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Star Group Company Limited

星星集團有限公司

(Carrying on business in Hong Kong as SGCL)

(Incorporated in the Cayman Islands with limited liability)

(Stock Code: 1560)

**ANNOUNCEMENT OF FINAL RESULTS
FOR THE YEAR ENDED 31 DECEMBER 2021**

FINANCIAL HIGHLIGHTS

- Revenue and loss for the year ended 31 December 2021 approximately HK\$78.4 million (2020: approximately HK\$105.8 million) and approximately HK\$37.5 million (2020: profit of approximately HK\$302.8 million) respectively.
- The basic and diluted loss per share for the year ended 31 December 2021 was approximately HK5.79 cents and HK5.79 cents, respectively, as compared to the basic earnings per share of approximately HK47.85 cents and HK37.73 cents, respectively, for the corresponding period last year.

The board (the “**Board**”) of directors (the “**Director(s)**”) of Star Group Company Limited (the “**Company**”) is pleased to announce the audited consolidated results of the Company and its subsidiaries (the “**Group**”) for the year ended 31 December 2021 together with the comparative figures as follows:

CONSOLIDATED STATEMENT OF PROFIT OR LOSS AND OTHER COMPREHENSIVE INCOME

FOR THE YEAR ENDED 31 DECEMBER 2021

	<i>Notes</i>	2021 <i>HK\$'000</i>	2020 <i>HK\$'000</i>
Revenue	3	78,436	105,782
Cost of sales and services		<u>(15,751)</u>	<u>(34,849)</u>
Gross profit		62,685	70,933
Other income		28,603	24,156
Loss on change in fair value of investment properties		(8,528)	(70,370)
Gain on change in fair value of financial assets at fair value through profit or loss		143	5,219
Gain on disposal of a subsidiary	15	2,168	383,197
Selling expenses		(3,737)	(6,731)
Administrative expenses		(97,919)	(72,365)
Finance costs	5	<u>(19,416)</u>	<u>(24,247)</u>
(Loss)/profit before tax	6	(36,001)	309,792
Income tax expense	7	<u>(1,545)</u>	<u>(7,003)</u>
(Loss)/profit for the year		<u>(37,546)</u>	<u>302,789</u>
Other comprehensive income			
<i>Item that may be reclassified subsequently to profit or loss:</i>			
Exchange differences on translation of foreign operations		<u>(3,419)</u>	<u>9,812</u>
Total comprehensive income for the year		<u>(40,965)</u>	<u>312,601</u>

	<i>Notes</i>	2021 <i>HK\$'000</i>	2020 <i>HK\$'000</i>
(Loss)/profit for the year attributable to:			
Owners of the Company		(37,134)	306,936
Non-controlling interests		(412)	(4,147)
		<u>(37,546)</u>	<u>302,789</u>
Total comprehensive income attributable to:			
Owners of the Company		(40,327)	316,578
Non-controlling interests		(638)	(3,977)
		<u>(40,965)</u>	<u>312,601</u>
(Loss)/earnings per share (in HK cents)			
Basic	8	<u>(5.79)</u>	<u>47.85</u>
Diluted		<u>(5.79)</u>	<u>37.73</u>

CONSOLIDATED STATEMENT OF FINANCIAL POSITION

AT 31 DECEMBER 2021

		2021	2020
	<i>Notes</i>	<i>HK\$'000</i>	<i>HK\$'000</i>
NON-CURRENT ASSETS			
Property, plant and equipment		3,416	6,000
Investment properties		1,054,096	1,050,712
Deferred tax assets		3,005	–
Loan receivables	10	53,048	128,591
Financial assets at fair value through profit or loss		6,873	6,108
		<u>1,120,438</u>	<u>1,191,411</u>
CURRENT ASSETS			
Inventories		7,056	9,094
Properties held for sale		3,871,827	2,733,814
Trade and other receivables	11	79,462	48,926
Financial assets at fair value through profit or loss		34,968	35,590
Amount due from related companies		58	14,713
Tax recoverable		609	–
Stakeholder's accounts		82,243	34,222
Pledged bank deposits		10,403	10,381
Bank balances and cash		94,040	55,457
		<u>4,180,666</u>	<u>2,942,197</u>
CURRENT LIABILITIES			
Trade and other payables	12	218,944	120,234
Contract liabilities		137,177	34,033
Amount due to a director		121,527	52,673
Amount due to related companies		2	13,821
Lease liabilities		17,706	13,229
Tax liabilities		128	2,591
Borrowings	13	2,139,654	2,320,491
		<u>2,635,138</u>	<u>2,557,072</u>
NET CURRENT ASSETS		<u>1,545,528</u>	<u>385,125</u>
TOTAL ASSETS LESS CURRENT LIABILITIES		<u>2,665,966</u>	<u>1,576,536</u>

	<i>Notes</i>	2021 <i>HK\$'000</i>	2020 <i>HK\$'000</i>
NON-CURRENT LIABILITIES			
Lease liabilities		39,770	31,550
Borrowings		1,102,332	–
Convertible bonds – liability component	<i>14</i>	81,769	75,800
Deferred tax liabilities		59,839	55,506
		<u>1,283,710</u>	<u>162,856</u>
NET ASSETS		<u>1,382,256</u>	<u>1,413,680</u>
CAPITAL AND RESERVES			
Share capital		6,415	6,415
Reserves		1,385,540	1,416,326
		<u>1,391,955</u>	<u>1,422,741</u>
Equity attributable to owners of the Company		1,391,955	1,422,741
Non-controlling interests		(9,699)	(9,061)
		<u>1,382,256</u>	<u>1,413,680</u>
TOTAL EQUITY		<u>1,382,256</u>	<u>1,413,680</u>

NOTES

1. GENERAL

Star Group Company Limited (formerly known as Star Properties Group (Cayman Islands) Limited) (the “**Company**”) is an exempted company with limited liability incorporated in the Cayman Islands and its shares are listed on the Main Board of The Stock Exchange of Hong Kong Limited (the “**Stock Exchange**”). The Company’s immediate and ultimate holding company is Star Properties Holdings (BVI) Limited, a company incorporated in the British Virgin Islands, and its ultimate controlling party is Mr. Chan Man Fai Joe (“**Mr. Joe Chan**”), who is the chairman of the Board of Directors and an executive director of the Company. The address of its registered office is Windward 3, Regatta Office Park, PO Box 1350, Grand Cayman KY1-1108, Cayman Islands. With effect from 24 December 2021, the address of its principal place of business is changed from 11/F, TG Place, 10 Shing Yip Street, Kwun Tong, Kowloon, Hong Kong to 17/F, Tesbury Centre, 28 Queen’s Road East, Wan Chai, Hong Kong.

The Company is an investment holding company. The principal activities of the Company and its subsidiaries (collectively the “**Group**”) are principally engaged in property development, property investment, provision of property management services, provision of finance, trading of fine wine and provision of media production services.

2. ADOPTION OF HONG KONG FINANCIAL REPORTING STANDARDS (“**HKFRSs**”)

ADOPTION OF NEW OR AMENDED HKFRSs

The HKICPA has issued a number of new or amended HKFRSs that are first effective for the current accounting period of the Group:

Amendments to HKAS 39, HKFRS 7 and HKFRS 9	Interest Rate Benchmark Reform
Amendments to HKFRS 16	COVID-19-Related Rent Concessions beyond 30 June 2021 (early adopted)

Except for the amendments to HKFRS 16, the Group has not applied any new or amended HKFRS that is not yet effective for the current year.

The adoption of these amendments has no material impact on the Group’s financial statements except as explained below.

Amendment to HKFRS 16 – COVID-19-Related Rent Concessions beyond 30 June 2021 (early adopted)

Amendment to HKFRS 16 issued in April 2021 extends the availability of the practical expedient for lessees to elect not to apply lease modification accounting for rent concessions arising as a direct consequence of the COVID-19 pandemic by 12 months. Accordingly, the practical expedient applies to rent concessions for which any reduction in lease payments affects only payments originally due on or before 30 June 2022, provided the other conditions for applying the practical expedient are met. The amendment is effective retrospectively for annual periods beginning on or after 1 April 2021 with any cumulative effect of initially applying the amendment recognised as an adjustment to the opening balance of retained earnings at the beginning of the current accounting period. Earlier application is permitted.

The Group has early adopted the amendment on 1 January 2021 and applied the practical expedient during the year ended 31 December 2021 to all rent concessions granted by the lessors that affected only payments originally due on or before 30 June 2022 as a direct consequence of the COVID-19 pandemic. As the rent concessions have arisen during the current financial period, there is no retrospective adjustment to opening balance of retained earnings at 1 January 2021.

