011</u>	<u>76,713</u>

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	<u>60,371</u>	<u>25,102</u>
	<u>147,011</u>	<u>76,713</u>

6 DUE TO A DIRECTOR

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

7 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	4,134	4,000
Cost of inventories recognized as expenses	1,726,812	1,714,695
Loss on disposal of property, plant and equipment	7,702	5,625
Employee benefit expenses	244,747	350,527
Revaluation loss on property, plant and equipment	–	630
Depreciation:		
– Owned property, plant and equipment	111,814	105,363
– Right-of-use assets	19,737	19,446
Write off of trade receivables, net	1,104	119
Effect of lease modification	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	13,367	10,718
Impairment loss on other receivables	–	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	48,754
Write off of inventories	17,420
	<u>212,810</u>

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.

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	1,912	–
	<u>1,748,854</u>	<u>1,462</u>

- (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 of 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 Land Disposal 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 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 (Macao Commercial Offshore) Limited, a subsidiary of the Group, 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
	<u>308,408</u>	<u>5,935</u>

11 DIVIDENDS

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

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)	<u>920,832</u>	<u>(495,594)</u>
Weighted average number of ordinary shares in issue less shares held for share award scheme (thousands)	<u>1,199,405</u>	<u>1,199,405</u>

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.

MANAGEMENT DISCUSSION AND ANALYSIS

OVERVIEW

Business and Financial Overview

The 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, 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	<u>1,818</u>	<u>1,717</u>	<u>100%</u>	<u>100.0%</u>

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.

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 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.

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 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.

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.

* For identification purpose only

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 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), interest-bearing borrowings of HK\$1,835.0 million denominated in RMB (December 31, 2019: HK\$1,533.9 million denominated in RMB) and no obligation under finance leases (December 31, 2019: None).

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 and obligations under finance leases divided by total equity multiplied by 100%.
- (7) The calculation of Debt to Equity Ratio is based on total borrowings and obligations under finance leases 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.

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).

OTHER INFORMATION

Directors’ Securities Transaction

The Company has adopted Model Code for Securities Transactions by Directors of Listed Companies (“**Model Code**”) as set out in Appendix 10 of the Rules Governing the Listing of Securities on The Stock Exchange of Hong Kong Limited (“**Exchange**”) (“**Listing Rules**”) 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.

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.

Corporate Governance Practices

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

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 of the Company ("**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.

Publication of Annual Report

This annual results announcement is published on the websites of the Exchange (<http://www.hkex.com.hk>) and the Company (<http://www.palum.com>). The annual report of the Company for the Year containing all the information required by the Listing Rules will be despatched to shareholders of the Company and made available for review on the same websites in due course.

By order of the Board
PanAsialum Holdings Company Limited
Cheung Wah Keung
*Independent Non-executive Chairman
and Independent Non-executive Director*

Hong Kong, March 29, 2021

As at the date of this announcement, the executive directors of the Company are, Ms. Li Jiewen, Mr. Gao Mingjie and Mr. Pan Zhaolong; and the independent non-executive directors of the Company are Mr. Mar Selwyn, Mr. Leung Ka Tin, Dr. Cheung Wah Keung and Mr. Chan Kai Nang.