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PRECIOUS DRAGON TECHNOLOGY HOLDINGS LIMITED

保寶龍科技控股有限公司

(Incorporated in the Cayman Islands with limited liability)

(Stock code: 1861)

ANNUAL RESULTS FOR THE YEAR ENDED 31 DECEMBER 2019

ANNUAL RESULTS

The board (the “Board”) of directors (the “Directors”) of Precious Dragon Technology Holdings Limited (the “Company”) is pleased to announce the consolidated financial results of the Company and its subsidiaries (collectively, the “Group”) for the year ended 31 December 2019 (the “Reporting Period”), together with the comparative figures for the year ended 31 December 2018. These results have been reviewed by Ernst & Young, the external auditor of the Group, and the audit committee of the Company (the “Audit Committee”).

**CONSOLIDATED STATEMENT OF PROFIT OR LOSS AND
OTHER COMPREHENSIVE INCOME**

For the year ended 31 December 2019

	Notes	2019 HK\$'000	2018 HK\$'000
REVENUE	5	561,535	610,864
Cost of sales		<u>(397,362)</u>	<u>(453,304)</u>
Gross profit		<u>164,173</u>	<u>157,560</u>
Other income and gains	5	12,725	15,603
Selling and distribution expenses		(54,628)	(45,125)
Administrative expenses		(45,559)	(39,047)
Research and development expenses	6	(20,169)	(22,210)
Impairment losses on financial assets		(803)	(770)
Other expenses		(2,678)	(2,384)
Finance costs	7	<u>(2,327)</u>	<u>(2,035)</u>
PROFIT BEFORE TAX	6	50,734	61,592
Income tax expenses	8	<u>(12,620)</u>	<u>(14,664)</u>
PROFIT FOR THE YEAR		<u>38,114</u>	<u>46,928</u>
OTHER COMPREHENSIVE LOSS			
Other comprehensive loss that may be reclassified to profit or loss in subsequent periods:			
Exchange differences on translation of foreign operations		<u>(3,583)</u>	<u>(16,613)</u>
TOTAL COMPREHENSIVE INCOME FOR THE YEAR		<u>34,531</u>	<u>30,315</u>
Profit attributable to:			
Owners of the parent		37,412	41,686
Non-controlling interests		<u>702</u>	<u>5,242</u>
		<u>38,114</u>	<u>46,928</u>
Total comprehensive income attributable to:			
Owners of the parent		34,000	25,796
Non-controlling interests		<u>531</u>	<u>4,519</u>
		<u>34,531</u>	<u>30,315</u>
EARNINGS PER SHARE ATTRIBUTABLE TO ORDINARY EQUITY HOLDERS OF THE PARENT			
Basic	10	<u>HK16.0 cents</u>	<u>HK17.8 cents</u>
Diluted		<u>HK16.0 cents</u>	<u>HK17.8 cents</u>

CONSOLIDATED STATEMENT OF FINANCIAL POSITION

As at 31 December 2019

		31 December 2019 HK\$'000	31 December 2018 HK\$'000
NON-CURRENT ASSETS			
Property, plant and equipment	14	96,199	104,007
Right-of-use assets		55,942	—
Prepaid land lease payments		—	56,678
Deferred tax assets		2,160	1,724
Non-current prepayments		44,010	4,527
		198,311	166,936
TOTAL non-current assets			
CURRENT ASSETS			
Inventories	11	49,157	56,962
Trade and bills receivables	12	30,294	39,242
Prepayments, deposits and other receivables		5,936	10,099
Pledged bank deposits		3,424	4,930
Cash and cash equivalents		134,953	142,492
		223,764	253,725
TOTAL current assets			
CURRENT LIABILITIES			
Trade and bills payables	13	42,329	68,590
Other payables and accruals		55,360	40,921
Interest-bearing bank borrowings	15	15,152	—
Tax payable		2,722	3,494
Deferred income		224	228
		115,787	113,233
TOTAL current liabilities			
NET CURRENT ASSETS		107,977	140,492
TOTAL ASSETS LESS CURRENT LIABILITIES		306,288	307,428
NON-CURRENT LIABILITIES			
Interest-bearing bank borrowings	15	25,082	75,000
Deferred tax liabilities		1,769	1,944
Deferred income		1,790	2,048
		28,641	78,992
TOTAL non-current liabilities			
Net assets		277,647	228,436

CONSOLIDATED STATEMENT OF FINANCIAL POSITION (continued)

As at 31 December 2019

	31 December 2019 HK\$'000	31 December 2018 HK\$'000
EQUITY		
Equity attributable to owners of the parent		
Share capital	2,335	—
Other reserves	273,139	220,803
	275,474	220,803
Non-controlling interests	2,173	7,633
Total equity	277,647	228,436

NOTES:

1. CORPORATE AND GROUP INFORMATION

Precious Dragon Technology Holdings Limited (the “Company”) was incorporated on 5 May 2018 in the Cayman Islands (“Cayman”) as a limited liability. The registered office of the Company is located at Estera Trust (Cayman) Limited, PO Box 1350, Clifton House, 75 Fort Street, Grand Cayman KY1-1108, Cayman Islands.

The shares of the Company were listed on the Main Board of The Stock Exchange of Hong Kong Limited (the “Stock Exchange”) on 21 June 2019 (the “Listing Date”).

During the year, the Company and its subsidiaries (collectively referred to as the “Group”) were principally involved in the content filling of aerosol cans, and the production and sale of aerosol products and non-aerosol products.

Pursuant to the reorganisation of the Company in connection with the listing of the shares of the Company on the Stock Exchange (the “Reorganisation”), the Company became the holding company of the companies now comprising the Group on 30 April 2019. Details of the Reorganisation are set out in the section headed “History, Reorganisation and Corporate structure” in the listing document of the Company dated 3 June 2019 (the “Listing Document”).

In the opinion of the directors (the “Directors”), as at 31 December 2019, the immediate holding company and ultimate holding company of the Company is Wellmass International Limited (“Wellmass”), a company incorporated in the British Virgin Islands (the “BVI”).