3. REVENUE

	2021	2020
	HK\$'000	HK\$'000
Revenue from contracts with customers		
Sales of properties	–	38,489
Provision of property management services	7,525	3,456
Provision of construction and fitting out works	3,906	3,115
Trading of fine wine	12,631	8,463
Service income from provision of media production services	1,713	1,353
	<u>25,775</u>	<u>54,876</u>
Revenue from other sources		
Rental income from leasing of:		
– investment properties	1,536	3,190
– service apartments	2,464	3,069
– storage and workshop	37,818	32,446
– wine cellars	6,367	6,104
Interest income from provision of finance	4,476	6,097
	<u>52,661</u>	<u>50,906</u>
Total revenue	<u>78,436</u>	<u>105,782</u>

4. OPERATING SEGMENTS

Information reported to the Company's executive directors, being the chief operating decision maker ("CODM"), for the purposes of resource allocation and assessment of segment performance focuses on types of goods delivered or services provided.

Specifically, the Group's reportable and operating segments under HKFRS 8 Operating Segments are as follows:

1. Property development – sales of properties
2. Property investment – rental income from leasing of properties
3. Provision of property management services – provision of property management and security services
4. Construction and fitting out works – provision of construction and fitting out works
5. Provision of finance – provision of financing services to the property buyers
6. Wine business – sales of fine wine and rental income from leasing of wine cellars
7. Media production services – provision of media production services in marketing, advertisement and organisation of music concerts

SEGMENT REVENUE AND RESULTS

The following is an analysis of the Group's revenue and results by operating and reportable segments:

	Segment revenue		Segment results	
	2021	2020	2021	2020
	HK\$'000	HK\$'000	HK\$'000	HK\$'000
Property development	–	38,489	(9,618)	408,015
Property investment	41,818	38,705	2,348	(69,369)
Provision of property management services	7,525	3,456	464	(232)
Construction and fitting out works	3,906	3,115	1,611	273
Provision of finance	4,476	6,097	(424)	3,626
Wine business	18,998	14,567	1,943	163
Media production services	1,713	1,353	395	(838)
	<u>78,436</u>	<u>105,782</u>	<u>(3,281)</u>	<u>341,638</u>
Unallocated income			16,294	7,302
Unallocated expenses			(41,767)	(36,249)
Finance costs			<u>(7,247)</u>	<u>(2,899)</u>
(Loss)/profit before tax			<u><u>(36,001)</u></u>	<u><u>309,792</u></u>

Segment results represent the profit earned/(loss incurred) by each segment without allocation of certain other income, certain administrative expenses and finance costs. This is the measure reported to the CODM for the purposes of resource allocation and performance assessment.

SEGMENT ASSETS AND LIABILITIES

The following is an analysis of the Group's assets and liabilities by operating and reportable segment:

	2021	2020
	<i>HK\$'000</i>	<i>HK\$'000</i>
Segment assets		
Property development	4,030,625	2,822,413
Property investment	1,043,632	1,076,173
Provision of property management services	1,916	63
Construction and fitting out works	2,893	1,619
Provision of finance	100,957	152,359
Wine business	60,635	58,328
Media production services	863	759
	<hr/>	<hr/>
Total segment assets	5,241,521	4,111,714
Unallocated assets	59,583	21,894
	<hr/>	<hr/>
Consolidated total assets	5,301,104	4,133,608
	<hr/> <hr/>	<hr/> <hr/>
Segment liabilities		
Property development	2,914,247	1,851,834
Property investment	588,118	615,212
Provision of property management services	186	3
Construction and fitting out works	31,406	5,454
Provision of finance	148,633	18,783
Wine business	50,184	65,401
Media production services	774	821
	<hr/>	<hr/>
Total segment liabilities	3,733,548	2,557,508
Unallocated liabilities	185,300	162,420
	<hr/>	<hr/>
Consolidated total liabilities	3,918,848	2,719,928
	<hr/> <hr/>	<hr/> <hr/>

For the purposes of monitoring segment performance and allocating resources between segments:

- all assets are allocated to operating segments other than financial assets at FVTPL, certain pledged bank deposits, bank balances and cash, and other corporate assets not attributable to the reportable segments; and
- all liabilities are allocated to operating segments other than certain borrowings, liability component of convertible bonds and other corporate liabilities not attributable to the reportable segments.

OTHER SEGMENT INFORMATION

For the year ended 31 December 2021

	Property development HK\$'000	Property investment HK\$'000	Provision of property management services HK\$'000	Construction and fitting out works HK\$'000	Provision of finance HK\$'000	Wine business HK\$'000	Media production services HK\$'000	Segment total HK\$'000	Unallocated HK\$'000	Total HK\$'000
Amounts included in the measure of segment results or segment assets:										
Addition to non-current assets	280	90,704	-	99	-	9	-	91,092	-	91,092
Depreciation of plant and equipment	13	1,026	-	93	10	228	40	1,410	107	1,517
Depreciation of right-of-use assets	607	-	-	-	-	1,310	-	1,917	-	1,917
Impairment loss recognised on trade receivables	-	364	-	-	-	87	-	451	-	451
Loss on change in fair value of investment properties	-	5,412	-	-	-	3,116	-	8,528	-	8,528
Interest expense	72,450	10,199	-	2	3,782	654	-	87,087	16,340	103,427
Gain on change in fair value of financial assets at fair value through profit or loss	-	-	-	-	-	-	-	-	(143)	(143)
Gain on disposal of a subsidiary	-	(2,168)	-	-	-	-	-	(2,168)	-	(2,168)
	<u>-</u>	<u>(2,168)</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>(2,168)</u>	<u>-</u>	<u>(2,168)</u>
Amounts regularly provided to the CODM but not included in the measure of segment results:										
Interest income earned on bank balances	(156)	(28)	-	-	-	-	-	(184)	(22)	(206)
	<u>(156)</u>	<u>(28)</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>(184)</u>	<u>(22)</u>	<u>(206)</u>

For the year ended 31 December 2020

	Property development HK\$'000	Property investment HK\$'000	Provision of property management services HK\$'000	Construction and fitting out works HK\$'000	Provision of finance HK\$'000	Wine business HK\$'000	Media production services HK\$'000	Segment total HK\$'000	Unallocated HK\$'000	Total HK\$'000
Amounts included in the measure of segment results or segment assets:										
Addition to non-current assets	-	15,434	-	150	-	212	97	15,893	-	15,893
Depreciation of plant and equipment	-	618	-	116	10	130	59	933	-	933
Depreciation of right-of-use assets	606	-	-	-	-	1,310	-	1,916	-	1,916
(Reversal of impairment loss)/ impairment loss recognised on trade receivables	-	(525)	1,129	-	-	-	-	604	-	604
Loss on change in fair value of investment properties	-	69,838	-	-	-	532	-	70,370	-	70,370
Interest expense	40,349	23,458	-	-	1,480	1,285	-	66,572	21,885	88,457
Gain on change in fair value of financial assets at fair value through profit or loss	-	-	-	-	-	-	-	-	(5,219)	(5,219)
	<u>-</u>	<u>69,838</u>	<u>1,129</u>	<u>-</u>	<u>-</u>	<u>532</u>	<u>-</u>	<u>70,370</u>	<u>(5,219)</u>	<u>69,838</u>
Amounts regularly provided to the CODM but not included in the measure of segment results:										
Interest income earned on bank balances	(509)	(32)	-	-	-	-	-	(541)	(124)	(665)
	<u>(509)</u>	<u>(32)</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>(541)</u>	<u>(124)</u>	<u>(665)</u>

GEOGRAPHICAL INFORMATION

The Group's operations are located on both Hong Kong and Korea.

The Group's revenue is all derived from operations in Hong Kong except revenue of HK\$351,000 is derived from operations in Korea. No revenue is derived from Korea in last year.

The Group's non-current assets (excluded financial instruments and deferred tax assets) by geographical location of the assets are detailed below.

	2021 <i>HK\$'000</i>	2020 <i>HK\$'000</i>
Hong Kong	919,993	979,472
Korea	137,519	77,240
	<u>1,057,512</u>	<u>1,056,712</u>

INFORMATION ABOUT MAJOR CUSTOMERS

For the year ended 31 December 2021, there are no customers with transactions exceeding 10% of the Group's revenue.

