EVA Precision Industrial Holdings Limited
億和精密工業控股有限公司

(Incorporated with limited liability in the Cayman Islands)

(Stock Code: 838)

FINAL RESULTS FOR THE YEAR ENDED 31 DECEMBER 2020

FINANCIAL RESULTS

The Board of Directors of EVA Precision Industrial Holdings Limited (the "Company") is pleased to announce the audited consolidated financial results of the Company and its subsidiaries (collectively the "Group") for the year ended 31 December 2020 together with the comparative figures as follows:

CONSOLIDATED STATEMENT OF COMPREHENSIVE INCOME

For the year ended 31 December 2020

	Note	**2020**	2019
		HK$'000	*HK$'000*
Revenue	*4*	**4,008,459**	3,747,055
Cost of sales	*5*	**(3,270,159)**	(2,982,064)
Gross profit		**738,300**	764,991
Other income		**38,033**	48,056
Other losses – net		**(7,697)**	(14,619)
Selling and marketing costs	*5*	**(237,464)**	(215,596)
General and administrative expenses	*5*	**(462,717)**	(462,790)
Net impairment losses on financial assets		**(33,800)**	–
Operating profit		**34,655**	120,042
Finance income	*6*	**11,196**	15,031
Finance costs	*6*	**(42,929)**	(55,389)
Share of losses of associates		**(16,076)**	(2,082)

	Note	**2020** **HK$'000**	2019 HK$'000
(Loss)/profit before income tax		**(13,154)**	77,602
Income tax expense	*7*	**(2,217)**	(25,821)
(Loss)/profit for the year		**(15,371)**	51,781
Other comprehensive income/(loss) for the year, net of tax			
Item that may be reclassified to profit or loss			
– Currency translation differences		**71,354**	(25,308)
Item that will not be reclassified to profit or loss			
– Revaluation gains/(losses) on financial assets at fair value through other comprehensive income		**8,808**	(1,875)
Total comprehensive income for the year		**64,791**	24,598
(Loss)/profit for the year attributable to equity holders of the Company		**(15,371)**	51,781
Total comprehensive income for the year attributable to equity holders of the Company		**64,791**	24,598
(Loss)/earnings per share for (loss)/profit attributable to equity holders of the Company during the year (expressed in HK cents per share)			
– basic	*8*	**(0.9)**	3.0
– diluted	*8*	**(0.9)**	3.0

CONSOLIDATED STATEMENT OF FINANCIAL POSITION

As at 31 December 2020

	Note	2020 HK$'000	2019 HK$'000
ASSETS			
Non-current assets			
Property, plant and equipment		**2,280,762**	2,082,318
Right-of-use assets		**372,968**	371,454
Investment property under development		**–**	176,521
Intangible assets		**7,695**	8,524
Investments in associates		**32,990**	55,165
Prepayments, deposits and other receivables		**42,152**	44,831
Financial assets at fair value through other comprehensive income		**87,110**	81,247
Deferred income tax assets		**7,296**	–
		2,830,973	2,820,060
Current assets			
Inventories		**541,385**	607,705
Trade receivables	*10*	**1,028,051**	914,511
Prepayments, deposits and other receivables		**168,472**	232,562
Restricted bank deposits		**93,574**	84,460
Short-term bank deposits		**33,336**	218,060
Cash and cash equivalents		**1,405,694**	1,070,738
		3,270,512	3,128,036
LIABILITIES			
Current liabilities			
Trade payables	*11*	**1,158,890**	977,855
Contract liabilities		**81,502**	59,284
Accruals and other payables		**227,584**	253,970
Bank borrowings		**1,276,548**	1,125,744
Lease liabilities		**18,333**	18,223
Current income tax liabilities		**11,047**	11,193
		2,773,904	2,446,269
Net current assets		**496,608**	681,767

	Note	2020 HK$'000	2019 HK$'000
Total assets less current liabilities		**3,327,581**	3,501,827
LIABILITIES			
Non-current liabilities			
Bank borrowings		**625,313**	787,073
Lease liabilities		**72,933**	86,919
Deferred income tax liabilities		**19,643**	32,586
		717,889	906,578
Net assets		**2,609,692**	2,595,249
EQUITY			
Capital and reserves			
Share capital		**171,658**	171,713
Reserves		**2,438,034**	2,423,536
Total equity		**2,609,692**	2,595,249

Note:

1. BASIS OF PRESENTATION

The Company is an investment holding company. Its subsidiaries are principally engaged in the provision of precision manufacturing services, focusing on the production of moulds and components with high quality standard and dimensional accuracy.

The Company was incorporated in the Cayman Islands on 12 July 2004 as an exempted company with limited liability under the Companies Law, Chapter 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 since 11 May 2005.

The consolidated financial statements are presented in Hong Kong dollars ("HK$"), unless otherwise stated.

The consolidated financial statements of the Company have been prepared in accordance with Hong Kong Financial Reporting Standards ("HKFRSs") and the disclosure requirements of the Hong Kong Company Ordinance Cap. 622. The consolidated financial statements have been prepared under the historical cost convention, as modified by the revaluation of financial assets at fair value through other comprehensive income ("FVOCI") and investment property under development which are carried at fair values.

The preparation of financial statements in conformity with HKFRSs requires the use of certain critical accounting estimates. It also requires management to exercise its judgement in the process of applying the Group's accounting policies.

2. ACCOUNTING POLICIES

(a) Relevant amendments to existing standards and conceptual framework adopted by the Group

The following amended standards and conceptual framework are mandatory for the first time for the financial year beginning 1 January 2020:

Amendments to HKAS 1 (Revised) and HKAS 8	Definition of material
Amendments to HKFRS 3 (Revised)	Definition of a business
Amendments to HKFRS 9, HKAS 39 and HKFRS 7	Interest Rate Benchmark Reform
Conceptual Framework for Financial Reporting 2018	Revised conceptual framework for financial reporting

The adoption of these amended standards and conceptual framework did not result in any substantial change to the Group's accounting policies. The amended standards and conceptual framework listed above had no material impact on the consolidated financial statements.

The Group has not applied any amended standards or conceptual framework that is not yet effective for the current accounting period.

(b) New standards and amendments to existing standards that have been issued and are relevant to the Group but not effective for the financial year beginning 1 January 2020 and have not been early adopted

		Effective for annual periods beginning on or after
Amendments to HKFRS 16	Covid-19-related rent concessions	1 June 2020
Amendments to HKAS 16	Property, plant and equipment – proceeds before intended use	1 January 2022
Amendments to HKAS 37	Onerous contracts – cost of fulfilling a contract	1 January 2022
Amendments to HKFRS 3	Reference to the Conceptual Framework	1 January 2022
Annual improvements	Annual improvements to HKFRSs 2018 – 2020	1 January 2022
Amendments to HKAS 1	Presentation of financial statements, classification of liabilities as current or non-current	1 January 2023
HKFRS 17	Insurance contracts	1 January 2023
Amendments to HKFRS 10 and HKAS 28	Sale or contribution of assets between an investor and its associate and joint venture	To be determined

The directors of the Group are in the process of assessing the financial impact of the adoption of the above new standards and amendments to standards and do not expect them to have a material impact in the current or future reporting periods and on foreseeable future transactions. The directors of the Group will adopt the new standards and amendments to standards when they become effective.

3. SEGMENT INFORMATION

Operating segments are reported in a manner consistent with the internal reporting provided to the chief operating decision-maker. The chief operating decision-maker has been identified as the executive directors and senior management collectively. They review the Group's internal reporting in order to assess performance and allocate resources.