1. CORPORATE AND GROUP INFORMATION (continued)

Information about subsidiaries

Particulars of the Company's principal subsidiaries are as follows:

Company name	Place of incorporation/ registration and business	Issued ordinary/ registered share capital	Percentage of equity attributable to the Company		Principal activities
			Direct %	Indirect %	
Topspan Holdings Limited	BVI	US\$1	100	—	Investment holding
Botny Corporation Limited	Hong Kong	HK\$1,001	—	100	Trading of aerosol and non-aerosol products
Super Sight International Investment Limited	BVI	US\$1	—	100	Investment holding
Guangzhou Botny Chemical Co., Ltd. ("Botny Chemical") (廣州保賜利化工有限公司) *	PRC	US\$11,400,000	—	100	Content filling of aerosol cans, and production and sale of aerosol and non-aerosol products
Guangzhou Euro Asia Aerosol and Household Products Manufacture Co., Ltd. ("Euro Asia Aerosol") (廣州歐亞氣霧劑及日化用品製造有限公司) **	PRC	US\$3,000,000	—	70	Content filling of aerosol cans, and production and sale of aerosol and non-aerosol products

1. CORPORATE AND GROUP INFORMATION (continued)

Company name	Place of incorporation/ registration and business	Issued ordinary/ registered share capital	Percentage of equity attributable to the Company		Principal activities
			Direct %	Indirect %	
Botny Hongkong Co., Limited	Hong Kong	US\$100,000	—	100	Trading of aerosol and non-aerosol products
Guangzhou Shentian Woye Trading Co., Ltd. ("Guangzhou Shentian") (廣州深田沃業貿易 有限公司)*	PRC	RMB10,000,000	—	100	Investment holding
Euro Asia Japan Co., Ltd. (株式会社ユーロア ジア・ジャパン)	Japan	JPY9,000,000	—	100	Trading of aerosol and non-aerosol products
China Medical Beauty Bio-Technology Company Limited	Hong Kong	HK\$10,000	—	100	Trading of aerosol and non-aerosol products
Precious Dragon Group Limited	Hong Kong	HK\$1,000	—	100	Investment holding and trading
Botny Marine Limited	Hong Kong	HK\$10,000	—	100	Investment holding
Botny India Chemical Private Limited	India	INR 5,000	—	70	Trading of aerosol and non-aerosol products

* Botny Chemical and Guangzhou Shentian are registered as wholly-foreign-owned enterprises under PRC law

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

2.1 BASIS OF PRESENTATION

Pursuant to the reorganisation of the Company in connection with the listing of the shares of the Company on the Stock Exchange, the Company became the holding company of the companies now comprising the Group on 30 April 2019. Since the companies now comprising the Group were under the common control of the controlling shareholder both before and after the Reorganisation, these financial statements have been prepared using the principles of merger accounting.

The consolidated statements of profit or loss and other comprehensive income, consolidated statements of changes in equity and consolidated statements of cash flows of the Group for the years ended 31 December 2019 and 2018 include the results and cash flows of all companies now comprising the Group from the earliest date presented or since the date when the subsidiaries and/or businesses first came under the common control of the controlling shareholder, where this is a shorter period. The consolidated statements of financial position of the Group as at 31 December 2019 and 2018 have been prepared to present the assets and liabilities of all companies now comprising the Group using the existing book values from the controlling shareholder's perspective.

2.2 BASIS OF PREPARATION

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

Basis of consolidation

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

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

- (a) the contractual arrangement with the other vote holders of the investee;
- (b) rights arising from other contractual arrangements; and
- (c) the Group's voting rights and potential voting rights.

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

2.2 BASIS OF PREPARATION (continued)

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

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

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

3. CHANGES IN ACCOUNTING POLICIES AND DISCLOSURES

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

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

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

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

3. CHANGES IN ACCOUNTING POLICIES AND DISCLOSURES (continued)

New definition of a lease

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

As a lessee – Leases previously classified as operating leases

Nature of the effect of adoption of IFRS 16

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

Impact on transition

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

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

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

3. CHANGES IN ACCOUNTING POLICIES AND DISCLOSURES (continued)

Financial impact at 1 January 2019

Accordingly, the Group recognised right-of-use assets of HK\$259,000 and lease liabilities of HK\$259,000 as at 1 January 2019.

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

	HK\$'000
Operating lease commitments as at 31 December 2018	446
Less: Commitments relating to short-term leases and those leases with a remaining lease term ended on or before 31 December 2019	(362)
Add: Payments for optional extension periods not recognised as at 31 December 2018	179
	<hr/> 263
Weighted average incremental borrowing rate as at 1 January 2019	<hr/> 1%
Discounted operating lease commitments as at 1 January 2019	259
Add: Finance lease liabilities recognised as at 31 December 2018	—
	<hr/>
Lease liabilities as at 1 January 2019	<hr/> 259 <hr/>

Except for the adoption of IFRS 16, the adoption of the above revised standards has had no significant financial effect on these consolidated financial statements and there have been no significant changes to the accounting policies applied in the Group's consolidated financial statements.

4. OPERATING SEGMENT INFORMATION

For management purposes, the Group is organised into business units based on their products and services and has two reportable operating segments as follows:

- a) Automotive beauty and maintenance products;
- b) Personal care products

Management monitors the results of the Group's operating segments separately for the purpose of making decisions about resource allocation and performance assessment. Segment performance is evaluated based on reportable segment profit/loss, which is a measure of adjusted profit/loss before tax. The adjusted profit/loss before tax is measured consistently with the Group's profit before tax from continuing operations except that interest income, finance costs as well as head office and corporate expenses are excluded from such measurement.

4. OPERATING SEGMENT INFORMATION (continued)

Segment assets exclude deferred tax assets, tax recoverable, certain cash and cash equivalents, and other unallocated head office and corporate assets as these assets are managed on a group basis.

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

Intersegment sales and transfers are transacted with reference to the selling prices used for sales made to third parties at the then prevailing market prices.

Year ended 31 December 2019	Automotive beauty and maintenance products HK\$'000	Personal care products HK\$'000	Total HK\$'000
Segment revenue:			
Sales to customers	506,549	54,986	561,535
Intersegment sales	197	—	197
Total	506,746	54,986	561,732
<u>Reconciliation:</u>			
Elimination of intersegment sales			(197)
Revenue			561,535
Segment results	55,784	2,363	58,147
<u>Reconciliation:</u>			
Interest income			679
Corporate and other unallocated expenses			(5,765)
Finance costs			(2,327)
Profit before tax			50,734

4. OPERATING SEGMENT INFORMATION (continued)

Year ended 31 December 2019	Automotive beauty and maintenance products HK\$'000	Personal care products HK\$'000	Total HK\$'000
Segment assets	412,662	49,721	462,383
<i>Reconciliation:</i>			
Elimination of intersegment receivables			(85,122)
Corporate and other unallocated assets			44,814
Total assets			<u>422,075</u>
Segment liabilities	132,508	90,662	223,170
<i>Reconciliation:</i>			
Elimination of intersegment payables			(85,122)
Corporate and other unallocated liabilities			6,380
Total liabilities			<u><u>144,428</u></u>
Other segment information:			
Depreciation and amortisation	17,327	1,146	18,473
Capital expenditure*	10,757	—	10,757
Impairment losses on financial assets recognised in the consolidated statement of profit or loss and other comprehensive income	291	512	803
Write-down of inventories to net realisable value recognised in the consolidated statement of profit or loss and other comprehensive income	1,355	189	1,544

* Capital expenditure consists of additions to property, plant and equipment.