For the year ended 31 December 2020, there were two customers with transactions exceeding 10% of the Group's revenue. These transactions were all related to sales of properties. Revenue from customers contributing over 10% of the total sales of the Group are as follows:

	2021 <i>HK\$'000</i>	2020 <i>HK\$'000</i>
Customer A	N/A	12,452
Customer B	N/A	12,359
	<u>N/A</u>	<u>24,811</u>

5. FINANCE COSTS

	2021 <i>HK\$'000</i>	2020 <i>HK\$'000</i>
Interests on:		
Borrowings	90,486	82,857
Advance from a director	3,904	1,121
Lease liabilities	3,068	3,351
Imputed interest on convertible bonds	5,969	1,128
	<u>103,427</u>	<u>88,457</u>
Total borrowing costs	103,427	88,457
Less: amount capitalised in cost of qualifying assets	(84,011)	(64,210)
	<u>19,416</u>	<u>24,247</u>

Borrowing costs capitalised at rate ranging from 1.35% to 12.15% (2020: 2.33% to 5.0%) per annum during the year arose on the specific and general borrowings for the expenditure on property development.

6. (LOSS)/PROFIT BEFORE TAX

	2021 <i>HK\$'000</i>	2020 <i>HK\$'000</i>
(Loss)/profit before tax has been arrived at after charging/(crediting):		
Directors' emoluments	11,318	14,698
Other staff costs, excluding directors' emoluments:		
Salaries and other allowances	28,750	13,977
Retirement benefit scheme contributions	759	637
Equity-settled share-based payment expenses	4,350	–
	<u>45,177</u>	<u>29,312</u>
Total staff costs	45,177	29,312
Less: capitalised in properties held for sale	(3,723)	(3,679)
	<u>41,454</u>	<u>25,633</u>
Auditors' remuneration		
– Annual audit	1,913	1,448
– Others	253	250
Cost of inventories recognised as an expense	10,001	24,776
Depreciation of plant and equipment	1,517	933
Depreciation of right-of-use assets	1,917	1,916
Direct operation expenses incurred for provision of services and properties leasing (included in cost of sales and services)	5,750	10,073
Impairment loss recognised on trade receivables	451	604
Property agency commission (included in selling expenses)	714	3,148
Loss on disposal of plant and equipment	430	–
Loss on disposal of investment properties	65	–
Gross rental income from investment properties	(48,185)	(44,809)
Less: direct operating expenses incurred for investment properties that generated rental income (included in cost of sales and services)	3,003	2,975
	<u>(45,182)</u>	<u>(41,834)</u>

7. INCOME TAX EXPENSE

	2021 <i>HK\$'000</i>	2020 <i>HK\$'000</i>
Hong Kong Profits Tax:		
– Current tax	204	1,877
– (Over)/underprovision in prior years	(172)	1,631
Deferred taxation	1,513	3,495
	<u>1,545</u>	<u>7,003</u>

The group entities in Hong Kong are subject to Hong Kong Profits tax. Under the two-tiered profits tax rates regime, the first HK\$2 million of profits of the qualifying group entity will be taxed at 8.25%, and profits above HK\$2 million will be taxed at 16.5%. The profits of group entities not qualifying for the two-tiered profits tax rates regime will continue to be taxed at a flat rate of 16.5%.

The group entities in South Korea are subject to Korean Corporate Income Tax which comprises national and local taxes (collectively “**Korean Corporate Income Tax**”). Korean Corporate Income Tax is charged at the progressive rate from 11% to 24.2% on the estimated assessable profit of eligible entities derived worldwide. No provision on Korean Corporate Income Tax rates has been provided as there is no estimated assessable profits during the year.

8. (LOSS)/EARNINGS PER SHARE

The calculation of the basic and diluted (loss)/earnings per share attributable to owners of the Company is based on the following data:

	2021 <i>HK\$'000</i>	2020 <i>HK\$'000</i>
(Loss)/earnings		
(Loss)/profit for the year attributable to owners of the Company for the purpose of basic (loss)/earnings per share	(37,134)	306,936
Effect of dilutive potential ordinary shares:		
– Fair value change on redemption derivative component (<i>Note (b)</i>)	–	(4,821)
– Interest on convertible bonds (net of tax) (<i>Note (b)</i>)	–	1,128
	<u>–</u>	<u>–</u>
(Loss)/profit for the purpose of diluted (loss)/earnings per share	<u>(37,134)</u>	<u>303,243</u>
	<i>'000</i>	<i>'000</i>
Number of share		
Weighted average number of ordinary shares for the purpose of basic (loss)/earnings per share	<u>641,498</u>	<u>641,498</u>
Effect of dilutive potential ordinary shares:		
– Outstanding share options issued by the Company (<i>Note (a)</i>)	–	–
– Convertible bonds (<i>Note (b)</i>)	–	162,175
	<u>–</u>	<u>162,175</u>
Weighted average number of ordinary shares for the purpose of diluted (loss)/earnings per share	<u>641,498</u>	<u>803,673</u>

Notes:

- (a) The computation of diluted (loss)/earnings per share during the years ended 31 December 2021 and 2020 does not assume the exercise of the Company’s all share options because the exercise price of those options was higher than the average market price for shares for the years ended 31 December 2021 and 2020.
- (b) No adjustment has been made to the basic loss per share amount presented for the year ended 31 December 2021 in respect of a dilution as the impact of the convertible bonds outstanding had an anti-dilutive effect on the basic loss per share amount presented.

9. DIVIDENDS

	2021 <i>HK\$'000</i>	2020 <i>HK\$'000</i>
Dividends for ordinary shareholders of the Company recognised as distribution during the year:		
2021 Interim – HK Nil cents (2020: 2020 interim – HK2.0 cents)	–	12,830
2020 Final – HK Nil cents (2020: 2019 final dividend of HK0.2 cents) per share	<u>–</u>	<u>1,283</u>
	<u>–</u>	<u>14,113</u>

The board of directors of the Company does not recommend the payment of final dividend for the year ended 31 December 2021 and 2020.

10. LOAN RECEIVABLES

	2021 <i>HK\$'000</i>	2020 <i>HK\$'000</i>
Loan receivables (<i>Note</i>)	<u>73,396</u>	<u>151,998</u>
Analysis as:		
– Non-current portion	53,048	128,591
– Current portion (<i>note 11</i>)	<u>20,348</u>	<u>23,407</u>
Total	<u>73,396</u>	<u>151,998</u>

Notes:

As at 31 December 2021 and 2020, the balance included:

- (i) a loan receivable as at 31 December 2020 amounting to HK\$87,000, which was secured by the property unit of a borrower, interest bearing at Hong Kong prime rate quoted by the lending bank plus 2% per annum.
- (ii) loan receivables amounting to HK\$58,166,000 (2020: HK\$10,027,000), which are secured by the property units of a borrower, interest bearing at Hong Kong prime rate quoted by the lending bank;
- (iii) loan receivables amounting to HK\$14,830,000 (2020: HK\$129,689,000), which are secured by the property units of the borrowers and interest bearing at Hong Kong prime rate quoted by the lending bank minus 1.75% per annum;

- (iv) a loan receivable as at 31 December 2020 amounting to HK\$9,795,000, which was secured by the property unit of a borrower and interest bearing at Hong Kong prime rate quoted by the lending bank minus 2% per annum;
- (v) a loan receivable as at 31 December 2020 amounting to HK\$2,400,000, which was secured by the property unit of a borrower and interest bearing at Hong Kong prime rate quoted by the lending bank plus 1.75% per annum; and
- (vi) a loan receivable amounting to HK\$400,000 (2020: Nil), which is secured by the property unit of a borrower and interest bearing at 12% per annum.

Loans are provided to borrowers at a range of 60% to 80% (2020: 60% to 80%) of sale consideration of the pledged property units. The directors of the Company consider that the fair values of the collaterals are higher than the carrying amount of loan receivables as at 31 December 2021 and 2020.

As at 31 December 2021 and 2020, all the loan receivables are neither past due nor impaired.

The exposure of the Group's variable-rate loan receivables to interest rate risks and their contractual maturity dates are as follows:

	2021 <i>HK\$'000</i>	2020 <i>HK\$'000</i>
Variable-rate loan receivables		
Within one year	20,348	23,407
In more than one year but not more than two years	7,733	18,526
In more than two years but not more than five years	27,521	52,171
In more than five years	17,794	57,894
	73,396	151,998

The range of effective interest rates on the Group's loan receivables are as follows:

	2021 <i>HK\$'000</i>	2020 <i>HK\$'000</i>
Effective interest rate:		
– Variable-rate loan receivables	3.25% to 12.0%	3.25% to 7.0%

Before accepting any new borrower, the Group management would assess the potential borrower's credit quality and define credit limits by borrower. Certain well established credit policies (i.e. reviewing property buyers' individual credit report) are used in assessing the credit quality, which mainly include understanding the background of the potential borrower and obtaining collaterals from the borrower. Loan interest rates are provided to potential borrowers on a case-by-case basis depending on the credit quality assessment and collaterals provided by the respective customers.