There are differences in the basis of reportable segments from the consolidated financial statements for the year ended 31 December 2019. The Group has undergone a revamp of their organisational structure during the year ended 31 December 2020 in order to strengthen their industry positioning, and to better assess their business performance, and to allocate and manage resources effectively. As a result, the Group is organised into two main business segments, namely (i) Office automation equipment and (ii) Automotive components. Also, investments in associates and financial assets at FVOCI are reported as un-allocated assets as at 31 December 2020 in information provided to the chief operating decision-maker as they are not directly related to the segment performance. The comparative segment information for the year ended 31 December 2019 has been restated to align with the presentation of the current year's segment information disclosure.

The chief operating decision-maker assesses the performance of the operating segment based on a measure of revenue and profit before interest and tax.

Information provided to the chief operating decision-maker is measured in a manner consistent with that in the consolidated financial statements.

The segment results and other segment items are as follows:

	2020			2019 (Restated)		
	Office automation equipment	**Automotive components**	**Total**	Office automation equipment	Automotive components	Total
	HK$'000	***HK$'000***	***HK$'000***	*HK$'000*	*HK$'000*	*HK$'000*
Revenue	**3,094,123**	**914,336**	**4,008,459**	3,080,444	666,611	3,747,055
Segment results	**48,649**	**29,805**	**78,454**	132,008	507	132,515
Unallocated expenses			**(43,799)**			(12,473)
Finance income			**11,196**			15,031
Finance costs			**(42,929)**			(55,389)
Share of losses of associates			**(16,076)**			(2,082)
(Loss)/profit before income tax			**(13,154)**			77,602
Income tax expense			**(2,217)**			(25,821)
(Loss)/profit for the year			**(15,371)**			51,781
Depreciation	**119,001**	**114,694**	**233,695**	125,690	98,099	223,789
Amortisation	**1,468**	**–**	**1,468**	881	–	881

For the years ended 31 December 2019 and 2020, unallocated expenses represent corporate expenses.

The segment assets, liabilities and capital expenditure are as follows:

	2020				2019 (Restated)			
	Office automation equipment	**Automotive components**	**Un-allocated**	**Total**	Office automation equipment	Automotive components	Un-allocated	Total
	HK$'000	***HK$'000***	***HK$'000***	***HK$'000***	*HK$'000*	*HK$'000*	*HK$'000*	*HK$'000*
Assets	**3,466,698**	**2,459,253**	**175,534**	**6,101,485**	3,577,092	2,140,969	230,035	5,948,096
Liabilities	**1,061,991**	**493,684**	**1,936,118**	**3,491,793**	1,016,605	375,556	1,960,686	3,352,847
Capital expenditure	**116,078**	**107,288**	**-**	**223,366**	215,065	184,633	–	399,698

Segment assets consist primarily of property, plant and equipment, investment property under development, right-of-use assets, intangible assets, inventories, trade receivables, restricted bank deposits, short-term bank deposits and certain prepayments, deposits and other receivables, and cash and cash equivalents.

Segment liabilities comprise operating liabilities but exclude bank borrowings, current income tax liabilities, deferred income tax liabilities and certain accruals and other payables.

Capital expenditure comprises additions to property, plant and equipment, investment property under development, right-of-use assets and intangible assets.

Segment assets and liabilities are reconciled to the Group's assets and liabilities as follows:

	As at 31 December			
	2020		2019 (Restated)	
	Assets	**Liabilities**	Assets	Liabilities
	HK$'000	***HK$'000***	*HK$'000*	*HK$'000*
Segment assets/liabilities	**5,925,951**	**1,555,675**	5,718,061	1,392,161
Unallocated:				
Investments in associates	**32,990**	**–**	55,165	
Financial assets at FVOCI	**87,110**	**–**	81,247	
Cash and cash equivalents	**5,843**	**–**	19,244	–
Deferred income tax assets	**7,296**	**–**	–	–
Prepayments, deposits and other receivables	**42,295**	**–**	74,379	–
Current income tax liabilities	**–**	**11,047**	–	11,193
Deferred income tax liabilities	**–**	**19,643**	–	32,586
Bank borrowings	**–**	**1,901,861**	–	1,912,817
Accruals and other payables	**–**	**3,567**	–	4,090
Total	**6,101,485**	**3,491,793**	5,948,096	3,352,847

An analysis of the Group's two (2019: three) major customers, each of which accounts for 10% or more of the Group's external revenue, is as follows:

	2020	2019
	HK$'000	*HK$'000*
Customer A	**1,009,742**	566,663
Customer B	**510,012**	548,280
Customer C	**–**	345,755

Revenue from external customers, based on the destination of the shipment, and assets by geographical region are as follows:

	2020				2019			
	The People's Republic of China ("PRC")	**Vietnam**	**Mexico**	**Total**	PRC	Vietnam	Mexico	Total
	HK$'000	***HK$'000***	***HK$'000***	***HK$'000***	*HK$'000*	*HK$'000*	*HK$'000*	*HK$'000*
Revenue	**3,602,186**	**315,935**	**90,338**	**4,008,459**	3,447,130	279,313	20,612	3,747,055
Assets by geographical region								
Total non-current assets	**2,295,957**	**254,092**	**280,924**	**2,830,973**	2,313,340	255,315	251,405	2,820,060
Total assets	**5,312,863**	**413,486**	**375,136**	**6,101,485**	5,258,554	403,646	285,896	5,948,096

4 REVENUE

	2020	2019
	HK$'000	*HK$'000*
Sales of moulds and components	**3,930,885**	3,690,084
Others (Note)	**77,574**	56,971
	4,008,459	3,747,055

The Group derives all revenue from the sales of goods at a point in time.

Note: Others mainly represent proceeds from sales of scrap materials.

5 OPERATING PROFIT

Expenses included in cost of sales, selling and marketing costs and general and administrative expenses are analysed as follows:

	2020	2019
	HK$'000	*HK$'000*
Depreciation of property, plant and equipment	**210,561**	202,998
Depreciation of right-of-use assets	**23,134**	20,791
Amortisation of intangible assets	**1,468**	881
Employee benefit expenses	**850,341**	892,458
Auditor's remuneration		
– Audit services	**4,175**	3,830
– Non-audit services	**686**	345
Changes in inventories of finished goods and work-in-progress	**100,968**	(134,301)
Raw materials and consumables used	**2,266,064**	2,124,811
Provision for inventory obsolescence	**9,319**	5,486
Write-off of irrecoverable mould development costs (Note)	**11,431**	–
Subcontracting expenses	**71,128**	126,782
Utilities expenses	**45,993**	70,651
Transportation expenses	**47,703**	30,629
Packaging expenses	**111,226**	115,854
Marketing expenses	**6,643**	5,225
Office expenses	**56,639**	48,051
Operating lease payments for short-term and low value leases	**868**	782
Others	**151,993**	145,177
	3,970,340	3,660,450

Note: The write-off of irrecoverable mould development costs is primarily due to the bankruptcy of the counterparty during the year ended 31 December 2020.