4. OPERATING SEGMENT INFORMATION (continued)

Year ended 31 December 2018	Automotive beauty and maintenance products HK\$'000	Personal care products HK\$'000	Total HK\$'000
Segment revenue:			
Sales to customers	484,944	125,920	610,864
Intersegment sales	249	—	249
	<hr/>	<hr/>	<hr/>
Total	485,193	125,920	611,113
	<hr/>	<hr/>	<hr/>
<u>Reconciliation:</u>			
Elimination of intersegment sales			(249)
			<hr/>
Revenue			610,864
			<hr/> <hr/>
Segment results	40,245	24,930	65,175
<u>Reconciliation:</u>			
Interest income			489
Corporate and other unallocated expenses			(2,037)
Finance costs			(2,035)
			<hr/>
Profit before tax			61,592
			<hr/> <hr/>

4. OPERATING SEGMENT INFORMATION (continued)

Year ended 31 December 2018	Automotive beauty and maintenance products HK\$'000	Personal care products HK\$'000	Total HK\$'000
Segment assets	424,604	83,135	507,739
<i>Reconciliation:</i>			
Elimination of intersegment receivables			(90,057)
Corporate and other unallocated assets			2,979
Total assets			<u>420,661</u>
Segment liabilities	162,242	98,760	261,002
<i>Reconciliation:</i>			
Elimination of intersegment payables			(90,052)
Corporate and other unallocated liabilities			21,275
Total liabilities			<u><u>192,225</u></u>
Other segment information:			
Depreciation and amortisation	14,463	1,750	16,213
Capital expenditure	25,905	—	25,905
Impairment losses/(reversal) on financial assets recognised in the consolidated statement of profit or loss and other comprehensive income	(61)	831	770
Write-down of inventories to net realisable value recognised in the consolidated statement of profit or loss and other comprehensive income	913	300	1,213

4. OPERATING SEGMENT INFORMATION (continued)

Geographical information

(a) Revenue from external customers

	2019 HK\$'000	2018 HK\$'000
Mainland China	441,528	437,322
Japan	87,137	76,739
Asia	11,300	23,911
Middle East	6,838	9,071
America	11,133	58,312
Others	3,599	5,509
	<u>561,535</u>	<u>610,864</u>

The revenue information above is based on the shipment destinations.

The non-current assets of the Group (excluding deferred tax assets) are substantially located in Mainland China.

Information about major customers

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

5. REVENUE, OTHER INCOME AND GAINS

Revenue

An analysis of revenue is as follows:

	2019 HK\$'000	2018 HK\$'000
Revenue from contracts with customers	<u>561,535</u>	<u>610,864</u>

5. REVENUE, OTHER INCOME AND GAINS (continued)

Revenue (continued)

Revenue from contracts with customers

(a) Disaggregated revenue information

For the year ended 31 December 2019

Segments	Automotive beauty and maintenance products HK\$'000	Personal care products HK\$'000	Total HK\$'000
Type of goods			
Sale of industrial products	<u>506,549</u>	<u>54,986</u>	<u>561,535</u>
Geographical markets			
Mainland China	388,850	52,678	441,528
Japan	87,137	—	87,137
Asia	8,992	2,308	11,300
Middle East	6,838	—	6,838
America	11,133	—	11,133
Others	<u>3,599</u>	<u>—</u>	<u>3,599</u>
Total revenue from contracts with customers	<u>506,549</u>	<u>54,986</u>	<u>561,535</u>
Timing of revenue recognition			
Goods transferred at a point in time	<u>506,549</u>	<u>54,986</u>	<u>561,535</u>

5. REVENUE, OTHER INCOME AND GAINS (continued)

Revenue (continued)

Revenue from contracts with customers (continued)

(a) Disaggregated revenue information (continued)

For the year ended 31 December 2018

Segments	Automotive beauty and maintenance products HK\$'000	Personal care products HK\$'000	Total HK\$'000
Type of goods			
Sale of industrial products	484,944	125,920	610,864
Geographical markets			
Mainland China	342,569	94,753	437,322
Japan	76,739	—	76,739
Asia	18,764	5,147	23,911
Middle East	9,071	—	9,071
America	32,310	26,002	58,312
Others	5,491	18	5,509
Total revenue from contracts with customers	<u>484,944</u>	<u>125,920</u>	<u>610,864</u>
Timing of revenue recognition			
Goods transferred at a point in time	<u>484,944</u>	<u>125,920</u>	<u>610,864</u>

Set out below is the reconciliation of the revenue from contracts to customers to the amounts disclosed in the segment information:

For the year ended 31 December 2019

Segments	Automotive beauty and maintenance products HK\$'000	Personal care products HK\$'000	Total HK\$'000
Revenue from contracts with customers			
External customers	506,549	54,986	561,535
Intersegment sales	197	—	197
Intersegment adjustments and eliminations	(197)	—	(197)
Total revenue from contracts with customers	<u>506,549</u>	<u>54,986</u>	<u>561,535</u>

5. REVENUE, OTHER INCOME AND GAINS (continued)

Revenue (continued)

Revenue from contracts with customers (continued)

(a) Disaggregated revenue information (continued)

For the year ended 31 December 2018

Segments	Automotive beauty and maintenance products HK\$'000	Personal care products HK\$'000	Total HK\$'000
Revenue from contracts with customers			
External customers	484,944	125,920	610,864
Intersegment sales	249	—	249
	<u>(249)</u>	<u>—</u>	<u>(249)</u>
Intersegment adjustments and eliminations			
Total revenue from contracts with customers	<u>484,944</u>	<u>125,920</u>	<u>610,864</u>

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

	2019 HK\$'000	2018 HK\$'000
Revenue recognised that was included in the contract liabilities at the beginning of the reporting period:		
Sale of industrial products	<u>11,717</u>	<u>10,900</u>

(b) Performance obligations

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

Sale of industrial products

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

5. REVENUE, OTHER INCOME AND GAINS (continued)

Revenue (continued)