11. TRADE AND OTHER RECEIVABLES

	2021 <i>HK\$'000</i>	2020 <i>HK\$'000</i>
Trade receivables from contracts with customers	5,064	2,126
Lease receivables	<u>8,157</u>	<u>2,727</u>
	13,221	4,853
Less: Allowance for credit losses	<u>(1,617)</u>	<u>(1,166)</u>
	<u>11,604</u>	<u>3,687</u>
Deposits and other receivables, and prepayments		
– Loan receivables (<i>note 10</i>)	20,348	23,407
– Loan interest receivables	151	242
– Rental deposits and other receivables	22,957	13,439
– Prepayments	<u>24,402</u>	<u>8,151</u>
	<u>67,858</u>	<u>45,239</u>
	<u>79,462</u>	<u>48,926</u>

Customers from trading of fine wine are granted with credit term of 7 days. No credit term is allowed for trade receivables from property management services, construction and fitting out works, media production services and lease receivables.

The following is an aged analysis of trade receivables, net of allowance for credit losses, presented based on invoice dates.

	2021 <i>HK\$'000</i>	2020 <i>HK\$'000</i>
0–30 days	4,468	1,941
31–90 days	1,792	1,254
91–180 days	1,871	408
181–365 days	2,486	50
Over 365 days	<u>987</u>	<u>34</u>
	<u>11,604</u>	<u>3,687</u>

12. TRADE AND OTHER PAYABLES

	2021	2020
	HK\$'000	HK\$'000
Retention payables (<i>Note</i>)	26,435	11,363
Other payables, deposits received and accruals		
– Rental deposits received	21,287	16,293
– Accrued construction costs	118,247	46,103
– Accrued bonus	2,411	–
– Accrued agency commission	–	1,918
– Accrued management fees	2,808	1,407
– Accrued legal and professional fees	6,375	12,814
– Interest payables	14,590	6,493
– Receipt in advance of rental income	20,137	10,566
– Others	6,654	13,277
	218,944	120,234

Note:

As at 31 December 2021, retention payables amounting to HK\$22,295,000 (2020: HK\$10,850,000) are aged within one year while the remaining amount of HK\$4,140,000 (2020: HK\$513,000) are aged one to two years. All retention payables as at 31 December 2021 and 2020 were expected to be paid or settled in less than twelve months from the end of the corresponding reporting period.

13. BORROWINGS

	2021 <i>HK\$'000</i>	2020 <i>HK\$'000</i>
Borrowing from financial institutions	541,651	–
Bank borrowings	<u>2,700,335</u>	<u>2,320,491</u>
	<u>3,241,986</u>	<u>2,320,491</u>
Analysis as:		
– Non-current portion	1,102,332	–
– Current portion	<u>2,139,654</u>	<u>2,320,491</u>
	<u>3,241,986</u>	<u>2,320,491</u>
Scheduled payment terms of bank borrowings and borrowing from a financial institution contain a repayment on demand clause (shown under current liabilities):		
– Within one year	1,159,647	1,467,681
– In more than one year but not more than two years	624,244	573,616
– In more than two years but not more than five years	108,693	200,708
– More than five years	<u>53,647</u>	<u>78,486</u>
Total	<u>1,946,231</u>	<u>2,320,491</u>
Scheduled payment terms of bank borrowings and borrowing from a financial institution without demand clause:		
– Within one year	193,423	–
– In more than one year but not more than two years	1,046,346	–
– In more than two years but not more than five years	<u>55,986</u>	–
	<u>1,295,755</u>	<u>–</u>

The exposure of the Group's borrowings and the contractual maturity dates (or reset dates) are as follows:

	2021 <i>HK\$'000</i>	2020 <i>HK\$'000</i>
Variable-rate borrowings:		
Within one year	1,214,157	1,311,886
In more than one year but not more than two years	1,540,589	573,616
In more than two years but not more than five years	164,680	200,708
More than five years	53,647	78,486
	2,973,073	2,164,696
Fixed-rate borrowings:		
Within one year	138,913	155,795
In more than one year but not more than two years	130,000	–
	268,913	155,795

The ranges of effective interest rates (which are also equal to contracted interest rates) on the Group's borrowings are as follows:

	2021 <i>HK\$'000</i>	2020 <i>HK\$'000</i>
Effective interest rates:		
– Fixed-rate borrowings	4.20%–7.50%	3.25%–5.00%
– Variable-rate borrowings	1.35%–12.15%	2.50%–4.91%

Borrowings are secured by the following assets of the Group:

	2021 <i>HK\$'000</i>	2020 <i>HK\$'000</i>
Properties held for sale		
– Under development for sales	3,321,759	2,284,740
– Completed	550,068	449,074
	3,871,827	2,733,814
Investment properties	911,230	941,903
Pledged bank deposits	10,403	10,381
Total	4,793,460	3,686,098

Certain credit facilities of the Group are subject to the fulfilment of covenants relating to certain financial ratios of the Group, total equity, the amount of capital expenditure incurred on development projects and shareholding of the Company's director, Mr. Joe Chan in the Company of not less than 60%. If the Group breaches the covenants, the drawn down facilities will become repayable on demand. The Group regularly monitors its compliance with these covenants.

As at 31 December 2021 and 2020, none of the covenants relating to drawn down facilities had been breached.

14. CONVERTIBLE BONDS

On 22 October 2020, the Company issued 3% convertible bonds with nominal value of HK\$418,000,000 as part of the consideration for the acquisition of the shares and shareholder's loan of Metropolitan Group (BVI) Limited and its subsidiaries in prior year. The convertible bonds are perpetual in term and have no maturity date with a principal amount denominated in HK\$ of HK\$418,000,000. The bonds are convertible into ordinary shares of the Company at an initial conversion price of HK\$0.5 per conversion share (subject to the adjustments in accordance with the terms of the convertible bonds) at any time during the period commencing from the date of issue of the convertible bonds up to the date which falls on the 10th anniversary of the date of issue of the convertible bonds to the extent all or part of the convertible bonds remain outstanding.

The coupon shall accrue on the outstanding principal amount of the convertible bonds and be payable annually subject to the Company's sole discretion to defer the coupon payment for a maximum period of 10 years from the date when the relevant coupon payment fall due by giving notice to the holders of the convertible bonds. In the opinion of directors, it is the Company's present intention to defer the coupon payment, hence the liability component of the convertible bonds are regarded as non-current liabilities.

The convertible bonds that contain liability, redemption option and conversion option components were classified separately into their respective items on initial recognition. The fair value of various components were determined based on the valuation conducted by Jones Lang LaSalle Corporate Appraisal and Advisory Limited ("JLL") at the issue date (i.e. 22 October 2020). At each reporting date, the fair value of the convertible bonds as a whole is determined by using the Binomial Option Pricing Model. The fair value of the liability component of the bonds is calculated using cash flows discounted at a rate based on an equivalent market interest rate for equivalent non-convertible bonds. The fair value of the redemption option is determined by the difference between the fair value of equivalent convertible bonds with redemption option and without redemption option.

The initial carrying amount of the equity component was determined by deducting the fair values of the liability and redemption option components from the fair value of the convertible bonds as a whole and was included in equity as convertible bonds – equity component.

The effective interest rate of the liability component on initial recognition and the subsequent recognition of interest expense on the convertible bonds was calculated using effective interest rate of 7.87% per annum.

There was no redemption and conversion of the convertible bonds since its issuance.

The movements of the components of the convertible bonds during the year are set out below:

	Redemption derivative component <i>HK\$'000</i>	Liability component <i>HK\$'000</i>	Equity component <i>HK\$'000</i>	Total <i>HK\$'000</i>
As at 22 October 2020	30,769	(74,672)	(313,698)	(357,601)
Effective imputed interest expense recognised	–	(1,128)	–	(1,128)
Change in fair value	<u>4,821</u>	<u>–</u>	<u>–</u>	<u>4,821</u>
As at 31 December 2020	35,590	(75,800)	(313,698)	(353,908)
Effective imputed interest expense recognised	–	(5,969)	–	(5,969)
Change in fair value	<u>(622)</u>	<u>–</u>	<u>–</u>	<u>(622)</u>
As at 31 December 2021	<u><u>34,968</u></u>	<u><u>(81,769)</u></u>	<u><u>(313,698)</u></u>	<u><u>(360,499)</u></u>

15. DISPOSAL OF A SUBSIDIARY

On 3 March 2021, the Group entered into a sale and purchase agreement with an independent third party to dispose of 100% equity interest of Palico Development Limited (“**Palico**”) and its loan for a consideration of HK\$51,750,000. Palico was incorporated in Hong Kong and principally engaged in property investment. The disposal was completed during the year ended 31 December 2021.