6 FINANCE INCOME/COSTS

	2020	2019
	HK$'000	*HK$'000*
Finance income		
Interest income on bank deposits	**11,196**	15,031
Finance costs		
Interest expense on:		
Bank borrowings	**52,652**	64,989
Lease liabilities – plant and machinery	**805**	978
Lease liabilities – factory and office premises	**3,380**	3,796
Interest capitalised	**(13,908)**	(14,374)
	42,929	55,389

7 INCOME TAX EXPENSE

	2020	2019
	HK$'000	*HK$'000*
Current taxation		
– Mainland China corporate income tax	**31,394**	24,100
Over-provision in prior years	**(8,938)**	(7,655)
Deferred income tax	**(20,239)**	9,376
	2,217	25,821

(a) Hong Kong profits tax

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

(b) Mainland China corporate income tax

Income tax of the subsidiaries of the Group established in Mainland China has been provided at the following tax rates:

(i) Provision for Mainland China corporate income tax is calculated at the statutory rate of 25% (2019: 25%) on the assessable income of each of the Group's entities, except that certain subsidiaries of the Group operating in Mainland China are eligible for certain tax exemptions and concessions including tax holiday and reduced income tax rate during the year.

(ii) EVA Precision Industrial (Suzhou) Limited, Shenzhen EVA Mould Manufacturing Limited, Chongqing Digit Auto Body Ltd., Shenzhen EVA Precision Technology Group Limited, Zhongshan Digit Automotive Technology Limited, Yihe Plastic and Electronic Products (Shenzhen) Co., Ltd. and Digit Stamping Technology (Wuhan) Limited are each recognised by the Chinese Government as a "National High and New Technology Enterprise" and are therefore subject to a preferential tax rate of 15% during the years ended 31 December 2019 and 2020.

Under the Corporate Income Tax Law of Mainland China, dividend distributions out of profit of foreign invested enterprises earned after January 2008 are subject to corporate withholding income tax at 10%, or at a reduced rate of 5% for subsidiaries of Hong Kong incorporated holding companies. Deferred tax charge of HK$10,000,000 is recognised for the withholding tax related to the unremitted retained earnings of a subsidiary for the year ended 31 December 2019.

(c) Other income taxes

The Company is incorporated in the Cayman Islands as an exempted company with limited liability under the Companies Law, Chapter 22 (Law 3 of 1961, as consolidated and revised) of the Cayman Islands and, accordingly, is exempted from Cayman Islands income tax.

The Company's subsidiaries established in the British Virgin Islands are exempted from British Virgin Islands income tax.

The subsidiary established and operating in Vietnam is entitled to full exemption from corporate income tax for the first four years from the earlier of (i) the year when profit is generated for the first time or (ii) the fourth year of commencing operations; and a 50% reduction in corporate income tax for the next nine years. The Vietnam subsidiary of the Group was exempted from corporate income tax in Vietnam for the year ended 31 December 2020 (2019: Same).

Provisions for income taxes in other jurisdictions are based on the assessable profits of the respective subsidiaries and the applicable tax rates.

8 (LOSS)/EARNINGS PER SHARE

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

Basic

	2020	2019
(Loss)/profit attributable to equity holders of the Company *(HK$'000)*	**(15,371)**	51,781
Weighted average number of ordinary shares in issue *('000)*	**1,716,591**	1,725,549
Basic (loss)/earnings per share *(HK cents per share)*	**(0.9)**	3.0

Diluted

Diluted (loss)/earnings per share is calculated by adjusting the weighted average number of ordinary shares outstanding to assume conversion of all dilutive potential ordinary shares (i.e. share options). A calculation is made in order to determine the number of shares that could have been acquired at fair value (determined as the average annual quoted share price of the Company's shares) based on the monetary value of the subscription rights attached to outstanding share options. The number of shares calculated as above is compared with the number of shares that would have been issued assuming the exercise of the share options.

Diluted loss per share for the year ended 31 December 2020 equals to the basic loss per share as the exercise of the outstanding share options would be anti-dilutive.

	2020	2019
(Loss)/profit attributable to equity holders of the Company *(HK$'000)*	**(15,371)**	51,781
Weighted average number of ordinary shares in issue *('000)*	**1,716,591**	1,725,549
Adjustment for share options *('000)*	**–**	1,147
Weighted average number of ordinary shares for diluted earnings per share *('000)*	**1,716,591**	1,726,696
Diluted (loss)/earnings per share *(HK cents per share)*	**(0.9)**	3.0

9 DIVIDENDS

	2020	2019
	HK$'000	*HK$'000*
Interim dividend paid of Nil (2019: HK0.65 cent) per share	**–**	11,230
Declared special dividend of Nil (2019: HK2.67 cents) per share	**–**	45,833
Proposed final dividend of Nil (2019: HK0.25 cent) per share	**–**	4,291
	–	61,354

No final dividend in respect of the year ended 31 December 2020 has been proposed for approval at the upcoming annual general meeting.

10 TRADE RECEIVABLES

	2020	2019
	HK$'000	*HK$'000*
Trade receivables	**1,029,239**	915,699
Less: Loss allowance	**(1,188)**	(1,188)
Trade receivables – net	**1,028,051**	914,511

The credit period granted by the Group to its customers is generally 30 to 180 days. The aging of the trade receivables based on invoice date is as follows:

	2020	2019
	HK$'000	*HK$'000*
0 to 90 days	**886,400**	731,749
91 to 180 days	**142,839**	183,950
	1,029,239	915,699
Less: Loss allowance	**(1,188)**	(1,188)
Trade receivables – net	**1,028,051**	914,511

The carrying amounts of trade receivables approximate their fair values.

The top five customers and the largest customer accounted for 28.9% (2019: 30.1%) and 10.2% (2019: 10.8%), respectively, of the trade receivables balance as at 31 December 2020. Other than these major customers, there is no concentration of credit risk with respect to trade receivables as the Group has a large number of customers.

As at 31 December 2020, no trade receivables (2019: Nil) were past due.

Trade receivables are denominated in the following currencies:

	2020	2019
	HK$'000	*HK$'000*
HK$	**82,678**	94,057
US$	**465,778**	446,888
RMB	**454,839**	353,695
Others	**25,944**	21,059
	1,029,239	915,699

11 TRADE PAYABLES

The aging of trade payables based on invoice date is as follows:

	2020	2019
	HK$'000	*HK$'000*
0 to 90 days	**715,685**	646,810
91 to 180 days	**443,205**	331,045
	1,158,890	977,855

The carrying amounts of trade payables approximate their fair values and are denominated in the following currencies:

	2020	2019
	HK$'000	*HK$'000*
HK$	**25,655**	18,086
RMB	**800,521**	660,712
US$	**329,835**	297,713
Others	**2,879**	1,344
	1,158,890	977,855

CHAIRMAN'S STATEMENT

Dear Valued Shareholders,

On behalf of the board of directors (the "Board"), I am pleased to present to you the final results of EVA Precision Industrial Holding Limited (the "Company" and together with its subsidiaries, the "Group") for the year ended 31 December 2020.

The year 2020 was an unforgettable year for all of us. As the US-China trade tension persisted throughout the year, the outbreak of COVID-19 made it more complicated. Like many businesses, the pandemic has brought upon unprecedented challenges to us. To adapt to such adversity, we continued to remain cautious and prudent in our management decision throughout the year. I am pleased to report that despite the pandemic's disruption to our operations, we managed to end the year stronger than when this scourge started. This was made possible by the solid foundations of our product development and manufacturing sciences that we have built over 27 years.