Revenue from contracts with customers (continued)

(b) Performance obligations (continued)

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

	2019 HK\$'000	2018 HK\$'000
Amounts expected to be recognized as revenue:		
Within one year	<u>9,339</u>	<u>11,717</u>

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

Other income and gains

	2019 HK\$'000	2018 HK\$'000
Sale of scrap materials	460	710
Bank interest income	679	489
Government grants:		
— Related to assets*	227	—
— Related to income**	2,766	2,781
Service income	1,269	1,498
Income from research and development design	6,758	4,834
Gain on disposal of property, plant and equipment	60	111
Foreign exchange differences, net	—	4,926
Others	506	254
	<u>12,725</u>	<u>15,603</u>

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

** Various government grants of HK\$2,766,000 (2018: HK\$2,781,000) represent cash receipts from and subsidies provided by the local government authorities to the Group as an encouragement for its technological innovation and overseas sales. There are no unfulfilled conditions or contingencies relating to these grants.

6. PROFIT BEFORE TAX

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

	Note	2019 HK\$'000	2018 HK\$'000
Cost of inventories sold		397,362	453,304
Depreciation of property, plant and equipment	14	16,933	14,603
Depreciation of right-of-use assets (2018: amortisation of prepaid land lease payments)		1,570	1,516
Auditor's remuneration		2,779	2,566
Research and development costs		20,169	22,210
Minimum lease payments under operating leases		—	551
Lease payments not included in the measurement of lease liabilities		477	—
Employee benefit expense (including directors' and chief executive's remuneration):			
Wages and salaries		39,007	42,076
Equity-settled share option expense		2,306	—
Pension scheme contributions		4,910	5,156
		<u>46,223</u>	<u>47,232</u>
Exchange losses/(gains), net*		86	(4,926)
Loss on disposal of items of property, plant and equipment, net*		168	166
Impairment losses on financial assets		803	770
Write-down of inventories to net realisable value**		1,544	1,213

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

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

7. FINANCE COSTS

	2019	2018
	HK\$'000	HK\$'000
Interest on bank loans wholly repayable within five years	2,322	2,035
Interest on lease liabilities	5	—
	<u>2,327</u>	<u>2,035</u>

8. INCOME TAX EXPENSES

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

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

Hong Kong profits tax has been provided at the rate of 16.5% (2018: 16.5%) on the estimated assessable profits arising in Hong Kong during the year, except for one subsidiary of the Group which is a qualifying entity under the two-tiered profits tax rates regime effective from the year of assessment 2019. The first HK\$2,000,000 (2018: Nil) of assessable profits of this subsidiary is taxed at 8.25% and the remaining assessable profits are taxed at 16.5%.

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

	2019	2018
	HK\$'000	HK\$'000
Current – Mainland China	9,770	12,795
Current – Hong Kong	3,500	1,624
Deferred	(650)	245
	<u>12,620</u>	<u>14,664</u>

8. INCOME TAX EXPENSES (continued)

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

	2019 HK\$'000	%	2018 HK\$'000	%
Profit before tax	<u>50,734</u>		<u>61,592</u>	
Tax at the statutory tax rate	12,684	25.0	15,398	25.0
Entities subject to lower statutory income tax rates	(5,279)	(10.4)	(4,678)	(7.6)
Effect of withholding tax on distributable profits of the PRC subsidiary	(175)	(0.3)	938	1.5
Expenses not deductible for tax	299	0.6	108	0.2
Withholding income tax expense	3,495	6.9	1,723	2.8
Adjustment in respect of current tax of previous periods	(1,866)	(3.7)	(1,129)	(1.8)
Tax losses not recognised	<u>3,462</u>	<u>6.8</u>	<u>2,304</u>	<u>3.7</u>
Tax charge at the Group's effective tax rate	<u>12,620</u>	<u>24.9</u>	<u>14,664</u>	<u>23.8</u>

9. DIVIDENDS

	2019 HK\$'000	2018 HK\$'000
Interim – HK1.4 cents (2018: Nil) per ordinary share	3,284	—
Proposed final – HK2.45 cents (2018: Nil) per ordinary share	<u>5,722</u>	<u>—</u>
	<u>9,006</u>	<u>—</u>

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

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

The calculation of the basic earnings per share amount is based on the profit for the year attributable to ordinary equity holders of the parent, and the weighted average number of ordinary shares of 234,079,051 (2018: 234,544,750) in issue during the year, as adjusted to reflect the rights issue during the period, as if the Reorganisation had been effective since 1 January 2018.

No adjustment has been made to the basic earnings per share amounts presented for the years ended 31 December 2019 and 2018 in respect of a dilution as the impact of share options outstanding had an anti-dilutive effect on the basic earnings per share amounts presented.

	2019	2018
	HK\$'000	HK\$'000
Earnings		
Profit attributable to ordinary equity holders of the parent, used in the basic and diluted earnings per share calculation	<u>37,412</u>	<u>41,686</u>
Number of shares		
Shares		
Weighted average number of ordinary shares in issue used in the basic earnings per share calculation	234,079,051	234,544,750
Effect of dilution – weighted average number of ordinary shares:		
Share options	<u>—</u>	<u>—</u>
Adjusted weighted average number of ordinary shares in issue used in the diluted earnings per share calculation	<u>234,079,051</u>	<u>234,544,750</u>

11. INVENTORIES

	2019	2018
	HK\$'000	HK\$'000
Raw materials	16,207	20,691
Work in progress	1,888	2,123
Finished goods	<u>31,062</u>	<u>34,148</u>
	<u>49,157</u>	<u>56,962</u>

12. TRADE AND BILLS RECEIVABLES

	2019 HK\$'000	2018 HK\$'000
Trade receivables	33,977	43,169
Impairment	(5,854)	(5,148)
	<hr/>	<hr/>
Trade receivables, net	28,123	38,021
Bills receivable	2,171	1,221
	<hr/>	<hr/>
	30,294	39,242
	<hr/> <hr/>	<hr/> <hr/>

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

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

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

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

	2019 HK\$'000	2018 HK\$'000
Within 30 days	16,733	17,851
31 to 60 days	5,514	13,727
61 to 90 days	1,153	1,300
Over 90 days	4,723	5,143
	<hr/>	<hr/>
	28,123	38,021
	<hr/> <hr/>	<hr/> <hr/>