The assets and liabilities of the Palico at the date of disposal are:

	<i>HK\$'000</i>
Investment properties	50,000
Plant and equipment	48
Tax recoverable	27
Other payables	(306)
Loan from fellow subsidiaries	(1,048)
Deferred tax liabilities	<u>(187)</u>
Net assets	<u>48,534</u>
Net asset value of Palico disposed of	48,534
Less:	
Loan from fellow subsidiaries	1,048
Gain on disposal of a subsidiary included in loss for year	<u>2,168</u>
Total consideration	<u><u>51,750</u></u>
Satisfied by:	
Cash	<u><u>51,750</u></u>
Cash inflow arising on disposal:	
Cash	<u><u>51,750</u></u>

MANAGEMENT DISCUSSION AND ANALYSIS

FINANCIAL RESULT

For the financial year ended 31 December 2021, the Group's revenue and loss attributable to owners of the Company amounted to approximately HK\$78.4 million (2020: approximately HK\$105.8 million) and approximately HK\$37.1 million (2020: profit attributable to owners of the Company amounted to approximately HK\$306.9 million) respectively.

FINAL DIVIDENDS

The board of directors (the “**Director(s)**”) of the Company (the “**Board**”) does not recommend the payment of final dividend for the year ended 31 December 2021 (For the year ended 31 December 2020: Nil). No interim dividend has been declared during the year ended 31 December 2021 (for the six months ended 30 June 2020: Nil).

BUSINESS REVIEW

The Company is principally engaged in property development; property investment for sale, rental or capital appreciation; provision of property management and security services; construction and fitting out works; provision of finance; wine business which includes operation of wine cellar and trading of fine wine; and provision of media production services. The various lifestyle businesses are operating under the brand name of “Metropolitan”. Beside, the Group is also engaged in fund investment and fund management during the year.

The Group's revenue for the year ended 31 December 2021 amounted to approximately HK\$78.4 million (2020: approximately HK\$105.8 million), which represented a decrease of approximately HK\$27.4 million compared with last year. Loss attributable to owners of the Company for the year ended 31 December 2021 was approximately HK\$37.1 million (2020: profit attributable to owners of the Company of approximately HK\$306.9 million), which represented a decrease of approximately HK\$344.0 million from last year. Both the decrease in revenue and profit attributable to owners of the Company were mainly due to no completion and delivery of units from the property development project and no gain arising from disposal of a subsidiary (compared with the disposal of the sale share and the shareholder's loan of Rainbow Red Holdings Limited for the year ended 31 December 2020) during the year. The basic and diluted loss per share for the period was approximately HK5.79 cents and HK5.79 cents, respectively, as compared to basic and diluted earnings per share of approximately HK47.85 cents and HK37.73 cents, respectively, for the corresponding period last year. The review of the individual business segment of the Group is set out below.

PROPERTY DEVELOPMENT

No Revenue was recognised in this business segment during the year ended 31 December 2021 (2020: approximately HK\$38.5 million). As at 31 December 2021, the Group had four completed projects, namely, (a) The Galaxy; (b) The Star; (c) The Rainbow and (d) Corner 19 (Formerly known as Sausage Project/Corner 1); and four major projects under development, namely, (e) The Cloud; (f) Yuen Long Site Project; (g) Kwun Tong Site Project and (h) Corner 50 (formerly known as Seongsu Project/Corner 3). A general summary and update of the property development projects of the Group during the reporting year and as at 31 December 2021 are listed below:

- (a) The Galaxy: All units of the Galaxy have been sold out and delivered.
- (b) The Star: All units of the Star have been sold out and delivered.
- (c) The Rainbow: During the year ended 31 December 2021, no revenue was recognized from completion and delivery of unit; and the revenue generated through temporary rental income of properties held for sale recognized was amounted to approximately HK\$15.7 million (2020: approximately HK\$34.3 million for completion and delivery of 3 units and HK\$9.8 million from the temporary rental income of properties held for sale).
- (d) Corner 19: The site is located in Seongsu area of Seoul, South Korea. The construction of the building was completed and government approval was granted on 2 November 2021. The Group intends to sell out the whole building to generate revenue. In order to attract institutional purchasers and increase the value of the building, the Group is in the progress to temporarily lease out all floors to create a stable and high yield to the building. The building has 8 floors (B1, 1/F to 7/F) in total and the 7/F will be used to operate as a co-working space under the brand “Hello Monday”. All floors have been leased out except the 1/F as at 31 December 2021.
- (e) The Cloud: The Group intended to redevelop and reconstruct a new building in light of the new initiatives of the revitalization of industrial building announced in the Policy Address by the Chief Executive in the fourth quarter of 2018. The Group has successfully obtained the approval for minor relaxation of plot ratio to increase the plot ratio and all demolition work has been completed in the first quarter of 2020. The occupation permit was granted in the first quarter of 2022. The completion and delivery of the units are expected to occur in second quarter of 2022.

- (f) Yuen Long Site Project: The Group intends to redevelop it into a residential complex with some shops on ground floor. This project is positioned as a luxury and stylish condominium residential complex targeting young residents pursuing high quality and design driven lifestyle. The Group has obtained town planning approval in August 2019 and building plan approval in February 2020. The hoarding and demolition work and foundation were completed. The construction process is expected to be completed in second quarter of 2023. The land premium in relation to the lease modification was paid in 2021. It is expected to begin pre-sale in third quarter of 2022 upon the release of pre-sale permit.
- (g) Kwun Tong Site Project: The Group intends to redevelop it into a high end prestigious commercial building or a new industrial building. Hoarding and demolition work of the existing building commenced in the third quarter of 2019. Town planning application was submitted in fourth quarter of 2019, and was approved in the second quarter of 2020 to change the use of the site from industrial to commercial together with an additional plot ratio (about 20%) in accordance with the Government policy in the revitalization of industrial building. Upon the completion of the property redevelopment work, the Group intends to sell out the property to generate revenue.
- (h) Corner 50: The site is located in Seongsu area of Seoul, South Korea and the Group intends to redevelop it into a high end prestigious building. The demolition work was completed in second quarter of 2020 and the construction process is expected to be completed in third quarter of 2022. Upon the completion of the property redevelopment work, the Group intends to sell out the whole building to generate revenue.

For the year ended 31 December 2021, the Group remains conservative in view of the impact of COVID-19 and mainly focused on development of the existing projects. However, the Group will continue to pay attention to the latest property market in Hong Kong and worldwide to ensure the Group would be able to capture the best development opportunities.

PROPERTY INVESTMENT

The Group is engaging in property investment for sale, rental or capital appreciation. Partial of the rental revenue is generated from provision of serviced apartments; co-working spaces and storage under the brand of “Metropolitan”.

Revenue recognised in this business segment during the year amounted to approximately HK\$41.8 million (2020: approximately HK\$38.7 million), representing an increase of approximately HK\$3.1 million compared with the corresponding period of last year. Below are the breakdown of revenue on the property investment business under serviced apartment, storage and workshop:

Metropolitan apartment

Metropolitan Apartment is principally engaged in the business of operation of serviced apartments in Hong Kong which provided fully furnished suites with flexible monthly renewal terms. The target customers of Metropolitan Apartment are short-term overseas employees, local residents and college students. Revenue recognised in this business for the year ended 31 December 2021 amounted to approximately HK\$2.5 million (2020: approximately HK\$3.1 million), which represented a decrease of approximately HK\$0.6 million compared with the corresponding period of last year.

Metropolitan storage and workshop

Metropolitan Workshop is principally engaged in the business of provision of 24-hour co-working spaces ranging from private rooms/shared offices, dedicated desks, hot desks, and virtual offices to memberships in multi-location, providing flexible price plans and all equipped workspace perfect for freelancers, entrepreneurs, smaller companies and corporates. Metropolitan Storage is principally engaged in the business of provision and operation of 24-hour storage service to the public in Hong Kong. Revenue recognised in this business for the year ended 31 December 2021 amounted to approximately HK\$37.8 million (2020: approximately HK\$32.4 million), which represented an increase of approximately HK\$5.4 million compared with the corresponding period of last year.