NAVIGATING COVID-19

Following a decline of economy in the first two quarters of 2020, China's social and economic activities have staged fast recovery from COVID-19's adverse impact in the second half of the year 2020. The Group achieved a 7% increase in turnover, amounting to HK$4,008,459,000, as a result of China's economic turnaround aided by the Group's continuous investment in differentiating and improving the quality of our stamping moulds and components through our state-of-the-art technique and the Group's commitment to reliability as a business partner. Despite operational difficulties, the Group recorded a resilient operating net cash flow of HK$462,812,000, representing a 16% year-on-year increment. Nevertheless, as we encountered the major challenges that led to the mild drop in our overall gross profit margin from 20% to 18%, which comprised the postponement of production schedules under various local governmental restrictions but a significant amount of resources was still inevitable to keep our existing and new projects on the right track, and the disruption to our supply chain strategies caused by transport restrictions imposed in various countries, we took a more cautious approach on our capital investment. During the year under review, our net cash used in investing activities was reduced significantly to HK$68,249,000 as compared to HK$356,045,000 in 2019. After slowing down our capital expansion as well as implementing a number of cost reduction measures, including among others, streamlining organisational structure and limiting staff on site during production disruption to reduce payroll expenses, we managed to gauge our financial health by maintaining a strong cash reserve with an improved net debt-to-equity ratio from 22% to 15%.

As a result of the Chinese government's control measures, including among others, imposing a lockdown in Wuhan in January 2020 and other cities in Hubei province, and extending the Chinese New Year holidays in local provinces and since most of the Group's production lines are located in China, our production in China was temporarily suspended for a short period of time during the early days of the COVID-19 outbreak. As the rest of the world continued to battle against the worsening pandemic, the outbreak was quickly brought under control in China, and almost all of the Group's industrial parks in China gradually resumed production in February 2020, with the exception of our Wuhan industrial park which resumed its operation in March 2020. As the world began to see signs of improvement in the pandemic's outlook, along with the Group's stringent public health and social measures adapted internally, all of the Group's industrial parks, including that in Mexico, resumed their normal production in August 2020. Overall, the production disruption in the Group's industrial parks, the most affected being Mexico industrial park which was disrupted for four months, has been the major factor for the decline of the Group's performance.

The Group has taken several initiatives internally and externally to combat the COVID-19 outbreak and its impact. Internally, we imposed restrictions on business travel, and required our staff to conduct business with customers, suppliers and other business partners through electronic means such as video conferencing whenever possible. We have also taken a wide range of other protective measures, such as requiring staff who returned from epidemic regions to self-quarantine, supply of protective face masks and disinfection products to employees, testing of their body temperature before work and thorough sterilisation of production lines, office premises, staff cafeterias and quarters.

The Group also experienced disruption to our strategic sourcing and supply chain management processes and increased material prices and logistics costs caused by the transport restrictions imposed in different countries during the year 2020. In response to such supply chain crisis, we made use of our strong supply chain capabilities to resolve the shortage of raw materials and parts, such as diversifying our sourcing portfolio in local and overseas countries less affected by transportation restrictions for free-sourced suppliers and negotiating with customers on the transfer of increased material costs to them for customer-mandated suppliers, and re-arranged the production schedule with customers through effective communication. Hence, additional procurement and transportation costs of raw materials and parts were incurred in 2020 as the new pricing was not reflected in the same year.

THE YEAR UNDER REVIEW AND SUBSEQUENT DEVELOPMENT

The Group has undergone a revamp of our current organisational structure in order to strengthen our industry positioning, and to better assess our business performance, allocate and manage resources effectively. As a result, we have changed our presentation of segmental reporting from the previous two main segments – "metal stamping" and "plastic injection" to the two new segments – "office automation equipment" and "automotive component" for the annual results of the year ended 31 December 2020. Following this change, I am delighted to present to you our business review during the year under review and subsequent development in this new manner.

Office Automation Equipment Sector

In 2020, our office automation ("OA") equipment sector was undoubtedly adversely impacted by the COVID-19 outbreak, given the closure of offices and workplaces due to social distancing restrictions and lockdowns imposed in various countries. As with our customers, we experienced an inevitable drop in orders for production of OA equipment. However, we managed to deliver a resilient result in the OA equipment sector, amounting to HK$3,094,123,000 (2019: HK$3,080,444,000), due to our increasing industry market share, contributed by a number of existing customers, with which we had been working together for more than 8 years, including among others, Fuji Xerox, Kyocera and Hewlett-Packard. Other key customers of the Group's OA equipment sector include Canon, Ricoh, Konica Minolta, Epson and Toshiba. The Group continued committing to stringent precision and quality of our moulds and components.

Our primary competitive advantage over our competitors in the OA equipment sector is our ability to provide vertically integrated one-stop services starting from product conceptualisation and design, development of moulds, production of components and parts, assembly of semi-products, testing and quality control. We are not just a mould and component maker, but a project owner of the Development and Electronic Manufacturing Service ("DEMS"). With the new DEMS model, we are able to provide high customisation on products for our customers and to assist our customers to effectively reduce the additional logistics costs and excess production lead time arising from outsourcing. During the year under review, we have successfully leveraged our ability to provide DEMS into our business model that offers our customers an end-to-end manufacturing programme in our Weihai industrial park. In the years ahead, we believe DEMS will become a core value of our OA equipment sector. Not only will this core value help us grow our market share, but it also lays the foundation for the diversity of our business streams and our proliferation in the high-end electronics market.

Automotive Component Sector

During the year under review, our automotive component sector hit a record high, with a significant increase in turnover of 37%, reaching HK$914,336,000 (2019: HK$666,611,000), primarily due to increased orders from our existing customers, namely, Faurecia, Brose, Great Wall Motors and SAIC-GM-Wuling. Other key customers of the Group's automotive component sector include Adient, Gestamp, Dongfeng, Changan, Yachiyo and Webasto.

During the year under review, the Group acquired a direct "Tier-one Supplier" status from Tesla in both our Shenzhen and Mexico industrial parks mainly for the production of their automobile seats. Hence, the Group directly contracts with this American electric car giant and receive its production orders. Meanwhile, we will still maintain positive cooperative relationship with the suppliers of Tesla as we currently do. We believe that this will mark a significant milestone for our automotive component business. In 2020, majority of the mould design and development, testing and commissioning work had been completed in Shenzhen and Mexico and the Group expects mass production of the component products for direct contracted orders from Tesla to launch in July 2021. With the mass production kicking off, we are able to gain economies of scale by improving our efficiency and lowering our production costs in our Mexico industrial park.

Our Mexico industrial park commenced production in 2019 and has operated for around one year. With our remarkable competitive advantage in the local area with highly mature technologies in manufacturing moulds and components, we have already earned our customers' trust and recognition during the early days of our production. As we celebrated our first anniversary of the first phase of our industrial park in Mexico, we expected a significant bottleneck in production capacity by 2022 based on our current sales orders and production schedule. Hence, the Group has commenced in 2020 the construction of the second phase of the industrial park in order to cater to the high demand and low supply in Mexico. The new second phase of the industrial park will have a land area of approximately 34,000 square metres, which is significantly larger than the existing industrial park of approximately 16,000 square metres in its floor plan. The new second phase of the industrial park is expected to be completed by the first quarter in 2022 and production is expected to commence in the second half of 2022.