12. TRADE AND BILLS RECEIVABLES (continued)

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

	2019 HK\$'000	2018 HK\$'000
At beginning of year	5,148	4,631
Impairment losses (note 6)	803	770
Exchange realignment	(97)	(253)
	<u>5,854</u>	<u>5,148</u>
At end of year	<u>5,854</u>	<u>5,148</u>

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

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

	Ageing				Total
	1 to 30 days	31 to 60 days	61 to 90 days	Over 90 days	
As at 31 December 2019					
Related parties:					
Expected credit loss rate	—	—	—	—	—
Gross carrying amount (HK\$'000)	—	—	—	—	—
Expected credit losses (HK\$'000)	—	—	—	—	—
Non-related parties:					
Expected credit loss rate	0.02%	2.58%	7.67%	54.29%	17.23%
Gross carrying amount (HK\$'000)	16,737	5,659	1,249	10,332	33,977
Expected credit losses (HK\$'000)	4	145	96	5,609	5,854
As at 31 December 2018					
Related parties:					
Expected credit loss rate	—	—	—	—	—
Gross carrying amount (HK\$'000)	—	—	—	514	514
Expected credit losses (HK\$'000)	—	—	—	—	—
Non-related parties:					
Expected credit loss rate	—	—	—	52.66%	12.07%
Gross carrying amount (HK\$'000)	17,851	13,727	1,300	9,777	42,655
Expected credit losses (HK\$'000)	—	—	—	5,148	5,148

13. TRADE AND BILLS PAYABLES

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

	2019	2018
	HK\$'000	HK\$'000
Within 30 days	30,660	35,560
31 to 60 days	6,090	12,194
61 to 90 days	4,983	11,583
Over 90 days	596	9,253
	<hr/> 42,329 <hr/>	<hr/> 68,590 <hr/>

The trade payables are non-interest-bearing and are normally settled on terms of 30 to 90 days.

14. PROPERTY, PLANT AND EQUIPMENT

	Buildings HK\$'000	Plant and machinery HK\$'000	Office and other equipment HK\$'000	Motor vehicles HK\$'000	Construction in progress HK\$'000	Total HK\$'000
31 December 2019						
At 1 January 2019:						
Cost	103,886	44,080	16,033	15,647	4,373	184,019
Accumulated depreciation	(43,819)	(26,321)	(8,225)	(1,647)	—	(80,012)
Net carrying amount	<u>60,067</u>	<u>17,759</u>	<u>7,808</u>	<u>14,000</u>	<u>4,373</u>	<u>104,007</u>
At 1 January 2019, net of						
accumulated depreciation	60,067	17,759	7,808	14,000	4,373	104,007
Additions	4,440	2,064	284	2,635	1,334	10,757
Disposals	—	(124)	(100)	(52)	—	(276)
Depreciation provided						
during the year (note 6)	(8,502)	(3,949)	(1,810)	(2,672)	—	(16,933)
Transfers	—	1,334	—	—	(1,334)	—
Exchange realignment	(909)	(163)	(75)	(134)	(75)	(1,356)
At 31 December 2019, net of						
accumulated depreciation	<u>55,096</u>	<u>16,921</u>	<u>6,107</u>	<u>13,777</u>	<u>4,298</u>	<u>96,199</u>
At 31 December 2019:						
Cost	106,549	46,129	15,595	17,711	4,298	190,282
Accumulated depreciation	(51,453)	(29,208)	(9,488)	(3,934)	—	(94,083)
Net carrying amount	<u>55,096</u>	<u>16,921</u>	<u>6,107</u>	<u>13,777</u>	<u>4,298</u>	<u>96,199</u>

14. PROPERTY, PLANT AND EQUIPMENT (continued)

	Buildings HK\$'000	Plant and machinery HK\$'000	Office and other equipment HK\$'000	Motor vehicles HK\$'000	Construction in progress HK\$'000	Total HK\$'000
31 December 2018						
At 1 January 2018:						
Cost	108,286	39,464	12,785	4,576	4,497	169,608
Accumulated depreciation	(36,331)	(25,203)	(7,507)	(3,032)	—	(72,073)
Net carrying amount	<u>71,955</u>	<u>14,261</u>	<u>5,278</u>	<u>1,544</u>	<u>4,497</u>	<u>97,535</u>
At 1 January 2018, net of accumulated depreciation	71,955	14,261	5,278	1,544	4,497	97,535
Additions	1,673	7,370	4,011	13,139	110	26,303
Disposals	—	(113)	(18)	(183)	—	(314)
Depreciation provided during the year (note 6)	(9,779)	(3,142)	(1,245)	(437)	—	(14,603)
Exchange realignment	(3,782)	(617)	(218)	(63)	(234)	(4,914)
At 31 December 2018, net of accumulated depreciation	<u>60,067</u>	<u>17,759</u>	<u>7,808</u>	<u>14,000</u>	<u>4,373</u>	<u>104,007</u>
At 31 December 2018:						
Cost	103,886	44,080	16,033	15,647	4,373	184,019
Accumulated depreciation	(43,819)	(26,321)	(8,225)	(1,647)	—	(80,012)
Net carrying amount	<u>60,067</u>	<u>17,759</u>	<u>7,808</u>	<u>14,000</u>	<u>4,373</u>	<u>104,007</u>

The Group's buildings are located in Mainland China.

Certain of the Group's interest-bearing bank borrowings were secured by the Group's buildings with a carrying value of HK\$40,084,000 as at 31 December 2019 (2018: HK\$52,375,000) (note 15).

15. INTEREST-BEARING BANK AND OTHER BORROWINGS

	2019			2018		
	Contractual interest rate	Maturity	HK\$'000	Contractual interest rate	Maturity	HK\$'000
Current						
Lease liabilities	1%~5.125%	2020	152	—	—	—
Interest-bearing bank loans – secured	Hong Kong Interbank Rate+2.25%	2020	<u>15,000</u>	—	—	<u>—</u>
			<u>15,152</u>			<u>—</u>
Non-current						
Lease liabilities	1%~5.125%	2021	82	—	—	—
Long term interest-bearing bank loans – secured	Hong Kong Interbank Rate+1.7%	2021	<u>25,000</u>	Hong Kong Interbank Rate+1.7%	2020-2021	<u>75,000</u>
			<u>25,082</u>			<u>75,000</u>
			<u>40,234</u>			<u>75,000</u>

Notes:

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

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

15. INTEREST-BEARING BANK AND OTHER BORROWINGS (continued)

	2019 HK\$'000	2018 HK\$'000
Bank loans and overdrafts repayable:		
Within one year or on demand	15,000	—
In the second year	25,000	30,000
In the third year	—	45,000
	<u>40,000</u>	<u>75,000</u>
Other borrowings repayable:		
Within one year or on demand	152	—
In the second year	82	—
	<u>234</u>	<u>—</u>