As at 31 December 2021, the total carrying value of the Group's portfolio of investment properties, amounted to approximately HK\$1,054.1 million (2020: approximately HK\$1,050.7 million), which comprised floors and units in industrial and commercial buildings and farmland located in Hong Kong and Korea of HK\$988.3 million (2020: approximately HK\$1,008.0 million), and right-of-use assets ("ROU") that meet the definition of investment properties of HK\$65.8 million (2020: HK\$42.7 million).

Among all of the investment properties, the total carrying value categorized under Property Investment segment, amounted to approximately HK\$1,017.4 million (2020: HK\$1,014.9 million), which comprised floors and units in industrial and commercial buildings and farmland located in Hong Kong and Korea of HK\$954.3 million (2020: HK\$972.4 million); and ROU that meet the definition of investment properties of HK\$63.1 million (2020: HK\$42.5 million). The remaining investment properties were categorized under Wine Business segment.

The Group will also consider if there is any purchase opportunity for investment property or if any of the development properties have appreciation potential to be converted as investment properties, which allow more stable rental income to be generated.

PROVISION OF PROPERTY MANAGEMENT SERVICES

The Group is providing the property management services for our three completed projects The Galaxy, The Star, The Rainbow; and a residential building located at Happy Valley. The Group has commenced provision of security services to these properties since the fourth quarter of 2020. Revenue recognised in this business segment for the year ended 31 December 2021 amounted to approximately HK\$7.5 million (2020: approximately HK\$3.5 million). The Group believes that the provision of all-rounded high quality property management and security services could help to enhance our brand recognition. The increase of upcoming completed projects and provision of services to other property owners or developers are expected to expand this business segment and help the Group to generate stable income in long run.

PROVISION OF FINANCE

The Group is providing credit facilities to individuals and corporations clients for its own development projects. Revenue generated from this business segment for the year ended 31 December 2021 amounted to approximately HK\$4.5 million (2020: HK\$6.1 million), representing a decrease of approximately HK\$1.6 million over the corresponding period of last year. The slightly decrease in revenue was mainly attributable to repayment of loan from borrowers. Upon completion of upcoming project, The Cloud, this business segment is expected to increase in its revenue in the coming reporting period. The Group expects this business segment to generate a stable income and provide support to enhance the sales of properties.

CONSTRUCTION AND FITTING OUT WORKS

As a Registered General Building Contractor, the Group provides construction services for its own projects and fitting out works for the owners of the properties which are managing by the Group. Revenue generated from this business segment for the year ended 31 December 2021 amounted to approximately HK\$3.9 million (2020: HK\$3.1 million), the Group expects this business segment will have synergy with other business segments by enhancing the quality of work and lowering the construction or renovation cost.

WINE BUSINESS

The Group engaged in the sales of fine wine to Hong Kong local residents with delivery services through Metropolitan Fine Wine and leasing of professional fine wine storage services through Metropolitan Wine Cellar. Revenue recognised in this business segment for the year ended 31 December 2021 amounted to approximately HK\$19.0 million (2020: approximately HK\$14.6 million), which represented an increase of approximately HK\$4.4 million compared with the corresponding period of last year.

The total carrying value of the Group's portfolio of investment properties categorized under wine business segment amount to approximately HK\$36.7 million (2020: approximately HK\$35.8 million), which comprise a unit in industrial building located in Hong Kong of HK\$34.0 million (2020: HK\$35.6 million); and ROU that meet the definition of investment properties of HK\$2.7 million (2020: HK\$0.2 million).

PROVISION OF MEDIA PRODUCTION SERVICES

The Group operates this business segment through Metropolitan Production by provision of marketing solution and consultancy services including production of film or advertisement; organisation of media events or music concerts; artist management, etc. Revenue recognized in this business segment for the year ended 31 December 2021 amounted to approximately HK\$1.7 million (2020: approximately HK\$1.4 million).

FUND INVESTMENT AND MANAGEMENT

Also, the total carrying value of the Group's funds investment, amounted to approximately HK\$6.9 million (2020: approximately HK\$6.1 million). In order to broaden the sources of finance and expand the market share of property development business, the Group plans to set up and manage a real estate fund for raising more funding in the future.

LIQUIDITY AND FINANCIAL RESOURCES

The total equity of the Group as at 31 December 2021 was approximately HK\$1,382.3 million (31 December 2020: approximately HK\$1,413.7 million). As at 31 December 2021, the Group maintained bank balances and cash of approximately HK\$94.0 million (31 December 2020: approximately HK\$55.5 million). The Group's net current assets of approximately HK\$1,545.5 million as at 31 December 2021 (31 December 2020: approximately HK\$385.1 million). The Group had current assets of approximately HK\$4,180.7 million as at 31 December 2021 (31 December 2020: approximately HK\$2,942.2 million). The increase in current assets was mainly due to increase in deposit received from pre-sales of The Cloud kept at stakeholder's account and properties classified as properties held for sale. The Group had current liabilities of approximately HK\$2,635.1 million as at 31 December 2021 (31 December 2020: approximately HK\$2,557.1 million). The increase of current liabilities was mainly due to increase in pre-sale contract liabilities of The Cloud and amount due to a director. The information of the Group's borrowings is disclosed hereafter under note 13 of the notes to the consolidated financial statements.

The Group generally finances its operations with internally generated cashflow, convertible bonds and borrowings from banks and financial institutions. As at 31 December 2021, the Group had convertible bonds issued by the Company with liability portion of HK\$81.8 million (31 December 2020: HK\$75.8 million); and outstanding borrowings of approximately HK\$3,242.0 million (31 December 2020: approximately HK\$2,320.5 million). The borrowings as at 31 December 2021 were secured by the Group's properties, pledged bank deposits and corporate guarantee.

The Group's gearing ratio (defined as the total interest-bearing borrowings divided by total equity and multiplied by 100%) and net debt-to-equity ratio (defined as the total borrowings net of cash and cash equivalents divided by total equity) increased from approximately 164.1% as at 31 December 2020 to approximately 234.5% as at 31 December 2021 and increased from approximately 160.2% as at 31 December 2020 to approximately 227.7% as at 31 December 2021 respectively due to the increase in borrowings as well as the loss attributable to owners of the Company.

The Group's debt-to-assets ratio (total borrowings net of cash and cash equivalents divided by total assets) increased from approximately 54.8% as at 31 December 2020 to approximately 59.4% as at 31 December 2021 due to an increase in borrowings.

The Group's capital commitment as at 31 December 2021 amounted to approximately HK\$369.9 million (31 December 2020: approximately HK\$419.1 million). The decrease of capital commitment was mainly due to payment of construction contracts of the development projects.

The Group has no significant contingent liabilities as at the end of the year of 31 December 2021. The Group possesses sufficient cash and available banking facilities to meet its commitments and working capital requirements.

The Group adopts a continuing monitoring approach towards treasury management policy so that the financial resources are reviewed from time to time to ensure the Group's smooth operation and loan repayment obligations. Therefore, the management of the Group is of the opinion that the Group's financial structure and resources are healthy and sufficient for meeting its needs on operation, potential investment and to cope with market changes.

CAPITAL STRUCTURE

There were no movements in the Company's share capital during the year ended 31 December 2021 (31 December 2020: Nil).

CONVERTIBLE BONDS

On 21 July 2020, the Company (as purchaser) and Metropolitan Lifestyle (BVI) Limited (as vendor) entered into the Acquisition Agreement to acquire the Sale Share and Sale Loan of Metropolitan Group (BVI) Limited (as defined in the circular of the Company dated 15 September 2020) at an aggregate consideration of HK\$460,000,000, which will be satisfied by (i) part payment in cash; and (ii) allotment and issue of the Convertible Bonds (the "VSA"). Completion of the VSA has taken place on 22 October 2020 and the Convertible Bonds which bear a coupon rate of 3% per annum, in the principal amount of HK\$418,000,000 have been issued to Metropolitan Lifestyle (BVI) Limited. For details, please refer to the announcements of the Company dated 21 July 2020, 30 September 2020 and the circular of the Company dated 14 September 2020. There was no redemption or conversion of the convertible bonds during the year ended 31 December 2021.