Our automotive component sector in China has experienced a strong momentum starting from the second half of 2020. In Chongqing, we strengthened our strategic partnership with Great Wall Motors and we have been invited by the customer to build a new production site in Yongchuan district in Chongqing city, China, as a workstation mainly responsible for high-precision welding in order to provide support services for Great Wall Motors. Since a normal product life cycle for a single car model is between 5 to 7 years after 1 to 2 years of its mould development, once we have become our customers' enlisted supplier on the development of stamping dies and moulds, under a highly likely circumstance we would also become a mandated-supplier in the production of components in the product life cycle. Due to their common application to various car models, we expect to see voluminous orders of components, and mass production shall generate a significant amount of turnover at a relatively low cost. As the Group foresees a steady growth in the domestic automobile consumer market in China in the years ahead, and we will also expect to see increasing orders in our automotive component sector in China. Therefore, developing a new domestic market in the coming year has become one of our key future goals. At present, as certain orders in Chongqing are delivered to Chengdu city in Sichuan province, in order to make use of the geographical advantage and for a better resource planning within the Group, we have started to move these orders from our Chongqing industrial park to our newly completed production plant in Lezhi county of Sichuan in the first quarter of 2021, and established Sichuan Digit Automotive Technology Limited. At present, our industrial plant in Sichuan is still operating in a small scale, but this will mark an important step as we develop our automobile market in Chengdu.

FUTURE PROSPECTS

Moving ahead, our key growth driver in 2021 will be our new DEMS model in our OA equipment sector. We will leverage our cutting-edge development and manufacturing technology into managing the entire end-to-end delivery of the finished product. We will strive for innovation and transformation of a traditional business into an intelligent business by following a 3-step roadmap: "Step 1 – integration and optimisation", which we have already embarked on by introducing vertical integration in our DEMS business model; "Step 2 – automation and intelligence" that will extensively improve efficiency in our production lines and help us develop better strategies in the changing landscapes; and "Step 3 – growth and expansion", where we will adopt our technology and competitive edge across industries and bring value to society and our shareholders.

DIVIDEND

The directors of the Company do not recommend the payment of a final dividend for the year ended 31 December 2020. We have a philosophy of creating value for shareholders. Therefore, since our listing in 2005, we have always been adhering to a dividend payout policy at approximately 30% of net profit. Although no dividend was declared for the year ended 31 December 2020 as the Group had incurred loss during the year, the Group has a plan to resume dividend payments when its profitability turns around. In the future, we will adhere to our philosophy of continuous technological improvement, and take appropriate steps to expand our income sources to maximise the returns to our shareholders.

APPRECIATION

On behalf of the Board, I take this opportunity to express my sincere gratitude and appreciation to all management and staff members for their dedication and hard work throughout the year. I would like to thank our shareholders, bankers and business associates for their continuous support and confidence in the Group. Finally, I wish you all good health and safety.

MANAGEMENT DISCUSSION AND ANALYSIS

OVERVIEW

Despite the multiple waves of the COVID-19 outbreak in 2020, the Group managed to rise to the occasion as a result of the easing pandemic restrictions in China causing a fast recovery of order in-take in the second half of 2020 and the Group's substantial efforts in building strategic partnership with existing and new customers. Accordingly, the Group's turnover increased by 7% to HK$4,008,459,000. However, the pandemic has indisputably brought about an adverse impact on the Group's overall performance, owing to the business suspension of our customers and suppliers during the outbreak causing production schedule delays and postponement in product development and fixed operating costs in terms of manpower, equipment and utilities that were still necessary to keep projects progressing as planned. These factors have led to a drop in gross profit margin from 20% in the year ended 31 December 2019 to 18% in the year ended 31 December 2020 and a loss for the year amounting to HK$15,371,000.

Business Review

Office Automation Equipment

While working diligently to combat the pandemic, the Group was hard-pressed by challenges from declining orders from some customers, but it managed to maintain an overall steady sales performance. In the office automation ("OA") equipment sector in 2020, the Group recorded a segmental turnover, comparable to last year's level, that amounted to HK$3,094,123,000 (2019: HK$3,080,444,000), primarily because the Group, as a long term reliable business partner with widely recognised high-precision technologies and quality of products in the industry, became the target outsourcing partner of certain key players in the OA equipment sector. In recent years, these key players have started to gradually scale down their own production lines in China for better focuses on marketing and business development, and hence they have been more willing to outsource their internal production to enlisted top-rated suppliers, such as the Group. With such favourable circumstance, the Group has seen an increase in order in-take from these major customers during the year ended 31 December 2020. As a result, we have seen an increase in the relevant turnover in Shenzhen by around 19%. Despite the outstanding performance in Shenzhen, we endured difficulties in Suzhou, as the orders on OA equipment from certain customers had dropped significantly as a result of suspension of offices and workforce on a global scale during the year, leading to a decrease in the relevant turnover by around 30%. In spite of the temporary lackluster performance in Suzhou, the Group remains confident in its outlook in the long run, save for the uncertainty of the pandemic's evolvement, as one-off unfavourable factors will begin to subside.

In Weihai, construction of the new industrial park, which was built at the invitation of Hewlett-Packard ("HP"), one of the largest corporations in the OA equipment sector, was substantially completed before the start of 2020, but the renovation and production schedules were delayed due to the COVID-19 outbreak in early 2020. By October 2020, transition from the temporary factory to the new self-constructed industrial park was substantially completed. The new industrial park in Weihai has already started to use DEMS model to design, develop and manufacture products with high customisation. DEMS offers customers a one-stop programme from product conceptualisation, product design and development to manufacturing, assembly, testing and quality control services. During the year ended 31 December 2020, majority of trial production and testing work for products under the DEMS model had been completed, and mass production is expected to be launched in the second half of 2021. For the year ended 31 December 2020, turnover in Weihai remained approximately the same as in the year ended 31 December 2019, with a mild decrease of around 4% primarily due to production delay.

The Group's operation in Vietnam, which commenced in 2016, was relatively less affected by COVID-19 during the year ended 31 December 2020. The Group has seen an increase in the turnover of Vietnam by around 11%, which was primarily due to the substantial increase in orders during the year because of its relatively more advantageous position amid the pandemic as the COVID-19 outbreak was less serious in the country. In addition, the utilisation of its production capacity continued to improve on its fourth year of operation, which has led to an increased production output for the year. Save for the uncertainty in COVID-19 pandemic developments, the Group continued to expect increased orders of OA equipment in Vietnam.

Overall, there was 63% decline, which was equivalent to an amount of HK$83,359,000 decrease, in the segment result of the OA equipment sector in 2020 when compared to 2019. Such decline was primarily due to a general slowdown in business activities of the suppliers and customers and schedule delays as a result of the COVID-19 outbreak. In the OA equipment sector, a large portion of our manufacturing service consists of assembly of parts and semi-products, hence the timeliness and completeness of the delivery of all raw materials and parts are crucial to our OA equipment orders. Under this circumstance, schedule delays from our suppliers combined with our production disruption had have a relatively higher impact on this sector, leading to extra operating costs incurred for the procurement and transportation of raw materials and parts especially under the transport restrictions imposed pursuant to the pandemic outbreak. In addition, the lower operating profit margin in 2020 was also affected by the fixed costs that were inevitable during production disruption, such as factory overhead that was already committed, in terms of manpower and depreciation of fixed assets.