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

	Note	2019 HK\$'000	2018 HK\$'000
Property, plant and equipment	14	40,084	52,375
Prepaid land lease payments		46,499	56,132
Prepayments, deposits and other receivables		—	1,425
		<u>86,583</u>	<u>109,932</u>

	2019 HK\$'000	2018 HK\$'000
Interest-bearing bank borrowings denominated in:		
– HK\$	<u>40,000</u>	<u>75,000</u>

The Group has the following undrawn banking facilities:

	2019 HK\$'000	2018 HK\$'000
Floating rate		
– to expire within one year	<u>62,973</u>	<u>83,477</u>

MANAGEMENT DISCUSSION AND ANALYSIS

BUSINESS OVERVIEW

The Group is the leading manufacturer specializing in manufacturing of aerosol products used in the automotive beauty and maintenance products in the People's Republic of China ("PRC"). We are principally engaged in the design, development, manufacture and sale of a wide range of automotive beauty and maintenance products including auto cleaning and maintenance products (such as auto interior decoration cleaning products and tyre and wheel cleaning and care products), paint and coating (such as chrome aerosol spray), winter and summer specials (such as refrigerant and cold cranking agent) and air-fresheners. The automotive beauty and maintenance products are in the form of aerosol and non-aerosol products. We also design, develop, manufacture and sell personal care products (such as foaming facial wash, sunscreen, moisturiser, deodoriser and hand wash) and other products including household products (such as paint and floor polish).

The Company sells the products on contract manufacturing service ("CMS") and original brand manufacturing ("OBM"). The Company's OBM business offers products under our own brand names of BOTNY (保賜利), ATM, ETOMAN (已度明), NISSEI, WIN (勝彩), FOX-D (狐狸), PISCIS (百麗時) and PARLUX (派樂士), which are sold mainly through (1) the networks of distributors, who further resell our OBM products to wholesalers, retailers and end-users in the PRC; and (2) the online stores of "保賜利旗艦店" at Tmall and "保賜利京東自營旗艦店" at JD.com.

During the Reporting Period, the Group continued to allocate more resources to further develop the OBM business. The Group enhanced the brand recognition activities, including sponsorship in exhibitions, public relation events, and multi-media platforms in order to promote the corporate image and brands to new potential and existing customers. The Group recorded a significant growth in online markets sales reflects the strategy of continuing to implement the e-commerce strategies in PRC. We have launched the series of automotive beauty and maintenance products, 保寶龍, under our BOTNY (保賜利) brand for the repositioning of our corporate image and for broadening our clientele. We believe in the growth potential of our products under our new 保寶龍 series, as it takes time to establish a new line of products, we expect the other products under our BOTNY (保賜利) brand to remain our main revenue driver in the near future.

OPERATING ENVIRONMENT AND PROSPECTS

As the global economy is shrouded in the shadow of the Sino-US trade war and outbreak of pneumonia caused by novel coronavirus, there are huge uncertainties and changes in global economic development. The Group pays close attention to the development and changes of the industry and adjusts its strategies in a timely manner to cope with (i) the uncertainties brought by the Sino-US trade war, (ii) market demands of products, (iii) supply chain of production materials under the impact of coronavirus crisis, and (iv) changes in the external environment. At the same time, by continuously adjusting the diversify strategy and customer management and actively participating in various types of exhibitions in the People's Republic of China ("PRC") and around the world and launching new products to meet market demands, the Group will strengthen the promotion of its own brands, enhance the relationship with customers and expand into new markets, with a view to continually consolidating and strengthening the Group's business development.

Despite of the economic slowdown of PRC caused by novel coronavirus pneumonia, the economic foundation of PRC market keep stable in the long run. Therefore, opportunities and challenges coexist. The Group is still prudent and optimistic towards its domestic market and Original Brand Manufacturing ("OBM") business. The Group will continue to improve its OBM business by sponsorship and exhibitions, improving existing OBM products' series, strictly controlling cost, lifting the brand image, and enhancing the competitiveness of products.

FINANCIAL REVIEW

Turnover

For the Reporting Period, the Group's recorded a turnover of approximately HK\$561.5 million (2018: approximately HK\$610.9 million), representing a decrease of approximately 8.1% as compared to the corresponding period of 2018.

Automotive beauty and maintenance products segment

For the Reporting Period, the Group's automotive beauty and maintenance products segment has recorded a turnover of approximately HK\$506.5 million (2018: approximately HK\$484.9 million), representing an increase of approximately 4.5% as compared to the corresponding period of 2018. The increase in segment revenue was mainly due to implementation of sales strategy to enhance the recognition of brands in which drive the increase in segment sales.

Personal care products segment

For the Reporting Period, the Group's personal care products segment has generated revenue amounting to approximately HK\$55.0 million (2018: approximately HK\$125.9 million), representing a significant decrease of approximately 56.3% as compared to the corresponding period of 2018. The decrease in segment revenue was mainly due to significant drop in sales to customers located in United States which caused by the uncertainties of Sino-US trade war.

Cost of Sales

For the Reporting Period, cost of sales of the Group amounted to approximately HK\$397.4 million (2018: HK\$453.3 million), which represented approximately 70.8% (2018: 74.2%) of the turnover in the period. There was a decrease of approximately 12.3% in the cost of sales which was mainly attributable to the net effects of (i) decreasing in the cost of procurement of solvents, being major raw materials for the production, which was caused by the decrease in crude oil price; (ii) variation of sales of product mix; and (iii) enhancement of the production management to lower the manufacturing overhead.

Gross Profit and Gross Profit Margin

The Group recorded a gross profit amounted to approximately HK\$164.2 million (2018: approximately HK\$157.6 million), representing an increase of approximately 4.2% as compared to the corresponding period of 2018. The increase in gross profit was mainly driven by sales of products with higher gross profit margins and decreasing in the cost of procurement of solvents, being major raw materials for the production. The gross profit margin increased to approximately 29.2% (2018: approximately 25.8%).

Other Income and Gains

Other income and gains mainly consist of sales of scrap materials, bank interest income, income from provision of research and development services, government grants, and net exchange differences. During the period, other income and gains of the Group was approximately HK\$12.7 million (2018: approximately HK\$15.6 million), representing a significant decrease of 18.6%, which was mainly due to the net effects of (i) the increase in income from provision of research and development services approximately HK\$1.9 million; and (ii) significant decrease in exchange gains around HK\$4.9 million as a result of depreciation of RMB against United States dollar ("US\$").