FOREIGN EXCHANGE

The Group conducts its business primarily in Hong Kong with the related cash flows, assets and liabilities being denominated mainly in Hong Kong dollars. The Group's primary foreign exchange exposure arises from its property developments in South Korea which are denominated in United States dollars and Korean Won. The Group acquired 2 development sites and an investment property in South Korea and the foreign currency denomination of commercial transactions, assets and liabilities, and net investments in foreign operations are mainly in US dollars and Korean won.

In respect of the Group's operations in South Korea, the Group maintains an appropriate level of external borrowings in Korean Won for natural hedging of Korean Won attributed to those projects. The Korean Won currency exposure of the Group is mainly derived from the translation of current assets and liabilities of the subsidiaries in South Korea with functional currency of Korean Won and the Korean Won deposits held for future development costs to be expended to Hong Kong dollar.

As at 31 December 2021, offshore bank borrowings were approximately Korean Won 38.1 billion, which is approximately HK\$249.4 million (31 December 2020: approximately Korean Won 22.0 billion, which is approximately HK\$155.8 million), as land loan, construction loan and project loan for the development projects in South Korea. The offshore borrowings are expected to be repaid after the completion and disposal of South Korea Projects. The interest rate of these bank borrowings ranged from 3.15% to 4.20% as at 31 December 2021 (31 December 2020: 3.37% to 5%).

Apart from this, the Group does not have any significant foreign exchange exposure. Foreign currency funding and deposit exposure are monitored on a continuous basis. Exposure arising from the Group's investments in operating subsidiaries with net assets denominated in foreign currencies is reduced, where practical, by providing funding in the same currency. The management of the Group is of the opinion that the Group has not experienced any material difficulties or effects on its operations or liquidity as a result of fluctuations in currency exchange rates during the reporting period. Therefore, the Group does not engage in any hedging activities.

PLEDGE OF ASSETS

As at 31 December 2021, the Group's investment properties and properties held for sale, as well as pledged banks deposits with carrying value of approximately HK\$911.2 million and HK\$3,871.8 million as well as HK\$10.4 million respectively (31 December 2020: approximately HK\$941.9 million and HK\$2,733.8 million, as well as HK\$10.4 million respectively) were pledged to secure the Group's credit facilities.

COMPLIANCE WITH THE RELEVANT LAWS AND REGULATIONS

As far as the Board and the management are aware, the Group has complied in material respects with the relevant laws and regulations that have a significant impact on the business and operation of the Group. During the year, there was no material breach of or non-compliance with the applicable laws and regulations by the Group.

SIGNIFICANT INVESTMENTS HELD, MATERIAL ACQUISITIONS AND DISPOSALS OF SUBSIDIARIES, AND FUTURE PLANS FOR MATERIAL INVESTMENTS OR CAPITAL ASSETS

On 3 March 2021 (after trading hours), Ritzy Soar Limited, an indirect wholly owned subsidiary of the Company, as the vendor, entered into a provisional agreement with an independent third party, as the purchaser, pursuant to which the vendor has agreed to sell and assign, and the purchaser has agreed to purchase and take up an assignment of, the entire equity interest of Palico Development Limited, at the purchase price of HK\$51,750,000 (subject to adjustment). The disposal of the entire equity interest of Palico Development Limited was completed on 3 September 2021. Details of the transaction were disclosed in the announcement of the Company dated 3 March 2021.

On 25 June 2021 (after trading hours), Well Sure Corporation Limited, an indirect wholly owned subsidiary of the Company, as the vendor, entered into a provisional sales and purchases agreement with an independent third party, as the purchaser, to dispose of an investment property located at Shop No. 94 on 1/F of the Podium, Admiralty Centre, No. 18 Harcourt Road, Hong Kong, at the purchase price of HK\$19,000,000. Details of the provisional sales and purchases agreement and the transaction were disclosed in the report of the Company dated 25 June 2021. The transaction was completed on 23 August 2021.

Save as disclosed in this report, there was no significant investments held, nor were there any material acquisitions or disposals of subsidiaries during the reporting period.

Save as disclosed in this report, the Group did not have other plans for material investments or capital assets as of 31 December 2021.

EMPLOYEES AND REMUNERATION POLICY

As at 31 December 2021, the Group employed 104 employees (31 December 2020: 99 employees) and appointed 7 Directors. Salaries of employees are maintained at a competitive level and are reviewed annually, with close reference to individual performance, working experience, qualification and the current relevant industry practices. Apart from base salary and statutory provident fund scheme, discretionary bonus and share options may be granted to selected staff by reference to the Group's as well as the individual's performances. Other forms of benefits such as medical scheme, on-the-job and external training to staff are also provided. The Group has not experienced any material dispute with its employees or disruption to its operations due to employee dispute and has not experienced any difficulties in the recruitment and retention of experienced staff or skilled personnel. The Group maintains a good relationship with its employees.

POSSIBLE RISKS AND UNCERTAINTIES

The Group has reviewed the possible risks and uncertainties which may affect its businesses, financial condition, operations and prospects, and considered that the major risks and uncertainties that may affect the Group included (i) market risk which refers to the economic and financial conditions that has direct impact to the property market and purchasing power. Other retail business providers including provision of serviced apartments, workshops, storage and wine cellars may also be highly affected by the market sentiment when the economic outlook of Hong Kong was not positive; (ii) business risk like the supply and price level of bank borrowings may have significant impact to the cost of our development projects; (iii) industry risk which mainly refers to the continuing increase of construction costs; (iv) regulatory risk such as the changes of regulations may affect the completion time of our property development projects or the market sentiment e.g. property cooling measures imposed by the Government from time to time; (v) suppliers risk such as the outsource of construction works to independent third parties while they may fail to provide satisfactory services adhering to our quality and safety standards as well as within the timeline required by the Group; (vi) other business risk like the revenue cycle is strongly depends on the sales of properties which may lead to significant fluctuation of profitability in different periods; (vii) fluctuations of fair value gain or loss incurred on financial assets and investment properties; (viii) credit risk from provision of finance which may incur bad debts during the downturn of economy; (ix) bank borrowing and interest rate risk which may limit or otherwise materially and adversely affect our business, results of operations and financial conditions; and also (x) the operational expenses may also be affected by the economic situations.

The Board acknowledges its responsibility to monitor the risk management and internal control systems of the Group on an ongoing basis and review their effectiveness from time to time. The Group has set up a risk control committee to coordinate, respond to and to tackle the abovementioned possible risks and uncertainties, and has serious scrutiny over the selection of quality customers and suppliers. The Risk Control Committee intends to manage rather than eliminate the risk of failure to achieve business objectives, and provide reasonable but not absolute assurance against material misstatement or loss. The risk control committees is also responsible for developing and reviewing strategies, policies and guidelines on risk control; which enable the Group to monitor and response to risk effectively and promptly. The Group has also engaged internal auditor to review the internal operation flow to ensure the compliance with relevant rules and regulations. Whenever possible, the Group also actively proposes solutions to lower the impact of the possible risks on the businesses of the Group.

Impact of COVID-19 pandemic

The Group has implemented a series of precautionary and control measures since the outbreak of COVID-19 to ensure business continuity. In order to protect our workforce from outbreak, the Group has provided clear and timely guidelines to all staffs; maintained a close monitoring on all staff's health status, travel history and potentially infectious contacts; provided extra sanitization products and air purifier machine to all sites. Since the business operations of Metropolitan Group involve direct contact with a lot of customers, the Group has ensured proper sanitization and cleaning work is done on a regular basis. The Group has encouraged its staffs, who are eligible and fit, to take COVID-19 vaccination to protect themselves and others.

The Group's business focus in Hong Kong and Korea, it was not significantly impacted by quarantine policy and tourism ban. As of 31 December 2021, the financial impact of COVID-19 pandemic on the Group is not significant.

PROSPECT

In the year of 2021, industrial properties is the best performing property sector in Hong Kong, among other sectors like residential, commercial and retail, in both rental and selling price. According to Hong Kong Property Review Monthly Supplement (February 2022) by the Rating and Valuation Department, the price index and rental index of industrial properties have risen by 9.2% and 8.8% respectively. This favorable demand and supply dynamics was demonstrated by the satisfactory sales performance of our industrial project The Cloud (雲之端) launched in the third quarter of 2020. Over 70% of the units have been sold, and the transacted price of one of the units reached \$11,900 per sq.ft. in gross area, beating market expectation.

Inflation is a very current topic in the global capital market as we are seeing inflation going up in most parts of the world. For example, the United States Consumer Price Index surged 7.5% on an annual basis in January 2022. That has helped to trigger a reversal of monetary policy by the United States Federal Reserve, and we saw the first rise in the Federal Funds Rate in March 2022 already. It is now widely expected that there will be a series of rate rises in the United States for the rest of the year 2022, and that will inevitably lead to a rise in Hong Kong's interest rate, though the extent is not certain.