Automotive Component

In the automotive component sector, the Group saw an increase of 37% in segmental turnover, amounting to HK$914,336,000, due to the strong business momentum that the Group experienced in the second half of 2020, as consumer sentiment in China began to improve rapidly. In 2020, China's gross domestic product exceeded the threshold of RMB100 trillion with an annual growth rate of 2.3%, making it the only major economy in the world to achieve positive economic growth amid ravaged economies that bore the brunt of the unprecedented impacts of the COVID-19 outbreak. In the midst of fighting the pandemic, the Group has exerted extra efforts in business development within the Chinese automotive market, including sourcing proactively more orders from internationally well-known tier-one suppliers with production plants in China. In 2020, the Group saw a 131% spike in turnover in the automotive component business in Shenzhen mainly due to significant increase in sales to world-renowned automobile suppliers. In 2020, the Group's automotive component business in Shenzhen was mainly focusing on export of moulds to markets in Europe and America, and during the year, the Group also started to develop new market in Japan. In Zhongshan, our turnover increased mildly by around 5% primarily due to the increase in sales to certain automobile suppliers in the industry as we continued to boost our mould and product stickiness with these customers via our strategic partnership. Apart from automobile suppliers, the automaker business was also strengthened, such as our partnership with local automakers Great Wall Motors, SAIC-GM-Wuling and Changan. Hence we saw an increase in turnover in our Chongqing subsidiary by around 50%. In contrast to the healthy performance of our automotive component sector in other locations in China, our Wuhan industrial park suffered an around 28% decrease in its turnover due to a nearly two-month lockdown in the city.

In Mexico, in light of a relatively more severe COVID-19 outbreak in the country in March 2020 and after careful consideration on public health and safety, the Group's industrial park in San Luis Potosí maintained limited production activities from April 2020 to July 2020 and it only resumed its normal operation in August 2020, during which only certain departments, specifically procurement, coordination and emergency, operated at the industrial park. Despite the production disruption and scheduled delays amid the actual order in-take in Mexico being far below our budget order in-take, the Group still managed to achieve an around 316% increase in its turnover, underpinned by the strong business momentum in the automotive component sector in late 2020 and also the progressively increasing capacity utilisation of the first phase of Mexico industrial park ever since its completion in 2019.

In 2020, we recorded an encouraging segment result, amounting to HK$29,805,000, in our automotive component sector, as compared to HK$507,000 in 2019. One major factor contributing to the increase in the segment result is the fast rebound of the consumer activities in China in the second half of 2020 as majority of our automotive components was serving the domestic market in China during the year 2020 as a result of our strategic management decision to focus more on the business development within the Chinese automobile industry. Another key factor is our continuously improving capacity utilisation throughout the year 2020 in Mexico as mentioned above.

Outlook

As we head into 2021, with Biden's victory in the US president election, the US-China tension remains a high uncertainty. On the other hand, although the COVID-19 vaccination has rolled out globally, it is still too early to conclude that the pandemic will be ended shortly. Nevertheless, with a proven track record of our ability to rise to the challenge since 1993, the Group remains highly confident that our OA equipment sector will return to normalcy after a temporary downturn in 2020, and will see a certain growth potential over the next couple of years. We believe we will be able to leverage our award-winning technology and our ability to provide manufacturing service coupled with product development into an integrated end-to-end business model in order to enhance our business processes and to better serve our customers. Apart from our OA equipment sector, the automotive component sector will continue to maintain a steady growth as a result of high expectations on the economic rebound in China. The International Monetary Fund (IMF) projects China's 2021 GDP growth at a staggering 8.1%, ranking second among global. It is believed spending power in China will continue to stay high in turn benefiting local consumption. With energy savings, reduced emissions and low-carbon footprints strongly advocated by society, new energy vehicles are expected to become a key business growth driver in the automotive component sector. It is expected that domestic demand for motor vehicles in general will also rise in the short term. According to the China Automobile Association, it is predicted that total vehicle sales in 2021 will increase 4% year-on-year to 26.3 million units, while growth rate of new energy vehicles is expected to reach 40%, and total sales will climb to 1.8 million units, presenting enormous room for growth for the industry. At present, the pandemic remains a scourge, which casts a pall of uncertainty and gloom over the global economy and our business environment. The Group will continue focusing on our core values, improving our supply chain capabilities and bolstering our role as a market leader.

FINANCIAL REVIEW

An analysis of the Group's turnover and results by segment is as follows:

	2020 *HK$'000*		2019 *HK$'000*	
By business segment				
Turnover				
Office automation equipment division				
Design and fabrication of moulds	**279,287**	**7.0%**	257,368	6.9%
Manufacturing of components	**2,782,474**	**69.4%**	2,796,410	74.6%
Others *(Note 1)*	**32,362**	**0.8%**	26,666	0.7%
	3,094,123	**77.2%**	3,080,444	82.2%
Automotive component division				
Design and fabrication of moulds	**231,558**	**5.8%**	157,137	4.2%
Manufacturing of components	**637,566**	**15.9%**	479,169	12.8%
Others *(Note 1)*	**45,212**	**1.1%**	30,305	0.8%
	914,336	**22.8%**	666,611	17.8%
Total	**4,008,459**		3,747,055	
Segment results				
Office automation equipment division	**48,649**		132,008	
Automotive component division	**29,805**		507	
Operating profit	**78,454**		132,515	
Unallocated expenses	**(43,799)**		(12,473)	
Finance income	**11,196**		15,031	
Finance costs	**(42,929)**		(55,389)	
Share of losses of associates	**(16,076)**		(2,082)	
Income tax expense	**(2,217)**		(25,821)	
(Loss)/profit attributable to equity holders of the Company	**(15,371)**		51,781	

Note 1: Others mainly represented proceeds from sales of scrap materials.

Turnover

During the year, the Group's turnover increased by 7.0% to HK$4,008,459,000, which was primarily caused by an increase in orders from certain existing customers and the Group's effort to develop new customers during the year.

Gross profit

During the year, gross profit margin slightly decreased to 18.4% (2019: 20.4%), which was mainly caused by the fixed operating costs such as salaries expenses and depreciation of fixed assets, incurred during the production disruption and schedule delays as a result of the COVID-19 outbreak and additional costs incurred on procurement and transportation of raw materials and parts under the transport restrictions.

Segment results

The basis of segment reporting has been amended for the year ended 31 December 2020 and for the comparative figures to align with the organisational structure of the Group. This change is in accordance with HKFRS 8 which requires the Group to report operating segment information on the basis of internal reports that are regularly reviewed by the Group's chief operating decision maker in order to allocate resources to the segment and assess its performance.

For the year ended 31 December 2020, due to drop in gross profit margin, the operating profit margin of the Group's office automation equipment went down to 1.6% (2019: 4.3%). The operating profit margin of the Group's automotive component increased to 3.3% for the year ended 31 December 2020, as compared to the near breakeven in 2019 as a result of the fast recovery of economic and social activities in China in the second half of 2020 which led to increased turnover and increased capacity utilisation in its Mexico industrial park that was newly built in 2019.

Unallocated expenses

For the year ended 31 December 2020, unallocated expenses mainly represent corporate expenses of HK$9,999,000 (2019: HK$12,473,000) and impairment losses on financial assets amounting to HK$33,800,000 (2019: nil).

Finance income and costs

For the year ended 31 December 2020, the Group's finance income and finance costs decreased by 26% and 22% to HK$11,196,000 and HK$42,929,000 respectively, mainly attributable to declining interest rates for the Group as compared to 2019.

Share of losses of associates

Share of losses of associates represents the Group's share of 40% of the loss of the micro lending business through equity pick-up.

Income tax expense

Income tax expense for the year ended 31 December 2020 mainly represents current income tax charge amounting to HK$31,394,000 netted off by (i) over-provision in prior years amounting to HK$8,938,000 and (ii) deferred income tax credit of HK$20,239,000 mainly arising from tax losses carried-forward in certain loss-making subsidiaries. The higher effective tax rate of the Group in 2019 was mainly due to a withholding tax provision of HK$10,000,000 made for Mainland China dividend.