Selling and Distribution Expenses

Selling and distribution expenses mainly consist of transportation expenses and declaration charges for delivery of products to customers, salaries, performance bonuses and employee benefits expenses for the sales and marketing staff, business travel, entertainment expenses, advertisement and promotion costs. For the Reporting Period, selling and distribution expenses were approximately HK\$54.6 million (2018: HK\$45.1 million), representing an increase of approximately 21.1% as compared to the corresponding period of 2018. The increase was primarily due to the increase in transportation expenses, entertainment expenses for customers meetings to enhance the customers' relationship and exhibition expenses for brand building.

Administrative Expenses

Administrative expenses mainly represent staff salaries, share option expenses, listing expenses, welfare and bonus for our administrative staff and directors' remuneration, professional fees, other taxes and surcharges, and depreciation expenses. For the Reporting Period, administrative expenses were approximately HK\$45.6 million (2018: approximately HK\$39.0 million), representing a significantly increase of approximately 16.9% as compared to the corresponding period of 2018. The increase in administrative expenses was primarily due to (i) increase in donation to charities to approximately HK\$1.4 million (2018: Nil); (ii) increase in entertainment expense to approximately HK\$2.0 million (2018: HK\$0.4 million); (iii) increase in share option expenses to approximately HK\$1.3 million (2018: Nil); and (iv) slightly decrease in professional fees, consulting fee and related costs incurred for listing to approximately HK\$12.4 million (2018: HK\$13.8 million).

Net Profit

The Group's net profit amounted to approximately HK\$38.1 million for the Reporting Period (2018: HK\$46.9 million), representing a decrease of approximately 18.8% as compared to the corresponding period in 2018. The significant decrease in net profit was mainly due to increase of selling and distribution expenses and listing expenses which was partially offset by increase of gross profit.

TREASURY POLICY

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

LIQUIDITY AND CAPITAL RESOURCES

Net Current Assets

As at 31 December 2019, the Group had net current assets of approximately HK\$108.0 million (31 December 2018: approximately HK\$140.5 million). The Group's cash and cash equivalents and pledged bank deposits amounted to HK\$138.4 million as at 31 December 2019 (31 December 2018: approximately HK\$147.4 million) which are mainly denominated in Renminbi, United States dollars, Japanese yen, Hong Kong dollars. The current ratio of the Group was approximately 1.9 as at 31 December 2019 (31 December 2018: approximately 2.2).

Borrowings and the Pledge of Assets

The bank borrowings of the Group, which were secured by our properties, plant and equipment and land use rights amounted to approximately HK\$40.0 million as at 31 December 2019 with maturity in 2021 (31 December 2018: approximately HK\$75.0 million). All borrowings are charged with reference to bank's preferential floating rates and HIBOR.

As at 31 December 2019, we had available unutilized banking facilities of approximately HK\$63.0 million (31 December 2018: HK\$83.5 million).

Gearing Ratio

As a result of the decrease in cash and cash equivalents and the decrease in total borrowings of the Group, the gearing ratio which is calculated by dividing net debt by equity attributable to owners of our Company and net debt, amounted to approximately -7.9% as at 31 December 2019 (31 December 2018: approximately 6.0%).

Contingent Liabilities

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

Contractual Obligations

As at 31 December 2019, the Group's capital commitment represented the commitment of plant and machinery. As at 31 December 2019, the Group had commitment of plant and machinery of approximately HK\$0.2 million (31 December 2018: approximately HK\$4.1 million).

CAPITAL STRUCTURE

The shares of the Company (“Shares”) were successfully listed on the Main Board of The Stock Exchange of Hong Kong Limited (the “Stock Exchange”) on 21 June 2019 (the “Listing Date”). There has been no change in the capital structure of the Group since then.

As at 31 December 2019, the total number of issued Shares was 233,544,750.

FOREIGN EXCHANGE EXPOSURE AND EXCHANGE RATE RISK

Approximately 21.4% of the Group’s revenue for the Reporting Period were denominated in the United States dollar (“US\$”). However, over 90.0% of the production costs were conducted in RMB. Therefore, there is a currency mismatch between US\$ revenue and RMB production costs, which gives rise to exposure to foreign exchange risk. Furthermore, there is a time lag between invoicing and final settlement from customers of export sales. The Group is exposed to foreign exchange risks if the foreign exchange rate at which the US\$ sales proceeds received from export sales is different from the rate at which the Group used to book the US\$ sales transactions at the time of sales.

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

EMPLOYEES AND EMOLUMENTS POLICY

As at 31 December 2019, the Group had a workforce of 481 employees (31 December 2018: 511 employees). The staff costs, including directors’ emoluments but excluding any contributions to the pension scheme, were approximately HK\$41.3 million for the Reporting Period (2018: approximately HK\$42.1 million). Remuneration is determined with reference to market terms and the performance, qualification and experience of an individual employee. In addition to a basic salary, year-end bonuses are offered to those staff with outstanding performance to attract and retain eligible employees of the Group. The emoluments of the Directors have been determined with reference to the skills, knowledge, contribution in the Company’s affairs and the performance of each Director, and to the profitability of the Company and prevailing market conditions during the Reporting Period.

SIGNIFICANT INVESTMENTS

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

DISCLOSEABLE TRANSACTION IN RELATION TO THE PURCHASE OF AN ASSET

On 23 December 2019, Botny Corporation Limited, an indirect wholly-owned subsidiary of the Company, entered into a sale and purchase agreement with Sunseeker International Limited for the sale and purchase of a Sunseeker 86 Yacht numbered 8722086 (the “Yacht”) at a total consideration of £3,650,000 (equivalent to approximately HK\$38,000,000) (the “Consideration”) (the “Purchase”). The Consideration for the Purchase shall be financed by the Company’s internal resources, bank borrowings and a shareholder loan which is interest-free, unsecured and repayable on demand.

As part of the Group’s marketing and promotional activities with a view to exploring new business opportunities and managing existing customer and supplier relationships, the Group has been organising marketing events and social activities such as dinners and overseas trips with its customers and suppliers to maintain and foster business relationships from time to time. Such marketing events and social activities have been effective in facilitating the communication between the Group and its business partners, allowing the Group to understand more about their needs through obtaining their feedback on the Group’s products.