Historically speaking, rising interest rate is negative for the property market in Hong Kong. That will add to the interest burden of homeowners or other property buyers. However, the impact can be greatly reduced under a negative interest rate environment. The expected rise in interest rate in Hong Kong is about 1–1.5% in 2022, while the expected inflation is higher than that. For example, the nominal inflation rate increased by 2.4% in December 2021 on a year on year basis. The continued negative interest rate environment is good for real asset prices like properties. As a matter of fact, it seems that inflation rate in Hong Kong is rising faster than nominal interest rate, implying a widening negative interest rate. Under such circumstances, property prices may actually go up and outperform other assets. As a reference, property prices in many global major cities like New York, Tokyo, Seoul, etc. have all recorded strong gains in 2021, and Hong Kong is a distinct market laggard.

The COVID-19 situation and Government policy are obviously another important factor in the performance of the property market. The outburst in number of Omicron cases in Hong Kong in March 2022 took many people by surprise and the property market has suffered. However, it seems that we are starting to see light at the end of the tunnel. Now, a high percentage of the population in Hong Kong have either been infected or have strong COVID immunity, which implies that life will be back to normal gradually. The Government restrictions are also starting to loosen up. Domestic consumption may zoom right back and international travelling will also start to recover.

Finally, the slight decline in population and expatriate community has been affecting the property market in Hong Kong in the last two years, but it is expected that the impact will taper off and should not have any major negative influence going forward.

In summary, we feel that the property market in Hong Kong will suffer in the first half of 2022 and will see residential property prices weaken by about 5–10%. Commercial properties may suffer more due to more supply coming to the market. The exception is the industrial sector which may remain buoyant because of strong investment demand. In the second half of 2022, the residential property market may recover gradually and end up with a year-on-year gain of about 5–10%, catching up with the rising inflation and the strong global property market. The commercial property sector may rebound but the extent will be limited due to the supply and demand dynamics. Retail sector may also rebound but the extent is dependent on how quickly domestic and tourist consumption resume. And the industrial sector should remain resilient and maintain the gradual rising trend in 2022.

In Seoul, South Korea, where we have exposure as well, property prices did very well in 2021 despite the COVID-19 situation. According to the Knight Frank Property Research Report, Seoul was one of the best performing property markets in the world in 2021, recording gains of 30% plus in general. In 2022, we expect the market to continue its uptrend but may be at a slower pace. The property market in Seoul continues to be buoyed by strong local demand for real assets and the limited supply of high-quality properties.

OTHER INFORMATION

ANNUAL GENERAL MEETING

The 2022 annual general meeting (“**AGM**”) of the Company will be held on Thursday, 2 June 2022 and the notice of 2022 AGM will be published and despatched in the manner as required by the Rules Governing the Listing of Securities on the Stock Exchange of Hong Kong Limited (the “**Stock Exchange**”) (the “**Listing Rules**”) in due course.

CLOSURE OF REGISTER OF MEMBERS

For determining the entitlement to attend and vote at the AGM, the Register of Members will be closed from Monday, 30 May 2022 to Thursday, 2 June 2022 (both days inclusive), during which no transfer of shares of the Company will be registered. In order to be eligible to attend and vote at the AGM, all transfer of shares of the Company accompanied by the relevant share certificates must be lodged with the Company’s share registrar and transfer office in Hong Kong, Tricor Investor Services Limited (the “**Share Registrar**”) at Level 54, Hopewell Centre, 183 Queen’s Road East, Hong Kong for registration not later than 4:30 p.m. on Friday, 27 May 2022.

MODEL CODE FOR SECURITIES TRANSACTIONS

The Company adopted the Model Code for Securities Transactions by Directors of Listed Issuers (the “**Model Code**”) in Appendix 10 of the Listing Rules relating to dealings in securities. Memorandum was sent to the Directors twice a year to draw their attention to the Model Code. Having made specific enquiries of each Director, the Company confirmed that all Directors have complied with the required standard set out in the Model Code throughout the year ended 31 December 2021 and no incident of non-compliance by the directors was noted by the Company throughout year ended 31 December 2021.

PURCHASE, SALE OR REDEMPTION OF THE COMPANY’S LISTED SECURITIES

Neither the Company nor any of its subsidiaries purchased, sold or redeemed any of the Company’s listed securities throughout the year ended 31 December 2021.

CODE ON CORPORATE GOVERNANCE PRACTICES

In the opinion of the Directors, the Company has complied with the code provisions set out in the Corporate Governance Code (the “**CG Code**”) contained in Appendix 14 to the Listing Rules with the exception for code provision C.2.1, which requires the roles of chairman and chief executive officer should be separate and should not be performed by the same individuals, throughout the year ended 31 December 2021.

Under code provision C.2.1 of the CG Code, the roles of chairman and chief executive officer should be separate and should not be performed by the same individuals. Mr. Chan Man Fai Joe currently holds both positions. Throughout our business history, Mr. Chan Man Fai Joe has been the key leadership figure of the Group who has been primarily involved in the formulation of business strategies and determination of the overall direction of the Group. He has also been chiefly responsible for the Group's operations as he directly supervises our senior management.

The Company has considered the issue of balance of power of authority on the Board and believes the structure of the Company, including strong independent elements in the Board, delegation of authorities to the management, supervision by the Board and Board committees, is sufficient to address the potential issue on power concentration. All Directors, who bring different experience and expertise to the Company, are properly briefed on issues arising at Board meetings and that adequate, complete and reliable information is received by the Directors. Furthermore, decisions of the Board are made by way of majority votes. The Board believes that this structure is conducive to a more precise and more promptly response to the fast changing business environment and a more efficient management and implementation of business process. The Board also considers that vesting two roles in the same person provides the Group with strong and consistent leadership in the development and execution of the Group's business strategies. The Board considers Mr. Chan Man Fai Joe is the best candidate for both positions and the present arrangements are beneficial and in the interests of our Company and our shareholders as a whole.

AUDIT COMMITTEE

The Audit Committee comprises three independent non-executive directors, including, Ms. Chan Wah Man Carman (Chairman of the Audit Committee), Mr. Lee Chung Ming Eric and Dr. Wong Wai Kong.

The functions of the audit committee are, among others, to assist the Board to review the financial information of the Company, including interim and final results; to monitor and review the relationship with the external auditors, particularly on their independence and objectivity and the effectiveness of the audit process in accordance with applicable standards; to oversight of the Company's risk management, financial system and internal control procedures; to oversight of the Company's corporate governance functions and connected transactions; and to make relevant recommendations to the Board to ensure effective, efficient and reliable reporting.

The Audit Committee had reviewed the Group's audited consolidated financial statements for the year ended 31 December 2021.

SCOPE OF WORK OF BDO LIMITED

The figures in respect of the Group's consolidated statement of financial position, consolidated statement of profit or loss and other comprehensive income and the related notes thereto for the year ended 31 December 2021 as set out in this announcement have been agreed by the Group's auditor, BDO Limited, to the amounts set out in the Group's audited consolidated financial statements for the year. The work performed by BDO Limited in this respect did not constitute an assurance engagement in accordance with Hong Kong Standards on Auditing ("HKSA's"), Hong Kong Standards on Review Engagements or Hong Kong Standards on Assurance Engagements issued by the Hong Kong Institute of Certified Public Accountants and consequently no assurance has been expressed by BDO Limited on this announcement.

PUBLICATION OF FINAL RESULTS AND DESPATCH OF ANNUAL REPORT

This final results announcement is published on the website of the Stock Exchange (www.hkexnews.hk) and the Company (www.stargroup.net). The 2021 annual report containing all the information required by the Listing Rules will be despatched to the Company's shareholders and available on the above websites in due course.

For and on behalf of the Board
Star Group Company Limited
(Carrying on business in Hong Kong as SGCL)
Chan Man Fai Joe
Chairman

Hong Kong, 31 March 2022

As at the date of this announcement, the Board consists of two executive Directors, namely Mr. Chan Man Fai Joe (Chairman and chief executive officer) and Ms. Cheung Wai Shuen (Vice-chairman); two non-executive Directors, namely Mr. Yim Kwok Man and Mr. Tsui Wing Tak; and three independent non-executive Directors, namely Dr. Wong Wai Kong, Mr. Lee Chung Ming Eric and Ms. Chan Wah Man Carman.