(Loss)/profit attributable to equity holders of the Company

For the year ended 31 December 2020, the loss attributable to equity holders of the Company was HK$15,371,000 (2019: profit of HK$51,781,000), which was primarily caused by the reduction in operating profit as mentioned above.

LIQUIDITY AND FINANCIAL RESOURCES

During the year ended 31 December 2020, the Group's net cash generated from operating activities increased to HK$462,812,000 (2019: HK$399,735,000), which was primarily due to increase in the Group's turnover. During the year, the Group's net cash used in investing activities decreased to HK$68,249,000 (2019: HK$356,045,000) which was primarily due to the release of short-term bank deposits as well as reduced capital expenditure during the year. Pursuant to the COVID-19 outbreak in early 2020, the Group had deferred certain planned capital expenditure related to new production facilities and only continued its completion work on the second phase of Weihai industrial park and certain replacement of plant and equipment. The Group recorded a net decrease in bank borrowings of HK$10,956,000 during the year ended 31 December 2020 (2019: HK$33,016,000). After dividends paid of HK$50,098,000 (2019: HK$22,104,000), the Group recorded net cash used in financing activities of HK$79,656,000 during the year ended 31 December 2020 (2019: HK$80,124,000).

Treasury policy

The Group adopts a prudent treasury policy. Treasury activities are controlled by senior management members with an objective of achieving a balance between the Group's expansion needs and its financial stability. An adequate level of cash resources is maintained by each of the Group's subsidiaries, and the Group also have sufficient stand-by credit lines to provide adequate liquid funds to finance its business activities. Due consideration is given for the cost of borrowings. Accordingly, substantially all of the Group's bank borrowings as at 31 December 2020 were obtained from banks in Hong Kong to take advantage of the lower borrowing costs in Hong Kong, as compared to those in China. In addition, as a majority of the Group's sales are made in Hong Kong dollars and United States dollars (which are pegged), almost all of the Group's borrowings as at 31 December 2020 were denominated in Hong Kong dollars and United States dollars to match repayment currency with the Group's major source of operating cash inflows. Looking ahead, the Group will adhere to conservative financial management policies and remain committed to maintaining a healthy balance sheet.

Key financial performance indicators

	31 December 2020	31 December 2019
Inventory turnover days *(Note 1 and 5)*	**61**	74
Debtors' turnover days *(Note 2 and 5)*	**94**	89
Creditors' turnover days *(Note 3 and 5)*	**130**	120
Cash conversion cycle *(Note 4 and 5)*	**25**	43
Current ratio *(Note 6 and 8)*	**1.18**	1.28
Net debt-to-equity ratio *(Note 7 and 8)*	**15.0%**	21.9%
Net profit margin *(Note 9 and 11)*	**(0.4%)**	1.4%
Return on shareholders' equity *(Note 10 and 11)*	**(0.6%)**	2.0%

Notes:

1. Calculation of inventory turnover days is based on the ending inventories divided by cost of sales and multiplied by the number of days during the year.

2. Calculation of debtors' turnover days is based on the ending balance of trade receivables divided by turnover and multiplied by the number of days during the year.

3. Calculation of creditors' turnover days is based on the ending balance of trade payables divided by cost of sales and multiplied by the number of days during the year.

4. Cash conversion cycle is defined as the total sum of inventory and debtors' turnover days less creditors' turnover days.

5. These ratios have a significant impact on the ability of the Group to generate cash flows from its operations. Therefore, they are selected as key financial performance indicators.

6. Current ratio is calculated based on the Group's total current assets divided by total current liabilities.

7. Net debt-to-equity ratio is calculated based on the total balance of bank borrowings and lease liabilities less cash and bank balances divided by shareholders' equity. Lease liabilities exclude the rentals for factory and office premises in future periods amounting to HK$69,713,000 as at 31 December 2020 (as at 31 December 2018: HK$74,010,000). These rentals have not yet been incurred, but are deemed as lease liabilities under the newly adopted Hong Kong Financial Reporting Standard 16 "Leases". The ownership of the related factory and office premises is not held by the Group.

8. These ratios reflect the Group's financial stability and its ability to pay its debts as they fall due. Therefore, they are selected as key financial performance indicators.

9. Net profit margin is based on profit attributable to equity holders of the Company divided by turnover.

10. Return on shareholders' equity is based on profit attributable to equity holders of the Company divided by shareholders' equity.

11. These ratios reflect the Group's ability to generate returns from its business, and the returns obtainable by shareholders from their investments in the Group. Therefore, they are selected as key financial performance indicators.

Inventory turnover days

The Group's inventory turnover days for the year ended 31 December 2020 was 61 days, which was lower than that for 2019, mainly because of a surge in sales in the second half of 2020 following the resumption of economic and social activities thus absorbing part of the inventory balance as at 31 December 2020.

Debtors' and creditors' turnover days

Debtors' turnover days for the year increased slightly to 94 days, which was primarily due to increase in sales to customers with relatively longer credit periods during the last quarter of the year, but such sales were still within normal credit periods and remained partially unpaid as at year end, which had led to an increase in debtors' turnover days. Creditors' turnover days for the year also increased to 130 days, which was mainly because a higher percentage of the Group's purchases were made from suppliers with longer credit periods during the year.

Cash conversion cycle

The decrease in cash conversion cycle in 2020 was mainly caused by the decrease in inventory turnover days and the increase in creditors' turnover days as mentioned above.

Current ratio and net debt-to-equity ratio

The Group's current ratio decreased to 1.18 as at 31 December 2020, mainly because of increased trade payables and short-term revolving loans. During the year, the Group continued to generate cash from business operations. Therefore, despite the Group's capital expenditure, cash and bank deposits as at 31 December 2020 increased by 12% which led to an improvement in the Group's net debt-to-equity ratio to 15.0% as at 31 December 2020.

Net profit margin and return on shareholders' equity

The reduction in the Group's net profit margin and return on shareholders' equity was caused by the decrease in profit attributable to equity holders of the Company, as explained in the section headed "Financial Review" above.

FOREIGN CURRENCY EXPOSURE

For the year ended 31 December 2020, the Group's sales and raw material purchases were denominated in the following currencies:

	Sales	Purchases
Hong Kong dollars	22.5%	4.3%
US dollars	49.3%	51.7%
Renminbi	26.7%	43.7%
Other currencies	1.6%	0.3%

A majority of the Group's customers and suppliers in China, Vietnam and Mexico are reputable international companies which use United States dollars as settlement currency. Accordingly, approximately 71.8% of the Group's sales and 56.0% of its raw material purchases were made in United States dollars and Hong Kong dollars (which are pegged to United States dollars) during the year. The Group also has a policy of using Renminbi to settle the purchases of raw materials used for Renminbi denominated sales. Sales and raw material purchases denominated in other currencies were mainly related to initial trial orders with new customers and suppliers, and therefore their percentages to our total turnover and purchases were small. Should these sales and raw material purchases increase in the future, we will take appropriate actions to safeguard ourselves from any potential exchange rate risk that may arise from dealing in other currencies. Further, it is the Group's policy to strictly prohibit any speculative foreign exchange transaction which is not related to business operations.