The Group plans to use the Yacht as venue for regular business meetings and marketing and social events with its original brand manufacturing (OBM) and contract manufacturing service (CMS) customers as well as its suppliers. The Board considers that the regular holding of such business meetings and marketing and social events allows the Group to enhance business relationships with its business partners and to understand the latest market trends which are useful references for setting the Group’s sales and marketing strategies through close interaction in a comfortable and relaxing environment. With an increase in the Group’s resources in marketing and relationship development, the business of the Group will be enhanced.

The fair value of the Yacht as at 31 December 2019 is £3,650,000 (equivalent to approximately HK\$38,000,000), representing approximately 9.0% of the total assets of the Company. There is no any realised and unrealised gain or loss during the Reporting Period.

Details of the Purchase are set out in the announcement of the Company dated 23 December 2019.

MATERIAL ACQUISITIONS AND DISPOSALS OF SUBSIDIARIES, ASSOCIATES AND JOINT VENTURES

Save as disclosed herein, during the year ended 31 December 2019, the Group had no acquisition or disposal of subsidiaries, associates or joint ventures.

FUTURE PLANS FOR MATERIAL INVESTMENTS OR CAPITAL ASSETS

Save as disclosed in the Company's prospectus dated 3 June 2019, the Group did not have other approved plans for material investments or capital assets as at 31 December 2019.

CORPORATE GOVERNANCE PRACTICES

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

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

AUDIT COMMITTEE

The Audit Committee was established on 27 May 2019 with terms of reference in compliance with the CG Code to the Listing Rules for the purpose of making recommendations to the Board on the appointment and removal of the external auditors, reviewing the financial statements and related materials and providing advice in respect of the financial reporting process, and overseeing the risk management and internal control systems of the Group. The Audit Committee comprises three members, all being independent non-executive Directors, namely, Mr. Poon Tak Ching (Chairman), Mr. Lee Yiu Pui and Mr. Pang Cheung Wai, Thomas. The Group's accounting principles and practices, financial statements and related materials for the Reporting Period had been reviewed by the Audit Committee. The financial results of the Group for the Reporting Period have also been audited by Ernst & Young, the external auditor of the Group.

REMUNERATION COMMITTEE

The remuneration committee of the Company (the "Remuneration Committee") was established on 27 May 2019, with specific written terms of reference for making recommendations to the Board regarding the Group's policy and structure for all remuneration of Directors and senior management and approving the remuneration package of the individual executive Directors, the specific duties set out in CG Code provisions B.1.2(a) to (h). The Remuneration Committee comprises a total of four members, being one executive Director, namely, Ms. Ko Sau Mee and three independent non-executive Directors, namely, Mr. Pang Cheung Wai, Thomas (Chairman), Mr. Lee Yiu Pui and Mr. Poon Tak Ching. Accordingly, a majority of the members are independent non-executive Directors.

NOMINATION COMMITTEE

The nomination committee of the Company (the "Nomination Committee") was established on 27 May 2019, with specific written terms of reference in compliance with the CG Code for reviewing the Board composition, developing the relevant procedures for nomination and appointment of Directors and assessing the independence of the independent non-executive Directors to ensure that the Board has a balance of expertise, skills and experience and formulating succession plans for executive Directors and senior executives. The Nomination Committee comprises a total of four members, being one executive Director, namely, Ms. Ko Sau Mee, and three independent non-executive Directors, namely, Mr. Lee Yiu Pui (Chairman), Mr. Poon Tak Ching and Mr. Pang Cheung Wai, Thomas. Accordingly, a majority of the members are independent non-executive Directors.

PURCHASE, REDEMPTION OR SALE OF LISTED SECURITIES OF THE COMPANY

During the year ended 31 December 2019, 1,000,000 ordinary Shares were repurchased on the Stock Exchange and these Shares were subsequently cancelled by the Company. The summary details of the repurchases are as follows:

Month	Number of ordinary shares repurchased	Price per share		Total price paid (HK\$)
		Highest (HK\$)	Lowest (HK\$)	
September 2019	526,000	1.99	1.61	963,360
October 2019	474,000	1.79	1.56	839,040
Total	<u>1,000,000</u>			<u>1,802,400</u>

The total amount of HK\$1,802,400 of the repurchase was paid wholly out of retained profits and 1,000,000 repurchased ordinary Shares were cancelled during the year ended 31 December 2019. The above repurchases during the Reporting Period were effected by the Directors, pursuant to the mandate granted by the then sole shareholder of the Company on 27 May 2019, with a view to benefiting the shareholders as a whole by enhancing the net assets value per share and earnings per share of the Company.

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

DIRECTORS' SECURITIES TRANSACTIONS

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

EVENTS AFTER THE REPORTING PERIOD

On 14 February 2020, the Group acquired a 100% interest in Precious Dragon Technology Thai Limited, which is a limited company incorporated in Thailand. The Group acquired Precious Dragon Technology Thai Limited to further expand its market share of industrial products in Asia. The purchase consideration of THB5,000,000 (HK\$1,254,000) for the acquisition was in the form of cash and was paid on the acquisition date.

Because the acquisition of Precious Dragon Technology Thai Limited was effected shortly before the date of this announcement, it is not practicable to disclose further details about the acquisition.

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

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

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

FINAL DIVIDEND

The Board recommends the payment of a final dividend of HK2.45 cents per share for the year ended 31 December 2019 (2018: Nil) to be payable to the shareholders of the Company whose names appear on the register of members of the Company as at 27 May 2020, subject to the approval of the Shareholders at the forthcoming annual general meeting of the Company (the “AGM”) to be held on 15 May 2020. The final dividend will be payable on or around 10 June 2020.

CLOSURE OF REGISTER OF MEMBERS

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

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

PUBLICATION OF ANNUAL RESULTS AND ANNUAL REPORT

This annual results announcement will be published on the websites of the Stock Exchange (www.hkex.com.hk) and the Company (<http://www.botny.com>). The annual report of the Company for the year ended 31 December 2019 will be dispatched to the Shareholders and published on the websites of the Stock Exchange and the Company in due course.

By order of the Board
Precious Dragon Technology Holdings Limited
保寶龍科技控股有限公司
Ko Sau Mee
Chairlady and Executive Director

Hong Kong, 23 March 2020

As at the date of this announcement, the executive Directors are Ms. Ko Sau Mee, Ms. Lin Hing Lei, Mr. Lin Hing Lung and Mr. Yang Xiaoye; and the independent non-executive Directors are Mr. Lee Yiu Pui, Mr. Poon Tak Ching and Mr. Pang Cheung Wai, Thomas.

* *For identification purpose only*