At present, although the Group endeavours to transact sales and raw material purchases in matching currencies, the percentage of the Group's raw material purchases in Renminbi is still larger than the percentage of its sales in Renminbi due to the Group's substantial production operations in China. However, management is of the view that the exchange rate risk is not high because Renminbi is unlikely to resume a long-term appreciation trend in a foreseeable future. Going forward, management will continue to evaluate the Group's foreign currency exposure on a continuing basis and takes actions to minimise the Group's exposure whenever necessary.

HUMAN RESOURCES

During the year, the total number of the Group's employees increased from 8,999 employees as at 31 December 2019 to 10,769 employees as at 31 December 2020. This was primarily because of increased hiring during the last quarter of the year following the resumption of production schedules in China and Mexico.

The Group considers its employees, in particular the skilled engineers and production management members, as its core assets since the Group's future success relies on the strengthening of its product quality and management on a continuing basis. Remuneration policy is reviewed regularly, making reference to the prevailing legal framework, market conditions and performance of the Group and individual staff. Share option schemes were adopted to attract and retain talents to contribute to the Group. However, apart from providing attractive remuneration packages, management believes that the creation of a harmonious working environment suitable for the development of employees' potentials is also important for attracting and retaining qualified staff for its future success. Training programmes are offered to employees for their continuous development. Besides, various employee activities are organised to inspire the team spirit of the Group's staff, which includes the organisation of company outings and sport activities in which the Group's employees, top management (including executive directors) and customers participate. Substantial resources were also devoted to improve the factory and dormitory environment of the Group with a view to providing an attractive working and living environment for the Group's employees.

As at 31 December 2020, the average length of services of the Group's employees below and above manager grade was 3.0 years and 10.0 years respectively.

CHARGES ON THE GROUP'S ASSETS

As at 31 December 2020, the charges on the Group's assets included mortgage of equipment under lease liabilities with net book amount of HK$55,090,000 for securing lease liabilities.

PURCHASES, SALE AND REDEMPTION OF THE SHARES

During the year ended 31 December 2020, the Company repurchased its 550,000 listed shares on The Stock Exchange of Hong Kong Limited. These shares were cancelled upon repurchase and accordingly the issued share capital of the Company was reduced by the nominal value of these shares. Details of the repurchases during the year ended 31 December 2020 and up to the date of this announcement are summarised as follows:

Month of repurchases	**Number of shares repurchased**	**Highest price per share**	**Lowest price per share**	**Aggregate consideration paid**
		HK$	*HK$*	*HK$'000*
January 2020	550,000	0.58	0.56	317

The directors considered that the repurchases were made for the benefit of the shareholders as a whole as they uplifted the earnings per share of the Company.

Save as disclosed above, neither the Company nor any of its subsidiaries purchased, sold or redeemed any of the Company's shares during the year ended 31 December 2020 and up to the date of this announcement.

PRE–EMPTIVE RIGHTS

There are no provision for pre-emptive rights under the Company's articles of association or the laws of Cayman Islands where the Company is incorporated.

DIVIDENDS

The directors of the Company do not recommend the payment of a final dividend for the year ended 31 December 2020.

CLOSURE OF REGISTER OF MEMBERS

To determine which shareholders will be eligible to attend and vote at the forthcoming annual general meeting to be held on Tuesday, 18 May 2021, the register of members of the Company will be closed from Thursday, 13 May 2021 to Tuesday, 18 May 2021, both days inclusive, during which period no share transfer will be registered. In order to qualify for attending and voting at the forthcoming annual general meeting, all transfers of shares of the Company accompanied by the relevant share certificates and transfer forms must be lodged with the Company's share registrar in Hong Kong, namely, Computershare Hong Kong Investor Services Limited, at Shops 1712-1716, 17th Floor, Hopewell Centre, 183 Queen's Road East, Wanchai, Hong Kong for registration not later than 4:30 p.m. on Wednesday, 12 May 2021.

MODEL CODE FOR SECURITIES TRANSACTIONS BY DIRECTORS

The Company had adopted the Model Code for Securities Transactions by Directors of Listed Issuers (the "Model Code") as set out in Appendix 10 to the Listing Rules. Having made specific enquiry of all directors, the Company reported that all directors have complied with the required standards set out in the Model Code during the year ended 31 December 2020 and up to the date of this announcement.

CORPORATE GOVERNANCE

The Company and the directors confirm, to the best of their knowledge, that the Company has complied with the CG Code as set out in Appendix 14 to the Listing Rules during the year ended 31 December 2020.

AUDIT COMMITTEE

The Company has set up an audit committee, in accordance with the requirements of the Corporate Governance Code as set out in Appendix 14 to the Listing Rules, for the purpose of reviewing and providing supervision on the financial reporting process, risk management, internal control system and corporate governance matters of the Group. From 1 January 2020 to 15 June 2020, the audit committee comprised the three independent non-executive directors, namely, Mr. Leung Tai Chiu, Mr. Choy Tak Ho and Mr. Lam Hiu Lo with Mr. Leung Tai Chiu as the chairman. On 15 June 2020, Mr. Choy Tak Ho ceased as an independent non-executive director and a member of the audit committee of the Company. On the same day, Dr. Chai Ngai Chiu Sunny was appointed as an independent non-executive director and a member of the Company's audit committee to replace Mr. Choy Tak Ho. On 1 July 2020, Mr. Leung Tai Chiu resigned as the Company's independent non-executive director and ceased as a member and the chairman of the audit committee of the Company, and Ms. Ling Kit Sum was appointed as independent non-executive director of the Company and a member and the chairman of the audit committee of the Company on 1 July 2020 to replace Mr. Leung Tai Chiu.

As at the date of this announcement, the audit committee comprised Ms. Ling Kit Sum, Mr. Lam Hiu Lo and Dr. Chai Ngai Chiu Sunny, the three independent non-executive directors, with Ms. Ling Kit Sum as the chairman. The audit committee has reviewed the accounting principles and practices adopted by the Group and discussed risk management, internal control, corporate governance and financial reporting matters with management including a review of the audited consolidated financial statements for the year ended 31 December 2020.

SUFFICIENCY OF PUBLIC FLOAT

Based on the information that is publicly available to the Company and within the knowledge of its directors, the directors confirm that the Company has maintained a sufficient public float as required under the Listing Rules during the year ended 31 December 2020 and up to the date of this announcement.

REVIEW OF PRELIMINARY ANNOUNCEMENT

The figures in respect of the preliminary announcement of the Group's results for the year ended 31 December 2020 have been agreed by the Company's auditor, PricewaterhouseCoopers, to the amounts set out in the Group's draft consolidated financial statements for the year. The work performed by PricewaterhouseCoopers in this respect did not constitute an assurance engagement in accordance with Hong Kong Standards on Auditing, Hong Kong Standards on Review Engagements or Hong Kong Standards on Assurance Engagements issued by the HKICPA and consequently no assurance has been expressed by PricewaterhouseCoopers on the preliminary announcement.

AUDITOR

The consolidated financial statements for the year ended 31 December 2020 have been audited by PricewaterhouseCoopers, who will retire and, being eligible, offer themselves for re-appointment at the forthcoming annual general meeting.

By order of the Board
Zhang Hwo Jie
Chairman

Hong Kong, 29 March 2021

As at the date of this announcement, the Board comprises three executive directors, being Mr. Zhang Hwo Jie (Chairman), Mr. Zhang Jian Hua (Vice Chairman) and Mr. Zhang Yaohua (Chief Executive Officer) and three independent non-executive directors, being Mr. Lam Hiu Lo, Dr. Chai Ngai Chiu Sunny and Ms. Ling Kit Sum.